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Common Abbreviations

AML	Anti-Money Laundering
APG	Asia/Pacific Group on Money Laundering
ARS	Alternative Remittance System
CFATF	Caribbean Financial Action Task Force
CTF	Counter-Terrorist Financing
CTR	Currency Transaction Report
DEA	Drug Enforcement Administration
DHS	Department of Homeland Security
DOJ	Department of Justice
DOS	Department of State
EAG	Eurasian Group to Combat Money Laundering and Terrorist Financing
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
EU	European Union
FATF	Financial Action Task Force
FBI	Federal Bureau of Investigation
FinCEN	Financial Crimes Enforcement Network
FIU	Financial Intelligence Unit
GAFISUD	Financial Action Task Force Against Money Laundering In South America
GIABA	Inter-Governmental Action Group against Money Laundering
IBC	International Business Company
IFI	International Financial Institution
IMF	International Monetary Fund
INCSR	International Narcotics Control Strategy Report
INL	Bureau for International Narcotics and Law Enforcement Affairs
IRS	Internal Revenue Service
IRS-CID	Internal Revenue Service, Criminal Investigative Division
MENAFATF	Middle Eastern and Northern African Financial Action Task Force
MLAT	Mutual Legal Assistance Treaty
MOU	Memorandum of Understanding
NCCT	Non-Cooperative Countries or Territories
OAS	Organization of American States
OAS/CICAD	OAS Inter-American Drug Abuse Control Commission
OFC	Offshore Financial Center
PIF	Pacific Islands Forum
SAR	Suspicious Activity Report
STR	Suspicious Transaction Report
UN Drug Convention	1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances
UNGPML	United Nations Global Programme against Money Laundering
UNODC	United Nations Office for Drug Control and Crime Prevention
UNSCR	United Nations Security Council Resolution
USAID	Agency for International Development
USG	United States Government

MONEY LAUNDERING AND FINANCIAL CRIMES

The 2006 report on Money Laundering and Financial Crimes is a legislatively mandated section of the U.S. Department of State's annual International Narcotics Control Strategy Report. This 2006 report on Money Laundering and Financial Crimes is based upon the contributions of numerous U.S. Government agencies and international sources. A principal contributor is the U.S. Treasury Department's Financial Crimes Enforcement Network (FinCEN), which, as a member of the international Egmont Group of Financial Intelligence Units, has unique strategic and tactical perspective on international anti-money laundering developments. FinCEN is the primary contributor to the individual country reports. Another key contributor is the U.S. Department of Justice's Asset Forfeiture and Money Laundering Section (AFMLS) of Justice's Criminal Division, which plays a central role in constructing the Money Laundering and Financial Crimes Comparative Table and provides international training. Many other agencies also provided information on international training as well as technical and other assistance including the following: Department of Homeland Security's Bureau of Immigration and Customs Enforcement; Department of Justice's Drug Enforcement Administration, Federal Bureau of Investigation, and Office for Overseas Prosecutorial Development Assistance; Treasury's Internal Revenue Service, the Office of the Comptroller of the Currency, and the Office of Technical Assistance. Also providing information on training and technical assistance are the independent regulatory agencies, Federal Deposit Insurance Corporation, and the Federal Reserve Board.

Legislative Basis for the INCSR

The Money Laundering and Financial Crimes section of the Department of State's International Narcotics Control Strategy Report (INCSR) has been prepared in accordance with section 489 of the Foreign Assistance Act of 1961, as amended (the "FAA," 22 U.S.C. § 2291). The 2006 INCSR is the 23rd annual report prepared pursuant to the FAA. In addition to addressing the reporting requirements of section 489 of the FAA (as well as sections 481(d)(2) and 484(c) of the FAA and section 804 of the Narcotics Control Trade Act of 1974, as amended), the INCSR provides the factual basis for the designations contained in the President's report to Congress on the major drug-transit or major illicit drug producing countries initially set forth in section 591 of the Kenneth M. Ludden Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2002 (P.L. 107-115) (the "FOAA"), and now made permanent pursuant to section 706 of the Foreign Relations Authorization Act, Fiscal Year 2003, (P.L. 107-228)(the "FRAA").

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

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

In attempting to evaluate whether countries and certain entities are meeting the goals and objectives of the 1988 UN Drug Convention, the Department has used the best information it has available. The 2006 INCSR covers countries that range from major drug producing and drug-transit countries, where drug control is a critical element of national policy, to small countries or entities where drug issues or the capacity to deal with them are minimal. In addition to identifying countries as major sources of precursor chemicals used in the production of illicit narcotics, the INCSR is mandated to identify major money laundering countries (FAA §489(a)(3)(C)). The INCSR is also required to report findings on each country's adoption of laws and regulations to prevent narcotics-related money laundering (FAA §489(a)(7)(c)). This report is that section of the INCSR that reports on money laundering and financial crimes.

A major money laundering country is defined by statute as one "whose financial institutions engage in currency transactions involving significant amounts of proceeds from international narcotics trafficking" (FAA § 481(e)(7)). However, the complex nature of money laundering transactions today makes it difficult in many cases to distinguish the proceeds of narcotics trafficking from the proceeds of other serious crime. Moreover, financial institutions engaging in transactions involving significant amounts of proceeds of other serious crime are vulnerable to narcotics-related money laundering. This year's list of major money laundering countries recognizes this relationship by including all countries and other jurisdictions, whose financial institutions engage in transactions involving significant amounts of proceeds from all serious crime. The following countries/jurisdictions have been identified this year in this category:

Major Money Laundering Countries in 2005

> **Afghanistan, Antigua and Barbuda, Australia, Austria, Bahamas, Belize, Bosnia and Herzegovina, Brazil, Burma, Cambodia, Canada, Cayman Islands, China, Colombia, Costa Rica, Cyprus, Dominican Republic, France, Germany, Greece, Guatemala, Guernsey, Haiti, Hong Kong, Hungary, India, Indonesia, Isle of Man, Israel, Italy, Japan, Jersey, Latvia, Lebanon, Liechtenstein, Luxembourg, Macau, Mexico, Netherlands, Nigeria, Pakistan, Panama, Paraguay, Philippines, Russia, Singapore, Spain, St. Kitts and Nevis, Switzerland, Taiwan, Thailand, Turkey, Ukraine, United Arab Emirates, United Kingdom, United States, Uruguay, and Venezuela.**

The Money Laundering and Financial Crimes section provides further information on these countries/entities and United States money laundering policies, as required by section 489 of the FAA.

Introduction

International efforts against money laundering grew stronger and more effective in 2005. More countries, 17, have promulgated anti-money laundering and counterterrorist financing laws for the first time, or updated their existing statutes to comply with revised international norms and standards. Contributions from the international coalition of donors to help with these efforts grew as a result of G-8 and other initiatives. The capability for information and intelligence exchanges among countries in support of criminal investigations improved as seven more Financial Intelligence Units (FIUs) became members of the Egmont Group of FIUs, raising its global membership to 101 FIUs. Authorities also undertook some important money laundering investigations leading to significant seizures and prosecutions. The money laundering challenge nevertheless remains formidable. The stakes are high on both sides. Money is the oxygen for most crime, and the most threatening and dangerous criminal networks and terrorist organizations will go to any extreme to ensure that they can protect their profits or secure their financing whether this means ratcheting up retaliation against authorities who are too hot on their trail, or shifting to less visible and penetrable methods even if this means a loss of efficiency or carries other risks.

It is important to sustain and strengthen these gains because focusing on money laundering is one of the most valuable tools law enforcement has to combat international crime. A focus on money laundering can accomplish what many other law enforcement tools cannot. In the "one-size-fits-all" vein, anti-money laundering measures constitute a unique instrument that can be applied equally effectively to a wide variety of crimes—that is essentially any crime that must be financed or that is committed for profit. Once in place, anti-money laundering measures can be used without any special tailoring or tweaking to attack such threats as narcotics trafficking, alien smuggling, intellectual property theft, organized crime, environmental crime, terrorist financing, corruption, and more. Focusing on money laundering plays a supportive role in these investigations, but in many instances, money laundering investigations lead to prosecutions of the underlying crimes. Few other law enforcement measures offer such utility or efficiency.

Money laundering investigations also take advantage of one of the most important vulnerabilities of sophisticated, criminal or terrorist organizations: their risk of exposure. Terrorism and much of organized crime thrive because they take place in the shadows of open society. As long as it stays in the underground of aliases, coded messages, false documents, and clandestine operations it is often undetectable to even seasoned investigators, especially if, in the case of some crimes, its victims do not immediately see or feel its effects, or come forward to report it. When criminal activity breaches this undergound, it often provides leads and evidence authorities can use to unravel these cases. The challenge of coping with especially large amounts of money inevitably generates pressure on the criminal organizations to take placement, layering, and integration actions involving record keeping,

meetings, or other events that eventually surface and expose them for identification and tracking. Full exploitation of these vital breakthroughs can lead investigators, armed with incriminating financial intelligence and evidence, to the financiers and managers of these organizations, to the heart of the syndicates. Getting this desirable outcome in many countries around the world still requires a great deal of innovation, training, equipment, and political will.

Building Awareness and Acceptance

Much recent anti-money laundering progress is due to the efforts in the United Nations, the Financial Action Task Force (FATF), the global network of FATF-style regional bodies (FSRBs), and in individual countries, to raise international awareness and inspire national commitment to attack money laundering—and its associated problem of terrorist financing. Indeed, much has already been achieved on this front through the creation and global acceptance of international norms and standards to fight money laundering and terrorist financing. For nearly two decades, the norms and standards have been embodied, with periodic updates and revisions to take into account new money laundering methods, patterns, and threats, in the FATF Forty Recommendations on money laundering and, following the "9/11" attacks, the Special Eight, now Nine, Recommendations on Terrorist Financing. FATF has subsequently succeeded in getting these recommendations universally recognized even though most nations do not belong to this 33-member international body. For instance, the negotiators' background notes for both the 2000 UN Convention on Transnational Organized Crime (UNTOC) and the 2003 UN Convention Against Corruption (UNCAC) call upon States Parties to use as a guideline the relevant initiatives of regional, inter-regional and multilateral organizations against money laundering, thus, calling upon State parties to use the FATF recommendations. The UNTOC came into force in 2003, 90 days after the 40th country deposited its instrument of ratification, and the UNCAC similarly came into force in 2005. The FATF Recommendations achieved another milestone when the UN Security Council also acknowledged their primacy as the international anti-money laundering and counterterrorist financing gold standard by declaring in UN Security Council Resolution 1617 that the UNSC " Strongly urges all Member States to implement the comprehensive international standards embodied in the Financial Action Task Force's (FATF) Forty Recommendations on Money Laundering and the FATF Nine Special Recommendations on Terrorist Financing" .

Meanwhile, FATF's Non-Cooperative Countries and Territories (NCCT) initiative to spur greater international anti-money laundering cooperation and compliance is phasing down after years of effective implementation. Initiated in 2000, FATF focused this "name and shame" initiative at strategic countries and jurisdictions with woefully inadequate anti-money laundering regimes. Since inception of the NCCT tool, FATF has placed 23 jurisdictions on the NCCT list. Faced with the pressure of international censure and open to training and technical assistance from the United States and other donor nations and organizations, most of the NCCTs have taken the corrective measures FATF prescribed. Consequently, there has been a steady annual reduction in listed jurisdictions. In 2005, FATF removed the Cook Islands, Indonesia, Nauru, and the Philippines from the list leaving only Burma and Nigeria as the remaining NCCTs.

Increasingly, the global network of FATF-style regional bodies is the mechanism responsible for ensuring compliance and implementation of the FATF Recommendations. 129 countries belong to one or another of the seven FSRBs that now cover most of the world. To be a member of one of these FSRBs, a country must commit to adopting and eventually implementing the FATF Forty plus Nine, and to making itself subject to mutual evaluations intended to identify weaknesses and vulnerabilities in its anti-money laundering/counterterrorist financing regimes and ways to correct them. The two newest FSRBs that were formed in 2004—the EurAsian Group on Combating Money Laundering and Financing of Terrorism (EAG) which covers Russia, Central Asia, and China, and the Middle East and North African Financial Action Task Force (MENAFATF) which covers 14 countries in those

regions—have become operational. In its first year, the EAG conducted an assessment of the training and technical assistance needs of its member states, and then held a conference bringing together the member states with observers, international financial institutions, multilateral bodies, and other potential donors. Similarly, MENAFATF issued three detailed working papers on the subjects of hawala, charities and cross-border cash couriers. The efforts are producing results. The number of jurisdictions that have criminalized money laundering to include predicate crimes beyond narcotics increased to 172 in 2005 from 163 in 2004. Similarly, 10 more countries criminalized terrorist financing in 2005, bringing the total number of countries with such laws to 123.

The United States meanwhile continues to exert bilateral pressure through application of Section 311 of the USA PATRIOT Act in appropriate circumstances. Section 311 of the USA PATRIOT Act authorizes the Secretary of Treasury, after consultation with various U.S. agencies including the Board of Governors of The Federal Reserve, the Secretary of State and the Attorney General and other relevant federal agencies, to designate a foreign jurisdiction, financial institution, class of transactions, or type of account as being of "primary money laundering concern," and to impose one or more of five remedies known as "special measures." Four of the special measures impose information-gathering and record-keeping requirements upon those U.S. financial institutions that maintain accounts for specific jurisdictions, institutions or types of accounts as described in the 311 designation. Under the fifth special measure, the Secretary of Treasury can issue rules that prohibit U.S. financial institutions from establishing, maintaining, administering or managing any correspondent account or a payable-through account for or on behalf of the designated primary money laundering concern. In 2005, the USG designated two Latvian banks, VEF Banka and Multibanka, and Macau-based Banco Delta Asia S.A.R.L. as primary money laundering concerns. These rules have not yet been finalized. According to the Federal Register Notice, Banco Delta Asia S.A.R.L. provided financial services for more than 20 years to multiple North Korean government agencies and front companies that are engaged in illicit activities, and worked with DPRK officials to accept large deposits of cash, including counterfeit U.S. currency and agreeing to place that currency in circulation. In addition to the activities of the DPRK, investigations revealed that Banco Delta Asia S.A.R.L. serviced a multi-million dollar account on behalf of a known international drug trafficker. The Latvian government has taken steps to improve its anti-money laundering laws and successfully prosecuted four individuals for money laundering in 2005. Shortly after the U.S. Treasury Department published its proposed rule against Macau's Banco Delta Asia, the bank went into receivership and is governed by three interim managers appointed by the Macau government.

Engineering Structural Change

Once countries have accepted international norms and standards to combat money laundering and terrorist financing, the first level of commitment most of them make to this cause is to institute structural changes in their anti-money laundering regimes so they can legally, administratively, and operationally abide by and implement these standards. Many countries, faced with this often difficult and relatively expensive task turn to the United States and other international donors for help. The United States plays a leading role in this regard by providing assistance bilaterally, regionally, and through contributions to multilateral organizations.

Our bilateral efforts focus mostly on the terrorist-financing threat and are concentrated in some two dozen countries whose financial sectors are particularly vulnerable to abuse. To address those concerns, the State Department works through the Terrorist Finance Working Group, co-chaired by the Office of the Coordinator for Counterterrorism and the Bureau for International Narcotics and Law Enforcement Affairs, and coordinates training and technical assistance provided by experts from various U.S. government (USG) agencies that help these strategic countries develop viable anti-money laundering and counterterrorism finance regimes. Through December 2005, State Department-led

interagency teams have comprehensively assessed the capabilities and vulnerabilities of 20 of these countries and have provided assistance to 23. The State Department maximizes the institution-building benefits of its assistance by delivering it in both sequential and parallel steps. The steps, while tailored to each country's unique needs as determined by the assessments, include help in the following areas:

- drafting and enacting comprehensive anti-money laundering and terrorist finance laws that have measures that enable states to freeze and seize assets that comply with the FATF's revised Forty Recommendations and its Special Nine Recommendations on Terrorist Financing;
- establishing a regulatory regime to oversee the financial sector;
- training law enforcement agencies, prosecutors and judges so that they have the skills to successfully investigate and prosecute financial crime; and
- creating and equipping Financial Intelligence Units (FIU) so that they can collect, analyze, collate, and disseminate suspicious transactions reports and other forms of financial intelligence to both help develop cases domestically and share information internationally through FIUs in other countries as part of transnational investigations.

Even with the focus on terrorist financing, we continue to address money laundering in its broader context, especially in key narcotics-producing countries (such as Colombia and Mexico) and in countries where powerful organized crime syndicates pose an especially significant threat to the stability of weak or emerging regimes, as in Central Asia. We are increasingly focusing on regional approaches in a cost-saving effort to spread our assistance more widely.

A good example of this effort is the updated anti-money laundering training that now includes an emphasis on counterterrorist financing which the State Department's Bureau for International Narcotics and Law Enforcement Affairs (INL) funds through its global network of International Law Enforcement Academies (ILEAs). INL funds and manages foreign-based ILEAs in Hungary, Thailand, Botswana, and, coming fully on line in 2006, El Salvador. The ILEA program brings together mid- to senior-level law enforcement officials, including investigators, prosecutors, judges, and legislators, from neighboring countries in a particular region for specialized anti-money laundering and terrorist financing instruction taught by experts from the Departments of Justice, Homeland Security, Treasury, and elsewhere in the U.S. government. ILEA's regional concept is particularly effective in generating trust and networking among participants, which facilitates task-force development and cross-border law enforcement cooperation.

This model inspired the recently completed, five year long Caribbean Anti-Money Laundering Program (CALP), a multilateral undertaking of the United States, the United Kingdom and the European Union. CALP employed a team of resident experts who provided regional and bilateral training to the 21 Caribbean member countries of CARIFORUM for the purpose of developing viable anti-money laundering regimes, including the ability post 9/11, of countering terrorist financing. This training was responsible for helping to remove several countries in the region from the FATF NCCT list. To replicate the success of the CALP in the Pacific, the Department of State is now funding the Pacific Island Forum (PIF) to create the Pacific Anti-Money Laundering Program (PALP). This four-year program, to be coordinated with efforts in the region by the UN Global Programme against Money Laundering, the Asia/Pacific Group on Money Laundering (APG), Australian anti-money laundering agencies, and the International Monetary Fund, is aimed at building comprehensive anti-money laundering/counter terrorist financing regimes in the 14 Pacific Islands Forum member states that are not members of FATF. Six of these 14 PIF countries that will participate in the PALP are also members of the Asia Pacific Group (APG)—the FSRB for this region.

The United States is engaged in other forms of cost-saving "burden sharing." For instance, the G-8, in its 2003 Summit, committed to creating the Counter-Terrorism Action Group (CTAG). Under CTAG,

the G-8 countries and other key donors work to coordinate their provision of counterterrorist financing and other counterterrorism training and technical assistance. The CTAG partnered with the FATF, asking it to assess the needs of a small list of countries to which CTAG wanted to provide coordinated technical assistance. By mid-2005, twelve CTAG members, including the United States, had delivered more than 200 coordinated, cost-saving, technical assistance programs in several aspects of combating terrorism and terrorist finance to more than 150 countries through bi-lateral and regional training. The United States also continues to work closely with the United Kingdom, Australia, Spain, Japan, the UN Global Programme against Money Laundering, the IMF and the World Bank on country and regional programs, coordinating the use of both limited human and financial resources to avoid duplication and provide synergistic programming. The United States ratified the Organization of American States (OAS) InterAmerican Convention Against Terrorism in 2005, and continues to work very closely with the OAS Inter-American Drug Abuse Control Commission (CICAD) Office of Money Laundering and the OAS Counter-Terrorism Committee in developing viable anti-money laundering regimes capable of thwarting terrorist financing in this hemisphere.

Operationalizing Efforts

The biggest hurdle to achieving significant international success against money laundering has been operationalizing these reforms: to actually use the laws, the training, and the resources to undertake important money laundering investigations leading to asset seizures and forfeitures and to arrests, prosecutions, and convictions of major criminals and terrorists. Examples of the effective use of a country's money laundering laws can be seen in the investigative and prosecution work occurring in every part of the world. The Prosecutor General's Office in Latvia maintains a specially-cleared unit to prosecute cases linked to money laundering. In the first ten months of 2005, the unit referred eight criminal cases to court for criminal offenses relating to money laundering. In one court case involving seven defendants, four of them received sentences for money laundering. During 2005, Israel, a former FATF NCCT, has been the nexus of several high profile money laundering cases. In March 2005, the International Crimes Unit (ICU) of the Israeli National Police (INP) raided Bank Hapoalim and its trust company, in what was described as the biggest money laundering scandal ever in Israel. The police froze over 180 accounts with more than $376 million, and some 24 employees were detained, including the manager and four senior executives. The investigation is ongoing. In South America, Peru continues to make strong efforts at uncovering and recovering millions of dollars believed to be the proceeds of money laundered by Vladmiro Montesinos, former director of the Peruvian Intelligence Service. In 2005, Peru obtained its first two convictions for money laundering. One case was for laundering drug proceeds, the other for public corruption; currently there are three money laundering cases being prosecuted for money laundering. In the Asia/Pacific regions, Thailand had 57 successful money laundering convictions, while Palau had its first successful prosecution. In all these countries, State Department funded training has played an important role in the development of their anti-money laundering regimes.

Yet, the international community is underachieving on this front. Part of the problem is the elusiveness of the threat that continues to thwart efforts by even the best investigators; and part continues to be the lack of political will and corruption. Traditionally, anti-money laundering measures concentrate on the large amounts of money that move through traditional financial institutions. Law enforcement has long understood that the placement of cash into banks is where criminal money launderers and the financiers of terrorism are most vulnerable. However, despite our real success in establishing an international system of financial transparency to detect suspicious activity in banks and increasingly non-bank financial institutions, criminal money launderers continue to find ways to circumvent our financial safeguards, as do the financiers of terrorism. The U.S. Department of Treasury reports that 47 countries worldwide have frozen a total of approximately $150,000,000 of terrorist assets since

September 11- $44 million by the United States. Of the $150,000,000 frozen, only $64,600,000 has been forfeited, a figure that Treasury reports has remained essentially unchanged since 2002.

In 2006, we have a clearer understanding of our vulnerabilities and recognize that anti-money laundering laws and regulations do not always reach alternative and underground systems for moving dirty money, or transferring value, or financing terrorism. New tools and techniques are needed to surface and expose this activity. This is particularly true in the battle against terrorist finance. For example, in 2005, the FATF issued Special Recommendation IX on cash couriers. As a result, during the last year, countries around the world have worked to implement cross-border currency reporting requirements that will assist law enforcement in monitoring bulk cash shipments.

Additionally, new and effective anti-money laundering measures must be developed to counter the well-established practice of trade-based money laundering. Trade is the common denominator in many entrenched underground or alternative systems such as hawala, the black market peso exchange, the misuse of the international gold and diamond trade, and other value transfer systems. Over and under invoicing are common techniques to provide countervaluation in value transfer and settling accounts. To help address these vulnerabilities, INL provided funding to the Department of Homeland Security's Office of Immigration and Customs Enforcement (ICE) in 2005 to establish prototype Trade Transparency Units (TTUs) in the Tri-Border countries of Argentina, Paraguay and Brazil. TTUs examine anomalies in trade data that could be indicative of customs fraud and trade-based money laundering. This is also a positive step with respect to compliance with FATF Special Recommendation VI on Terrorist Financing via alternative remittance systems. In a legacy U.S. Customs pilot program examining suspicious trade data in Colombia, investigators were also able to detect examples of the black market movements of value connected to the terrorist organization Revolutionary Armed Forces of Colombia (FARC). TTUs in the Tri-Border area have the potential to reveal discrepancies in trade data that could lead to successful investigations and prosecutions for trade-based money laundering, tax evasion and other crimes, and perhaps reveal links to terrorist financiers and organizations.

At the urging of the United States and others, the international community is beginning to recognize and address the close link between corruption and money laundering. Kleptocrats and other corrupt officials rely on money laundering as a means to stow away and enjoy the fruits of their corrupt actions. Public corruption can facilitate such laundering, and cause regulatory authorities and law enforcement to turn a blind eye. The Financial Action Task Force formally recognized the link between corruption and anti-money laundering at its October 2005 plenary session at which it agreed to explore with the Asia/Pacific Group on Money Laundering the "symbiotic relationship among corruption, money laundering and terrorist financing" and how the FATF's experience could be used to "combat these combined threats". The United Nations Convention Against Corruption (UNCAC), which entered into force in December 2005 and currently has over 180 signatories or parties, calls for extensive action in the area of money laundering and asset recovery, and is quickly becoming the new global international standard for fighting corruption. UNCAC and the growing international anticorruption movement are sure to provide complementary benefits to ongoing anti-money laundering efforts worldwide.

Despite the progress the international community has made to combat money laundering and stanch the flow of terrorist financing, the United States and the global community continue to face a large and dynamic threat that will require a prolonged commitment of resources to sustain and intensify efforts. More innovative methods such as Trade Transparency Units will be required to attack traditional systems of transferring value, laundering money and financing terrorism, and more efficient use of scarce resources, such as emphasizing regional training, will become increasingly necessary. All of this must play out against a backdrop of countries having the political will to go beyond important first steps of accepting their responsibilities to combat money laundering and terrorist financing and

creating the structures to do so, to actually launching and completing the investigations against the powerful criminals and threatening terrorists who put us so much at risk.

Bilateral Activities

Training and Technical Assistance

During 2005, a number of U.S. law enforcement and regulatory agencies provided training and technical assistance on money laundering countermeasures and financial investigations to their counterparts around the globe. These courses have been designed to give financial investigators, bank regulators, and prosecutors the necessary tools to recognize, investigate, and prosecute money laundering, financial crimes, terrorist financing, and related criminal activity. Courses have been provided in the United States as well as in the jurisdictions where the programs are targeted.

Department of State

The Department of State's Bureau for International Narcotics and Law Enforcement Affairs (INL) and the Department's Office of the Coordinator for Counter-Terrorism (SCT) co-chair the interagency Terrorist Finance Working Group, and together are implementing a multi-million dollar training and technical assistance program designed to develop or enhance the capacity of a selected group of more than two dozen countries whose financial sectors have been used or are vulnerable to being used to finance terrorism. As is the case with the more than 100 other countries to which INL-funded training was delivered in 2005, the capacity to thwart the funding of terrorism is dependent on the development of a robust anti-money laundering regime. Supported by and in coordination with the State Department, the Department of Justice, Department of Homeland Security, Treasury Department, the Federal Deposit Insurance Corporation, and various non-governmental organizations offered law enforcement, regulatory and criminal justice programs worldwide. This integrated approach includes assistance with the drafting of legislation and regulations that comport with international standards, the training of law enforcement, the judiciary and bank regulators, as well as the development of financial intelligence units capable of collecting, analyzing and disseminating financial information to foreign analogs.

Nearly every federal law enforcement agency assisted in this effort by providing basic and advanced training courses in all aspects of financial criminal investigation. Likewise, bank regulatory agencies participated in providing advanced anti-money laundering/counterterrorist financing training to supervisory entities. In addition, INL made funds available for the intermittent or full-time posting of legal and financial advisors at selected overseas locations. These advisors work directly with host governments to assist in the creation, implementation, and enforcement of anti-money laundering and financial crime legislation. INL also provided several federal agencies funding to conduct multi-agency financial crime training assessments and develop specialized training in specific jurisdictions to combat money laundering.

The success of the now concluded Caribbean Anti-Money Laundering Programme (CALP) convinced INL that a similar type of program for small Pacific island jurisdictions had the potential of developing viable anti-money laundering/counterterrorist regimes. Accordingly, INL contributed $1.5 million to the Pacific Islands Forum to develop the Pacific Island Anti-Money Laundering Program (PALP). The objectives of the PALP are to reduce the laundering of the proceeds of all serious crime and the financing of terrorist financing by facilitating the prevention, investigation, and prosecution of money laundering. The PALP's staff of resident mentors will provide regional and bilateral mentoring and

training and technical assistance to the Pacific Islands Forum fourteen non-FATF member states for the purpose of developing viable regimes that comport with international standards.

In 2005, INL reserved $1,000,000 for the United Nations Global Programme against Money Laundering (GPML). In addition to sponsoring money laundering conferences and providing short-term training courses, the GPML instituted a unique longer-term technical assistance initiative through its mentoring program. The mentoring program provides advisors on a yearlong basis to specific countries or regions. GPML mentors provided assistance to the Secretariat of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) and to the Horn of Africa countries targeted by the President's East Africa Counterterrorism Initiative. Another GPML resident mentor provided assistance to the Philippine FIU.

INL continues to provide significant financial support for many of the anti-money laundering bodies around the globe. During 2005, INL supported the Financial Action Task Force on Money Laundering (FATF), the international standard setting organization. INL continued to be the sole U.S. Government financial supporter of the FATF-style regional bodies (FSRBs) including the Asia/Pacific Group on Money Laundering (APG), the Council of Europe's MONEYVAL, the Caribbean Financial Action Task Force (CFATF), the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) and the South American Financial Action Task Force, Grupo de Accion Financiera de Sudamerica Contra el Lavado de Activos (GAFISUD). INL also financially supported the Pacific Islands Forum and the Organization of American States (OAS) Inter-American Drug Abuse Control Commission (CICAD) Office of Money Laundering and the OAS Counter-Terrorism Committee.

As in previous years, INL training programs continue to focus on an interagency approach and on bringing together, where possible, foreign law enforcement, judicial and Central Bank authorities. This allows for an extensive dialogue and exchange of information. This approach has been used successfully in Asia, Central and South America, Russia, the Newly Independent States (NIS) of the former Soviet Union, and Central Europe. INL also provides funding for many of the regional training and technical assistance programs offered by the various law enforcement agencies, including assistance to the International Law Enforcement Academies.

International Law Enforcement Academies (ILEAs)

The mission of the regional ILEAs has been to support emerging democracies, help protect U.S. interests through international cooperation, and promote social, political, and economic stability by combating crime. To achieve these goals, the ILEA program has provided high-quality training and technical assistance, supported institution building and enforcement capability, and fostered relationships of American law enforcement agencies with their counterparts in each region. ILEAs have also encouraged strong partnerships among regional countries, to address common problems associated with criminal activity.

The ILEA concept and philosophy is a united effort by all the participants-government agencies and ministries, trainers, managers, and students alike-to achieve the common foreign policy goal of international law enforcement. The goal is to train professionals that will craft the future for the rule of law, human dignity, personal safety, and global security.

The ILEAs are a progressive concept in the area of international assistance programs. The regional ILEAs offer three different types of programs. The Core program, a series of specialized training courses and regional seminars tailored to region-specific needs and emerging global threats, typically includes 50 participants, normally from three or more countries. The Specialized courses, comprised of about 30 participants, are normally one or two weeks long and often run simultaneously with the Core program. Lastly, topics of the Regional Seminars include transnational crimes, financial crimes, and counterterrorism.

The ILEAs help develop an extensive network of alumni that exchange information with their U.S. counterparts and assist in transnational investigations. These graduates are also expected to become the leaders and decision-makers in their respective societies. The Department of State works with the Departments of Justice (DOJ), Homeland Security (DHS) and Treasury, and with foreign governments to implement the ILEA programs. To date, the combined ILEAs have trained over 17,000 officials from over 70 countries in Africa, Asia, Europe, and Latin America. The ILEA budget averages approximately $16-18 million annually.

Africa. ILEA Gaborone (Botswana) opened in 2001. The main feature of the ILEA is a six-week intensive personal and professional development program, called the Law Enforcement Executive Development Program (LEEDP), for law enforcement mid-level managers. The LEEDP brings together approximately 45 participants from several nations for training on topics such as combating transnational criminal activity, supporting democracy by stressing the rule of law in international and domestic police operations, and by raising the professionalism of officers involved in the fight against crime. ILEA Gaborone also offers specialized courses for police and other criminal justice officials to enhance their capacity to work with U.S. and regional officials to combat international criminal activities. These courses concentrate on specific methods and techniques in a variety of subjects, such as counterterrorism, anticorruption, financial crimes, border security, drug enforcement, firearms and many others.

Instruction is provided to participants from Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Djibouti, Ethiopia, Kenya, Uganda in East Africa, and Nigeria in West Africa. Planned country program expansion into sub-Saharan Africa was facilitated through a Training Needs Assessment/Program Expansion conference held in September 2005. As a result of this conference the sphere of influence for ILEA Gaborone was expanded to include countries Cameroon, Comoros, Congo, the Democratic Republic of Congo, Gabon and Madagascar.

United States and Botswana trainers provide instruction. ILEA Gaborone has offered specialized courses on money laundering/terrorist financing-related topics such as Criminal Investigation (presented by FBI) and International Banking & Money Laundering Program (presented by DHS/FLETC Federal Law Enforcement Training Center). ILEA Gaborone trains approximately 500 students annually.

Asia. ILEA Bangkok (Thailand) opened in March 1999. The ILEA focuses on enhancing the effectiveness of regional cooperation against the principal transnational crime threats in Southeast Asia-illicit drug-trafficking, financial crimes, and alien smuggling. The ILEA provides a Core course (the Supervisory Criminal Investigator Course or SCIC) of management and technical instruction for supervisory criminal investigators and other criminal justice managers. In addition, this ILEA presents one Senior Executive program and about 18 specialized courses-lasting one to two weeks-in a variety of criminal justice topics. The principal objectives of the ILEA are the development of effective law enforcement cooperation within the member countries of the Association of Southeast Asian Nations (ASEAN) plus China, and the strengthening of each country's criminal justice institutions to increase their abilities to cooperate in the suppression of transnational crime.

Instruction is provided to participants from Brunei, Cambodia, China, Hong Kong, Indonesia, Laos, Macau, Malaysia, Philippines, Singapore, Thailand, and Vietnam. Subject matter experts from the United States, Thailand, Japan, Netherlands, Philippines, and Hong Kong provide instruction. ILEA Bangkok has offered specialized courses on money laundering/terrorist financing-related topics such as Computer Crime Investigations (presented by FBI and DHS/Bureau of Customs and Border Protection (BCBP)) and Complex Financial Investigations (presented by IRS, DHS/BCBP, FBI and DEA). Total annual student participation is approximately 600.

Europe. ILEA Budapest (Hungary) opened in 1995. Its mission has been to support the region's emerging democracies by combating an increase in criminal activity that emerged against the backdrop of economic and political restructuring following the collapse of the Soviet Union. ILEA Budapest offers three different types of programs: an eight-week Core course, Regional Seminars and Specialized courses in a variety of criminal justice topics. Instruction is provided to participants from Albania, Armenia, Azerbaijan, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

Trainers from 17 federal agencies and local jurisdictions from the U.S. and Hungary, Canada, Germany, United Kingdom, Netherlands, Ireland, Italy, Russia, Interpol as well as the Council of Europe provide instruction. ILEA Budapest has offered specialized courses on money laundering/terrorist financing-related topics such as Investigating/Prosecuting Organized Crime and Transnational Money Laundering (both presented by DOJ/OPDAT). ILEA Budapest trains approximately 950 students annually.

Global. ILEA Roswell (New Mexico) opened in September 2001. This ILEA offers a curriculum comprised of courses similar to those provided at a typical Criminal Justice Program university/college. These three-week courses have been designed and are taught by academicians for foreign law enforcement officials. This Academy is unique in its format and composition with a strictly academic focus and worldwide student body. The participants are mid- to senior-level law enforcement and criminal justice officials from Eastern Europe, Russia, the Newly Independent States (NIS), Association of Southeast Asian Nations (ASEAN) member countries, the People's Republic of China (including the Special Autonomous Regions of Hong Kong and Macau), member countries of the Southern African Development Community (SADC), other East and West African countries, and the Caribbean, Central, and South American countries. The students are drawn from pools of ILEA graduates from the Academies in Bangkok, Budapest, Gaborone, and San Salvador. ILEA Roswell trains approximately 450 students annually.

Latin America. At the Organization of American States General Assembly meeting in June 2005, Secretary Rice announced that the new ILEA for Latin America would be located in El Salvador. A Bilateral Agreement between El Salvador and the USG establishing the new ILEA was signed in September 2005 and was ratified by the Salvadoran National Assembly in November, 2005. The training program for the new ILEA in San Salvador will be similar to the ILEAs in Bangkok, Budapest, and Gaborone, and will offer a six-week Law Enforcement Management Development Program (LEMDP) for law enforcement and criminal justice officials as well as specialized courses for police, prosecutors, and judicial officials. In 2006, ILEA San Salvador will deliver one LEMDP session and about 10 Specialized courses that will concentrate on attacking international terrorism, illegal trafficking in drugs, alien smuggling, terrorist financing, financial crimes, culture of lawfulness, and accountability in government. Components of the six-week LEMDP training session will focus on terrorist financing (presented by the FBI), international money laundering (presented by DHS/ICE/Immigration and Customs Enforcement), and financial evidence/money laundering application (presented by DHS/FLETC and IRS). The Specialized course schedule will include courses on financial crimes investigations (presented by DHS/ICE) and money laundering training (presented by IRS). During the initial phase of operation, participants from the following countries are expected to attend: Argentina, Bahamas, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela.

Board of Governors of the Federal Reserve System (FRB)

An important component in the United States' efforts to combat and deter money laundering and terrorism financing is to verify that supervised organizations comply with the Bank Secrecy Act and have programs in place to comply with Office of Foreign Assets Control (OFAC) sanctions. The FRB, working with the other bank regulatory agencies, ensures compliance with these statutes for the institutions under its supervision. This task was advanced in 2005 with the issuance of the Bank Secrecy Act Anti-Money Laundering Examination Manual.

Internationally, the FRB conducted training and provided technical assistance to banking supervisors and law enforcement officials in anti-money laundering and counterterrorism financing tactics in partnership with regional supervisory groups or multilateral institutions. In 2005, the FRB provided training and/or technical assistance to Argentina, Jordan, Latvia, Indonesia, Korea, and Uzbekistan. Furthermore, these activities were presented on a regional basis to several Asia Pacific and Latin American countries. Due to the importance that the FRB places on international standards, the FRB anti-money laundering experts participated regularly in the U.S. delegation of the Financial Action Task Force and the Basel Committee's cross-border banking groups. The experts also meet with industry groups to support industry best practices in this area such as the Wolfsberg Group. In addition, the FRB presented at the U.S.-OSCE Conference on Combating Terrorist Financing.

The FRB also presented training courses to domestic law enforcement agencies including the Internal Revenue Service, the Federal Bureau of Investigation, the U.S. Postal Inspection Service, the Department of Homeland Security's Bureau for Immigration and Customs Enforcement, the Drug Enforcement Administration, as well as at the Federal Law Enforcement Training Center.

Bureau of Immigration and Customs Enforcement (ICE), Department of Homeland Security (DHS)

During 2005, the Bureau of Immigration and Customs Enforcement (ICE), Financial Investigations Division and the Office of International Affairs delivered extensive money laundering, financial investigations and antiterrorist financing training to domestic and foreign law enforcement organizations, and to the regulatory, banking and trade communities. ICE money laundering and financial investigations training is based on the broad experience achieved while conducting international money laundering and traditional financial investigations techniques as part of the U.S. Customs Service (USCS) legacy.

With the assistance of State Department funding, ICE provided technical assistance, training and instruction on interdicting and investigating bulk cash smuggling seizures in support of the Financial Action Task Force (FATF) Special Recommendation IX on Cash Couriers. During 2005, ICE provided this technical assistance and training to 450 foreign law enforcement officers in seven countries. ICE conducted and/or participated in 52 domestic and international money laundering and financial investigations seminars and conferences which focused on the traditional patterns and trends identified with trade based money laundering schemes, bulk cash smuggling, Black Market Peso Exchange (BMPE) investigations, alternative money remittance systems, and human trafficking. ICE also delivered training to the domestic and international private financial and trade sectors through the Cornerstone Program. The Cornerstone Program was developed and designed to provide the necessary skills to identify and develop a methodology to detect suspect transactions indicative of money laundering and criminal activity within the financial and trade community.

The ICE International Affairs and the Financial Investigations Division planned, coordinated and participated in providing international training and technical assistance through programs sponsored by the State Department Bureau for International Narcotics and Law Enforcement Affairs (INL), and

the International Law Enforcement Academy (ILEA) programs in El Salvador, Thailand, Gaborone, and Hungary. ICE personnel also participated and provided instruction to foreign police, judicial, banking and public sector officials through seminars and conferences sponsored by the FATF and the Asia/Pacific Group on Money Laundering (APG). Through these programs, ICE gave international training and technical assistance on conducting money laundering investigations, bulk cash smuggling, and trade based money laundering investigations to officials from over 100 countries worldwide.

In Lima, Peru, ICE conducted additional financial investigations training of law enforcement officers from 15 Central and South American countries in support of the Organization of American States' Inter-American Drug Abuse Control Commission (OAS/CICAD). The ICE Financial and Trade Investigations Division has supported these programs for more than two years.

ICE's Trade Transparency Unit (TTU) identifies anomalies related to cross-border trade that are indicative of international trade-based money laundering. The TTU generates, initiates and supports investigations and prosecutions related to trade-based money laundering, the illegal movement of criminal proceeds across international borders, alternative money remittance systems, terrorist financing, and other financial crimes. By sharing trade data with foreign governments, ICE and participating governments will be able to see both sides, import and export data for, of commodities entering or leaving their countries. This makes trade transparent and will assist in the identification and investigation of international money launderers and money laundering organizations.

The Tri-border area (TBA) of South America is bounded by Ciudad de Este, Paraguay, Foz do Iguacu, Brazil and Puerto Iguazu, Argentina. The TBA is reported as being South America's busiest contraband and smuggling center, generating which generates billions of dollars annually in money laundering, arms and drug trafficking, IPR counterfeiting and piracy. The United States has worked actively and cooperatively with governments in the region to disrupt this fundraising activity and together with Argentina, Brazil and Paraguay, the U.S. Government launched the "3+1" Counterterrorism Dialogue. The "3+1" dialogue is focused on terrorism prevention, counterterrorism policy discussion, increased cross-border cooperation, and mutual counterterrorism capacity building. The participating countries have met several times and are committed to strengthening cooperation among their financial intelligence units, border security officials, counterterrorism case prosecutors, and police investigators. In concert with U.S. policy, ICE, supported by and in conjunction with the Department of State INL Bureau funding, initiated the establishment of TTU's in the Tri-border area countries of. Paraguay, Brazil and Argentina. The Governments of Paraguay and Brazil have exchanged trade data with ICE and are in the process of establishing their TTUs. In October 2005, the Government of Argentina formally acknowledged its intended participation in the TTU. The Government of Paraguay is in the process of establishing their TTU.

Drug Enforcement Administration (DEA), Department of Justice

With the assistance of State Department funding, the International Training Section of the DEA conducts its International Asset Forfeiture and Money Laundering courses in concert with the Department of Justice (DOJ). In 2005, hundreds of participants from Hong Kong, Macau, Jordan, Japan, India, Israel, and Italy received this training. A wide range of DEA international courses contain training elements related to countering money laundering and other financial crimes. The DEA training division also delivers training at the International Law Enforcement Academies in Bangkok, Budapest, Gaborone, and San Salvador.

The basic course curriculum, which was conducted in Jordan, Japan, India, Macau, and Israel, addresses money laundering and its relation to Central Bank operations, asset identification, seizure and forfeiture techniques, financial investigations, document exploitation, and international banking.

The curriculum also includes overviews of U.S. asset forfeiture law, country forfeiture and customs law, and prosecutorial perspectives. The advanced course, conducted in Hong Kong and Italy, included tracing the origin of financial assets, internet/cyber banking, terrorist financing, reverse sting operations, electronic evidence and data exploitation, role of intelligence in money laundering investigations, and case studies with practical exercises.

In addition, DEA presented a three-week International Narcotics Enforcement Management Seminar for officials from Colombia, Mexico, Panama, Bolivia, Ecuador, Chile, the Dominican Republic, Uruguay, Argentina, Brazil, Paraguay, Honduras, El Salvador, Costa Rica, Nicaragua, Belize, and the Netherlands Antilles. The DEA Chief of Financial Operations presented a block of training related to money laundering methods and techniques as well as best practices for investigating these crimes, at a conference sponsored by the UK's Assets Recovery Agency (ARA) to officials from the ARA, The Serious Organized Crime Agency (SOCA), Metropolitan Police, National Crime Squad, Her Majesty's Customs and Revenue (HMCR), and 43 constabularies.

DEA also participated in an exchange of information forum with officials from the People's Republic of China concerning recent trends in drug money laundering, especially related to trade-based money laundering and the Colombian Black Market Peso Exchange (BMPE) as it relates to commodities manufactured in China.

Federal Bureau of Investigation (FBI), Department of Justice

During 2005, with the assistance of State Department funding, Special Agents and other subject matter experts of the FBI continued their extensive international training in terrorist financing, money laundering, financial fraud, racketeering enterprise investigations, and complex financial crimes. The unit of the FBI responsible for international training is the International Training and Assistance Unit (ITAU) in the Training and Development Division, which is located at the FBI Academy in Quantico, Virginia. ITAU coordinates with the Terrorist Financing and Operations Section of the FBI's Counterterrorism Division, as well as other divisions within FBI Headquarters and in the field, to provide instructors for these international initiatives. FBI instructors, who are most often operational special agents or supervisory special agents from headquarters or the field, rely on their experience to relate to the international law enforcement students as peers and partners in the training courses.

The FBI regularly conducts training through International Law Enforcement Academies (ILEA) in Bangkok, Thailand; Budapest, Hungary; and Gaborone, Botswana. In 2005, the FBI delivered training in white collar crime investigations to 248 students from 12 countries at ILEA Budapest. The FBI was proud to participate in the opening session of the ILEA in San Salvador, El Salvador by providing terrorist financing and money laundering training to 36 students from El Salvador, Colombia, and the Dominican Republic. The FBI also delivered terrorist financing and money laundering training to 39 students from 19 Latin American countries through the Latin American Law Enforcement Executive Development Seminar conducted at the FBI Academy.

In other programs, the FBI trained international officials in Thailand, Kuwait, Malaysia, Nigeria, Qatar, Philippines, Bangladesh, United Arab Emirates, Suriname, Sri Lanka, and Slovenia. This included FBI participation in seminars and advanced seminars on terrorist financing, organized crimes, securities fraud, and other financial crimes that the Office of Overseas Prosecutorial Development delivered to 422 students in Nicaragua, Sri Lanka, Austria, and Slovenia. This also includes the one-week terrorist financing and money laundering training initiatives that the FBI regularly conducts with the assistance of the Internal Revenue Service, Criminal Investigative Division. This training reached 225 international students in Thailand, Malaysia, Kuwait, Nigeria, Qatar, Philippines, and Bangladesh. Additionally in 2005, the FBI has begun to develop and conduct advanced versions of this initiative.

Federal Deposit Insurance Corporation (FDIC)

In 2005, the FDIC continued to work in partnership with several agencies to combat money laundering and the global flow of terrorist funds. Additionally, the agency planned and conducted missions to assess vulnerabilities to terrorist financing activity worldwide, and developed and implemented plans to assist foreign governments in their efforts in this regard. To better achieve this end, the FDIC had 38 individuals available to participate in foreign missions. Periodically, FDIC staff meets with supervisory and law enforcement representatives from various countries to discuss anti-money laundering (AML) issues, including examination policies and procedures, the USA PATRIOT Act and its requirements, the FDIC's asset forfeiture programs, suspicious activity reporting requirements, and interagency information sharing mechanisms. In 2005, the FDIC gave such presentations to representatives from the Netherlands, Russia, Egypt, Swaziland, Zambia, and China.

In February and December 2005, with the assistance of State Department funding, the FDIC hosted approximately 50 individuals from Egypt, Jordan, Macedonia, Tanzania, Afghanistan, Bangladesh, Indonesia, and Morocco. The two sessions focused on AML and counterfinancing of terrorism, including the examination process, customer due diligence, and foreign correspondent banking. In March 2005, the FDIC participated in an interagency Financial Systems Assessment Team (FSAT) assisting representatives from Tanzania in evaluating and determining future technical assistance. The group reviewed the country's proposed AML law and provided information in the areas of customer identification programs, financial intelligence units and the monitoring of non-bank financial institutions.

The Financial Services Volunteer Corp requested individuals with extensive knowledge of AML legislation from the FDIC to give technical assistance to Macedonia in 2005. FDIC staff reviewed and advised Macedonian regulators and financial institution representatives on the development and implementation of AML requirements, current laws and regulations, organizational structure, and training needs. During 2005, the FDIC assisted the Department of Justice's Office of Overseas Prosecutorial Development, Assistance and Training (OPDAT) in regional conferences in Sri Lanka and the United Arab Emirates. The FDIC discussed the regulatory requirements of a formal banking system. Countries participating included Bahrain, Kuwait, Oman, Saudi Arabia, and the United Arab Emirates.

Financial Crimes Enforcement Network (FinCEN), Department of Treasury

FinCEN, the U.S. Financial Intelligence Unit (FIU), a bureau of the U.S. Department of the Treasury, coordinates and provides training and technical assistance to foreign nations seeking to improve their capabilities to combat money laundering, terrorist financing, and other financial crimes. FinCEN's particular focus in bilateral efforts is the creation and strengthening of FIUs—a valuable component of a country's anti-money laundering (AML) regimes. FinCEN's international training program has two components: (1) instruction and presentations to a broad range of government officials, financial regulators, law enforcement officers, and others on the subjects of money laundering, terrorist financing, financial crime, and FinCEN's mission and operation; and (2) training regarding FIU operations and analysis training via personnel exchanges. Much of FinCEN's work involves strengthening existing FIUs and the channels of communication used to share information to support anti-money laundering investigations. Participation in personnel exchanges (from the foreign FIU to FinCEN and vice versa), delegation visits to foreign FIUs, and regional and operational workshops are just a few examples of FinCEN activities designed to assist and support FIUs.

For those FIUs that are fully operational, FinCEN's goal is to assist the unit in increasing effectiveness, improving information sharing capabilities, and better understanding the phenomena of money laundering and terrorist financing. As a member of the Egmont Group of FIUs, FinCEN works closely with other member FIUs to provide training and technical assistance to countries and jurisdictions interested in establishing their own FIUs and then integrating them into the Egmont Group and having those units become candidates for membership in the Egmont Group.

During 2005, with the assistance of State Department funding, as well as Treasury, FinCEN conducted training courses, both independently and with other agencies including the Federal Bureau of Investigation and the Treasury Department's Office of Technical Assistance (OTA). Occasionally, FinCEN's training and technical assistance programming is developed jointly with these other agencies in order to address specific needs of the jurisdiction/country receiving assistance. In 2005, FinCEN conducted several training programs abroad to maximize participation by foreign FIUs.

Over the last twelve months, in an effort to enhance the sharing of information among established FIUs, FinCEN conducted personnel exchanges with a number of Egmont Group members, including the FIUs of from Liechtenstein, Mexico, and Russia. These exchanges offered the opportunity for FIU personnel to see how another FIU operates first-hand. The participants in these exchanges shared ideas, innovations, and insights, leading to improvements in such areas as analysis, information flow, and information security at their home FIUs.

Analysis training typically consists of a group of analysts from a country's FIU spending up to a week at FinCEN. Occasionally, FinCEN will conduct these training sessions abroad. FinCEN's analysis training program provides foreign analysts with basic skills in critical thinking and analysis, data collection, report writing, database research, financial analysis (such as bank records and net worth analysis), and case presentation. Training topics such as regulatory issues, international case processing, technology infrastructure and security, and terrorist financing and money laundering trends and typologies provide analysts with broader knowledge and a better understanding of the topic of money laundering. Finally, analysts gain an extensive knowledge of the U.S. AML regime by meeting with representatives from other federal agencies involved in the fight against money laundering and terrorist financing. These include the Justice Department's Asset Forfeiture and Money Laundering Section, the State Department's Bureau for International Narcotics and Law Enforcement Affairs and Office of the Coordinator for Counter-Terrorism, the Internal Revenue Service's Criminal Investigation Division, and the Homeland Security Department's Bureau of Immigration and Customs Enforcement (ICE).

During 2005, FinCEN conducted a week-long training program for over 25 analysts from seven countries in South and Central American and the Caribbean (Argentina, Chile, Costa Rica, the Dominican Republic, Panama, Peru and Venezuela) and, participated along with OTA and the Justice Department's OPDAT in a week-long seminar in Azerbaijan for law enforcement and regulatory personnel. FinCEN coordinated analytical training in Tbilisi for 30 analysts from Georgia's FIU, Prosecutor's Office and National Bank. with the Department of Homeland Security-Immigrations and Customs Enforcement (ICE) and, the Federal Bureau of Investigation (FBI). In Sri Lanka, FinCEN participated in a training seminar on FIU development, organized by the Sri Lankan Central Bank and the U.S. Embassy on FIU development. At the ILEA in Budapest, FinCEN participated in a program, jointly sponsored by ILEA and the Justice Department's Office of Overseas Prosecutorial Development and Asset Forfeiture and Money Laundering Section. Participants included local prosecutors, judges, banking officials, and law enforcement agents.

Thailand's FIU, the Anti-Money Laundering Office, sent three analysts to FinCEN for a week-long series of briefings on information analysis, data mining software and guidance on various regulatory issues. Also, FinCEN hosted officials from China's new FIU, the China Anti-Money Laundering Monitoring and Analysis Center, for a day of training focusing on IT, data storage and analysis

techniques, and the use of software in analyzing data. In 2005, FinCEN continued to collaborate with international organizations in order to enhance its role as a key provider of training and better understand the role of providing anti-money laundering/counterterrorist financing training and technical assistance. To that end, over the last year, FinCEN has significantly increased its coordination with organizations such as the Organization of American States, the International Monetary Fund and the World Bank.

In 2005, FinCEN hosted representatives from approximately 60 countries. These visits, typically lasting one to two days, focused on topics such as money laundering trends and patterns, the Bank Secrecy Act, USA PATRIOT Act, communications systems and databases, case processing, and the goals and mission of FinCEN. Representatives from foreign financial and law enforcement sectors generally spend one to two days at FinCEN learning about money laundering, the U.S. AML regime and reporting requirements, the national and international roles of a financial intelligence unit, and various other topics. The countries included: Argentina, Azerbaijan, Australia, Belgium, Bolivia, Bulgaria, Canada, China, Colombia, Croatia, Czech Republic, Denmark, Dominican Republic, El Salvador, Egypt, Finland, France, Germany, Georgia, Guatemala, Honduras, Hong Kong, India, Italy, Israel, Japan, Jordan, Kazakhstan, Kenya, Latvia, Lithuania, Macedonia, Malaysia, Mexico, Netherlands, Nicaragua, Nigeria, Norway, Panama, Pakistan, Paraguay, Peru, Poland, Romania, Serbia and Montenegro, Slovak Republic, South Korea, Spain, Swaziland, Taiwan, Tanzania, Turkmenistan, Ukraine, United Kingdom, Uruguay, Uzbekistan, and Venezuela. Representatives of the "Turkish Republic of Northern Cyprus" also visited FinCEN in 2005.

Internal Revenue Service (IRS), Department of Treasury

In 2005, the IRS Criminal Investigative Division (IRS-CID) continued its involvement in international training and technical assistance efforts designed to assist foreign law enforcement agents detect money laundering and the financing of terrorism. With the assistance of State Department's funding, IRS-CID provided training through agency and multi-agency technical assistance programs to foreign law enforcement agencies. Training included basic and advanced financial investigative techniques, and combating money laundering and transnational terrorism.

IRS-CID provided support to the International Law Enforcement Academies (ILEAs) at Bangkok, Budapest and Gaborone by delivering training in Financial Investigative Techniques/Money Laundering and Antiterrorism Financing. At the Bangkok ILEA IRS-CID participated in two Supervisory Criminal Investigator Courses (SCIC) and served as the coordinator of the annual Complex Financial Investigations (CFI) course, which is provided to senior, mid-level, and first-line law enforcement supervisors, inspectors, investigators, prosecutors and customs officers from Cambodia, Hong Kong, Indonesia, Laos, Macau, Malaysia, People's Republic of China, Philippines, Singapore, Thailand, and Vietnam. At ILEA Budapest IRS-CID participated in five sessions held in Budapest and also provided a class coordinator for one of the sessions to share experience and expertise in financial investigative matters with participants from Albania, Armenia, Azerbaijan, Belarus, Bosnia/Herzegovina, Bulgaria, Czech Republic, Croatia, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Macedonia, Moldova, Poland, Romania, Russia, Serbia/Montenegro, Slovakia, Slovenia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

IRS-CID participated in four Law Enforcement Executive Development (LEED) programs and also funded a special agent to serve as a Deputy Director at the ILEA in Gaborone, Botswana. Training was delivered to Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, Djibouti, Ethiopia, Kenya, Seychelles, Uganda, Nigeria, Cameroon, Comoros, Congo, DRC, Gabon, and Madagascar. At the INEA in San Salvador, IRS-CID continued to participate in the establishment of ILEA Latin America and participated in several meetings including the Key Leaders and curriculum development conferences. A Supervisory Academy Instructor

participated in the Latin America's Law Enforcement Development Program (LEMDP) pilot class and also attended the ceremony for the signing of the bi-lateral agreement for the establishment of the ILEA in San Salvador, including Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, and Venezuela.

Also with Department of State (DOS) funding, IRS-CID participated in the DOS Antiterrorism Assistance (ATA) training to countries attending the ILEAs. As part of this initiative, IRS-CID conducted five separate two-day sessions on Combating Transnational Terrorism Financing, (two at ILEA Budapest and Bangkok and one at ILEA Gaborone). The participants that attended the ILEA Budapest sessions were from Estonia, Latvia, Lithuania, Uzbekistan, Kyrgyzstan, Tajikistan, and Kazakhstan, Participants from Cambodia, China, Hong Kong, Indonesia, Laos, Macau, Malaysia, Philippines, Singapore, Thailand, and Vietnam attended ILEA Bangkok and participants from Ethiopia, Botswana, Kenya, and Tanzania attended the session in ILEA Gaborone.

In Trinidad, IRS-CID conducted a two-week Financial Investigative Techniques (FIT) training course. The overall goal of the course was to provide a forum for development of working relationships between the agencies represented and deliver some familiarization training about basic financial investigative techniques, money laundering and asset forfeiture. In Kuala Lumpur, Malaysia, IRS-CID conducted a basic and an advanced Financial Investigative Techniques (FIT) training course. The majority of the participants were investigators from the Inland Revenue Board assigned to the newly created criminal investigation function, with other participants being attorneys and supervisors. The initial course consisted of various instruction regarding basic financial investigative techniques, while the advanced course consisted of a two-week practical exercise where the participants worked a simulated investigation.

In Rarotonga, Cook Islands, IRS-CID conducted a two-week Money Laundering and Terrorist Financing course. This class was a more in-depth and comprehensive look at financial investigations to supplement the overview course presented the previous year. The two-week course consisted of a presentation by the IRS Attaché for the region on information available through his office for investigative inquiries, and a discussion of trends and emerging issues in terrorist financing and money laundering within the region. The participants included both government officials with responsibilities of financial investigation and oversight, and private sector individuals from banks and trust companies.

IRS-CID conducted Financial Investigative Techniques courses in three countries. One was a week-long course in Asuncion, Paraguay, for tax investigators from the tax administration of Paraguay, general prosecutors, the IRS Attaché for the region, the Director of the Financial Unit in Paraguay; the Resident Enforcement Advisor from the Treasury Office of Technical Assistance, and the Resident Legal Advisor from the Justice Overseas Prosecutorial Development Assistance. In Manila, Philippines, IRS-CID assisted the Philippines government with three classes for Investigative Agents. In Riga, Latvia, IRS-CID presented a class to 22 Latvian investigators and prosecutors.

IRS-CID conducted three Financial Investigations Training courses in Hong Kong in 2005. IRS-CID and the IRS Attaché for the region assisted the Hong Kong Inland Revenue with two days of courses. The courses were attended by 36 examiners and criminal investigators from Inland Revenue and Hong Kong Treasury accountants assigned to the Hong Kong Police Force. IRS-CID and the IRS Attaché for the region also made a presentation at a two-day terrorist financing seminar jointly hosted by the Hong Kong Police Force and the Federal Bureau of Investigation (FBI), and facilitated the seminar discussion regarding the abuse of charities for the financing of terrorism. FBI also held a two-day Advanced Money Laundering Seminar in which IRS-CID participated. Discussions were held with Hong Kong Police Officials on qualifications and training for a Money Laundering Expert Witness Training Program.

In Pretoria, South Africa, IRS-CID participated in a one-week Money Laundering and Asset Forfeiture Training Program sponsored by the U.S. Secret Service. The course was delivered to 70 investigators from the South African Police, with the remainder of the participants from the elite "Scorpion Unit."

IRS-CID assisted the Office of Overseas Prosecutorial Development Assistance and Training (OPDAT) with a Complex Financial Investigations Course in Balvanyos, Romania, a Terrorist Financing Seminar in Sri Lanka, and two classes with an emphasis on Money Laundering and Terrorism Financing in Manila, Philippines for appellate and trial judges. The training held in the Philippines was funded through the American Bar Association (ABA). IRS-CID assisted the FBI in delivering multiple one-week courses on Anti-Money Laundering and Antiterrorism Financing. During 2005, the course was successfully delivered to participants in Bangladesh, Kuwait, Malaysia, Nigeria, Philippines, Qatar, Turkey, and Thailand.

The IRS-CID Mexico City Attaché delivered financial investigative training courses to 50 bank officials and government attorneys during a one-week Organized Crime Conference sponsored by the Colombian Banking Association (FELABAN), and then to 50 prosecutors from the Mexican Government Attorney General's Office in charge of Money Laundering's (PGR's) International Section (MLAT Unit). The Attaché also participated in a one-week International Financial Fraud training session for 100 prosecutors from PGR's Economic Crimes Section in Querétaro, and presented Money Laundering/Wire Remittances Investigative Techniques training to both a group of 40 FIU Directors from Central America and Argentina at the Financial Investigative Unit Conference in Vienna, Virginia, as well as to 100 prosecutors and banking officials at the Guatemalan Banker's Association Conference. In Oaxaca, Mexico, the Attaché gave a one-week International Financial Fraud Seminar where he presented on "International Money Laundering," "Money Services Business/Money Remitters" and "Black Market Peso Exchange" to over 100 prosecutors. In Ecuador, IRS-CID Bogotá Attaché provided one-week of Investigative Techniques training on money laundering to 50 banking officials.

Office of the Comptroller of the Currency (OCC), Department of Treasury

The Office of the Comptroller of the Currency charters, regulates and supervises all national banks and federal branches and agencies of foreign banks. The OCC's nationwide staff of examiners conducts on-site reviews of national banks and provides sustained supervision of bank operations, including Bank Secrecy Act (BSA) and anti-money laundering (AML) compliance.

With the assistance of State Department funding, the OCC has conducted AML training for foreign bank supervisors and examiners two to three times per year for the past six years. Over 250 foreign bank supervisors have participated in this training program. In total, the OCC's AML schools have trained approximately 650 OCC examiners over the past seven years. In addition, the OCC consistently provides instructors for the Federal Financial Institutions Examination Council schools, which are now patterned after the OCC's school.

The OCC conducted and sponsored a number of anti-money laundering (AML) training initiatives for foreign banking supervisors during 2005. In January 2005, the OCC presented an Anti-Money Laundering/Antiterrorist Financing program to a visiting Chinese delegation. In May 2005, the OCC sponsored an Anti-Money Laundering/Anti Terrorist Financing School in Washington, D.C. The school was designed specifically for foreign banking supervisors to increase their knowledge of money laundering and terrorist financing activities and of how these acts are perpetrated. The course provided a basic overview of AML examination techniques, tools, and case studies. Twenty-five banking supervisors from the following countries were in attendance: Austria, Bahrain, Canada,

China, Egypt, Guatemala, Japan, Indonesia, Luxembourg, Nigeria, Philippines, Russia, St. Vincent & Grenada, Turkey, and United Kingdom.

The OCC, with the World Bank, also produced a DVD presentation of the March 2004 OCC sponsored Anti-Money Laundering/Terrorist Financing School held in Washington, D.C. This training was produced for distribution to foreign banking supervisors. In November 2005, the OCC provided instructors to a FDIC sponsored Anti-Money Laundering/Terrorist Financing School in Washington, D.C. The school was designed specifically for foreign banking supervisors to increase their knowledge of money laundering and terrorist financing activities and of how these acts are perpetrated. The course provided a basic overview of AML examination techniques, tools and case studies. Twenty banking supervisors from the following countries were in attendance: Afghanistan, Bangladesh, Indonesia, and Morocco. Also in November, the OCC presented an Anti-Money Laundering/Antiterrorist Financing program to Poland's Department of Financial Information as part of a week-long on-site visitation with FinCEN.

The OCC had originally scheduled an Anti-Money Laundering/Terrorist Financing School for the fourth quarter of 2005 in Lebanon, designed specifically for foreign banking supervisors to increase their knowledge of money laundering and terrorist financing activities. Due to security concerns, this training was postponed.

Office of Prosecutorial Development Assistance and Training & the Asset Forfeiture and Money Laundering Section (OPDAT and AFMLS), Department of Justice

Training and Technical Assistance

The Overseas Prosecutorial Development Assistance and Training (OPDAT) section is the office within the Justice Department that assesses, designs and implements training and technical assistance programs for our criminal justice sector counterparts overseas. OPDAT draws upon components within the Department, such as the Asset Forfeiture and Money Laundering Section (AFMLS) and the Counterterrorism Section, to provide programmatic expertise and to develop good partners abroad. Much of the training provided by OPDAT and AFMLS is provided with the assistance of the Department of State's funding.

In 2005, OPDAT provided training in the areas outlined below. In addition to programs that are targeted to each country's needs, OPDAT also provides long term, in-country assistance through Resident Legal Advisors (RLAs). RLAs are federal prosecutors who provide in-country technical assistance to improve the skills, efficiency and professionalism of foreign criminal justice systems. RLAs live in a country for one or two years to work with counterparts such as ministries of justice, prosecutors and the courts. To promote reforms in the criminal justice system, RLAs provide assistance in legislative drafting, modernizing institutional policies and practices, and training law enforcement personnel including prosecutors, judges, police and other investigative or court officials. For all programs, OPDAT draws on the expertise of the Department of Justice's Criminal Division and other components as needed. OPDAT works closely with AFMLS, the lead Justice section that provides countries with technical assistance in the drafting of money laundering and asset forfeiture statutes compliant with international standards.

Money Laundering/Asset Forfeiture

During 2005, the Justice Department's OPDAT and AFMLS continued to provide training to foreign prosecutors, judges and law enforcement, and assistance in drafting anti-money laundering statutes compliant with international standards. The assistance provided by OPDAT and AFMLS enhances the ability of participating countries to prevent, detect, investigate, and prosecute money laundering, and to make appropriate and effective use of asset forfeiture. The content of individual technical assistance varies depending on the specific needs of the participants, but topics addressed in 2005 included developments in money laundering legislation and investigations, complying with international standards for anti-money laundering/counterterrorist financing regime, illustrations of the methods and techniques to effectively investigate and prosecute money laundering, inter-agency cooperation and communication, criminal and civil forfeiture systems, the importance of international cooperation, and the role of prosecutors. In 2005, OPDAT also cosponsored with the Department of State and the Organization for Security and Cooperation in Europe (OSCE) a money laundering conference for all West and Eastern Europe countries, and Russia and Kyrgyzstan.

AFMLS provides technical assistance directly in connection with legislative drafting on all matters involving money laundering, asset forfeiture and the financing of terrorism. During 2005, AFMLS provided such assistance to 14 countries and actively participated in the drafting of the forfeiture provisions for the OAS/CICAD Model Regulations. AFMLS continues to participate in the UN Working Group to draft a model non-conviction based asset forfeiture law and the G-8 working groups on corruption and asset sharing.

With the assistance of Department of State funding, AFMLS provided training to government officials concerned with money laundering issues in the United Arab Emirates, Kenya, Sri Lanka, Afghanistan, Pakistan, Bangladesh, the Maldives, Thailand, Malaysia, Indonesia and the Philippines. These officials attended in-depth sessions on money laundering and international asset forfeiture. AFMLS attorneys participated in the meeting of the Intergovernmental Experts Group on International Asset Sharing which was convened in Vienna, Austria by UNODC. In preparation for the Experts Group meeting, AFMLS crafted the first draft from which experts worked to craft the model agreement. Ultimately, AFMLS was instrumental in the development and adoption of the "Model Bilateral Agreement on the Sharing of Confiscated Proceeds of Crime and Property" by the UN General Assembly in December 2005. Additionally, in 2005, AFMLS provided technical assistance to Afghanistan, Albania, Bangladesh, Brazil, Bulgaria, Pakistan, Indonesia, Iraq, Kenya, Sri Lanka, the Republic of Korea, Tanzania, Thailand, and Turkey.

In an effort to improve international collaboration in investigating and prosecuting intellectual property/counterfeiting cases, and to examine methods for forfeiting the proceeds of those crimes, the AFMLS hosted a conference in Hong Kong, April 12-15, 2005, on Forfeiting the Proceeds of Counterfeiting Crimes for prosecutors and investigators. Practitioners and other experienced government officials from Australia, China, Hong Kong, New Zealand, Singapore, South Korea, Thailand, and the United States participated. This conference brought practitioners and international experts, including those acting on behalf of private sector victims, together to share experiences and ideas to provide practical tools in combating counterfeiting crimes, including the freezing and forfeiting the proceeds of counterfeiting crimes.

During November 2005, AFMLS attorneys conducted a workshop on asset forfeiture, money laundering and terrorist financing in Seoul for 36 prosecutors from the Korean Supreme Public Prosecutor's Office (SPPO). The agenda was specifically tailored to the prosecutors' needs and in-depth and interactive discussions that took place over three days. The Republic of Korea was in the process of presenting legislative proposals to its parliament on money laundering and forfeiture related issues, and several attorneys working in the legislative office were present at the workshop to follow up on particular questions regarding drafting assistance previously provided by AFMLS, particularly

with respect to the creation and operation of a forfeiture fund and asset sharing. AFMLS is hopeful that this workshop will be the springboard to joint money laundering cases and legislation affording more aggressive and expansive forfeiture opportunities. The two Directors of the SPPO in charge of narcotics, cybercrimes and financial crimes, including money laundering, attended the workshop and pledged enhanced cooperation with the USG in the future.

In November 2005, the RLA in Bulgaria and AFMLS conducted a two-week program in four cities in Bulgaria for approximately 100 prosecutors and police on the importance of conducting a financial investigation in human trafficking cases. Topics included money laundering, asset forfeiture, mutual legal assistance and the importance of conducting complex financial investigations.

In November 2005, OPDAT conducted a conference on Asset Forfeiture for Caribbean prosecutors and police in the Bahamas. It provided substantive technical assistance and promoted collaboration among prosecutors and investigators in the Caribbean in money laundering and forfeiture cases. The conference especially focused on the added benefit of using civil or non-conviction based forfeiture in the disruption of criminal organizations.

As part of Plan Colombia, in 2005, OPDAT continued to provide assistance to enhance the capability of Colombia's National Asset Forfeiture and Money Laundering Task Force to investigate and prosecute money laundering and other complex financial crimes, and to execute the forfeiture of profits from illegal narcotics trafficking and other crimes. These efforts are complemented by a comprehensive long-range program to assist the country's judges, prosecutors and investigators in making the transition from the inquisitorial to the accusatory system.

Organized Crime

During 2005, OPDAT organized a number of programs for foreign officials on transnational or organized crime, which included such topics as corruption, money laundering, implementing complex financial investigations and special investigative techniques within a task force environment, international standards, legislation, mutual legal assistance, and effective investigation techniques.

OPDAT RLAs continued to support Bosnia's Organized Crime Anti-Human Trafficking Strike Force and judges, prosecutors and police in Albania, Bulgaria, Kosovo, Macedonia, and Serbia and Montenegro through mentoring and training programs on investigating and developing organized crime case strategies.

Fraud/Anticorruption

OPDAT placed two RLAs overseas to provide technical assistance on a long-term basis specifically on corruption cases. In March 2005, OPDAT conducted a technical assistance program for prosecutors and investigators to improve their investigative and prosecutorial ability to combat public corruption

In May 2004, OPDAT placed the first RLA dedicated to anticorruption issues in Managua, Nicaragua. In January 2005, the RLA conducted a program for 50 Nicaraguan prosecutors and police on the techniques and tools involved in preparing and bringing corruption cases to trial in an accusatory criminal justice system. Although Nicaragua switched over from an inquisitorial criminal justice system in 2002, it is still in the process of training prosecutors, investigators, and judges in the trial advocacy skills needed to implement the new criminal procedure code. This year, the G-8 selected Nicaragua to participate in its Anticorruption/transparency Pilot Program. A finite objective is to establish an Anticorruption Task Force of prosecutors and investigators who will be vetted and specially trained to handle fraud and corruption cases. In September 2005, OPDAT sent a second RLA to Managua to replace the first RLA who departed during the summer.

Additionally, from June-August 2005, the OPDAT RLA to Indonesia provided a weekly seminar series for prosecutors and investigators of the Indonesia Corruption Eradication Commission (known as the KPK). During the summer of 2005 the OPDAT RLA also provided a similar seminar series for the Special Crimes Branch of the South Jakarta District Office.

Terrorism/Terrorist Financing

Since 2001 OPDAT, the Counterterrorism Section (CTS), and AFMLS have intensified their efforts to assist countries in developing their legal infrastructure to combat terrorism and terrorist financing. OPDAT, CTS, and AFMLS, with the assistance of other Department of Justice (DOJ) components, play a central role in providing technical assistance to foreign counterparts both to attack the financial underpinnings of terrorism and to build legal infrastructures to combat it. In this effort, OPDAT, CTS, and AFMLS work as integral parts of the U.S. Interagency Terrorist Financing Working Group (TFWG) in partnership with the Departments of State, Treasury, Homeland Security's ICE, and several other DOJ components.

OPDAT currently has five RLAs assigned overseas who are supported by the interagency Terrorist Financing Working Group (TFWG), co-chaired by State INL and S/CT. Working in countries where governments are vulnerable to or may even be complicit in terrorist financing, RLAs focus on money laundering and financial crimes and developing counterterrorism legislation that criminalizes terrorist acts, terrorist financing, and the provision of material support or resources to terrorist organizations. The RLAs also develop technical assistance programs for prosecutors, judges and, in collaboration with DOJ's International Criminal Investigative Training Assistance Program (ICITAP), police investigators to assist in the implementation of new money laundering and terrorist financing procedures.

In August 2003, an RLA was dispatched to Asuncion, Paraguay, part of the Tri-Border area (with Brazil and Argentina) where its rather porous borders facilitate money laundering and bulk cash smuggling. The second counterterrorism RLA arrived in Nairobi, Kenya in December 2004, to assist with terrorism legislation, training in complex financial crimes and, in general, to bolster the capacity of the prosecutor's office. Both RLAs have conducted significant legislative reform and/or training programs during their tenure. The RLA in Paraguay in 2005 continued his focus on needed reforms to the Paraguayan Criminal Procedure Code, providing counsel and technical assistance to the legislative commission assigned with the task of reform. Two study tours to Puerto Rico allowed Paraguayan legislators from the commission, judges and prosecutors to observe first hand how an effective, efficient criminal justice system functions using modern professional investigative tools. In October 2005, the RLA also arranged for the new Attorney General of Paraguay to visit the United States Attorney General to bolster support for law reform and to begin a new and more cooperative relationship with the USG. The legislative commission in Paraguay is finishing its work on procedural code reform and should begin initiating reforms in 2006.

In September and December 2005, the RLA in Nairobi, Kenya organized two sequential iterations of an advanced trial advocacy course for prosecutors. In addition to U.S. prosecutors, U.S. judges and FBI agents, presenters included two prosecutorial trainers from the Crown Prosecution Service who provided a British perspective on Kenyan legal practice. In January 2005, OPDAT sent a third counterterrorism RLA to the United Arab Emirates (UAE)—OPDAT's first RLA in the Gulf States—to work on financial crimes, terrorist financing, and money laundering issues. Following an initial comprehensive assessment of the legal system in the UAE, including the influence of Sharia law, the RLA organized DOJ participation in a conference on bulk cash smuggling and began planning a workshop on money laundering. The workshop entitled "Regional Conference on Investigating and Prosecuting Advanced Financial Crimes" was held in November 2005 and cosponsored by OPDAT, the UAE Central Bank and MENA-FATF, the regional style FATF body. The 150 participants

included the UAE Ministry of Justice and the Gulf Cooperation Council (GCC) (Saudi Arabia, Bahrain, Oman, Kuwait, Qatar, and the UAE). Presentations by USG Terrorist Financing and GCC experts focused on money laundering, bulk cash smuggling, regulation of hawala, and safeguarding charitable donations from being diverted to fund terrorist activities. Member of the GCC expressed interest in holding a similar event again in 2006.

In March 2005, OPDAT placed its first RLA in South Asia at Embassy Dhaka at strengthening the Government of Bangladesh's anti-money laundering/terrorist financing regime, and improving the capability of Bangladeshi law enforcement to investigate and prosecute complex financial and organized crimes. During 2005, the OPDAT RLA provided extensive advice, materials, guidance and background on the UN International Convention for the Suppression of Terrorist Financing to key Bangladeshi officials as they considered signing that document. The RLA also worked closely with officials from the inter-government consultation group to address concerns about the Convention. As a result, in June 2005, the government announced it would sign the convention, and by August, the instrument was ready for the Foreign Minister's signature and subsequent deposit at the UN.

In June, 2005, our OPDAT program placed an experienced prosecutor in Jakarta, Indonesia for one year to serve as the RLA. His role is to provide assistance to the Indonesian Counter Terrorism Task Force (CTTF) to augment their advanced criminal procedures, criminal laws, and prosecutor skills to prepare and try complex terrorism and other organized crime cases. His role is also to assist the general prosecutors with skill-building and integrity development to ultimately enlarge the cadre of CT prosecutors. The RLA has provided legislative drafting assistance and skills development seminars, and invited in experts from other components of DOJ to demonstrate techniques for effective mutual legal assistance.

In June 2005, OPDAT conducted a South Asia regional conference in Colombo, Sri Lanka on counterterrorist financing. Law enforcement officers, prosecutors, and financial sector officials from Sri Lanka, the Maldives, Bangladesh, Pakistan and Afghanistan participated in the event.

Office of Technical Assistance (OTA), Treasury Department

Treasury's OTA is located within the Office of the Assistant Secretary for International Affairs. OTA has five training and technical assistance programs: tax reform, government debt issuance and management, budget policy and management, financial institution reform, and more recently, financial enforcement reforms related to money laundering and other financial crimes.

Sixty highly experienced intermittent and resident advisors comprise the Financial Enforcement Team. These advisors provide diverse expertise in development of anti-money laundering/combating terrorist financing (AML/CTF) regimes and the investigation and prosecution of complex financial crimes. The Financial Enforcement Team is divided into three regional areas: Eastern/Central Europe; Asia, Africa and the Middle East; and the Americas. Oversight and coordination of Financial Enforcement activities in each Region is provided by full-time Regional Advisors reporting to the Associate Director for Financial Enforcement.

OTA receives funding from the State Department's Bureau for International Narcotics and Law Enforcement Affairs (INL), USAID country missions, and direct appropriations from the U.S. Congress. Recently, OTA has been designated as the recipient of Millennium Challenge Corporation funding to provide assistance to a number of Threshold Countries to enhance their capacity to address corruption and related financial crimes indigenous to developing countries.

Assessing Training and Technical Assistance Needs

The goal of OTA's Financial Enforcement program is to build the capacity of the countries to prevent, detect, investigate, and prosecute complex international financial crimes providing technical assistance in three primary areas:

- Money laundering, terrorist financing, and other financial crimes;
- Organized crime and corruption; and
- Capacity building for financial law enforcement entities.

Before initiating any training or technical assistance to a host government, the OTA Enforcement team conducts a comprehensive needs assessment to identify needs and to formulate a responsive assistance program. These assessments address the legislative, regulatory, law enforcement, and judicial components of the various regimes and include the development of technical assistance work plans to enhance a country's efforts to fight money laundering, terrorist financing, organized crime and corruption. In 2005, such assessments were carried out in Afghanistan, Botswana, Brazil, Malawi, Colombia, Chile, Honduras, Kyrgyzstan, and Sao Tome and Principe. OTA also assessed Colombia's program to supervise financial institutions and formed a proposed program for implementation in 2006, which includes drafting of manuals and procedures for the examination of all supervised entities, as well as the presentation of related training courses. In addition to these OTA Enforcement Team assessments, OTA participated in Department of State led interagency assessments in Tanzania and Nigeria to identify areas in need of future technical assistance.

Anti-Money Laundering and Antiterrorism Financing Training

OTA specialists delivered anti-money laundering and antiterrorism financing courses to government and private sector stakeholders in several countries. The specific training components delivered in any given country depended on a country's specific needs and legal requirements. In formulating training programs OTA experts delivered one or more of several course components including, for example: identifying and developing local and international sources of information; how banks and non-bank financial institutions operate, how they are regulated, and what records they keep and in what form; investigative techniques including pen registers, electronic surveillance, undercover operations; forensic evidence including latent prints, ink and paper analysis; case development, planning and organization; report writing; and, with the assistance of local legal experts, rules of evidence, search and seizure as well as asset seizure/forfeiture procedures.

Such courses, including many of the mentioned course components and others, were delivered in several African countries, including Ethiopia (jointly with the United Nations Global Programme against Money Laundering), Lesotho, Senegal and Zambia. In Asia, OTA provided assistance to the Philippines. An OTA resident advisor posted to the Asian Development Bank (ADB) at its Manila headquarters provided guidance and operational support to the financial and governance sector operations of ADB Regional Departments related to anti-money laundering and border controls.

In Europe, OTA teams conducted a number of training programs, including: financial investigation training programs with financial profiling in Bulgaria; mortgage practice training for examiners and banks to manage the credit risk arising from the dramatic expansion of the mortgage market in Romania; a "train-the-trainer" program on auditing techniques for concerned officials in Armenia; and anti-money laundering seminars for the Ministry of Interior, Customs Administration, Securities Commission, Central Bank, and Tax Administration, both bank and non-bank institutions in Serbia and Montenegro.

In the Caribbean, a Financial Investigations Techniques two week course and comprising all topics identified above was provided to financial crimes investigators from Antigua and Barbuda, Bahamas,

Barbados, Bermuda, Cayman Islands, Grenada, Guyana, Jamaica, St. Kitts & Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad & Tobago, and Turks and Caicos. Brazil also attended the training course at the REDTRAC training facility in New Kingston, Jamaica. Assisting the Government of Haiti's efforts to combat corruption and to recover substantial assets pilfered from the government's treasury, the OTA technical assistance team has worked with the Unite Centrale de Renseignements Financiers (UCREF) in the identification and gathering of evidence for use in prosecutions in Haiti and abroad. In 2005, OTA revitalized its assistance program in Honduras to improve that country's capacity to effectively prosecute complex financial crimes.

Support for Financial Intelligence Units

In Paraguay and Peru, OTA advisors trained FIU analysts. Advisors worked with the FIUs and other agencies to improve domestic and international communications, establishing memoranda of understanding for other information exchange protocols with relevant authorities including prosecutors and police authorities, other countries, and the Financial Crimes Enforcement Network. In both countries, the assistance provided involved the installation and training in the use of information technology systems, analytical databases and software tools. In Peru and the Republic of Montenegro, this type, and other assistance, helped both strengthen their FIUs and obtain membership in the Egmont Group.

In Ukraine, OTA continued efforts to help streamline the national FIU and assisted Ukraine in developing a strategy for meaningful engagement with international money laundering control organizations and specific foreign enforcement and financial intelligence agencies.

In Senegal, assistance was provided to assist the FIU achieve operational status and begin receiving suspicious transaction reports, train its staff, and assist in the development of procedures and regulations. In collaboration with the FIU, OTA hosted a series of fora for entities required to report suspicious transactions under the Anti-Money Laundering law, including banks, insurers, microfinance institutions, and the liberal professions (attorneys, accountants, auditors, and notaries), to train them on the new law's requirements. OTA also conducted a 3-day seminar for the FIU and Customs and Tax authorities, with the goal of enhancing cooperation between the services. OTA also participated in two regional seminars on FIU development and financial institutions, hosted by UNGPML and the French government, respectively.

Casino Gaming

In the Casino Gaming Group, OTA combines experts from its Tax and Financial Enforcement Teams and has been providing technical assistance to the international community in the areas of Gaming Industry Regulation since 2000. The program provides assistance in the drafting of gaming legislation, and in drafting the regulations required to implement the laws. The program also includes the provision of technical training to gaming industry regulators to provide the capacity for auditing casino operations, national lotteries and all games of chance. In addition, advanced technical workshops have been conducted in conjunction with the Nevada Gaming Commissioner in Las Vegas involving regulators from participating countries. The program has been well received by host country officials who see it as both a valuable revenue-producing project and an anticorruption measure. In 2005, the OTA Casino Gaming Group conducted an assessment in Antigua and Barbuda, and conducted technical assistance and training as described above in El Salvador, Costa Rica, Honduras, Montenegro, Panama, and Nicaragua. Also during 2005, the OTA Casino Gaming Group brought 15 gaming regulators from Honduras, Panama, Costa Rica and Nicaragua to Las Vegas for a series of lectures, tours and workshops. The Casino Gaming Group conducted an assessment of Chile's newly created regulatory regime for the gaming industry and provided assistance vetting casino license applicants.

Regional and Resident Advisors

OTA resident advisors continued international support in the areas of money laundering and terrorist financing. In 2005, OTA placed a resident advisor in Argentina to work with the GAFISUD Secretariat in the identification and implementation of training and technical assistance initiatives for its member governments. In February 2005, OTA placed a resident advisor in Senegal to work with Inter Government Action Group Against Money Laundering (GIABA), a regional body funded and supported by the Economic Community of West Africa States (ECOWAS), to assist it in reaching recognition as a Financial Action Task Force (FATF)-style regional body. In addition to her primary assignment with GIABA, the advisor also provides assistance to Senegal's nascent FIU. OTA is working jointly Treasury's Office of Financial Crimes and Intelligence to finalize the placement of a resident advisor in Amman, Jordan to assist in the development of the FIU and intelligence sharing capacity. The resident advisors in Bulgaria and Serbia and Montenegro continued efforts to streamline and enhance host governments' FIUs. Supporting national efforts against financial crimes was the focus of the resident advisors in Peru, Paraguay, Albania, Ukraine, Zambia and Romania. Resident advisors for the Caribbean focused on national efforts against financial crimes as well as on bank regulatory compliance. OTA has placed resident advisors in Armenia and Albania to provide technical assistance on internal audit and a resident advisor in Moscow, Russia to work with the Secretariat of the Eurasian Group on Anti-Money Laundering. OTA also concluded plans to place a resident advisor in Kabul, Afghanistan in early 2006, and to focus its technical assistance on the establishment and development of a FIU as a semi-autonomous unit within Da Afghanistan Bank. Lastly, while continuing its intermittent assistance to the Government of Sri Lanka, OTA finalized plans to place a resident advisor in Colombo in the late spring of 2006. This advisor will assist in the development of an effective anti-money laundering and counterterrorism financing regime, to include the establishment of an FIU that meets international standards.

Treaties and Agreements

Treaties

Mutual Legal Assistance Treaties (MLATs) allow generally for the exchange of evidence and information in criminal and ancillary matters. In money laundering cases, they can be extremely useful as a means of obtaining banking and other financial records from our treaty partners. MLATs, which are negotiated by the Department of State in cooperation with the Department of Justice to facilitate cooperation in criminal matters, including money laundering and asset forfeiture, are in force with the following countries: Antigua and Barbuda, Argentina, Australia, Austria, the Bahamas, Barbados, Belgium, Belize, Brazil, Canada, Cyprus, Czech Republic, Dominica, Egypt, Estonia, France, Grenada, Greece, Hong Kong (SAR), Hungary, India, Israel, Italy, Jamaica, Latvia, Liechtenstein, Lithuania, Luxembourg, Mexico, Morocco, the Netherlands, the Netherlands with respect to its Caribbean overseas territories (Aruba and the Netherlands Antilles), Nigeria, Panama, the Philippines, Poland, Romania, Russia, South Africa, South Korea, Spain, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Switzerland, Thailand, Trinidad and Tobago, Turkey, Ukraine, the United Kingdom, the United Kingdom with respect to its Caribbean overseas territories (Anguilla, the British Virgin Islands, the Cayman Islands, Montserrat, and the Turks and Caicos Islands) and Uruguay. MLATs have been signed by the United States but not yet brought into force with the European Union and the following countries: Colombia, Germany, Ireland, Japan, Sweden and Venezuela. The United States has also signed and ratified the Inter-American Convention on Mutual Legal Assistance of the Organization of American States. The United States is actively engaged in negotiating additional

MLATS with countries around the world. The United States has also signed executive agreements for cooperation in criminal matters with the Peoples Republic of China (PRC) and Nigeria.

Agreements

In addition, the United States has entered into executive agreements on forfeiture cooperation, including: (1) an agreement with the United Kingdom providing for forfeiture assistance and asset sharing in narcotics cases; (2) a forfeiture cooperation and asset sharing agreement with the Kingdom of the Netherlands; and (3) a drug forfeiture agreement with Singapore. The United States has asset sharing agreements with Canada, the Cayman Islands (which was extended to Anguilla, British Virgin Islands, Montserrat, and the Turks and Caicos Islands), Colombia, Ecuador, Jamaica, Mexico and the United Kingdom.

Financial Information Exchange Agreements (FIEAs) facilitate the exchange of currency transaction information between the U.S. Treasury Department and other finance ministries. The U.S. has FIEAs with Colombia, Ecuador, Mexico, Panama, Paraguay, Peru, and Venezuela. Treasury's Financial Crimes Enforcement Network (FinCEN) has a Memorandum of Understanding (MOU) or an exchange of letters in place with other FIUs to facilitate the exchange of information between FinCEN and the respective country's FIU. FinCEN has an MOU or an exchange of letters with the FIUs in Argentina, Australia, Belgium, Canada, France, Guatemala, Italy, Japan, Netherlands, Netherlands Antilles, Panama, Poland, Russia, Singapore, Slovenia, South Korea, Spain, and the United Kingdom.

Asset Sharing

Pursuant to the provisions of U.S. law, including 18 U.S.C. § 981(i), 21 U.S.C. § 881(e)(1)(E), and 31 U.S.C. § 9703(h)(2), the Departments of Justice, State and Treasury have aggressively sought to encourage foreign governments to cooperate in joint investigations of narcotics trafficking and money laundering, offering the possibility of sharing in forfeited assets. A parallel goal has been to encourage spending of these assets to improve narcotics-related law enforcement. The long-term goal has been to encourage governments to improve asset forfeiture laws and procedures so they will be able to conduct investigations and prosecutions of narcotics trafficking and money laundering, which include asset forfeiture. The United States and its partners in the G-8 are currently pursuing a program to strengthen asset forfeiture and sharing regimes. To date, Canada, Cayman Islands, Hong Kong, Jersey, Liechtenstein, Switzerland, and the United Kingdom have shared forfeited assets with the United States.

From 1989 through December 2005, the international asset sharing program, administered by the Department of Justice, shared $ 228,354,502.94 with foreign governments which cooperated and assisted in the investigations. In 2005, the Department of Justice transferred $2,175,599.94 in forfeited proceeds to: Cayman Islands ($1,707,917.79), Canada ($22,928.32), Dominican Republic ($10,000), Guatemala ($147,176.37), and Indonesia ($287,577.46). Prior recipients of shared assets include: Anguilla, Antigua and Barbuda, Argentina, the Bahamas, Barbados, British Virgin Islands, Canada, Cayman Islands, Colombia, Costa Rica, Dominican Republic, Ecuador, Egypt, Greece, Guatemala, Guernsey, Hong Kong (SAR), Hungary, Jordan Isle of Man, Israel, Liechtenstein, Luxembourg, Netherlands Antilles, Paraguay, Peru, Romania, South Africa, Switzerland, Turkey, the United Kingdom, and Venezuela.

From Fiscal Year (FY) 1994 through FY 2005, the international asset-sharing program administered by the Department of Treasury shared $27,408,032 with foreign governments that cooperated and assisted in successful forfeiture investigations. In FY 2005, the Department of Treasury did not report the transfer of any forfeited proceeds to a foreign government. Prior recipients of shared assets include: Aruba, Australia, the Bahamas, Cayman Islands, Canada, China, Dominican Republic, Egypt,

Guernsey, Honduras, Isle of Man, Jersey, Mexico, Netherlands, Nicaragua, Panama, Portugal, Qatar, Switzerland, and the United Kingdom.

Multi-Lateral Organizations & Programs

The Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Group of Experts to Control Money Laundering

The Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) is responsible for combating illicit drugs and related crimes, including money laundering. In 2005, the Commission carried out a variety of anti-money laundering and counterterrorist financing initiatives. These included amending the Model Regulations for the Hemisphere to include techniques to combat terrorist financing, developing a variety of associated training initiatives, and participating in a number of anti-money laundering/counterterrorism meetings. This work in the area of money laundering and financial crimes also figures prominently in CICAD's Multilateral Evaluation Mechanism (MEM), which involves the participation of all 34 member states, and in 2004, included the updating and revision of some 80 questionnaire indicators through which the countries mutually evaluate regional efforts and projects.

CICAD's Group of Experts on Money Laundering met in March and October 2005 and developed modifications to the model money laundering regulations, which were approved by the 38th session of the CICAD Plenary. The new legislative guidelines include language on measures for effective asset forfeiture and management of seized assets and international cooperation. At the two meetings, the Money Laundering Group also reviewed international trends concerning special investigative techniques in money laundering cases.

In other activities, CICAD worked with the United Nations and the Governments of France and Spain to carry out training for a variety of countries on combating money laundering, conducting effective financial investigations, and recovering financial and other assets diverted through corrupt practices. For example, training seminars for prosecutors and judges focused on new trends in prosecution; in particular, the autonomy of the offense, evidence and judicial cooperation. These seminars were held in Brazil, Colombia, Costa Rica, and El Salvador, and mock trials were carried out in Guatemala, Peru and Venezuela. Similarly, the second stage course work on financial investigations focused on investigating the assets of criminal organizations and was provided to law enforcement officials from Argentina, Bolivia, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay and Venezuela. In addition, the first stage of a comparable course was completed in Central America.

In Asuncion, Paraguay, CICAD and GAFISUD co-sponsored the first regional seminar on special investigative techniques in May 2005. Also in 2005, CICAD initiated a two-year project to strengthen Financial Intelligence Units (FIUs) in Costa Rica, El Salvador, Nicaragua, Panama, Dominican Republic, Ecuador, and Uruguay. Activities included the evaluation of strategic plans for the various FIUs as well as the development of training modules. CICAD also advised Ecuador on the drafting of its new anti-money laundering law.

CICAD participated in a variety of laundering law meetings and conferences focused on money laundering and financial crimes, including conferences sponsored by the UN on special investigative techniques and witness protection, FATF meetings in Paris, and GAFISUD meetings in Buenos Aires. At INTERPOL, CICAD was accepted in the Working Group on Money Laundering.

Pacific Islands Forum

The Pacific Islands Forum (PIF) was formed in 1971, and includes the 16 independent and self-governing Pacific Island countries: Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Republic of the Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. The heads of member governments hold annual meetings, followed by dialogue at the ministerial level with partners Canada, China, European Union, France, Indonesia, Japan, Korea, Malaysia, Philippines, United Kingdom, and United States.

The Department of State continued support of efforts in combating terrorism and transnational organized crime, through funding to the Expert Working Group on Terrorism and Transnational Organized Crime. The U.S. State Department has also provided on-going funding for sub-regional money laundering, terrorist financing and proceeds of crime training for Pacific Islands' investigators and prosecutors.

The U.S. State Department's Bureau for International Narcotics and Law Enforcement Affairs contributed $1.5 million to the PIF to establish the Pacific Anti-Money Laundering Program (PALP) modeled after the successful Caribbean Anti-Money Laundering Program (CALP). The PALP, projected to be a four-year long program, was officially launched during the Associated Leaders' meetings in October 2005 and will target the fourteen non-FATF member states of the PIFs (six of whom are members of the APG). The PALP, will provide regional and bi- lateral mentoring support with a staff comprised of a Coordinator and resident Mentors with demonstrated expertise in all elements required to establish viable anti-money laundering/counterterrorism terrorist financing regimes that comport with international standards. The PALP with be coordinated with efforts in the region by the UN Global Programme against Money Laundering, the Asia/Pacific Group on Money Laundering (APG), the Australian Attorney Gerneral's anti-money laundering program, other Australian agencies, and the International Monetary Fund.

United Nations Global Programme against Money Laundering

The United Nations is an experienced global provider of anti-money laundering (AML) training and technical assistance, and since 9-11, terrorist financing. The United Nations Office on Drugs and Crime (UNODC) program established The United Nations Global Programme against Money Laundering (GPML) in 1997 to assist Member States to comply with the relevant UN Conventions and other instruments that deal with money laundering and terrorist financing. These now include the United Nations Convention against Trafficking in Narcotics and Psychotropic Substances (the Vienna Convention), the United Nations International Convention for the Suppression of the Financing of Terrorism, the United Nations Convention against Transnational Organized Crime (the Palermo Convention), and the United Nations Convention against Corruption (the Merida Convention). The GPML is the focal point for anti-money laundering (AML) within the UN system and provides technical assistance and training in the development of related legislation, infrastructure and skills, directly assisting Member States in the detection, seizure and confiscation of illicit proceeds.

Since 2001, the GPML has incorporated a focus on counterterrorist financing (CTF) in all its technical assistance work. In 2005, the GPML, in a collaborative effort with the IMF, completed the revision of a model law on AML/CTF for civil law countries, encompassing worldwide AML/CTF standards and taking into account best legal practices. The GPML continued to work closely with the U.S. Department of Justice and the Organization for Security and Cooperation in Europe (OSCE) to deliver CTF training, particularly in the Central Asia region, Southern Europe and Africa.

Highlights of GPML's work in 2005 include the extensive development of its global computer-based training (CBT) initiative. The program provides 12 hours of interactive AML/CTF training for global delivery. Delivery of CBT continued in the Pacific Region, incorporating training of several thousand officials, law enforcement, legal, and financial personnel in seven jurisdictions, including Fiji, the Cook Islands and Vanuatu. In partnership with the INTERPOL Regional Office, three CBT training classrooms were established in Nairobi, Kenya, and Dar-Es-Salaam, Tanzania.

In 2005, GPML assigned a new staff member to the UNODC Regional Centre, East Asia and the Pacific (RCEAP) in Bangkok to establish and implement the Programme's CBT strategy. During the year, the staff member piloted and implemented CBT for the GPML in multiple locations throughout Africa, Asia, and Latin America, and assisted in the development of new language versions including Amharic and Arabic.

The GPML entered into a partnership with OAS-CICAD for joint assessment and delivery of the Spanish version of the CBT. Subsequently the partnership completed needs assessment missions in four Latin American countries. The training program has flexibility in terms of language, level of expertise, target audience, and theme. Computer-based training is particularly applicable in countries and regions with limited resources and law enforcement skills as it can be used for a sustained period of time. As an approach, CBT lends itself well to the GPML's global technical assistance operations.

The GPML provided technical assistance and training to more than 50 countries and jurisdictions throughout the world in 2005. The UN mentor based in the Pacific region, a joint initiative with the Commonwealth Secretariat, the Pacific Islands Forum Secretariat (PIFS) and the United States, gave technical assistance to a number of offshore financial center jurisdictions at high risk for abuse by money launderers, including the Cook Islands, Marshall Islands, Fiji, and Vanuatu in order to improve their financial investigations. The mentor provided support to the Office of the General Prosecutors, the law enforcement sector and FIU in Apia, Samoa. In Palau the technical assistance focused on training police officials, advising work on case management and delivering CBT. The mentor also organized a successful series of workshops on financial investigations in partnership with Pacific Islands Forum Secretariat.

In 2005, the Department of State (INL) continued to fund a UN mentor based in Tanzania with the Secretariat of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG). The mentor delivered training to all 14 member states and assisted the ESAAMLG Secretariat in completing a three-year strategic plan which the member states adopted at the ESAAMLG Council of Ministers in August, 2005. The mentor also conducted an AML/CTF awareness raising seminar in Ethiopia and a training course on financial investigations for law enforcement officials of Ethiopia (in conjunction with OTA), Eritrea, Kenya, Tanzania, and Uganda together with the Interpol Regional Office in Nairobi, Kenya. The mentor developed a law enforcement train-the-trainer program for the three East African countries. In collaboration with the World Bank and the Department of State (INL), the GPML also placed a regional mentor for Central Asia in Almaty, Kazakhstan. The World Bank and INL have provided funding for a mentor in Hanoi, Vietnam to provide AML/CTF assistance to Vietnam, Lao PDR and Cambodia. At the national level, an INL-funded GPML mentor continued working in the financial intelligence unit of the Government of the Philippines. A FIU expert was also employed on an ad-hoc basis to provide assistance to emerging FIUs in Africa and the Caucasus region. Mentors and experts supported the development of the legal, administrative, analytical and international co-operation capacity of other national governments. In addition, the GPML assisted in legislative drafting for several countries, including Armenia, Azerbaijan, Belarus, Estonia, and Tajikistan., and conducted a two-day workshop on AML/CTF for financial supervisors in Central and Eastern Europe, jointly organized with OSCE in May.

The GPML's Mentor Programme is one of the most successful and well-known activities of international AML/CTF technical assistance and training, and is increasingly serving as a model for

other organizations' initiatives. It is one of the core activities of the GPML technical assistance program and is highly regarded by the AML/CTF community. In 2005, the GPML consolidated this advisory program, providing on-the-job training that adapts international standards to specific local/national situations, rather than traditional, generic training seminars. The concept originated in response to repeated requests from Member States for longer-term international assistance in this technically demanding and rapidly evolving field. The GPML provides experienced prosecutors and law enforcement personnel who work side-by-side with their counterparts in a target country for several months at a time on daily operational matters to help develop capacity. Some mentors advise governments on legislation and policy, while others focus on operating procedures. By giving in-depth support upon request, the mentors have gained the confidence of the recipient institutions, which enables the achievement of concrete and significant outputs.

The GPML's Mentor Programme has key advantages over more traditional shorter-term forms of technical assistance. First, the mentor offers sustained skills and knowledge transfer. Second, mentoring constitutes a unique form of flexible, ongoing needs assessment, where the mentor can pinpoint specific needs over a period of months, and adjust his/her work plan to target assistance that responds to those needs. Third, the Member State has access to an "on-call" resource to provide advice on real cases and problems as they arise. Fourth, a mentor can facilitate access to foreign counterparts for international cooperation and mutual legal assistance at the operational level by using his/her contacts to act as a bridge to the international community.

The GPML was among the first technical assistance providers to recognize the importance of countries' creating a financial intelligence capacity, and the program's mentors worked extensively with the development and the implementation phases of Financial Intelligence Units (FIUs) in several countries in the Eastern Caribbean and the Pacific regions. Both the Mentor Programme and the CBT program make technical assistance and training to FIUs a priority. In 2005, the GPML, jointly with the Egmont Group, conducted two awareness-raising training workshops on FIUs in Pretoria, South Africa for ESAAMLG countries and Ethiopia, and in Dakar, Senegal for GIABA countries. The GPML still hosts and acts as rapporteur for the FIU strategic analysis workshop (SAW), which was presented at the Egmont Plenary Meeting in Washington D.C. in June. Two SAW meetings took place in 2005.

In response to countries' concerns about the difficulties of implementing AML/CTF policies in cash-based economies, and the prevalence in some regions of cash couriers, the GPML is working toward the development of CBT modules to address AML/CTF requirements in a cash-based context. GPML contributed to the delivery of mock trials in Latin and Southern America. This tailored-made activity was developed in response to repeated requests from member states for more relevant and realistic AML training. It combines training and practical aspects of the judicial work into one capacity building exercise.

The GPML administers the Anti-Money Laundering International Database (AMLID) on the International Money Laundering Information Network (IMoLIN), an online, password-restricted analytical database of national AML legislation that is available only to public officials. The GPML also maintains an online AML/CTF legal library. IMoLIN (www.imolin.org) is a practical tool in daily use by government officials, law enforcement and lawyers. The Programme manages and constantly updates this database on behalf of the UN and nine major international partners in the field of anti-money laundering: the Asia/Pacific Group on Money Laundering (APG), the Caribbean Financial Action Task Force (CFATF), the Commonwealth Secretariat, the Council of Europe, the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), the EurAsia Group (EAG), the Financial Action Task Force (FATF), Interpol, and the Organization of American States (OAS). The GPML has initiated the second round of analysis utilizing the recently revised AMLID questionnaire. The updated AMLID questionnaire reflects new money laundering trends and standards, and takes

provisions related to terrorist financing and other new developments in to account, including the revised FATF 40 + 9 Recommendations.

Major Money Laundering Countries

Every year, U.S. officials from agencies with anti-money laundering responsibilities meet to assess the money laundering situations in 200 jurisdictions. The review includes an assessment of the significance of financial transactions in the country's financial institutions that involve proceeds of serious crime, steps taken or not taken to address financial crime and money laundering, each jurisdiction's vulnerability to money laundering, the conformance of its laws and policies to international standards, the effectiveness with which the government has acted, and the government's political will to take needed actions.

The 2006 INCSR assigned priorities to jurisdictions using a classification system consisting of three differential categories titled Jurisdictions of Primary Concern, Jurisdictions of Concern, and Other Jurisdictions Monitored.

The "Jurisdictions of Primary Concern" are those jurisdictions that are identified pursuant to the INCSR reporting requirements as "major money laundering countries." A major money laundering country is defined by statute as one "whose financial institutions engage in currency transactions involving significant amounts of proceeds from international narcotics trafficking." However, the complex nature of money laundering transactions today makes it difficult in many cases to distinguish the proceeds of narcotics trafficking from the proceeds of other serious crime. Moreover, financial institutions engaging in transactions involving significant amounts of proceeds of other serious crime are vulnerable to narcotics-related money laundering. The category "Jurisdiction of Primary Concern" recognizes this relationship by including all countries and other jurisdictions whose financial institutions engage in transactions involving significant amounts of proceeds from all serious crime. Thus, the focus of analysis in considering whether a country or jurisdiction should be included in this category is on the significance of the amount of proceeds laundered, not of the anti-money laundering measures taken. This is a different approach taken than that of the FATF Non-Cooperative Countries and Territories (NCCT) exercise, which focuses on a jurisdiction's compliance with stated criteria regarding its legal and regulatory framework, international cooperation, and resource allocations.

All other countries and jurisdictions evaluated in the INCSR are separated into the two remaining groups, "Jurisdictions of Concern" and "Other Jurisdictions Monitored," on the basis of a number of factors that can include: (1) whether the country's financial institutions engage in transactions involving significant amounts of proceeds from serious crime; (2) the extent to which the jurisdiction is or remains vulnerable to money laundering, notwithstanding its money laundering countermeasures, if any (an illustrative list of factors that may indicate vulnerability is provided below) ; (3) the nature and extent of the money laundering situation in each jurisdiction (for example, whether it involves drugs or other contraband); (4) the ways in which the United States regards the situation as having international ramifications; (5) the situation's impact on U.S. interests; (6) whether the jurisdiction has taken appropriate legislative actions to address specific problems; (7) whether there is a lack of licensing and oversight of offshore financial centers and businesses; (8) whether the jurisdiction's laws are being effectively implemented; and (9) where U.S. interests are involved, the degree of cooperation between the foreign government and U.S. government agencies. Additionally, given concerns about the increasing interrelationship between inadequate money laundering legislation and terrorist financing, terrorist financing is an additional factor considered in making a determination as to whether a country should be considered an "Other Jurisdiction Monitored " or a "Jurisdiction of Concern". A government (e.g., the United States or the United Kingdom) can have comprehensive anti-money laundering laws on its books and conduct aggressive anti-money laundering enforcement

efforts but still be classified a "Primary Concern" jurisdiction. In some cases, this classification may simply or largely be a function of the size of the jurisdiction's economy. In such jurisdictions quick, continuous and effective anti-money laundering efforts by the government are critical. While the actual money laundering problem in jurisdictions classified "Concern" is not as acute, they too must undertake efforts to develop or enhance their anti-money laundering regimes. Finally, while jurisdictions in the "Other" category do not pose an immediate concern, it will nevertheless be important to monitor their money laundering situations because, under the right circumstances, virtually any jurisdiction of any size can develop into a significant money laundering center.

Vulnerability Factors

The current ability of money launderers to penetrate virtually any financial system makes every jurisdiction a potential money laundering center. There is no precise measure of vulnerability for any financial system, and not every vulnerable financial system will, in fact, be host to large volumes of laundered proceeds, but a checklist of what drug money managers reportedly look for provides a basic guide. The checklist includes:

- Failure to criminalize money laundering for all serious crimes or limiting the offense to narrow predicates.
- Rigid bank secrecy rules that obstruct law enforcement investigations or that prohibit or inhibit large value and/or suspicious or unusual transaction reporting by both banks and non-bank financial institutions.
- Lack of or inadequate "know your client" requirements to open accounts or conduct financial transactions, including the permitted use of anonymous, nominee, numbered or trustee accounts.
- No requirement to disclose the beneficial owner of an account or the true beneficiary of a transaction.
- Lack of effective monitoring of cross-border currency movements.
- No reporting requirements for large cash transactions.
- No requirement to maintain financial records over a specific period of time.
- No mandatory requirement to report suspicious transactions or a pattern of inconsistent reporting under a voluntary system; lack of uniform guidelines for identifying suspicious transactions.
- Use of bearer monetary instruments.
- Well-established non-bank financial systems, especially where regulation, supervision, and monitoring are absent or lax.
- Patterns of evasion of exchange controls by legitimate businesses.
- Ease of incorporation, in particular where ownership can be held through nominees or bearer shares, or where off-the-shelf corporations can be acquired.
- No central reporting unit for receiving, analyzing and disseminating to the competent authorities information on large value, suspicious or unusual financial transactions that might identify possible money laundering activity.
- Lack of or weak bank regulatory controls, or failure to adopt or adhere to Basel Committee's "Core Principles for Effective Banking Supervision", especially in

jurisdictions where the monetary or bank supervisory authority is understaffed, under-skilled or uncommitted.

- Well-established offshore financial centers or tax-haven banking systems, especially jurisdictions where such banks and accounts can be readily established with minimal background investigations.
- Extensive foreign banking operations, especially where there is significant wire transfer activity or multiple branches of foreign banks, or limited audit authority over foreign-owned banks or institutions.
- Jurisdictions where charitable organizations or alternate remittance systems, because of their unregulated and unsupervised nature, are used as avenues for money laundering or terrorist financing.
- Limited asset seizure or confiscation authority.
- Limited narcotics, money laundering and financial crime enforcement and lack of trained investigators or regulators.
- Jurisdictions with free trade zones where there is little government presence or other supervisory authority.
- Patterns of official corruption or a laissez-faire attitude toward the business and banking communities.
- Jurisdictions where the U.S. dollar is readily accepted, especially jurisdictions where banks and other financial institutions allow dollar deposits.
- Well-established access to international bullion trading centers in New York, Istanbul, Zurich, Dubai and Mumbai.
- Jurisdictions where there is significant trade in or export of gold, diamonds and other gems.
- Jurisdictions with large parallel or black market economies.
- Limited or no ability to share financial information with foreign law enforcement authorities.

Changes in INCSR Priorities for 2005

Jurisdictions moving from the Concern Column to the Primary Concern Column: *Afghanistan, Guatemala, and St. Kitts and Nevis.*

Jurisdictions moving from the Other Column to the Concern Column: *Algeria, Angola, Guyana, Laos, and Zimbabwe*

Jurisdiction moving from the Concern column to the Other/Monitored Column: *Nauru*

In the Country/Jurisdiction Table on the following page, "major money laundering countries" that are in the "jurisdictions of primary concern" column are identified for purposes of statutory INCSR reporting requirements. Identification as a "major money laundering country" is based on whether the country or jurisdiction's financial institutions engage in transactions involving significant amounts of proceeds from serious crime. It is not based on an assessment of the country or jurisdiction's legal framework to combat money laundering; its role in the terrorist financing problem; or the degree of its cooperation in the international fight against money laundering, including terrorist financing. These

factors, however, are included among the vulnerability factors when deciding whether to place a country in the "concern" or "other" column.

Note: Country reports are provided for only those countries listed in the "Other/Monitored" column that have received training or technical assistance funded directly or indirectly by INL in 2005.

Country/Jurisdiction Table

Countries/Jurisdictions of Primary Concern

Afghanistan
Antigua and Barbuda
Australia
Austria
Bahamas
Belize
Bosnia and Herzegovina
Brazil
Burma
Cambodia
Canada
Cayman Islands
China, People Rep
Colombia
Costa Rica
Cyprus
Dominican Republic
France
Germany
Greece
Guatemala
Guernsey
Haiti
Hong Kong
Hungary
India
Indonesia
Isle of Man
Israel
Italy
Japan
Jersey
Latvia
Lebanon
Liechtenstein
Luxembourg
Macau
Mexico
Netherlands
Nigeria
Pakistan
Panama
Paraguay
Philippines
Russia
Singapore
Spain
St. Kitts & Nevis
Switzerland
Taiwan
Thailand
Turkey
Ukraine
United Arab Emirates
United Kingdom
USA
Uruguay
Venezuela

Countries/Jurisdictions of Concern

Albania
Algeria
Angola
Argentina
Aruba
Bahrain
Bangladesh
Barbados
Belarus
Belgium
Bolivia
British Virgin Islands
Bulgaria
Chile
Comoros
Cook Islands
Cote d'Ivoire
Czech Rep
Dominica
Ecuador
Egypt
El Salvador
Gibraltar
Grenada
Guyana
Honduras
Iran
Ireland
Jamaica
Jordan
Kenya
Korea, North
Korea, South
Kuwait
Laos
Malaysia
Monaco
Morocco
Netherlands Antilles
Nicaragua
Palau
Peru
Poland
Portugal
Qatar
Romania
Samoa
Saudi Arabia
Serbia and Montenegro
Seychelles
Sierra Leone
Slovakia
South Africa
St. Lucia
St. Vincent
Syria
Tanzania
Turks and Caicos
Uzbekistan
Vanuatu
Vietnam
Yemen
Zimbabwe

Other Countries/Jurisdictions Monitored

Andorra
Anguilla
Armenia
Azerbaijan
Benin
Bermuda
Botswana
Brunei
Burkina Faso
Burundi
Cameroon
Cape Verde
Central African Republic
Chad
Congo, Dem Rep of
Congo, Rep of
Croatia
Cuba
Denmark
Djibouti
East Timor
Equatorial Guinea
Eritrea
Estonia
Ethiopia
Fiji
Finland
Gabon
Gambia
Georgia
Ghana
Guinea
Guinea-Bissau
Iceland
Iraq
Kazakhstan
Kyrgyz Republic
Lesotho
Liberia
Lithuania
Macedonia
Madagascar
Malawi
Maldives
Mali
Malta
Marshall Islands
Mauritania
Mauritius
Micronesia FS
Moldova
Mongolia
Montserrat
Mozambique
Namibia
Nauru
Nepal
New Zealand
Niger
Niue
Norway
Oman
Papua New Guinea
Rwanda
San Marino
Sao Tome & Principe
Senegal
Slovenia
Solomon Islands
Sri Lanka
Suriname
Swaziland
Sweden
Tajikistan
Togo
Tonga
Trinidad and Tobago
Tunisia
Turkmenistan
Uganda
Zambia

Introduction to Comparative Table

The comparative table that follows the Glossary of Terms below identifies the broad range of actions, effective as of December 31, 2005 that jurisdictions have, or have not, taken to combat money laundering. This reference table provides a comparison of elements that define legislative activity and identify other characteristics that can have a relationship to money laundering vulnerability.

Glossary of Terms

1. "Criminalized Drug Money Laundering": The jurisdiction has enacted laws criminalizing the offense of money laundering related to drug trafficking.
2. "Criminalized Beyond Drugs": The jurisdiction has extended anti-money laundering statutes and regulations to include nondrug-related money laundering.
3. "Record Large Transactions": By law or regulation, banks are required to maintain records of large transactions in currency or other monetary instruments.
4. "Maintain Records Over Time": By law or regulation, banks are required to keep records, especially of large or unusual transactions, for a specified period of time, e.g., five years.
5. "Report Suspicious Transactions": By law or regulation, banks are required to record and report suspicious or unusual transactions to designated authorities. On the Comparative Table the letter "M" signifies mandatory reporting; "P" signifies permissible reporting.
6. "Financial Intelligence Unit": The jurisdiction has established an operative central, national agency responsible for receiving (and, as permitted, requesting), analyzing, and disseminating to the competent authorities disclosures of financial information concerning suspected proceeds of crime, or required by national legislation or regulation, in order to counter money laundering. These reflect those jurisdictions that are members of the Egmont Group.
7. "System for Identifying and Forfeiting Assets": The jurisdiction has enacted laws authorizing the tracing, freezing, seizure and forfeiture of assets identified as relating to or generated by money laundering activities.
8. "Arrangements for Asset Sharing": By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions which assisted in the conduct of the underlying investigation.
9. "Cooperates w/International Law Enforcement": By law or regulation, banks are permitted/required to cooperate with authorized investigations involving or initiated by third party jurisdictions, including sharing of records or other financial data.
10. "International Transportation of Currency": By law or regulation, the jurisdiction, in cooperation with banks, controls or monitors the flow of currency and monetary instruments crossing its borders. Of critical weight here are the presence or absence of wire transfer regulations and use of reports completed by each person transiting the jurisdiction and reports of monetary instrument transmitters.
11. "Mutual Legal Assistance": By law or through treaty, the jurisdiction has agreed to provide and receive mutual legal assistance, including the sharing of records and data.
12. "Non-Bank Financial Institutions": By law or regulation, the jurisdiction requires non-bank financial institutions to meet the same customer identification standards and adhere to the same reporting requirements that it imposes on banks.

13. "Disclosure Protection Safe Harbor": By law, the jurisdiction provides a "safe harbor" defense to banks or other financial institutions and their employees who provide otherwise confidential banking data to authorities in pursuit of authorized investigations.
14. "States Parties to 1988 UN Drug Convention": As of December 31, 2001, a party to the 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, or a territorial entity to which the application of the Convention has been extended by a party to the Convention.[1]
15. "Criminalized the Financing of Terrorism." The jurisdiction has criminalized the provision of material support to terrorists and/or terrorist organizations.
16. "States Party to the UN International Convention for the Suppression of the Financing of Terrorism." As of December 31, 2003, a party to the International Convention for the Suppression of the Financing of Terrorism, or a territorial entity to which the application of the Convention has been extended by a party to the Convention.

[1] The United Kingdom extended its application of the 1988 Convention and the United Kingdom Terrorism Order 2001 to Anguilla, Bermuda, the British Virgin Islands, the Cayman Islands, Gibraltar, Montserrat, Turks and Caicos, Isle of Man, Jersey, and Guernsey. The International Convention for the Suppression of the Financing of Terrorism has not yet been so extended.

Comparative Table

Actions by Governments	Criminalized Drug Money Laundering	Criminalized Beyond Drugs	Record Large Transactions	Maintain Records Over Time	Report Suspicious Transactions (NMP)	Financial Intelligence Unit	System for Identifying/Forfeiting Asset s	Arrangements for Asset Sharing	Cooperates w/International Law Enf.	Int'l. Transportation of Currency	Mutual Legal Assistance	Non-Bank Financial Institutions	Disclosure Protection "Safe Harbor"	States Party to 1988 UN Convention	Criminalized Financing of Terrorism	Internat'l Terrorism Financing Convention
Government/Jurisdiction																
Afghanistan	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	N	Y	Y	Y	Y
Albania	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Algeria	Y	Y	N	Y	M	N	Y	N	N	Y	N	Y	Y	Y	Y	Y
Andorra	Y	Y	Y	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	N	N
Angola	Y	N	N	N	N	N	N	N	N	N	Y	N	N	Y	N	N
Anguilla[1]	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N
Antigua & Barbuda	Y	Y	N	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Argentina	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Armenia	Y	Y	N	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Aruba	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Australia	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Austria	Y	Y	N	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Azerbaijan	Y	N	N	Y	N	N	N	N	N	Y	Y	N	Y	Y	Y	Y
Bahamas	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Bahrain	Y	Y	N	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	N	Y
Bangladesh	Y	Y	N	Y	M	N	N	N	N	Y	Y	N	N	Y	N	Y
Barbados	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Belarus	Y	Y	Y	Y	M	N	Y	N	Y	N	Y	Y	Y	Y	Y	Y
Belgium	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Belize	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Benin	Y	N	Y	N	M	N	Y	N	Y	Y	N	N	Y	Y	N	Y

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Bermuda[1]	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Bolivia	Y	Y	N	Y	M	Y	Y	N	N	N	Y	N	Y	Y	N	Y
Bosnia & Herzegovina	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	N	Y	Y	Y	Y
Botswana	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	N	Y	Y	N	Y
Brazil	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
British Virgin Islands[1]	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Brunei Darussalam	Y	Y	N	Y	M	N	Y	N		N	Y	Y	N	Y	Y	Y
Bulgaria	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Burkina Faso	N	N	Y	N	N	N	N	N	N	N	N	N	N	Y	N	Y
Burma	Y	Y	Y	Y	M	N	Y	N	N	N	Y	Y	Y	Y	N	N
Burundi	N	N	N	Y	N	N	N	N	Y	N	N	N	N	Y	N	N
Cambodia	Y	N	Y	Y	M	N	N	N	Y	Y	N	N	N	Y	N	N
Cameroon	Y	Y	Y	Y	M	N	Y	N	N	N	N	N	N	Y	N	N
Canada	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Cape Verde	Y	Y		Y	M	N	Y	N			Y			Y	N	Y
Cayman Islands[1]	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Chad	Y	Y	Y	Y	M	N	Y	N	N	Y	N	N	N	Y	N	N
Chile	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y		Y	Y	Y
China (PRC)	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	N	N	Y	Y	N
Colombia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Comoros	Y	Y	N	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Congo (Dem. Republic)	Y	Y	Y	Y	M	N	Y	N	N	N	N	Y	Y	Y	Y	N
Congo (Republic)	Y	Y	Y	Y	M	N	N	N	N	N	Y	Y	Y	Y	Y	N

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Cook Islands	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Costa Rica	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Cote D'Ivoire	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Croatia	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Cuba	Y	Y	N	N	P	N	Y	N	N	Y	N	N	N	Y	Y	Y
Cyprus	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Czech Republic	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Denmark	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Djibouti	Y	Y	Y	Y	M	N	Y	N	Y	N	Y	Y	Y	Y	Y	N
Dominica	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Dominican Republic	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	N
East Timor	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Ecuador	Y	Y	Y	Y	M	N	N	Y	N	Y	Y	N	N	Y	N	Y
Egypt	Y	Y	N	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
El Salvador	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Equatorial Guinea	Y	Y	Y	Y	M	N	N	N	N	N	N	N	N	N	N	Y
Eritrea	N	N	Y	Y	N	N	N	N	Y	Y	N	N	N	Y	N	N
Estonia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Ethiopia	Y	Y	Y	Y	M	N	N	N	N	N	N	N	N	Y	N	N
Fiji	Y	Y	N	Y	M	N	Y	N	Y	Y	Y	N	Y	Y	N	N
Finland	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
France	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Gabon	N	N	Y	Y	M	N	N	N	N	N	N	N	N	N	N	N
Gambia	Y	Y	N	Y	M	N	Y	N	N	N	N	N	Y	Y	N	N
Georgia	Y	Y	Y	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y
Germany	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y

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Ghana	Y	Y	N	Y	N	N	Y	N	Y	Y	Y	Y	N	Y	N	Y
Gibraltar[1]	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	N	Y	N
Greece	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Grenada	Y	Y	N	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Guatemala	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Guernsey[1]	Y	Y	N	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N
Guinea	Y	N	N	N	N	N	N	N	N	N	N	N	N	Y	N	Y
Guinea-Bissau	N	N	N	N	N	N	N	N	N	N	N	N	N	Y	N	N
Guyana	Y	Y	N	Y	M	N	Y	N	N	Y	Y	N	Y	Y	N	N
Haiti	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	N	N
Honduras	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Hong Kong	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N
Hungary	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Iceland	Y	Y	Y	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y
India	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Indonesia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Iran	Y	Y	N	Y	M	Y	N	N	N	N	Y	N	N	Y	N	N
Iraq	Y	Y	N	Y	M	N	Y	N	N	Y	N	Y	Y	Y	Y	N
Ireland	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Isle of Man[1]	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Israel	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Italy	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Jamaica	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N

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Japan	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Jersey[1]	Y	Y	N	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N
Jordan	Y	Y	N	Y	M	N	N	Y	N	N	Y	Y	Y	Y	Y	Y
Kazakhstan	Y	N	N	Y	P	N	N	N	N	Y	Y	N	N	Y	N	Y
Kenya	Y	N	Y	Y	P	N	Y	N	Y	Y	Y	N	N	Y	N	Y
Korea (DPRK)	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Korea (Republic of)	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Kosovo[2]	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	NA	N	NA
Kuwait	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	N	N
Kyrgyzstan	N	N	N	N	P	N	Y	N	N	N	N	N	Y	Y	N	Y
Laos	N	N	N	N	N	N	N	N	N	N	N	N	N	Y	N	N
Latvia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Lebanon	Y	Y	Y	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	Y	N
Lesotho	N	N	Y	Y	M	N	N	N	Y	N	Y	N	Y	Y	N	Y
Liberia	Y	Y	N	N	N	N	N	N	N	Y	N	N	N	Y	N	Y
Liechtenstein	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	N	Y	Y
Lithuania	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Luxembourg	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
Macau	Y	Y	N	Y	M	N	Y	N	Y	N	Y	Y	Y	Y	Y	N
Macedonia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Madagascar	Y	Y	N	Y	N	N	Y	N		N	Y	Y	Y	Y	N	Y
Malawi	N	N	Y	Y	P	N	N	N		N	N	N	N	Y	N	Y

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[2] Kosovo is under the supervision of the UN and is not a sovereign state.

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Malaysia	Y	Y	N	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Maldives	Y	N	N	N	M	N	Y	N		N		N	N	Y	Y	Y
Mali	Y	Y	N	Y	M	N	Y	N	Y	N	Y	Y	N	Y	Y	Y
Malta	Y	Y	N	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Marshall Islands	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	N	Y	Y
Mauritania	Y	Y	Y	N	N	N	Y	N	Y	N	Y	N	N	Y	Y	Y
Mauritius	Y	Y	N	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y
Mexico	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Micronesia	Y	Y	N	Y	N	N	Y	N	Y	N	Y	N	Y	Y	N	Y
Moldova	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Monaco	Y	Y	N	Y	M	Y	Y		Y	Y	Y	Y	Y	Y	Y	Y
Mongolia	N	N	N	N	N	N	Y	N	N	N	N	N	Y	Y	N	Y
Montenegro	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Montserrat[1]	Y	Y	N	Y	M	N	Y	Y	Y	N	Y	Y	Y	Y	Y	N
Morocco	N	N	N	Y	M	N	N	N	N	Y	Y	N	Y	Y	Y	Y
Mozambique	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Namibia	Y	Y	Y	Y	M	N	N	N	N	N	N	Y	N	Y	N	N
Nauru	Y	Y	N	Y	M	N	Y	Y	Y	N	Y	Y	Y	N	Y	N
Nepal	N	N	N	Y	N	N	Y	N	Y	N	N	N	N	Y	N	N
Netherlands	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
Netherlands Antilles	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
New Zealand	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Nicaragua	Y	N	Y	Y	M	N	Y	N	Y	Y	Y	N	N	Y	N	Y

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Niger	Y	Y	Y	Y	M	N	Y	N	Y	N	N	Y	N	Y	N	Y
Nigeria	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Niue[1]	Y	Y	N	Y	M	N	Y	N	Y	N	Y	Y	Y	NA	N	NA
Norway	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Oman	Y	Y	Y	Y	M	N	Y	N	Y	N	Y	Y	Y	Y	N	N
Pakistan	Y	N	N	Y	M	N	Y	N	N	N	Y	Y	Y	Y	Y	N
Palau	Y	Y	Y	Y	M	N	Y	Y	Y	N	Y	Y	N	N	N	Y
Panama	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Papua New Guinea	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	Y
Paraguay	Y	Y	Y	Y	M	Y	N	N	Y	Y	Y	Y	Y	Y	N	Y
Peru	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Philippines	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Poland	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Portugal	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Qatar	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N
Romania	Y	Y	Y	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y
Russia	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
Rwanda	N	N	N	N	N	N	N	N	Y	N	N	N	N	Y	N	Y
Samoa	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
San Marino	Y	Y	N	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y
Sao Tome & Principe	N	N	N	N	N	N	N	N	N	N	N	N	N	Y	N	N
Saudi Arabia	Y	Y	N	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Senegal	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Serbia	Y	Y	Y	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y

[1] Niueans are citizens of New Zealand; Niue is not a member of the UN.

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Seychelles	Y	Y	N	Y	M	N	Y	N	Y	N	Y	Y	Y	Y	Y	Y
Sierra Leone	Y	Y	N	Y	M	N	N	N	N	N	N	N	N	Y	N	Y
Singapore	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
Slovakia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Slovenia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Solomon Islands	Y	Y	N	Y	N	N	N	N	N	N	N	N	N	N	N	N
South Africa	Y	Y	N	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
Spain	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Sri Lanka	N	N	N	N	N	N	N	N	N	N	Y	N	Y	Y	Y	Y
St Kitts & Nevis	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
St. Lucia	Y	Y	N	Y	M	N	Y	N	Y	N	Y	Y	Y	Y	N	N
St. Vincent/Grenadines	Y	Y	N	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Suriname	Y	Y	N	Y	M	N	Y	N	Y	N	Y	Y	Y	Y	N	N
Swaziland	Y	Y	Y	Y	M	N	Y	N	Y	N	Y	N	Y	Y	N	Y
Sweden	Y	Y	Y	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y
Switzerland	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
Syria	Y	Y	Y	Y	M	N	Y	N	N	N	Y	Y	N	Y	N	Y
Taiwan[1]	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	NA	N	NA
Tajikistan	Y	Y	N	N	N	N	N	N	N	Y	Y	N	N	Y	Y	Y
Tanzania	Y	N	Y	Y	N	N	Y	N	Y	N	Y	N	Y	Y	Y	Y
Thailand	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Togo	Y	N	Y	Y	N	N	Y	N	Y	N	Y	N	Y	Y	Y	Y
Tonga	Y	Y	Y	Y	M	N	Y	N	Y	Y	N	N	N	Y	N	Y
Trinidad & Tobago	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N

[1] Taiwan is not a member of the UN.

Actions by Governments	Criminalized Drug Money Laundering	Criminalized Beyond Drugs	Record Large Transactions	Maintain Records Over Time	Report Suspicious Transactions (NMP)	Financial Intelligence Unit	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Cooperates w/International Law Enf.	Int'l. Transportation of Currency	Mutual Legal Assistance	Non-Bank Financial Institutions	Disclosure Protection "Safe Harbor"	States Party to 1988 UN Convention	Criminalized Financing of Terrorism	Internat'l Terrorism Financing Convention
Tunisia	Y	Y	Y	Y	M	N	Y	N	N	Y	N	N	Y	Y	Y	Y
Turkey	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	N	Y	N	Y
Turkmenistan	Y	Y	N	Y	M	N	Y	N	Y	Y	Y	N	N	Y	Y	Y
Turks & Caicos[1]	Y	Y	Y	Y	M	N	Y	Y	Y	N	Y	Y	Y	Y	Y	N
Uganda	Y	N	N	N	N	N	N	N	Y	N	N	N	Y	Y	Y	Y
Ukraine	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
United Arab Emirates	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
United Kingdom	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
United States	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Uruguay	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Uzbekistan	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Vanuatu	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Venezuela	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Vietnam	Y	Y	Y	Y	M	N	Y	N	N	Y	Y	Y	N	Y	N	Y
Yemen	Y	Y	N	Y	M	N	N	N	N	N	Y	Y	Y	Y	N	N
Zambia	Y	Y	N	Y	M	N	Y	N	Y	N	Y	N		Y	N	N
Zimbabwe	Y	Y	N	Y	M	N	Y	N	N	Y	N	N	N	Y	Y	N

[1] The UK extended its application of the 1988 Convention and the UK Terrorism Order 2001 to Anguilla, Bermuda, the British Virgin Islands, the Cayman Islands, Montserrat , the Turks and Caicos, Isle of Man, Bailiwick of Jersey, and Guernsey. The International Convention for the Suppression of the Financing of Terrorism has not yet been so extended.

Country Reports

Afghanistan

While Afghanistan is not a regional financial or banking center, its informal financial system is extremely large in scope and scale. Afghanistan is a major drug trafficking and drug producing country. Afghanistan passed anti-money laundering and terrorist financing legislation in late 2004, and efforts are being made to strengthen police and customs forces. However, there remain few resources and little expertise to combat financial crimes, or to produce meaningful financial intelligence. The most fundamental obstacles continue to be legal, cultural and historical factors that conflict with more Western-style proposed reforms to the financial sector.

The majority of the money laundering in Afghanistan is linked to the illicit narcotics trade. Afghanistan accounts for a large majority of the world's opium production, and in 2004 and 2005 its internal production of opium increased. Opium gum itself is often used as a currency, especially by rural farmers, and it is used as a store of value in prime production areas. It is estimated that one third of Afghanistan's (licit plus illicit) GDP is derived directly from narcotics activities, and proceeds generated from the drug trade have reportedly fueled a growing real estate boom in Kabul, as well as a sharp increase in capital investment in rural poppy growing areas.

Afghan opium is refined into heroin by production labs, more of which are being established within Afghanistan's borders. The heroin is then often broken into small shipments and smuggled across porous borders for resale abroad. Payment for the narcotics outside the country is facilitated through a variety of means, including through conventional trade and the hawala system (money dealers). The narcotics themselves are often used as tradable goods and as a means of exchange for foodstuffs, vegetable oils, electronics, and other goods between Afghanistan and neighboring Pakistan. Many of these goods are smuggled into Afghanistan from neighboring countries or enter through the Afghan Transit Trade without payment of customs duties or tariffs. Invoice fraud, corruption, indigenous smuggling networks, and legitimate commerce are all intertwined.

Afghanistan is widely served by the hawala system, which provides a range of financial and non-financial business services in local, regional, and international markets. Financial activities include foreign exchange transactions, funds transfers, micro and trade finance, as well as some deposit-taking activities. While the hawala network may not provide financial intermediation of the same type as the formal banking system (i.e., deposit-taking for lending and investing purposes based on the assessment, underwriting, and pricing of risk(s)), it is deeply entrenched and widely used throughout Afghanistan.

There are over 330 known hawala dealers in Kabul, with 100-300 additional dealers in each province. These dealers are organized into unions in each province and maintain a number of agent-principal and partnership relationships with other dealers throughout the country and internationally. Their record keeping and accounting practices are quite robust, extremely efficient, and take note of currencies traded, international pricing, deposit balances, debits and credits with other dealers, lending, cash on hand, etc. Hawaladars are supposed to be registered. However, consistent standards for record keeping and accounting do not exist among these dealers, further complicating the regulatory task.

In early 2004, the Central Bank of Afghanistan, Da Afghanistan Bank (DAB), worked in collaboration with the International Monetary Fund (IMF) and the United Nations Office on Drugs and Crime (UNODC) to establish the legislative framework for anti-money laundering and the suppression of the financing of terrorism. Although Afghanistan was unable to meet its initial commitment to enact both

pieces of legislation by September 30, 2004, they were both finalized and signed into law by late October 2004.

The Central Bank claims that both the Anti-Money Laundering (AML) and Proceeds of Crime and Combating the Financing of Terrorism (CFT) laws incorporate provisions that are designed to meet the recommendations of the Financial Action Task Force (FATF) and address the criminalization of money laundering and the financing of terrorism, customer due diligence, the establishment of a Financial Intelligence Unit (FIU), international cooperation, extradition, and the freezing and confiscation of funds. In fact, the AML law also includes provisions to address cross-border currency reporting, and establishes authorities to seize and confiscate monies found to be undeclared or falsely declared, or determined to be transferred for illicit purposes. However, the capability to enforce these provisions is nearly non-existent, and furthermore, these provisions are largely unknown in many parts of the country.

Under the new AML law, an FIU has been established and will function as a semi-autonomous unit within DAB. Additionally, banks are required to report suspicious transactions and all cash transactions as prescribed by DAB to the FIU, which has the legal authority to freeze assets for up to 7 days. The FIU will refer cases to the Attorney General's office which will assign it to the appropriate court. The FIU, originally set to be established in January 2005, was actually initiated in October 2005 with assignment of a General Director, office space, and other resources. However, a number of key organizational issues remain to be resolved before the FIU can be considered fully operational.

At present the formal banking sector consists of three recently re-licensed state-owned banks, five branches of foreign banks, and four additional domestic banks. With the possible exception of the foreign bank branches, these banks are equipped with only limited knowledge or technical capacity to produce financial intelligence. Many are looking to both the Central Bank and to the Ministry of Finance to provide training on requirements set forth by anti-money laundering legislation, including customer due diligence and "know your customer" provisions (KYC), record keeping, currency transaction reporting (CTRs), suspicious transaction reporting (STRs), and the establishment of internal AML/CFT controls. The DAB is working to meet these bank demands by developing its anti-money laundering regulatory regime and supporting training curricula. The DAB is not yet fully aware of the compliance capabilities of banks other than those that are state-owned.

The Supervision Department within the DAB was formed at the end of 2003, and is divided into four divisions: Licensing, General Supervision (which includes on-site and off-site supervision), Special Supervision (which deals with special cases of problem banks), and Regulation. The Department remains poorly staffed and struggles to find the appropriate talent. The Department is charged with administering the AML and CFT legislation, conducting examinations, licensing new institutions, overseeing money service providers, and liaising with the commercial banking sector generally. In 2005, two members of the Supervision Department traveled to the U.S. to receive comprehensive AML training. Three more members are scheduled to receive similar training in 2006.

In April 2004, Afghanistan issued new regulations for the licensing of foreign exchange dealers, hawaladars and other money service providers, and required them to submit quarterly transaction reports. Regulations differ for foreign exchange dealers and money service providers, with more stringent requirements placed on the latter. The regulations also require foreign exchange dealers and money service providers to take appropriate measures to prevent money laundering and terrorist financing, including the submission of suspicious transaction reports to the FIU. DAB branch managers have been trained on the licensing requirements, but to date only one entity-Western Union-has received a license. The DAB is phasing in its regulations and has little communication with the foreign exchange dealers and money service providers themselves, many of whom see the regulations as overly strict, requiring burdensome capital requirements and fees for agents in each province. The

DAB is struggling with administering the regulations and lacks the support of enforcement authorities from the Ministry of Interior, among others.

The Ministry of Interior and the Attorney General's Office are the primary financial enforcement authorities, although neither is able to conduct financial investigations, and both lack the training necessary to follow potential leads generated by an FIU, whether within Afghanistan or from international sources. Pursuant to the Central Bank law, a Financial Services Tribunal will be established to review certain decisions and orders of Da Afghanistan Bank (DAB), although there is a need for significant training for judges and administrative staff before this Tribunal can be effectively stood up. The Tribunal will review supervisory actions of DAB, but not prosecute cases of financial crime. At present, all financial crime cases are being forwarded to the Kabul Provincial Court, where there has been little or no activity in the last three years. The process to prosecute and adjudicate cases is long and cumbersome, and significantly underdeveloped. The U.S., along with other countries, is helping to develop these mechanisms and to train prosecutors and judges.

Border security continues to be a major issue throughout Afghanistan. At present there are 21 border crossings that have come under federal control, utilizing international donor assistance as well as local and international forces. However, many of the border areas continue to be un-policed and therefore susceptible to illicit cross-border trafficking and trade-based money laundering. Many regional warlords also continue to control the international borders in their provincial areas, causing major security risks. Customs authorities, with the help of outside assistance, have made significant strides, but much work remains to be done. Customs collection has also dramatically improved, but there continues to be significant leakage and corruption, as well as trade-based fraud, including false invoicing and under-invoicing. Thorough cargo inspections are currently not conducted at any gateway.

Under the Law on Combating the Financing of Terrorism, any nonprofit organization that wishes to collect, receive, grant, or transfer funds and property must be entered in the registry with the Ministry of Auqaf (Islamic Affairs). All non-profit organizations are subject to a due diligence process which includes an assessment of accounting, record keeping, and other activities. However, the capacity of the Ministry to conduct such examinations is nearly non-existent, and the reality is that any organization applying for a registration is granted one. Furthermore, because no adequate enforcement authority exists, many organizations operating under a "tax-exempt" non-profit status in Afghanistan go completely unregistered and illicit activities are suspected on the part of a number of organizations.

The Government of Afghanistan (GOA) has now become a party to 12 of the UN conventions and protocols against terrorism and is a signatory to the International Convention for the Suppression of Acts of Nuclear Terrorism. Afghanistan is a party to the 1988 UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime.

While the Government of Afghanistan has made strides in strengthening its overall AML/CFT regime, much work remains to be done: overseeing the informal hawala system through effective regulation; enabling bank and non-bank financial institutions to produce adequate financial intelligence; developing a fully operational and effective FIU; bolstering financial investigative capabilities; and, training prosecutors and judges on money laundering and other financial crimes. These efforts must be conducted in tandem, while at the same time combating the overwhelming narcotics trade. A concerted effort on the part of international donors and Afghan authorities is needed to empower rural farmers through effective alternative livelihoods programs and to dismantle the logistical and financial infrastructure that facilitates the opium economy generally.

Albania

As a transit country for trafficking in narcotics, arms, contraband, and humans, Albania remains at significant risk for money laundering. Major sources of criminal proceeds are drug-related crimes, robberies, customs offenses, prostitution, trafficking in weapons and automobiles, official corruption, tax crimes and fraud. Organized crime groups use Albania as a base of operations for conducting criminal activities in other countries, sending the illicit funds back to Albania. The proceeds from these activities are easily laundered in Albania because of the lack of a strong formal economy and weak government controls. Money laundering is believed to be occurring through the investment of tainted money in real estate and business development projects. Customs controls on large cash transfers are not believed to be effective, due to a lack of resources and corruption of Customs officials.

Albania's economy is primarily cash-based. Electronic and ATM transactions are relatively few in number, but are growing rapidly as more banks introduce this technology. At the end of 2004, eight banks were offering ATM service with a total of 76 ATMs all over the country. The number of ATMs rapidly expanded following the decision of the Government of Albania (GOA) to deliver salaries through electronic transfers. Until 2004, the GOA paid its own civil servants in cash, but all central government institutions are now required to convert to electronic pay systems by the end of 2005. According to the Bank of Albania (the Central Bank), 25 percent of the money in circulation is outside of the banking system, compared to an average of 10 percent in other Central and Eastern European transitioning economies. There are 17 banks in Albania, but only five of them are considered to have a significant national presence. Albania is not considered an offshore financial center, nor do its current laws facilitate such types of activity. Under current law, free trade zones are permissible, but the GOA has not pursued the implementation of free trade zones and none are currently in operation.

The Albanian economy is particularly vulnerable to money laundering activity because it is a cash economy. Estimates place the informal sector at between 30 and 60 percent of GDP. Albania collects 10 to 15 percent less of GDP in taxes than neighboring countries. Relatively high levels of foreign trade activity, coupled with weak Customs controls, presents a gateway for money laundering in the form of fake imports and exports. The Bankers Association estimates that only 20-30 percent of transactions with trading partners take place through formal banking channels, reaching only a small portion of total imports. Likewise, a significant portion of remittances enters the country through unofficial channels. It is estimated that only half of total remittances enter through banks or money transfer companies. Black market exchange is still present in the country, especially in Tirana, despite repeated efforts by GOA institutions (Ministry of Interior, Bank of Albania, and Ministry of Finance) to impede such exchanges. There have been court decisions against illegal money remitters based on information received from foreign financial intelligence units.

Albania previously criminalized all forms of money laundering in Article 287 of the Albanian Criminal Code of 1995. Law No. 8610 "On the Prevention of Money Laundering" (passed in 2000) required financial institutions to report to an anti-money laundering agency all transactions that exceed approximately $15,000 as well as those that involved suspicious activity. Law No. 8610 required financial institutions to report all cross-border transactions that exceed approximately $10,000, as well as those that involve suspicious activity. Financial institutions are required to report transactions within 48 hours if the origin of the money cannot be determined. In addition, private and state entities are required to report all financial transactions that exceed certain thresholds. However, financial institutions had no legal obligation to identify customers prior to opening an account. While most banks have internal rules mandating customer identification, Law No. 8610 only required customer identification prior to conducting transactions that exceed 2 million Albanian leke (approximately $20,000) or when there is a suspicion of money laundering.

The laws set forth an "all crimes" definition for the offense of money laundering. However, an issue of concern is the fact that the Albanian court system requires a prior or simultaneous conviction for the predicate crime before an indictment for money laundering can be issued. Albanian law also has no specific laws pertaining to corporate criminal liability. Officials, however, state that legal entities can be punished for money laundering under Article 45 of the Criminal Code as well as under Article 14 of Law No. 8610.

In June 2003, Parliament approved Law No. 9084, which strengthened the old Law No. 8610, and improved the Criminal Code and the Criminal Procedure Code. The new law redefined the legal concept of money laundering, harmonizing the Albanian definition with that of the European Union (EU) and bringing it into line with EU and international conventions. Under the revised Criminal Code many powers were expanded and improved upon. The definition of money laundering was revised, the establishment of anonymous accounts was outlawed, and the confiscation of accounts was permitted. The law also mandates the identification of beneficial owners. Banks and other institutions are required to maintain records of suspicious activity reports for ten years. All other reports are subject to a five-year record retention period. The law also covers informal value transfer systems.

In the case of intermediaries, it is the responsibility of the appropriate licensing authority to supervise such entities for compliance (e.g., Ministry of Justice for notaries, Ministry of Finance for accountants). Although regulations also cover non-bank financial institutions, their enforcement has been poor in practice. The formal banking sector reports accounts for 90 percent of suspicious activity reports filed, while the rest come from state institutions like tax and customs and foreign counterparts. Currently, no law criminalizes negligence by financial institutions in money laundering cases. However, the Bank of Albania has established a task force to confirm banks' compliance with customer verification rules. Reporting individuals and entities are protected by law with respect to their cooperation with law enforcement agencies. However, given leaks of information from other agencies, reporting entities complain that reporting requirements compromise their client confidentiality and put them into a difficult position.

Banking groups initially objected to implementation of some aspects of the law, especially with regard to what they see as onerous reporting requirements. Originally, financial institutions were required to complete a 61-question form for all transactions, including bank-to-bank transfers, exceeding $200,000. Subsequent modifications to the form, however, have somewhat reduced this reporting burden. Financial institutions that submit reports are required to do so within 72 hours. In addition to banks, bureaux de change, casinos, tax and customs authorities, accountants, notaries, postal services, insurance companies, and travel agencies are entities that are obligated to comply with the threshold reporting rules.

Law No. 8610 also mandates the establishment of an agency to coordinate the GOA's efforts to detect and prevent money laundering. The General Directorate for Coordinating the Combat of Money Laundering (DBLKPP) is Albania's financial intelligence unit (FIU). The DBLKPP falls under the control of the Ministry of Finance and evaluates reports filed by financial institutions. If the agency suspects that a transaction involves the proceeds of criminal activity, it must forward the information to the prosecutor's office. In 2005, the FIU received 30 suspicious activity reports, four of which were passed to the prosecutor's office.

Law No. 9084 clarifies and improves the role of the FIU and increases its responsibility. It has been given additional status by its designation as the national center to combat money laundering. Also, the duties and responsibilities for the FIU have been clarified. The law also establishes a legal basis for increased cooperation between the FIU and the General Prosecutor's Office, while creating an oversight mechanism to ensure that the FIU fulfills, but does not exceed, its responsibilities and authority. Previously, coordination against money laundering and terrorist financing among agencies was sporadic. The new law establishes two levels of coordination: on the policy level, an inter-

ministerial group headed by Albania's Prime Minister and including the participation of different ministers, the Central Bank Governor, and the General Prosecutor. On the technical level, a group of experts was established.

The government bodies responsible for investigating financial crimes are the Ministry of Interior (through its Organized Crime and Witness Protection Departments), the General Prosecutor's Office and the State Intelligence Service. Money laundering and terrorist financing are relatively new issues for GOA institutions, and responsible agencies are neither adequately staffed nor fully trained to handle money laundering and terrorist financing issues.

There have been seven prosecutions initiated under the new Law No. 9084. In the two years preceding that law, there were seven prosecutions brought under the old law. Of these fourteen prosecutions, ten are pending in the courts and four have yet to be brought to trial. Given the high number of drug-trafficking and fraud-related cases in Albania, the number of money laundering prosecutions is still relatively low. This is largely due to the fact that the Albanian police force still does not have a central database and investigators lack much needed training in modern financial investigation techniques. The Prosecutor's Office also lacks well-trained prosecutors to efficiently manage cases. There have been no arrests for money laundering or terrorist financing since January 2005.

Through Law No. 9084, the Code of Criminal Procedure vastly improves the Albanian confiscation regime. Prior to 2004, Albanian law did not allow for asset forfeiture without a court decision. In 2004, Albania passed legislation that made the freezing and seizure of assets much easier. First, Albania passed a comprehensive anti-Mafia law, Law No. 9284, which contains strong civil asset seizure and forfeiture provisions, subjecting the assets of suspected persons and their families and close associates to seizure. The law also places the burden to prove a legitimate source of funding for seized assets on the defendant.

Law No. 9084 criminalizes the financing of terrorism, mandating strong penalties for any actions or organizations linked with terrorism. Until 2004, the GOA used its anti-money laundering law to freeze the assets of suspected terrorists and terrorist organizations on the UNSCR 1267 Sanctions Committee's consolidated list. In 2004, Law No. 9258, "On Measures Against Terrorist Financing," was enacted, permitting the GOA to administratively seize assets of any terrorist designated pursuant to Security Council resolutions, as well as pursuant to certain bilateral or multilateral requests. The Ministry of Finance has already implemented this law. In addition to one freeze obtained in 2004, the GOA has frozen the assets of seven additional persons or entities in 2005.

The Ministry of Finance is the main entity responsible for issuing freezing orders, while the FIU is responsible for tracing and seizing assets. In the case of individuals or entities whose names appear on the UNSCR 1267 consolidated list, the freezing orders remain in force as long as their names remain on the list. In the case of individuals under investigation or prosecution for money laundering, properties remain frozen until a court decision to the contrary is issued (such investigative freezes may not exceed three years). If a person is found guilty, his assets are confiscated and all the proceeds transferred to the state budget. The Agency for the Administration of Sequestered and Confiscated Assets (AASCA) was established in June 2005, following a Council of Ministers decision. After a difficult start, the GOA staffed the AASCA in early December 2005.

In the past four years, the GOA has seized $4.72 million in liquid criminal and terrorist assets ($3.14 million for terrorism financing and $1.58 million for money laundering) and about $5 million in real estate ($2.3 million in 2005). Some estimates place these figures at even higher values. In 2005, the previous freezing orders were converted under the new law against terrorism financiers. In total, there have been eight freeze orders issued, involving 56 bank accounts frozen in six different commercial banks. Fifty-four of these are related to terrorist financing. Each of the eight freeze orders issued by the Ministry of Finance in relation to persons involved in terrorism financing has been referred to the Prosecutor's Office for further investigation.

Although the GOA has not passed specific legislation addressing alternative remittance systems or charitable organizations, officials state that such informal transactions are covered under recent laws. Additionally, although the GOA does not normally monitor the use of funds by charitable organizations, the Ministry of Finance has explored additional legislation that would include such oversight. Starting from 2006, charitable organizations have to present their books to the tax office. The GOA has aggressively acted against charities that are suspected of wrongdoing, resulting in the removal of three of them from the country.

Contraband smuggling generates funds that are easily laundered in Albania due to highly unregulated transaction overview, lax control in almost all institutions dealing with immovable properties, and corruption in the State Administration. By contrast, the formal banking sector is highly regulated and is continuously under the scrutiny of the Central Bank.

Albanian legislation regarding cash couriers is not yet complete. Law No. 8610 sets the maximum amount of money that individuals (both Albanian and foreign) may possess on crossing borders. Amounts in excess of $10,000 require formal declaration. Declaration forms are available at border crossing points. There have been cases of individuals sentenced for illegal transfer of money based on information from foreign FIUs. The FIU shares cash smuggling reports with its counterparts in Turkey, Bulgaria and Macedonia.

The Albanian FIU became a member of the Egmont Group in July 2003, and continues to enlarge its cooperation with regional counterparts. The FIU has the ability to enter into bilateral or multilateral information sharing agreements on its own authority and has signed MOUs with 23 countries. The FIU is also participates in personnel exchanges with regional counterparts for training purposes and has also agreed to fight corruption jointly with Italy.

Albania is a party to the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds of Crime, and became a party to the UN International Convention for the Suppression of the Financing of Terrorism on April 10, 2002. On August 21, 2002, Albania ratified the UN Convention against Transnational Organized Crime. Albania is a party to the 1988 UN Drug Convention and in December 2003 signed the UN Convention against Corruption. Albania is a member of the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) and participates in the Southeastern Europe Cooperative Initiative (SECI).

The Government of Albania has taken important steps to enhance its anti-money laundering and counterterrorist financing regime; however, additional improvements can still be made. Albania should incorporate into its anti-money laundering legislation specific provisions regarding corporate criminal liability, customer identification procedures, and the adequate oversight of money remitters and charities. Albania should also amend its laws to allow authorities to obtain an indictment for money laundering without a prior conviction for a predicate offense. A central police database should be created in order to assist law enforcement in the investigation of financial crimes.

Algeria

Algeria is not a regional financial center or an offshore financial center. The extent of money laundering through formal financial institutions is thought to be minimal due to stringent exchange control regulations and an antiquated banking sector. The partial convertibility of the Algerian dinar enables the Bank of Algeria (Algeria's Central Bank) to monitor all international financial operations carried out by public and private banking institutions.

Algeria first criminalized terrorist financing through the adoption of Ordinance 95.11 on February 24, 1994, making the financing of terrorism punishable by five to ten years of imprisonment. On February 5, 2005, Algeria enacted public law 05.01, entitled "The Prevention and Fight Against Money

Laundering and Financing of Terrorism." The law aims to strengthen the powers of the Cellule du Traitement du Renseignement Financier (CTRF), an independent financial intelligence unit (FIU) within the Ministry of Finance (MOF) created in 2002. This law seeks to bring Algerian law into conformity with international standards and conventions. It offers guidance for the prevention and detection of money laundering and terrorist financing, institutional and judicial cooperation, and penal provisions.

Algerian financial institutions, as well as Algerian customs and tax administration agents, are required to report any activities they suspect of being linked to criminal activity, money laundering, or terrorist financing to CTRF and comply with subsequent CTRF inquiries. They are obligated to verify the identity of their customers or their registered agents before opening an account; they must furthermore record the origin and destination of funds they deem suspicious. In addition, these institutions must maintain confidential reports of suspicious transactions and customer records for at least five years after the date of the last transaction or the closing of an account.

The new legislation extends money laundering controls to specific, non-bank financial professions such as lawyers, accountants, stockbrokers, insurance agents, pension managers, and dealers of precious metals and antiquities. Provided information is shared with the CTRF in good faith, the law offers immunity from administrative or civil penalties for individuals who cooperate with money laundering and terrorist finance investigations. Under the law, assets may be frozen for up to 72 hours on the basis of suspicious activity; such freezes can only be extended with judicial authorization. Financial penalties for non-compliance range from 50,000 to 5 million Algerian dinars.

The law also provides significant authority to the Algerian Banking Commission, the independent body established under authority of the Bank of Algeria to supervise banks and financial institutions, to inform the CTRF of suspicious or complex transactions. The law furthermore gives the Algerian Banking Commission, CTRF, and the Algerian judiciary wide latitude to exchange information with their foreign government counterparts in the course of money laundering and terrorist finance investigations, provided confidentiality for suspected entities is insured. A clause excludes the sharing of information with foreign governments in the event legal proceedings are already underway in Algeria against the suspected entity, or if the information is deemed too sensitive for national security reasons.

On November 14, 2005, the Government of Algeria issued Executive Decree 05-442, establishing a ceiling for cash transactions conducted in Algeria. Effective September 1, 2006, any payments in excess of 50,000 Algerian dinars must be made by check, wire transfer, payment card, bill of exchange, promissory note, or other official bank payment. While non-residents are exempt from this requirement, they must (like all travelers to and from the country) report their foreign currency to the Algerian Customs Authority.

The Ministry of Interior is charged with registering foreign and domestic non-governmental organizations in Algeria, although some probably operate beneath its notice. While the Ministry of Religious Affairs legally controls the collection of funds at mosques for charitable purposes, some of these funds probably escape the notice of government monitoring efforts.

In November 2004, Algeria became a member of the Middle East and North Africa Financial Action Task Force (MENA FATF). Algeria is a party to the UN Convention against Transnational Organized Crime, the UN Convention for the Suppression of the Financing of Terrorism, and the 1988 UN Drug Convention. In addition, Algeria is a signatory to various UN, Arab, and African conventions against terrorism, trafficking in persons, and organized crime. It has also established an interagency council to oversee money laundering and terrorist financing investigations and form a commission that will evaluate all pending cases. The Ministry of Justice is expected to create a pool of judges trained in financial matters.

Over the last two years, Algeria has taken significant steps to enhance its statutory regime against anti-money laundering and terrorist financing. It must now move forward with implementation of those laws, including the coming into force of the law limiting the size of cash transactions.

Angola

Angola is not a regional or offshore financial center and has not prosecuted any known cases of money laundering. The laundering of funds derived from continuous and widespread high-level corruption is a concern, as is the use of diamonds as a vehicle for money laundering. However, the Government of Angola (GOA) has taken steps to guard against money laundering in the diamond industry by participating in the "Kimberley Process," an international certification scheme designed to halt trade in "conflict" diamonds in countries such as Angola. Angola has implemented a control system in accordance with the Kimberley Process. However, through the process of "mixing parcels" of licit and illicit diamonds, the Kimberly certification process can be compromised. Angola's long and porous borders further facilitate smuggling and the laundering of diamonds.

Angola currently has no comprehensive laws, regulations, or other procedures to detect money laundering and financial crimes, although some related crimes are addressed through other provisions of the criminal code. Reportedly, additional laws are in draft form. Legislation governing foreign exchange controls allows the Central Bank's Supervision Division, the governmental entity charged with money laundering issues, to exercise some authority against illicit banking activities. The Central Bank of Angola has the authority to freeze assets, but Angola does not presently have an effective system for identifying, tracing, or seizing assets. Instead, such crimes are addressed through other provisions of the criminal code. For example, Angola's counternarcotics laws criminalize money laundering related to narcotics trafficking. One of three draft laws to reform the banking sector specifically targets money laundering. The money laundering bill, which has not yet been approved by the Angolan Parliament, was drafted with the assistance of the World Bank. The GOA expects the money laundering law to be promulgated in 2006.

The high cash flow in Angola makes its financial system a potentially attractive site for money laundering. Because of a lack of a domestic interbank dollar clearing system, even dollar transfers between domestic Angolan banks are logged as "international" transfers, thus creating an incentive to settle transfers in cash. The local banking system imports approximately $200-300 million in net cash per month, largely in dollars, without a corresponding cash outflow. Reportedly, local bank representatives have noted that clients have walked into banks with up to $2 million in a briefcase to make a deposit. These massive cash flows occur in a banking system ill equipped to detect and report suspicious activity. The Central Bank has no workable data management system and only rudimentary analytic capability. It cannot develop suspicious transaction reports (STRs), much less analyze them and search for patterns.

Angola is party to the 1988 UN Drug Convention. Angola has signed but not yet ratified the UN Convention against Transnational Organized Crime. Angola has not signed the UN International Convention for the Suppression of the Financing of Terrorism.

The Government of Angola should pass its pending legislation and criminalize money laundering (beyond drug offenses) and terrorist financing. As part of the legislation, the GOA should establish a system of financial transparency reporting requirements. The GOA should then move quickly to implement the legislation and bolster the capacity of law enforcement to better investigate financial crimes. The GOA should become a party to both the UN Convention against Transnational Organized Crime and the UN International Convention for the Suppression of the Financing of Terrorism. The GOA should increase efforts to combat official corruption.

Antigua and Barbuda

Antigua and Barbuda has comprehensive legislation in place to regulate its financial sector, but remains susceptible to money laundering because of its offshore financial sectors and Internet gaming industry. Money laundering in the region is related to both narcotics and fraud schemes, as well as to other crimes, but money laundering appears to occur more often in the offshore sector than in the domestic financial sector.

The International Business Corporations Act of 1982 as amended (IBCA) is the governing legal framework for offshore businesses in Antigua and Barbuda. Antigua and Barbuda has 16 licensed offshore banks in operation, one offshore trust, one offshore insurance company, and 8,000 offshore companies. Bearer shares are not permitted. The license application requires disclosure of the names and addresses of directors (who must be natural persons), the activities the corporation intends to conduct, the names of shareholders, and number of shares they will hold. Registered agents or service providers are required by law to know the names of beneficial owners. Failure to provide information or give false information is punishable by a fine of $50,000. All licensed institutions are required to have a physical presence, which means presence of at least a fulltime senior officer and availability of all files and records. Shell companies are not permitted.

In 2002, the IBCA was amended to create the Financial Services Regulatory Commission (FSRC), which replaced the previous entity, the International Financial Sector Regulatory Authority. The FSRC is responsible for the regulation and supervision of all institutions licensed under the act to include offshore banking and all aspects of offshore gaming. The FSRC is autonomous and is financed by the revenue generated from registration fees and licensing fees of IBCs. The FSRC is supervised by a four-member Board comprised of public officials and is presently chaired by the Solicitor General. Responsibilities of the FSRC include issuing licenses for international business corporations (IBCs) and maintaining the register of all corporations. The FSRC conducts examinations and on-site and off-site reviews of the country's offshore financial institutions, and of some domestic financial entities, such as insurance companies and trusts. Proposed 2005 amendments to the IBCA seek to authorize the FSRC to decline to incorporate a corporation if it has reason to suspect that the corporation may be used for criminal purposes.

In September 2002, the Government of Antigua and Barbuda (GOAB) issued anti-money laundering guidelines for financial institutions, requiring banks to establish the true identities of account holders and to verify the nature of an account holder's business and beneficiaries. The GOAB has not chosen to initiate a unified regulatory structure or uniform supervisory practices for its domestic and offshore banking sectors. Currently, the Eastern Caribbean Central Bank (ECCB) supervises Antigua and Barbuda's domestic banking sector. The amended Banking Act 2004 enables the ECCB to share information directly with foreign regulators if a memorandum of understanding is established.

The Money Laundering (Prevention) Act (MLPA) of 1996 as amended is the operative legislation addressing money laundering. The Office of National Drug Control and Money Laundering Policy (ONDCP), which is the financial intelligence unit (FIU), directs the GOAB's anti-money laundering efforts in coordination with the FSRC. The ONDCP is a department in the Prime Minister's office, and has primary responsibility for the enforcement of the MLPA. The ONDCP Act of 2003 establishes the FIU as an independent organization and the Director of ONDCP as the supervisory authority under the MLPA. Additionally, the ONDCP Act of 2003 authorizes the Director to appoint officers to investigate narcotics trafficking, fraud, money laundering, and terrorist financing offenses. Auditors of financial institutions review their compliance program and submit a report to the ONDCP for analysis and recommendations. Memoranda of understanding have been drafted to cover all aspects of the ONDCP's relationship with the Royal Antigua and Barbuda Police Force, Customs, Immigration, and the Antigua and Barbuda Defense Force. Through November 2005, the ONDCP received 21 suspicious activity reports of which 20 were investigated. A training program and information kit on

anti-money laundering for magistrates and other judicial officers was developed, and training was conducted in 2004. In 2005, a number of GOAB civilian and law enforcement officials received anti-money laundering training.

The 2000 and 2001 amendments to the MLPA broadened its definition of supervised financial institutions to include all types of gambling entities and to set financial limits above which customer identification and source of funds information are required. Antigua and Barbuda has five domestic casinos, which are required to incorporate as domestic corporations. Internet gaming operations are required to incorporate as IBCs; as such they are required to have physical presence. Internet gaming sites are considered to have a physical presence when the primary servers and the key person are resident in Antigua and Barbuda. Official sources indicate there are 33 Internet gambling entities, with 14 operating licenses granted in 2005. The GOAB expects to grant 10 new licenses for online gambling companies in 2006. The GOAB receives approximately $2.8 million per year from license fees and other charges related to the internet gaming industry. Casinos and sports book-wagering operations in Antigua and Barbuda's Free Trade Zone are supervised by the ONDCP and the Directorate of Offshore Gaming (DOG), housed in the FSRC. The DOG has 13 employees. Antigua and Barbuda has five domestic casinos, which are required to incorporate as domestic corporations. In 2001, the GOAB adopted regulations for the licensing of interactive gaming and wagering, in order to address possible money laundering through client accounts of Internet gambling operations. Furthermore, the FSRC and DOG have issued Internet gaming technical standards and guidelines. Internet gaming companies are required to enforce know-your-customer verification procedures and maintain records relating to all gaming and financial transactions of each customer for six years. The FSRC recently mandated Internet gaming sites must submit quarterly financial statements in addition to annual statements. Suspicious activity reports from domestic and offshore gaming entities are sent to the ONDCP and FSRC.

In October 2001, the GOAB enacted the Prevention of Terrorism Act, which empowers the ONDCP to nominate any entity as a "terrorist entity" and to seize and forfeit terrorist funds. The law covers any finances in any way related to terrorism. The proposed Prevention of Terrorism Act 2005 requires financial institutions to report possession of assets of persons declared by the Attorney General to be a terrorist. It is also illegal for a financial organization to deal with property belonging to a terrorist or a terrorist organization. Under the Act, the Attorney General may revoke or deny the registration of a charity or non-profit organization if it is believed funds from the organization are being used for financing terrorism. The GOAB circulates lists of terrorists and terrorist entities to all financial institutions in Antigua and Barbuda. No known evidence of terrorist financing has been discovered in Antigua and Barbuda to date. The GOAB does not believe indigenous alternative remittance systems exist in country.

Amendments to the MLPA in 2000, 2001, and 2002 enhanced international cooperation, strengthened asset forfeiture provisions, and created civil forfeiture powers. In 2005, two arrests were made on money laundering charges. Despite the comprehensive nature of the law, Antigua and Barbuda has yet to prosecute a money laundering case on its own.

The GOAB continues its bilateral and multilateral cooperation in various criminal and civil investigations and prosecutions. In 1999, a Mutual Legal Assistance Treaty and an Extradition Treaty with the United States entered into force. An extradition request related to a fraud and money laundering investigation remains pending under the treaty. The GOAB signed a Tax Information Exchange Agreement with the United States in December 2001 that allows the exchange of tax information between the two nations. Because of such assistance, the GOAB has benefited through an asset sharing agreement with Canada and has received asset sharing revenues from the United States. The GOAB is currently working on asset forfeiture agreements with other jurisdictions. Regardless of its own civil forfeiture laws, currently the GOAB can only provide forfeiture assistance in criminal forfeiture cases. In the past few years, the GOAB has frozen approximately $6 million in Antigua and

Barbuda financial institutions as a result of U.S. requests and has repatriated approximately $4 million. The GOAB has frozen, on its own initiative, over $90 million that it believed to be connected to money laundering cases still pending in the United States and other countries. In 2005, the GOAB cooperated extensively with U.S. law enforcement in an investigation that resulted in a seizure of $1,022,000.

Antigua and Barbuda is a member of the Organization of American States Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering (OAS/CICAD), and the Caribbean Financial Action Task Force (CFATF), of which it chaired in 2004. The GOAB underwent its second round CFATF Mutual Evaluation in October 2002. The CFATF found that Antigua and Barbuda's anti-money laundering framework was consistent with international standards and is being enforced. Antigua and Barbuda is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, and the UN International Convention for the Suppression of the Financing of Terrorism. The ONDCP joined the Egmont Group in June 2003.

The Government of Antigua and Barbuda should continue its international cooperation, and rigorously implement and enforce all provisions of its anti-money laundering legislation. Antigua and Barbuda should vigorously enforce its anti-money laundering laws by actively prosecuting money laundering and asset forfeiture cases.

Argentina

Argentina is neither an important regional financial center nor an offshore financial center. Money laundering related to narcotics trafficking, corruption, contraband, and tax evasion is believed to occur throughout the financial system, in spite of the efforts of the Government of Argentina (GOA) to stop it. The financial sector's slow recovery from the 2001-02 financial crisis and post-crisis capital controls may have reduced the incidence of money laundering through the banking system. However, transactions conducted through non-bank sectors and professions, such as the insurance industry, financial advisors, accountants, notaries, trusts, and companies, real or shell, remain viable mechanisms to launder illicit funds. Tax evasion is the predicate crime in roughly two thirds of all Argentine money laundering investigations. Argentina has a long history of capital flight and tax evasion, and Argentines hold billions of dollars offshore, much of it legitimately earned money that was never taxed.

The GOA took several important steps to further combat money laundering and terrorist financing in 2005, including the ratification of the UN International Convention for the Suppression of the Financing of Terrorism and the Inter-American Convention Against Terrorism, and regulatory changes to improve its anti-money laundering and counterterrorist financing systems. Over 100 cases of suspected money laundering have now been passed to prosecutors by the Unidad de Informacion Financiera (UIF), Argentina's financial intelligence unit (FIU). The Central Bank of Argentina (BCRA) established a specialized bank examination unit devoted specifically to money laundering, and expanded its requirements for financial institutions to check transactions against the terrorism lists of the United States, European Union, Great Britain, and Canada, in addition to the UN 1267 Sanctions Committee consolidated list. The two chambers of Congress passed different versions of a law that would lift all bank secrecy and some fiscal secrecy provisions that have prevented the UIF from obtaining information needed for its investigations.

Argentina's primary anti-money laundering legislation is Law 25.246 of May 2000. Law 25.246 expands the predicate offenses for money laundering to include all crimes listed in the Penal Code, sets a stricter regulatory framework for the financial sectors, and creates an FIU, the Unidad de Informacion Financiera (UIF), under the Ministry of Justice and Human Rights. This law lay down requirements for customer identification, record keeping, and reporting of suspicious transactions by all financial entities and businesses supervised by the Central Bank, the Securities Exchange

Commission (Comisión Nacional de Valores or CNV), and the Superintendence of Insurance (Superintendencia de Seguros de la Nación or SSN). The law forbids the institutions to notify their clients when filing suspicious financial transactions reports, and provides a safe harbor from liability for reporting such transactions. Reports that are deemed by the UIF to warrant further investigation are forwarded to the public prosecutors' office. As of November 2005, the UIF had received 1416 reports of suspicious or unusual activities, forwarded 102 suspected cases of money laundering to prosecutors for review, and assisted prosecutors with 79 cases.

The UIF, which began operating in June 2002, has issued resolutions widening the range of institutions and businesses required to report of suspicious or unusual transactions to the UIF beyond those identified in Law 25.246. Obligated entities include the tax authority (Administracion Federal de Ingresos Publicos or AFIP), banks, currency exchange houses, casinos, securities dealers, dealers in art, antiques, and precious metals, insurance companies, postal money transmitters, accountants, and notaries public. The resolutions issued by the UIF also provide guidelines for identifying suspicious or unusual transactions. In 2005, the UIF eliminated a previous resolution requiring that obligated entities only report suspicious or unusual transactions that exceeded 50,000 pesos (approximately $16,400); UIF Resolution 4/2005 now requires entities to report all suspicious or unusual transactions regardless of their amount. Suspicious or unusual transactions are now reported directly to the UIF; prior to 2004, all suspicious transactions below a 500,000 peso threshold were first reported to the appropriate supervisory body for pre-analysis due to budget constraints at the UIF. Obligated entities are required to maintain a database of all information related to client transactions, including suspicious or unusual transaction reports, for at least five years and must respond to requests from the UIF for further information within 48 hours.

The Central Bank requires by resolution that all banks maintain a database of all transactions exceeding 10,000 Argentine pesos (approximately $3,350). This data is submitted on a periodic basis to the BCRA. Some banks make this information available to the UIF on request; others do not, citing financial secrecy laws. Law 25.246 requires banks to make available to the UIF upon request records of transactions involving the transfer of funds (outgoing or incoming), cash deposits, or currency exchanges that are equal to or greater than 10,000 pesos (approximately $3,300).

The UIF further receives copies of the declarations to be made by all individuals (foreigners or Argentine citizens) entering or departing Argentina with over $10,000 in currency or monetary instruments. These declarations are required by Resolutions 1172/2001 and 1176/2001 issued by the Argentine Customs Service in December 2001. A law (Law 22.415/25.821) that would have provided for the immediate fine of 25 percent of the undeclared amount, and for the seizure and forfeiture of the remaining undeclared currency and/or monetary instruments, passed the Argentine Congress in 2003, but was vetoed by the President due to alleged conflicts with Argentina's commitments to MERCOSUR (Common Market of the Southern Cone).

Argentina's Narcotics Law of 1989 authorizes the seizure of assets and profits, and provides that these or the proceeds of sales will be used in the fight against illegal narcotics trafficking. Law 25.246 provided that proceeds of assets forfeited under this law can also be used to fund the UIF.

The Financial Action Task Force (FATF) conducted a mutual evaluation of Argentina in October 2003. The mutual evaluation report was accepted at the FATF plenary in June 2004 and at the plenary meetings of the Financial Action Task Force for South America (GAFISUD) in July 2004. While the evaluation of Argentina showed the UIF to be functioning satisfactorily, it identified some weaknesses in Argentina's current anti-money laundering legislation, as well as the lack of terrorist financing legislation or a national coordination strategy. There have been only two money laundering convictions in Argentina since money laundering was first criminalized in 1989, and none since the passage of Law 25.246 in 2000. Under a strict interpretation of the law, a prior conviction for the predicate offense is required in order to obtain a conviction for money laundering.

Although Law 25.246 of 2000 expands the number of predicate offenses for money laundering beyond narcotics-related offenses and created the UIF, it limits the UIF's role to investigating only money laundering arising from six specific crimes. The law also defines money laundering as an aggravation after the fact of the underlying crime. A person who commits a crime cannot be prosecuted for laundering money obtained from the crime; only someone who aids the criminal after the fact in hiding the origins of the money can be guilty of money laundering. Another impediment to Argentina's anti-money laundering regime is that only transactions (or a series of related transactions) exceeding 50,000 pesos can constitute money laundering; transactions below 50,000 pesos can constitute only concealment, a lesser offense.

The strict interpretation of the secrecy provisions of Law 25.246 also inhibits the UIF's ability to request additional information from obligated entities. Although Law 25.246 provides that the UIF is able to request information from obligated entities if this information is deemed useful to the UIF in carrying out its functions, it fails to resolve conflicts with strict "banking, fiscal, and professional" confidentiality provisions in other laws that require court orders to request information not directly related to a suspicious transaction report. Several government authorities, such as AFIP (the tax authority, which is responsible for overseeing the customs agency and dealing with tax fraud and other economic crimes), reportedly have been uncooperative in responding to the UIF's requests for assistance, citing these confidentiality provisions. An exception is the Central Bank, which generally cooperates with the UIF by providing regulatory information needed for money laundering investigations. As of November 2005, the UIF had requested additional information from the AFIP in 419 cases and from the Central Bank in 310 cases.

Legislation that would lift all banking secrecy restrictions and partially lift fiscal secrecy restrictions passed both houses of the Congress in 2005—but in different forms. The two bills need to be reconciled and the legislation must be signed by the President before becoming law. The passage of this law would lift or reduce many restrictions that have prevented the UIF from obtaining information needed for money laundering investigations.

Terrorism and terrorist acts are not specifically criminalized under Argentine law. Because these acts are not autonomous offenses, terrorist financing is not a predicate offense for money laundering. In 2005, Argentina ratified the UN International Convention for the Suppression of the Financing of Terrorism and the Inter-American Convention Against Terrorism, but it has not yet passed domestic legislation. Several bills have been introduced in the Congress to implement the provisions of those treaties under Argentine law, but there have not yet been votes on any of these draft laws and the GOA has not yet indicated which, if any, of these bills it will support. In an attempt to close this gap, the Central Bank issued Circular 4863 in 2005 that requires banks to report any detected instances of the financing of terrorism. However, bankers have complained that the regulation is not backed by any legal definition of what constitutes terrorist financing in Argentina, and that the absence of domestic legislation means that they are not protected from lawsuits by clients if they report suspected cases of terrorist financing.

The Central Bank of Argentina issued Circular B-6986 in 2004, instructing financial institutions to identify and freeze the funds and financial assets of the individuals and entities listed on the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224. It modified this circular with Resolution 319 in October 2005, which expands Circular B-6986 to require financial institutions to check transactions against the terrorist lists of the United Nations, United States, European Union, Great Britain, and Canada. No assets have been identified or frozen to date.

Working with the United States Department of Homeland Security's Office of Immigration and Customs Enforcement (ICE), Argentina began the process of establishing a Trade Transparency Unit (TTU) that will examine anomalies in trade data that could be indicative of customs fraud and trade-based money laundering. This is also a positive step towards complying with FATF Special

Recommendation VI on Terrorist Financing via alternative remittance systems. Trade- based systems such as hawala often use fraudulent trade documents and over and under invoicing schemes to provide counter valuation in value transfer and settling accounts.

The GOA remains active in multilateral counternarcotics and international anti-money laundering organizations. It is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering, the FATF, and GAFISUD. The GOA is a party to the 1988 UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism, the Inter-American Convention on Terrorism, and the UN Convention against Transnational Organized Crime, and has signed but not yet ratified the UN Convention Against Corruption. Argentina has been a member of the Egmont Group since July 2003 and participates in the "3 Plus 1" Counter-Terrorism Dialogue between the United States and the Triborder Area countries (Argentina, Brazil and Paraguay). The UIF has signed memoranda of understanding regarding the exchange of information with a number of financial intelligence units, including Australia, Belgium, Bolivia, Brazil, Chile, Colombia, El Salvador, Guatemala, Honduras, Panama, Paraguay, Peru, Romania, Spain, and Venezuela. The GOA and the USG have a Mutual Legal Assistance Treaty that entered into force in 1993, and an extradition treaty that entered into force in 2000. With strengthened mechanisms available under the Law 25.246, the ratification of the UN International Convention for the Suppression of the Financing of Terrorism, and increased reporting requirements issued by the UIF, Argentina seems poised to prevent and combat money laundering effectively. However, several legislative and regulatory changes would significantly improve the anti-money laundering/counterterrorism finance regime in Argentina, particularly the passage of domestic legislation that criminalizes the financing of terrorism. To comply with the latest FATF recommendation on the regulation of bulk money transactions, Argentina also will need to review the legislation vetoed in 2003 to find a way to regulate such transactions consistent with its MERCOSUR obligations.

To comport with international standards established by the Financial Action Task Force to which Argentina, as a member of the FATF, is committed to honor, the Government of Argentina needs to amend its anti-money laundering legislation to state that any person who commits a crime and then launders the illicit proceeds of that crime is prosecuted for money laundering. The final passage of pending legislation should reduce disputes over information sharing between the UIF, the financial sector, the Central Bank, the tax agency (AFIP), and other regulatory agencies. In doing so, the Government of Argentina will need to balance the concerns of the UIF and judicial authorities for quick and efficient access to such information in aid of legitimate investigations of suspected money laundering, and the need to stringently protect that information from disclosure or use for other purposes, which remains a major concern of the financial sector. Other issues need to be resolved for anti-money laundering efforts to succeed. The lack of coordination and cooperation between GOA agencies, and the lack of a national strategy on money laundering that would link and coordinate GOA resources devoted to intelligence and to counternarcotics and anti-financial crime efforts hinders the separate efforts of the different agencies. There are also needs for forceful sanctioning of officials and institutions that fail to comply with the reporting requirements of the law, the pursuit of a training program for all levels of the criminal justice system, and the provision of the necessary resources to the UIF to carry out its mission. Additionally, there is a need for increased public awareness of the problem of money laundering and its connection to narcotics, corruption, and terrorism.

Aruba

Aruba is an autonomous, largely self-governing Caribbean island under the sovereignty of the Kingdom of the Netherlands. Due to its geographic location and excellent infrastructure Aruba is both attractive and vulnerable to money launderers and narcotics trafficking. Aruba has four commercial and two offshore banks, one mortgage bank, two credit unions, an investment bank, a finance

company, 11 credit institutions, and 11 casinos. The island also has six registered money transmitters, two exempted U.S. money transmitters (Money Gram and Western Union), eight life insurance companies, 14 general insurance companies, two captive insurance companies, and 11 company pension funds. As of November 30, 2004, there were 5,526 limited liability companies (NVs), of which 493 were offshore limited liability companies or offshore NVs. In addition, there are approximately 4,014 offshore tax-exempt companies referred to as Aruba Exempt Companies (AECs), which mainly serve as vehicles for tax minimization, corporate revenue routing, and asset protection and management.

The offshore NV and the AEC are the primary methods used for international tax planning in Aruba. The offshore NV pays a small percentage tax and is subject to more regulation than the AEC. The AEC is tax exempt as long as all business income arises outside of Aruba and as long as the company is not controlled directly or indirectly by Aruban residents. AECs cannot participate in the economy of Aruba; therefore, no transactions with onshore companies or residents are allowed. AECs are also exempt from several obligations including currency restrictions, filing of annual financial statements, and from disclosure of financial condition and beneficial owners. AECs pay an annual registration fee of approximately $280, and must have minimum authorized capital of approximately $6,000. Both offshore NVs and AECs can issue bearer shares. A local managing director is required for offshore NVs. AECs must have a local registered agent, which must be a trust company.

In 2001 the Government of Aruba (GOA) made a commitment to the Organization for Economic Cooperation and Development (OECD), in connection with the Harmful Tax Practices initiative, to modernize its fiscal legislation in line with OECD standards. In 2003 the GOA introduced a New Fiscal Regime (NFR) that contains a dividend tax and imputation credits. As a result of the introduction of the NFR, Aruba no longer has an offshore regime (grandfathered until 2007/2008). As of July 1, 2003, the incorporation of low tax offshore NVs was halted. The NFR contains a specific exemption for the AEC; nevertheless, commitments have been made to the OECD that the AEC will be amended before the end of 2005. The amendments will for the major part relate to transparency and the requirement of a yearly audited financial statement.

Aruba currently has three areas designated as free zones: Oranjestad Free Zone, Bushiri Free Zone, and the Barcadera Free Zone. The free zones of Aruba are managed and operated by Free Zone Aruba (FZA) NV, a government limited liability company. Originally, only companies involved in trade or light industrial activities (which include the servicing, repairing and maintenance of goods with a foreign destination) could be licensed to operate within the Free Zone. However, the State Ordinance Free Zones 2000 extended licensing to service-oriented companies (excluding financial services). Before admittance to operate in the free zone, companies must submit a business plan; submit personal data of managing directors, shareholders, and ultimate beneficiaries; and establish a limited liability company founded under Aruban law that is exclusively intended for free zone operations. Aruba took the initiative in the Caribbean Financial Action Task Force (CFATF) to develop regional standards for free zones, in an effort to control trade-based money laundering. The guidelines were adopted at the CFATF Ministerial Council in October 2001. Free Zone Aruba NV is continuing the process of implementing and auditing the standards that have been developed.

The Central Bank of Aruba is the supervisory/regulatory authority for credit institutions, insurance companies, company pension funds, and money transfer companies. The State Ordinance on the Supervision of Insurance Business (SOSIB) and the Implementation Ordinance on SOSIB brought insurance companies under the supervision of the Central Bank and require those established after July 1, 2001, to obtain a license from the Central Bank. The State Ordinance on the Supervision of Money-Transfer Companies became effective August 12, 2003, and places money transfer companies under the supervision of the Central Bank. Quarterly reporting requirements became effective in 2004. A State Ordinance on the supervision of trust companies, which will designate the Central Bank as the supervisory authority, is being drafted.

The anti-money laundering legislation in Aruba extends to all crimes, including tax offenses, in which the underlying offense must have a potential penalty of more than four years' imprisonment. All financial and non-financial institutions are obligated to report suspicious transactions to Aruba's financial intelligence unit, the Meldpunt Ongebruikelijke Transacties (MOT). On July 1, 2001, a State Ordinance was issued that extends reporting and identification requirements to casinos and insurance companies. The MOT is authorized to inspect all banks, money remitters, casinos, insurance companies, and brokers for compliance with the unusual reporting requirements and the identification requirements for financial transactions.

The MOT is staffed by 12 employees. In 2004, the MOT received 7,460 suspicious transaction reports (STRs) with 87 investigations conducted and 27 cases transferred to the appropriate authorities. For 2005, the MOT received 6,956 STRs with 60 investigations conducted, 27 cases transferred, and 10 cases still to be worked. In June 2000, Aruba enacted a State Ordinance making it a legal requirement to report the importation and exportation via harbor and airport of currency in excess of 20,000 Aruban guilders (approximately $11,000) to the Customs Department. The law also applies to express courier mail services. Reports generated are forwarded to the MOT to review. In 2005 approximately 872 reports were submitted to the MOT.

The MOT shares information with other national government departments. On April 2, 2003, the MOT signed an information exchange agreement with the Aruba Tax Office, which is in effect and being implemented. Recently, the MOT and the Central Bank signed an information exchange memorandum of understanding (MOU) that is effective January 2006. The MOT is not linked electronically to the police or prosecutor's office. The MOT is a member of the Egmont Group, and is authorized by law to share information with members of the Egmont Group through a memorandum of understanding. The United States and the MOT signed such an MOU in November 2005.

Aruba signed a multilateral directive with Colombia, Panama, the United States, and Venezuela to establish an international working group to fight money laundering that occurs through the Black Market Peso Exchange (BMPE). The final set of recommendations on the BMPE was signed on March 14, 2002. The working group developed policy options and recommendations to enforce actions that will prevent, detect, and prosecute money laundering through the BMPE. The GOA is in the process of implementing the recommendations.

Aruba participates in the FATF through the Netherlands, and therefore, participates in the FATF mutual evaluation program. The GOA has a local FATF committee, comprised of officials from different departments of the Aruban Government that work together under the leadership of the MOT, to oversee the implementation of the FATF recommendations. The local FATF committee reviewed the GOA anti-money laundering legislation and proposed, in accordance with the nine FATF Special Recommendations on Terrorist Financing, amendments to existing legislation, and introduction of new laws. In 2004, the Penal Code of Aruba was modified to criminalize terrorism, the financing of terrorism, and related criminal acts. Aruba is in compliance with seven of the nine FATF Special Recommendations. Aruba will introduce the Sanctions Ordinance to become fully compliant with the Special Recommendations. The GOA and the Netherlands formed a separate committee in 2004 to ensure cooperation of agencies within the Kingdom of the Netherlands in the fight against cross-border organized crime and international terrorism.

Aruba is a member of CFATF and served as its Chairman in 2001. In 1999, the Netherlands extended application of the 1988 UN Drug Convention to Aruba. The Mutual Legal Assistance Treaty between the Netherlands and the United States applies to Aruba, though it is not applicable to requests for assistance relating to fiscal offenses addressed to Aruba. The Tax Information Exchange Agreement with the United States signed in November 2003 became effective in September 2004.

The Government of Aruba has shown a commitment to combating money laundering by establishing a solid anti-money laundering regime that is generally consistent with the recommendations of the

FATF and the CFATF. Aruba should immobilize bearer shares under its fiscal framework and should enact its long-pending ordinance addressing the supervision of trust companies.

Australia

Australia is one of the major centers for capital markets in the Asia-Pacific region. Annual turnover across Australia's over-the-counter and exchange-traded financial markets was AUD82 trillion (approximately $61.50 trillion) in 2005. Australia's total stock market capitalization is over $500 billion (approximately $375 billon), making it the ninth largest market in the world, and the second largest in the Asia-Pacific region behind Japan. Australia's foreign exchange market is ranked seventh in the world by turnover; with the U.S. dollar and the Australian dollar the fourth most actively traded currency pair globally. While narcotics offences provide a substantial source of proceeds of crime, the majority of illegal proceeds are derived from fraud-related offences. One Australian Government estimate suggested that the amount of money laundered in Australia ranges between AUD2-3 billion (approximately $1.5-$2,25 billion) per year.

The Government of Australia (GOA) has maintained a comprehensive system to detect, prevent, and prosecute money laundering. The major sources of illegal proceeds are fraud and drug trafficking. The last three years have seen a noticeable increase in activities investigated by Australian law enforcement agencies that relate directly to offenses committed overseas. Australia's system has evolved over time to address new money laundering and terrorist financing risks identified through continuous consultation between government agencies and the private sector.

In March 2005, the Financial Action Task Force (FATF) conducted its on-site Mutual Evaluation (FATFME) of Australia's anti-money laundering/counterterrorism financing (AML/CTF) system. Australia is one of the first member countries to be evaluated under FATF's revised recommendations. The FATF's findings from the mutual evaluation of Australia were published in October 2005 and Australia was found to be compliant or largely complaint with just over half of the FATF Recommendations. The FATFME noted that although Australia "has a comprehensive money laundering offense… the low number of prosecutions …indicates…that the regime is not being effectively implemented".

In response, the GOA has committed to reforming Australia's AML/CTF system to implement the revised FATF Forty plus Nine recommendations. The Attorney General's Department (AGD) is coordinating this process, which is expected to significantly reshape Australia's current AML/CTF regime in line with current international best practices. In December 2003, the Australian Government confirmed its intention to implement the revised FATF standards and an extensive process of consultation with industry has been underway since then.

Australia criminalized money laundering related to serious crimes with the enactment of the Proceeds of Crime Act 1987. This legislation also contained provisions to assist investigations and prosecution in the form of production orders, search warrants, and monitoring orders. It was superseded by two acts that came into force on January 1, 2003 (although proceedings that began prior to that date under the 1987 law will continue under that law). The Proceeds of Crime Act 2002 provides for civil forfeiture of proceeds of crime as well as for continuing and strengthening the existing conviction-based forfeiture scheme that was in the Proceeds of Crime Act 1987. The Proceeds of Crime Act 2002 also enables freezing and confiscation of property used in, intended to be used in, or derived from, terrorism offenses. It is intended to implement obligations under the UN International Convention for the Suppression of the Financing of Terrorism and resolutions of the UN Security Council relevant to the seizure of terrorism-related property. The Act also provides for forfeiture of literary proceeds where these have been derived by a person from commercial exploitation by the person of notoriety gained from committing a criminal offense.

The Proceeds of Crime (Consequential Amendments and Transitional Provisions) Act 2002 (POCA 2002), repealed the money laundering offenses that had previously been in the Proceeds of Crime Act 1987 and replaced them with updated offenses that have been inserted into the Criminal Code. The new offenses are graded according both to the level of knowledge required of the offender and the value of the property involved in the activity constituting the laundering. As a matter of policy all very serious offenses are now gradually being placed in the Criminal Code. POCA 2002 also enables the prosecutor to apply for the restraint and forfeiture of property from proceeds of crime. POCA 2002 further creates a national confiscated assets account from which, among other things, various law enforcement and crime prevention programs may be funded. Recovered proceeds can be transferred to other governments through equitable sharing arrangements. It also authorizes the seizure and forfeiture of property used in, intended to be used in, or derived from, terrorist offenses. It is intended to implement obligations relating to property that arise under the UN International Convention for the Suppression of the Financing of Terrorism.

Underneath the framework of offenses, the Financial Transaction Reports Act (FTR Act) of 1988 was enacted to combat tax evasion, money laundering, and serious crimes. The FTR Act requires banks and non-banking financial entities (collectively referred to as cash dealers) to verify the identities of all account holders and signatories to accounts, and to retain the identification record, or a copy of it, for seven years after the day on which the relevant account is closed. A cash dealer, or an officer, employee, or agent of a cash dealer, is protected against any action, suit, or proceeding in relation to the reporting process. The FTR Act also establishes reporting requirements for Australia's financial services sector. Required to be reported are: suspicious transactions, cash transactions in excess of Australian $10,000 (approximately $7,500), and all international funds transfers into or out of Australia, regardless of value. The FTR Act also obliges any person causing an international movement of currency of Australian $10,000 (or a foreign currency equivalent) or more, into or out of Australia, either in person, as a passenger, by post or courier to make a report of that transfer.

FTR Act reporting also applies to non-bank financial institutions such as money exchangers, money remitters, stockbrokers, casinos and other gambling institutions, bookmakers, insurance companies, insurance intermediaries, finance companies, finance intermediaries, trustees or managers of unit trusts; issuers, sellers, and redeemers of travelers checks, bullion sellers, and other financial services licensees. Solicitors (lawyers) also are required to report significant cash transactions. Accountants do not have any FTR Act obligations. However, they do have an obligation under a self-regulatory industry standard not to be involved in money laundering transactions.

The FTR Act established the Australian Transaction Reports Analysis Centre (AUSTRAC). Australia's financial intelligence unit (FIU). AUSTRAC collects, retains, compiles, analyzes, and disseminates FTR information. AUSTRAC is Australia's AML/CTF regulator, ensuring compliance with the FTR ACT.AUSTRAC also provides advice and assistance to revenue collection and law enforcement agencies, and issues guidelines to cash dealers in terms of their obligations under the FTR Act and regulations. As such, AUSTRAC plays a central role in Australia's AML system both domestically and internationally. Between 2004 and 2005, AUSTRAC's FTR information was used in 2,224 investigations. Of these, 578 matters identified FTR information as being very valuable to investigation outcomes. Results from the Australian Taxation Office shows that the FTR information contributed to more that AUD61.65 million (approximately $45 million) in Australian Taxation Office assessments during the year. By November 2005, AUSTRAC received a total of 12,575,531 financial transaction reports, with 99.5 percent of the reports submitted electronically through the EDDS Web system. AUSTRAC received 17,212 suspect transaction reports (SUSTRs), an increase of 49.9 percent from the precious year.

In 2005, there was a significant increase in the total number of financial transaction reports received by AUSTRAC. Significant cash transactions reports (SCTRs) account for 18 percent of the total number of FTRs reported to AUSTRAC each year and are reported by cash dealers and solicitors. In

2005, AUSTRAC received 2,288,373 SCTRs, an increase of 11.3 percent from the previous year. Cash dealers are required to report all international funds transfer instructions (IFTIs) to AUSTRAC. Cash deakers reported 10,243,774 IFTIs to AUSTRAC—a 17.9 percent increase from 2004. The remittances generated 1,229,592 IFTI reports—a 76 percent increase in number from the previous year. International currency transfer reports (ICTR) are primarily declared to the Australian Customs Service by individuals when they enter or depart from Australia. AUSTRAC received 26,172 ICTRs—a 2.3 percent increase from the previous year. In April 2005, the Minister for Justice and Customs launched AUSTRAC's AML eLearning application. This application has been well received by cash dealers as a tool in providing basic education on the process of money laundering, the financing of terrorism, and the role of AUSTRAC in identifying and assisting investigations of these crimes

AUSTRAC expanded its involvement in the fight against financial crimes by signing agreements for using AUSTRAC's financial transaction data with Centrelink (an Australian public assistance agency) and the Child Support Agency in an effort to reduce welfare fraud and related criminal conduct. The information available to Centrelink officers will relate specifically to significant cash transaction reports, international currency transfer reports, suspect transaction reports, and international funds transfer instructions.

APRA is the prudential supervisor of Australia's financial services sector. AUSTRAC regulates anti-money laundering/counterterrorist financing (AML/CTF) compliance. AUSTRAC's powers include criminal, but not administrative sanctions for non-compliance. AUSTRAC has conducted very few compliance audits in recent years and places a great deal of emphasis on educating and continuously engaging the private sector regarding the evolution of AML/CTF regime and the attendant reporting requirements. The FATFME noted that a comprehensive system for AML/CTF compliance for the entire financial sector needed to be established by the GOA, as does an administrative penalty regime for AML/CTF non-compliance.

In June 2002, Australia passed the Suppression of the Financing of Terrorism Act 2002 (SFT Act). The aim of the SFT Act is to restrict the financial resources available to support the activities of terrorist organizations. This legislation criminalizes terrorist financing and substantially increases the penalties that apply when a person uses or deals with suspected terrorist assets that are subject to freezing. The SFT Act enhances the collection and use of financial intelligence by requiring cash dealers to report suspected terrorist financing transactions to AUSTRAC, and relaxes restrictions on information sharing with relevant authorities regarding the aforementioned transactions. The SFT Act also addresses commitments Australia has made with regard to the UNSCR 1373 and is intended to implement the UN International Convention for the Suppression of the Financing of Terrorism. Under this Act three accounts related to an entity listed on the UNSCR 1267 Sanction Committee's consolidated list, the International Sikh Youth Federation, were frozen in September 2002. There have been no arrests or prosecutions under this legislation. The Security Legislation Amendment (Terrorism) Act 2002, also inserted new criminal offenses in the Criminal Code for receiving funds from, or making funds available to, a terrorist organization

The Anti-Terrorism Act (No.2) 2005 (AT Act) recently amended offenses related to the funding of a terrorist organization in the Criminal Code so that they also cover the collection of funds for or on behalf of a terrorist organization. The AT Act also inserted a new offense of financing a terrorist. The SFT Act amendments to the FTR Act were a significant milestone in the enhancement of AUSTRAC's international efforts. These amendments gave the Director of AUSTRAC the right to establish agreements with international counterparts to directly exchange intelligence, spontaneously and upon request. A review of the FTR Act is currently being undertaken to improve procedures, implement international best practices, and address further aspects of terrorist financing, including alternative remittance systems.

Investigations of money laundering reside with the Australian Federal Police (AFP) and Australian Crime Commission (Australia's only national multi- jurisdictional law enforcement agency). The AFP is the primary law enforcement agency for the investigation of money-laundering and terrorist-financing offences in Australia at the Commonwealth level and has both a dedicated Financial Crimes Unit and Financial Investigative Teams (FIT) consisting of 44 members with primary responsibility for asset identification/restraint and forfeiture under the POCA 2002. The Commonwealth Director of Public Prosecutions (CDPP) prosecutes offences against Commonwealth law and to recover proceeds of Commonwealth crime. The main cases prosecuted by the CDPP involve drug importation and money laundering offences. No convictions for money laundering have been reported for 2005.

In April 2003, the AFP established a Counter Terrorism Division to undertake intelligence-led investigations to prevent and disrupt terrorist acts. Eleven Joint Counter Terrorism Teams (JCTT), including investigators and analysts with financial investigation skills and experience, are conducting a number of investigations specifically into suspected terrorist financing in Australia. The AFP also works closely with overseas counterparts in the investigation of terrorist financing, and has worked closely with the FBI on matters relating to terrorist financing structures in South East Asia.

A draft AML/CTF Bill developed by the AGD and a package of draft AML/CTF Rules, developed by AUSTRAC, have recently been released for public comment. The package of draft legislation and rules will form the basis of further consultations on proposed enhancements to current customer due diligence, reporting and record keeping obligations, and deficiencies in regulatory coverage identified in Australia's FATF Mutual Evaluation Report. The consultation package represents a first tranche of reforms, which would apply to financial services, including when provided by professionals such as lawyers and accountants, gambling services and bullion sellers. Businesses providing these designated services would be required to, amongst other obligations, verify the identity of customers, report suspicious matters, keep appropriate records, and maintain rigorous internal AML/CTF Programs.

The release of the draft bill and AML/CTF Rules followed the passing of interim legislation in the form of Anti-Terrorism Act (No 2) 2005 (AT Act). The AT Act contains a range of measures to improve Australia's compliance with the FATF Special Recommendations on Terrorist Financing VI, VII and IX:

- Special Recommendation VI-providers of remittance services (including alternative remittance dealers) will be required to register with AUSTRAC.
- Special Recommendation VII-businesses that send international funds transfers on behalf of customers will be required to include customer information with the funds transfer instructions.
- Special Recommendation IX-travelers will be required to declare bearer negotiable instruments (e.g., travelers checks) that they are bringing into or taking out of Australia, at the request of a Customs or police officer.

The Australian Government will consider a second tranche of reforms, extending to real estate agents, jewelers, and specified non-financial legal and accounting services once the first tranche of AML/CTF reforms are implemented. The proposed legislative framework provides scope for operational detail to be settled in AML/CTF Rules, which will be developed by (AUSTRAC) in consultation with industry.

Australia is a party to the 1988 UN Drug Convention, the UN Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime and its protocol on migrant smuggling. In September, 1999, a Mutual Legal Assistance Treaty between Australia and the United States entered into force. Australia participates actively in a range of international fora including the Financial Action Task Force, a member of the Pacific Islands Forum, and the Commonwealth Secretariat. Through its funding and hosting of the Secretariat of the Asia/Pacific Group on Money Laundering, of which it serves as permanent co-chair, the GOA has

elevated money laundering and terrorist financing issues to a priority concern among countries in the Asia/Pacific region. AUSTRAC is an active member of the Egmont Group of Financial Intelligence Units. AUSTRAC has signed Memoranda of understanding (MOUs) allowing the exchange of financial intelligence with FinCEN and the FIUs of 40 other countries.

Following the bombings in Bali in October 2002, the Australian Government announced an ADOL AUD 10 million (approximately $7.5 million) initiative managed by AusAID, to assist in the development of counterterrorism capabilities in Indonesia. As part of this initiative, the AFP has established a number of training centers such as the Joint Centre for Law Enforcement Cooperation. As part of Australia's broader regional assistance initiatives, AUSTRAC has embarked on a long-term technical assistance program to help Indonesia in developing an effective Financial Intelligence Unit (FIU). AUSTRAC is exploring similar assistance to other regional FIUs, with AUD 7.8 million (approximately $5,85 million) in funding over the next four years under the Southeast Asia Counter-Terrorism Technical Assistance and Training Package. AUSTRAC has provided training and other technical assistance to developing FIUs in Southeast Asia, including the Philippine FIU and regional training provided by AUSTRAC through the Malaysian Government's South East Asian Regional Centre for Counter Terrorism. In the Pacific region, AUSTRAC has developed and provided unique software to six nascent Pacific island FIUs to fulfill their domestic obligations and share information with foreign analogs. The AGD received a grant of AUD 7.7 million (approximately $5.75) to develop an a four year program AML/CTF regimes for the Pacific island jurisdictions. The AGD's program will work cooperatively with the U.S. Department of State funded Pacific Islands Anti-Money Laundering Program (PAPL). The PALP, projected to be a four-year program, will be managed by the Pacific Islands Forum (PIF) and will employ residential mentors to develop or enhance existing AML/CTF regimes in the fourteen non-FATF member states of the PIF.

Simultaneously, the GOA continues to pursue a comprehensive, anti-money laundering/counterterrorist financing regime to meets the objectives of the revised FATF Forty Recommendations and Nine Special Recommendations on Terrorist Financing. To enhance its AML regime, as noted in FATFME, AUSTRAC should conduct more on-site compliance audits and be enabled to levy administrative sanctions for non-compliance with AML/CTF laws and regulations. Additionally, the GOA should consider coordinating all regulatory agencies of its financial, securities and insurance sectors. It should also continue its exemplary leadership role in emphasizing money laundering/terrorist finance issues and trends within the Asia/Pacific region and its commitment to providing training and technical assistance to the jurisdictions in that region.

Austria

Austria is not an important regional financial center, offshore tax haven, or banking center. There is no hard evidence that Austria is a major money laundering country; however, like any highly developed financial marketplace, Austria's financial and non-financial institutions are vulnerable to money laundering. The Austrian Interior Ministry's crime statistics show mixed developments regarding financial crime in Austria in 2004, with a significant increase in serious fraud. The percentage of undetected organized crime is believed to be enormous, with much of it coming from the former Soviet Union. Organized crime is involved in money laundering in connection with narcotics trafficking and trafficking in persons, but apparently not in connection with contraband smuggling.

Money laundering occurs within the Austrian banking system as well as in non-bank financial institutions and businesses. Many of the former-Soviet crime groups are trying to launder money in Austria by investing in real estate, exploiting existing business contacts, and trying to establish new contacts in politics and business. Criminal groups seem increasingly to use money transmitters and informal money transfer systems to launder money. The Internet and offshore companies also play an important role in such crime.

Austria criminalized money laundering in 1993. Predicate crimes are listed and include terrorist financing and many financial and other serious crimes. Regulations are stricter for money laundering by criminal organizations and terrorist "groupings," because in such cases no proof is required that the money stems directly or indirectly from prior offenses.

Amendments to the Customs Procedures Act and the Tax Crimes Act, effective May 1, 2004, address the problem of cash couriers and international transportation of illegal-source currency and monetary instruments. Austrian customs authorities do not automatically screen all persons entering Austria for cash or monetary instruments. However, if asked, anyone carrying more than 15,000 euros (approximately $17,800) must declare the funds and provide information on their source and use. Spot checks for currency at border crossings will continue. Customs has authority to seize suspect cash at the border.

In implementing the new EU regulation on controls of cash entering or leaving the Community, the Government of Austria (GOA) in 2006 plans to amend the Customs Procedures Act and the Tax Crimes Act to introduce a declaration obligation for anyone carrying cash of 10,000 euros (approximately $12,000) or more.

Adoption of the Banking Act of 1994 creates customer identification, record keeping, and staff training obligations for the financial sector. Entities subject to the Banking Act include banks, leasing and exchange businesses, safe custody services, and portfolio advisers. The Insurance Act of 1997 includes similar regulations for insurance companies underwriting life policies. The Banking Act requires identification of all customers when entering an ongoing business relationship, i.e., in all cases of opening a checking account, a passbook savings account, a securities deposit account, etc. In addition, customer identification is required for all transactions of more than 15,000 euros for customers without a permanent business relationship with the bank. Banks and other financial institutions are required to keep records on customers and account owners. Bankers are protected with respect to their cooperation with law enforcement agencies. They are also not liable for damage claims resulting from delays in completing suspicious transactions. There is no requirement for banks to report large currency transactions, unless they are suspicious. The Austrian Financial Intelligence Unit (AFIU) is, however, providing information to banks to raise awareness of large cash transactions.

Since October 2003, financial institutions have adopted tighter identification procedures, requiring all customers appearing in person to present an official photo identification card. These procedures also apply to trustees of accounts, who are now required to disclose the identity of the account beneficiary. However, the procedures still allow customers to carry out non-face-to-face transactions, including Internet banking, on the basis of a copy of a picture identification card.

Some years ago the Financial Action Task Force (FATF) and the European Union (EU) criticized the GOA for permitting anonymous numbered passbook savings accounts. The Austrians temporarily "grandfathered" existing accounts, but they have now nearly all been closed. Since 2000, new passbook savings accounts and deposits to existing accounts require customer identification.

The Banking Act includes a due diligence obligation, and individual bankers are held legally responsible if their institutions launder money. In addition, banks have signed a voluntary agreement to prohibit active support of capital flight. On November 26, 2001, the Federal Economic Chamber's Banking and Insurance Department, in cooperation with all banking and insurance associations, published an official Declaration of the Austrian Banking and Insurance Industries to Prevent Financial Transactions in Connection with Terrorism.

The 2003 Amendments to the Austrian Gambling Act, the Business Code, and the Austrian laws governing lawyers, notaries, and accounting professionals, introduced money laundering regulations regarding identification, record keeping, and reporting of suspicious transactions for dealers in high-

value goods such as precious stones or metals, or works of art, auctioneers, real estate agents, casinos, lawyers, notaries, certified public accountants, and auditors.

Since 2002, the AFIU, the central repository of suspicious transaction reports, has been a section of the Austrian Interior Ministry's Bundeskriminalamt (Federal Criminal Intelligence Service). During the first eleven months of 2005, the AFIU received 372 suspicious transaction reports from banks, and fielded 417 requests for information from Interpol, Europol, the Egmont Group, and other authorities. This represents an increase from the 373 suspicious transactions (349 of them from banks) reported in 2004, which led to five convictions for money laundering. Criminals are often convicted for other crimes, however, with money laundering serving as additional grounds for conviction.

Legislation implemented in 1996 allows for asset seizure and the forfeiture of illegal proceeds. The banking sector generally cooperates with law enforcement efforts to trace funds and seize illicit assets. The distinction between civil and criminal forfeiture in Austria is different from that in the U.S. legal system. However, Austria has regulations in the Code of Criminal Procedure that are similar to civil forfeiture, which is a form of forfeiture through an independent procedure. Courts may freeze assets in the early stages of an investigation. While in previous years there had been little evidence of enforcement, as law enforcement units tend to be understaffed, in the first eleven months of 2005, Austrian courts froze assets worth 98.3 million euros (approximately $117 million), nearly four times as much as the 25.4 euros (approximately $29.8 million) seized in the equivalent period of 2004.

The amended Extradition and Judicial Assistance Law provides for expedited extradition, expanded judicial assistance, and acceptance of foreign investigative findings in the course of criminal investigations, as well as enforcement of foreign court decisions. Austria has strict banking secrecy regulations, though bank secrecy can be lifted for cases of suspected money laundering. Moreover, bank secrecy does not apply in cases when banks and other financial institutions are required to report suspected money laundering. Such cases are subject to instructions of the authorities (i.e., AFIU) with regard to processing such transactions.

The Criminal Code Amendment 2002, effective October 1, 2002, introduced the following new criminal offense categories: terrorist "grouping," terrorist criminal activities, and financing of terrorism. "Financing of terrorism" is defined as a separate criminal offense category in the Criminal Code, punishable in its own right. Terrorism financing is also included in the list of criminal offenses subject to domestic jurisdiction and punishment, regardless of the laws where the act occurred. Further, the money laundering offense is expanded to terrorist "groupings." The law also gives the judicial system the authority to identify, freeze, and seize terrorist financial assets. With regard to terrorist financing, forfeiture regulations cover funds collected or held available for terrorist financing, and permit freezing and forfeiture of all assets that are in Austria, regardless of the place of the crime and the whereabouts of the criminal.

The Austrian authorities have circulated to all financial institutions the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224.or designated by the EU. According to the Ministry of Justice and the AFIU, no accounts found in Austria ultimately showed any links to terrorist financing. After September 11, 2001, the AFIU froze several accounts on an interim basis, but in the course of trying to establish evidence, only two accounts were designated for seizure. Both later turned out to be cases of mistaken identity.

During the first 11 months of 2005, the AFIU and a sister agency received 24 reports on suspected terrorism financing transaction reports, of which 15 were from banks, 7 from foreign authorities, and 2 from domestic. No assets were frozen. The increase from the 14 suspicious transactions in 2004 is due to improved control mechanisms in banks and better international cooperation. None of the 2004 reports resulted in a conviction—with many cases being due to mistaken identity.

Since January 1, 2004, money remittance businesses require a banking license from the Financial Market Authority (FMA) and are subject to supervision. Informal remittance systems like hawala exist in Austria, but are subject to administrative fines for carrying out banking business without a license.

The GOA has undertaken important efforts that may help thwart the misuse of charitable and/or non-profit entities as conduits for terrorist financing. A new law on responsibility of associations, effective January 1, 2006, introduces criminal responsibility for all legal entities, general and limited commercial partnerships, registered partnerships, and Europe economic interest groupings. The law covers all crimes listed in the criminal code, including corruption, money laundering, and terrorist financing. The earlier law on associations (Vereinsgesetz, published in Federal Law Gazette No. I/66 of April 26, 2002) came into force on July 1, 2002, and covers charities and all other nonprofit associations in Austria (including religious associations, sports clubs, etc.). This law is similar to its predecessor, but it calls for record keeping and auditing on the part of non-profit entities. The 2002 Vereinsgesetz regulates the establishment of associations, bylaws, organization, management, association register, appointment of auditors, and detailed accounting requirements. The Ministry of Interior's responsibility is limited to approving the establishment of associations, regardless of the purpose of the association, unless it violates legal regulations.

There are no regular or routine checks made on associations established in Austria. Only in case of complaints does the Interior Ministry start investigations and, in case of serious violations of laws, it may officially prohibit the association from operating. Reportedly, the GOA has generally implemented the FATF's Special Recommendations on Terrorist Financing, except for certain aspects of the recommendation regarding non-profit organizations.

Adoption of the new EU regulation on wire transfers is imminent. The European Commission hopes the regulation will enter into force on January 1, 2007, at which time it will be immediately and directly applicable in Austria. In 2006 the GOA will start working on domestic implementation of the EU's third money laundering directive (Directive 2005/60/EC on the Prevention of the Use of the Financial System for the Purpose of Money Laundering and Terrorist Financing), which involves a number of legal changes, including of the Banking Act, Insurance Act, Gambling Act, Business Code, and several other laws. During Austria's EU presidency in the first half of 2006, the GOA in various EU committees and bodies will also work to implement guidelines for the third money laundering directive, proceed with implementing the FATF's Special Recommendation Seven on Wire-Transfers, host a workshop on a code of conduct for non-profit organizations, and, together with the U.S. Government, host another workshop on terrorist financing.

Austria has not enacted legislation that provides for sharing forfeited narcotics-related assets with other governments. However, mutual legal assistance treaties (MLATs) can be used as an alternative vehicle to achieve equitable distribution of forfeited assets. Ratification of bilateral protocols to update the bilateral MLAT, which has been in force since August 1, 1998, and the bilateral extradition treaty, which has been in force since January 1, 2000, and bring them in line with the twin U.S.-EU agreements on extradition and mutual legal assistance, is underway. In addition to the exchange of information with home country supervisors permitted within the EU, Austria has defined this information exchange more precisely in agreements with nine other EU members (France, Germany, Italy, Netherlands, United Kingdom, the Czech Republic, Hungary, Slovakia, and Slovenia).

The International Monetary Fund's spring 2004 Financial System Stability Assessment (FSAP) stated that Austria has made significant progress in the past few years in bringing its anti-money laundering and counterterrorism financing regime into compliance with international standards. The FSAP notes that the overall legal and institutional framework currently in place is comprehensive and that Austria has achieved a good level of compliance with the FATF Recommendations. The FMA has created an internal Task Force on Money Laundering, and in following up on suggestions for further

improvements, started to publish on its homepage circulars with additional guidance for banks and other financial institutions on fighting money laundering and terrorist financing.

Austria is a party to the 1988 UN Drug Convention and the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime. Austria ratified the UN Convention against Transnational Organized Crime on September 23, 2004, and the UN International Convention for the Suppression of the Financing of Terrorism on April 15, 2002. Austria is a party to the UN Convention against Corruption. Austria is a member of the FATF and the EU. The AFIU is a member of the Egmont Group.

The Government of Austria has criminalized money laundering for all serious crime, and passed additional legislation necessary to construct a viable anti-money laundering regime. Austria is generally cooperative with U.S. authorities in money laundering cases. But some improvements could still be made. There remains a need for identification procedures for customers in non-face-to-face banking transactions. The criminal code should be amended to penalize negligence in reporting money laundering and terrorist financing transactions. The AFIU and law enforcement should be provided with sufficient resources to adequately perform their functions. AFIU and other government personnel should be protected against damage claims because of delays in completing suspicious transactions. Additionally, Austria should adequately regulate its charitable and non-profit entities to reduce their vulnerability to misuse by criminal and terrorist organizations and their supporters.

Bahamas

The Commonwealth of the Bahamas is an important regional and offshore financial center. Second to tourism, the economy depends on its financial services sector. Financial services account for approximately 15 percent of the gross domestic product. The U.S. dollar circulates freely in the Bahamas, and is accepted everywhere on par with the Bahamian dollar. Money laundering in the Bahamas is related to financial fraud and the proceeds of drug trafficking. Illicit proceeds from drug trafficking usually take the form of cash or are quickly converted into cash. The strengthening of anti-money laundering laws has made it increasingly difficult for most drug traffickers to deposit large sums of cash. As a result, a new trend has developed of storing extremely large quantities of cash in security vaults at properties deemed to be safe houses. Other money laundering trends include the purchase of real estate, large vehicles, and jewelry, and the processing of money through a complex national or international web of legitimate businesses and shell companies.

The Bahamas has two 24 hour casinos in Nassau and one in Freeport/Lucaya, with a fourth scheduled to open in 2006. Cruise ships that overnight in Nassau may operate casinos. Reportedly, there are over ten Internet gaming sites based in the Bahamas, although none are licensed with Bahamian authorities. Under Bahamian law, Bahamian residents are prohibited from gambling.

The Central Bank of the Bahamas is responsible for the licensing, regulation, and supervision of banks and trust companies operating in and from within the Bahamas. The Central Bank Act 2000 (CBA) and The Banks and Trust Companies Regulatory Act 2000 (BTCRA) enhanced the supervisory powers of the Central Bank. The CBA gives the Central Bank extensive information gathering powers including on-site inspection of banks and provides for enhanced cooperation between overseas regulatory authorities and the Central Bank. The BTCRA expands the licensing criteria for banks and trust companies, enhances the supervisory powers of the Inspector of Banks and Trust Companies, and enhances the role of the Central Bank's Governor including the right to deny licenses to banks or trust companies he/she deems unfit to transact business in the Bahamas. In 2001, The Central Bank enacted a physical presence requirement that means "managed banks" (those without a physical presence but which are represented by an agent such as a lawyer or another bank) must either establish a physical presence in the Bahamas (an office, separate communications links, and a resident director) or cease operations. The transition to full physical presence was largely complete for all affected banks and

trust companies by the end of 2004. The physical presence requirement is thought to have led to a gradual decline in banks and trusts from 301 in 2003 to 253 in 2005.

The International Business Companies Act 2000 and 2001 (Amendments) enacted provisions that abolish bearer shares, require international business companies (IBCs) to maintain a registered office in the Bahamas, and require a copy of the Register of the names and addresses of the Directors and Officers and a copy of the Shareholders Register to be kept at the registered office. A copy of the Register of Directors and Officers must also be filed with the Registrar General's office. Only banks and trust companies licensed under the BTCRA and financial and corporate service providers licensed under the Financial Corporate Service Providers Act (FCSPA) may provide registration, management, administration, registered agent, registered office, nominee shareholders, and officers and directors for IBCs.

The Financial Transaction Reporting Act 2000 (FTRA) requires financial institutions (such as banks and trusts, insurance companies, real estate brokers, casino operators, and others which hold or administer accounts for clients) to verify the identity of account holders, and to report suspicious transactions (STRs) to the FIU and the police. The FTRA also establishes "know your customer" (KYC) requirements. By December 31, 2001, financial institutions were obliged to verify the identities of all their existing account holders and of customers without an account who conduct transactions over $10,000. All new accounts established in 2001 or later have to be in compliance with KYC rules before they are opened. As of September 2005, the Central Bank reports greater than 95 percent compliance with KYC requirements. KYC requirements initially caused complaints by Bahamians who were unable to produce adequate documentation when attempting to open accounts in domestic banks. (The absence of house numbers on most Bahamian streets, the prevailing practice of utility companies' issuing bills only in the name of landlords rather than tenants, and the scarcity of photo identification among Bahamians contribute to these documentation problems.) In October 2002, the Minister of Financial Services and Investments lamented that the rigid, overly prescriptive requirements of the KYC rules had caused financial institutions to harass longstanding, well-known clients for documents, and observed that those rules had been applied to accounts of low-risk customers, including pensioners, whose opportunities for money laundering were minimal. The Government of the Commonwealth of the Bahamas (GCOB) declined banking officials' recommendations to apply a risk-based approach to "grandfather" Bahamas-based accounts considered to be in compliance, and instead extended the compliance deadline to June 2006.

Established by the FIU Act 2000, the Bahamas FIU operates as an autonomous body under the Office of the Attorney General. The FIU is the responsible agency for receiving, analyzing, and disseminating suspicious transaction reports (STRs). The FIU has the administrative power to issue an injunction to stop anyone from completing a transaction for a period of up to three days upon receipt of an STR. From January to May 2005, the FIU received 67 STRs of which 55 were being analyzed, and 8 were forwarded to the police for investigation. The Bahamas FIU has signed several memoranda of understanding with other FIUs for the exchange of information. As a result of the Financial Intelligence Unit (Amendment) Act 2001, the FIU is able to cooperate and assist foreign FIUs. The FIU became a member of the Egmont Group in 2001.

The eight-member Tracing and Forfeiture/Money Laundering Investigation Section of the Drug Enforcement Unit of the RBPF is the primary financial law enforcement agency in the Bahamas, with the responsibility for investigating STRs received from the FIU, all reports of money laundering received from law enforcement agencies or the public, and matters of large cash seizures. It also investigates local drug-traffickers and other serious crime offenders, to determine whether they benefited from their criminal conduct. As a matter of law, the GCOB seizes assets derived from international drug trade and money laundering. Over the years, joint U.S./GCOB investigations have resulted in the seizure of cash, vehicles and boats. The seized items are in the custody of the GCOB. Some are in the process of confiscation while some remain uncontested.

The Bahamas has a Mutual Legal Assistance Treaty with the United States, which entered into force in 1990, and agreements with the United Kingdom and Canada. The Attorney General's Office for International Affairs manages multilateral information exchange requests. In December 2004, the Bahamas signed an agreement for future information exchange with the U.S. Securities and Exchange Commission to ensure that requests can be completed in an efficient and timely manner.

In November 2004, the Anti-Terrorism Act was passed to implement the provisions of the UN International Convention for the Suppression of the Financing of Terrorism. In addition to formally criminalizing terrorism and making it a predicate crime for money laundering, the law provides for the seizure and confiscation of terrorist assets, reporting of suspicious transactions related to terrorist financing, and strengthening of existing mechanisms for international cooperation. The Bahamas also ratified the UN International Convention for the Suppression of the Financing of Terrorism on November 1, 2005. The Bahamas signed, but has not yet ratified, the UN Convention against Transnational Organized Crime. The Bahamas is a party to the 1988 UN Drug Convention. The Bahamas is a member of the Caribbean Financial Action Task Force and was Chair in 2003.

The GCOB has enacted substantial reforms that could reduce its financial sector's vulnerability to money laundering; however, it must steadfastly and effectively implement those reforms. The Bahamas should provide adequate resources to its law enforcement and prosecutorial/judicial personnel to ensure that investigations and prosecutions are satisfactorily completed, and requests for international cooperation are efficiently processed.

Bahrain

Bahrain has one of the most diversified economies in the Persian Gulf and the Gulf Cooperation Council (GCC), which consists of Bahrain, Saudi Arabia, United Arab Emirates, Kuwait, Qatar, and Oman. Though the government depends on oil and petroleum processing for nearly 70 percent of its revenue, Bahrain's oil reserves are dwindling. In contrast to the economies of many of its neighbors, oil accounted for just 15.4 percent of Bahrain's gross domestic product (GDP) in 2004. Its financial sector, in contrast, accounted for 24.2 percent. Bahrain has promoted itself as an international financial center in the Gulf region and sees the sector as vital to its future. As of December 2005, the Bahrain Monetary Agency (BMA)—Bahrain's Central Bank and sole regulator for the financial sector—had issued a total of 358 licenses, including 169 banks, of which 51 are offshore banking units (OBUs), 39 are investment banks, 25 are commercial banks, and 32 are representative offices of international banks. In addition, there are 19 money changers, 22 locally operating insurance companies (of which 12 are locally incorporated) and 73 insurance exempt companies (the bulk of whose operations are in Saudi Arabia). With so many financial institutions, and a geographic location in the Middle East as a transit point along the Gulf and into southwest Asia, Bahrain may attract money laundering activities. However, it is thought that the greatest risk of money laundering is not illegal money generated in Bahrain, but rather Bahrain's financial institutions being used to layer illegal foreign money by transiting it through Bahrain.

In January 2001, the Government of Bahrain (GOB) enacted an anti-money laundering (AML) law that criminalizes the laundering of proceeds derived from any predicate offense. The law stipulates punishment of up to seven years imprisonment and a fine of up to one million Bahraini dinars (BD) (about $2.65 million) for convicted launderers and those aiding or abetting them. If organized criminal affiliation, corruption, or disguise of the origin of proceeds is involved, the minimum penalty is a fine of at least 100,000 dinars (approximately $265,000) and a prison term of not less than five years. Notably, the AML law allows Bahrain to prosecute a money laundering violation regardless of whether the act is a crime in Bahrain. For example, there is no income tax in Bahrain, yet someone engaging in illicit financial transactions for the purpose of evading another nation's tax system may be prosecuted for money laundering in Bahrain.

Following enactment of the law, BMA, as the principal financial sector regulator, issued regulations requiring financial institutions to file suspicious transaction reports (STRs), to maintain records for a period of five years, and to provide ready access for law enforcement officials to account information. Immunity from criminal or civil action is given to those who report suspicious transactions. There is no minimum threshold required to file an STR.

The law also provides for the formation of an interagency committee to oversee Bahrain's anti-money laundering regime. Accordingly, in June 2001, the Anti-Money Laundering Policy Committee was established and assigned the responsibility for developing anti-money laundering policies and guidelines. The committee, which is under the chairmanship of the Undersecretary of Finance, includes members from the BMA, the Bahrain Stock Exchange, and the Ministries of Finance, Interior, Justice, Industry & Commerce, Labor and Social Affairs, and Foreign Affairs. The law further provides for the confiscation of assets and allows for greater international cooperation. This committee had an initial duration of three years, but its mandate was renewed in March 2005 for an additional three years. In the process of reinstating the committee in 2005, representatives from the Directorate of Customs Inspections, the Terrorist Financing Unit of the National Security Agency, and the Office of the Public Prosecutor were also added to the committee.

In addition, the law provides for the creation of the Anti-Money Laundering Unit (AMLU) as Bahrain's financial intelligence unit (FIU). The AMLU, which is housed in the Ministry of Interior, is empowered to: receive reports of money laundering offenses, conduct preliminary investigations, implement procedures relating to international cooperation under the provisions of the law, and execute decisions, orders, and decrees issued by the competent courts in offenses related to money laundering. The AMLU became a member of the Egmont Group of FIUs in July 2003.

The AMLU receives suspicious transaction reports (STRs) from banks and other financial institutions, investment houses, broker/dealers, money changers, insurance firms, real estate agents, gold dealers, financial intermediaries, and attorneys. Financial institutions must also file STRs with the BMA, which supervises these institutions. In March 2005, the BMA started receiving STRs from banks and financial institutions via a secure website. Non-financial institutions are required under a Ministry of Industry & Commerce (MOIC) directive to also file STRs with that ministry. The BMA analyzes the STRs, of which it receives copies, as part of its scrutiny of compliance by financial institutions with anti-money laundering and combating terrorist financing (AML/CFT) regulations, but it does not independently investigate the STRs (responsibility for investigation rests with the AMLU). The BMA may assist the AMLU with its investigations, where special banking expertise is required.

In 2003, the MOIC published new anti-money laundering guidelines, which govern all non-financial institutions. The MOIC system of requiring dual STR reporting to both it and the AMLU mirrors the BMA's system. Good cooperation exists between MOIC, BMA, and AMLU, with all three agencies describing the double filing of STRs as a backup system. The AMLU, MOIC, and BMA's compliance units analyze the STRs and work together on identifying weaknesses or criminal activity, but it is the AMLU that conducts a preliminary investigation and then forwards cases of suspected money laundering and terrorist financing for investigation to the Office of Public Prosecutor. The AMLU works with the Office of the Public Prosecutor, which under Bahrain's trial system is the body responsible for gathering and assessing evidence for trial.

From January to December 2005, the AMLU received and investigated 219 STRs. This is a dramatic increase over the 294 STRs received between June 2001 and February 2005. The AMLU attributes this to increased awareness of the need to file STRs within the Bahrain financial and designated non-financial sectors. In 2005, four cases were forwarded to the Office of the Public Prosecutor after preliminary investigation, and are currently undergoing investigation by the public prosecutor, in anticipation of referral to the courts for trial. The AMLU has obtained three court orders to freeze bank accounts of suspected money launderers.

The AMLU has been notably public in its crackdown on narcotics and financial crimes. The AMLU has announced money laundering and narcotics arrests and issued fraud and scam warnings. This activity is significant because it demonstrates strong public action against financial crimes—in a region where most countries are either not targeting financial crimes or do not make their efforts highly public. Despite being hampered by an overburdened criminal court system and a lack of specialized prosecutors and judges, Bahrain has managed to bring four money laundering cases before the courts for prosecution. However, none of these cases has yet reached the trial stage. Nonetheless, members of the Office of the Public Prosecutor recently attended U.S.-sponsored AML/CFT courses, and the Government of Bahrain is contemplating the establishment of a special court to try financial crimes. The Ministry of Justice has also sent Bahraini judges abroad for specialized training to handle such crimes.

There are 51 BMA-licensed offshore banking units (OBUs), representing both international and regional banks, active mainly in commercial and wholesale banking (e.g., project and corporate finance). OBUs are prohibited from accepting deposits from citizens and residents of Bahrain, and from undertaking transactions in Bahraini dinars (with certain exemptions, such as dealings with other banks and government agencies). In all other respects, OBUs are regulated and supervised in the same way as the domestic banking sector. They are subject to the same regulations, on-site examination procedures, and external audit and regulatory reporting obligations. OBUs are required to maintain a substantive physical presence in Bahrain, including resident management.

Bahrain's Commercial Companies Law (Legislative Decree 21 of 2001) does not permit the registration of offshore companies or international business companies (IBCs). All companies must be resident and maintain their headquarters and operations in Bahrain. Capital requirements vary, depending on the legal form of the company, but in all cases the amount of capital required must be sufficient for the nature of the activity to be undertaken. In the case of financial services companies licensed by BMA, various minimum and risk-based capital requirements are also applied (in addition to a variety of other prudential requirements), in line with international standards of the Basel Committee's Core Principles for Effective Banking Supervision.

In January 2002, the BMA issued a circular implementing the Financial Action Task Force (FATF) Special Recommendations on Terrorist Financing as part of the BMA's AML regulations, and subsequently froze two accounts designated by the UNSCR 1267 Sanctions Committee and one account listed under U.S. Executive Order 13224. However, the Government of Bahrain has not yet passed its law criminalizing terrorist financing or issued new regulations concerning the FATF Special Recommendation Nine on cash couriers. The amendments to the AML law to create specific antiterrorist financing offenses and offenses to combat cash couriers are currently before the National Assembly, together with a new antiterrorism law that would add to and expand the scope of the predicate offenses of terrorism already contained in the Bahrain penal code.

Regulation No. 1 of 1994 requires all persons or entities providing money exchange and remittance and currency transfer services to be licensed by BMA as money changers. BMA Circular BC/1/2002 states that money changers may not transfer funds for customers in another country by any means other than Bahrain's banking system. In addition, all BMA licensees are required to include details of the originator's information with all outbound transfers. With respect to incoming transfers, licensees are required to maintain records of all originator information and to carefully scrutinize inward transfers that do not contain the originator's information, as they are presumed to be suspicious transactions. Licensees that suspect, or have reasonable grounds to suspect, that funds are linked or related to suspicious activities—including terrorist financing—are required to file suspicious transaction reports (STRs). Licensees must maintain records of the identity of their customers in accordance with the BMA's anti-money laundering regulations, as well as the exact amount of transfers. During 2004, the BMA consulted with the industry on changes to its existing AML/CFT regulations, to reflect revisions by the FATF to its Forty plus Nine Recommendations. These updates

were issued to banks and insurance companies during the course of 2005. Those for remaining licensees are scheduled to be implemented in early 2006.

Legislative Decree No. 21 of 1989 governs the licensing of non-profit organizations. The Ministry of Social Development (MSD) is responsible for licensing and supervising charitable organizations in Bahrain. In February 2004, as part of its efforts to strengthen the regulatory environment and fight potential terrorist financing, MLSA issued a Ministerial Order regulating the collection of donated funds through charities and their eventual distribution, to help confirm the charities' humanitarian objectives. The regulations are aimed at tracking money that is entering and leaving the country. These regulations require organizations to keep records of sources and uses of financial resources, organizational structure, and membership. Charitable societies are also required to deposit their funds with banks located in Bahrain and may have only one account in one bank. The MSD has the right to inspect records of the societies to insure their compliance with the laws. Additionally, banks are required to have a registration certificate from the MSD to open an account for a charity, and banks must report to the BMA any transaction by a charitable institution that exceeds BD 3,000 (approximately $7,950), a reduction from the original BD 20,000 ceiling.

Bahrain is a leading Islamic finance center in the region. The sector has grown considerably since the licensing of the first Islamic bank in 1979. Bahrain has 26 Islamic banks and financial institutions. Given the large share of such institutions in Bahrain's banking community, the BMA has developed a framework for regulating and supervising the Islamic banking sector, applying regulations and supervision the same way as it does with respect to conventional banks. In March 2002, the BMA introduced a comprehensive set of regulations for Islamic banks called the Prudential Information and Regulatory Framework for Islamic Banks (PIRI). The framework was designed to monitor certain banking aspects, such as capital requirements, governance, control systems, and regulatory reporting.

In March 2004, Bahrain issued a Legislative Decree ratifying the Convention against Transnational Organized Crime. In June 2004, Bahrain published two Legislative Decrees ratifying the UN International Convention for the Suppression of the Financing of Terrorism, and the UN International Convention for the Suppression of Terrorist Bombings. Bahrain is now a party to 11 of the 12 UN conventions on terrorism. Bahrain is also a party to the Arab Convention for the Suppression of Terrorism and the Convention of the Organization of the Islamic Conference on Combating International Terrorism. In December 2005, Bahrain ratified the GCC Agreement to Combat Terrorism.

Bahrain is also the headquarters for the Middle East and North Africa Financial Action Task Force (MENAFATF) secretariat. MENAFATF held its inaugural meeting in November 2004 and its first plenary in April 2005 in Bahrain. As a FATF-style regional body, MENAFATF promotes best practices on AML/CFT issues, conducts mutual evaluations of its members against the FATF standards, and works with its members to comply with international standards and measures.

Bahrain has shown progress in investigating and publicizing financial crimes. The AMLU has openly published information on narcotic arrests and its actions against financial crimes. The BMA has upgraded its regulatory requirements in line with developments in international standards and has significantly tightened its reporting requirements for charitable transfers. However, the lack of capacity within the Office of the Public Prosecutor and the judiciary has prevented the AMLU from bringing these complicated cases to trial.

Despite the achievements of the AMLU and the BMA, the Bahraini Government has not yet passed a law to combat terrorist financing and the problem of cash couriers. The Bahraini Government should continue its battle against money launderers and terrorist financiers by enacting such laws, by aggressively enforcing both the new laws and the existing AML law and regulations, and by enhancing the prosecutorial and judicial ability to successfully try financial crimes.

Bangladesh

Bangladesh is not an important regional or offshore financial center.

There are no indications that substantial funds are laundered through the official banking system. The principal money laundering vulnerability remains the widespread use of the underground hawala or "hundi" system to transfer value outside the formal banking network. The vast majority of hundi transactions in Bangladesh are used to repatriate wages from Bangladeshi workers abroad. However, as elsewhere, the hundi system is also used to avoid taxes, customs duties and currency controls and as a compensation mechanism for the significant amount of goods smuggled into Bangladesh. Traditionally, trade goods provide counter valuation in hundi transactions.

An estimated $1 billion dollars worth of dutiable goods is smuggled every year from India into Bangladesh. A comparatively small amount of goods is smuggled out of the country into India. Instead, hard currency and other assets flow out of Bangladesh to support the smuggling networks.

Corruption is a major area of concern in Bangladesh. The non-convertibility of the local currency (the taka) coupled with intense scrutiny on foreign currency transactions in formal financial institutions also contribute to the popularity of both hundi and black market money exchanges.

Money exchanges outside the formal banking system are illegal. During the last year, there has been a significant increase in the amount of money transferred through the formal banking system as a result of the efforts by the Government of Bangladesh (GOB) to increase the efficiency of the process.

Bangladeshis are not allowed to carry cash outside of the country in excess of 3,000 taka (approximately $50). There is no limit as to how much currency can be brought into the country, but amounts over $5,000 must be declared. Customs is primarily a revenue collection agency, accounting for 40-50 percent of annual Bangladesh government income.

Since 2004, the Central Bank (CB), Bangladesh Bank, has conducted training for every bank's headquarters around the county in "know your customer" practices. Since Bangladesh does not have a national identify card and because most Bangladeshis do not have a passport, there are difficulties in enforcing customer identification requirements. In most cases, banking records are maintained manually with little support technology, although this is changing, especially in head offices. Accounting procedures used by the CB may not in every respect achieve international standards. In 2004, the Bangladesh Bank issued "Guidance Notes on Prevention of Money Laundering" and designated effective anti-money laundering compliance programs as a "core risk" subject to the annual bank supervision process of the Bangladesh Bank. Banks are required to have an anti-money laundering compliance unit in their head office and a designated anti-money laundering compliance officer in each bank branch. The Bangladesh Bank conducts regular training programs for compliance officers based on the Guidance Notes. In December 2005, the CB called all compliance officers to Dhaka for a discussion about their obligations and heightened police interest in money laundering and terrorist financing.

Currently, Bangladesh does not have a Financial Intelligence Unit (FIU) per se. However, under the 2002 Money Laundering Prevention Act (MLPA), the Anti-Money Laundering Unit (AMLU) of Bangladesh Bank acts as a de facto FIU and has authority to freeze assets without a court order and seize them with a court order. The Bangladesh Bank has received 45 suspicious transaction reports in 2005 to make a total of 193 suspicious transaction reports since the MLPA was passed in 2002. By 2004, 134 were resolved without further action. The remaining reports were transferred from the now defunct Bureau of Anti-Corruption to the newly created Anti-Corruption Commission (ACC). The ACC has advised the bank that it will not investigate these cases and stated it would send the files back to the CB by December 31, 2005. Currently, there are 29 cases pending with the Criminal Investigation Division of Bangladesh Police Headquarters that Bangladesh Bank referred to them after the ACC abruptly refused to investigate.

There have been important developments in 2005 in the anti-money laundering and terrorist financing arena. A new law, The Anti-Money Laundering and Terrorist Financing Act 2005 (AMLTF), has been drafted to replace the MLPA from 2002. The new legislation was to have been presented to the cabinet for approval in mid-December 2005. After Cabinet approval it will be vetted by the Law Ministry and then presented to Parliament. Reportedly, the current draft addresses most of the shortcomings in prior legislation noted in last year's INCSR report.

The AMLTF, if enacted, would criminalize terrorist financing. It would provide powers required for a FIU to meet international recommendations set forth by the Egmont Group, including sharing information with law enforcement at home and abroad. The draft legislation also provides for the establishment of a Financial Investigation and Prosecution Office wherein law enforcement investigators and prosecutors will work as a team from the beginning of the case to trial. The 2005 draft legislation also addresses asset forfeiture and provides that assets, substitute assets (without proving the relation to the crime) and instrumentalities of the crime can be forfeited. The draft legislation does not address the nuts and bolts of asset forfeiture that the CB asserts can be addressed administratively and via regulatory procedures.

In 2003, Bangladesh froze a nominal sum in an account of a designated entity on the UNSCR 1267 Sanctions Committee's Consolidated List and identified an empty account of another entity. In 2004, following investigation of the accounts of an entity listed on the UNSCR 1267 consolidated list, Bangladesh Bank fined two local banks for failure to comply with Bangladesh Bank regulatory directives. In 2005, the GOB became a party to the UN International Convention for the Suppression of the Financing of Terrorism and is now a party to twelve UN Conventions on Terrorism. The GOB is a party to the 1988 UN Drug Convention but is not a signatory to the Convention against Transnational Organized Crime. Bangladesh is a member of the Asia/Pacific Group on Money Laundering.

Despite advancements to address shortcomings in the money laundering and terrorist financing regime, the GOB's anti-money laundering/terrorist financing regimes need to be strengthened to comport with international standards, including standards for the criminalization of terrorist finance, for the provision of safe harbor in order to protect reporting individuals, for the conduct of due diligence, and for banker negligence legislation that would make individual bankers responsible under certain circumstances if their institutions launder money. While a lack of training, resources and computer technology, including computer links with the outlying districts, continue to hinder necessary progress, the GOB remains as the most corrupt government on Transparency International's Index.

Barbados

As a transit country for illicit narcotics, Barbados is both attractive and vulnerable to money launderers. The Government of Barbados (GOB) has taken a number of steps in recent years to strengthen its anti-money laundering legislation. As of December 31, 2005, the Barbados offshore sector includes 4,635 international business companies (IBCs), 413 exempt insurance companies, three trust companies, 11 finance companies, and 53 offshore banks. The Central Bank regulates and supervises, offshore banks, trust companies and finance companies and the other entities are regulated by the Ministry of Industry and International Business. According to the Central Bank, it is estimated that there is approximately $32 billion worth of assets in Barbados's offshore banks. Barbados has no Foreign Sales Corporations (FSCs) and no free trade zones.

The GOB initially criminalized drug money laundering in 1990 through the Proceeds of Crime Act, No. 13, which also authorizes asset confiscation and forfeiture, permits suspicious transaction disclosures to the Director of Public Prosecutions, and exempts such disclosures from civil or criminal liability. The Money Laundering (Prevention and Control) Act 1988 (MLPCA) criminalizes the

laundering of proceeds from unlawful activities that are punishable by at least one year's imprisonment. The MLPCA makes money laundering punishable by a maximum of 25 years in prison and a maximum fine of 2 million Barbadian dollars (BDS) (approximately $1 million).

The MLPCA applies to a wide range of financial institutions, including domestic and offshore banks, IBCs, and insurance companies. In 2001 the MLPCA was amended to bring non-traditional financial institutions under the supervision of the AMLA including "any person whose business involves money transmission services, investment services or any other services of a financial nature." These institutions are required to identify their customers, cooperate with domestic law enforcement investigations, report and maintain records of all transactions exceeding 10,000 BDS (approximately $5,000), and establish internal auditing and compliance procedures. Financial institutions must also report suspicious transactions to the Anti-Money Laundering Authority (AMLA). The AMLA was established in August 2000 to supervise financial institutions' compliance with the MLPCA and issue training requirements and regulations for financial institutions.

The International Business Companies Act (1992) provides for general administration of IBCs. The Ministry of Industry and International Business vets and grants licenses to IBCs after applicants register with the Registrar of Corporate Affairs. Bearer shares are not allowed, and financial statements of IBCs are audited if total assets exceed $500,000. To enhance due diligence efforts, the 2001 International Business (Miscellaneous Provisions) Act requires the provision of more information than was previously provided with IBC license applications or renewals.

The Barbados Central Bank's 1997 Anti-Money Laundering Guidelines for Licensed Financial Institutions were revised in 2001. The revised "know your customer" guidelines were issued in conjunction with the AMLA, and provide detailed guidance to financial institutions regulated by the Central Bank. The Central Bank conducts off-site surveillance and undertakes regular on-site examinations of licensees and applies a comprehensive methodology that seeks to assess the level of compliance with legislation and guidelines.

The Ministry of Finance issues banking licenses after the Central Bank receives and reviews applications, and recommends applicants for licensing. The Offshore Banking Act (1985) gives the Central Bank authority to supervise and regulate offshore banks, in addition to domestic commercial banks. The International Financial Services Act replaced the 1985 Act in June 2002, in order to incorporate fully the standards established in the Basel Committee's Core Principles for Effective Banking Supervision. The 2002 law provides for on-site examinations of offshore banks. This allows the Central Bank to augment its off-site surveillance system of reviewing anti-money laundering policy documents and analyzing prudential returns. Additionally, offshore banks must submit quarterly statements of assets and liabilities and annual balance sheets to the Central Bank. The Central Bank may also refer suspicious activity reports (SARs) to the Barbados Financial Intelligence Unit (FIU).

The FIU, located within the AMLA, was established in September 2000. The FIU was first established by administrative order, but subsequently implemented in statute by the MLPCA (Amendment) Act, 2001. The FIU is fully operational. By the end of December 2005, the FIU had received 84 SARs. The FIU forwards information to the Financial Crimes Investigation Unit of the police if it has reasonable grounds to suspect money laundering.

The MLPCA also provides for asset seizure and forfeiture. In November 2001, the GOB amended its financial crimes legislation to shift the burden of proof to the accused to demonstrate that property in his or her possession or control is derived from a legitimate source. Absent such proof, the presumption is that such property was derived from the proceeds of crime. The law also enhances the GOB's ability to freeze bank accounts and to prohibit transactions from suspect accounts.

The Barbados Anti-Terrorism Act, 2002-6, Section 4, gazetted on May 30, 2002, criminalizes the financing of terrorism. The GOB circulates the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224. In 2005, the GOB found no evidence of terrorist financing. Intelligence suggests that a small amount of money is leaving Barbados via an alternative remittance system. However, the GOB has not taken any specific initiatives focused on alternative remittance systems or the misuse of charitable and nonprofit entities. The GOB is considering amending the Money Laundering and Financing of Terrorism (Prevention and Control) Act.

Barbados has bilateral tax treaties that eliminate or reduce double taxation, with the United Kingdom, Canada, Finland, Norway, Sweden, Switzerland, and the United States. The United States and the GOB ratified amendments to their bilateral tax treaty in 2004. The treaty with Canada currently allows IBCs and offshore banking profits to be repatriated to Canada tax-free after paying a much lower tax in Barbados. A Mutual Legal Assistance Treaty (MLAT) and an Extradition Treaty between the United States and the GOB each entered into force in 2000.

Barbados is a member of the Offshore Group of Banking Supervisors, the Caribbean Financial Action Task Force, and the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. The FIU was admitted to the Egmont Group in 2002. The Barbados Association of Compliance Professionals, along with the Compliance Associations from Trinidad and Tobago, the Bahamas, the Cayman Islands, and the British Virgin Islands, formed the Caribbean Regional Compliance Association in October 2003.

Barbados is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. Barbados has signed, but not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

Although the GOB has strengthened anti-money laundering legislation, it should consider adopting civil forfeiture and asset sharing legislation. Barbados must steadfastly enforce the laws and regulations it has adopted. The GOB should be more aggressive in conducting examinations of the financial sector and maintaining strict control over vetting and licensing of offshore entities. In 2005, there was a disproportionate number of SARS reported compared to the number of financial institutions. The GOB should ensure adequate supervision of non-governmental organizations and charities. It should also work to improve information sharing between regulatory and enforcement agencies. Additionally, Barbados should continue to provide adequate resources to its law enforcement and prosecutorial personnel, to ensure Mutual Legal Assistance Treaty requests are efficiently processed. The GOB should adequately staff its FIU as a first step toward bolstering its ability to prosecute anti-money laundering cases.

Belarus

Belarus is not a regional financial center. A general lack of transparency in industry and banking sectors makes it difficult to assess the level of or potential for money laundering and other financial crimes. Belarus faces problems with organized crime and therefore is vulnerable to money laundering. Due to inflation, excessively high taxes, and the dollarization of the economy, a significant volume of foreign-currency cash transactions eludes the banking system. Shadow incomes from offshore companies, filtered through small local businesses, constitute a significant portion of foreign investment. Casinos and gambling establishments are prevalent.

Economic decision-making in Belarus is highly concentrated within the top levels of government and has become even more so after the President issued Decree 520 "On Improving Legal Regulation of Certain Economic Relations" in November 2005. This decree gives the president broader powers over

the entire economy—including the power to manage, dispose of, and privatize all state owned property—while taking away authority from Parliament, the National Bank of Belarus, and even market forces. The decree also states that any legislation that contradicts the decree will expire in June 2006. From that date, the president will be above the law when it comes to economic regulation. In addition, by the power of the "golden share rule," government agencies have broad powers to intervene in the management of public and private enterprises, which they often do.

Since the President issued decree 114 "On free economic zones on the territory of the Republic of Belarus" in 1996, Belarus has established six free economic zones (FEZs). The president creates FEZs upon the recommendation of the Council of Ministers and can dissolve or extend the existence of a FEZ at will. The Presidential Administration, the State Control Committee (SCC), and regional and Minsk city authorities supervise the activities of companies in the FEZs. According to the SCC, applying organizations are fully vetted before they are allowed to operate in an FEZ in an effort to prevent money laundering and terrorism finance.

Belarus' "Law on Measures to Prevent the Laundering of Illegally Acquired Proceeds" (AML Law) was amended in 2005. It establishes the legal and organization framework to prevent money laundering and terrorism financing. The measures described in the AML Law apply to all entities that conduct financial transactions in Belarus. Such entities include: bank and non-bank credit and financial institutions; stock and currency exchanges; investment funds and other professional dealers in securities; insurance and reinsurance institutions; dealers' and brokers' offices; notary offices (notaries); casinos and other gambling establishments; pawn shops; and other organizations conducting financial transactions.

The AML Law makes individuals and businesses, government entities, and entities without legal status criminally liable for drug and non-drug related money laundering, although the punishments for laundering money or financing terrorism are not explicitly stated in the law. However, Article 235 of the Belarusian criminal code ("Legalization of illegally acquired proceeds") stipulates that money laundering crimes may be punishable by fine or prison terms of up to ten years. The law defines "illegally acquired proceeds" as money (Belarusian or foreign currency), securities or other assets, including property rights and exclusive rights to intellectual property, obtained in violation of the law.

The AML Law authorizes the following government bodies to monitor financial transactions for the purpose of preventing money laundering: the State Control Committee (Department of Financial Monitoring); the Securities Committee; the Ministry of Finance; the Ministry of Justice; the Ministry of Communications and Information; the Ministry of Sports and Tourism; the Committee on Land Resources; and other state bodies.

In December 2005, Parliament approved a series of amendments to the AML Law to enhance the current legislation on money laundering prevention. The amendments state that individual and corporate financial transactions exceeding approximately $27,000 and $270,000, respectively, are subject to special inspection. The amendments, however, exempt most government transactions and transactions sanctioned by the President from extraordinary inspection.

In January 2005, the President signed a decree on the regulation of the gambling sector. The owners of gambling businesses will be subject to stricter tax regulations. Gamblers will have to produce a passport or other identification in order to receive a money prize, a provision intended to combat money laundering.

The Belarusian banking sector consists of 31 banks. Within this number, 27 have foreign investors and nine banks are foreign owned. The state-owned BelarusBank is the largest and most influential bank in Belarus. Four other state banks and one private bank comprise the majority of the remaining banking activities in the country. In addition, 12 foreign banks have representative offices in Belarus in order to facilitate business cooperation with their Belarusian clients.

In 2003, Belarus established the Department of Financial Monitoring (DFM)—the Belarusian equivalent of a Financial Intelligence Unit—within the State Control Committee and named the DFM as the primary government agency responsible for gathering, monitoring and disseminating financial intelligence. The DFM analyzes information it receives for evidence of money laundering to pass to law enforcement officials for prosecution. The DFM also has the power to penalize those who violate money laundering laws. The DFM cooperates with its counterparts in foreign states and with international organizations to combat money laundering. Belarus' DFM is not a member of the Egmont Group, but it has applied for membership. Russia has agreed to sponsor Belarus' membership and to represent Belarus while the DFM's membership application is pending.

Financial institutions are obligated to register with the DFM transactions subject to special monitoring, such as: transactions whose suspected purpose is money laundering or terrorism finance; cases where the person performing the transaction is a known terrorist or controlled by a known terrorist; cases in which the person performing the transaction is from a state that does not cooperate internationally to prevent money laundering and terrorism financing; and finally, transactions exceeding approximately $27,000 for individuals and $270,000 for businesses that involve cash, property, securities, loans or remittances. Belarusian law stipulates that a one-time transaction that exceeds predetermined amounts for individuals and businesses set by the government must be registered in accordance with the law. If the total value of transactions conducted in one month exceeds the set thresholds and there is reasonable evidence to suggest that the transactions are related, then all the transaction activity must be registered.

Financial institutions conducting transfers subject to special monitoring are required to submit information about such transfers in written form to the DFM within one business day of the reported transaction. Financial institutions should identify the individuals and businesses ordering the transaction or the person on whose behalf the transaction is being placed, disclose information about the beneficiary of a transaction, and provide the account information and document details used in the transaction, including the type of transaction, the name and location of the financial institution conducting the transfer, and the date, time and value of the transfer. The law provides a "safe harbor" for banks and other financial institutions that provide otherwise confidential transaction data to investigating authorities, provided the information is given in accordance with the procedures established by law. Under the State Control Committee (SCC), the Department of Financial Investigations, in conjunction with the Prosecutor General's Office, has the legal authority to investigate suspicious financial transactions.

Failure to register and transmit the required information on financial transactions may subject a bank or other financial institution to criminal liability. The National Bank of Belarus is the relevant monitoring agency for the majority of transactions conducted by banking and other financial institutions. According to the National Bank, information on suspicious transactions should be reported to the Bank's Department of Bank Monitoring. Although the banking code stipulates that the National Bank has primary regulatory authority over the banking sector, in practice, the Presidential Administration exerts significant influence on central and state commercial bank operations, including employment. Any member of the Board of the National Bank may be removed from office by the president with a simple notification to the National Assembly.

Terrorism is a crime in Belarus. The AML Law establishes measures to prevent terrorism finance. Belarus' law on counterterrorism also states that knowingly financing or otherwise assisting a terrorist group constitutes terrorist activity. Under the Belarusian Criminal Code, the willful provision or collection of funds in support of terrorism by nationals of Belarus or persons in its territory constitutes participation in the act of terrorism itself in the form of aiding and abetting. In December 2005, the Belarusian Parliament amended the Criminal Code to stiffen the penalty for the financing of terrorism and thus bring Belarusian regulations into compliance with the International Convention for the Suppression of the Financing of Terrorism. The amendments explicitly define terrorist activities and

terrorism finance and carry an eight to twelve year prison sentence for those found guilty of sponsoring terrorism.

The seizure of funds or assets held in a bank requires a court decision, a decree issued by a body of inquiry or pre-trial investigation, or a decision by the tax authorities. A 2002 directive issued by the Board of Governors of the National Bank prohibits all transactions with accounts belonging to terrorists, terrorist organizations and associated persons. This directive also outlines a process for circulating to banks the names of suspected terrorists and terrorist organizations on the UNSCR 1267 Sanctions Committee's consolidated list. The National Bank is required to disseminate to banks the updates to the consolidated list and other information related to terrorist finance as it is received from the Ministry of Foreign Affairs. The directive gives banks the authority to freeze transactions in the accounts of terrorists, terrorist organizations and associated persons. Through 2005, Belarus has not identified any assets as belonging to individuals or entities included on the UNSCR 1267 Sanctions Committee's consolidated list.

Belarus has signed bilateral treaties on law enforcement cooperation with Bulgaria, Lithuania, the People's Republic of China, Poland, Romania, Turkey, the United Kingdom, and Vietnam. Belarus is also a party to five agreements on law enforcement cooperation and information sharing among CIS member states, including the Agreement on Cooperation among CIS Member States in the Fight against Crime and the Agreement on Cooperation among Ministries of Internal Affairs in the Fight against Terrorism. In 2004, Belarus joined the newly organized Eurasian Regional Group (EAG) Against Money Laundering and the Financing of Terrorism, a FATF-style regional body. The EAG has observer status in FATF.

Belarus has acceded to the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime. Belarus is a party to the 1988 UN Drug Convention and twelve of the thirteen conventions on counterterrorism. In 2004, Belarus signed the UN Convention against Corruption. On September 15, 2005, Belarus became a signatory to the UN International Convention for the Suppression of Acts of Nuclear Terrorism. Following that accession and in an effort to promote international cooperation in the fight against terrorism, the lower house of Parliament ratified a bill for the Civil Law Convention on Corruption in December 2005. The bill aims to protect those who suffer from acts of corruption and makes the state or appropriate authority liable to compensate individuals affected by a corrupt official, as well as invalidating all scandalous contract agreements.

The Government of Belarus has taken positive and concrete steps to construct an anti-money laundering and counterterrorist financing regime. Belarus should increase the transparency of its business and banking sectors. It should extend the application of its current anti-money laundering legislation to cover more of the governmental transactions that are currently exempted under the law. It should provide adequate resources to its FIU so that it can operate effectively and further improve the coordination between agencies responsible for enforcing anti-money laundering measures.

Belgium

As a member of the Financial Action Task Force (FATF), Belgium was the subject of a mutual evaluation report in June 2005. The report examined Belgium's efforts to combat money laundering and the financing of terrorism. Belgium was found compliant with most of FATF's Forty Recommendations and Nine Special Recommendations. Efforts are now being made to address weaknesses that were identified in the evaluation.

With strong legislative and oversight provisions in place in the formal financial sector, Belgian officials have noted that criminals are increasing their use of the non-financial professions to facilitate access to the official financial sector. For example, the strong presence of the diamond trade within

Belgium leaves the nation vulnerable to money laundering. Ninety percent of crude diamonds and 50 percent of cut diamonds pass through Belgium. Authorities have transmitted a number of cases relating to diamonds to the public prosecutor, and they are examining the sector closely in cooperation with local police and diamond industry officials. Additionally, the Kimberley certification process (a joint government, international diamond industry, and civil society initiative designed to stem the flow of illicit diamonds) has helped to introduce some much-needed transparency into the global diamond trade.

The Government of Belgium (GOB) recognizes the particular importance of the diamond industry, as well as the potential vulnerabilities it presents to the financial sector. As such, the GOB has distributed typologies outlining its experiences in pursuing money laundering cases involving the diamond trade, especially those involving the trafficking of African conflict diamonds. The Belgian financial intelligence unit (FIU), known in French as Cellule de Traitement des Informations Financières and in Flemish as Cel voor Financiële Informatieverwerking (CTIF-CFI), is active in this area. It has initiated several meetings with the Belgian Ministry of Economic Affairs and the High Council for Diamonds in order to clarify the obligations of diamond traders with respect to anti-money laundering and antiterrorist financing laws. The Belgian FIU also initiated a sector-wide inquiry in order to verify how diamond traders apply this legislation.

Money launderers in Belgium often use notaries to create front companies or buy real estate. Selling property below market value, making significant investments on behalf of foreign nationals with no connections to Belgium, making client property transactions with values disproportionate to the socio-economic status of the client, and creating a large number of companies in a short timeframe are common indicators of money laundering in Belgium. While fraud involving claims for fictitious transactions for value-added tax (VAT) reimbursements has also been of concern, VAT fraud has decreased significantly since 2001 as a result of more aggressive investigation.

A growing problem, according to government officials, is the proliferation of illegal underground banking activities. Beginning in 2004, Belgian police made a series of raids on "phone shops"—small businesses where customers can make inexpensive phone calls and access the Internet. In some phone shops, authorities uncovered money laundering operations and hawala-type banking activities. Authorities believe that approximately 5,000-6,000 phone shops are operating in Belgium. Just 1,500 of these shops are formally licensed, and Belgian authorities are considering enforcing a stricter licensing regime. Some Brussels communes have also proposed heavy taxes on these types of shops in an effort to dissuade illegitimate commerce.

Money laundering in Belgium is illegal through the Law of January 11, 1993, "On Preventing Use of the Financial System for Purposes of Money Laundering." It is criminalized by Article 505 of the Penal Code, which sets penalties of up to five years' imprisonment. In January 2004, Belgian domestic legislation implementing Council Directive 2001/97/EC on prevention of the use of the financial system for money laundering (2nd EU Money Laundering Directive) entered into force, broadening the scope of money laundering predicate offenses beyond drug-trafficking to include the financing of terrorist acts or organizations.

For the purposes of money laundering and terrorist financing, Belgian financial institutions are supervised by the Belgian Banking and Finance Commission (CBFA), which also supervises exchange houses, stock brokerages, and insurance companies. The Belgian Gaming Commission oversees casinos, and CTIF-CFI oversees some professions not supervised by CBFA or other authorities.

Belgian law mandates reporting of suspicious transactions by a wide variety of financial institutions and non-financial entities, including notaries, accountants, bailiffs, real estate agents, casinos, cash transporters, external tax consultants, certified accountant-tax experts, and lawyers. An association of Belgian lawyers has appealed the law to Belgium's court of arbitration on the grounds that it violates

basic principles of the independence of the lawyer and of professional secrecy. A decision from the court of arbitration is pending.

The January 2004 legislation imposes prohibitions on cash payments for real estate, except for an amount not exceeding 10 percent of the purchase price or 15,000 euros (approximately $17,700), whichever is lower. Cash payments over 15,000 euros for goods are also illegal.

Entities with reporting obligations must also submit to the FIU information on transactions involving individuals or legal entities domiciled, registered, or established in a country or territory for which FATF has recommended countermeasures. A law passed on May 3, 2002, gives the GOB the authority to invoke countermeasures against countries or territories included on the FATF list of non-cooperative countries and territories (the NCCT List) The FIU regularly submits the NCCT List to its financial institutions.

Belgian financial institutions are required to comply with "know your customer" principles, regardless of the transaction amount. Institutions must maintain records on the identities of clients engaged in transactions that are considered suspicious, or that involve an amount equal to or greater than 10,000 euros (approximately $11,790). During the summer of 2005, Fortis Bank blocked 150,000 accounts in Belgium due to insufficient customer identifiers. Records of suspicious transactions that are required to be reported to the FIU must be kept for at least five years.

Financial institutions are required to train their personnel in the detection and handling of suspicious transactions that could be linked to money laundering. Financial institutions or other entities with reporting requirements are also liable for illegal activities occurring under their control. Failure to comply with the anti-money laundering legislation, including failure to report, is punishable by a fine of up to 1.25 million euros (approximately $1.47 million).

The financial sector cooperates actively with CTIF-CFI to guard against illegal activity. No civil, penal, or disciplinary actions can be taken against institutions, or their employees or representatives, for reporting transactions in good faith to CTIF-CFI. Legislation also exists to protect witnesses, including bank employees, who report suspicions of money laundering or who come forward with information about money laundering crimes. Belgian officials have imposed sanctions on institutions or individuals that knowingly permitted illegal activities to occur.

Belgium had long permitted the issuance of bearer bonds ("titres au porteur"), widely used to transfer wealth between generations and to avoid taxes. In late 2005 the Belgian federal parliament adopted a law to phase out bearer bonds by 2008.

Currently, Belgium has no reporting requirements on cross-border currency movements. In October 2005, the European Parliament and Council of the European Union issued Regulation (EC) No 1889/2005 on controls of cash entering or leaving the Community. Belgium is required to implement this regulation by June 15, 2007.

November 2005 was also marked by the issuance of Directive 2005/60/EC on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (3rd EU Money Laundering Directive), which EU member states, including Belgium, must implement by December 15, 2007. In another recent EU-wide initiative, the European Commission launched a consultation on the single European payments area. Stakeholder input is being sought to address a licensing/registration regime for alternative remittances. The Commission may introduce draft legislation on this topic sometime in 2006. As for non-profit organizations, the European Commission adopted a communication on non-profit organizations on November 29, 2005. This communication includes recommendations for EU member states and a framework for a code of conduct for the sector.

Belgium's FIU, CTIF-CFI, was created in 1993. CTIF-CFI's mission is to receive and analyze all suspicious transaction reports submitted by regulated entities. Operating as a filter between these

subjects and judicial authorities, CTIF-CFI reports possible money laundering or terrorist financing transactions to the public prosecutor. The FIU is an autonomous and independent public administrative authority, supervised by the Ministries of Justice and Finance. Institutions and persons subject to the reporting obligations fund the FIU. Although these contributions are compulsory, the contributing entities do not exercise any formal control over the FIU.

In terms of personnel, the CTIF-CFI is composed of eight financial experts, including three magistrates (public prosecutors) appointed by the King. A magistrate presides over the body. Terms of service are for six years and may be renewed. Decisions are taken on a majority basis, with the President of the unit holding the power to break a tie. In addition to 20 staff members providing administrative and legal support, the investigative department consists of 11 inspectors/analysts. There are also three liaison police officers, one customs officer, and one officer of the Belgian intelligence service who maintain contacts with the various law enforcement agencies in Belgium.

From its founding in 1993 until the end of 2004, the CTIF-CFI had received 94,389 disclosures and has transmitted 6,430 cases to the public prosecutor aggregating 11.7 billion euros (approximately $13.8 billion). In 2004, the FIU opened 3,163 new cases and transmitted 664 cases to the public prosecutor, down from 783 cases in 2003. A majority of the notifications generating these cases resulted from disclosures made by banks and foreign exchange offices, with less than 3 percent of notifications originating from non-financial institutions.

Belgium's FIU and federal police both transmit suspected money laundering cases to the public prosecutor. In 2004, the federal police transmitted a total of 1,815 cases to the public prosecutor. The main offenses were: narcotics (31 percent); trafficking in persons (15 percent); money laundering, fraud, and corruption (14 percent); organized crime (13 percent); armed robbery (12 percent); and vehicle theft (11 percent). Terrorism cases accounted for just over one percent of all cases forwarded to the public prosecutor by federal police.

Under Belgium's 1993 anti-money laundering and terrorist finance law (most recently amended in 2004), bank accounts can be frozen on a case-by-case basis if there is sufficient evidence that a money laundering crime has been committed. The FIU has the legal authority to suspend a transaction for a period of up to two working days in order to complete its analysis. If criminal evidence exists, the FIU forwards the case to the public prosecutor. In 2004, CTIF-CFI temporarily froze assets in 32 cases, representing 112.34 million euros (approximately $132 million).

In 2004, the federal police created a terrorist financing unit within its economic crimes department, ECOFIN. Subsequently the ECOFIN personnel were transferred to the federal police's counterterrorism department. The federal police enjoy good cross-border cooperation with other police and investigative services. The federal police and the specialized services of the Central Office for the Fight against Organized Economic and Financial Crimes utilize a number of tactics to uncover money laundering operations, including investigating significant capital injections into businesses, examining suspicious real estate transactions, and conducting random searches at all international airports. In 2004, Project Cash Watch, carried out under the auspices of the federal police at international airports and other transit venues, netted seizures of more than 1.1 million euros (approximately $1.3 million) at Belgian airports and 241,042 euros (approximately $284,067) in other locations.

Since the creation of CTIF-CFI in 1993, Belgian courts have convicted 1,085 individuals for money laundering on the basis of cases forwarded by the FIU. These convictions have yielded combined total sentences of 2,248 years and combined total fines of 29.82 million euros (approximately $35 million). Belgian authorities have confiscated more than 517 million euros (approximately $609 million) connected with money laundering crimes. The majority of convictions in relation to money laundering are based upon disclosures made by the financial institutions and others to CTIF-CFI.

In January 2004, the Belgian legislature passed domestic legislation implementing the EU Council's Framework Decision on Combating Terrorism, which criminalizes terrorist acts and material support (including financial support) for terrorist acts, allowing judicial freezes on terrorist assets. The Ministry of Finance can administratively freeze assets of individuals and entities associated with Al Qaeda, the Taliban and Usama Bin Laden on the UN 1267 Sanctions Committee's consolidated list and/or is covered by an EU asset freeze regulation. Seized assets are transferred to the Ministry of Finance. If an entity appears on the UN 1267 Sanctions Committee's consolidated list, but not on the EU list, then the GOB can pass a ministerial decree to freeze assets in order to comply with the UN requirement. Assets of entities appearing on the EU list are automatically subject to a freeze without additional legislative or executive procedures. However, Belgium lacks the legislation to administratively freeze terrorist assets in the absence of a judicial order or UN or EU designation. Belgian officials have noted that modifications in the legislation are underway in order to allow Belgium to establish a national freezing mechanism for assets related to terrorism.

Under the 2004 law, the Ministry of Justice can freeze assets related to terrorist crimes. However, the burden of proof in such cases is relatively high. In order for an act to constitute a criminal offense, authorities must demonstrate that the support was given with the knowledge that it would contribute to the commission of a crime by the terrorist group. Further, as the law does not establish a national capacity for designating foreign terrorist organizations, Belgian authorities must demonstrate in each case that the group that was lent support actually constitutes a terrorist group.

Belgium is a party to the 1988 UN Drug Convention, and in August 2004, the GOB ratified the UN Convention against Transnational Organized Crime. Belgium has signed, but not yet ratified, the UN Convention against Corruption. In 2001, Belgium became a party to the UN Convention for the Suppression of the Financing of Terrorism. A mutual legal assistance treaty between Belgium and the United States has been in force since May 2000. An extradition treaty between Belgium and the United States has been in force since September 1997. Bilateral instruments amending and supplementing these treaties, in implementation of the U.S.-EU Extradition and Mutual Assistance Agreements, were signed with Belgium in December 2004. Belgium's FIU is active among its European colleagues in sharing information. CTIF-CFI and its U.S. counterpart, FinCEN, have signed a memorandum of understanding that governs their collaborative work. CTIF-CFI heads the secretariat of the Egmont Group from 2005 to 2006.

With the January 2004 anti-money laundering legislation, Belgium has a strong anti-money laundering regime. The Government of Belgium should continue to pursue a tougher and faster independent asset-freezing capability. One obstacle is a widespread perception that once a person is placed on a UN or EU terrorist financing list, it is difficult to remove him from the list.

The Government of Belgium should continue to exert vigilance with regard to uncovering, investigating, and prosecuting illegal banking operations related to its diamond sector. Similar attention should be paid to the informal financial sector and non-bank financial institutions. Belgium should also institute stringent reporting requirements for cross-border currency movements. Finally, Belgium may need to devote more resources, including investigative personnel, to key Belgian agencies that work on money laundering, terrorist financing, and other financial crimes.

Belize

Belize is not a major regional financial center. In an attempt to diversify Belize's economic activities, authorities have encouraged the growth of offshore financial activities and have pegged the Belizean dollar to the U.S. dollar. Belize continues to offer financial and corporate services to nonresidents. Presently, there are eight licensed offshore banks, approximately 38,471 registered international business companies (IBCs), one licensed offshore insurance company and one mutual fund company operating in Belize.

Currently, there are 23 trust companies and agents operating in Belize, and there are also a number of undisclosed Internet gaming sites operating from within the country. These gaming sites are currently unregulated. Currently there are no offshore casinos operating from within Belize. Belizean officials suspect that money laundering occurs primarily within the country's offshore financial sector. The local casas de cambios (money exchange houses), which were suspected of money laundering, were closed effective July 11, 2005. Money laundering, primarily related to narcotics trafficking and contraband smuggling, also occurs through banks operating in Belize. Criminal proceeds laundered in Belize are derived primarily from foreign criminal activities. There is no evidence to indicate that money laundering proceeds are primarily controlled by local drug-trafficking organizations, organized criminals or terrorist groups. Allegedly, there is a significant black market for smuggled goods in Belize. However, there is no evidence to indicate that the smuggled goods are significantly funded by narcotics proceeds, or evidence to indicate significant narcotic-related money laundering. The funds generated from contraband are undetermined. Belizean officials have reported an increase in financial crimes, such as bank fraud, cashing of forged checks, and counterfeit Belizean and United States currency. The Central Bank of Belize has engaged in public awareness activities and trainings to regulate counterfeit currency.

There is one free trade zone presently operating in Belize, at the border with Southern Mexico. There are designated free trade zones in Punta Gorda, Belize City, and Benques Viego, but they are not operational. Data Pro Ltd. is designated as an Export Processing Zone (EPZ) and is regulated in accordance with the EPZ Act, Chapter 278, and revised edition 2000. Commercial Free Zone (CFZ) businesses are allowed to conduct business within the confines of the CFZ provided they have been approved by the Commercial Free Zone Management Agency (CFZMA) to engage in business activities. All merchandise, articles, or other goods entering the CFZ for commercial purposes are exempted from the national customs regime. However, any trade with the national customs territory of Belize is subject to the national Customs and Excise law. The CFZMA is the supervisory authority of the free zone. The CFZMA, in collaboration with the Customs Department and the Central Bank of Belize, monitors the operations of CFZ business activities. The Commercial Free Zone Act, Chapter 278 of the Laws of Belize, prescribes the establishment, functioning, and responsibilities of the CFZMA. There is no indication that the CFZ is presently being used in trade-based money laundering schemes or by the financiers of terrorism.

The Money Laundering (Prevention) Act (MLPA), in force since 1996, criminalizes money laundering related to many serious crimes, including drug-trafficking, forgery, terrorism, blackmail, arms trafficking, kidnapping, fraud, illegal deposit taking, false accounting, counterfeiting, extortion, robbery, and theft. The minimum penalty for a money laundering offense as defined by the MLPA is three years imprisonment. Additional legislation has been enacted to discourage individuals from engaging in money laundering, and there have been two arrests for money laundering in 2005. The effectiveness of the anti-money laundering regime in Belize remains unclear.

Offshore banks, international business companies and trusts are authorized to operate from within Belize, although shell banks are prohibited within the jurisdiction. The Offshore Banking Act, 1996 governs activities of Belize's offshore banks.

The Central Bank of Belize supervises and examines financial institutions for compliance with anti-money laundering/counterfinancing of terrorism laws and regulations. The banking regulations governing offshore banks are different from the domestic banking regulations in terms of capital requirements. Banks are not permitted to issue bearer shares. Nevertheless, all licensed financial institutions in Belize (onshore and offshore) are governed by the same anti-money laundering legislation and must adhere to the same anti-money laundering requirements. To legally operate from within Belize all offshore banks must be licensed by the Central Bank and be registered with IBCs. Before the Central Bank issues the license, the Central Bank must verify shareholders' and directors' backgrounds, ensure the adequacy of capital, and review the bank's business plan. The legislation

governing the licensing of offshore banks does not permit directors to act in a nominee (anonymous) capacity.

The International Business Companies Act of 1990 and its 1995 and 1999 amendments govern the operation of IBCs. The 1999 amendment to the Act allows IBCs to operate as banks and insurance companies. The International Financial Services Commission regulates the rest of the offshore sector. All IBCs must be registered. Registered agents of IBCs must satisfy the International Financial Services Commission that they conduct due diligence background checks before IBCs are allowed to register. Although IBCs are allowed to issue bearer shares, the registered agents of such companies, must know the identity of the beneficial owners of the bearer shares. In addition, registered agents must satisfy certain criteria to obtain licenses in order to perform offshore services. Belize's legislation on IBCs allows for the appointment of nominee directors. The legislation for trust companies, the Belize Trust Act, 1992, is not as stringent as the legislation for other offshore financial services and does not preclude the appointment of nominee trustees.

The Central Bank issued Supporting Regulations and Guidance Notes in 1998. Licensed banks and financial institutions are required to know their customers. Furthermore, Belizean laws require that licensed banks and financial institutions are required to monitor their customers' activities and report any suspicious transaction to the Financial Intelligence Unit (FIU). Belize law obligates banks and other financial institutions to maintain records of all large currency transactions for at least five years. Money laundering controls are applicable to non-bank financial institutions such as exchange houses, insurance companies, lawyers, and accountants. The International Financial Services Commission regulates such entities for compliance. An important exception is that of casinos. Financial institution employees are exempted from civil, criminal, or administrative liability for cooperating with regulators and law enforcement authorities in investigating money laundering or other financial crimes.

Belize does not have any bank secrecy legislation that prevents disclosure of client and ownership information. There is no impediment preventing authorities from obtaining information pertaining to financial crimes. Also, the reporting of all cross-border currency movement is mandatory. All individuals entering or departing Belize with more than BZ $20,000 ($10,000) in cash or negotiable instruments, are required to file a declaration with the authorities at the Customs, the Central Bank and the FIU.

As of September 30, 2005, the FIU had received 33 Suspicious Transaction Reports (STRs). Of the 33 STRs filed, 26 became the subject of investigations.

Current laws provide for the establishment of a FIU but not for funding of the same. The FIU has to apply to the Ministry of Finance for funds. The funding allocated to the FIU for fiscal year 2005 was BZ$400,000 ($200,000). Due to financial constraints, the FIU is not adequately staffed and the existing staff lacks sufficient training and experience. On November 5, 2005 the director of the FIU resigned, leaving the FIU with only four employees. The Director of the Public Prosecutions Office and the Belizean Police Department are responsible for investigating all crimes. However, the FIU is specifically in charge of financial crimes investigations, including money laundering and the financing of terrorism.

The FIU has access to records and databanks of other government entities and financial institutions. There are no formal mechanisms for the sharing of information with domestic regulatory and law enforcement agencies. The FIU is empowered to share information with FIUs in other countries.

Belize criminalized terrorist financing via amendments to its anti-money laundering legislation (The Money Laundering (Prevention) (Amendment) Act, 2002). Belizean authorities have circulated to all banks and financial institutions in Belize the names of suspected terrorists and terrorist organizations

listed on the UN 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224.

There are no indications that charitable and/or non-profit entities in Belize have acted as conduits for the financing of terrorist activities. Consequently, the country has not taken any measures to prevent the misuse of charitable and non-profit entities from aiding in the financing of terrorist activities. Belize has signed the UN International Convention for the Suppression of the Financing of Terrorism.

Belizean authorities acknowledge the existence and use of indigenous alternative remittance systems that bypass, in whole or part, financial institutions. Such systems are illegal in Belize. However, Belizean authorities, aware of illegal remittances, monitor such activities at both the border with Mexico and Guatemala.

Belizean law makes no distinctions between civil and criminal forfeitures. All forfeitures resulting from money laundering are treated as criminal forfeitures. The banking community cooperates fully with enforcement efforts to trace funds and seize assets. The FIU and the Belize Police Department are the entities responsible for tracing, seizing, and freezing assets. Currently, Belize's legislation does not specify the length of time assets can be frozen. The Ministry of Finance can confiscate frozen assets. With prior court approval, Belizean authorities have the power to identify, freeze, and seize terrorist finance or money laundering related assets. This includes vehicles, vessels, aircraft, and other means of transportation or communication. It would also include any property, tangible or intangible, which may be related to money laundering or is shown to be from the proceeds of money laundering, including legitimate businesses. There are no limitations to the kinds of property that may be seized, and all seized items become the property of the Government of Belize. However, law enforcement lacks the resources necessary to trace and seize assets. The Misuse of Drugs Act (MDA) has provisions for identifying, tracing, freezing, seizing, and forfeiting narcotics-related assets. The Director of the Public Prosecutions Office and the Belize Police Department are the agencies responsible for enforcing the MDA. New legislation is currently being considered to strengthen the appropriate provisions for identifying, tracing freezing, seizing and forfeiting narcotics-related assets.

The authorities are considering the enactment of a Proceeds of Crime law, which will address the seizure or forfeiture of assets of narcotics traffickers, financiers of terrorism, or organized crime. The Belize Police Department reported that during the past year, the dollar amount of assets forfeited and/or seized amounted to just over BZ$240,000 (approximately $120,000). Assets forfeited and/or seized in 2004 totaled BZ$16,664,850 (approximately $8,332,425).

No laws have been enacted specifically for the sharing of seized narcotics assets, or of proceeds of other serious crimes, including the financing of terrorism. However, the Government of Belize actively cooperates with the efforts of foreign governments to trace or seize assets relating to financial crimes.

Belize has signed a Mutual Legal Assistance Treaty, which provides for mutual legal assistance in criminal matters with the United States. Amendments to the MLPA preclude the necessity of a Mutual Legal Assistance Treaty for exchanging information or providing judicial and legal assistance in matters pertaining to money laundering and other financial crimes to authorities of other jurisdictions. On several occasions, the FIU has cooperated with the United States Department of Justice, the Financial Crimes Enforcement Network (FinCEN), the Federal Bureau of Investigation (FBI), the Internal Revenue Service (IRS), the Drug Enforcement Administration (DEA), and the Food and Drug Administration (FDA).

Belize is a party to the UN International Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, and the 1988 UN Drug Convention. Belize is also a member of the Organization of American States (OAS) and its FIU is a member of the Egmont Group.

The Government of Belize should increase resources to law enforcement and should provide adequate training to those responsible for enforcing both Belize's anti-money laundering/counterterrorist financing laws and its asset forfeiture regime. Belize should take steps to address the vulnerabilities in its supervision of its offshore sector, particularly the lack of supervision of the gaming sector, including Internet gaming facilities. Belize should immobilize bearer shares and mandate suspicious activity reporting for the offshore financial sector.

Bermuda

An overseas territory of the United Kingdom (UK), Bermuda is a major offshore financial center, and has a strong reputation internationally for the integrity of its financial regulatory system. The Government of Bermuda (GOB) cooperates with the United States and the international community to counter money laundering and terrorist financing, and continues to update its legislation and procedures in conformance with international standards. In March 2003, Bermuda welcomed the external review of offshore financial centers by the International Monetary Fund (IMF), published in early 2005. Overall, the report was positive about the Government of Bermuda's (GOB) implementation of financial regulations and anti-money laundering procedures, although it did identify a number of areas requiring action. Many of those points have since been addressed through legislation, and the GOB has committed to introducing additional amendments to address the remaining issues.

As of June 30, 2005, records indicate that 13,996 international businesses were registered in Bermuda, compared to 3,072 local companies. The majority of international businesses (12,768) are exempted companies, which means they are exempt from Bermuda laws that apply to local entities including the restriction that at least 60 percent of local entities must be owned by Bermudan residents. Like local companies, an exempt company is not subject to currency controls or capital controls and is free from all forms of direct taxation on income and capital gains. Therefore, exempt companies are normally prohibited from doing business in the local economy. In addition, there are 612 exempted partnerships, 596 nonresident international companies (incorporated elsewhere to do business in Bermuda), and 19 nonresident insurance companies. These businesses operate in a fashion similar to and are subject to the same rules as an exempt company. The majority of Bermuda's exempt companies are shell companies with no physical presence on the island. Local directors (generally a local lawyer and secretary) are designated to manage corporate affairs in Bermuda. Before exempted companies can be established or any shares transferred between nonresidents, the owners and controllers must be vetted by the Bermuda Monetary Authority (BMA), the sole regulatory body for financial services.

As of December 2005, Bermuda has 1,421 international insurers and reinsurers; 1,031 of those are captive insurance companies. The term "captive" refers to companies formed primarily to insure the risks of their parent companies or affiliates. The United States is the biggest single source of captive business for Bermuda, accounting for 63 percent of the island's insurance formations. There are also 1,031 mutual fund companies, and 21 unit trusts in Bermuda. There are 4 banks in Bermuda; offshore banking is not permitted. There are no free trade zones in Bermuda.

The GOB first passed specific money laundering legislation in 1997, enacting the Proceeds of Crime Act (PCA) to apply money laundering controls to financial institutions such as banks, deposit companies, and trust companies. Subsequent amendments added investment businesses, including broker-dealers and investment managers to the list. Amendments in 2000 expanded the scope of the legislation to cover the proceeds of all indictable offenses. The PCA established the National Anti-Money Laundering Committee (NAMLC) for the purpose of advising the Minister of Finance on efforts to combat money laundering domestically and internationally, as well as to issue Guidance Notes. The committee is comprised of government officials from the Ministry of Finance, the Ministry of Labor, Home Affairs and Public Safety, Attorney General's Chambers, Department of Public

Prosecutions, Her Majesty's Customs, Registrar of Companies, Bermuda Monetary Authority, and the Bermuda Police Service-Financial Investigation Unit (FIU). The NAMLC revised the guidance notes and it is expected that the notes, along with amendments to the PCA and the PCA Regulations, will become effective in 2006. The amendments broaden the scope of the PCA regulations to include gatekeepers such as lawyers and accountants.

The PCA includes "know your customer" (KYC) requirements and provides for the monitoring of accounts for suspicious activity. Furthermore, Bermuda performs due diligence on persons seeking to undertake business on the island. The vetting process is undertaken when an entity is incorporated. A personal declaration form must be submitted for beneficial owners of international businesses prior to incorporation. Similar requirements apply to proposals to transfer shares. Additionally, a company must detail its business plan and maintain a register of shareholders at its registered office.

The Bermuda Monetary Authority (BMA) is the sole regulatory body for financial services and is responsible for the licensing, supervision, and regulation of financial institutions including those conducting deposit-taking, insurance, investment and trust business in Bermuda. The BMA Amendment Act 2002 formalized the BMA's responsibilities to include assisting with the detection and prevention of financial crime. The BMA conducts on-site reviews and detailed compliance testing of financial institutions' anti-money laundering controls. The BMA engages in active perimeter policing responsibilities and has legal powers to undertake investigations of unlicensed persons suspected of breaching the regulations, although the BMA has not found it necessary to use these legal powers extensively.

The Banks and Deposit Companies Act 1999 implements the Core Principles for Effective Banking Supervision issued by the Basel Committee. Banks and other financial institutions are required to retain records for a minimum of five years. Bermuda has not adopted bank secrecy laws, but like the UK, recognizes a banker's common-law duty of client confidentiality. Bankers and others are protected by law with respect to their cooperation with law enforcement officials. The Insurance Amendment Act 2004 implemented a number of changes to Bermuda's insurance regime pursuant to the International Association of Insurance Supervisors' (IAIS) adoption of revised core principles for supervision, as well as to the comments made by the IMF in their report on Bermuda's insurance provisions. A further series of more substantive amendments to the Insurance Act is currently in preparation and expected to be introduced into Parliament in the spring of 2006, which should complete the overhaul of the island's insurance legislation, consistent with new international standards for this sector.

The amended Investment Business Act 2003 enhances the regulatory powers of the BMA through stronger intervention powers and clarifying certain provisions, such as the BMA's ability to cooperate with foreign regulatory bodies. Other provisions include measures to strengthen criminal and regulatory penalties. The Act also brought the Bermuda Stock Exchange (BSX) under the regulation of the BMA. In 2004 provisions were added to the Criminal Code Amendment Act to create specific offenses of insider trading and market manipulation in securities markets. Fines up to $100,000 and prison terms of five years are in place for market manipulation and up to $175,000 and seven years jail time for insider trading. These provisions are in addition to existing regulations of the Bermuda Stock Exchange (BSX) that prohibit members from insider trading and market manipulation, on penalty of sanctions, including expulsion from the BSX.

Collective investment schemes (CISs) are regulated by the BMA, and fund administrators are regulated persons for the purposes of the PCA. To strengthen regulation, CISs, including hedge funds, will be the subject of new legislation anticipated for the spring 2006 session of Parliament. The proposed legislation will expand the definition of collective investment schemes to include, in addition to mutual funds and unit trusts, other business vehicles that pool and manage investment monies. It will require the licensing of fund administrators to be subject to minimum standards and a code of

practice. The BMA will also be able to conduct compliance checks of PCA procedures as carried out by CIS administrators. However, the BMA will continue to apply differentiated requirements involving lighter regulation of schemes catering to institutional and sophisticated investors, with greater reliance on transparency and disclosure.

The Bermuda Police Service's Financial Investigation Unit (FIU) serves as the island's financial intelligence unit. The FIU's mandate includes including criminal tax investigations. The FIU is the designated recipient of suspicious activity reports (SARs). In the past, the majority of SARs were related primarily to conversion of suspected local drug profits to U.S. dollars via the island's Western Union money transmission service, which ceased operations in Bermuda on October 31, 2002. Because Bermuda law requires money transmission services to be conducted in association with a licensed deposit-taker, conversion of funds is subject to bank reporting standards. SAR statistics reflect the closure of Western Union: In 2001, 2,827 SARs were filed with the FIU, decreasing to 2,570 in 2002, 275 in 2003, and 162 in 2004. The downward trend reversed in 2005 with 181 SARs posted through mid-December. From 2001-2003 a total of 16 arrests were made on money laundering charges; however, Bermuda's first and only money laundering conviction was prosecuted in 2004. Involving $136,000, the conviction resulted in an 18-month suspended sentence due to mitigating circumstances. Ten arrests were made in 2005 for money laundering.

The PCA establishes procedures for identifying, tracing, and freezing the proceeds of narcotics trafficking and other indictable offenses, including money laundering, tax evasion, corruption, fraud, counterfeiting, stealing, and forgery. Additionally, the PCA provides for forfeiture upon criminal conviction if it is proven that benefit was gained from a criminal act. Under the PCA, there is no provision for seizure of physical assets unless intercepted leaving the island. However, the Supreme Court may issue a confiscation order pursuant to which the convicted person must satisfy a monetary obligation. The amount paid is placed into the Confiscated Assets Fund and may be shared with other jurisdictions at the direction of the Minister of Finance. Under the Misuse of Drugs Act, physical assets can be seized if used at the time the offense was committed. During 2004, the courts issued two successful confiscation orders, for a total amount of $52,335. Forfeitures under the Misuse of Drugs Act are holding steady, with six forfeitures in 2004 amounting to $17,529, compared to the $13,908 forfeited in three separate 2003 cases. Cash seized in 2004 under PCA detention orders exceeded $56,600, and in 2005 there were two cash seizures worth $57,761; both 2004 and 2005 represented a considerable a drop from the $173,000 seized in 2003. Three restraining orders still in place from 2003/2004 are valued at approximately $1.5 million. One new restraining order was issued in 2005 for approximately $621,000. Three cash seizures from 2004 were forfeited under the PCA during 2005 amounting to $47,561.

The Bermuda Police Service, through the FIU and the courts, enforces existing drug-related asset tracing/seizure/forfeiture laws. The PCA will likely be amended in 2006 to strengthen measures to detect/monitor cross-border transportation of cash. At present, the PCA provides for the seizure of cash imported into and exported from Bermuda believed to be the proceeds of criminal activity. Proposed amendments will address cash movements not attributable to criminal activity. Other amendments will widen mandatory reporting requirements relating to the suspicion of money laundering, to cover gatekeepers, such as attorneys and accountants. Currently, if there are reasonable grounds for suspicion, Her Majesty's Customs is authorized to seize cash and instruments; monies can also be seized if travelers fail to report the transportation of cash in excess of $10,000.

The Criminal Justice (International Co-Operation) (Bermuda) Act 1994, as amended in 1996, authorizes the provision of assistance to foreign entities upon their request in connection with foreign criminal proceedings, including securing of evidence in Bermuda and overseas. The BMA Amendment (No. 3) Act 2004 clarifies the power of the BMA to cooperate with other overseas authorities. Its passage follows challenges in Bermuda courts on a specific case in which the BMA was assisting the U.S. Securities and Exchange Commission. Other Bermuda laws also authorize the

sharing of information with overseas regulators: the Banks and Deposit Companies Act 1999, the Trusts (Regulation of Trust Business) Act 2001 and the Investment Business Act 2003.

Bermuda is a member of the Caribbean Financial Action Task Force (CFATF), and its FIU is a member of the Egmont Group. Bermuda is also a member of regulatory standard-setting bodies for banking, insurance and investment business. Through the UK by extension, Bermuda is a party to the 1988 UN Drug Convention and the U.S./UK Extradition Treaty. The GOB enacted the Anti-Terrorism (Financial and Other Measures) Act 2004 that introduced specific provisions criminalizing terrorist financing and provided the framework to ensure implementation of the FATF Special Recommendations on Terrorist Financing. It makes it an offense to raise funds for terrorism, creates specific offenses relating to the raising, use, or possession of funds for purposes of terrorism, imposes a duty to report suspicious activity, and provides for the forfeiture of terrorist cash. The effect is to parallel the provisions already in place under the PCA for money laundering and the proceeds of other serious crimes. Financial institutions had previously been asked to conduct full reviews of their clients against officially published lists of terrorist suspects. There has been no known identified evidence of terrorist financing in Bermuda.

The Government of Bermuda should continue its efforts to update its financial services legislation relating to anti-money laundering and counterterrorism. It should also enact the proposed measures to strengthen provisions relating to the cross-border transportation of cash and monetary instruments and to include gatekeepers, such as accountants and attorneys, as covered entities under its anti-money laundering laws.

Bolivia

Bolivia is not an important regional financial center, but it occupies a geographically significant position in the heart of South America. Bolivia is a major drug producing and drug-transit country. Most money laundering in Bolivia is related to public corruption, contraband smuggling, and narcotics trafficking. Bolivia's long tradition of bank secrecy and the lack of a government entity with effective oversight of non-bank financial activities facilitate the laundering of the profits of organized crime and narcotics trafficking, the evasion of taxes, and laundering of other illegally obtained earnings.

Bolivia's anti-money laundering regime is based on Law 1768 of 1997. Law 1768 modifies the penal code; criminalizes money laundering related only to narcotics trafficking, organized criminal activities and public corruption; provides for a penalty of one to six years for money laundering; and defines the use of asset seizure beyond drug-related offenses. Law 1768 also created Bolivia's financial intelligence unit, the Unidad de Investigaciones Financieras (UIF), within the Office of the Superintendence of Banks and Financial Institutions. The attributions and functions of the unit are defined under Supreme Decree 24771.

Although Law 1768 established the UIF as an administrative financial intelligence unit in 1997, the UIF did not become operational until July 1999. The UIF currently has more than 20 staff members, including the director. The director of the UIF is not a political appointee. The Superintendence of Banks and the Superintendence of Securities and Insurance elect the director to his/her position for a five-year term. The director can only be re-elected once. In January 2004, the term of the UIF's first director ended; he was not re-elected, and the UIF's second director took over the operations of the UIF in February 2004.

The UIF is responsible for collecting and analyzing data on suspected money laundering and other financial crimes, forwarding cases that warrant further information to the Public Ministry, and requesting specific information from the financial sector on behalf of the Public Ministry prosecutors. Under Decree 24771, obligated entities—which include banks, insurance companies and securities brokers—are required to identify their customers, retain records of transactions for a minimum of ten

years, and report to the UIF all transactions that are considered unusual (without apparent economic justification or licit purpose) or suspicious (customer refuses to provide information or the explanation and/or documents presented are clearly inconsistent or incorrect). Under the current law, there is no requirement for obligated entities to report cash transactions above a certain threshold, as is commonplace in many countries' anti-money laundering regimes. Although by law Bolivian Customs is permitted to share information with the UIF regarding the movement of currency into or out of Bolivia, it generally does not do so.

After analyzing suspicious transaction reports and any other relevant information it may receive, the UIF reports all detected criminal activity to the Public Ministry. The UIF also has the ability to request additional information from obligated financial institutions in order to assist the prosecutors of the Public Ministry with their investigations. In 2005 the UIF received 45 reports of suspicious or unusual transactions and sent seven cases to the Public Ministry for further investigation. The UIF is also responsible for implementing anti-money laundering controls, and may request that the Superintendence of Banks sanction obligated institutions for noncompliance with reporting requirements. In 2004, the UIF began on-site inspections of obligated entities in order to review their compliance with the reporting of suspicious transactions.

In 2002, the Special Group for Investigation of Economic Financial Affairs (GIAEF) was created within Bolivia's Special Counter-Narcotics Force (FELCN) to investigate narcotics-related money laundering. The UIF, the Public Ministry, the National Police, and FELCN have established mechanisms for the exchange and coordination of information, including formal exchange of bank secrecy information. The full range of possibilities inherent in this mechanism has yet to be exploited.

Corruption is a serious issue in Bolivia. Traditionally, allegations against high-ranking law enforcement officials were routinely dismissed or forgotten. However, recently created anticorruption task forces have increased the effectiveness of investigations and prosecutions, and the number of convictions related to the crime of corruption is growing. For instance, several major convictions occurred in December 2004: three high-ranking police officials and one judge were convicted on charges related to narcotics trafficking and consorting with narcotics traffickers. In the case of the convicted judge, a report created in part by the UIF detailing financial transactions related to the case led to the formal charges.

In spite of advances in combating money laundering, Bolivia's anti-money laundering system still has many weaknesses. In spite of recommendations by both the International Monetary Fund (IMF) and the Financial Action Task Force for South America (GAFISUD), the Government of Bolivia (GOB) has done little to strengthen the UIF. Limitations in its reach and weaknesses in its basic legal and regulatory framework continue to hamper the UIF's effectiveness as a financial intelligence unit. The GOB's anti-money laundering regime is also undermined by the lack of support—both legal and bureaucratic—for money laundering investigations carried out by law enforcement officials. In order to prosecute a money laundering case, Bolivian law requires that the crime of money laundering be tied to an underlying illicit activity. At present, the list of these underlying crimes is extremely restrictive and inhibits money laundering prosecution. Although the Public Ministry is the office responsible for prosecuting money laundering offenses, it does not have a specialized unit dedicated to the prosecution of these cases. Judges trying these cases are challenged to understand their complexities. To date, there has been only one conviction that involved money laundering. The case is under appeal.

There are also serious deficiencies in Bolivia's legal framework with regard to civil responsibility. Under Bolivian law, there is no protection for judges, prosecutors, or police investigators who make good-faith errors while carrying out their duties. If a case is lost initially or on appeal, or if a judge rules that the charges against the accused are unfounded, the accused can request compensation for damages, and the judges, prosecutors, or investigators can be subject to criminal charges for

misinterpreting the law. This is particularly a problem for money laundering investigations, as the law is full of inconsistencies and contradictions and is open to wide interpretation. For these reasons, prosecutors are often reluctant to pursue these types of investigations.

Several entities that move money in Bolivia remain unregulated. Hotels, currency exchange houses, illicit casinos, cash transporters, and wire transfer businesses (such as Western Union) are all unregulated and can be used to transfer money freely into and out of Bolivia. Informal exchange businesses, particularly in the department of Santa Cruz, are also used to transmit money in order to avoid law enforcement scrutiny.

While traditional asset seizure continues to be employed by counternarcotics authorities, until recently the ultimate forfeiture of assets was problematic. Prior to 1996, Bolivian law permitted the sale of property seized in drug arrests only after the Supreme Court confirmed the conviction of a defendant. A 1995 decree permitted the sale of seized property with the consent of the accused and in certain other limited circumstances. The Directorate General for Seized Assets (DIRCABI) is responsible for confiscating, maintaining, and disposing of the property of persons either accused or convicted of violating Bolivia's narcotics laws. DIRCABI, however, has been poorly managed for years, and has only auctioned confiscated goods sporadically. The UIF, with judicial authorization, may freeze accounts for up to 48 hours in suspected money laundering cases; this law has only been applied on one occasion.

Although terrorist acts are criminalized under the Bolivian Penal Code, the GOB currently lacks legislation that specifically addresses terrorist financing. Bolivia is a party to the UN International Convention for the Suppression of the Financing of Terrorism and has signed the Organization of American States (OAS) Inter-American Convention Against Terrorism. However, there are no explicit domestic laws that criminalize the financing of terrorism or grant the GOB the authority to identify, seize, or freeze terrorist assets. Nevertheless, the UIF distributes the terrorist lists of the United Nations and the United States, receives and maintains information on terrorist groups, and can freeze suspicious assets under its own authority for up to 48 hours, as it has done in counternarcotics cases. A draft terrorist financing law was created by the UIF and presented to the Superintendence of Banks. However, because of a lack of political will due to the recent presidential elections, the bill has not yet been presented to Congress. There have been no cases of terrorist financing to date.

In order to address the problems faced by Bolivia's anti-money laundering regime, the UIF has proposed various changes that will amend Law 1768 and the UIF regulations. A set of draft laws was presented to Congress in 2004, which—if passed—would make money laundering an autonomous crime, penalized by a minimum prison term of fifteen years; increase the number of predicate offenses for money laundering, as well as the number of entities obligated to file financial reports with the UIF; and allow for the seizure of assets and the use of certain special investigative techniques. These draft laws would also require financial institutions to report cash transactions above a certain threshold and require the customs authority to provide the UIF with information regarding the physical movement of cash or monetary instruments into or out of Bolivia.

The GOB remains active in multilateral counternarcotics and international anti-money laundering organizations. Bolivia is a member of the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering and the South America Financial Action Task Force (GAFISUD), and is due to undergo its second mutual evaluation by GAFISUD in 2006. Bolivia is a party to the 1988 UN Drug Convention and the UN Convention for the Suppression of the Financing of Terrorism. In 2005, the GOB ratified the UN Convention Against Corruption and the UN Convention Against Transnational Organized Crime. The GOB has signed, but not yet ratified, the OAS) Inter-American Convention Against Terrorism. The UIF has been a member of the Egmont Group of financial intelligence units since 1999 and has signed memoranda of understanding with several other financial intelligence units, including Argentina, Brazil, Chile, Colombia, Ecuador,

France, Guatemala, Honduras, Korea, Mexico, Panama, Paraguay, Peru, Portugal, Slovakia, Spain and Venezuela. The GOB and the United States signed an extradition treaty in June 1995, which entered into force in November 1996.

The Government of Bolivia should strengthen its anti-money laundering regime by improving its current money laundering legislation so that it conforms to the standards of the Financial Action Task Force and GAFISUD. Bolivia should adopt new laws making money laundering a separate offense without requiring a connection to other illicit activities, expand the list of predicate offenses, criminalize terrorist financing, and enable the blockage of terrorist assets. These changes are necessary for an effective anti-money laundering and counterterrorist financing regime. As recommended by the IMF and GAFISUD, the jurisdiction of the UIF should also be expanded to cover reporting by non-banking financial institutions. Bolivia should continue to strengthen the relationships and cooperation between all government entities involved in the fight against money laundering.

Bosnia and Herzegovina

Bosnia and Herzegovina (BiH) is neither an international, regional, nor offshore financial center. International observers believe the laundering of illicit proceeds from criminal activity through existing financial institutions, as well as the laundering of proceeds from official corruption, is widespread. Other major sources of laundered money include tax evasion, corruption, and smuggling. Money laundering is not related primarily to narcotics proceeds. The economy of BiH is primarily cash-based, and recent studies indicate that as much as 40-60 percent of the economic activity in BiH is in the gray market.

Due to its porous borders and weak rule of law capacities, BiH is a significant market and transit point for illegal commodities including cigarettes, firearms, fuel oils, and trafficking in persons. It is likely that at least some of the proceeds from illicit activities are laundered through the banking system, though supervisory entities have made progress in requiring banks to improve controls of suspect transactions. BiH authorities have had some success in clamping down on money laundering through the formal banking system, especially on the part of suspect non-governmental organizations using direct cash transfers from abroad as a source of funding. Financial crimes overall are not seen to be increasing, though renewed attention from investigators and prosecutors means that more cases are receiving public attention. Governmental authorities throughout BiH are primarily concerned with tax and customs evasion.

There are multiple jurisdictional levels in Bosnia and Herzegovina: the State (or national) level; the entity level, which includes two entities, the Federation of Bosnia and Herzegovina (Federation) and Republika Srpska (RS) plus the Brcko District; cantons in the Federation; and, municipal governments in both entities and the Brcko District. Each jurisdiction has its own (for the most part) parallel institutions, criminal codes, criminal procedure codes, supporting laws and regulations, and enforcement bodies. The Entity, Brcko District, and State-level criminal and criminal procedure codes were harmonized in 2003. Although State level institutions are becoming more firmly grounded and are gaining increased authority, jurisdictional matters between the entities and State-level institutions remain confused.

Money laundering is a criminal offense in all State and entity criminal codes. New criminal procedure (CPC) and criminal codes were enacted at the State and entity levels in 2003, with tougher provisions against money laundering. Terrorist financing was criminalized in Article 202 of the CPC. The law on the Prevention of Money Laundering came into force on December 28, 2004, and determines the measures and responsibilities for detecting, preventing, and investigating money laundering and terrorist financing. It also prescribes measures and responsibilities for international cooperation and mandates the establishment of the Financial Intelligence Department (FID), the financial intelligence unit (FIU) for BiH. The FID is part of the recently created State Investigative and Protection Agency

(SIPA). The law requires that data on money laundering and terrorist financing offenses be shared by the prosecutor's office with the FIU. The FIU became a member of the Egmont Group in 2005. The FIU is a hybrid body, tasked with performing both analytic and criminal investigative functions. The FIU has no regulatory responsibilities. The FIU receives, collects, records, analyzes, investigates, and forwards to the State prosecutor information and documentation related to money laundering and terrorist financing. It also provides expert support to the prosecutor regarding financial activities and is responsible for international cooperation on money laundering issues. The FIU is not yet fully staffed or operational, and its scrutiny of suspicious transactions is therefore limited. It is still unclear what role entity financial enforcement authorities will play in this interim period, and how they will relate to the FIU once it is fully operational.

The Law on the Prevention of Money Laundering applies to any person who "accepts, exchanges, keeps, disposes of, uses in commercial or other commercial or other activity, otherwise conceals or tries to conceal money or property he knows was acquired through perpetration of a criminal offense, when such a money or property is of larger value or when such an act endangers the common economic space of Bosnia and Herzegovina or has detrimental consequences to the operations or financing of institutions of Bosnia and Herzegovina."

For amounts above Bosnia Convertible Mark (BAM) 50,000 (approximately $30,000), the penalty is a term of imprisonment of between one and ten years. For lesser amounts, the penalty is a term of imprisonment of between six months and five years. The money laundering law applies to all individuals and institutions. However, there is no formal supervision mechanism in place for non-bank financial institutions and intermediaries. SIPA and the Federation and RS police bodies are responsible for the investigation of financial crimes.

BiH has not enacted bank secrecy laws that prevent the disclosure of client and ownership information to bank supervisors and law enforcement authorities. The banking community cooperates with law enforcement efforts to trace funds and freeze bank accounts. There is no State-level banking supervision agency. However, a number of banks, including all those within the Federation, do have compliance officers. Although the respective banking agencies have provided training to compliance officers, bankers note that a State-level working group to assist the banks with various technical, training and compliance issues would be helpful. BiH generally adheres in practice to the Basel Committee's Core Principles for Effective Banking Supervision, including legal requirements to report suspicious transactions and conduct due diligence. Financial institutions must maintain detailed deposit records and report suspicious transactions on a daily basis to regulatory authorities.

The Entity-level banking supervision agencies supervise and examine financial institutions for compliance with anti-money laundering and terrorism finance laws. Banks and other financial institutions are required to know, record, and report the identity of customers engaging in significant transactions, including currency transactions above 30,000 BAM ($18,000). They are also required to maintain records in order to respond to law enforcement requests. Reporting of all suspicious transactions is mandatory. There is no threshold amount for suspicious transactions. Reporting individuals (bankers and others) are protected by law with respect to law enforcement cooperation. There are no statutory requirements limiting or monitoring the international transportation of currency and monetary instruments. The law requires that information on all transportation of cash and securities in excess of 10,000 BAM ($6,000) be reported to the FIU by customs administration authorities. Transactions that violate the law may be prosecuted. The taxation authority, which has responsibility for Customs, suffers like other BiH State agencies from a lack of resources and sufficient trained personnel.

The cash threshold for currency transaction monitoring is 30,000 BAM (about $20,000). In 2004, the Federation Financial Police received reports on 77,422 currency transactions totaling 6.8 billion BAM (about $4.6 billion) from financial institutions and customs authorities. Out of this number, 128

transactions in amount of 11.1 million BAM (about $7.5 million) were identified as suspicious and reported to prosecutors. The accounts of 1,234 fictitious companies were blocked and assets in amount of 1.3 million BAM (about $870,000) were frozen. Criminal charges were pressed against 67 individuals. In 2005, the FIU received 98,891 currency reports from banks. Of these, 83 were identified as suspicious transactions warranting additional measures such as temporary freezing of assets, seizure and analysis of documentation, and carrying out of interviews with individuals linked to the suspicious transaction. The FIU reports that it froze 1,985,225 BAM ($1,203,167) in 2005.

In order to avoid misuse of the banking system by multiplication of accounts, the Central Bank of Bosnia and Herzegovina (CBBH) has established a central registry of bank accounts. The Single Transaction Account Registry, which became operational on July 5, 2004, contains all the transactional accounts of the legal entities in BiH. Only the CBBH Main Units can issue data from the Registry. Any legal entity or citizen can submit a request for information from the Single Transactional Accounts Registry, provided they can justify the request and provide proof of fee payment.

There have been several multiple-defendant indictments for money laundering, most of which have been disposed of by plea bargain. There were three major money laundering cases in BiH in 2005. In the first case, three persons were indicted for money laundering. One individual was sentenced to two years imprisonment. The trial for the other two has not yet been completed. In a second case, a plea agreement was reached and the defendant was sentenced to two years' imprisonment and a 10,000 BAM ($6,000) fine. In the third case, three persons were indicted. One defendant was sentenced to two years and agreed to testify against the other two defendants. Their trial remains ongoing. There were no arrests or prosecutions for terrorist financing in 2005.

The BiH has adequate and comprehensive procedures for forfeiture of criminal proceeds. BiH authorities have the authority to identify, freeze, seize, and forfeit terrorist finance- related and other assets. Forfeiture proceedings are initiated and conducted by the Prosecutor. The banking agencies, in particular, have the capability to freeze assets. However, the prosecutor and courts do not have the administrative mechanisms in place to seize assets, maintain them in storage, dispose of them, or route the proceeds to the appropriate authorities. BiH law does not designate any appropriate authority for this purpose. Property may be seized for criminal offenses for which a term of imprisonment of five years or more is prescribed. A specific relationship to the crime does not have to be proven for the assets to be seized. There is no mechanism for civil confiscation in place and none is anticipated in the near future.

On October 21, 2002, the UN High Representative put in place amendments to Federation and RS Banking Laws, banning the use of money for terrorism. Citizens of BiH can be prosecuted for terrorism financing when a terrorist act is committed abroad; non-citizens can be extradited. BiH will not extradite its own citizens, but will prosecute them in BiH. The amendments provide Federation and RS Banking Agencies with clear legal authority to freeze assets of suspected terrorists. Banking agencies cooperate well with U.S. authorities. The Entity banking agencies are cognizant of the requirements to sanction suspected terrorists and terrorist organizations on the UN 1267 Sanctions Committee's consolidated list. However, BiH State authorities do not circulate the consolidated list to them on a regular basis. In 2004, the Government of BiH disrupted the operations of several organizations listed by the UN 1267 Sanctions Committee as having direct links with Al-Qaida. Authorities continue to investigate other organizations and individuals for links to terrorist financing. Non-bank financial transfers are very difficult for BiH law enforcement and customs officials to monitor. BiH authorities have not dealt explicitly with the issue of alternative remittance systems which bypass financial institutions. Any illegal transactions fall under the scope of the money laundering provisions of the BiH criminal procedure code.

A National Action Plan, adopted in October 2003, incorporates the Council of Europe's recommendations against corruption and organized crime. The National Coordination team continued its work in 2004, establishing concrete steps and timelines for accomplishing goals in the areas of institution-building, legislative reform and implementation, and operational cooperation. In implementing the plan, BiH has taken several important steps such as the continued development of the nascent SIPA, the State Intelligence Agency, and the Citizen Identification Protection System.

Mutual Legal Assistance Treaties that had been signed by either the former Yugoslavia or the Kingdom of Serbia have carried over into BiH. There is no formal bilateral agreement between the United States and BiH regarding the exchange of records in connection with narcotics investigations and proceedings. Local authorities have made good faith efforts to exchange information informally with officials from the USG and regional states, particularly Slovenia and Croatia. BiH has signed bilateral agreements for information exchange regarding bank supervision with Croatia, Serbia, and Slovenia.

BiH is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, and the UN International Convention for the Suppression of the Financing of Terrorism. BiH has signed, but has not yet ratified, the UN Convention against Corruption. BiH is a party to all 12 of the international conventions and protocols relating to terrorism. The Government of BiH adheres to relevant international money laundering standards. However, BiH has historically proven unable or unwilling to pass implementing legislation for the international conventions to which it is a party.

While BiH generally has law and regulations in place that conform to relevant international money laundering standards, it should do a better job of implementing those existing laws and regulations, as well as international conventions to which it is a party. BiH should also fully operationalize and staff its centralized regulatory and law enforcement authorities, including the financial intelligence unit (FIU) within the State Investigative and Protection Agency (SIPA) as soon as possible. At present, both the SIPA and the FIU remain under-funded and under-resourced. Although progress in implementation and enforcement has been made, BiH should continue to strengthen its institutions, particularly those State-level institutions responsible for the prevention of money laundering and terrorist financing. Significant additional training should be implemented so that law enforcement, prosecutors, and judges will have a better understanding of money laundering and terrorist financing and how to pursue it. BiH should consider how best to implement plans to harmonize any remaining legislation and to work toward the establishment of competent state-level institutions.

Botswana

Botswana is a developing regional financial center as well as a nascent offshore financial center. Botswana has a relatively well-developed banking sector and is vulnerable to money laundering. Neither the narcotics trade nor the laundering of its proceeds appears to be a major problem in Botswana. Financial crimes such as bank fraud and counterfeit currency were down marginally from 2004. Reportedly, illicit diamonds are smuggled from Botswana into South Africa and other neighboring countries.

Section 14 of the Proceeds of Serious Crime Act of 1990 criminalizes money laundering related to all serious crimes. The Bank of Botswana requires financial institutions to report any transaction in which BWP (Botswana Pula) 10,000 (approximately $2,500) or more is transferred. The Bank of Botswana has the discretion to provide information on large currency transactions to law enforcement agencies. In 2001, Botswana amended the Proceeds of Serious Crimes Act to require identification of financial bodies and owners of corporations and accounts. Additionally, Section 44 of the Banking Act of 1995 requires banks to exercise due diligence, and any bank which acts in breach of the requirements of this section is guilty of an offense and liable for a fine. The Bank of Botswana may revoke the license of a bank that has been convicted by a court of competent jurisdiction of an offense related to the use or

laundering of illegal proceeds. License revocation also applies if the bank is the affiliate, subsidiary, or parent company of a bank that has been convicted.

In 2003, the Government of Botswana enacted the Banking (Anti-Money Laundering) Regulations, which are minimum guidelines to banks on the application of international best practices on anti-money laundering. The regulations require banks to record and verify the identification of all personal and corporate customers. Banks must maintain all records on transactions, both domestic and international, for at least five years. Banks also must comply expeditiously with information requests from the Directorate on Corruption and Economic Crime (DCEC), which bears some of the responsibilities of a financial intelligence unit, and other law enforcement authorities. Implementation assessments by the Government in 2005 found compliance with these regulations to be satisfactory. These regulations do not apply to non-bank financial institutions.

The 2003 Banking Regulations also require banks to report suspicious transactions. For reporting purposes, banks must designate an employee at management level as a money laundering reporting officer, who serves as a contact between the bank, the Central Bank, and the DCEC. In practice, banks regularly submit reports of suspicious transactions to the Bank of Botswana, which supervises compliance with anti-money laundering regulations, and to the DCEC. From January to November 2005, the DCEC received 93 reports of suspicious activity, of which 85 were investigated. In 2004, the government established regulations governing bureaux de change, including measures to prevent the use of these institutions to launder money. Customs regulations require travelers carrying the equivalent of P10,000 (approximately $2,000) or more to declare that currency upon entering Botswana.

Botswana is in the early stages of developing an offshore financial center and, consequently, licenses offshore banks and businesses. Background checks are performed on applicants for offshore banking and business licenses, as well as on their directors and senior management. The supervisory standards applied to domestic banks are also applicable to offshore banks. The Bank of Botswana has licensed two offshore banks, but only one has commenced operations.

Bank and business directors are subject to the "fit and proper test" required by Section 29 of the Banking Act of 1995. Anonymous directors and trustees are not allowed. Currently, no offshore trusts operate in Botswana. Shell companies are prohibited in Botswana.

There were no prosecutions for money laundering or terrorist financing from January to November 2005. Terrorist financing is not criminalized as a specific offense in Botswana. However, acts of terrorism and related offenses, such as aiding and abetting, can be prosecuted under the Penal Code and under the Arms and Ammunitions Act. The Bank of Botswana has circulated to financial institutions the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list, the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224, and the European Union's list. Under the Proceeds of Serious Crime Act, courts have the authority to confiscate proceeds of terrorist finance-related assets.

Botswana is a party to both the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. Botswana is also a party to the UN Convention against Transnational Organized Crime. Botswana officially became a member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) in February 2003.

The Government of Botswana is preparing a draft strategy to combat money laundering and the financing of terrorism, including interagency procedures and coordination. Although Botswana does not yet have a full-fledged financial intelligence unit, the DCEC has responsibility for investigating suspected instances of money laundering, and it can demand access to bank records if needed during the course of an investigation. Currently the law provides for asset forfeiture only after a conviction. During an investigation, the government may appeal to the High Court for a restraining order

effectively freezing the financial assets of a suspect, but only for a non-renewable, seven-day period. Government agencies are actively considering the need for broader asset forfeiture to allow a financial intelligence unit to effectively combat money laundering and the financing of terrorism. Legislation authorizing a financial intelligence unit and granting it sufficient powers to investigate would increase the government's capacity to combat financial crimes.

Brazil

Due to its size and large economy, Brazil is considered a regional financial center but not an offshore financial center. Brazil is a major drug-transit country. Brazil maintains adequate banking regulations, retains some controls on capital flows, and requires disclosure of the ownership of corporations. Brazilian authorities report that money laundering in Brazil is primarily related domestic crime, especially drugs-trafficking, corruption, organized crime, and trade in contraband, all of which generate funds that may be laundered through the banking system, real estate investment, or financial asset markets. According to Brazilian authorities, organized crime groups use the proceeds of domestic drug trafficking to purchase weapons from Colombian guerilla groups. The authorities believe that Brazilian institutions do not engage in illegal currency transactions that include significant amounts of U.S. currency derived from illegal drug sales in the United States or that otherwise significantly affect the United States. An Inter-American Development Bank study of money laundering in the region found that Brazil's relatively strong institutions helped reduce the incidence of money laundering to below average for the region.

In 2005, the Government of Brazil (GOB) continued investigating corrupt public figures, including customs inspectors, federal tax authorities, and high-ranking politicians, and the use of offshore companies to launder money. The year 2005 saw a range of corrupt activities of spectacular scope come to light, as Brazilian congressional and law enforcement authorities began multiple investigations into illicit financing by several political parties of their 2002 presidential campaigns. The campaign financing investigations uncovered a multi-layered corruption scandal involving alleged vote-buying in Congress by elements within the president's Worker's Party (PT) and executive branch, financed by kickbacks on contracts. While the investigations are ongoing, it appears that two medium-sized regional banks served as conduits for illicit payments, making use of a publicity firm's bank accounts. It appears that some payments were made into bank accounts overseas.

The Triborder Area shared by Argentina, Brazil, and Paraguay is well known for its multi-billion dollar contraband re-export trade, and arms and drug trafficking. A wide variety of counterfeit goods, including cigarettes, CDs, DVDs, and computer software, are imported into Paraguay from Asia and transported primarily across the border into Brazil, with a significantly smaller amount remaining in Paraguay for sale in the local economy. The area is also suspected by the U.S. and others to be a source of terrorist financing. The GOB, however, has stated that its concern over the Triborder Area is due to the significant loss of tax revenue as a result of the contraband trade (estimated at $1.2 billion per year), rather than the financing of terrorism, of which the Government says it has not seen any evidence. In 2005, Brazilian customs authorities launched a campaign to reduce contraband smuggling from the Triborder Area into Brazil, with inspections targeting buses used by contraband couriers.

The GOB has a comprehensive anti-money laundering regulatory regime in place. Law 9.613 of 1998 criminalizes money laundering related to drug trafficking, terrorism, arms trafficking, extortion, and organized crime, and penalizes offenders with a maximum of 16 years in prison. The law expands the GOB's asset seizure and forfeiture provisions and exempts "good faith" compliance from criminal or civil prosecution. Regulations issued in 1998 require that individuals transporting more than 10,000 reais (then approximately $10,000, now approximately $4,300) in cash, checks, or traveler's checks across the Brazilian border must fill out a customs declaration that is sent to the Central Bank. Law 10.467 of 2002, which modified Law 9.613, put into effect Decree 3,678 of 2000, thereby penalizing

active corruption in international commercial transactions by foreign public officials. Law 10.467 also added penalties for this offense under Chapter II of Law 9.613. Law 10.701 of 2003, which also modifies Law 9.613, criminalizes terrorist financing as a predicate offense for money laundering. The law also establishes crimes against foreign governments as predicate offenses, requires the Central Bank to create and maintain a registry of information on all bank account holders, and enables the Brazilian financial intelligence unit (FIU) to request from all government entities financial information on any subject suspected of involvement in criminal activity.

Law 9.613 also created a financial intelligence unit, the Conselho de Controle de Actividades Financieras (COAF), which is housed within the Ministry of Finance. The COAF includes representatives from regulatory and law enforcement agencies, including the Central Bank and Federal Police. The COAF regulates those financial sectors not already under the jurisdiction of another supervising entity. Currently, the COAF has a staff of approximately 31, comprised of 13 analysts, two international organizations specialists, a counterterrorism specialist, two lawyers and support staff.

Between 1999 and 2001, the COAF issued a series of regulations that require customer identification, record keeping, and reporting of suspicious transactions to the COAF by obligated entities. Entities that fall under the regulation of the Central Bank, the Securities Commission (CVM), the Private Insurance Superintendence (SUSEP), and the Office of Supplemental Pension Plans (PC), file suspicious activity reports (SARs) with their respective regulator, either in electronic or paper format. The regulatory body then electronically submits the SARs to COAF. Entities that do not fall under the regulations of the above-mentioned bodies, such as real estate brokers, money remittance businesses, factoring companies, gaming and lotteries, dealers in jewelry and precious metals, bingo, credit card companies, commodities trading, and dealers in art and antiques, are regulated by the COAF and send SARs directly to COAF either via the Internet or using paper forms. Banks are also required to report cash transactions exceeding 100,000 reais (approximately $43,000) to the Central Bank, and the lottery sector must notify COAF of the names and data of any winners of three or more prizes equal to or higher than 10,000 reais within a 12-month period. In 2005, COAF issued Resolution 13 of September 30, 2005, which subjects entities engaged in factoring—a growing business of extending credit based on accounts receivable, especially to small and medium-sized enterprises with more limited access to the banking system—to existing "know-your-client" provisions, record keeping requirements, and suspicious transaction reporting.

The COAF has direct access to the Central Bank database, so that it has immediate access to the SARs reported to the Central Bank. In 2006, it will gain access to the Central Bank's new database of all current accounts in the country. COAF also has access to a wide variety of government databases, and is authorized to request additional information directly from the entities it supervises and the supervisory bodies of other obligated entities. Complete bank transaction information may be provided to government authorities, including the COAF, without a court order. Domestic authorities that register with COAF may directly access the COAF databases via a password-protected system. The COAF receives roughly 10,000 cash transaction reports and 2500 SARs per month; about 2.5 percent of the latter are referred to law enforcement authorities for investigation.

The Central Bank has established the Departamento de Combate a Ilícitos Cambiais e Financeiros (Department to Combat Exchange and Financial Crimes, or DECIF) to implement anti-money laundering policy, examine entities under the supervision of the Central Bank to ensure compliance with suspicious transaction reporting, and forward information on the suspect and the nature of the transaction to the COAF. In 2005, DECIF brought on-line a national computerized registry of all current accounts (e.g., checking accounts) in the country. A 2005 change in regulations governing foreign exchange transactions requires that banks must report identifying data on both parties for all foreign exchange transactions and money remittances, regardless of the amount of the transaction.

The GOB has begun to institutionalize is national strategy for combating money laundering, holding its third annual high-level planning and evaluation session in December 2005. The strategy aims to advance six strategic goals: improve coordination of disparate federal and state level anti-money laundering efforts, utilize computerized databases and public registries to facilitate the fight against money laundering, evaluate and improve existing mechanisms to combat money laundering, increase international cooperation to fight money laundering and recover assets, promote an anti-money laundering culture, and prevent money laundering before it occurs. The main goal for 2006 is the introduction of requirements for banks to more closely monitor accounts belonging to politically exposed persons (PEPs) for patterns of suspicious transactions. The national anti-money laundering strategy has put in place more regular coordination and clarified the division of labor among various federal agencies involved in combating money laundering.

The GOB reported substantial growth in the number of money laundering investigations, trials and convictions over the last three years. The annual number of investigations grew from 198 in 2003 to 310 in 2004 and 359 in 2005. These investigations led to 26 trials in 2003, 74 in 2004 and 48 in 2005, while convictions ranged from 172 in 2003 to 87 in 2004 and 90 in 2005. These numbers represent a substantial increase from the 2000 to 2002 period, in which there was an average of 40 new investigations per year and only nine convictions (all in 2002). To deal with the increasing number of money laundering cases, special money laundering courts were created in 2003. Fifteen of these courts have been established in 14 states, including two in Sao Paulo, with each court headed by a judge who receives specialized training in national money laundering legislation. A 2006 national anti-money laundering strategy goal aims to build on the success of the specialized courts by creating complementary specialized federal police financial crimes units in the same jurisdictions. Brazil has a limited ability to employ advanced law enforcement techniques such as undercover operations, controlled delivery, and the use of electronic evidence and task force investigations that are critical to the successful investigation of complex crimes, such as money laundering. Generally, such techniques can be used only for information purposes, and are not admissible in court.

The GOB credits the increasing number of money laundering investigations, trials, and convictions to the success of the specialized courts, as well as to the large number of money laundering cases from the Banestado bank scandal, which began to move to trial during this period.

Investigations into the scandal involving Banestado, the state bank of Parana, continued in 2005 with many cases moving to prosecution. In 1995, five banks in the Triborder region of Brazil, Paraguay, and Argentina, including Banestado, were authorized to open currency exchange accounts, known as CC-5 accounts. CC-5 accounts quickly became used as a means of laundering money. Money changers opened hundreds of fake CC-5 accounts, into which criminals deposited millions of reais. The money was then wired in dollars to the Banestado branch in New York City and from there to other banks, usually in countries considered to be tax havens. The money changers and Banestado officials took cuts from each transaction.

Over 250 phony CC-5 accounts have been identified, and it is suspected that as much as $30 billion passed through CC-5 Banestado accounts in the United States between 1996 and 1999, a large portion of which was likely laundered. The GOB believes some of the Banestado money has returned to Brazil in the form of investment or loans from offshore companies. Many high-level GOB officials were implicated in this case. The Brazilian Congress began an investigation into the matter in June 2003, but the inquiry committee was considered to be polarized along party lines, and information gathered by the inquiry was leaked to the press prior to the October 2004 municipal elections. The committee concluded its inquiry on December 14, 2004, with a politicized final report recommending that law enforcement agencies indict 91 individuals in the case. Out of the 91 implicated, only two were high-level GOB officials. The Brazilian Federal Police and the Public Ministry have continued with their own investigations and have brought several individuals to trial in the case.

In 2005, the GOB drafted a bill to update its anti-money laundering legislation. If passed, this bill—which was called for in the first national anti-money laundering strategy conference in 2003—would facilitate greater law enforcement access to financial and banking records during investigations, criminalize illicit enrichment, allow administrative freezing of assets, and facilitate prosecutions of money laundering cases by amending the legal definition of money laundering and making it an autonomous offense. The draft law also allows the COAF to receive suspicious transaction reports directly from obligated entities, without their first having to pass through the supervisory bodies. The COAF would also be able to request additional information directly from the reporting entities. The draft law has not yet been presented to Congress.

Brazil has established systems for identifying, tracing, freezing, seizing, and forfeiting narcotics-related assets. The COAF and the Ministry of Justice manage these systems jointly. Police authorities and the customs and revenue services are responsible for tracing and seizing assets, and have adequate police powers and resources to perform such activities. The GOB plans to introduce in 2006 a computerized registry of all seized assets to improve tracking and disbursal. The judicial system has the authority to forfeit seized assets, and Brazilian law permits the sharing of forfeited assets with other countries.

The main weakness in Brazil's anti-money laundering regime lies in the lack of legislation criminalizing the financing of terrorism. Some GOB officials have declared that the 1983 National Security Act, which was passed under the military dictatorship and contains provisions criminalizing terrorism, could be used to prosecute terrorists or terrorist financiers, should the need arise. However, because of public resistance and the history of the law, it is generally not used in criminal matters. Although terrorist financing is considered to be a predicate offense for money laundering under Law 10.701 of 2003, terrorist financing is not an autonomous crime. There have been no money laundering prosecutions to date in which terrorist financing was a predicate offense, and so it remains to be seen if the financing of terrorism could be contested as an enforceable predicate offense due to the lack of legislation specifically criminalizing it. In 2005, the Ministry of Justice announced plans to require all non-profit organizations, which the Financial Action Task Force (FATF) has designated as an area of concern with regard to the financing of terrorism, to submit annual reports for the purposes of detecting the abuse of their non-profit status, including money laundering. These regulations would apply to non-governmental organizations, churches and charitable organizations.

The GOB has responded to U.S. efforts to identify and block terrorist-related funds. Since September 11, 2001, the COAF has run inquiries on hundreds of individuals and entities, and has searched its financial records for entities and individuals on the UNSCR Sanctions Committee's consolidated list. None of the individuals and entities on the consolidated list has been found to be operating or executing financial transactions in Brazil, and the GOB insists there is no evidence of terrorist financing in the area. In November 2003, the GOB extradited an alleged financier, Assad Ahmad Barrakat, to Paraguay on charges of tax evasion; he was convicted in May 2004 and sentenced to six and one-half years in prison.

In 2005, the GOB ratified the UN International Convention for the Suppression of the Financing of Terrorism and the OAS Inter-American Convention on Terrorism. Brazil is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. In June 2005, the GOB ratified the UN Convention against Corruption, which entered into force on December 14, 2005. Brazil is a full member of the Financial Action Task Force (FATF), and is a founding member of GAFISUD (the Financial Action Task Force Against Money Laundering in South America), and has sought to comply with the FATF Special Recommendations on Terrorist Financing. Brazil will hold the GAFISUD presidency in 2006. Brazil is also a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. The COAF has been a member of the Egmont Group of financial intelligence units since 1999. In February 2001, the Mutual Legal Assistance Treaty between Brazil and the United States

entered into force, and a bilateral Customs Mutual Assistance Agreement, which was signed in 2002, entered into force in 2005. Using the Customs Agreement framework, the GOB and the U.S. Bureau of Immigration and Customs Enforcement began work in 2005 to implement a trade transparency unit (TTU) to detect money laundering via trade transactions. The GOB also participates in the "3 Plus 1" Counter-Terrorism Dialogue between the United States and the Triborder Area countries.

The Government of Brazil should criminalize terrorist financing as an autonomous offense. In order to continue to successfully combat money laundering and other financial crimes, Brazil should also develop legislation to regulate the sectors in which money laundering is an emerging issue. Brazil should enact and implement legislation to provide for the effective use of advanced law enforcement techniques, in order to provide its investigators and prosecutors with more advanced tools to tackle sophisticated organizations that engage in money laundering, financial crimes, and terrorist financing. It should continue the implementation of its TTU. Brazil should also enforce currency controls and cross-border reporting requirements, particularly in the Triborder region. Additionally, Brazil and its financial intelligence unit, the Conselho de Controle de Actividades Financieras (COAF), must continue to fight against corruption and ensure the enforcement of existing anti-money laundering laws.

British Virgin Islands

The British Virgin Islands (BVI) is a Caribbean overseas territory of the United Kingdom (UK). During 2005, the United States has not developed any new information on money laundering vulnerabilities and countermeasures in the BVI. Yet the BVI remains vulnerable to money laundering, primarily due to its financial services industry. Tourism and financial services account for approximately 50 percent of the economy. The offshore sector offers incorporation and management of offshore companies, and provision of offshore financial and corporate services. The BVI has 11 banks, 2,023 mutual funds with 448 licensed mutual fund managers/administrators, 312 local and captive insurance companies, 1,000 registered vessels, 90 licensed general trust companies, and 61,000 international business companies (IBCs). According to the International Business Companies Act of 1984, BVI-registered IBCs cannot engage in business with BVI residents, provide registered offices or agent facilities for BVI-incorporated companies, or own an interest in real property located in the BVI except for office leases. BVI has approximately 90 registered agents that are licensed by the Financial Services Commission (FSC). The process for registering banks, trust companies, and insurers is governed by legislation that requires detailed documentation, such as a business plan and vetting by the appropriate supervisor within the FSC. Registered agents must verify the identities of their clients.

The Proceeds of Criminal Conduct Act of 1997 expands predicate offenses for money laundering to all criminal conduct, and allows the BVI Court to grant confiscation orders against those convicted of an offense or who have benefited from criminal conduct. The law also creates a Financial Intelligence Unit (FIU), referred to as the Reporting Authority-Financial Services Inspectorate, which is responsible for the collection of suspicious activity reports. Under the Financial Investigation Agency Act 2003, implemented in 2004, the FIU was reorganized and renamed the Financial Investigation Agency.

The Joint Anti-Money Laundering Coordinating Committee (JAMLCC) coordinates all anti-money laundering initiatives in BVI. The JAMLCC is a broad-based, multi-disciplinary body comprised of private and public sector representatives. The Committee has drafted Guidance Notes based on those of the UK and Guernsey.

On December 29, 2000, the Anti-Money Laundering Code of Practice of 1999 (AMLCP) entered into force. The AMLCP establishes procedures to identify and report suspicious transactions. The AMLCP also requires covered entities to create a clearly defined reporting chain for employees to follow when

reporting suspicious transactions, and to appoint a reporting officer to receive these reports. The reporting officer must conduct an initial inquiry into the suspicious transaction and report it to the authorities, if sufficient suspicion remains. Failure to report could result in criminal liability.

The BVI proposed the Code of Conduct (Service Providers) Act (CCSPA), which would encourage professionalism, enhance measures to deter criminal activity, promote ethical conduct, and encourage greater self-regulation in the financial sector. The CCSPA also would establish the Council of Service Providers, a body that would regulate the conduct of individuals within the financial services industry. Additionally, the CCSPA would formulate policy, procedures, and other measures to regulate the industry, advise the government on legislation and policy matters, and monitor compliance within the industry.

In 2000, the Information Assistance (Financial Services) Act (IAFSA) was enacted to increase the scope of cooperation between BVI's regulators and regulators from other countries.

The BVI has criminalized terrorism and terrorist financing through the Terrorism (United Nations Measures) (Overseas Territories) Order 2001 and the Anti-Terrorism (Financial and Other Measures) (Overseas Territories) Order 2002. BVI is a member of the Caribbean Financial Action Task Force and received a second mutual evaluation of its financial sector and regulations during November 17-21, 2003. BVI is subject to the 1988 UN Drug Convention and as a British Overseas Territory has implemented measures in accordance with this convention and the UN Convention against Transnational Organized Crime. Application of the U.S./UK Mutual Legal Assistance Treaty concerning the Cayman Islands was extended to the BVI in 1990. The Financial Investigation Agency is a member of the Egmont Group.

The Government of the British Virgin Islands should continue to strengthen its anti-money laundering regime by fully implementing its programs and legislation.

Brunei

In 2000, The Government of Brunei Darussalam adopted anti-money laundering legislation referred to as the Money Laundering Order and created a presiding organization called the National Anti-Money Laundering Committee (NAMLC), comprised of the: Financial Institutions divisions, Ministry of Finance (Domestic), Brunei International Financial Center (BIFC), Attorneys General's Chambers (AGC), Royal Brunei Police Force (RBPF), Royal Customs and Excise Department, Anti-Corruption Bureau, Narcotics Control Bureau, Immigration Department and Brunei Currency and Monetary Board. Brunei also implemented an asset seizure and forfeiture law, and the Criminal Conduct (Recovery of Proceeds) Order. This legislation applies both domestically and offshore.

In 2001, Brunei set into motion its plans to become an offshore financial center by bringing into effect a series of laws that established the Brunei International Financial Center (BIFC). The relevant laws are: the International Business Companies Order 2003 (amended in 2005); the International Banking Order 2000; the Registered Agents and Trustees Licensing Order 2000; the International Trusts Order 2000; the International Limited Partnerships Order 2000; the Mutual Fund Order 2001; the Securities Order 2003 (originally established in 2001) and the International Insurance and Takaful Order 2002.

The BIFC offers general banking, Islamic banking, insurance, international business companies (IBCs), trusts (including asset protection trusts), mutual funds, and securities services. Bearer shares are not permitted, but nominee shareholders are allowed for IBCs. Brunei residents are allowed to become shareholders of IBCs. In December 2005, 4,064 IBCs were registered in the BIFC database. Reportedly, many may be inactive. The eight Registered Agents and Licensed Trustees are responsible for filing all IBC compliance documents and for the International Trusts and asset protection trusts

There are six offshore banks licensed in Brunei. In July 2005,the Overseas Chinese Banking Corporation Ltd (OCBC) was awarded a full international Islamic banking license and opened its inaugural international Islamic banking branch in Brunei.

The BIFC also launched a virtual Stock Exchange in 2002 that offers securities and mutual funds. The Government also recently established the Brunei Economic Development Board to attract more foreign direct investment. There are no exchange controls.

The BIFC also offers International Insurance and Takaful. Comprehensive and imaginative legislation, coupled with a flexible regulatory regime to suit sophisticated business and personal international insurance and insurance related activities are governed by the International Insurance and Takaful Order, 2002 (IITO). There are several types of licenses available, which include the conduct of general insurance, life insurance, life and general insurance and captive insurance businesses. Licenses for the players include the International Insurance Manager, the International Underwriting Manager and the International Insurance Broker. Applicants may be companies including an established foreign or domestic insurance company or licensed registered agent and trust company in Brunei acting as representative for the purpose of license application. Special provision has been provided to the needs of unit-linked life products, reinsurance and captive insurance.

Brunei has no Central Bank. Acting through the Financial Institutions Division and the Head of Supervision, a segregated unit of the Ministry of Finance oversees the BIFC. This unit combines both regulatory and marketing responsibilities. The multi-disciplinary group is comprised of persons responsible for the supervision of banking, insurance, corporations, and trusts.

In 2002, Brunei enacted the Drug Trafficking Recovery of Proceeds Act and the Anti-Terrorism Financial and other Measures Orders. The latter explicitly criminalize the financing and support of terrorism.

Brunei is a party to the 1998 UN Drug Convention and to the UN International Convention for the Suppression of the Financing of Terrorism. Brunei became a member of the Asia/Pacific Group on Money Laundering (APG) in 2003. The APG's Terms of Reference include a commitment to adopt the international standards contained in the revised FATF Forty Recommendations on Money Laundering and the Special Nine Recommendations on Terrorist Financing.

In early 2005, Brunei Darussalam underwent a mutual evaluation by the Asia/Pacific Group on Money Laundering of its Anti-Money Laundering regime. The Government of Brunei has evaluated the report and is adopting recommendations from the evaluation. The Ministry of Finance has been discussing the establishment of a Financial Intelligence Unit (FIU) and the Australian FIU, AUSTRAC, has provided consultation to the Government of Brunei regarding the development of the unit. The Government is drafting a new Banking Order, which will incorporate such provisions as, amongst others, confidentiality of customers and permitted disclosures, confidentiality of inspection and investigation reports.

Under the jurisdiction of the Attorney General's Office, The Mutual Assistance in Criminal Matters Order, 2005 was published in March 2005 and will came into force on January 1, 2006. Brunei has signed the Treaty on Mutual Legal Assistance in Criminal Matters in Kuala Lumpur, Malaysia and will ratify the treaty in early 2006. To date, the treaty has been signed by eight Asian countries.

The Government of Brunei should continue to enhance its anti-money laundering regime by separating the regulatory and marketing functions of the Authority to avoid potential conflict of interest. Additionally, Brunei should adequately regulate its offshore sector to reduce its vulnerability to misuse by money launderers and financiers of terrorism. For all IBCs, Brunei should provide for identification of all beneficial owners, or immobilized the bearer shares. Brunei should also establish a Financial Intelligence Unit capable of receiving, analyzing and disseminating financial information to law enforcement agencies and to foreign analogs. As a member of the APG, Brunei has committed to

comport with international anti-money laundering/counterterrorist financing standards. The Government of Brunei Darussalam should remedy all deficiencies noted in the APG mutual evaluation report.

Bulgaria

Bulgaria is not considered an important regional financial center. Its significance in terms of money laundering stems from its geopolitical position, a well-developed financial sector relative to other Balkan countries, and lax regulatory control. Although Bulgaria is a major transit point for drugs into Western Europe, it is unknown whether drug trafficking constitutes the primary generator of criminal proceeds and subsequent money laundering in Bulgaria. Financial crimes, including fraud schemes of all types, smuggling of persons and commodities, and other organized crime offenses also generate significant proceeds susceptible to money laundering. Bank and credit card fraud remains a serious problem. Tax fraud and credit card fraud are also prevalent. The sources for money laundered in Bulgaria likely derive from both domestic and international criminal activity. Organized crime groups operate very openly in Bulgaria. There have been significant physical assaults on Bulgarian public officials as well as journalists who challenge organized crime operations. Smuggling remains a problem in Bulgaria and is undoubtedly sustained by ties with the financial system. While counterfeiting of currency, negotiable instruments, and identity documents has historically been a serious problem in Bulgaria, joint activities of the Bulgarian government and the U.S. Secret Service have contributed to a decline in counterfeiting in recent years. There has been no indication that Bulgarian financial institutions engage in narcotics-related currency transactions involving significant amounts of U.S. currency or otherwise affecting the United States.

Since 2003, the operation of duty free shops has been targeted by the Ministry of Finance (MOF) as part of its efforts to address the gray economy and the smuggling of excise goods. Duty free shops play a major role in cigarette smuggling in Bulgaria, as well as smuggling of alcohol, and to a lesser extent perfume and other luxury goods. Attempts by the MOF to close down shops operating in Bulgaria have been unsuccessful, in part due to political opposition within the ruling coalition. The focus of the Government of Bulgaria (GOB) has been on the use of the duty free shops to violate customs and tax regimes. It is wholly possible that the shops are used to facilitate other crimes, including financial crimes. Credible allegations have linked many duty free shops in Bulgaria to organized crime interests involved in forced prostitution, the illicit drug trade, and human trafficking. There is no indication, however, of links between duty free shops or free trade areas and terrorist financing. The MOF's Customs Agency and General Tax Directorate have supervisory authority over the duty free shops. According to these authorities, reported revenues and expenses by the shops have clearly included unlawful activities in addition to duty free trade. Good identification procedures are lacking. For example, MOF inspections have revealed that it is practically impossible to monitor whether customers at the numerous duty free shops have actually crossed an international border.

In February 2004, Parliament adopted a revised national strategy for fighting serious crime. The crime strategy covers a two-year period and focuses on the importance of cooperation between various government agencies such as the General Tax Directorate and Customs Agency, the Interior Ministry, and Bulgaria's financial intelligence unit (FIU), the Financial Intelligence Agency (FIA). However, despite the GOB's efforts to address serious crime, lax enforcement remains an issue.

Article 253 of the Bulgarian Penal Code criminalizes money laundering. The article was adopted in 1997 and amended in 1998 and 2004. The most recent amendments broaden the list of activities that constitute money laundering offenses, increase penalties (including in cases of conspiracy and abuse of office), and clarify that predicate crimes committed outside Bulgaria can support a money laundering charge brought in Bulgaria. Article 253 is an "all offense" money laundering provision. As such, drug-trafficking is but one of many recognized predicate offenses.

All financial sectors are susceptible to money laundering. There are 29 categories of reporting entities under the Bulgarian Law on Measures Against Money Laundering (LMML). Under the LMML, lawyers, real estate agents, auctioneers, tax consultants, and security exchange operators are subject to reporting requirements, which include both suspicious and currency transaction reporting requirements. To date, only the banking sector has substantially complied with the law's requirement to file Suspicious Transaction Reports (STRs) in cases of suspected money laundering. Lower rates of reporting compliance by exchange bureaus, casinos, and other non-bank financial institutions can be attributed to a number of factors, including a lack of understanding of or respect for legal requirements, lack of inspection resources, and the general absence of effective regulatory control over the non-bank financial sector.

Banks and the 28 other reporting entities under the LMML are required to apply "know your customer" (KYC) standards. The LMML was amended in 2003 to include provisions to require listed reporting entities to demand an explanation of the source of funds for operations or transactions in an amount greater than 30,000 Bulgarian Leva (BGL) (approximately$18,072) or foreign exchange transactions in an amount of 10,000 BGL (approximately $6,024). Reporting entities are also required to notify the Bulgarian FIA of each payment made in cash, in an amount greater than 30,000 BGL (approximately $18,000).

The LMML requires reporting entities (including banks and other financial institutions) to maintain records on clients and their transactions for five years. Those institutions may also be subject to internally established record keeping requirements. The degree to which such information can be provided expediently to law enforcement is impacted by bank secrecy provisions that limit dissemination absent a court order based on evidence of a committed crime. The legislation also introduces a currency transaction reporting requirement of 30,000 leva (15,000 euros), thus bringing Bulgaria into compliance with Council Directive 2001/97/EC on prevention of the use of the financial system for money laundering (2nd EU Money Laundering Directive). However, the procedures for identifying the origin of funds used to acquire banks and businesses in the privatization process are still inadequate.

The LMML obligates financial institutions to a five-year record keeping requirement and provides a "safe harbor" to reporting entities. Penal Code Article 253B was enacted in 2004 to establish criminal liability for noncompliance with LMML requirements. Although case law remains weak, when it was assessed in September 2003 for purposes of EU accession, Bulgaria's anti-money laundering legislation was determined to be in full compliance with all EU standards. The LMML amendments also changed the name of Bulgaria's FIU from the Bureau of Financial Intelligence to the Financial Intelligence Agency (FIA), commensurate with its status as a full agency within the Ministry of Finance. The amendments also further institutionalize and guarantee functional independence of the FIU's director and provide for a supervisor within the Ministry of Finance who can oversee the activities of the FIA but is prohibited by law from issuing operational commands. The FIA is also authorized to perform on-site compliance inspections. Since high-value goods dealers have been required to report since 2001, and there is no supervisory authority, the FIA also acts as the compliance authority for this sector. The FIA is authorized to obtain all information without a court order, to share all information with law enforcement, and to receive reports of suspected terrorism financing. Notwithstanding the increase in activity, the FIA remains handicapped technologically, but it is working on improving its databases and its data management to make them more efficient for analytical use. In 2005, a high-level interagency working group began meeting that will review the LMML and proposed additional amendments in 2006 in order to make the law fully compliant with international standards. Members of the working group (the Legislative Working Group on Amendments to the Law on Measures against Money Laundering and the Law on Measures against Financing of Terrorism) include the following agencies: FIA, Ministry of Justice, Ministry of Interior,

Bulgarian National Bank, Gaming Commission, Financial Supervision Commission, Customs Agency, and the General Tax Directorate.

The FIA is an administrative unit and does not participate in active criminal investigations. The FIA forwards reports of potential criminal activity to the Prosecutor's Office. The Prosecutor then has the discretion to open an investigation by referring the case to either law enforcement officers from the Ministry of Interior (MOI) or to investigating magistrates from the National Investigative Service (NIS). The MOI and the NIS are the two agencies responsible for investigating money laundering and any underlying predicate criminal activity. If the Prosecutor's Office determines that an STR referred by the FIA does not merit prosecution, the FIA has the authority to appeal the Prosecutor's decision. In the time period between January and November 2005, the FIA received 662 STRs and 130,631 currency transaction reports (CTRs). The STRs had a total combined value of approximately $280 million. On the basis of the forwarded reports, 646 cases were opened. During the same period, the FIA referred 74 cases to the Supreme Prosecutor's Office of Cassation and 265 cases to the Ministry of Interior. The FIA also forwarded 33 reports to supervisory authorities for administrative action. Although money laundering has been pursued in court cases, there has never been a conviction for the crime. In fact, there are very few successful prosecutions for other financial crimes and predicate criminal activity that give rise to money laundering. This is mainly due to the fact that prosecutors, investigators, and law enforcement officials, especially at the district level, lack significant training in money laundering. GOB officials, however, hope that this trend is changing. In 2005, the Prosecution Service has reported indictments of organized crime figures for money laundering. Prosecution figures are also expected to increase in 2006 following a recent Directive issued by the Prosecutor General instructing Bulgarian prosecutors to use multiple count indictments, including indictments that charge money laundering in addition to predicate offenses. This Directive purports to change the current practice of charging only the predicate offenses.

Bulgaria has strict and wide-ranging banking, tax, and commercial secrecy laws that limit the dissemination of financial information absent the issuance of a court order based on evidence of a committed crime. While the FIA enjoys an exemption from these secrecy provisions, they apply to all other government institutions and often are cited as an impediment to the performance of legitimate law enforcement functions. In a small effort to remedy the situation in 2004, amendments made to the Bulgarian Penal Code permit the repeal of overly broad tax secrecy provisions, improving dissemination of some information previously covered by tax secrecy laws.

There are few, if any, indications of terrorist financing connected with Bulgaria. The GOB amended its Penal Code at Article 108a to criminalize terrorism and terrorist financing. Under Article 253 of the Criminal Code, terrorist acts and financing qualify as predicate crimes under Bulgaria's "all crimes" approach to money laundering. The GOB also enacted the Law on Measures Against Terrorist Financing (LMATF) in February 2003, which links counterterrorism measures with financial intelligence and compels all covered entities to report a suspicion of terrorism financing or pay a penalty of 25,000 Bulgarian Leva (approximately $15,000). The law was passed to be consistent with the FATF Special Recommendations on Terrorist Financing. The law also authorizes the FIA to use its resources and financial intelligence to combat terrorism financing, as well as in fighting money laundering.

Under the provisions of the LMATF, the GOB may freeze the assets of a suspected terrorist for up to 45 days. The FIA, in cooperation with the Bulgarian National Bank, circulates to the banking sector the names of suspected terrorists and terrorist organizations on the UNSCR 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the U.S. pursuant to E.O. 13224, along with those designated by the EU under its relevant authorities. To date, no suspected terrorist assets have been identified, frozen, or seized by Bulgarian authorities. In 2005, a joint task force comprised of representatives from between the FIA and the National Security Service was established to identify possible terrorist financing activities and terrorist supporters.

There are no reported initiatives underway to address alternative remittance systems. Although they may operate there, Bulgarian officials have not officially acknowledged their existence. In general, regulatory controls over non-bank financial institutions are still lacking, with some of those institutions engaging in banking activities absent any regulatory oversight. Similarly, exchange bureaus are subject to minimal regulatory oversight, and some anecdotal evidence suggests that charitable and non-profit legal status is occasionally used to conceal money laundering. In 2005, as part of its ongoing effort to strengthen its anti-money laundering and counterterrorist financing regime, the GOB made non-bank financial institution oversight deficiencies a top priority. Results of these efforts to date, however, have been mixed.

In cases where a conviction has been obtained, the Bulgarian Penal Code provides legal mechanisms for forfeiting assets (including substitute assets in money laundering cases) and instrumentalities. Bulgaria's money laundering and terrorist financing laws both include provisions for identifying, tracing, and freezing assets related to money laundering or the financing of terrorism. A new criminal asset forfeiture law, targeted at confiscation of illegally acquired property, came into effect in March 2005. The law permits forfeiture proceedings to be initiated against property valued in excess of 60,000 Bulgarian Leva (approximately $36,000) if the owner of the property is the subject of criminal prosecution for enumerated crimes (terrorism, drug trafficking, human trafficking, money laundering, bribery, major tax fraud, and organizing, leading, or participating in a criminal group) and a reasonable assumption can be made that the property was acquired through criminal activity. The law requires the establishment of a criminal assets identification commission that has the authority to institute criminal asset identification procedures, as well as request from the court both preliminary injunctions and ultimately the forfeiture of assets. Although the Commission has been appointed, it is not yet functional. Key players in the process of asset freezing and seizing, as prescribed in existing law, include the MOI, MOF (including the FIA), Council of Ministers, Supreme Administrative Court, Sofia City Court, and the Prosecutor General.

The United States does not have a mutual legal assistance treaty with Bulgaria. Information is exchanged formally through the letter rogatory process. Currently, the FIA has bilateral memoranda of understanding (MOU) regarding information exchange relating to money laundering with 27 countries. Negotiations with five more states are currently in progress. The FIA is authorized by law to exchange financial intelligence on the basis of reciprocity without the need of an MOU. Between January and December 2005, the FIA sent 332 requests for information to foreign FIUs and received 83 requests for assistance from foreign FIUs. Bulgaria has also entered into an intergovernmental agreement with Russia that promotes anti-money laundering cooperation.

Bulgaria participates in the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL). The FIA is a member of the Egmont Group and participates actively in information sharing with foreign counterparts. Bulgaria is a party to the 1988 UN Drug Convention and the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime. Bulgaria is also a party to the UN Convention against Transnational Organized Crime and the UN International Convention for the Suppression of the Financing of Terrorism. In December 2003, the GOB signed the UN Convention against Corruption.

On September 21, 2005, the Bulgarian Parliament passed amendments to the 1969 law on Administrative Violations and Penalties, which establishes the liability of legal persons (companies) for crimes committed by their employees. This measure is in accordance with international standards and allows the GOB to implement its obligations under a number of international agreements, including: the OECD Anti-bribery Convention, the European Council Convention on Corruption, the UN International Convention for the Suppression of Terrorist Financing, and the UN Convention against Transnational Organized Crime. Under the amendments, Bulgaria also aligns itself with the provisions of the EU Convention on the Protection of the Communities' Financial Interests and its Protocols, a requirement for EU accession.

Although Bulgaria has done well to enact legislative changes consistent with international anti-money laundering standards, the lack of enforcement remains an issue. There appears to be no political will to amend unduly broad bank secrecy provisions that are said to hamper law enforcement efforts, and the banking community has a very strong lobby within Parliament. The GOB must take steps to improve and tighten its regulatory regime (especially with regard to non-bank financial institutions) and the consistency of its Customs reporting enforcement. Bulgaria should also establish procedures to identify the origin of funds used to acquire banks and businesses during privatization. Bulgaria should provide sufficient resources to the Financial Intelligence Agency (FIA) and incorporate technological improvements. The FIA should also continue to work cooperatively with all institutions having a role to play in combating money laundering to ensure full implementation of Bulgaria's anti-money laundering regime and to improve prosecutorial effectiveness in money laundering cases.

Burma

Burma, a major drug producing and trafficking country, has a mixed economy with substantial state-controlled companies, mainly in energy and heavy industry, and with private business primarily in agriculture and light industry. Burma's economy continues to be vulnerable to drug money laundering due to its under-regulated financial system, inadequate implementation of its anti-money laundering regime, and policies that facilitate the funneling of drug money into commercial enterprises and infrastructure investment. The government has addressed key areas of concern identified by the international community by implementing some anti-money laundering measures, but Burma remains on the Financial Action Task Force (FATF) list of Non-Cooperative Countries and Territories (NCCT), and the United States maintains countermeasures against Burma as of December 2005.

Burma enacted a "Control of Money Laundering Law" in 2002. It also established the Central Control Board of Money Laundering in 2002 and a financial intelligence unit (FIU) in 2003. It set a threshold amount for reporting cash transactions by banks and real estate firms, albeit at a high level of 100 million kyat (approximately $100,000). Since adopting a "Mutual Assistance in Criminal Matters Law" in 2004, Burma has taken additional steps to address money laundering and to combat terrorist financing, including adding fraud to the list of predicate offenses and defining penalties for "tipping off" suspicious transaction reports. As a result, FATF lifted its countermeasures in October 2004. The GOB's 2004 anti-money laundering measures amended regulations, originally instituted in 2003, which had set out 11 predicate offenses, including narcotics activities, human and arms trafficking, cyber crime, and "offenses committed by acts of terrorism," among others. The 2003 regulations also called for suspicious transaction reports (STRs) by banks, the real estate sector, and customs officials, and imposed severe penalties for non-compliance.

The GOB established a Department Against Transnational Crime in 2004 with a mandate that included anti-money laundering activities. It is staffed by police officers and support personnel from banks, customs, budget, and other relevant government departments. In response to a February 2005 FATF request, the Government of Burma submitted an anti-money laundering implementation plan and progress reports. In 2005, the government also increased the size of the FIU from 10 to 40 staff. In August 2005, the Central Bank of Myanmar issued guidelines for on-site bank inspections and required reports reviewing banks' compliance with AML legislation. Since then, the Central Bank has disbursed teams to instruct on the new guidelines and to inspect banking operations for compliance.

Despite the lifting of countermeasures, Burma remains on the FATF's list of non-cooperative countries and territories because it has not yet implemented all the required reforms in its anti-money laundering regime. As of December 2005, the United States maintains the countermeasures it adopted against Burma in 2004. At that time, the United States issued final rules finding the jurisdiction of Burma and two private Burmese banks, Myanmar Mayflower Bank and Asia Wealth Bank, to be "of primary money laundering concern," and requiring U.S. banks to take certain special measures with

respect to all Burmese banks, with particular attention to Myanmar Mayflower and Asia Wealth Bank. These rules were issued by the Financial Crimes Enforcement Network within the Treasury Department pursuant to Section 311 of the 2001 USA PATRIOT Act.

The rules prohibit most U.S. financial institutions from establishing or maintaining correspondent or payable-through accounts in the United States for, or on behalf of, Myanmar Mayflower and Asia Wealth Bank and, with narrow exceptions, for all other Burmese banks. Myanmar Mayflower and Asia Wealth Bank have been directly linked to narcotics trafficking organizations in Southeast Asia. In March 2005, following a GOB investigation, the Central Bank of Myanmar revoked Myanmar Mayflower Bank's and Asia Wealth Bank's licenses to operate, citing infractions of the Financial Institutions of Myanmar Law. As of December 2005, Government of Burma investigations into these two cases continue. In August 2005, the Government of Burma seized the assets of another private institution, the Myanmar Universal Bank (MUB), and arrested the bank's chairman under the Narcotics and Psychotropic Substances Law, charging him with drug-related money laundering crimes. As of December 2005, the case was still in court.

Burma remains under a separate U.S. Treasury Department advisory stating that U.S. financial institutions should give enhanced scrutiny to all financial transactions relating to Burma. The Section 311 rules complement the 2003 Burmese Freedom and Democracy Act (renewed in July 2005) and an accompanying Executive Order. These laws imposed additional economic sanctions on Burma following the regime's May 2003 attack on pro-democracy leader Aung San Suu Kyi and her convoy. The sanctions prohibit the import of Burmese-produced goods into the United States, ban the provision of financial services to Burma by U.S. persons, freeze the assets of identified Burmese institutions, including those of the ruling junta, and expand visa restrictions to include managers of state-owned enterprises, in addition to senior government officials and family members associated with the regime. In August 2005, the U.S. Treasury amended and reissued the Burmese Sanctions Regulations in their entirety to implement the 2003 Executive Order, which placed sanctions on Burma.

Burma holds observer status in the Asia/Pacific Group on Money Laundering and applied for full membership in 2005. Burma is a party to the 1988 UN Drug Convention. Over the past several years, the Government of Burma (GOB) has extended its counternarcotics cooperation with other states. The GOB has bilateral drug control agreements with India, Bangladesh, Vietnam, Russia, Laos, the Philippines, China, and Thailand that address cooperation on drug-related money laundering issues. In July 2005, the Myanmar Central Control Board signed an MOU with Thailand's Anti-Money Laundering Office governing the exchange of information and financial intelligence.

Burma is a party to the UN Convention against Transnational Organized Crime and has signed, but not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism. Burma plans to sign the ASEAN Multilateral Assistance in Criminal Matters Agreement in early 2006.

The GOB now has in place a framework to allow mutual legal assistance and cooperation with overseas jurisdictions in the investigation and prosecution of serious crimes. Burma must improve enforcement of the regulations and oversight of its banking system, and end all policies that facilitate the investment of drug money into the legitimate economy. It also must discourage the widespread use of informal remittance or "hundi" networks. Burma should continue to work toward full implementation of a viable anti-money laundering/counterterrorist financing regime, and should provide the necessary resources to administrative and judicial authorities that supervise the financial sector, so they can successfully implement and enforce the government's latest regulations to fight money laundering. Burma should also become a party to the UN International Convention for the Suppression of the Financing of Terrorism and criminalize the funding of terrorism.

Cambodia

Cambodia is not an important regional financial center. Nevertheless, Cambodia remains vulnerable to money laundering. It has a very weak anti-money laundering regime, a cash-based economy with an active informal banking system, porous borders with attendant smuggling, and widespread official corruption. The National Bank of Cambodia (NBC) has made some strides in recent years by beginning to regulate the small official banking sector, but other non-bank financial institutions, such as casinos, remain outside its jurisdiction. The Ministry of Interior has legal responsibility for oversight of the casinos and providing security, it exerts little supervision over them. The Cambodian government continues to work on draft legislation that would criminalize money laundering and the financing of terrorism, but the law is not expected to pass until 2006.

Cambodia's banking sector is small but expanding, with fifteen general commercial banks, and four specialized commercial banks and numerous microfinance institutions. However, overall lending and banking activity remains limited. Recently, one of Australia's largest banks, ANZ Banking Group Ltd, decided to enter the Cambodian market through a joint venture with one of the largest local business conglomerates, the Royal Group of Companies. Otherwise, the banking sector is largely dominated by a handful of Cambodian-owned banks such as Canadia, Mekong, and ACLEDA, the government-owned Foreign Trade Bank.

The NBC has oversight responsibility for the banking sector and, with relatively small numbers of transactions and deposits in the system, believes it exercises comprehensive oversight. There are no reports to indicate that banking institutions themselves are knowingly engaged in money laundering. The NBC regularly audits individual banks to ensure compliance with laws and regulations. There is a standing requirement for banks to declare transactions over $10,000. The NBC says its audits reveal that this requirement is generally followed. A more likely route for larger scale money laundering in Cambodia is through informal banking activities or business activities. Neither the NBC nor any other Cambodian entity is responsible for identifying or regulating these informal financial networks or activities.

With increased political stability and the gradual return of normalcy in Cambodia after decades of war and instability, bank deposits have continued to rise and the financial sector shows some signs of deepening as domestic business activity continues to increase in the handful of urban areas. Nevertheless, foreign direct investment in the general economy remains limited, and is on a downward trend, largely due to the high risks of doing business in Cambodia, including an incomplete legal framework, inadequate legal enforcement, and official corruption.

There is no apparent increase in the extent of financial crime over the past year. There is a significant black market in Cambodia for smuggled goods, including drugs, but no evidence that smuggling is funded primarily by drug proceeds. Heroin is smuggled through Cambodia to other countries. Most of the smuggling that takes place is intended to circumvent official duties and taxes and involves items such as fuel, alcohol and cigarettes. Some government officials and their private sector associates have a significant amount of control over the smuggling trade and thus its proceeds. Cambodia has a cash-based and dollar-based economy, and the smuggling trade is usually conducted in dollars, which facilitates money laundering. Such proceeds are rarely transferred through the banking system or other financial institutions. Instead, they are readily converted into land, housing, luxury goods or other forms of property. It is also relatively easy to hand-carry cash into and out of Cambodia. In addition, neither money laundering (except in connection with drug trafficking) nor terrorism financing is a specific criminal offense in Cambodia at this time.

The NBC does not yet have the authority to apply anti-money laundering controls to non-bank financial institutions such as casinos or other intermediaries, such as lawyers or accountants. However, this authority is included in draft anti-money laundering legislation.

The major non-bank financial institutions in Cambodia are the casinos, where foreigners are allowed to gamble but most Cambodians are not. The regulation of casinos falls under the jurisdiction of the Ministry of Interior, although the Ministry of Economy and Finance issues casino licenses. The Interior Ministry stations a few officials at each casino on a 24-hour basis. It does not appear that Interior Ministry staff at the casinos exercise any actual supervision over casino operations, beyond making sure that the Ministry receives its share of casino payouts that ensures security for the casinos.

There are currently 19 licensed casinos in Cambodia, with a few more either under construction or applying for a license. Most are located along Cambodia's borders with Thailand or Vietnam. There is one large casino and other smaller gambling establishments located in Phnom Penh that have avoided the regulation that all casinos be at least 200 kilometers from the capital city.

Reportedly, most casino patrons simply hand-carry their money across borders. For patrons placing large bets, the casinos have accounts with major banks, usually in Thailand. In practice, the patron wires a large amount of money to one of these accounts in Thailand. After a quick phone call to verify the transfer, the casino in Cambodia issues the appropriate amount in chips. Regardless of whether funds are hand-carried into Cambodia or wired into a Thai bank, the casinos do not practice due diligence.

In 1996, Cambodia criminalized money laundering related to narcotics trafficking through the Law on Drug Control. In 1999, the government also passed the Law on Banking and Financial Institutions. These two laws provide the legal basis for the NBC to regulate the financial sector. The NBC also uses the authority of these laws to issue and enforce new regulations. The most recent regulation, dated October 21, 2002, is specifically aimed at money laundering. The decree established standardized procedures for the identification of money laundering at banking and financial institutions. In October 2003, the NBC issued a circular to assist banks in identifying suspicious transactions. In addition to the NBC, the Ministries of Economy and Finance, Interior, Foreign Affairs, and Justice also are involved in anti-money laundering matters.

The 1996 and 1999 laws include provisions for customer identification, suspicious transaction reporting, and the creation of an Anti-Money Laundering Commission (AMLC) under the Prime Minister's Office. The composition and functions of the AMLC have not yet been fully promulgated by additional decrees. A Sub-Decree on the composition and duties of AMLC has been drafted but is unlikely to be passed until passage of the new anti-money laundering legislation. The NBC currently performs many of the AMLC's intended functions. The 1999 Law on Banking and Financial Institutions imposed new capital requirements on financial institutions, increasing them from $5 million to $13.5 million. Commercial banks must also maintain 20 percent of their capital on deposit with the NBC as reserves.

Cambodia ratified the 1988 UN Drug Convention in 2005. It has signed the UN International Convention for the Suppression of the Financing of Terrorism. While Cambodia is drafting legislation that would specifically address terrorism financing, it currently does not have any laws that do so. It does circulate to financial institutions the list of individuals and entities included on the UNSCR 1267 Sanction Committee's consolidated list. NBC reviews the banks for compliance in maintaining this list and reporting any related activity. To date, there have been no reports of designated terrorist financiers using the Cambodian banking sector. Should sanctioned individuals or entities be discovered using a financial institution in Cambodia, the NBC has the legal authority to freeze the assets but not to seize them.

In June 2004, Cambodia joined the Asia/Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF) regional body. The APG has 30 members, including the U.S. Among its activities, the APG conducts mutual evaluations of members' anti-money laundering and terrorism financing efforts. The APG planned to conduct an evaluation of Cambodia in 2005 but the Cambodian government requested that the APG delay its evaluation until after the passage of the draft Law on

Anti-Money Laundering. The government also plans to work with the APG members to establish a Financial Intelligence Unit (FIU). According to the draft law, the FIU will be placed under the control of the NBC with a permanent secretariat working under the authority of a board composed of the senior representatives from Ministries of Economy and Finance, Justice, and Interior. In order to decide where to locate the FIU, an "unofficial" Anti-Money Laundering Committee was formed recently, consisting of the NBC and the Ministries of Commerce, Foreign Affairs, Finance and Justice. The Committee held its first session in December 2004.

A Working Group, including the NBC and the Ministries of Economy and Finance, Interior, and Justice, the National Anti-Drug Committee was formed on November 26, 2003 to draft anti-money laundering legislation that meets international standards. Among other priority actions, the Working Group's draft legislation and action plan to fight money laundering and the financing of terrorism envisions the following: criminalizing money laundering and the financing of terrorism; ratification of all relevant UN conventions; regulating and controlling NGOs; reducing the use of cash and encouraging the use of the formal banking system for financial transactions; enhancing the effectiveness of bank supervision; ensuring the use of national ID cards as official documents for customer identification; and regulating casinos and the gambling industry. The draft legislation also addresses preventive obligations related to customer due diligence, record keeping, internal controls reporting of suspicious transactions, and setting up an FIU to receive, analyze and disseminate information and to supervise compliance with all relevant laws and regulations. The IMF is assisting the NBC in issuing regulations to strengthen the existing anti-money laundering framework while the draft legislation is considered. Absent passage of the draft legislation in 2005, the NBC plans to issue a series of regulations that have the force of law (Praksas) and that will criminalize money laundering and terrorism financing, as well as update existing financial rules and regulations.

Pending legislation on industrial zones would create several free trade zones along Cambodia's borders. Some observers have raised concerns about the potential for money laundering in the free trade zones, and it is unclear if the pending legislation will address this issue. In May 2005, Prime Minister Hun Sen cited money laundering as a major concern during his remarks at the Ministerial Meeting of Signatory Countries on 1993 MOU on Drug Control Cooperation.

Continuing work on the draft anti-money laundering legislation and becoming a party to the 1988 UN Drug Convention are positive steps. Cambodia should pass the draft anti-money laundering and counterterrorist financing legislation as soon as possible. Cambodia should also ratify the UN Convention Against Transnational Organized Crime. However, the larger questions remain regarding the government's ability to implement and enforce the measures once they are in place. Cambodia should also engage fully with the Asia/Pacific Group on Money Laundering and take full advantage of its upcoming mutual evaluation and training programs offered by international donors.

Canada

Canada has implemented several measures in recent years to reduce its vulnerability to money laundering and terrorist financing. Canadian financial institutions, however, remain susceptible to currency transactions involving international narcotics proceeds, including significant amounts of funds in U.S. currency derived from illegal drug sales in the United States. The United States and Canada share a border that sees over $1 billion in trade a day. Both the U.S. and Canadian governments are particularly concerned about the criminal abuse of cross-border movements of currency. The growth in Chinese and Colombian criminal organizations inside Canada is being reflected in increased narcotics-related crime and higher seizures. Canada has no offshore financial centers.

In 2000, the Government of Canada (GOC) passed the Proceeds of Crime (Money Laundering) Act to assist in the detection and deterrence of money laundering, facilitate the investigation and prosecution

of money laundering, and create a financial intelligence unit (FIU). The Proceeds of Crime (Money Laundering) Act was amended in December 2001 to become the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA). The list of predicate money laundering offenses was expanded and now covers all indictable offenses, including terrorism and the trafficking of persons.

The PCMLTFA creates a mandatory reporting system for suspected terrorist property, suspicious financial transactions, large cash transactions, large international electronic funds transfers, and cross-border movements of currency and monetary instruments totaling Canadian $10,000 (approximately $8,500) or greater. Failure to report cross-border movements of currency and monetary instruments could result in seizure of funds or penalties ranging from Canadian $250 to $5,000 (approximately $200 to $4,000).

A second set of regulations, published in May 2002, relates to internal compliance regimes, the reporting of large cash transactions and large international electronic funds transfers, the reporting of transactions where there are reasonable grounds to suspect terrorist financing, the reporting of possession or control of terrorist property, and record keeping and client identification requirements. Certain requirements were phased in during 2003. A further set of regulations concerning the reporting of cross-border movements of currency and monetary instruments became effective in January 2003.

Money service businesses, casinos, accountants, and real estate agents handling third-party transactions are required to report suspicious financial transactions. Failure to file a suspicious transaction report (STR) could lead to up to five years' imprisonment, a fine of Canadian $2,000,000 (approximately $1,730,000), or both. During 2005, the reporting requirements for the legal profession were being clarified.

The FIU, the Financial Transactions and Reports Analysis Center of Canada (FINTRAC), was established in July 2001. FINTRAC operates as an independent agency that receives and analyzes reports from financial institutions and other financial intermediaries and makes disclosures to law enforcement and intelligence agencies. FINTRAC is also mandated to ensure the compliance of these reporting entities with the legislation and regulations. The PCMLTFA expanded FINTRAC's mandate to include counterterrorist financing and to allow disclosure to the Canadian Security Intelligence Service of information related to financial transactions relevant to threats to the security of Canada.

FINTRAC now receives mandatory reports on all international funds transfers and cash transaction and cross-border movements of Canadian $10,000 (approximately $8,500) or more. During 2004-2005 FINTRAC received more than 10.8 million reports. The majority of the reports were filed electronically. FINTRAC produced a total of 142 case disclosures in 2004-2005, totaling approximately Canadian $2 billion (approximately $1.7 billion), almost triple the value of the previous year. The law protects those filing reports on suspicious transactions from civil and criminal prosecution, and there has been no apparent decline in deposits made with Canadian financial institutions as a result of Canada's revised laws and regulations. FINTRAC's case disclosures have not yet resulted in prosecutions.

In a November 2004 report to Parliament, Canada's Auditor General stated that "privacy concerns restrict FINTRAC's ability to disclose intelligence to the Police, and as a result, law enforcement and security agencies usually find that the information they receive is too limited to justify launching investigations." Additionally, U.S. law enforcement officials have echoed concerns that Canadian privacy laws and the high standard of proof required by Canadian courts inhibit the full sharing of timely and meaningful intelligence on suspicious financial transactions. Such intelligence may be critical to investigating and prosecuting international terrorist financing or major money laundering investigations. Recently, concern has focused on the inability of U.S. and Canadian law enforcement officers to exchange promptly information concerning suspected sums of money found in the possession of individuals attempting to cross the U.S.-Canadian border. A 2005 Memorandum of

Understanding on exchange of cross-border currency declarations expanded the extremely narrow disclosure policy. However, the scope of the exchange remains restrictive.

In order to address these concerns, the GOC has recently proposed a series of legislative changes that would expand information available in FINTRAC disclosures in order to enhance the critical identifiers and investigative links that law enforcement and intelligence agencies can use to further money laundering and terrorist financing investigations while respecting the privacy and Charter rights of Canadians.

The PCMLTFA enables Canadian authorities to deter, disable, identify, prosecute, convict, and punish terrorist groups. As of June 2002, STRs are required on financial transactions suspected to involve the commission of a terrorist financing offense. The GOC has also listed and searched financial records for suspected terrorists and terrorist organizations on the UN 1267 Sanctions Committee's consolidated list.

FINTRAC has the authority to negotiate information exchange agreements with foreign counterparts. It has signed 29 memoranda of understanding to establish the terms and conditions to share intelligence with FIUs, and is negotiating several other memoranda. Canada has longstanding agreements with the United States on law enforcement cooperation, including treaties on extradition and mutual legal assistance. Canada has provisions for sharing seized assets, and exercises them regularly.

Canada is a member of the Financial Action Task Force (FATF) and the OAS Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering (OAS/CICAD). Canada also participates with the Caribbean Financial Action Task Force (CFATF) as a Cooperating and Supporting Nation, and as an observer jurisdiction to the Asia/Pacific Group on Money Laundering (APG). In June 2002, FINTRAC became a member of the Egmont Group. Canada is a party to the OAS Inter-American Convention on Mutual Assistance in Criminal Matters. Canada is a party to the UN International Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Crime and the 1988 UN Drug Convention. The GOC has signed, but not yet ratified, the UN Convention against Corruption.

The Government of Canada continues to take significant steps to reduce its vulnerability to money laundering and terrorist financing in line with international standards. Canada is currently conducting a comprehensive review and significant updating of its AML/CTF framework in the context of the upcoming parliamentary review of the PCMLTFA. Proposed measures by the GOC include enhanced client identification, increased compliance and enforcement, and strengthening FINTRAC's intelligence function.

Canada should continue its efforts to work toward ensuring the timely sharing of financial information that may be critical to international terrorist financing or major money laundering investigations. Canada also should continue its active participation in international fora dedicated to the fight against money laundering and terrorist financing.

Cayman Islands

The Cayman Islands, a United Kingdom (UK) Caribbean overseas territory, continues to make strides in strengthening its anti-money laundering program, including its first successful prosecution of a money laundering case in February 2005. Nevertheless, the islands remain vulnerable to money laundering due to their significant offshore sector. As the world's fifth largest financial center, the Cayman Islands is home to a well-developed offshore financial center that provides a wide range of services such as private banking, brokerage services, mutual funds, and various types of trusts, as well as company formation and company management. There are over 500 banks and trust companies, 7,100 mutual and hedge funds, and 727 captive insurance companies licensed in the Cayman Islands.

Since the placement of the Cayman Islands on the FATF list of Non-Cooperative Countries and Territories in 2000 and subsequent removal in 2001, the Cayman Islands has rapidly passed, amended, and revised several anti-money laundering (AML)-related laws and regulations. Recent revisions include: the Money Services Law (2003), the Monetary Authority Law (2004), Building Societies Law (2001), Cooperative Societies Law (2001), Insurance Law (2004), Mutual Funds Law (2003), the Proceeds of Criminal Conduct (2004), and the Anti-Money Laundering Regulations (2003, 2004). A draft bill is currently being reviewed that will increase the ability to confiscate property in money laundering cases including civil forfeitures.

The Cayman Islands Monetary Authority (CIMA) is responsible for the licensing, regulation, and supervision of the Cayman Islands' financial industry, which includes banks, trust companies, mutual funds, insurance companies, money service businesses, and corporate service providers. CIMA received independence to issue and revoke licenses and enforce regulations through the Monetary Authority Law (2003 Revision). Supervision of licensees is carried out through on-site and off-site examinations. A provision of the Banks and Trust Companies Law (2001 Revision) grants CIMA access to audited account information from licensees who are incorporated under the Companies Management Law (2001 Second Revision). The Companies Law (2001 Second Revision) institutes a custodial system in order to immobilize bearer shares. There are no shell banks on the Cayman Islands. CIMA is able to share information with like foreign regulatory authorities through the execution of memoranda of understanding. In June 2005, the CIMA signed a memorandum of understanding (MOU) with the U.S. Securities and Exchange Commission (SEC).

Money laundering regulations entered into force in late 2000 that specify employee training, record keeping, and "know your customer" (KYC) identification requirements for financial institutions and certain financial services providers; the regulations specifically cover individuals who establish a new business relationship, engage in one-time transactions over Cayman Islands (CI) $15,000 (approximately $18,000), or who may be engaging in money laundering. Amendments to the Proceeds of Criminal Conduct Law (PCCL) make failure to report a suspicious transaction a criminal offense that could result in fines or imprisonment.

Established under the Proceeds of Criminal Conduct (Amendment) Law 2003 (PCCL), the Financial Reporting Authority (FRA) replaces the former financial intelligence unit of the Cayman Islands. The FRA opened on January 12, 2004. Staff consists of the director, a legal advisor, an accountant, a senior analyst, a junior analyst, and an administrative officer. The FRA is a separate civilian authority governed by the Anti-Money Laundering Steering Group (AMLSG), which is chaired by the Attorney General. Other members of the AMLSG include the Financial Secretary, the Managing Director of the Cayman Islands Monetary Authority, the Commissioner of Police, the Solicitor General and the Collector of Customs. The FRA is responsible for, among other things, receiving, analyzing, and disseminating disclosures of financial information regarding proceeds or suspected proceeds, including those relating to the financing of terrorism. From June 2004 to June 2005, the FRA received 244 SARs. The FRA completed work on 195 out of 244 SARS. Of the 195, 107 required no further action, 88 were forwarded to foreign FIUs or law enforcement, and 29 were still in progress.

The Cayman Islands is subject to the U.S./UK Treaty concerning the Cayman Islands, relating to Mutual Legal Assistance in Criminal Matters. It is estimated that in approximately 230 cases the United States and the Cayman Islands have cooperated since the MLAT entered into force in 1990, and with respect to those cases, it is estimated that approximately $10 million has been shared with the Cayman Government. The Cayman Islands, through the United Kingdom, is subject to the 1988 UN Drug Convention. The Cayman Islands is a member of the Caribbean Financial Action Task Force (CFATF), and its FIU is a member of the Egmont Group.

The Cayman Islands is subject to The Terrorism (United Nations Measure) (Overseas Territories) Order 2001 (TUNMOTO). The Cayman Islands criminalized terrorist financing through the passage of

the Terrorism Bill 2003, which extends criminal liability to the use of money or property for the purposes of terrorism. It also contains a specific terrorist financing money laundering provision. In March 2005, the IMF published its assessment of the Cayman Islands (originally conducted in October 2003). The IMF found that the Cayman's regime for combating money laundering and the financing of terrorism is compliant with international standards.

The Cayman Islands should continue its efforts to implement its anti-money laundering regime.

Chile

Chile's large well-developed banking and financial sector stands out as one of the strongest in the region. With rapidly increasing trade and currency flows, the government is actively seeking to turn Chile into a global financial center. However, the Chilean Government continues to believe money laundering is not a significant threat. Stringent bank secrecy laws emphasizing privacy rights have been broadly interpreted and hamper Chilean efforts to identify and combat money laundering and terrorist financing. There is strong evidence that Chile's favorable reputation and incomplete regulatory oversight are attracting an increasing number of money launderers, particularly in the northern free trade zone and in the money exchange house sector. Money laundering in Chile appears to be primarily narcotics-related.

Money laundering in Chile is criminalized under Law 19.366 of January 1995 and Law 19.913 of December 2003. Prior to the approval of Law 19.913, Chile's anti-money laundering program was based solely on Law 19.366, which criminalized only narcotics-related money laundering activities. The law required only voluntary reporting of suspicious or unusual financial transactions by banks and offered no "safe harbor" provisions protecting banks from civil liability; as a result, the reporting of such transactions was extremely low. Law 19.366 gave only the Council for the Defense of the State (Consejo de Defensa del Estado, or CDE) authority to conduct narcotics-related money laundering investigations. The Department for the Control of Illicit Drugs (Departmento de Control de Trafico Ilícito de Estupefacientes) within the CDE functioned as Chile's financial intelligence unit (FIU) until a new FIU with broader powers (the Unidad de Análisis Financiero, or UAF) was created under Law 19.913.

Law 19.913 went into effect on December 18, 2003. Under Law 19.913, predicate offenses for money laundering are expanded to include (in addition to narcotics trafficking) terrorism in any form (including the financing of terrorist acts or groups), illegal arms trafficking, fraud, corruption, child prostitution and pornography, and adult prostitution.

Law 19.913 requires mandatory reporting of suspicious transactions by banks and financial institutions, financial leasing companies, general funds-managing companies and investment funds-managing companies, the Foreign Investment Committee, money exchange firms and other entities authorized to receive foreign currencies, firms that carry out factoring operations, credit cards issuers and operators, securities companies, money transfer and transportation companies, stock exchanges, stock exchange brokers, securities agents, insurance companies, mutual funds managing companies, forwards and options markets operators, tax free zones' legal representatives, casinos, gambling houses and horse tracks, customs general agents, auction houses, realtors and companies engaged in the land development business, and notaries and registrars. However, the law does not specify the parameters for determining suspicious activity. Each entity independently decides what constitutes irregularities in financial transactions. The law also does not grant any government or supervisory entity the authority to impose penalties for partial or non-compliance; in effect, there is still only voluntary—not compulsory—reporting of suspicious or unusual financial transactions.

In addition to reporting suspicious transactions, Law 19.913 also requires that obligated entities maintain registries of cash transactions that exceed 450 unidades de fomento (approximately $12,000),

and imposes record keeping requirements of five years. All cash transaction reports (CTRs) contained in the internal registries must be sent to the UAF at least once a year, or more frequently at the request of the UAF. In October 2005, the UAF issued a regulation requiring all banks to file these reports electronically and on a monthly basis. The Chilean tax service (Servicio de Impuestos Internos) has also issued a regulation, Resolution 120, requiring all banks, exchange houses and money remitters to report all transactions exceeding $10,000 sent to or received from foreign countries. The physical transportation of funds exceeding 450 unidades de fomento into or out of Chile must be reported to the customs agency, which then files a report with the UAF. These reports are sent to the UAF on a daily basis. However, Customs and other law enforcement agencies are not permitted to seize or otherwise stop the movement of funds, and the entry or exit of these funds is not subject to taxation.

Shortly after the passage of Law 19.913 in September 2003, portions of the new law—specifically those that dealt with the UAF's ability to gather information, impose sanctions, and lift bank secrecy provisions—were deemed unconstitutional by Chile's constitutional tribunal. The tribunal held that some of the powers granted to the UAF in the law violated privacy rights guaranteed by the constitution. The tribunal's decisions eliminate the ability of the UAF to request background information from government databases or from the reporting entities (including information on the reports they submit) and prevent UAF from imposing sanctions on entities for failure to file or maintain reports, or for failure to lift bank secrecy protections. The law went into effect in December 2003 without the above-mentioned powers. A new bill has been drafted to restore some of these powers to the UAF, but it has been stalled in Congress for over eighteen months. The bill was approved by the lower house in August 2005, but it is unlikely that further progress will be made until late 2006 due to the change in presidency that will take place in March.

The UAF began operating in April 2004, and began receiving suspicious transaction reports (STRs) from reporting entities in May 2004. The UAF receives approximately ten STRs from financial institutions per month. Suspicious transaction reports from financial institutions are received electronically, via a system known as SINACOFI (Sistema Nacional de Comunicaciones Financieras) that is used by banks to distribute information in an encrypted format among themselves and the Superintendence of Banks. Banks in Chile are supervised formally by the Superintendence of Banks and informally by the Association of Banks and Financial Institutions. Banks are obligated to abide by "know-your-customer" standards and other money laundering controls for checking accounts. However, savings accounts are not subject to the same compliance standards. Only a limited number of banks rigorously apply money laundering controls to non-current accounts.

The UAF has not yet developed a suspicious transaction disclosure form for entities other than banks and financial institutions, and therefore does not regularly receive STRs from non-financial institutions. Cash transaction reports are only reported upon request of the UAF. A major gap in Chile's efforts to combat money laundering is that non-bank financial institutions, such as money exchange houses, currently do not fall under the supervision of any regulatory body. The Superintendent of Casinos is the supervisory body for the seven casinos located throughout the country, but has no law enforcement or regulatory authority.

After receiving a suspicious transaction report, the UAF may request account information on the subject of the STR from the institution that filed the report. If the draft law is passed, the UAF will be able to request information from any entity that is required to file STRs, even if that entity did not file the STR that is being investigated. The draft law will also permit the UAF to request information from any entity that is not required to report suspicious transactions, if that information is necessary to complete the analysis of an STR, and will allow the UAF access to any government databases necessary for carrying out its duties. In order to perform these functions detailed in the draft law, the UAF will need the authorization of the Santiago Appeals Court. However, in the case of access to government databases, the UAF only needs court authorization for protected information, such as information related to taxes.

The Consejo de Defensa del Estado (CDE) continues to analyze and investigate any cases opened prior to the establishment of the UAF. Until June 2005, all cases that were deemed by the UAF to require further investigation were sent to the CDE. Beginning in June 2005, the Public Ministry (the public prosecutor's office) is responsible for receiving and investigating all cases from the UAF. To date, the Public Ministry has received only two cases from the UAF. Under the new law, the Public Ministry has the ability to request that a judge issue an order to freeze assets under investigation, and can also, with the authorization of a judge, lift bank secrecy provisions to gain account information if the account is directly related to an ongoing case. The Public Ministry has up to two years to complete an investigation and prosecution.

Primarily due to the above legislative restrictions and narrow interpretation of Law 19.913, no money laundering cases have been prosecuted to date. At the same time, the Chilean investigative police (PICH) and public prosecutor's office continue to cooperate with U.S. and regional law enforcement in money laundering investigations.

Chile's gaming industry consists of the Superintendent of Casinos, which is a supervisory body without law enforcement or regulatory authority, and seven casinos located throughout the country. However, Chile is engaged in sorting through international and domestic bids for 17 additional casinos legislated by the Chilean congress. There is currently no legal framework for regulating the money moving through the gaming industry.

One free trade zone exists in the northern region of Chile at Arica. The borders within the free trade zone are porous and largely unregulated. Reportedly, there are strong indications that money laundering schemes are rampant in the free trade zone, and Chilean resources to combat this issue are extremely limited.

Terrorist financing in Chile is criminalized under Law 18.314 and Law. 19.906. Law 19.906 went into effect in November 2003 and modifies Law 18.314 in order to sanction more efficiently terrorist financing in conformity with the UN International Convention for the Suppression of the Financing of Terrorism. Under Law 19.906, the financing of a terrorist act and the provision (directly or indirectly) of funds to a terrorist organization are punishable. The Superintendence of Banks circulates the UNSCR 1267 Sanctions Committee's consolidated list to banks and financial institutions.

No terrorist assets belonging to individuals or groups named on the list have been identified to date in Chile. If assets were found, the legal process that would be followed to freeze and seize them is still unclear; Law 19.913 contains provisions that allow for prosecutors to request that assets be frozen, based on a suspected connection to criminal activity. Government officials have stated that Chilean law is currently sufficient to effectively freeze and seize terrorist assets; however, the new provisions for freezing assets are based on provisions in the drug law, which at times have been interpreted narrowly by the courts. While assets have been frozen during two drug investigations, it is unclear how the new system would operate for a terrorist financing case. The Ministry of National Property currently oversees forfeited assets, and proceeds from the sale of forfeited assets are passed directly to the national regional development fund to pay for drug abuse prevention and rehabilitation programs. Under the present law, forfeiture is possible for real property and financial assets. Civil forfeiture is not permitted under current law.

Chile is a party to the 1988 UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, and the Inter-American Convention on Terrorism. Chile has also signed but not ratified the UN Convention against Corruption. Chile is a member of the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering and the South American Financial Action Task Force on Money Laundering (GAFISUD). The CDE became a member of the Egmont Group of financial intelligence units in 1997, and the UAF was vetted by the Egmont Group in October 2004 to replace the CDE. The UAF has signed memoranda of understanding for the

exchange of financial information with Argentina, Australia, Bolivia, Brazil, Colombia, France, Guatemala, Korea, Mexico, Panama, Paraguay, Peru, Poland, Romania, Slovenia, Spain and the United States.

In the establishment of the UAF, the Government of Chile has created an FIU that meets the Egmont Group's definition of a financial intelligence unit. However, several weaknesses remain that hamper the operations of the UAF, such as its inability to sanction reporting entities or individuals for failure to file reports, its lack of access to information from other government agencies, and, reportedly, a very narrow interpretation of how the FIU should coordinate with law enforcement and other government agencies. Non-bank financial institutions represent a threat and should be subject to regulatory guidance and supervision. The continuation of these limitations will be a step backward, reversing the steps that have been taken in Chile over the past years to create a regime capable of investigating, punishing, and deterring financial crimes. With signs of growing money laundering, Chile lacks the legal ability to obtain necessary information and coordinate efforts to address these issues. Chile should take all necessary steps to ensure that the UAF and other key agencies are capable of effectively combating money laundering and terrorist financing.

China, People's Republic of

Money laundering remains a major concern as the People's Republic of China (PRC) restructures its economy. A more sophisticated and globally connected financial system in one of the world's fastest growing economies will offer significantly more opportunities for money laundering activity. Most money laundering cases now under investigation involve funds obtained from corruption and bribery. Narcotics trafficking, smuggling, alien smuggling, counterfeiting, fraud and other financial crimes remain major sources of laundered funds. Proceeds of tax evasion, recycled through offshore companies, often return to the PRC disguised as foreign investment, and as such, receive tax benefits. Continuing speculation following the July adjustment of the renminbi exchange rate system also fueled illicit capital flows into China throughout 2005. Hong Kong-registered companies figure prominently in schemes to transfer corruption proceeds and in tax evasion recycling schemes. The International Monetary Fund recently estimated that money laundering in China may total as much as $24 billion annually.

In 2005, China drafted a new Anti-Money Laundering Law, under the direction of a ministerial-level coordinating committee created in 2004. This new law is expected to broaden the scope of existing anti-money laundering regulations and to establish more firmly the Central Bank's authority over national anti-money laundering efforts. The new law was submitted to the National People's Congress Standing Committee at the end of 2005, but as of the end of December 2005, the NPC had not reviewed the draft legislation. The authorities expect the law to be passed in 2006.

China has taken steps to enhance its anti-money laundering regime. After conducting studies on how to strengthen the system, the People's Bank of China (PBC) and the State Administration of Foreign Exchange (SAFE) promulgated a series of anti-money laundering regulatory measures for financial institutions. These include: Regulations on Real Name System for Individual Savings Accounts, Rules on Bank Account Management, Rules on Management of Foreign Exchange Accounts, Circular on Management of Large Cash Payments, and Rules on Registration and Recording of Large Cash Payments.

Measures came into effect in 2004 that further strengthened China's anti-money laundering efforts, including a March 2004 PBC regulation entitled "Regulations on Anti-Money Laundering for Financial Institutions," which strengthens the regulatory framework under which Chinese banks and financial institutions must treat potentially illicit financial activity. The regulation effectively requires Chinese financial institutions to take responsibility for suspicious transactions, instructing them to create their own anti-money laundering mechanisms. Banks are required to report suspicious or large

foreign exchange transactions of more than $10,000 per person in a single transaction or cumulatively per day in cash, or non-cash foreign exchange transactions of $100,000 per individual or $500,000 per entity either in a single transaction or cumulatively per day.

Banks are also required to report large renminbi transactions, including single credit transfers of over 1 million RMB (approximately $120,500), cash transactions above 200,000 RMB (approximately $24,000), and domestic fund transfers of over 200,000 RMB, and are expected to report suspicious RMB transactions and refuse services to suspicious clients. Under the regulation, banks are further required to submit monthly reports to the PBC outlining suspicious activity and to retain transaction records for five years. Banks which fail to report on time can be fined up to the equivalent of approximately $3,600.

These measures complement the PRC's 1997 Criminal Code, which criminalized money laundering under Article 191 for three categories of predicate offenses, including narcotics trafficking, organized crime, and smuggling. In 2001, Article 191 was amended to add terrorism as a fourth predicate offense. Additionally, Article 312 criminalizes complicity in concealing the proceeds of criminal activity, and Article 174 criminalizes the establishment of an unauthorized financial institution. However, the class of existing predicate offenses needs to be expanded.

While official scrutiny of cross-border transactions is improving, the Chinese Government is also moving to loosen capital-account restrictions. For example, as of January 1, 2005, travelers can take up to 20,000 RMB (approximately $2,400) in or out of the country on each trip, up from 3,000 RMB (approximately $360) previously. New provisions allowing the use of RMB in Hong Kong have also created new loopholes for money laundering activity. Authorities are also allowing greater use of domestic, renminbi-denominated, credit cards overseas. Such cards can now be used in Hong Kong, Macau, Singapore, Thailand, and South Korea. To address online fraud, the PBOC tightened regulations governing electronic payments. In 2005, the Central Bank announced new rules that consumers could not make online purchases of more than RMB 1,000 (approximately $124) in any single transaction or more than 5,000 RMB (approximately $620) in a single day. Enterprises are limited to electronic payments of no more than 50,000 RMB (approximately $6,200) in a single day.

In 2003, the Chinese Government established a new banking regulator, the China Banking Regulatory Commission (CBRC), which assumed substantial authority over the regulation of the banking system. The CBRC has been authorized to supervise and regulate banks, asset management companies, trust and investment companies, and other deposit-taking institutions, with the aim of ensuring the soundness of the banking industry. One of its regulatory objectives is to combat financial crimes. However, primary authority for anti-money laundering efforts remains with the PBC, the country's Central Bank, along with the Ministry of Public Security in terms of enforcement.

In 2004, the PBC established a central national Financial Intelligence Unit (FIU) -the China Anti-Money Laundering Monitoring and Analysis Center, whose function is to collect, analyze and disseminate suspicious transaction reports and currency transaction reports. This move was an important accomplishment of the Anti-Money Laundering Strategy Team tasked with developing the legal and regulatory framework for countering money laundering in the banking sector. The team is chaired by a Vice-Governor of the PBC and is composed of representatives of the PBC's 15 functional departments

In September 2002, SAFE adopted a new system to supervise foreign exchange accounts more efficiently. The new system allowed for immediate electronic supervision of transactions, collection of statistical data, and reporting and analysis of transactions. A separate Anti-Money Laundering Bureau was established at the PBOC in late 2003 to coordinate all anti-money laundering efforts in the PBC and among other agencies, and to supervise the creation of the new FIU.

In spite of China's efforts, institutional obstacles and rivalries between financial and law-enforcement authorities continue to hamper Chinese anti-money laundering work and other financial law enforcement. Continuing efforts by some Chinese officials to strengthen the relatively weak legal framework under which money laundering offenses are currently prosecuted in the Chinese criminal code have yet to bear fruit. Furthermore, the current Anti-Money Laundering Law does not allow certain investigative practices commonly used with success in the United States. Also, anti-money laundering efforts are hampered by the prevalence of counterfeit identity documents and cash transactions conducted by underground banks, which in some regions reportedly account for over one-third of lending activities. China has increased efforts in recent years to crack down on such underground lending institutions. According to Chinese media reports, authorities shut down 155 underground banks dealing in $1.5 billion worth of illegal foreign exchange transactions between April and December 2004. Overall in 2004, 50 money laundering cases were jointly investigated by the police, the PBC and SAFE, according to the Chinese press.

A continued structural impediment is the absence of a nationwide automated network to monitor banking transactions through the PBOC. Many inter-banking transactions from one region to another are conducted manually, which delays the PBC's ability to prevent money laundering. As a result, weaknesses in the Chinese banking and criminal regulatory structure continue to be exploited by both domestic and foreign criminal enterprises.

To remedy these deficiencies, the PBOC launched a national credit-information system in early 2005. The system officially began operation in January 2006. Although still very limited, this system will allow banks to have access to information on individuals as well as on corporate entities. PBOC rules obligate financial institutions to perform customer identification and due diligence, and record keeping. However, there is currently no legislative instrument, only administrative rules, requiring customer due diligence and record keeping. SAFE implemented a new regulation on March 1, 2004 requiring non-residents, including those from Hong Kong, Macau, Taiwan, and Chinese passport holders residing outside mainland China, to verify their real names when opening bank accounts with more than $5,000.

The PRC supports international efforts to counter the financing of terrorism. Terrorist financing is now a criminal offense in the PRC, and the government has the authority to identify, freeze, and seize terrorist financial assets. Subsequent to the September 11, 2001, terrorist attacks in the United States, the PRC authorities began to actively participate in U.S. and international efforts to identify, track, and intercept terrorist finances, specifically through implementation of United Nations Security Council counterterrorist financing resolutions.

China's concerns with terrorist financing are generally regional, focused mainly on the western province of Xinjiang. Chinese law enforcement authorities have noted that China's cash-based economy, combined with its robust cross-border trade, has led to many difficult-to-track large cash transactions. There is concern that groups may be exploiting such cash transactions in an attempt to bypass China's financial enforcement agencies. While China is proficient in tracing formal foreign currency transactions, the large size of the informal economy—estimated by the Chinese Government at about 10 percent of the formal economy, but quite possibly larger—makes monitoring of China's cash-based economy very difficult.

The PRC signed the UN International Convention for the Suppression of the Financing of Terrorism on November 13, 2001, but has not ratified it. The PRC has signed mutual legal assistance treaties with 24 countries.

The United States and the PRC signed a mutual legal assistance agreement (MLAA) in June 2000, the first major bilateral law enforcement agreement between the countries. The MLAA entered into force in March 2001 and provides a basis for exchanging records in connection with narcotics and other criminal investigations and proceedings. The PRC is a party to the 1988 UN Drug Convention, and in

2003 ratified the UN Convention against Transnational Organized Crime. In January 2006, it ratified the UN Convention against Corruption.

The United States and the PRC cooperate and discuss money laundering and other enforcement issues under the auspices of the U.S.-PRC Joint Liaison Group's (JLG) subgroup on law enforcement cooperation. The JLG meetings are held periodically in either Washington, D.C., or Beijing. In addition, the United States and the PRC have established a Working Group on Counter-Terrorism that meets on a regular basis. The PRC has established similar working groups with other countries as well.

In late 2004, China joined the newly-created Eurasian Group (EAG), a Financial Action Task Force (FATF)-style regional group which includes Russia and a number of Central Asian countries. In January 2005, China became an observer to the FATF and desires to become a full member of the FATF.

In 2005, China's CBRC signed a memorandum of understanding with the Philippine Central Bank, Bangko Sentral ng Pilipinas, to share information on suspected money laundering activity. China's financial intelligence unit, the China Anti-Money Laundering Monitoring and Analysis Center, also signed its first MOU with a foreign counterpart at the end of 2005, with South Korea's FIU, allowing the two to exchange information related to money laundering, terrorism financing and other criminal financial activity.

The Government of the People's Republic of China should continue to build upon the substantive actions taken in recent years to develop a viable anti-money laundering/terrorist financing regime consistent with international standards. Important steps include expanding its list of predicate crimes to include all serious crimes, and continuing to develop a regulatory and law enforcement environment designed to prevent and deter money laundering. China should ensure that the FIU is an independent, centralized body with adequate collection, analysis and disseminating authority, including the ability to share with foreign analogs and law enforcement, and that a system of STR reporting is adequately implemented. It will be important for China's FIU to join the Egmont Group of Financial Intelligence Units as soon as possible to ensure it has access to vital financial information on possible illicit transactions occurring in other jurisdictions. China should provide for criminal penalties for non-compliance with requirements that financial institutions perform customer identification, due diligence, and record keeping, as well as incorporating the suspicious transaction-reporting requirement into law. China should also become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Colombia

The Government of Colombia (GOC) is a regional leader in the fight against money laundering. Comprehensive anti-money laundering legislation regulations have allowed the government to refine and improve its ability to combat financial crimes and money laundering. Nevertheless, the laundering of drug money from Colombia's lucrative cocaine and heroin trade continues to penetrate its economy and affect its financial institutions. Additionally, a complex legal system and limited resources for anti-money laundering programs constrain the effectiveness of the GOC's efforts. Laundering illicit funds is related to a number of criminal activities (narcotics trafficking, commercial smuggling for tax and import duty evasion, kidnapping for profit, and arms trafficking and terrorism connected to violent paramilitary groups and guerrilla organizations), and is carried out, to a large extent, by officially recognized foreign terrorist organizations. The GOC and U.S. law enforcement agencies are closely monitoring transactions that could disguise terrorist finance activities for local foreign terrorist organizations. The U.S. and Colombia exchange information and cooperation based on Colombia's 1994 ratification of the United Nations Convention against Illicit Trafficking in Narcotics and Psychotropic Substances. This convention extends into most money laundering activities that are the result of Colombia's drug trade.

Colombia's economy is robust and diverse and is fueled by a significant export sector that ships goods such as palm oil, textiles and apparel, flowers, and coffee to the U.S. and beyond. While Colombia is not a regional financial center, the banking sector is mature and well-regulated. An increase in financial crimes, such as bank fraud, not related to money laundering or terrorist financing, has not been widely seen in Colombia, although criminal elements have used the banking sector to launder money, under the guise of licit transactions. Money laundering has occurred in the non-bank financial system, especially related to transactions that support the informal or underground economy. Colombian money is also laundered through offshore centers, generally relating to transactions involving drug-related proceeds.

Financial institutions are required by law to maintain records of account holders and financial transactions for five years. This enables them to respond quickly to information requests from appropriate government authorities. Secrecy laws have not been an impediment to bank cooperation with law enforcement officials. They are required to issue suspicious activity reports (SARs) on any transaction that raises concern. Money laundering investigations are often initiated through the details provided by SAR reporting. Colombia's banks have strict compliance procedures, and work closely with the GOC, other foreign governments, and private consultants to ensure system integrity. Financial institutions are not exempted from compliance with law enforcement obligations, but compliance officers are not held liable under Colombian law for the content of their SARs. General negligence laws and criminal fraud provisions ensure the financial sector complies with its responsibilities while protecting consumer rights. Citizens are afforded rights to privacy, and investigations are carried out in accordance with legal requirements to protect those rights.

Colombian law is unclear over the government's authority to block assets of individuals and entities on the UN 1267 Sanctions Committee consolidated list. The government circulates the list widely among financial sector participants and banks are able to close accounts, but not seize assets. Banks also monitor other lists, such as OFAC publications, to ensure that services are denied to criminal elements, through the closing of accounts and denial of services. Charities and NGOs are regulated to ensure compliance with Colombian law and to guard against their involvement in terrorist activity. This regulation consists of several layers of scrutiny, including the regulation of incorporation and the tracing of suspicious financial flows through the collection of intelligence or SAR reporting. Reportedly, the GOC acknowledges that monitoring NGOs and charities is an issue that needs continued work and vigilance. Colombia is improving its ability to regulate alternative remittance systems. These systems include networks of informal cash remittances through family member connections or the use of smuggling rings that form the backbone of the black market peso exchange.

Money launderers in Colombia employ a wide variety of techniques. Trade-based money laundering, such as the Black Market Peso Exchange (BMPE), through which money launderers furnish narcotics-generated dollars in the United States to commercial smugglers, currency dealers, travel agents, investors and others in exchange for Colombian pesos in Colombia, remains a prominent method for laundering narcotics proceeds. Working with the Department of Homeland Security's Office of Immigration and Customs Enforcement (ICE), Colombia established a prototype Trade Transparency Unit (TTU) that examined anomalies in trade data that could be indicative of customs fraud and trade-based money laundering. Analysis of suspect data showed a direct financial relationship between the narcotic cartels and the terrorist organization, the Revolutionary Armed Forces of Colombia (FARC).

Colombia also appears to be a significant destination and transit location for bulk shipment of narcotics-related U.S. currency. Local currency exchangers convert narcotics dollars to Colombian pesos and then ship the U.S. currency to Central America and elsewhere for deposit as legitimate exchange house funds that are then reconverted to pesos and repatriated by wire to Colombia. Other methods include the use of debit cards to draw on financial institutions outside of Colombia and the transfer of funds out of and then back into Colombia by wire through different exchange houses to create the appearance of a legal business or personal transaction. Colombian authorities have also

noted increased body smuggling of U.S. and other foreign currencies and an increase in the number of shell companies operating in Colombia. Smart cards, internet banking, and the dollarization of the economy of neighboring Ecuador represent some of the growing challenges to money laundering enforcement in Colombia.

From a money laundering standpoint, casinos in Colombia lack regulation and transparency, making them a target ripe for abuse. Free trade zones in some areas of the country likewise present opportunities for smugglers to take advantage of lax customs regulations, or the corruption of low-level officials to move products into the informal economy. Although corruption of government officials remains a problem, it has not been reported as widespread. The GOC has taken dramatic steps to ensure the integrity of its most sensitive institutions and senior government officials.

Colombia has broadly criminalized money laundering. In 1995, Colombia established the "legalization and concealment" of criminal assets as a separate criminal offense. Also, in 1997, Colombia more generally criminalized the laundering of the proceeds of extortion, illicit enrichment, rebellion, and narcotics trafficking. Effective in 2001, Colombia's criminal code extended the predicate offenses of money laundering to include arms-trafficking, crimes against the financial system or public administration and criminal conspiracy. Penalties under the criminal code range from two to six years with possibilities for aggravating enhancements of up to three-quarters of the sentence. Persons who acquire proceeds from drug trafficking are subject to a potential sentence of six to fifteen years, while illicit enrichment convictions carry a sentence of six to ten years. Failure to report money laundering offenses to authorities, among other offenses, is itself an offense punishable under the criminal code, with penalties increased in 2002 to imprisonment of two to five years.

Colombian law provides for both conviction-based and non-conviction-based in rem forfeiture, giving it some of the most expansive forfeiture legislation in Latin America. A general criminal forfeiture provision for intentional crimes has existed in Colombian Penal Law since the 1930s. Since then, Colombia has adopted more specific criminal forfeiture provisions in other statutes, most notably those containing Colombia's principal counternarcotics statute, Law 30 of 1986. In 1996, Colombia added non-conviction-based forfeiture with the enactment of Law 333 of 1996, which established a process that allows for the extinguishing of ownership rights for assets tainted by criminal activity. This process is only a first step in Colombian law that requires a second judicial procedure to transfer the title from the original owner to the GOC. This second procedure can take years if the original owner decides to fight the transfer. Despite an expansive legislative regime, procedural and other difficulties led to only limited forfeiture successes in the past, with substantial assets tied up in proceedings for years. However, in 2002 the counternarcotics and maritime unit of the prosecutor general's office used Law 333 to successfully forfeit $35 million of U.S. currency seized in 2001 with the assistance of DEA.

In 2002, the GOC took additional forceful measures to remove practical obstacles to the effective use of forfeiture to combat crime. In September, the GOC issued a decree to suspend application of Law 333 and implement more streamlined procedures in forfeiture cases. These reforms were refined and formally adopted through the enactment of Law 793 of 2002. Among other things, Law 793 repeals Law 333 and establishes new procedures that eliminate interlocutory appeals that prolonged and impeded forfeiture proceedings in the past, imposes strict time limits on proceedings, and places obligations on claimants to demonstrate their legitimate interest in property. In addition, Law 793 requires expedited consideration of forfeiture actions by judicial authorities, and establishes a fund for the administration of seized and forfeited assets. The amount of time for challenges was shortened and the focus was moved from the accused to the seized item (cash, jewelry, boat, etc.), placing more burdens on the accused to prove the item was acquired with legitimately obtained resources.

In December 2002, the GOC strengthened its ability to administer seized and forfeited assets by enacting Law 785 of 2002. This statute provides clear authority for the National Drug Directorate

(DNE) to conduct interlocutory sales of seized assets and contract with entities for the management of assets. Notably, Law 785 also permits provisional use of seized assets prior to a final forfeiture order, including assets seized prior to the enactment of the new law. In 2004, the department of administration of property within the prosecutor general's office seized nearly 17,000 properties. The DNE, with assistance from the United States Marshals Service, has developed a modern asset management and electronic inventory system for seized assets.

The Colombian government has been aggressively pursuing the seizure of assets obtained by drug traffickers through their illicit activities. As a prime example, for the last two years the CNP/SIU, in conjunction with DEA, OFAC, and the Colombian Fiscalia (prosecutor's office) have been investigating the Cali cartel business empire under the Rodriguez Orejuela brothers. A series of investigations designed to identify and seize assets either purchased by money gained through illegal drug activity or assets used to launder drug proceeds took place under the name Operation Dinastia.

On October 21, 1995, pursuant to Executive Order 12978, the Treasury Department's Office of Foreign Assets Control (OFAC) added the Colombian drugstore chain Drogas la Rebaja (which later changed its name to evade U.S. sanctions) to its specially designated narcotics traffickers (SDNT) list because it was owned or controlled by Cali cartel leaders Miguel and Gilberto Rodriguez Orejuela (currently in custody in the U.S. awaiting trial). After a lengthy investigation by Colombian Law enforcement, on September 16, 2004, the CNP/SIU mobilized 3,200 police officers and 465 fiscales (Colombian prosecutors) nationwide in order to seize approximately 480 retail stores of the Drogas la Rebaja drug store chain. As part of the operation, the largest pharmaceutical laboratory in Colombia was seized as well. This is the largest asset forfeiture in Colombian history to date. The operation took place in 28 of the 32 Colombian departments over a three day period. The Colombian Direccion Nacional de Estupefacientes (DNE) took control of the stores and has replaced the top 24 company executives with DNE administrators. All 4,200 company employees continue to work, but all company profits will be utilized by the Colombian government in furtherance of counternarcotics programs.

The public and political response to asset forfeiture has been positive. Press reports have been matter-of-fact concerning asset seizure operations, and the court-sanctioned nature of the seizure orders mitigates political pressure. In general, Colombians recognize the relationship between criminals and their illicitly gotten gains. The banking sector has been cooperative with law enforcement activity based on judicial order. Banks and other financial sector entities are also mindful of USA PATRIOT Act provisions that require action against criminals that fall under the jurisdiction of that act. Criminals in Colombia often act violently against vigorous law enforcement activities. As a result, GOC officials at all levels of involvement must guard against retaliatory action taken by criminal elements.

Colombia formally adopted legislation in 1999 to establish a unified, central financial intelligence unit (FIU), the "Unidad de Informacion y Anlisis Financiero" (UIAF), that is located within the Ministry of Finance and Public Credit. The UIAF, which currently has 45 personnel, has broad authority to access and analyze financial information from public and private entities in Colombia. Obligated entities (including financial institutions, institutions regulated by the Superintendence of Securities and the Superintendence of Notaries, export and import intermediaries, credit unions, wire remitters, exchange houses and public agencies) are required to file suspicious transaction reports with the UIAF, and are barred from informing their clients of their reports. Most obligated entities are also required to establish "know-your-customer" provisions. Exchange houses must file currency reports for transactions involving $700 or more. In 2005, 8,227 SARs were filed; however, financial institutions are believed to underreport transactions.

The UIAF is widely viewed as a hemispheric leader in efforts to combat money laundering and supplies considerable expertise in organizational design and operations to other financial intelligence units in Central and South America. The UIAF is a member of the Egmont Group of financial

intelligence units, and the UIAF director currently serves in the capacity as vice-chair of the Egmont Committee. Although FIUs are not required to sign agreements amongst themselves in order to exchange information under the auspices of the Egmont Group, the Colombian FIU has signed memoranda of understanding with 27 FIUs around the world.

The UIAF is currently working on a project called SCCI (Sistema Centralizado de Consultas de Informacion) that connects 17 governmental entities as well as one private sector association (Asobancaria). SCCI will allow these entities to exchange information online and share their databases in a secure manner. The pilot phase of the project was made possible due to USG financial contributions. It is expected that SCCI will be operational in April 2006.

Currency transactions and cross-border movements of currency in excess of $10,000 must also be reported to the UIAF, and certified money couriers must be used for the cross-border movements of currency. Colombia has criminalized cross-border cash smuggling and defines it as money laundering. However, customs officials are inadequately equipped to detect cross-border currency smuggling. Workers rotate frequently producing inadequately trained staff. In addition, the individual customs officials are held liable for any inspected article that they damage, causing hesitation in conducting thorough inspections. Reportedly, corruption is also a problem. It has also been noted that customs officials lack the proper technical equipment necessary to do their job. The GOC has been slow to make needed changes.

Bilateral cooperation between the GOC and the USG remains strong and active. In 1998, DEA established a sensitive investigative unit (SIU) within the Colombian administrative security (DAS) to investigate drug trafficking and money laundering organizations. In late 2003, the SIU arrested 21 money laundering facilitators in support of a U.S. operation based in south Florida. This operation exposed numerous flower export companies operating in Colombia as fronts for money laundering activities, and resulted in the seizure of over $17 million.

A financial investigative unit, formed within the Colombian National Police intelligence and investigations unit (DIJIN) in 2002, has worked several cases, some of which have been closed by investigation and arrests. This unit works closely with the Immigration and Customs Enforcement agency (ICE) of the U.S. Department of Homeland Security. The cases are financial in nature and include money laundering and terrorist financing, and many are the subject of extradition proceedings, including several that involve high profile defendants.

Although terrorism is already an autonomous crime under Colombian law, there is no legislation criminalizing the financing of terrorism. A draft law has been introduced to amend the penal code to define and criminalize direct and indirect financing of terrorism, of both national and international terrorist groups. Per GAFISUD and Egmont Group recommendations, the UIAF will receive SARs regarding terrorist financing. The new law will allow the UIAF to freeze terrorists' assets immediately after their designation. In addition, banks will now be held responsible for their client base. Banks will be required to immediately inform the UIAF of any accounts held by newly designated terrorists. Banks will also have to screen new clients against the current list of designated terrorists before the banks are allowed to provide prospective clients with services. Previously, banks were not legally required to comply either of these regulations, but many had complied regardless. The bill has been presented to Congress and currently awaits approval. The proposal may be delayed due to congressional elections in March 2006, with the new congress taking office in July 2006. President Uribe reportedly supports the new legislation.

Colombia plays a strong role in multilateral efforts to combat money laundering. In addition to its membership in Egmont, Colombia is a member of the Financial Action Task Force of South America Against Money Laundering (GAFISUD). In 2004 Colombia was a participant on the GAFISUD Executive Director Selection Committee and on the Budget Committee. Colombia also underwent a mutual evaluation by GAFISUD in 2004, and Colombia continued to provide experts for the mutual

evaluations of other GAFISUD countries. Colombia is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Money Laundering Experts Working Group, which it chaired in 2005. In October 2004, Colombia became a party to the UN International Convention for the Suppression of the Financing of Terrorism. The GOC is a party to the UN Convention Against Transnational Organized Crime and has signed, but not ratified, the UN Convention Against Corruption.

Although Colombia has a strong financial intelligence unit and comprehensive anti-money laundering laws and regulations, there are still several weaknesses that should be corrected. Enforcement continues to be a challenge for Colombia. Limited resources for prosecutors and investigators have made financial investigations problematic. Continued difficulties in establishing the base predicate offense further contributes to Colombia's limited success in achieving money laundering convictions and successful forfeitures of criminal property. Congestion in the court system, procedural impediments and corruption remain continuing problems. Colombia has not yet criminalized the financing of terrorism, although terrorist financing crimes can be prosecuted under other sections of law. The GOC should move promptly on the legislation, specifically criminalize the financing of terrorism, further eliminate procedural impediments, and take other necessary steps to further strengthen its anti-money laundering and counterterrorist financing programs.

Comoros

The Union of Comoros (Comoros) is not a principal financial center for the region. An anti-money laundering (AML) law, which addresses many of the primary AML issues of concern, was passed by Presidential Decree in 2004. However, Comorian authorities lack the capacity to effectively implement and enforce the legislation. Comoros consists of three islands: Grande Comore, Anjouan and Moheli. An ongoing struggle for influence continues between the Union and island presidents. Political instability remains a concern. Since independence from France in 1975, there have been 19 coups or coup attempts. Union President Azali Assoumane took power in a coup in 1999 and subsequently was elected in 2002 Union presidential elections described by international observers as free and fair. Elections for a new Union President are scheduled to occur in 2006, drawing on candidates from Anjouan, as required by the Union constitution in an effort to facilitate power-sharing among the islands. While broad principles have been agreed upon, some details of the new federal legal system remain to be decided upon, and both Moheli and Anjouan continue to retain much of their autonomy, particularly with respect to their security services, economies, and banking sectors.

The 2004 federal-level AML law is based on the French model. The main features of the law are that it: 1) requires financial and related records to be maintained for five years; 2) permits assets generated or related to money laundering activities to be frozen, seized and forfeited; 3) requires residents to declare all currency or financial instruments upon arrival and departure, and non-residents to declare all financial instruments upon arrival and all financial instruments above Comorian Francs 500,000 ($1,250) on departure; 4) permits provision and receipt of mutual legal assistance with another jurisdiction where a reciprocity agreement is in existence and confidentiality of financial records is respected; 5) requires non-bank financial institutions to meet the same customer identification standards and reporting requirements as banks; 6) requires banks, casinos and money exchangers to report unusual and suspicious transactions (by amount or origin) to the Central Bank and prohibits cash transactions over Comorian Frances 5 million ($12,500); and, 7) criminalizes the provision of material support to terrorists and terrorist organizations. There is no financial intelligence unit or comparable agency in existence in the country.

Federal authorities have a limited ability to implement AML laws in Anjouan and Moheli. Similarly, the island governments of Anjouan and Moheli may have limited control over AML matters. Although Moheli has its own AML law in effect (the Anti-Money Laundering Act of 2002), the law itself has

some serious shortcomings and authorities lack the resources and expertise to enforce its provisions. For example, there is no absolute requirement to report large cash transactions. Comprehensive information on Anjouan's laws and regulations is difficult to obtain, but it does not appear that Anjouan has an AML law, or any legal requirement for offshore banks to maintain records or take any action when confronted with money laundering activities, be they suspected or confirmed. As is the case with Moheli, Anjouan also lacks resources and expertise to address money laundering and related financial crimes. In 2005, Anjouan's island president, Bacar Mohamed, recognized Anjouan's inability to regulate its offshore sector and requested USG assistance to combat misrepresentation of his government in connection with the offshore sector. He denied his government was in any way involved with a website portraying itself as the Government of Anjouan's offshore licensing authority and sought to have the site shut down.

Union President Azali has made efforts to bring AML enforcement under Union government jurisdiction. In May 2005, he issued a note to the Ministry of Finance, the islands' presidents, and the Public Prosecution Department urging these institutions to take action with regard to any illegal offshore banking practices. The note indicated that all banking and financial institutions operating within the jurisdiction of the Union of Comoros, whether offshore or onshore, must abide by the provisions of legislation No. 80-7 of May 3, 1980. According to article 7 of this legislation, a bank or any other financial institution cannot operate in the Union of Comoros without prior authorization from the Union of Comoros Finance Minister upon recommendation from the Comoros Central Bank. Thus, offshore banks operating in the autonomous islands of the Union of Comoros without prior authorization from the Union of Comoros Finance Minister contravene the May 3, 1980 legislation. Consequently, Azali's note directed the ministries and other government institutions responsible for banking and financial matters to take (or to see to it that the necessary measures are taken) to put an end to this "blatant illegality which is prejudicial to the Union of Comoros." Also in May 2005, President Azali told the USG that the Comorian government is prepared to bring to justice the beneficiaries of illegal offshore licenses and sought the assistance and support of the USG in this endeavor.

While the Comoros is not a principal financial center for the region, Moheli and Anjouan may have attempted or may be attempting to develop an offshore financial services sector as a means to finance government expenditures. The Anjouan island government's claim that unrelated companies are presenting themselves as licensed by the government of Anjouan makes authoritative information on Anjouan's offshore sector difficult to establish. Both Moheli, pursuant to the International Bank Act of 2001, and Anjouan, pursuant to the Regulation of Banks and Comparable Establishments of 1999, license off-shore banks. Together, the islands have licensed more than 100 banks. Applicants for banking licenses in either jurisdiction are not required to appear in person to obtain their licenses. In Anjouan, only two documents (a copy of the applicant's passport and a certificate from a local police department certifying the lack of a criminal record) are required to obtain an offshore license and fax copies of these documents are acceptable. Even if additional information was to be required, it is doubtful that either jurisdiction has the ability or resources to authenticate and verify the information. Neither jurisdiction is capable, in terms of expertise or resources, of effectively regulating an offshore banking center. Anjouan, and probably Moheli as well, has delegated much of its authority to operate and regulate the offshore business to private, non-Comorian domiciled parties. In November 2004, Anjouan island government officials denied island government involvement in the offshore sector. They said the Union of Comoros Central Bank was the only authority for the offshore banking sector in the country and insisted the Anjouan island government had not established its own central bank. They admitted that several years earlier the government of Anjouan considered starting an offshore banking sector, but they had not pursued it.

In addition to offshore banks, both Moheli, pursuant to the International Companies Act of 2001, and Anjouan, pursuant to Ordinance Number 1 of 1 March 1999, license insurance companies, internet

casinos, and international business companies (IBC's)—Moheli alone claims to have licensed over 1200 IBC's. Bearer shares of IBC's are permitted under Moheli law. Anjouan also forms trusts, and registers aircraft and ships as well (without requiring an inspection of the aircraft or ship in Anjouan).

Comoros is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, and the UN International Convention for the Suppression of the Financing of Terrorism.

The Government of the Union of the Comoros (GOC) should harmonize anti-money legislation for the three islands that comprise the federal entity. A unified financial intelligence unit should be established and the unregulated offshore financial sectors in Moheli and Anjouan should either be regulated by federal authorities or be shut down. In either case, bearer shares should be immobilized. The deficiencies in the anti-money laundering/terrorist financing regimes in the Comoros, and the GOC's inability to implement existing legislation make it vulnerable to traditional money laundering and to the financing of terrorism. Comoros should make every effort to comport to international standards. Comoros should specifically criminalize the financing of terrorism.

Cook Islands

The Cook Islands is a self-governing parliamentary democracy in free association with New Zealand and a member of the British Commonwealth. Cook Islanders are citizens of New Zealand.

After the Government of the Cook Islands remedied deficiencies in its anti-money laundering regime, the Financial Action Task Force (FATF) removed the Cook Islands from its Non-Cooperative Countries and Territories list in February 2005. The Cooks had been on the list since 2000. The FATF is conducting a year-long program, due to conclude in February 2006, to closely monitor the islands. The Cook Islands is scheduled for a mutual evaluation in 2008.

By enacting The Financial Transactions Reporting Act (FTRA) 2003, and eight other legislative acts on May 7, 2003, and additional legislation in 2004, Cook Islands authorities strengthened its anti-money laundering/counterterrorism financing (AML/CTF) legal and institutional framework. Reviews are underway to consider how the AML/CTF legislation affects other domestic laws. The Financial Supervisory Commission (FSC), regulator of the licensed financial sector, expects new insurance legislation to be drafted beginning in 2006.

The Financial Transactions Reporting Act (FTRA) 2003, and the updated 2004 amendment, require financial and other institutions to conduct due diligence, ongoing monitoring of customers and transactions, suspicious activity reporting, development and maintenance of internal procedures for compliance, and audit and record keeping. The Act provides for administrative and penal sanctions on institutions for noncompliance.

The FTRA imposes certain reporting obligations on institutions in 26 categories, including banks, offshore banking businesses, offshore insurance businesses, casinos, gambling services, insurers, financial advisors, solicitors/attorneys, accountants, financial regulators, lotteries, and money remitters. The Minister of Finance can extend the reporting obligation to other businesses.

Financial institutions are required to retain all records related to the opening of accounts and financial transactions for a minimum of six years. The records must include sufficient documentary evidence to prove the customer's identity. In addition, financial institutions are required to develop and apply internal policies, procedures, and controls to combat money laundering and to develop audit functions to evaluate such policies, procedures, and controls. Financial institutions must comply with any guidelines and training requirements issued under the amended FTRA 2004.

Financial institutions are required to make currency transaction reports and suspicious transaction reports to the Financial Intelligence Unit (FIU). Those requirements apply to all currency transactions

of NZ$10,000 (approximately $6870) and above; electronic funds transfers of NZ$10,000 and above; transfers of currency, into and out of the Cook Islands, in excess of NZ$10,000; and, any suspicious transactions. Failure to declare such transactions could incur penalties. Institutions obligated to file Suspicious Transaction Reports to the FIU are banks, insurers, financial advisors, bureaux de change, solicitors/attorneys, accountants, financial regulators, casinos, lotteries, money remitters, and pawn shops. In 2005, the FIU received 10 Suspicious Transaction Reports, 566 Cash Transaction Reports, 1,763 Electronic Funds Transaction Reports , and 12 Border Currency Reports. To date, 30 of the 47 Suspicious Transaction Reports have related to non-residents.

The FTRA establishes the supervision and authority of the FIU, including cooperation with supervisors. The FIU is the central unit responsible for processing disclosures of financial information in accordance with anti-money laundering and antiterrorist financing regulations. It became fully operational with the assistance of a Government of New Zealand technical advisor. The FIU has the authority to require reporting institutions to supplement reports. It has broad powers to obtain information required to combat money laundering and the financing of terrorism, including information from any law enforcement agency and supervisory body. The FIU is required to destroy a suspicious transaction report if there has been no activity or information related to the report or to a person named in the report for six years. The FIU does not have an investigative mandate. If it determines that a money laundering offense has been, or is being, committed, it must refer the matter to law enforcement for investigation. The Minister of Finance, who is responsible for administrative oversight, appoints the head of the FIU.

The Cook Islands FIU (CIFIU) is participating in an FIU database project provided by AUSTRAC, the Australian FIU. The CIFIU recently received the database and is now capturing data stored while the database was being developed and tested. The Pacific FIU Database Project includes other jurisdictions that will receive versions of the same database framework.

The Banking Act 2003 and the Financial Supervisory Commission Act 2003 (FSCA 2003) established a new framework for licensing and prudential supervision of domestic and offshore financial institutions in the Cook Islands. The legislation in effect requires offshore banks to have a physical presence in the Cook Islands (the “mind and management” principle), transparent financial statements, and adequate records prepared in accordance with consistent accounting systems. The physical presence requirement was intended to ensure that the Cook Islands would have no shell banks by June 2004. All banks are subject to a vigorous and comprehensive regulatory process, including on-site examinations and supervision of activities.

The legislation established the Financial Supervisory Commission (FSC) as the licensed financial sector’s sole regulator. The FSC is empowered to license, regulate, and supervise the business of banking. It serves as the administrator of the legislation that regulates the offshore financial sector. The FSC can license international banks and offshore insurance companies and register international companies. It also supervises trust and company service providers. The FSC regulates three domestic banks, four international banks, six trustee companies, and eight offshore and three domestic insurance companies. Its policy is to respond to requests from overseas counterparts to the utmost extent possible. The FSC has taken a broad interpretation of the concept of “counterpart” and does not need to establish general equivalence of function before being able to cooperate.

The FTRA requires the FSC to assess the compliance by licensed financial institutions with anti-money laundering regulations. Resulting reports and documentation are provided to the FIU. The FIU is responsible for assessing compliance by non-licensed institutions.

Licensing requirements, as set out in the legislation, are comprehensive. The Banking Act 2003 and a Prudential Statement on Licensing issued in February 2004 contain detailed licensing criteria for both locally incorporated and foreign banks, including “fit and proper” criteria for shareholders and officers, satisfactory risk management, accounting and management control systems, and minimum

capital requirements. The Banking Act 2003 defines banking business, prohibits the unauthorized use of the word "bank" in a company name, and requires prior approval for changes in significant shareholding.

The Cook Islands has an offshore financial sector that licenses international banks and offshore insurance companies and registers international business companies. It also offers company services and trusts, particularly asset protection trusts that contain a "flee clause." Flee clauses state that if a foreign law enforcement agency makes an inquiry regarding the trust, the trust will be transferred automatically to another jurisdiction.

The domestic banking system is comprised of branches of two major Australian banks and the local Bank of the Cook Islands (BCI). The latter is the result of a 2001 merger of the Government-owned Cook Islands Development Bank and the Post Office Savings Bank. Domestic banks are primarily involved in traditional deposit taking and lending. The BCI operates as a stand-alone institution competing against the two Australian banks and is no longer engaged in development lending. Legislation allows for development lending to be undertaken in the future by a separate company not subject to supervision by the FSC. In addition, non-performing loans made by the Cook Islands Development Bank have been transferred to another affiliated company.

Progress since June 2004 includes the Cook Islands' response to the issues surrounding implementation of the AML/CFT regime. The head of the FIU chairs the Coordinating Committee of Agencies and Ministries, which promotes, formalizes and maintains coordination among relevant government agencies, assists the Government in the formulation of policies related to AML/CFT issues, and enables government agencies to share information and training resources gathered from their regional and international networks, including meetings or training seminars attended by their officials. The AML/CFT consultative group of stakeholders facilitates consultation between government and the private sector and ensures all financial sector "players" are involved in the decision making and problem solving process regarding AML/CFT regulations and reporting. The FIU is also a member of the Anti-Corruption Committee, along with the Office of the Prime Minister, Police, Crown Law, Audit Office, and the Financial Secretary.

The GOCI is an active member of the Asia/Pacific Group on Money Laundering (APG) with representation on the Steering Group, chairmanship of the Implementation Issues Working Group, and membership in the Typologies Working Group. The FIU became a member of the Egmont Group in June 2004, has bilateral agreements allowing the exchange of financial intelligence with Australia, and is negotiating a memorandum of understanding (MOU) with Thailand. All other exchanges have not required MOUs and have involved New Zealand, the United States, Hong Kong, Singapore, India, the United Kingdom, and several others. The Cook Islands is considering membership in the Offshore Group of Banking Supervisors (OGBS). The Cook Islands has received eight requests for mutual legal assistance since the Mutual Assistance in Criminal Matters Act came into force in 2003. Four have been answered, and four are pending, two of which were received in late 2005. The Cook Islands has not received any extradition requests, but successfully extradited one person from New Zealand. This court case is due to commence in February 2006

The GOCI is a party to the UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. It is a party to the UN Convention against Transnational Organized Crime and to the UN International Convention for the Suppression of the Financing of Terrorism. The Terrorism Suppression Act 2004—based on the model law drafted by an expert group established under the auspices of the Pacific Islands Forum Secretariat. The Act criminalizes the commission and financing of terrorism. The United Nations (Security Council Resolutions) Act 2003 allows the Cook Islands, by way of regulations, to give effect to the Security Council resolutions concerning international peace and security.

The Cook Islands should continue to implement legislation designed to strengthen its nascent institutions, should maintain vigilant regulation of its offshore financial sector, and should abolish "flee clauses" in new asset protection trusts to ensure that it comports with international standards.

Costa Rica

Costa Rica is not a major financial center, but it remains vulnerable to money laundering and other financial crimes. This is due in part to narcotics trafficking in the region, particularly of South American cocaine, and the presence in Costa Rica of Internet gaming companies. Reforms to the Costa Rican counternarcotics law in 2002, which expand the scope of anti-money laundering regulations, also create a loophole by eliminating the government's licensing and supervision of casinos, jewelers, realtors, attorneys, and other non-bank financial institutions. No actions were taken to close this loophole in 2005. Gambling is legal in Costa Rica, and there is no requirement that the currency used in Internet gaming operations be transferred to Costa Rica. Currently, over 250 sports-book companies have registered to operate in Costa Rica. Many of these registered firms have the same owners and addresses.

In 2002, the Government of Costa Rica (GOCR) expanded the scope of Law 7786 via Law 8204. This expansion criminalizes the laundering of proceeds from all serious crimes. Serious crimes are defined as carrying a sentence of four years or more. Law 8204 also obligates financial institutions and other businesses (such as money exchangers) to identify their clients, report currency transactions over $10,000, report suspicious transactions, keep financial records for at least five years, and identify the beneficial owners of accounts and funds involved in transactions. While Law 8204, in theory, covers the movement of all capital, current regulations, based on Law 8204, Chapter IV, Article 14, apply a restrictive interpretation that covers only those entities that are involved in the transfer of funds as a primary business purpose.

The formal banking industry in Costa Rica is tightly regulated. However, the offshore banking sector that offers banking, corporate, and trust formation services remains open and is an area of concern. Foreign-domiciled "offshore" banks can only conduct transactions under a service contract with a domestic bank, and they do not engage directly in financial operations in Costa Rica. Costa Rican authorities acknowledge that they are unable to adequately assess risk. Costa Rican financial institutions are regulated by the Office of the Superintendent of Financial Institutions (SUGEF).

Currently, six offshore banks maintain correspondent operations in Costa Rica, three from the Bahamas and three from Panama. The GOCR has supervision agreements with its counterparts in Panama and the Bahamas, permitting the review of correspondent banking operations. These counterpart regulatory authorities occasionally interpret the agreements in ways that limit review by Costa Rican officials. In September 2005, the GOCR's Attorney General ("Procurador General") ruled that SUGEF has no authority to regulate offshore operations. The ruling was an attempt to clarify apparent contradictions between the 1995 Organic Law of the Costa Rican Central Bank and Law 8204. Draft legislation to correct the contradiction and reassert SUGEF's regulatory power is under review in the Legislative Assembly. However, it is unclear when the Legislative Assembly will take action on this draft legislation.

All persons carrying cash are required to declare any amount over $10,000 to Costa Rican officials at ports of entry. During 2005, officials seized over $850,000, much of it in undeclared cash. In 2004, the GOCR seized $1.2 million.

Eighteen free trade zones operate within Costa Rica, primarily producing electronics, integrated circuits, textiles, and medicines for re-export. The Zones are under the supervision of "PROCOMER" an export-promotion entity. Costa Rican authorities report no indications of trade-based money

laundering schemes in the zones. PROCOMER strictly enforces control over the zones, but its measures are aimed primarily at preventing tax evasion.

Costa Rica's Financial Intelligence Unit (FIU) became operational in 1998 and was admitted into the Egmont Group in 1999. The unit is analytical, screening cases for referral to prosecutors. The FIU has access to the records and databases of financial institutions and other government entities but must obtain a court order if the information collected is to be used as evidence in court. The unit has no regulatory responsibilities. The unit remains ill equipped and under-funded to handle its current caseload (over 120 cases for 2005) and to provide the information needed by investigators. Nevertheless, in 2004, the unit developed evidence it considered formidable in four high-profile cases of money laundering. Three of those cases were successfully prosecuted in 2005. Three additional money-laundering cases began judicial proceedings in 2005, and the FIU assisted international investigators to develop evidence in four more cases.

Costa Rican authorities have received and circulated to all financial institutions the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee consolidated list and the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224.

However, these authorities cannot block, seize, or freeze property without prior judicial approval. Thus, Costa Rica lacks the ability to expeditiously freeze assets connected to terrorism. No assets related to designated individuals or entities were identified in Costa Rica in 2005. An interagency effort is underway to reduce the time required to obtain such judicial approval.

The GOCR has ratified the major UN counterterrorism conventions. In 2002, a government task force drafted a comprehensive counterterrorism law with specific terrorist financing provisions. The draft law would expand existing conspiracy laws to include the financing of terrorism. It would also enhance existing narcotics laws by incorporating the prevention of terrorist financing into the mandate of the Costa Rican Drug Institute. In 2004, the Legislative Assembly considered a separate draft terrorism law. In July of 2005, the Assembly's Narcotics Committee approved a bill combining the two proposals, but no further progress has been made.

Costa Rica is a party to the 1988 UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime. The GOCR has signed, but not yet ratified, the UN Convention against Corruption. The GOCR has also signed the OAS Inter-American Convention on Mutual Assistance in Criminal Matters, and is a member of the Caribbean Financial Action Task Force (CFATF) and the aforementioned Egmont Group.

The GOCR should pass legislation that clarifies contradictions regarding the supervision of its offshore banking sector, and should extend its anti-money laundering regime to cover the Internet gaming sector, exchange houses, gem dealers, casinos and other non-bank financial institutions. Costa Rica also should pass counterterrorism and terrorist finance legislation.

Côte d'Ivoire

Cote d'Ivoire is an important West African regional financial hub. Money laundering occurs, but the government does not consider Cote d'Ivoire to be a financial center for money-laundering.

Money laundering and any terrorist financing present in Cote d'Ivoire are not primarily related to narcotics proceeds. Criminal proceeds that are laundered are reportedly derived from regional criminal activity, such as the smuggling of consumer goods and agricultural exports, which are organized chiefly by nationals from Nigeria and the Democratic Republic of the Congo. As respect for the rule of law continues to deteriorate in Cote d'Ivoire, due to the ongoing political and economic turmoil,

Ivoirians and some Liberian nationals are becoming more and more involved in the laundering of funds. Hizbollah is present in Cote d'Ivoire, and it conducts some fundraising activities, mostly among the large Lebanese expatriate community. Cote d'Ivoire is not an offshore financial center. It does permit the establishment of offshore financial institutions or offshore shell corporations. There are no free trade zones in Cote d'Ivoire. In August 2004, the Ivoirian government adopted a plan for the creation of a free trade zone for information technology and for biotechnology. This project is dormant. Another free trade zone project, which was planned for the port of San Pedro, also remains dormant.

The outbreak of the rebellion in 2002 increased the amount of smuggling of goods across the northern borders, especially of textiles and cigarette products. There have also been reports of an increase in the processing and smuggling of small quantities of diamonds from mines located in the North. Ivoirian law enforcement authorities have no control over the northern half of the country, and therefore they cannot judge what relationship, if any, the funding for smuggled goods might have to narcotics proceeds or other illicit proceeds. Smuggling of sugar, cotton, cocoa, cars, and pirated DVDs occurs in the government-controlled south and is motivated by a desire to avoid the payment of high export or import taxes. This cross-border trade in smuggled goods generates contraband funds that are introduced into the banking system through informal or unregulated moneychangers, fictitious company accounts, and fictitious business contracts.

Criminal enterprises use both the formal and informal financial sector to wash funds. Cash is moved both via the formal banking sector and by cash couriers. Informal money couriers and money transfer organizations similar to hawalas move funds both domestically and within the sub-region. Because of the division of the country, a lack of security, and the lack of a widespread banking system, transportation companies have also stepped in to provide courier services. The standard fee for these services is approximately ten percent. In addition to transferring funds, criminal enterprises launder illicit funds by investing in real estate and consumer goods such as used cars in an effort to conceal the source of funding. The Economic and Financial police have noticed an increase in financial crimes related to credit card theft and foreign bank account fraud, which includes wire transfers of large sums of money primarily involving British and American account holders who are the victims of Internet based advanced fee scams. The Ministry of Finance remains concerned by the high levels of tax fraud, particularly VAT tax fraud by merchants.

The country has seventeen banks and five non-bank financial institutions. Of that number, there are eight foreign-owned banks and two foreign-owned financial institutions in operation. The law requires a capitalization of the CFA equivalent of $2 million for banks and $600,000 for financial institutions. Banks provide traditional banking services such as lending, savings and checking accounts and money transfers, while financial institutions offer leasing, payroll and billing services, and project financing for small businesses. The Ivoirian banking law, enacted in 1990, prevents disclosure of client and ownership information, but it does allow the banks to provide information to judicial authorities, such as investigative magistrates. The law also permits the use of client and ownership information as evidence in legal proceedings or during criminal investigations. The Tax and Economic police can request information from the banks.

Until recently, the penal code criminalized only money laundering related to drug-trafficking, fraud, and arms trafficking. On November 29, 2005, the Ivoirian National Assembly recently adopted the West African Economic and Monetary Union's (WAEMU) model law on money-laundering, making money laundering per se a criminal offense. Money laundering is defined as the intention to conceal the criminal origins of illicit funds. The new law became effective on December 15, 2005.

The new law focuses on the prevention of money laundering and also expands the definition of money laundering to include the laundering of funds from all serious crimes. The law does not set a minimum threshold. It includes standard "know your customer" requirements for banks and other financial

institutions. It establishes procedures, which require these institutions to assist in the detection of money laundering through suspicious transaction reporting, and it creates an Ivoirian FIU. It also provides a legal basis for international cooperation. The new law includes both penal and civil penalties. The law permits the freezing and seizure of assets, which includes instruments and proceeds of crime, including business assets and bank accounts that are used as conduits for money laundering. Substitute assets cannot be seized if there is no relationship with the offense. Legitimate businesses can be seized if used to launder money or support terrorist or other illegal activities.

Under the new money-laundering law, Cote d'Ivoire is required to create and fund an FIU named the "Cellule Nationale de Traitement des Informations Financieres" (CENTIF). The CENTIF will report to the Finance Ministry. On a reciprocal basis, with the permission of the Ministry of Finance, the CENTIF may share information with the FIUs in member states of WAEMU or with those of non-WAEMU countries, so long as those institutions keep the information confidential.

The FIU will take the lead in tracking money laundering, but it will continue to work with previously established investigative units such as the "Centre de Recherche Financiere" (CRF) at the Department of Customs and the Agence Nationale de Strategie et d'Intelligence" (ANSI) at the presidency. The CRF and the ANSI will still continue their missions, which include fiscal and customs fraud and counterfeiting. The Ivoirian Economic and Financial police, the criminal police unit (Police Judiciaire), the Department of Territorial Surveillance (Ivoirian intelligence service), the CRF and ANSI all are responsible for investigating financial crimes, including money laundering and terrorist financing. However, in addition to a lack of resources for training, there is a perceived lack of political will to permit investigative independence.

The Ministry of Finance, the West African Central Bank (BCEAO), and the West African Banking Commission, headquartered in Cote d'Ivoire, supervise and examine Ivoirian compliance with anti-money laundering/counterterrorist financing laws and regulations. Under the new money laundering legislation, Ivoirian banks and financial institutions will be required to verify and record the identity of their customers before establishing new accounts or processing transactions. All Ivoirian financial institutions are now required to begin to maintain customer identification and transaction records for ten years. For example, all bank deposits over approximately CFA 5,000,000 (about $10,000) made in BCEAO member countries must be reported to the BCEAO, along with customer identification information. Law enforcement authorities can access these records to investigate financial crimes upon the request of a public prosecutor. In 2005, there were no arrests or prosecutions for money laundering or terrorist financing.

The new legislation imposes a ten year retention requirement on financial institutions to retain records of all "significant transactions," which are transactions with a minimum value of CFA 50,000,000 (about $100,000) for known customers. For occasional customers, the floor value for "significant transactions" is CFA 5,000,000 (about $10,000).

The new money laundering controls will apply to non-bank financial institutions such as exchange houses, stock brokerage firms, insurance companies, casinos, cash couriers, national lotteries, non-government organizations, travel agencies, art dealers, gem dealers, accountants, attorneys, and real estate agents. The law also imposes certain customer identification and record maintenance requirements on casinos and exchange houses. The tax office (Ministry of Finance) supervises these entities. All Ivoirian financial institutions, businesses, and professionals and non-bank institutions under the scope of the new money-laundering law are required to report suspicious transactions. The Ivoirian banking code protects reporting individuals. Their identities are not divulged with respect to cooperation with law enforcement authorities.

Cote d'Ivoire monitors and limits the international transport of currency and monetary instruments under WAEMU administrative regulation R/09/98/CM/WAEMU. There is no separate domestic law or regulation. When traveling from Cote d'Ivoire to another WAEMU country, Ivoirians and

expatriate residents must declare the amount of currency being carried out of the country. When traveling from Cote d'Ivoire to a destination other than another WAEMU country, Ivoirians and expatriate residents are prohibited from carrying an amount of currency greater than the equivalent of 500,000 CFA francs (approximately $1,000) for tourists, and two million CFA francs (approximately $4,000) for business operators, without prior approval from the Department of External Finance of the Ministry of Economy and Finance. If additional amounts are approved, they must be in the form of travelers' checks.

Cote d'Ivoire's new money-laundering law encompasses the laundering of funds from all serious crimes, but terrorism and terrorist financing are not considered "serious crimes" for the purposes of this law. Cote d'Ivoire does not have a specific law that criminalizes terrorist financing, as required under UNSC resolution 1373. Until the passage of the new law, the GOCI relied on several WAEMU directives on terrorist financing, which provided a legal basis for administrative action by the Ivoirian government to implement the asset freeze provisions of UNSCR 1373.

The BCEAO and Ivoirian government report that they promptly circulate to all financial institutions the names of suspected terrorists and terrorist organizations on the UNSCR 1267 Sanctions Committee's consolidated list and those on the list of Specially Designated Global Terrorists designated by the U.S. pursuant to Executive Order 13224. A U.S. financial institution present in Cote d'Ivoire confirms the receipt of notices issued by government authorities. In 2005, no assets related to terrorist entities or individuals were discovered, frozen or seized.

The Ivoirian government admits the existence of informal remittance and cash transfer systems that bypass regular financial institutions and agrees that these could be a possible conduit of laundered funds. Currently, domestic informal cash transfer systems are not regulated. Informal remittance transfers from outside Cote d'Ivoire violate BCEAO money transfer regulations. The Ivoirian government has taken no legal action to prevent the misuse of charitable and or other non-profit entities that can be used as conduits for the financing of terrorism. The Ministry of Interior Security is addressing this problem.

Cote d'Ivoire participates in the ECOWAS-Intergovernmental Group for Action Against Money Laundering (GIABA) based in Dakar, which sits as an observer to the OECD's Financial Action Task Force (FATF). The Ivoirian government has neither adopted laws nor promulgated regulations that specifically allow for the exchange of records with United States on money laundering and terrorist financing. However, under the new money laundering law, after obtaining the approval of the Finance Ministry, the CENTIF could share information related to money laundering records with U.S. or other countries on a reciprocal basis and under an agreement of confidentiality between the two governments.

Cote d'Ivoire has demonstrated a willingness to cooperate with the USG in investigating financial or other crimes. For example, in one case from 2004, an American citizen was being defrauded by someone posing as a GOCI Customs Official requesting demurrage fees for a shipment of goods. With a short window of opportunity for action, the U.S. Embassy notified the Economic Police, who then instructed the Bank Examiner to monitor the suspect's account. The next morning, the Economic Police arrested a Nigerian who came in to retrieve the funds. Armed with a search warrant, the police searched the suspect's house, gathered evidence of a boiler-room operation, and arrested three other Nigerians. The funds ($15,000) were successfully wired back to the victim.

Cote d'Ivoire is a party to the UN International Convention for the Suppression of the Financing of Terrorism and the 1988 UN Drug Convention. Cote d'Ivoire has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. Cote d'Ivoire should proceed to do so. It should implement its new anti-money laundering law, including the funding and establishing of an FIU. It should expand on the new law by criminalizing terrorist financing.

Cyprus

Cyprus has been divided since the Turkish military intervention of 1974, following a coup d'etat directed from Greece. Since then, the southern part of the country has been under the control of the Government of the Republic of Cyprus. The northern part is controlled by a Turkish Cypriot administration that in 1983 proclaimed itself the "Turkish Republic of Northern Cyprus (TRNC)." The U.S. Government recognizes only the Government of the Republic of Cyprus, and does not recognize the "TRNC".

Republic of Cyprus. The Republic of Cyprus is a major regional financial center with a robust financial services industry, both domestic and offshore, which contributes about 6.1 percent of the country's gross domestic product. Like other such centers, it remains vulnerable to international money laundering activities. Fraud and, to some extent, narcotics trafficking are the major sources of illicit proceeds laundered in Cyprus. Casinos, Internet gaming sites, and bearer shares are not permitted in the Government of Cyprus (GOC)-controlled area of Cyprus, although sports betting halls are allowed.

The development of the offshore financial sector in Cyprus has been facilitated by the island's central location, a preferential tax regime, double tax treaties with 33 countries (including the United States, several European Union (EU) nations, and former Soviet Union nations), a labor force particularly well trained in legal and accounting skills, a sophisticated telecommunications infrastructure, and relatively liberal immigration and visa requirements. In July 2002, Cyprus introduced a major amendment to its tax laws resulting in a uniform tax rate of 10 percent for all enterprises in Cyprus, irrespective of the permanent residence of their owners. This tax revision effectively lifted the distinction between local companies and offshore international business companies (IBCs). Both the prohibition from doing business locally and the preferential tax treatment that distinguished IBCs from local companies have been abolished. A grandfather clause that had allowed existing IBCs to maintain their former tax status of 4.25 percent for a transitional period expired at the end of 2005. As of 1 January 2006, the legal distinction between domestic companies and off shore IBCs ceased.

Similar provisions were introduced for offshore International Banking Units (IBUs), branches or subsidiary companies of established foreign banks, which had cumulative assets of $16.3 billion at the end of 2005. As with the IBCs, the distinction between domestic banks and IBUs ceased on January 1, 2006 upon the expiration of a transition period that had allowed preferential (4.25. percent) tax treatment for IBUs established before 2002. IBUs can do business locally, but for the time being may not offer any banking services whatsoever in Cypriot pounds to either residents or non-residents. This restriction may soon be lifted, as evidenced by the Central Bank's November 2005 decision to require IBUs to hold two percent of their deposits in local currency as minimum reserves with the Central Bank. IBUs are required to adhere to the same legal, administrative, and reporting requirements as domestic banks. The GOC is currently revising its policy regarding the licensing of new foreign-owned bank branches or subsidiaries. Details are not yet available, but Cyprus has become much more selective in terms of aiming to attract only banks from jurisdictions with proper supervisory authorities. IBUs must have a physical presence in Cyprus and cannot be shell banks. Once an IBU has registered in Cyprus, it is subject to a yearly on-site inspection by the Central Bank. The GOC-controlled area of Cyprus hosts 12 domestic banks, and 26 IBUs.

Since May 2004, when Cyprus joined the EU, banks licensed by competent authorities in EU countries may establish branches in Cyprus or provide banking services on a cross-border basis without obtaining a license from the Central Bank of Cyprus, under the EU's "single passport" principle. By the end of 2005, three EU banks that had already been operating as IBUs had elected to continue their presence in Cyprus under the "single passport" arrangement.

Over the past nine years, Cyprus has put in place a comprehensive anti-money laundering legal framework that comports with international standards. The GOC continues to revise these laws to

meet evolving international standards. In 1996, the GOC passed the Prevention and Suppression of Money Laundering Activities Law. This law criminalizes both drug and non-drug-related money laundering, provides for the confiscation of proceeds from serious crimes, codifies actions that banks and non-bank financial institutions must take (including customer identification), and mandates the establishment of a Financial Intelligence Unit (FIU). The anti-money laundering law authorizes criminal (but not civil) seizure and forfeiture of assets. Subsequent amendments to the 1996 law broadened its scope by eliminating the separate list of predicate offenses (now defined as any criminal offense punishable by a prison term exceeding one year), addressing government corruption, and facilitating the exchange of financial information with other FIUs, as well as the sharing of assets with other governments. A law passed in 1999 criminalizes counterfeiting bank instruments, such as certificates of deposit and notes.

Amendments passed in 2003 and 2004 implement the EU's Second Money Laundering Directive. These amendments authorize the FIU to instruct banks to delay or prevent execution of customers' payment orders; extend due diligence and reporting requirement to auditors, tax advisors, accountants, and, in certain cases, attorneys, real estate agents, and dealers in precious stones and gems; permit administrative fines of up to $6,390; and increase bank due diligence obligations concerning suspicious transactions and customer identification requirements, subject to supervisory exceptions for specified financial institutions in countries with equivalent requirements.

Also in 2003, the GOC enacted new legislation regulating capital and bullion movements and foreign currency transactions. The new law requires all persons entering or leaving Cyprus to declare currency (whether local or foreign) or gold bullion worth approximately $15,500 or more. This sum is subject to revision by the Central Bank. This law replaces exchange control restrictions under the Exchange Control Law, which expired on May 1, 2004.

The supervisory authorities for the financial sector are the Central Bank of Cyprus, the Securities Commission of the Stock Exchange, the Superintendent of Insurance, the Superintendent of Cooperative Banks, the Councils of the Bar Association and the Institute of Certified Public Accountants. The supervisory authorities may impose administrative sanctions if the legal entities or persons they supervise fail to meet their obligations as prescribed in Cyprus's anti-money laundering laws and regulations.

All banks must report to the Central Bank, on a monthly basis, individual cash deposits exceeding approximately $21,200 in local currency or approximately $10,000 in foreign currency. Bank employees currently are required to report all suspicious transactions to the bank's compliance officer, who determines whether to forward the report to the Unit for Combating Money Laundering (MOKAS), the Cypriot FIU, for investigation. Banks retain reports not forwarded to MOKAS, and these are audited by the Central Bank as part of its regular on-site examinations. Banks must file monthly reports with the Central Bank indicating the total number of suspicious activity reports (SARs) submitted to the compliance officer, and the number forwarded by the compliance officer to MOKAS. By law, bank officials may be held personally liable if their institutions launder money. Cypriot law protects reporting individuals with respect to their cooperation with law enforcement. Banks must retain transaction records for five years.

In recent years the Central Bank has introduced many new regulations aimed at strengthening anti-money laundering vigilance in the banking sector. Among other things, banks are required to (1) ascertain the identities of the natural persons who are the "principal/ultimate" beneficial owners of corporate or trust accounts; (2) obtain as quickly as possible identification data on the natural persons who are the "principal/ultimate" beneficial owners when certain events occur, including an unusual or significant transaction or change in account activity; a material change in the business name, officers, directors and trustees, or business activities of commercial account holders; or a material change in the customer relationship, such as establishment of new accounts or services or a change in the authorized

signatories; (3) adhere to the October 2001 paper of the Basel Committee on Banking Supervision on "Customer Due Diligence for Banks"; and (4) pay special attention to business relationships and transactions involving persons from jurisdictions identified by the Financial Action Task Force (FATF) as non-cooperative. This list is updated regularly in line with the changes effected to the list of non-cooperative countries and territories by the FATF.

In November 2004, the Central Bank issued a revised money laundering guidance note that places several significant new obligations on banks, including requirements to develop a customer acceptance policy; renew customers' identification data on a regular basis; construct customers' business profiles; install computerized risk management systems in order to verify whether a customer constitutes a "politically exposed person"; provide full details on any customer sending an electronic transfer in excess of $1,000; and implement (by June 5, 2005) adequate management information systems for on-line monitoring of customers' accounts and transactions. Cypriot banks have responded by adopting dedicated electronic risk management systems, which they typically use to target transactions to and from high-risk countries. Cyprus's Exchange Control Law expired on May 1, 2004, ending Central Bank review of foreign investment applications for non-EU residents. Individuals wishing to invest on the island now apply through the Ministry of Finance. The Ministry also supervises collective investment schemes.

The Central Bank also requires compliance officers to file an annual report outlining measures taken to prevent money laundering and to comply with its guidance notes and relevant laws. In addition, the Central Bank is legally empowered to conduct unannounced inspections of bank compliance records. In July 2002, the U.S. Internal Revenue Service (IRS) officially approved Cyprus's "know-your-customer" rules, which form the basic part of Cyprus' anti-money laundering system. As a result of the above approval, banks in Cyprus that may be acquiring United States securities on behalf of their customers are eligible to enter into a "withholding agreement" with the IRS and become qualified intermediaries.

MOKAS, the Cypriot FIU, was established in 1997. MOKAS is responsible for receiving and analyzing SARs and for conducting money laundering or financial fraud investigations. A representative of the Attorney General's Office heads the unit and its 20-member staff includes 14 full-time personnel, three part-time police officers, and three part-time Customs officers. However, MOKAS staffing is not sufficient to allow it to meet all its responsibilities. Plans to hire eight additional full-time employees have consistently been put on hold due to GOC-wide hiring freezes. MOKAS cooperates closely with FinCEN and other U.S. Government agencies in money laundering investigations.

All banks and non-bank financial institutions-insurance companies, the stock exchange, cooperative banks, lawyers, accountants, and other financial intermediaries-must report suspicious transactions to MOKAS. Sustained efforts by the Central Bank and MOKAS to strengthen reporting have resulted in an increase in the number of SARs being filed from 25 in 2000 to 144 in 2005 (through 14 December). During 2005 MOKAS received 190 information requests from foreign FIUs, other foreign authorities, and INTERPOL. Nine of the information requests were related to terrorism, although not specifically involving Cyprus. MOKAS evaluates evidence generated by its member organizations and other sources to determine if an investigation is necessary. It has the power to suspend financial transactions for an unspecified period of time as an administrative measure. MOKAS also has the power to apply for freezing or restraint orders affecting any kind of property, at a very preliminary stage of an investigation. In 2005, for the first time, MOKAS issued several warning notices, based on its own analysis, identifying possible trends in criminal financial activity. These notices have already produced results, including the closure of dormant bank accounts. MOKAS conducts anti-money laundering training for Cypriot police officers, bankers, accountants, and other financial professionals. Training for bankers is conducted in conjunction with the Central Bank of Cyprus Since late 2003, the MOKAS

computer network has been connected with that of the central government, thus giving MOKAS direct access to other GOC agencies and ministries.

During 2005, MOKAS opened 373 cases and closed 134. Reportedly, there was an undetermined number of successful prosecutions. During the same period, it issued 16 Information Disclosure Orders (typically involving judiciary proceedings in courts abroad), 12 administrative orders for postponement of transactions, and nine freezing orders, resulting in the freezing of $1,680.000 in bank accounts and 11 pieces of real estate. Additionally, during 2005 MOKAS issued two confiscation orders for a total amount of $42,000 (in one of the cases, the GOC shared the money with another jurisdiction that had been involved). Government actions to seize and forfeit assets have not been politically or publicly controversial, nor have there been retaliatory actions related to money laundering investigations, cooperation with the United States, or seizure of assets. There have been at least ten convictions recorded under the 1996 Anti-Money Laundering law, and a number of other cases are pending.

On November 30, 2001, Cyprus became a party to the UN International Convention for the Suppression of the Financing of Terrorism. The implementing legislation amended the anti-money laundering law to criminalize the financing of terrorism. In November 2004, MOKAS designated two employees to be responsible for terrorist finance issues. MOKAS routinely asks banks to check their records for any transactions by any person or organization designated by foreign FIUs as a terrorist or a terrorist organization. If a person or entity is so designated by the UN 1267 Sanctions Committee or the EU Clearinghouse, the Central Bank automatically issues a “search and freeze” order to all banks, both domestic and IBUs. As of mid-December 2005, no bank had reported holding a matching account. The lawyers’ and accountants’ associations cooperate closely with the Central Bank. The GOC cooperates with the United States to investigate terrorist financing.

There is no evidence that alternative remittance systems such as hawala or black market exchanges are operating in Cyprus. The GOC believes that its existing legal structure is adequate to address money laundering through such alternative systems. The GOC licenses charitable organizations, which must file with the GOC copies of their organizing documents and annual statements of account. Reportedly, the majority of all charities registered in Cyprus are domestic organizations.

Cyprus is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. Cyprus is a member of the Council of Europe’s MONEYVAL, and the Offshore Group of Banking Supervisors. MOKAS is a member of the Egmont Group and has signed memoranda of understanding (MOUs) with the FIUs of the United States, Belgium, France, the Czech Republic, Slovenia, Malta, Ireland, Australia, Ukraine, Poland, Canada, Russia, Bulgaria, South Africa, and Israel. Although Cypriot law specifically allows MOKAS to share information with other FIUs without benefit of an MOU, Cyprus is negotiating MOUs with Venezuela, Italy, and Romania. A Mutual Legal Assistance Treaty between Cyprus and the United States entered into force September 18, 2002. In 1997, the GOC entered into a bilateral agreement with Belgium for the exchange of information on money laundering. Cyprus underwent a MONEYVAL mutual evaluation in April 2005, the results of which will be published in a report to be adopted at the MONEYVAL Plenary meeting in January 2006.

The Government of the Republic of Cyprus has put in place a comprehensive anti-money laundering regime. It should continue to take steps to tighten implementation of its laws. In particular, it should ensure that regulation of charitable and nonprofit entities is adequate. Cyprus should enact provisions that allow for civil forfeiture of assets.

Area Administered by Turkish Cypriots. The Turkish Cypriot community continues to lack the legal and institutional framework needed to provide effective protection against the risks of money laundering. Turkish Cypriot authorities have, however, developed a greater appreciation of the dangers of unchecked money laundering and have begun taking limited steps to address these risks. It is

believed that the 23 essentially unregulated, and primarily Turkish-mainland owned, casinos are the primary vehicles through which money laundering occurs. Casino licenses are fairly easy to obtain, and background checks done on applicants are minimal. A significant part of the funds generated by these casinos are reportedly transported directly to Turkey without entering the Turkish Cypriot banking system, and there are few safeguards to prevent the large-scale transfer of cash to Turkey. Another area of concern is the 500 "finance institutions" operating in the area administered by Turkish Cypriots that extend credit and give loans. Although they must register with the "Office of the Registrar of Companies" they are unregulated. Some are owned by banks and others by auto dealers. In 2005, there was a huge increase in the number of sport betting halls, which are licensed by the "Ministry of Sports and Youth." There are currently six companies operating in this sector, each of which has between 15 and 20 branches; licenses for two additional companies are pending. The fact that the "TRNC" is recognized only by Turkey limits the ability of Turkish Cypriot officials to receive training or funding from international organizations with experience in combating money laundering.

The offshore banking sector also remains a concern. In August 2004, the U.S. Department of the Treasury's FinCEN issued a notice of proposed rulemaking to impose a special measure against First Merchant Bank OSH Ltd in the area administered by Turkish Cypriots as a financial institution of primary money laundering concern. Pursuant to Section 311 of the USA PATRIOT Act, FinCEN found First Merchant Bank to be of primary money laundering concern based on a number of factors, including: (1) It is licensed as an offshore bank in the "TRNC", a jurisdiction with inadequate anti-money laundering controls, particularly those applicable to its offshore sector; (2) it is involved in the marketing and sale of fraudulent financial products and services; (3) it has been used as a conduit for the laundering of fraudulently obtained funds; and (4) the individuals who own, control, and operate First Merchant Bank have links with organized crime and apparently have used First Merchant Bank to launder criminal proceeds. As a result of the finding and in consultation with federal regulators and the Departments of Justice and State, FinCEN proposed imposition of the special measure that would prohibit the opening or maintaining of correspondent or payable-through accounts by any domestic financial institution or domestic financial agency for, or on behalf of First Merchant Bank OSH Ltd. First Merchant Bank's license has not been revoked or suspended, and it continues to operate.

In 1999, a money laundering law for the area administered by Turkish Cypriots went into effect with the stated aim of reducing the number of cash transactions in the "TRNC" as well as improving the tracking of any transactions above $10,000. Banks are required to report to the "Central Bank" any electronic transfers of funds in excess of $100,000. Such reports must include information identifying the person transferring the money, the source of the money, and its destination. Banks, non-bank financial institutions, and foreign exchange dealers must report all currency transactions over $20,000, and suspicious transactions in any amount. Banks must follow a know-your-customer policy and require customer identification. Banks must also submit suspicious transaction reports to an "Anti-Money Laundering Committee" that is supposed to function as a quasi-FIU and have investigative powers. The five-member committee is composed of representatives of the police, customs, the "Central Bank," and the "Ministry of Finance." However, the 1999 anti-money laundering law has never been fully implemented or enforced.

In 2005, the "Anti-Money Laundering Committee," which had been largely dormant for several years, began meeting on a regular basis and encouraging banks to meet their obligations to file SARs. The committee has reportedly referred several cases of possible money laundering to law enforcement for further investigation, but no cases have been brought to court and no individuals have been charged. There have been no successful prosecutions of individuals on money laundering charges, and there are concerns that law enforcement and judicial officials lack the technical skills needed to investigate and prosecute financial crimes.

Although the 1999 money laundering law prohibits individuals entering or leaving the area administered by Turkish Cypriots from transporting more than $10,000 in currency without prior

"Central Bank" authorization, "Central Bank" officials note that this law is difficult to enforce, given the large volume of travelers to and from Turkey In 2003, Turkish Cypriot authorities relaxed restrictions that limited travel across the UN-patrolled buffer zone. There is also a relatively large British population in the area administered by Turkish Cypriots and a significant number of British tourists. As a result, an informal currency exchange market has developed.

The "Ministries of Finance and Economy and Tourism" are drafting several new anti-money laundering laws that they say will, among other things, better regulate casinos, currency exchange houses, and both onshore and offshore banks. Turkish Cypriot officials have committed to ensuring that the new legislation meets international standards. However, it is unclear if the new legislation will be adopted, and if it is, whether it will ever be fully implemented and enforced.

There are currently 26 domestic banks in the area administered by Turkish Cypriots. Internet banking is available. The offshore sector consists of 18 banks and approximately 50 IBCs. The offshore banks may not conduct business with residents of the area administered by Turkish Cypriots and may not deal in cash. The offshore entities are audited by the "Central Bank" and are required to submit a yearly report on their activities. However, the "Central Bank" has no regulatory authority over the offshore banks and can neither grant nor revoke licenses. Instead, the "Ministry of the Economy" performs this function. Although a proposed new law would have restricted the granting of new bank licenses to only those banks already having licensees in an OECD country, the law never passed.

The 1999 Turkish Cypriot anti-money laundering law does provide better banking regulations than were previously in force, but it is far from adequate. The major weakness continues to be the area administered by Turkish Cypriots many casinos, where a lack of resources and expertise leave that area, for all intents and purposes, unregulated, and therefore especially vulnerable to money laundering abuse. The largely unregulated finance institutions, currency exchange houses, and offshore banking sector are also of concern. The Turkish Cypriot authorities should move quickly to enact a new anti-money laundering law and to tighten regulation of casinos, money exchange houses, and the offshore sector.

Czech Republic

The Czech Republic's central location in Europe and its relatively new status as a functional market economy have left it vulnerable to money laundering. While various forms of organized crime (narcotics trafficking, trafficking in persons, fraud, embezzlement, and smuggling) remain the primary source of laundered assets in the country, Czech officials and media outlets have voiced increasing concern about the ability of extremist groups and terrorists to launder or remit money within the country. Although steadily improving, Czech enforcement and prosecution of money laundering offenses remains relatively weak, with the few convicted offenders receiving only light sentences. Domestic and foreign organized crime groups target Czech financial institutions for laundering activity. Banks, currency exchanges, casinos and other gaming establishments, investment companies, and real estate agencies have all been used to launder criminal proceeds.

The Czech Republic first criminalized money laundering in September 1995 through additions to its Criminal Code. Although the Criminal Code does not explicitly mention money laundering, its provisions apply to financial transactions involving the proceeds of all serious crimes. A July 2002, amendment to the Criminal Code introduces a new, independent offense called "Legalization of Proceeds from Crime." This offense has a wider scope than previous provisions in that it enables prosecution for laundering one's own illegal proceeds (as opposed to those of other parties). The 2002 amendment also stipulated punishments of five to eight years imprisonment for the legalization of proceeds from all serious criminal activity and also called for the forfeiture of assets associated with money laundering.

The Czech anti-money laundering legislation (Act No. 61/1996, Measures Against Legalization of Proceeds from Criminal Activity) became effective in July 1996. A 2000 amendment to the money laundering law requires a wide range of financial institutions to report all suspicious transactions to the Czech Republic's financial intelligence unit (FIU), known as the Financial Analytical Unit (FAU) of the Ministry of Finance. In September 2004, the latest amendments to the money laundering law came into force. The amendments introduce several major changes to the Czech Republic's money laundering laws and harmonize the nation's legislation with the requirements of the Council Directive 2001/97/EC on prevention of the use of the financial system for money laundering (Second 2nd EU Money Laundering Directive). As a result, the list of covered institutions now includes attorneys, casinos, realtors, notaries, accountants, tax auditors, and entrepreneurs engaging in transactions exceeding 15,000 euros.

With regard to terrorist financing, in November 2004, the Czech Government amended the Criminal Code and enacted new definitions for terrorist attacks and for terrorist financing. A penalty of up to 15 years' imprisonment can be imposed on those who support terrorists financially, materially, or by other means. Also, in addition to reporting all suspicious transactions possibly linked to money laundering, covered institutions are now required to report all transactions suspected of being tied to terrorist financing. Multilateral bodies generally agree that the Czech Republic currently possesses an adequate regulatory basis with which to combat money laundering and terrorist financing.

For years, the Czech Republic had been criticized for allowing anonymous passbook accounts to exist within the banking system. Legislation adopted in 2000 prohibits new anonymous passbook accounts. In 2002, the Act on Banks was amended to abolish all existing bearer passbooks by December 31, 2002, and by June 2003 approximately 400 million euros had been converted. While account holders can still withdraw money from the accounts for the next decade, the accounts do not earn interest and cannot accept deposits. In 2003, the Czech National Bank introduced new "know your customer" measures, based on the recommendations of both the Financial Action Task Force (FATF) and the Basel Committee, and created an on-site inspection team. New due diligence provisions became effective in January 2003. The Czech Government is considering placing a limit of 500,000 Czech crowns (approximately $19,250) on the amount of cash that can change hands in cash transactions.

Czech authorities require that financial institutions maintain transaction records for a period of ten years. Reporting requirements also apply to persons or entities seeking to enter the Czech Republic. Under the provisions of the anti-money laundering act, anyone seeking to enter or leave the Czech Republic with more than 350,000 Czech crowns (CZK) (approximately $14,000) in cash, traveler's checks, or other monetary instruments must declare this to customs officials, who are required to forward this information to the FAU of the Ministry of Finance. Similar reporting requirements apply to anyone seeking to mail more than 200,000 CZK (approximately $800) in cash into or out of the country. In practice, however, the effectiveness of these procedures is difficult to assess. With the accession of the Czech Republic to the EU in 2004, nearly all customs stations on the borders were closed. Although the customs station at the Prague Airport remains operational, detecting the smuggling or transport of large sums of currency by highway is difficult.

Since 2000, financial institutions have been required to report all suspicious transactions to the FAU. As the Czech FIU, the FAU has the statutory authority to enforce money laundering and terrorist finance laws. The 2004 amendments to the Anti-Money Laundering Act also extended the anti-money laundering/counterterrorist financing responsibilities of the FAU. The FAU is now authorized to share all information with the Czech Intelligence Service (BIS) and Czech National Security Bureau (NBU). It is hoped that this type of information sharing will improve the timeliness and nature of exchanges between the different agencies within the Czech government. The FAU is also authorized to cooperate and share information with all of its international counterparts, including those not part of the Egmont Group. The FAU also has the ability to freeze assets associated with suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list.

The FAU is an administrative FIU without law enforcement authority and can only investigate accounts for which designated entities have filed suspicious transaction reports. Although the FAU can ask the banking sector to check a specific individual or organization's account, it cannot compel it to do so. It has neither the mandate nor the capacity to initiate or conduct criminal investigations. Investigative responsibilities lie with the Financial Police or other Czech National Police body.

Agency reorganizations in 2003 and 2004 resulted in the establishment of the Unit for Combating Corruption and Financial Criminality (UOKFK), as well as a specialized police unit called the Financial Police (also known as the Illegal Proceeds and Tax Crime Unit). The UOKFK has primary responsibility for all financial crime and corruption cases. The Financial Police are the main law enforcement counterpart to the FAU, and the two agencies work closely together on money laundering cases. In 2004, this partnership resulted in the first formal charges under the revised money laundering statutes.

Although the FAU conducts investigations based on suspicious transaction reports filed by the banks, these examinations only cover a relatively small segment of total financial activity within the Czech Republic. Moreover, the FAU's primary responsibility has been, and remains, identifying cases of tax evasion, which is an endemic problem in the Czech Republic. A May 2001 revision of the Criminal Code facilitates the seizure and forfeiture of bank accounts. A financial institution that reports a suspicious transaction has the authority to freeze the suspect account for up to 24 hours. However, for investigative purposes, this time limit can be extended to 72 hours in order to give the FAU sufficient time to investigate whether or not there is evidence of criminal activity. Currently, the FAU is authorized to freeze accounts for 72 hours. However, the FAU's efforts can be hampered because it often waits for the annual tax submission of suspected individuals before deciding to forward cases to law enforcement for investigation. This often results in the disappearance of funds and property before the police can seize them. If sufficient evidence of criminal activity exists, the case is forwarded to the Financial Police, which have another three days to gather the necessary evidence. If the Financial Police are able to gather enough evidence to start prosecution procedures, then the account can stay frozen for the duration of the investigation and prosecution. If, within the 72 hour time limit, the Financial Police fail to gather sufficient evidence to convince a judge to begin prosecution, the frozen funds must be released. These time limits do not apply to accounts owned by individuals or organizations on the UN 1267 Sanctions Committee's consolidated list of suspected terrorists and terrorist organizations.

While the institutional capacity to detect, investigate, and prosecute money laundering and financial offenses has unquestionably increased in recent years, both the FAU and the Financial Police face staffing challenges. Despite recommendations from both the FATF and the Council of Europe's FATF-style regional body (MONEYVAL) regarding the need for FAU staff increases, the government lowered its funding and personnel authorizations in 2005. Although these decisions may be reversed in the future, the FAU remains a relatively small organization, given the scope of its responsibilities. The Financial Police could soon face similar challenges caused by early retirement and the loss of senior investigators. Changes to the police retirement plan and a perceived lack of political support are causing many senior officers to consider early retirement. This could result in potentially devastating effects upon not only the Financial Police, but on organized crime units, anticorruption units, and other critical police organizations as well.

Despite these staffing challenges, an increase in government attention and political will to the problems of money laundering and financial crimes has slightly improved the results of law enforcement and prosecutorial efforts. Prior to 2004, the Czech Republic had not yet had a successful prosecution in a money laundering case. However, in 2004, Ministry of Justice statistics show that prosecutors were able to obtain the first four convictions for attempting to legalize the proceeds from crime. Fifteen people were prosecuted; fourteen were actually accused. One case was suspended and the only penalties imposed were extremely light—only three suspended sentences and a fine. In 2003,

there were 36 money laundering cases. There were no resulting convictions in 2003. One ongoing issue is that law enforcement must prove that the assets in question were derived from criminal activity. The accused is not obligated to prove that the property or assets were acquired legitimately.

The number of suspicious transaction reports transmitted to the FAU in 2005 dropped slightly after a significant jump in 2004. The number of inquiries evaluated and forwarded to law enforcement remained unchanged. This trend is interpreted as evidence of the active participation of mandated entities in the anti-money laundering regime. After clarifications to the reporting requirements in 1996, reporting of unusual transactions rose significantly. In 2002, 1,260 suspicious transactions were reported, 1,970 in 2003, 3,267 in 2004, and 2,390 in the period of January through August 2005. The number of reports forwarded to the police remained steady at 115 in 2002 and 114 in 2003. In 2004, the number dropped slightly to 103. From January through August 2005, the figure was again 115 reports. Every case that was passed to law enforcement was investigated.

From January to November 2005, the Department of Criminal Proceeds and Money Laundering investigated 90 cases and seized assets in the value of 900 million CZK (approximately $36 million). This figure is an increase over 2004 when the Department of Criminal Proceeds and Money Laundering investigated 139 cases and seized assets valued at roughly 2 million CZK (approximately $90,000). In 2005, the Department participated in 12 cases investigated by the Czech National Drug Headquarters, and seized assets valued at 48 million CZK (approximately $2 million) and three cars. In comparison, in 2004, the Department participated in 25 cases investigated by the Czech National Drug Headquarters and seized assets valued at 16 million CZK (approximately $700,000).

In October 2005, the Czech Parliament ratified the UN Convention for the Suppression of the Financing of Terrorism. This was a major step, in that it marked both the implementation of the recommendations from international bodies and the completion of the statutory and organizational reforms required to effectively confront this issue. The Czech Government approved the National Action Plan of the Fight Against Terrorism in April 2002. This document covers topics ranging from police work and cooperation to protection of security interests, enhancement of security standards, and customs issues.

In general, Czech authorities have been reliable partners in the battle against terrorist financing. Although the terrorist finance threat in the Czech Republic is generally modest, there is reason to believe that there has recently been an increased possibility of terrorist support activities in the country, and officials have publicly discussed the discovery of small hawala operations remitting funds from the Czech Republic to other parts of the world. The Czech Republic has specific laws criminalizing terrorist financing and legislation permitting rapid implementation of UN and EU financial sanctions, including action against accounts held by suspected terrorists or terrorist organizations. A new government body called the Clearinghouse was instituted in October 2002. It was established under the FAU and functions to streamline the collection of information from institutions in order to enhance cooperation and response to a terrorist threat. The FAU is currently distributing lists of designated terrorists to relevant financial and governmental bodies. Czech authorities have been cooperative in the global effort to identify suspect terrorist accounts. Since September 11, 2001, the FAU has checked the accounts of approximately 1,000 people. An amendment to the anti-money laundering law in 2000 requires financial institutions to freeze assets that belong to suspected terrorists and terrorist organizations on the UN 1267 Sanctions Committees consolidated list. To date, no suspect accounts have been identified in Czech financial institutions, and no terrorist assets have been confiscated.

Asset forfeiture is a relatively new instrument in the hands of Czech prosecutors and investigators. In January 2002, further changes to the Criminal Code were effected which allow a judge, prosecutor, or the police (with the prosecutor's assent) to freeze an account if evidence indicates that the contents were used, or will be used, to commit a crime, or if the contents are proceeds of criminal activity. In

urgent cases, the police can freeze the account without the previous consent of the prosecutor, but within 48 hours have to inform the prosecutor, who then confirms the freeze or releases the funds. The Law on the Administration of Asset Forfeiture in Criminal Procedure, passed in August 2003, and effective on January 1, 2004, implements provisions such as handling and care responsibilities for the seizure of property.

The Czech Republic has signed memoranda of understanding (MOUs) on information exchange with Belgium, France, Italy, Croatia, Cyprus, Estonia, Latvia, Lithuania, Poland, Slovenia, Slovakia, and Bulgaria. Formalization of an agreement between the Czech Republic and Europol, the European police office, took place in 2002. The agreement allows an exchange of information about specific crimes and investigating methods, the prevention of crime, and the training of police. Among the most important crimes cited in the cooperation agreement are terrorism, drug dealing, and money laundering.

The FAU is a member of the Egmont Group. The Czech Republic actively participates in the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL); in 2001, it underwent a mutual evaluation by the Committee. The Czech Republic continues to implement changes to its anti-money laundering regime based on the results of the mutual evaluation. In May 2003, the Czech Republic also underwent a financial sector assessment by the World Bank/IMF.

In addition to the UN Convention for the Suppression of the Financing of Terrorism, the Czech Republic is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. The Czech Republic is also a party to the World Customs Organization's Convention on Mutual Administrative Assistance for the Prevention, Investigation and Repression of Customs Offenses as well as the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime.

The United States and the Czech Republic have a Mutual Legal Assistance Treaty (MLAT), which entered into force on May 7, 2000, as well as an extradition treaty that has been in effect since 1925. In late 2005, the United States and the Czech Republic completed negotiations on a supplemental extradition treaty and a supplemental MLAT to implement the U.S.-EU Agreements on these subjects. The supplemental agreements are expected to be signed in early 2006.

The Czech Republic has made progress in its efforts to strengthen its money laundering regime, as demonstrated by its ratification of the UN Convention on the Suppression of the Financing of Terrorism and its expanded capacity to enforce existing money laundering regulation despite the threat of future personnel shortages. However, further improvement is still needed. The Czech Republic has to date made only incremental and limited progress in its law enforcement efforts. Prosecutions are still infrequent and penalties have been far too light to serve as an effective deterrent. Standards of proof remain extremely high and gaps in Czech law still allow family members to effectively shield the proceeds of illicit activity. Furthermore, the Czech Republic should enhance its asset forfeiture regime by simplifying the forfeiture of jointly owned assets and allowing for the confiscation of substitute assets. It should ratify the UN Convention against Transnational Organized Crime.

Djibouti

Djibouti is one of the more stable countries in the Horn of Africa. It is a financial hub in the sub-region, thanks to its U.S. dollar-pegged currency and its unrestricted foreign exchange. Officials from the Central Bank have not reported any recent instances of money laundering. Informal and black markets for goods remain important. Smuggled goods consist primarily of highly taxed cigarettes and alcohol. The Djibouti Free Zone (DFZ), managed by Dubai's Jebel Ali Free Zone, was inaugurated in June 2004. Once fully operational, the DFZ will approve and deliver licenses for up to 85 companies.

Djibouti is not considered an offshore financial center but offshore institutions are permitted in the DFZ. Two existing commercial banks handle the bulk of financial transactions. The remainder of the demand is met by a growing number of hawaladars. The Central Bank makes efforts to closely monitor the activities of both the commercial banks and hawaladars. Due to Djibouti's location on the Horn of Africa and its cultural and historical trading ties, Djibouti-based traders and brokers are active in the region. Trade goods often provide counter valuation or a means of balancing the books in hawala transactions.

Djibouti is a party to the 1988 UN Drug Convention. Djibouti signed the United Nations International Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, which entered into force on May 23rd, 2001. Djibouti has signed, but not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism. Legislation criminalizing the financing of terrorism, consistent with UNSCR 1373, is included in the Anti-Money Laundering Law passed in December 2002 as Law No. 196/AN/02/4emeL.

The Anti-Money Laundering Law applies to financial institutions of all forms as well as professionals involved in financial matters. Regulated activities include money deposits, insurance, investment, real estate, casinos and entertainment. The legislation also addresses international cooperation and allows for the freezing or seizing of assets in suspected terrorist finance cases. The government regularly circulates the names of individuals and entities included on the UNSCR 1267 Sanctions Committee's consolidated list. The law also requires financial institutions to verify customer information, including current residence. This verification process promotes rigorous transparency and strict control of transactions. Furthermore, it imposes criteria for: customer identification; communication of information; documentation related to international cooperation; surveillance procedures for suspect accounts; and legal protection of professional secrecy for individuals reporting suspect transactions.

Professionals convicted of facilitating money laundering or terrorist financing can face five to ten years in jail and a fine of DF 25 to 50 million (approximately $141,300 to $282,600). A financial professional who fails to report suspect transactions is liable for fines ranging from DF 10 to 25 million (approximately $56,500 to 141,300). The Department of Treasury receives the proceeds of any assets seized or forfeited in terrorist financing cases.

Djibouti does not have an agreement with the United States government to exchange information on money laundering, but Central Bank officials have repeatedly indicated they would fully cooperate if requested. Djibouti has a formal, bilateral agreement with Ethiopia for the exchange of information and extradition in criminal cases. Furthermore, the anti-money laundering legislation stipulates that Djibouti will cooperate with other countries by exchanging information, assisting in investigations, providing mutual technical assistance and facilitating the extradition process in money laundering cases. In addition, the Central Bank plans to set up a financial intelligence unit (FIU) in early 2006.

The FIU will be housed within the Central Bank and staffed with senior employees who come under the Governor's direct supervision. The purpose of the FIU is to collect information on potential clandestine or criminal financial networks and to become the expert office on identifying money laundering. The FIU may obtain any record or databank upon request from government entities or financial institutions. It will perform analytical duties and assist the Ministry of Interior (Police) and the Ministry of Justice in any financial criminal investigation. The FIU may enter into agreement with foreign FIUs to share information if the foreign FIUs are bound by similar rules of confidentiality and secrecy. Finally, the FIU will provide guidance to the banking community in the fight against counterfeit money, including American dollars.

The Government of Djibouti should accede to the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime. While Djibouti took a positive step by adopting anti-money laundering legislation, enforcement of the law remains a major challenge. Though Djibouti makes an effort to control all formal transaction points, a

large number of hawaladars escape Central Bank regulation. Corruption is also a concern. Corrupt customs officials can easily be tempted to allow large amounts of money or trade goods that transfer value to pass through the borders without any declaration. There is also a history of politically powerful and criminally "untouchable" individuals protecting suspicious financial institutions. Finally, Djibouti must also ensure that an effective anti-money laundering regime is extended to the Djibouti Free Zone as it becomes established.

Dominica

The Commonwealth of Dominica initially sought to attract offshore dollars by offering a wide range of confidential financial services, low fees, and minimal government oversight. A rapid expansion of Dominica's offshore sector without proper supervision made it attractive to international criminals and vulnerable to official corruption. In response to international criticism, Dominica enacted legislation to address many of the deficiencies in its anti-money laundering regime. Dominica's financial sector includes one offshore and four domestic banks, 17 credit unions, approximately 9,000 international business companies (IBCs) (a significant increase from 1,435 in 2002), 18 insurance agencies, and one operational Internet gaming company (although reports indicate more Internet gaming sites exist). There are no free trade zones in Dominica. Under Dominica's economic citizenship program, individuals can purchase Dominican passports and, in the past, official name changes for approximately $75,000 for an individual and $100,000 for a family of up to four persons. Although it was not very active in 2005, Dominica's economic citizenship program does not appear to be adequately regulated. Individuals from the Middle East, the former Soviet Union, the Peoples' Republic of China and other foreign countries have become Dominican citizens and entered the United States via a third country without visas. Subjects of United States criminal investigations have been identified as exploiting Dominica's economic citizenship program in the past.

In June 2000, the Financial Action Task Force (FATF) placed Dominica on its Non-Cooperative Countries and Territories (NCCT) list. As a result, Dominica implemented and revised anti-money laundering reforms and was removed from the NCCT list in October 2002. One of the reforms created was an Offshore Financial Services Council (OFSC). The OFSC's mandate is to advise the Government of the Commonwealth of Dominica (GCOD) on policy issues relating to the offshore sector and to make recommendations with respect to applications by service providers for licenses. Under common banking legislation enacted by its eight member jurisdictions, the Eastern Caribbean Central Bank (ECCB) acts as the primary supervisor and regulator of onshore banks in Dominica. A December 2000 agreement between the OFSC and the ECCB places Dominica's offshore banks under the dual supervision of the ECCB and the GCOD Financial Services Unit (FSU). In compliance with the agreement, the ECCB assesses applications for offshore banking licenses, conducts due diligence checks on applicants, and provides a recommendation to the Minister of Finance. The Minister of Finance is required to seek advice from the ECCB before exercising his powers with respect to licensing and enforcement.

The ECCB also conducts on-site inspections for anti-money laundering compliance of onshore and offshore banks in Dominica. Inspections of the offshore banks are conducted by the ECCB in collaboration with the FSU. The ECCB is unable to share examination information directly with foreign regulators or law enforcement personnel; however, legislation to permit such sharing is being drafted. The Offshore Banking (Amendment) Act No. 16 of 2000 prohibits the opening of anonymous accounts, prohibits IBCs from direct or indirect ownership of an offshore bank, and requires disclosure of beneficial owners and prior authorization to changes in beneficial ownership of banks. All offshore banks are required to maintain a physical presence in Dominica and to have available for review on-site books and records of transactions.

The International Business Companies (Amendment) Act No. 13 of 2000 requires that bearer shares be kept with an "approved fiduciary" that is required to maintain a register with the names and addresses of beneficial owners. Additional amendments to the Act in September 2001 require previously issued bearer shares to be registered. The Act empowers the FSU to "perform regulatory, investigatory, and enforcement functions" over IBCs. The FSU staff normally consists of an Acting Manager, two professional staff (supervisors/examiners), and one administrative assistant. The IBU supervises and regulates offshore entities and domestic insurance companies. The IBU also supervises, regulates, and inspects Dominica's registered agents and visits IBCs to ensure that the companies are operating in compliance with requirements imposed by law.

The Money Laundering Prevention Act (MLPA) No. 20 of December 2000 and its July 2001 amendments criminalize the laundering of proceeds from any indictable offense. The MLPA overrides secrecy provisions in other legislation and requires financial institutions to keep records of transactions for at least seven years. The MLPA also requires persons to report cross-border movements of currency that exceed $10,000 to the financial intelligence unit (FIU).

The MLPA establishes the Money Laundering Supervisory Authority (MLSA) and authorizes it to inspect and supervise non-bank financial institutions and regulated businesses for compliance with the MLPA. The MLSA is also responsible for developing anti-money laundering policies, issuing guidance notes, and conducting training. The MLSA consists of five members: a former bank manager, the IBU manager, the Deputy Commissioner of Police, a senior state attorney, and the Deputy Comptroller of Customs. The MLPA requires a wide range of financial institutions and businesses, including any offshore institutions, to report suspicious transactions simultaneously to the MLSA and the FIU. Additionally, financial institutions are required to report any transaction over $5,000.

The May 2001 Money Laundering Prevention Regulations apply to all onshore and offshore financial institutions including banks, trusts, insurance companies, money transmitters, regulated businesses, and securities companies. The regulations specify know your customer requirements, record keeping, and suspicious transaction reporting procedures, and require compliance officers and training programs for financial institutions. The regulations require that the true identity of the beneficial interests in accounts be established, and mandate the verification of the nature of the business and the source of the funds of the account holders and beneficiaries. Anti-Money Laundering Guidance Notes, also issued in May 2001, provide further instructions for complying with the MLPA and provide examples of suspicious transactions to be reported to the MLSA.

The FIU was also established under the MLPA and became operational in August 2001. The FIU's staff consists of a certified financial investigator and a Director. The FIU analyzes suspicious transaction reports (STRs) and cross-border currency transactions, forwards appropriate information to the Director of Public Prosecutions, and carries on liaison with other jurisdictions on financial crimes cases. The FIU has access to the records of financial institutions and other government agencies, with the exception of the Inland Revenue Division. In 2005, the FIU received 19 STRs, which is a significant decrease compared to the 109 STRs received in 2004. The FIU is closely examining the relationship between narcotics proceeds and money laundering in Dominican financial institutions. However, the GCOD believes most of the money laundering cases under investigation involves external proceeds from fraudulent investment schemes.

There are no known convictions on money laundering charges in Dominica. In 2005, a Haitian national was arrested for human trafficking and money laundering. The GCOD also filed criminal complaints against St. Regis University for issuing fraudulent degrees and laundering the proceeds in an offshore bank.

Since 2003, the GCOD has collaborated closely with U.S. and foreign law enforcement agencies in a widespread money laundering case involving European fraudulent investment scheme proceeds in one

of the now closed offshore banks in Dominica. As a result of this case, money laundering prosecutions are being brought in the United States, the United Kingdom, and Germany.

On June 5, 2003, Dominica enacted the Suppression of Financing of Terrorism Act (No. 3 of 2003), which provides authority to identify, freeze, and seize terrorist assets, and to revoke the registration of charities providing resources to terrorists. To date, no accounts associated with terrorists or terrorist entities have been found in Dominica. The GCOD has not taken any specific initiatives focused on alternative remittance systems.

In May 2000, a mutual legal assistance treaty between Dominica and the United States entered into force. The GCOD also has a tax information exchange agreement with the United States. The MLPA authorizes the FIU to exchange information with foreign counterparts. The Exchange of Information Act 2002 provides for information exchange between regulators. The MLPA provides for freezing of assets for seven days by the FIU, after which time a suspect must be charged with money laundering or the assets released; assets may be forfeited after a conviction.

Dominica is a member of the Organization of American States Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering (OAS/CICAD). Dominica is also a member of the Caribbean Financial Action Task Force (CFATF) and underwent its second mutual evaluation in September 2003. Dominica's FIU was accepted into the Egmont Group in June 2003. Dominica is a party to the 1988 UN Drug Convention. Dominica acceded to the UN International Convention for the Suppression of the Financing of Terrorism and to the Inter-American Convention Against Terrorism in September 2004.

The Government of the Commonwealth of Dominica should fully implement and enforce the provisions of its legislation and provide additional resources for regulating offshore entities, including its Internet gaming entities. Dominica should continue to develop the FIU to enable it to fulfill its responsibilities and cooperate with foreign authorities. Dominica should eliminate its program of economic citizenship.

Dominican Republic

The Dominican Republic continues to be a major transit country for drugs. As such, the Dominican Republic's financial institutions engage in currency transactions involving international narcotics trafficking proceeds that include significant amounts of U.S. currency or currency derived from illegal drug sales in the United States. The smuggling of bulk cash by couriers and wire transfer remittances are the primary methods for moving illicit funds from the United States into the Dominican Republic. Once in the Dominican Republic, currency exchange houses, money remittance companies, free trade zones, and casinos facilitate the laundering of these illicit funds.

The 2003 collapse of the country's third largest bank, Banco Intercontinental (Baninter), is a significant example of the corruption and money laundering scandals that continue to plague the financial sector. The Baninter case saw approximately $2.2 billion evaporate over the course of just a few years due to the fraudulent accounting schemes orchestrated by senior officials. The failure of Baninter and two other banks (Banco Mercantil and Bancredito) cost the Government of the Dominican Republic (GODR) in excess of $3 billion and severely destabilized the country's finances. Criminal prosecutions are underway in all three cases. Various legal maneuvers delayed but have not dismissed the criminal prosecution of five Baninter banking officials; an October 2005 decision is currently under appeal. Weaknesses in this sector still have not been fully resolved. The GODR negotiated an IMF standby in August 2003, to help cover the costs of the failures. The IMF insisted on extensive changes in laws and procedures in order to improve banking supervision, which included required passage of law setting procedures for cases of systemic risk to the banking system. These changes have been made and full implementation is expected by mid-2006.

Narcotics-related money laundering was deemed a criminal offense by the enactment of Act 17 of December 1995 (the 1995 Narcotics Law). In 2002, the GODR passed Law No. 72-02 to expand money laundering predicate offenses beyond illegal drug activity and controlled substances, to include other serious crimes, such as any act related to terrorism, illicit trafficking in human beings or human organs, arms trafficking, kidnapping, extortion related to recordings and electronic tapes made by physical or moral entities, theft of vehicles, counterfeiting of currency, fraud against the State, embezzlement, and extortion and bribery related to drug trafficking.

Under Decree No. 288-1996, the Superintendence of Banks decree, banks, currency exchange houses, and stockbrokers are required to know and identify their customers, keep records of transactions (five years), record currency transactions greater than $10,000, and file suspicious transactions reports (STRs). Law No. 72-02 broadens the requirements for customer identification, record keeping of transactions, and reporting of suspicious activity reports (SARs). Numerous other financial sectors are now covered, including securities brokers, the Central Bank, cashers of checks or other types of negotiable instruments, issuers/sellers/cashers of travelers checks or money orders, credit/debit card companies, funds remittance companies, offshore financial service providers, casinos, real estate agents, automobile dealerships, insurance companies, and certain commercial entities such as those dealing in firearms, metals, archeological artifacts, jewelry, boats, and airplanes. The law mandates that these entities are to report currency transactions exceeding $10,000, as well as suspicious transactions. Moreover, the legislation requires individuals to declare cross-border movements of currency that are equal to or greater than the equivalent of $10,000 in domestic or foreign currency.

Two asset seizure laws were recently clarified by an executive order stating that the measures set forth in Law No. 78-03 prevail over those contained in Law No. 72-02. Law No. 78-03 permits the seizure, conservation and administration of assets which are the product or instrument of criminal acts pending judgment and sentencing. The 1995 Narcotics Law allows preventive seizures and criminal forfeiture of drug-related assets, and authorizes international cooperation in forfeiture cases. While numerous narcotics-related investigations were initiated under the 1995 Narcotics Law, and substantial currency and other assets were confiscated, there have been only three successful money laundering prosecutions under this law. In 2005, nine money laundering cases related to narcotics were submitted to the justice system.

Although the GODR and the United States have not put in place a mutual legal assistance treaty, according to U.S. law enforcement officials cooperation between law enforcement agencies on drug cases, human trafficking, and extradition matters remains strong. The GODR continues to support U.S. Government efforts to identify and block terrorist-related funds. Although no assets were identified or frozen, the GODR's efforts to identify and block terrorist-related funds continue through orders and circulars issued by the Ministry of Finance and the Superintendence of Banks that instruct all financial institutions to continually monitor accounts.

The Unidad de Inteligencia Financiera (UIF) was created in 1997 and is located within the Superintendency of Banks. The UIF is an administrative financial intelligence unit that supervises within the financial sector the application of the rules and regulations against money laundering and terrorist financing. Law No. 72-02 created the Unidad de Analisis Financiero (UAF) under the national drug council (CND), to receive STRs from the newly mandated entities and to ensure efficient function of the system of registrations and analysis of information. The powers of UAF supersede those of the UIF. This unit has investigative authority and will also provide support to other competent authorities on any phase of a financial investigation. Law No. 72-02 obligates the UIF to forward all STRs it receives from financial institutions, money exchangers, and remittance companies to the UAF. Since May 2005, the UAF has received 76 STRs and 8505 reports of currency transactions above the legal limit. As of December 2005, the UAF had received only one report from an entity other than the UIF.

The UIF has been a member of the Egmont Group since June 2000; however, it is expected that the UAF will apply for Egmont membership to replace the UIF. The Dominican Republic is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. The Dominican Republic is a party to the 1988 UN Drug Convention. The GODR has signed, but has not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption. The UN Convention Against Corruption was submitted to the Congress for ratification on April 18, 2005, and is expected to be ratified in 2006.

The Government of the Dominican Republic has the legislative framework to combat money laundering and terrorist financing, but insufficient implementation leaves the country vulnerable to criminal financial activity and abuse.

Ecuador

With a dollar economy and a geographical situation between two major drug producing countries, Ecuador is highly vulnerable to money laundering but is not considered an important regional financial center. Because thus far there has been no effective control of money laundering, there is no reliable way to judge the magnitude of such activity in the country. In addition to concerns about illicit transactions through financial institutions, there are some indications that money laundering is taking place through trade and commercial activity. Large amounts of unexplained currency entering and leaving Ecuador indicate that transit and laundering of illicit cash are also significant activities. Though smuggled goods are regularly brought into the country, there is no evidence that they are significantly funded by drug proceeds.

On October 18, 2005, Ecuador's new comprehensive law against money laundering was published in the country's Official Register. The new law, Law 2005-13, criminalizes the laundering of illicit funds from any source and penalizes the undeclared entry of more than $10,000 in cash. The law calls for the creation of a financial intelligence unit (FIU) under the purview of the Superintendence of Banks. Regulations for application of the law and establishment of the FIU have not yet been developed.

A free trade zone law was passed in 1991 in order to promote exports, foreign investment, and employment. The law provides for the import of raw materials and machinery free of duty and tax; the export of finished and semi-processed goods free of duty and tax; and tax exemptions for business activities in the government-established zones. Free trade zones have been established in Esmeraldas, Manabi and Pichincha provinces, and a new zone is planned for the site of the new Quito airport. There is no known evidence to indicate that the free trade zones are being used in trade-based money laundering.

Prior to the passage of the 2005 law, the Narcotics and Psychotropic Substance Act of 1990 (Law 108) criminalized money laundering activities only in connection with illicit drug trafficking. Under the new law, money laundering is now criminalized in relation to any illegal activity, including narcotics trafficking, trafficking in persons, and prostitution, among others. Money laundering is penalized by a prison term of three to nine years, depending upon the amount laundered, as well as a monetary fine. All entities that fall under the 1994 Financial System Law, including financial institutions and insurance companies, are required to report all "unusual and unjustified" transactions to the FIU, once it has been established. Obligated entities are also required to maintain registries of cash transactions exceeding $10,000, establish "know-your-client" provisions, and maintain financial transaction records for ten years. Any person entering or leaving Ecuador with $10,000 or more must file a report with the Customs service. Entities or persons who fail to file the required reports or declarations may be sanctioned by the Superintendence of Banks. The FIU may request information from any of the obligated entities to assist in its analysis of suspicious transactions, and cases that are deemed to

warrant further investigation will be sent to the Public Ministry. The FIU is also empowered to exchange information with other financial intelligence units on the basis of reciprocity.

There are some weaknesses that were not corrected by the 2005 law. For example, the definition of suspicious transactions as "unusual and unjustified," may allow defendants to use this definition to their advantage in legal proceedings by claiming that the bank did not prove suspicious transactions were "unjustified" and therefore should not have reported the transaction. The wording may also open a loophole for banks and their employees to avoid reporting suspicious transactions by claiming that the transactions were justified to the satisfaction of the bank. Legal protections for financial institutions and their employees who report suspicious transactions are not included in the 2005 law, leaving them vulnerable to legal actions from the subject of the report. Some existing laws may also conflict with the detection and prosecution of money laundering. For example, the Bank Secrecy Law severely limits the information that can be released by a financial institution directly to the police as part of any investigation, and the Banking Procedures Law reserves information on private bank accounts to the Superintendence of Banks. In addition, the Criminal Defamation Law sanctions banks and other financial institutions that provide information about accounts to police or advises the police of suspicious transactions if no criminal activity is proven. As a result of this contradictory legal framework, cooperation between other Government of Ecuador (GOE) agencies and the police has fallen short of the level needed for effective enforcement of money laundering statutes.

Several Ecuadorian banks maintain offshore offices. The Superintendence of Banks is responsible for oversight of both offshore and onshore financial institutions. Regulations are essentially the same for onshore and offshore banks, with the exception that offshore deposits no longer qualify for the government's deposit guarantee. Anonymous directors are not permitted. Licensing requirements are the same for offshore and onshore financial institutions. However, offshore banks are required to contract external auditors pre-qualified by the Superintendence of Banks. These private accounting firms perform the standard audits on offshore banks that would generally be undertaken by the Superintendence in Ecuador. Bearer shares are not permitted for banks or companies in Ecuador.

The 2005 law establishes a National Council Against Money Laundering, to be headed by the director of the FIU and include representatives of all government entities involved in fighting money laundering, such as the Superintendence of Banks and the National Police. The National Council Against Money Laundering will be responsible for administrating the freezing and seizure of funds that are identified as originating from illicit sources. A special fund for forfeited assets will be set up in the Central Bank, and these assets will be distributed among government entities responsible for combating money laundering.

The Ministry of Foreign Affairs, Superintendence of Banks and the Association of Private Banks formed a working group in December 2004 to draft a law against terrorist financing. By year-end 2005, a draft law had been completed and sent to the Presidency for review. Pending promulgation of a new law, terrorist financing has not been criminalized in Ecuador. The Superintendence of Banks has cooperated with the USG in requesting financial institutions to report transactions involving known terrorists, as designated by the United States as Specially Designated Global Terrorists pursuant to Executive Order 13224 (on terrorist financing) or as named on the consolidated list maintained by the UN 1267 Sanctions Committee. No terrorist finance assets have been identified to date in Ecuador. The Superintendence would have to obtain a court order to freeze or seize such assets in the event they were identified in Ecuador. Ecuador has ratified the UN International Convention for the Suppression of the Financing of Terrorism. No steps have been taken to prevent the use of gold and precious metals to launder terrorist assets. Currently, there are no measures in place to prevent the misuse of charitable or non- profitable entities to finance terrorist activities.

Ecuador is a party to the 1988 UN Drug Convention and has ratified the UN Convention against Transnational Organized Crime. In September 2005, Ecuador ratified the UN Convention Against

Corruption, which entered into force December 14, 2005. The GOE has signed, but not yet ratified, the Inter-American Convention Against Terrorism. Ecuador is a member of the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering and the Financial Action Task Force of South America Against Money Laundering (GAFISUD). Ecuador and the United States have an Agreement for the Prevention and Control of Narcotic Related Money Laundering that entered into force in 1993 and an Agreement to Implement the United Nations Convention against Illicit Trafficking in Narcotic Drugs and Psychotropic Substances of December 1988, as it relates to the transfer of confiscated property, securities and instrumentalities. There is also a Financial Information Exchange Agreement (FIEA) between the GOE and the U.S. to share information on currency transactions.

During the past five years, there have not been any serious investigations of money laundering in Ecuador. However, the passage of a comprehensive anti-money laundering law represents a major advancement for Ecuador in 2005. The GOE now needs to develop the supporting rules and regulations to enact the legislation in order to effectively govern the collection, analysis, and dissemination of financial intelligence. Ecuador is one of only two countries in South America that is not a member of the Egmont Group of financial intelligence units. Now that the necessary legislative framework exists, the GOE should strive to establish a fully functioning FIU that meets the standards of the Egmont Group and the Financial Action Task Force. The GOE should also correct the deficiencies that were not accounted for in the new money laundering legislation. Ecuador should criminalize the financing of terrorism in order to fully comply with international anti-money laundering and counterterrorist financing standards.

Egypt, The Arab Republic of

Egypt is not considered a regional financial center. In 2005, the Government of Egypt (GOE) continued financial sector reforms that were initiated in 2004, with the aim of streamlining the financial sector. Despite banking sector reform, Egypt is still largely a cash economy, and many financial transactions do not enter the banking system at all.

While there is no significant market for illicit or smuggled goods in Egypt, authorities say that under-invoicing of imports and exports by Egyptian businessmen is a relatively common practice. The primary goal for businessmen who engage in such activity is reportedly the avoidance of taxes and customs fees. It is unclear to what extent price manipulation may be used for laundering the proceeds of other crimes. According to the Ministry of Finance, however, cuts in tariffs in September 2004, followed by cuts in income and business taxes in June 2005, have encouraged businesses to begin following proper procedures and regulations.

At present, money laundering and terrorist financing are not reported to be widespread in Egypt. However, informal remittance systems are unregulated and therefore pose a potential means for laundering funds. Egyptian authorities claim that informal remittances are not widespread in Egypt, but the number of remittances officially recorded by banks does not match the large number of Egyptians working overseas, in the Gulf and elsewhere. Many overseas workers use informal means to remit earnings, due to a lack of trust in or familiarity with banking procedures or to the lower costs associated with informal remittance systems. Due to the unregulated nature of informal remittance systems, it is unclear if and to what extent money laundering actually occurs through these systems. One conventional non-bank money transfer system, Western Union, is starting to draw more customers.

In May 2002, Egypt passed an anti-money laundering law (Law No. 80 of 2002). The law criminalizes the laundering of funds from narcotics trafficking, prostitution and other immoral acts, terrorism, antiquities theft, arms dealing, organized crime, and numerous other activities. The law did not repeal Egypt's existing law on bank secrecy, but it did provide the legal justification for providing account

information to responsible civil and criminal authorities. The law also provided for the establishment of the Money Laundering Combating Unit (MLCU) as Egypt's financial intelligence unit (FIU), which officially began operating on March 1, 2003.

In June 2003, the administrative regulations of the anti-money laundering (AML) law were issued as Prime Ministerial Decree No. 951/2003. The regulations provided the legal basis by which the MLCU derives its authority, spelled out the predicate crimes associated with money laundering, established a board of trustees to govern the MLCU, defined the role of supervisory authorities and financial institutions, and allowed for the exchange of information with foreign competent authorities.

Under the anti-money laundering law, banks are also required to keep all records for five years, and numbered or anonymous financial accounts are prohibited. In March 2004, the Central Bank of Egypt (CBE) issued instructions requiring banks to establish internal systems enabling them to comply with the anti-money laundering laws. In addition, banks are now required to submit quarterly reports showing the progress made with respect to their anti-money laundering responsibilities.

The CBE also monitors bureaux de change and money transmission companies for foreign exchange control purposes, giving special attention to those accounts with transactions above certain limits. The Capital Market Authority (CMA), which is responsible for regulating the securities markets, has also undertaken the inspection of firms under its jurisdiction. The inspections were aimed at explaining and discussing anti-money laundering regulations and obligations, as well as evaluating the implementation of systems and procedures, including checking for an internal procedures manual and ensuring the appointment of compliance officers. An independent insurance regulatory authority is planned, and authorizing legislation will likely be submitted to parliament in 2006.

The executive regulations of the anti-money laundering law lowered the threshold for declaring foreign currency at borders from the equivalent of $20,000 to $10,000. The declaration requirement was also extended to travelers leaving as well as entering the country. Enforcement of this provision is not consistent; however, authorities claim that the terrorist attacks of the past year have given extra impetus to law enforcement agencies to thoroughly scrutinize currency imports/exports.

Egypt is not an offshore financial center. Offshore banks, international business companies and other forms of exempt or shell companies are not permitted in Egypt. Egypt has two types of free zones—public and private. Public free zones are specific geographic districts administered by the GOE. Currently, there are ten public free zones in operation. Private free zones are established for a specific project or company to undertake operations such as mixing, repackaging, assembly, and manufacturing for re-export. There is no indication that Egypt's free zones are being used for trade-based money laundering schemes or for financing terrorism.

The MLCU, Egypt's FIU, is an independent entity within the CBE, and has its own budget, staff, and full legal authority to examine all STRs and conduct investigations with the assistance of counterpart law enforcement agencies, including the Ministry of Interior. Presidential Decree No. 164/2002, issued in June 2002, delineates the structure, functions, and procedures of the MLCU. The unit handles implementation of the anti-money laundering law, including publishing the executive directives. The MLCU takes direction from a five-member council, chaired by the Assistant Minister of Justice for Legislative Affairs. Other members include the Chairman of the CMA, the Deputy Governor of the CBE, a representative from the Egyptian Banking Federation, and an expert in financial and banking affairs. In June 2004, the MLCU was admitted to the Egmont Group of FIUs.

The Executive Director of the MLCU is responsible for the operation of the FIU and the implementation of the policies drafted by the Council of Trustees. His responsibilities include: proposing procedures and rules to be observed by different entities involved in combating money laundering; presenting them to the Chairman of the Council of Trustees; reviewing the regulations issued by supervisory authorities for consistency with legal obligations and ensuring that they are up

to date; ensuring the capability and readiness of the unit's database; exchanging information with supervisory entities abroad; acting as point of contact within the GOE; preparing periodic and annual reports on the operational status of the unit; and taking necessary action on STRs recommended to be reported to the office of the public prosecution.

Since its inception in 2003, the MLCU has received over a thousand STRs from financial institutions and has successfully brought three cases to court, one involving proceeds from drug smuggling and the other two involving proceeds from antiquities smuggling. All three cases stemmed from domestic rather than foreign criminal activity and all involved individuals rather than criminal networks.

Money laundering investigations are carried out by one of the three law enforcement agencies in Egypt, according to the type of predicate offense involved. The Ministry of Interior, which has general jurisdiction for the investigation of money laundering crimes, has established a separate anti-money laundering (AML) department, which includes a contact person for the MLCU who coordinates with other departments within the ministry. The AML department works closely with the MLCU during investigations. It has established its own database to record all the information it received, including STRs, cases, and treaties. The administrative control authority has specific responsibility for investigating cases involving the public sector or public funds. It also has a close working relationship with the MLCU. The third law enforcement entity, the National Security Agency, plays a more limited role in the investigation of money laundering cases, where the predicate offense threatens national security. The GOE established a national committee for coordinating issues regarding anti-money laundering, which held its first meetings in late 2005.

In 2002, the GOE passed the law on civil associations and establishments (Law No. 84 of 2002), which governs the procedures for establishing non-governmental organizations (NGOs), including their internal regulations, activities, and financial records. The law places restrictions on accepting foreign donations without prior permission from the proper authorities. Both the Ministry of Social Affairs and the CBE continually monitor the operations of domestic NGOs and charities to prevent the funding of domestic and foreign terrorist groups.

Because of its own historical problems with domestic terrorism, the GOE has sought closer international cooperation to counter terrorism and terrorist financing. The GOE has shown a willingness to cooperate with foreign authorities in criminal investigations, whether they are related to terrorism or to narcotics.

In January 2005, the National Committee for Combating Money Laundering and Terrorist Financing was established within the MLCU to coordinate policy implementation among the various responsible agencies of the GOE. The committee includes representatives from the Ministries of Interior, Foreign Affairs, Social Affairs, Justice, and the National Security Agency, in addition to the MCLU. The same agencies sit on a National Committee for International Cooperation in Combating Terrorism, which was established in 1998.

The GOE is in the process of replacing its original counterterrorism law, an emergency law enacted in 1981, with a new and updated law. It will reportedly include specific measures against terrorist financing.

The United States and Egypt have a Mutual Legal Assistance Treaty. Egyptian authorities have cooperated with U.S. efforts to seek and freeze terrorist assets. The CBE circulates to all financial institutions the names of suspected terrorists and terrorist organizations on the UNSCR 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the U.S. pursuant to Executive Order 13224. No related assets were identified, frozen, seized, or forfeited in 2005.

Egypt was one of the founding members the Middle East and North Africa Financial Action Task Force (MENAFATF). In November 2004, Egypt was elected to a one-year term as the first Vice-President of MENAFATF. In January 2006, it assumed the presidency for a one-year period.

Egypt is a party to the 1988 UN Drug Convention. In March 2004, it ratified the UN Convention against Transnational Organized Crime. In March 2005, it ratified the UN International Convention for the Suppression of the Financing of Terrorism.

The GOE implemented reforms in 2005 to address domestic and international concerns regarding deficiencies in its banking sector and anti-money laundering regime. However, Egypt should follow through with its plans to enact an updated law against terrorism that specifically addresses the threat of terrorist financing. The GOE must also improve its ability to pursue suspicious financial activities and transactions through the entire investigative and judicial process. It should consider ways of improving the MLCU'S feedback on STRs to reporting institutions. It should improve its enforcement of cross-border currency controls, including reporting requirements.

El Salvador

Located on the Pacific coast of the Central American isthmus, El Salvador has one of the largest and most developed banking systems in Central America. Its most significant financial contacts are with neighboring Central American countries, as well as with the United States, Mexico, and the Dominican Republic. The January 2001 adoption of the U.S. dollar as legal tender, along with the size and growth rate of the financial sector, makes the country a potentially fertile ground for money laundering. In 2005, more than $2 billion in remittances were likely sent to El Salvador through the financial system. Most were sent from Salvadorans working in the United States to family members. Additional remittances flow back to El Salvador via other methods such as visiting relatives and regular mail.

Most money laundering is conducted by international criminal organizations. These organizations use bank and wire fund transfers from the United States to disguise criminal revenues as legitimate remittances to El Salvador. The false remittances are collected and transferred to other financial institutions until sufficiently laundered for use by the source of the criminal enterprise, usually a narcotics trafficking organization.

Decree 498 of 1998, the "Law Against the Laundering of Money and Assets," criminalizes money laundering related to narcotics trafficking and other serious crimes, including trafficking in persons, kidnapping, extortion, illicit enrichment, embezzlement, and contraband. The law also establishes the financial intelligence unit (FIU) within the Attorney General's Office. The FIU has been operational since January 2000. The National Police (PNC) and the Central Bank also have their own anti-money laundering units.

Under Decree 498, financial institutions must identify their customers, maintain records for a minimum of five years, train personnel in identification of money and asset laundering, establish internal auditing procedures, and report all suspicious transactions and transactions that exceed approximately $57,000 to the FIU. Entities obligated to comply with these requirements include banks, finance companies, exchange houses, stock exchanges and exchange brokers, commodity exchanges, insurance companies, credit card companies, casinos, dealers in precious metals and stones, real estate agents, travel agencies, the postal service, construction companies, and the hotel industry. The law includes a safe harbor provision to protect all persons who report transactions and cooperate with law enforcement authorities, and also contains banker negligence provisions that make individual bankers responsible for money laundering at their institutions. Bank secrecy laws do not apply to money laundering investigations.

To address the problem of international transportation of criminal proceeds, Decree 498 requires all incoming travelers to declare the value of goods, cash, or monetary instruments they are carrying in excess of approximately $11,400. Falsehood, omission, or inaccuracy on such a declaration is grounds for retention of the goods, cash, or monetary instruments, and the initiation of criminal proceedings. If, following the end of a 30-day period, the traveler has not proved the legal origin of said property, the Salvadoran authorities have the authority to confiscate it.

The Government of El Salvador (GOES) has established systems for identifying, tracing, freezing, seizing, and forfeiting narcotics-related and other assets of serious crimes. The FIU and PNC have adequate police powers to trace and seize assets, but the PNC lacks the resources to do so. Even if resources were abundant, it remains to be seen if these government agencies can cooperate to achieve their anti-money laundering goals. For example, only one arrest for money laundering was achieved in 2005. The detained individual is accused of establishing wire transfer accounts in fictitious names in order to receive transfers from the United States disguised as remittances. Unfortunately, the Attorney General's Office declined to pursue several leads generated by this person's arrest. As a result, it is likely that any evidence linking others to this scheme has already been destroyed.

Forfeited money laundering proceeds are deposited in a special fund used to support law enforcement, drug treatment and prevention, and other related government programs, while funds forfeited as the result of other criminal activity are deposited into general government revenues. Law enforcement agencies are allowed to use certain seized assets while a final sentence is pending. There exists no legal mechanism to share seized assets with other countries. Salvadoran law currently provides only for the judicial forfeiture of assets upon conviction (criminal forfeiture), and not for civil or administrative forfeiture. A draft law to reform Decree 498 to provide for civil forfeiture of assets has stalled in the national legislature.

Although Decree 498 does not specifically mention terrorism or terrorist financing as predicate offenses for money laundering, it criminalizes the laundering of the proceeds of serious criminal acts. This has been interpreted to include terrorism. Therefore, it is illegal to launder money generated by a terrorist act, and assets of terrorists that are derived from criminal activities could be targeted under Decree 498. However, providing legitimate money (money that is not derived from a criminal act) to known terrorist organizations is not considered to be a crime, and the person contributing those funds could not be prosecuted unless it could be shown that he or she was directly involved in the planning or execution of a crime.

The GOES has drafted counterterrorism legislation that will further define acts of terrorism and establish tougher penalties for the execution of those acts. The draft legislation, if passed, would also grant the GOES the legal authority to freeze and seize suspected assets associated with terrorists and terrorism. The GOES has circulated the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee consolidated list to financial institutions. These institutions are required to search for any assets related to the individuals and entities on the consolidated list. There is no evidence that any charitable or nonprofit entity in El Salvador has been used as a conduit for terrorist financing.

El Salvador has signed several agreements of cooperation and understanding with supervisors from other countries to facilitate the exchange of supervisory information, including permitting on-site examinations of banks and trust companies operating in El Salvador. El Salvador is a party to the Treaty of Mutual Legal Assistance in Criminal Matters signed by the Republics of Costa Rica, Honduras, Guatemala, Nicaragua, and Panama. Salvadoran law does not require the FIU to sign agreements in order to share or provide information to other countries. The GOES is party to the Inter-American Convention on Mutual Assistance in Criminal Matters, which provides for parties to cooperate in tracking and seizing assets. The FIU is also legally authorized to access the databases of public or private entities. The GOES has cooperated with foreign governments in financial

investigations related to narcotics, money laundering, terrorism, terrorism financing, and other serious crimes.

El Salvador is a member of the OAS Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering (OAS/CICAD), the Caribbean Financial Action Task Force, and the Egmont Group. The GOES is party to the OAS Inter-American Convention Against Terrorism and the UN International Convention for the Suppression of the Financing of Terrorism, as well as the 1988 UN Drug Convention. El Salvador ratified the UN Convention against Transnational Organized Crime and the UN Convention Against Corruption in March and July of 2004, respectively. El Salvador is also a signatory to the Central American Convention for the Prevention and Repression of Money Laundering Crimes Related to Illicit Drug Trafficking and Related Crimes.

The growth of El Salvador's financial sector, the increase in narcotics trafficking, the large volume of remittances and the use of the U.S. dollar as legal tender make El Salvador vulnerable to money laundering. El Salvador should continue to expand and enhance its anti-money laundering policies and strengthen its ability to seize and share assets. Remittances are an important sector of the economy, which must therefore be carefully supervised. The Government of El Salvador should criminalize the support and financing of terrorists and terrorist organizations.

Ethiopia

Due primarily to its archaic financial systems and pervasive government controls, Ethiopia is not considered a regional financial center. There is no offshore sector. Ethiopia's location within the Horn of Africa region makes it vulnerable to money laundering related activities perpetrated by transnational criminal organizations, terrorists, and narcotics trafficking organizations. Sources of illegal proceeds include narcotics trafficking, smuggling, trafficking in persons, arms trafficking, trafficking of animal products, and corruption. Since government foreign exchange controls limit possession of foreign currency, most of the proceeds of contraband smuggling and other crimes are not laundered through the official banking system. High tariffs also encourage customs fraud and trade-related money laundering.

Historically, money laundering has not been a serious problem. However, while reliable data is not available, reportedly incidents of money laundering have increased in the past few years. Lack of data and systematic study make it difficult for the Federal Police to identify trends in money laundering and inadequate police training hampers their investigative abilities. Reports indicate that alternative remittance systems, particularly hawala, are also widely used by immigrant communities. The government has closed a number of illegal hawala operations.

Article 684 of Ethiopia's new Criminal Code, approved in May 2005, criminalizes money laundering. Under Article 684 (1), an offender could be criminally liable either for both the predicate acts and money laundering offenses or for the principal criminal act. A violation under Article 684(1) is punishable with five to fifteen years imprisonment and a fine not exceeding the equivalent of $11,560. The Central Bank has drafted separate anti-money laundering legislation, with includes a provision mandating the establishment of a Financial Intelligence Unit (FIU). This legislation is currently being reviewed by relevant government agencies. In conjunction with the UN Office on Drugs and Crime, the Government of Ethiopia is working on the development of a country strategy to help Ethiopia better respond to financial crimes. The plan includes the identification of training and capacity-building activities needed by the Ethiopian authorities, including judges and prosecutors.

The country has an underdeveloped financial infrastructure, containing six small private banks and three government banks. Currently, there are no foreign banks that operate within the country. The Central Bank has mandated that banks report suspicious transactions, but supervision capability is limited, as most records and communications are not yet computerized. Foreign exchange controls

limit possession of foreign currency, and the government controls the exchange of foreign currency into local currency. There are no money laundering controls applicable to non-banking financial institutions or intermediaries. The Government of Ethiopia (GOE) has proposed counterterrorism legislation, which is still under review in Parliament. The Central Bank has the authority to identify, freeze, and seize terrorist finance related assets, and it has done so in the past. The Central Bank routinely circulates to its financial institutions the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list. During 2005, no assets linked to these persons or entities have been identified.

Ethiopia is a party to the 1988 UN Drug Convention. It has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. It has not signed the UN International Convention for the Suppression of the Financing of Terrorism.

The Government of Ethiopia should act on the pending terrorist legislation and pass anti-money laundering legislation that adheres to international standards. Ethiopia should proceed with ratification of the UN Convention against Transnational Organized Crime. It should also become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

France

France remains an attractive venue for money laundering because of its sizable economy, political stability, and sophisticated financial system. Common methods of laundering money in France include the use of bank deposits; foreign currency and gold bullion transactions; corporate transactions; and purchases of real estate, hotels, and works of art. A 2002 Parliamentary Report states that, increasingly, Russian and Italian organized crime networks are using the French Riviera to launder assets (or invest previously laundered assets) by buying up real estate, "a welcoming ground for foreign capital of criminal origin." The report estimates that between seven and 60 billion euros of dirty money have already been channeled through the Riviera.

The Government of France (GOF) first criminalized money laundering related to narcotics trafficking in 1987 (Article L-627 of the Public Health Code). In 1988, the Customs Code was amended to incorporate financial dealings with money launderers as a crime. In 1996 the criminalization of money laundering was expanded to cover the proceeds of all crimes. In January 2004, the French Supreme Court judged that joint prosecution of individuals was possible on both money laundering charges and the underlying predicate offense. Prior to this judgment, the money laundering charge and the predicate offense were considered the same offense and could only be prosecuted as one offense.

In 1990, the obligation for financial institutions to combat money laundering came into effect with the adoption of the Monetary and Financial Code (MFC), and France's ratification of the 1988 UN Drug Convention. The 1996 amendment to the law also obligates insurance brokers to report suspicious transactions. In 1998, the covered parties were expanded to include non-financial professions (persons who carry out, verify or give advice on transactions involving the purchase, sale, conveyance or rental of real property). In 2001, the list of professions subject to suspicious transaction reporting requirements expanded to include legal representatives; casino managers; and persons customarily dealing in or organizing the sale of precious stones, precious materials, antiques, or works of art. Following the 2001 amendments, the law covers banks, moneychangers, public financial institutions, estate agents, insurance companies, investment firms, mutual insurers, casinos, notaries, and auctioneers and dealers in high-value goods. In 2004, the list was expanded again to include chartered accountants; statutory auditors; notaries; bailiffs; judicial trustees and liquidators; lawyers; judicial auctioneers and movable auction houses; groups, clubs, and companies organizing games of chance: lotteries, bets, sports and horse-racing forecasts; institutions/unions of pensions management and intermediaries entitled to handle securities.

As a member of the European Union (EU), France is obligated to implement all three EU money laundering directives, including the revision of Directive 91/308/EEC on the prevention of the use of the financial system for the purpose of money laundering (Directive 2001/97/EC), that was transposed into domestic French legislation in 2004. The EU adopted the Third Money Laundering Directive (2005/60/EC) in late 2005, and must be implemented in France by December 15, 2007.

Decree No. 2002-770 of May 3, 2002, addresses the functioning of France's Liaison Committee against the Laundering of the Proceeds of Crime. This committee is co-chaired by the French Financial Intelligence Unit (FIU), TRACFIN (the unit for Treatment of Intelligence and Action Against Clandestine Financial Circuits), and the Justice Ministry. It comprises representatives from reporting professions and institutions, regulators, and law enforcement authorities; its purpose is to supply professions required to report suspicious transactions with better information and to make proposals in order to improve the anti-money laundering system.

The Banking Commission supervises financial institutions and conducts regular audits of credit institutions, and the Insurance and Provident Institutions Supervision Commission reviews insurance brokers. The Financial Market Authority evolved from the merger of the Securities Exchange Commission and the Financial Markets Council, and monitors the reporting compliance of the stock exchange and other non-bank financial institutions. The Central Bank (Banque de France) oversees management of the required records to monitor banking transactions, such as for means of payments (checks and ATM cards), or extensions of credit. Bank regulators and law enforcement also can access the system (FICOBA) managed by the French Tax Administration for opening and closing of accounts, which covers depository accounts, transferable securities, and other properties including cash assets that are registered in France. These records are important tools in the French arsenal for combating money laundering and terrorism financing.

TRACFIN is responsible for analyzing suspicious transaction reports (STRs) that are filed by French financial institutions and non-financial professions. TRACFIN is a part of FINATER, a group created within the French Ministry of the Economy, Finance, and Industry in September 2001, in order to gather information to fight terrorist financing. The French FIU may exchange information with foreign counterparts that observe similar rules regarding reciprocity and confidentiality of information. TRACFIN works closely with the Ministry of Interior's Central Office for Major Financial Crimes (OCRGDF), which is the main point of contact for Interpol and Europol in France.

TRACFIN received 3,598 STRs in 2001, 6,896 STRs in 2002, 9,007 STRs in 2003, and 10,842 in 2004. Approximately 83 percent of STRs are sent from the banking sector. A total of 226 cases were referred to the judicial authorities in 2001, which resulted in 59 convictions of money laundering; 291 cases were referred in 2002, which resulted in 57 criminal convictions, 308 cases were referred in 2003, which resulted in 63 convictions, and 347 cases were referred in 2004.

Two other types of reports are required to be filed with the FIU. A report must be filed with TRACFIN (no threshold limit), when the identity of the principal or beneficiary remains doubtful despite due diligence. In addition, a report must be filed in cases where transactions are carried out on behalf of a third party natural person or legal entity (including their subsidiaries or establishments) by a financial entity acting in the form, or on behalf, of a trust fund or any other asset management instrument, when legal or beneficial owners are not known. The reporting obligation can also be extended by decree to transactions carried out by financial entities, on their own behalf or on behalf of third parties, with natural or legal persons, including their subsidiaries or establishments that are domiciled, registered, or established in any country or territory included on the FATF list of Non-Cooperative Countries or Territories (NCCT).

Since 1986, French counter terrorist legislation has provided for the prosecution of those involved in the financing of terrorism under the more severe offense of complicity in the act of terrorism. However, in order to strengthen this provision, the Act of November 15, 2001, introduced several new

characterizations of offenses, specifically including the financing of terrorism. The offense of financing terrorist activities (art. 41-2-2 of the Penal Code) is defined according to the UN International Convention for the Suppression of the Financing of Terrorism and is subject to ten years' imprisonment and a fine of 228,600 euros. The Act also includes money laundering as an offense in connection with terrorist activity (article 421-1-6 Penal Code), punishable by ten years' imprisonment and a fine of 62,000 euros. In March 2004, the GOF passed a law that extends the scope of STR to terrorist financing.

An additional penalty of confiscation of the total assets of the terrorist offender has also been implemented. Accounts and financial assets can be frozen through both administrative and judicial measures. In 2005, the GOF moved to strengthen France's antiterrorism legal arsenal with a bill authorizing video surveillance of public places, especially nuclear and industrial sites, as well as airports and railway stations. The bill requires telephone operators and Internet café owners to keep extensive records, allows greater government access to e-communications, and allows flight passenger lists and identification information to become accessible to counterterrorism officials. It stiffens prison sentences for directing a terrorist enterprise to 30 years, and extends the possible period of detention without charge. The bill permits increased surveillance of potential targets of terrorism. It empowers the Minister of the Economy to freeze the funds, financial instruments and economic resources belonging to individuals committing or attempting to commit acts of terrorism, or to companies directly or indirectly controlled by these individuals. By granting explicit national authority to freeze assets, the bill plugs up a potential loophole concerning the freezing of citizen versus resident EU-member assets. It was passed by both chambers of Parliament in December 2005 and only requires review by the Constitutional Council before publication and entry into force.

French authorities moved rapidly to freeze financial assets of organizations associated with al-Qaida and the Taliban under UNSCR 1267. France takes actions against non-Taliban and non-al-Qaida-related groups in the context of the EU-wide "clearinghouse" procedure. Within the Group of Eight, which France chaired in 2003, France has sought to support and expand efforts targeting terrorist financing. Bilaterally, France has worked to improve the capabilities of its African partners in targeting terrorist financing, by offering technical assistance. On the operational level, French law enforcement cooperation targeting terrorist financing continues to be good.

The United States and France have entered into a Mutual Legal Assistance Treaty (MLAT), which came into force in 2001. Through MLAT requests and by other means, the French have provided large amounts of data to the United States in connection with terrorist financing. TRACFIN is a member of the Egmont Group and is the Egmont Committee Chair of the newly created Operational Working Group. TRACFIN has information-sharing agreements with 27 FIUs, and opened negotiations in 2004 for information-sharing agreements with Argentina, Bulgaria, Chile, Germany, Japan, Jersey, Liechtenstein, Mauritius, and Thailand.

France is a member of the FATF, and held the FATF Presidency for a one-year term during 2004-05. It is also a Cooperating and Supporting Nation to the Caribbean Financial Action Task Force, as well as a Supporting Observer to the Financial Action Task Force of South America Against Money Laundering (GAFISUD). France is a party to the 1988 UN Drug Convention; the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime; the UN Convention against Transnational Organized Crime; and the UN International Convention for the Suppression of the Financing of Terrorism. In July 2005, France ratified the UN Convention against Corruption.

The Government of France has established a comprehensive anti-money laundering regime. France should continue its active participation in international organizations to combat the domestic and global threats of money laundering and terrorist financing.

Germany

Germany has one of the largest financial centers in Europe, and German authorities have taken several steps in recent years to diminish the risks of money laundering and terrorism financing. Germany is not a major drug trafficking country, nor is it an offshore financial center. Most money laundering in Germany is related to white collar crime, but Eastern European and Turkish crime groups and narcotics traffickers launder their illicit proceeds in Germany. About three-fourths of the suspicious activity reports filed in Germany cite suspected fraud, forgery and tax evasion, according to the German financial intelligence unit's 2004 annual report.

Germany's legislation has fully incorporated the Financial Action Task Force (FATF) Forty Recommendations on Money Laundering and takes active measures to combat terrorist financing. In 2002, the Government of Germany (GOG) enacted a number of laws to improve authorities' ability to combat money laundering and terrorist financing. These 2002 measures brought German laws into line with the first and second European Union money laundering directives (Directive 1991/308/EEC on The Prevention of The Use of The Financial System for The Purpose of Money Laundering, as revised by Directive 2001/97/EC). Germany's Money Laundering Act, amended by the Act on the Improvement of the Suppression of Money Laundering and Combating the Financing of Terrorism of August 8, 2002, criminalizes money laundering related to narcotics trafficking, fraud, forgery, embezzlement, and membership in a terrorist organization. It also increases due diligence and reporting requirements for banks and financial institutions, and requires financial institutions to obtain customer identification for transactions conducted in cash or precious metals exceeding 15,000 euros (approximately $17,800). The legislation also calls for stiffer background checks for owners of financial institutions and tighter rules for credit card companies. Banks must report suspected money laundering to the financial intelligence unit within the Federal Criminal Investigative Service (Bundeskriminalamt or BKA), as well as to the State Attorney (Staatsanwaltschaft), who can order a freeze of the account in question.

The first and second EU money laundering directives, which Germany's 2002 amendments incorporated, mandate that member states standardize and expand suspicious activity reporting requirements to include information from notaries, accountants, tax consultants, casinos, luxury item retailers, and attorneys. Since 1998, the GOG has licensed and supervised money transmitters, has shut down thousands of unlicensed money remitters, and has issued anti-money laundering guidelines to the industry. A 1998 German law requires individuals to declare when they are entering, departing, or transiting the country with over 15,000 euros (approximately $17,800) in cash. A new EU-wide law expected to take effect in June 2007 will lower this amount to 10,000 (approximately $11,850) euros.

In May 2002, the German banking, securities, and insurance industry regulators were merged into a single financial sector regulator known as the Federal Financial Supervisory Authority (BaFIN). Germany's anti-money laundering legislation requires the BaFIN to compile a centralized register of all bank accounts in Germany, including 300 million deposit accounts. As a result, in 2003, the BaFIN established a central database, which has electronic access to all key account data held by banks in Germany. Banks cooperate with authorities and use computer-aided systems to analyze their customers and their financial dealings to identify suspicious activity. Many of Germany's banks have independently developed risk assessment software to screen potential and existing clients and to monitor transactions for suspicious activity. In 2002, Germany established a single, centralized, federal financial intelligence unit (FIU) within the Federal Criminal Police. The FIU functions as an administrative unit and is staffed with financial market supervision, customs, and legal experts. The FIU is responsible for developing a central database for analyzing cases and responding to reports of suspicious transactions. Another unit under the Federal Criminal Investigative Service, the Federal Financial Crimes Investigation Task Force, has 20 Federal Criminal Investigative Service officers and customs agents. Germany plans to add seven or eight more investigators to the task force in 2006.

In 2004, more than 8,000 suspicious activity reports (SARs) were submitted to the FIU. Over one-third of the persons cited in Germany's SARs were non-German nationals. Eighty-five percent of the reports resulted in further investigative proceedings. As with other crimes, actual enforcement under the German federal system is carried out at the state (sub-federal) level. Each state has a joint customs/police/financial investigations unit (GFG), which works closely with the federal FIU. In 2003, the last year that data is available, the number of money laundering convictions totaled 128. U.S. authorities have conducted joint investigations with GFGs on a number of transnational cases.

BaFIN's system allows for immediate identification of financial assets for potential freezes. In cases where law enforcement authorities seize assets for evidentiary purposes, German law requires a direct link to the crime before seizures are allowed. Law enforcement authorities can freeze accounts for up to nine months, but the money cannot be seized until it is proven in court that the funds were derived from criminal activity or intended for terrorist activity. UN sanctions are an exception to the rule, and Germany freezes indefinitely the assets of anyone appearing on a UN list. In the first nine months of 2005, only $12,000 had been found and frozen in connection with names appearing on the UNSCR 1267 consolidated list. Proceeds from asset seizures and forfeitures are paid into the government treasury. German authorities cooperate with U.S. authorities to trace and seize assets to the full extent that German law allows. The GOG investigates leads from other countries. However, German law does not allow for sharing forfeited assets with other countries.

In 2002, the GOG added terrorism and terrorist financing as a predicate offense for money laundering, as defined by Section 261 of the Federal Criminal Code. A 2002 amendment of the Criminal Code also allows for prosecution of members of terrorist organizations based outside of Germany. Previously, German authorities could only prosecute a member of a foreign-based terrorist organization if that group had some organized presence within Germany.

The GOG moved quickly after September 11, 2001, to identify and correct weaknesses in Germany's laws that permitted terrorists to live and study in Germany prior to that date. The first reform package closed loopholes in German law that permitted members of foreign terrorist organizations to raise money in Germany, e.g., through charitable organizations, and extremists to advocate violence in the name of religion. Germany has stepped up its legislative and law enforcement efforts to prevent the misuse of charitable entities. Germany has used its Law on Associations (Vereinsgesetz) to ban by administrative action extremist associations that threaten the constitutional order.

The second reform package, which went into effect January 1, 2002, enhances the capabilities of federal law enforcement agencies, and improves the ability of intelligence and law enforcement authorities to coordinate their efforts and to share information on suspected terrorists. The new law provides Germany's internal intelligence service with access to information from banks and financial institutions, postal service providers, airlines, and telecommunication and Internet service providers.

Germany is an active participant in UN and EU processes to monitor and freeze the assets of terrorists and possesses the regulatory and legislative framework to identify and freeze rapidly the assets of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list and those designated by the EU, and/or German authorities. A November 2003 amendment to the Banking Act creates a broad legal basis for the BaFIN to order freezing of assets of suspected terrorists who are EU residents. The EU Council continually updates, reviews, and issues revised lists, and Germany adheres to these lists and ensures their circulation to financial institutions. Germany and several other EU member states have taken the view that the EU Council Common Position 2001/931/CSFP requires at a minimum a criminal investigation to establish a sufficient legal basis for freezes under the EU Clearinghouse process. Germany loosened this stance in 2005 when it sought and obtained an EU asset freeze for a German association that the German Federal Interior Ministry had banned.

The GOG has responded quickly to freeze over 30 accounts of entities associated with terrorists. After September 11, 2001, Germany froze many millions of euros of Taliban-era Afghan assets, but these accounts have been unfrozen and made available to the new Government of Afghanistan.

Germany considers informal money transfer schemes, such as "*hawala*," to be banking activities. Accordingly, German authorities require banking licenses for money transfer services, allowing them to prosecute unlicensed operations and to maintain close surveillance over authorized transfer agents. The BaFIN has investigated more than 2,500 cases of unauthorized financial services since 2003. There are 47 legally licensed money transfer services.

Germany, as a member of the EU, is legally bound to implement a recent EU regulation requiring accurate originator information on funds transfers—but only for transfers into or out of the EU, not within the EU. FATF Special Recommendation Seven on Terrorist Financing, governing wire transfers, however, requires such information on all cross-national-border transfers, including intra-EU transfers.

A new immigration law that went into effect in January 2005 complements counterterrorism laws. It contains provisions designed to facilitate deporting foreigners who support terrorist organizations. Furthermore, a third counterterrorism package is currently under discussion within the government

Germany continues to be an active partner in the fight against money laundering and participates actively in a number of international fora. The FIU exchanges information with its counterparts in other countries. The GOG exchanges information with the United States through bilateral law enforcement agreements and other informal mechanisms. German law enforcement authorities also cooperate closely at the EU level, such as through Europol. Germany also has Mutual Legal Assistance Treaties (MLATs) with numerous countries. Germany and the United States signed a MLAT in October 2003. At the beginning of 2006, the U.S.-German MLAT was before the German Bundestag and the U.S. Senate for ratification. In addition, the U.S.-EU Agreements on Mutual Legal Assistance and Extradition are expected to improve further U.S.-German legal cooperation. Negotiations for the bilateral instrument to implement the treaty are complete; the document is currently awaiting signature.

Germany is a member of the FATF, the EU, the Council of Europe, and in 2003 became a member of the Egmont Group. Germany is a party to the 1988 UN Drug Convention and the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. Germany signed, but has not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. After signing the UN International Convention for the Suppression of the Financing of Terrorism in 2000, Germany ratified the instrument, effective July 17, 2004.

The Government of Germany's new anti-money laundering laws and its ratification of international instruments underline Germany's commitment to combat money laundering and to cooperate with the international community. Germany should continue to enhance its anti-money laundering regime and continue its active participation in international fora. It should ratify the UN Convention against Transnational Organized Crime.

Gibraltar

Gibraltar is a largely self-governing overseas territory of the United Kingdom (UK), which assumes responsibility for Gibraltar's defense and international affairs. As part of the European Union (EU), Gibraltar is required to implement all relevant EU directives, including those relating to anti-money laundering.

The Drug Offenses Ordinance (DOO) of 1995 and Criminal Justice Ordinance of 1995 criminalize money laundering related to all crimes, and mandate reporting of suspicious transactions by any person who becomes concerned about the possibility of money laundering. The DOO covers such entities as banks, mutual savings companies, insurance companies, financial consultants, postal services, exchange bureaus, attorneys, accountants, financial regulatory agencies, unions, casinos, charities, lotteries, car dealerships, yacht brokers, company formation agents, dealers in gold bullion, and political parties.

Gibraltar was one of the first jurisdictions to introduce and implement money laundering legislation that covered all crimes. The Gibraltar Criminal Justice Ordinance to Combat Money Laundering, which related to all crimes, entered into effect in 1996. Comprehensive anti-money laundering Guidance Notes (which have the force of law) were also issued to clarify the obligations of Gibraltar's financial service providers.

The Financial Services Commission (FSC) is responsible for regulating and supervising Gibraltar's financial services industry. It is required by statute to match UK supervisory standards. Both onshore and offshore banks are subject to the same legal and supervisory requirements. All relevant financial records are required to be retained for at least five years from the date of completion of the business. If the obligated institution has submitted a Suspicious Activity Report to the Gibraltar financial intelligence unit (FIU) or when it knows that a client or transaction is under investigation, it is required to maintain any relevant record even if the five year limit has been reached. If the law enforcement agency investigating a money laundering case cannot link the funds passing through the financial system with the original criminal money, then the funds cannot be confiscated.

The FSC also licenses and regulates the activities of trust and company management services, insurance companies, and collective investment schemes. Internet gaming is permitted by the Government of Gibraltar (GOG), and is subject to a licensing regime. Gibraltar has guidelines for correspondent banking, politically exposed persons, bearer securities, and "know your customer" procedures, and, has implemented the FATF Special Recommendations on Terrorist Financing.

The 2001 Terrorism (United Nations Measures) (Overseas Territories) Order makes the financing of terrorism a criminal offence. The Order requires a bank to report to the Governor, where it knows or suspects that a person is or has been a customer of that institution or with whom the institution has had dealings with is a terrorist, or a person who receives funds in relation to terrorism or makes funds available for terrorism.

In 1996, Gibraltar established the Gibraltar Coordinating Center for Criminal Intelligence and Drugs (GCID) to receive, analyze, and disseminate information on financial disclosures filed by institutions covered by the provisions of Gibraltar's anti-money laundering legislation. The GCID serves as Gibraltar's FIU and is a sub-unit of the Gibraltar Criminal Intelligence Department. The GCID consists mainly of police and customs officers but is independent of law enforcement.

In 2003, the GOG adopted and implemented the European Union Money Laundering Directive 91/308/EEC on the Prevention of the Use of the Financial System for the Purpose of Money Laundering. The GOG has implemented the 1988 UN Drug Convention pursuant to its Schengen obligations. However, the Convention has not yet been extended to Gibraltar by the United Kingdom. The Mutual Legal Assistance Treaty between the United States and the United Kingdom also has not been extended to Gibraltar. However, application of a 1988 U.S.-UK agreement concerning the investigation of drug-trafficking offenses and the seizure and forfeiture of proceeds and instrumentalities of drug-trafficking was extended to Gibraltar in 1992. Also, the DOO of 1995 provides for mutual legal assistance with foreign jurisdictions on matters related to narcotics trafficking and related proceeds. Gibraltar has passed legislation as part of the EU decision on its participation in certain parts of the Schengen arrangements, to update mutual legal assistance arrangements with the EU and Council of Europe partners. Gibraltar is a member of the Offshore

Group of Banking Supervisors (OGBS); and, in 2004, the GCID became a member of the Egmont Group.

The Government of Gibraltar should continue its efforts to implement a comprehensive anti-money laundering regime capable of thwarting terrorist financing. Gibraltar should put in place reporting requirements for cross-border currency movements.

Greece

While not a major financial center, Greece is vulnerable to money laundering related to narcotics trafficking, prostitution, contraband cigarette smuggling, and illicit gambling activities conducted by criminal organizations originating in former constituent republics of the Soviet Union, as well as in Albania, Bulgaria, Romania, and other Balkan countries. Money laundering in Greece is controlled by organized local criminal elements associated with narcotics trafficking, and narcotics are a primary source of laundered funds. Most of the funds are not laundered through the banking system. Rather, they are most commonly invested in real estate, hotels, and consumer goods such as automobiles. Implementation of regulatory requirements documenting the flow of large sums of cash through financial and other institutions—such as Greece's five private and two state-owned casinos—is weak. The cross-border movement of illicit currency and monetary instruments is a continuing problem.

Greece is not considered an offshore financial center, and there are no offshore financial institutions or international business companies (IBCs) operating within Greece. However, Greek law allows banking authorities to check transactions of companies established within Greece with offshore operations elsewhere. Senior Government of Greece (GOG) officials are not known to engage in or facilitate money laundering. Reportedly, currency transactions involving international narcotics trafficking proceeds are not believed to include significant amounts of U.S. currency.

Greece has three free trade zones, located at the ports of Piraeus, Thessalonica, and Heraklion, where foreign goods may be brought in without payment of customs duties or other taxes if they are subsequently transshipped or re-exported. There is no indication that these zones are being used in trade-based money laundering or in the financing of terrorism.

The GOG criminalizes money laundering derived from all crimes in the 1995 Law 2331/1995. That law, "Prevention of and Combating the Legalization of Income Derived from Criminal Activities," imposes a penalty for money laundering of up to ten years in prison and confiscation of the criminally derived assets. The law also requires that banks and non-bank financial institutions file suspicious transaction reports (STRs). Legislation passed in March 2001 targets organized crime by making money laundering a criminal offense when the property holdings being laundered are obtained through criminal activity or cooperation in criminal activity. Money laundering became an offense in Greece under Presidential Decree 2181/93.

In 2003 Greece enacted legislation (Law 3148) that incorporates European Union (EU) provisions in directives dealing with the operation of credit institutions and the operation and supervision of electronic money transfers. Under this legislation, the Bank of Greece has direct scrutiny and control over transactions by credit institutions and entities involved in providing services for fund transfers. The Bank of Greece issues operating licenses after a thorough check of the institutions, their management, and their capacity to ensure the transparency of transactions.

Law 3259/August 2004 allows individuals and legal entities that pay taxes in Greece to repatriate capital from any bank account held outside Greece by paying a three percent tax on the transferred funds within six months (later extended to nine months). The Bank of Greece, the nation's Central Bank, has issued a circular to financial institutions that receive repatriated funds, instructing them on how to scrutinize the transfers for possible money laundering. The Ministry of Economy and Finance has issued detailed instructions on the documentation and auditing procedures required for repatriating

capital. According to the Bank of Greece, about 500 million euros have actually been transferred back to Greece under this law, considerably less than anticipated.

In November 2005, the GOG enacted new legislation that revised Law 2331/1995 to bring it in line with European Union (EU) Directive 2001/97/EC (EU Second Money Laundering Directive). The new law, 3424/2005, extends the predicate offenses for money laundering to include terrorist financing, trafficking in persons, electronic fraud, and stock market manipulation. It also extends the suspicious transaction reporting (STR) requirement to include more professionals such as auction dealers and accountants. In addition, it broadens the powers of the supervisory authorities and clarifies previous legislation by ending a conflict between confidentiality rules and anti-money laundering regulations imposed on banks and other financial institutions. The law also provides supervisory authorities with greater authority to block transactions where money laundering is suspected.

The Bank of Greece (through its Banking Supervision Department), the Ministry of National Economy and Finance (which supervises the Capital Market Commission), and the Ministry of Development (through its Directorate of Insurance Companies) supervise and closely monitor credit and financial institutions. Supervision includes the issuance of guidelines and circulars, as well as on-site examinations aimed at checking compliance with anti-money laundering legislation. Supervised institutions must send to their competent authority a description of the internal control and communications procedures they have implemented to prevent money laundering. In addition, banks must undergo internal audits. Bureaux de change are required to send to the Bank of Greece a monthly report on their daily purchases and sales of foreign currency.

Under Decree 2181/93, banks in Greece must demand customer identification information when opening an account or conducting transactions that exceed 15,000 euros. If there is suspicion of illegal activities, banks can take reasonable measures to gather more information on the identification of the person. Greek citizens must provide a tax registration number if they conduct foreign currency exchanges of 1,000 euros or more, and must provide full identification, including the name of the recipient, in exchanges involving 12,500 euros (approximately $18,050) or more. Banks and financial institutions are required to maintain adequate records and supporting documents for at least five years after ending a relationship with a customer, or, in the case of occasional transactions, for five years after the date of the transaction.

Every bank and credit institution is required by law to appoint an officer to who all other bank officers and employees must report any transaction they consider suspicious. Reporting obligations also apply to government employees involved in auditing, including employees of the Bank of Greece, the Ministry of Economy and Finance, and the Capital Markets Commission. Reporting individuals are required to furnish all relevant information to the prosecuting authorities. Reporting individuals are protected by law.

Greece has adopted banker negligence laws under which individual bankers may be held liable if their institutions launder money. Banks and credit institutions are subject to heavy fines if they breach their obligations to report instances of money laundering; bank officers are subject to fines and a prison term of up to two years. In November 2005, the Bank of Greece announced that so far in 2005, it had imposed fines totaling 8.8 million euros against 13 credit institutions and seven *bureaux de change* and had revoked the license of one *bureau de change* for violations of anti-money laundering laws. The Bank had imposed similar fines and administrative sanctions, including prohibiting the opening of new branches, in previous years as well. There have been no objections from banking and political groups to the GOG's policies and laws on money laundering.

All persons entering or leaving Greece must declare to the authorities any amount they are carrying over 2,000 euros (approximately $2,400). Reportedly, however, cross-border currency reporting requirements are not uniformly enforced at all border checkpoints.

Law 2331/1995 establishes the Competent Committee (CC) to receive and analyze STRs and to function as Greece's financial intelligence unit (FIU). The CC is chaired by a senior judge and includes representatives from the Bank of Greece, the nation's Central Bank; various government ministries; and the stock exchange. If the CC believes that an STR warrants further investigation, it forwards the STR to the Financial Crimes Enforcement Unit, a multi-agency group that functions as the CC's investigative arm. In 2004, the Financial Crimes Enforcement Unit was renamed the Special Control Directorate (YPEE) and placed under the direct supervision of the Ministry of Economy and Finance. The CC is also responsible for preparing money laundering cases on behalf of the Public Prosecutor's Office.

Law 3424 passed in November 2005 upgrades the CC to an independent authority with access to public and private files, with no tax confidentiality restrictions. The law also broadens the CC's authority in the evaluation of information it receives from various organizations within Greece as well as from international organizations. The Committee is now authorized to block suspects' funds and to impose penalties on those who fail to report suspicious transactions. It must also provide feedback to banks by informing them of actions taken with regard to STRS, in order to enhance continuity. There have been several arrests for money laundering since January 2002. These involved the Greek owners (and their spouses) of vessels transporting cocaine from Colombia and other Western Hemisphere countries. The guilty parties received five-year sentences.

With regard to the freezing of accounts and assets, Law 3424/2005 harmonizes Greece's laws with relevant EU legislation. It incorporates elements of the EU Framework Decision on the freezing of funds and other financial assets, as well as the EU Council Regulation on the financing of terrorism. The GOG says it will promulgate implementing regulations to Law 3424/2005 in the first quarter of 2006. YPEE has established a mechanism for identifying, tracing, freezing, seizing, and forfeiting assets of narcotics-related and other serious crimes, the proceeds of which are turned over to the GOG. According to the 1995 law, all property and assets used in connection with criminal activities are seized and confiscated by the GOG following a guilty verdict. Legitimate businesses can be seized if used to launder drug money. The GOG has not enacted laws for sharing seized narcotics-related assets with other governments.

In March 2001, the Ministry of Justice unveiled legislation on combating terrorism, organized crime, money laundering, and corruption. Parliament passed the legislation in July 2002. Under a new counterterrorism law (Law 3251/July 2004), anyone who provides financial support to a terrorist organization faces imprisonment of up to ten years. If a private legal entity is implicated in terrorist financing, it faces fines of between 20,000 and 3 million euros (approximately $24,070 and $3,610,000), closure for a period of two months to two years, and ineligibility for state subsidies. The law incorporates the first eight of the Financial Action Task Force (FATF) Special Recommendations on Terrorist Financing, and Law 3424/2005 completes the process by revising the old law. According to the GOG, it plans to adopt FATF's Special Recommendation Nine on cash couriers at a later date, following the issuance of a relevant EU directive.

The Bank of Greece and the Ministry of National Economy and Finance have the authority to identify, freeze, and seize terrorist assets. The Bank of Greece has circulated to all financial institutions the list of individuals and entities that have been included on the UNSCR 1267 Sanctions Committee's consolidated list as being linked to Usama Bin Ladin, the al-Qaida organization, or the Taliban, or that the EU has designated under relevant authorities. Suspect accounts (of small amounts) have been identified and frozen.

There are no known plans on the part of the GOG to introduce legislative initiatives aimed at regulating alternative remittance systems. Illegal immigrants or individuals without valid residence permits are known to send remittances to Albania and other destinations in the form of gold and precious metals, which are often smuggled across the border in trucks and buses. The financial and

economic crimes police as well as tax authorities closely monitor charitable and nongovernmental organizations; there is no evidence that such organizations are being used as conduits for the financing of terrorism.

Greece is a member of the FATF, the EU, and the Council of Europe. The CC is a member of the Egmont Group. The GOG is a party to the 1988 UN Drug Convention and in December 2000 became a signatory to the UN Convention against Transnational Organized Crime. On April 16, 2004, Greece became a party to the UN International Convention for the Suppression of the Financing of Terrorism. Greece has signed bilateral police cooperation agreements with Egypt, Albania, Armenia, France, the United States, Iran, Israel, Italy, China, Croatia, Cyprus, Lithuania, Hungary, Macedonia, Poland, Romania, Russia, Tunisia, Turkey, and Ukraine. It also has a trilateral police cooperation agreement with Bulgaria and Romania, and a bilateral agreement with Ukraine to combat terrorism, drug trafficking, organized crime, and other criminal activities.

Greece exchanges information on money laundering through its Mutual Legal Assistance Treaty (MLAT) with the United States, which entered into force November 20, 2001. The Bilateral Police Cooperation Protocol provides a mechanism for exchanging records with U.S. authorities in connection with investigations and proceedings related to narcotics trafficking, terrorism, and terrorist financing. Cooperation between the U.S. Drug Enforcement Administration and YPEE has been extensive, and the GOG has never refused to cooperate. The CC can exchange information with other FIUs, although it prefers to work with a memorandum of understanding in such exchanges.

The Government of Greece has made significant progress in expanding and adjusting its legislation to international standards by gradually incorporating all EU directives on money laundering and terrorist financing. However, in 2006 Greece must begin aggressive implementation of the legislative tools it now has at its disposal. Additionally, Greece should ensure uniform enforcement of its cross-border currency reporting requirements and take steps to deter the smuggling of precious gems and metals across its borders.

Grenada

Like many other Caribbean jurisdictions, the Government of Grenada (GOG) raises revenue from the offshore sector by imposing licensing and annual fees upon offshore entities. After being placed on the Financial Action Task Force's (FATF) list of non-cooperative countries and territories (NCCT) in the fight against money laundering in September 2001, the GOG implemented and strengthened its legislation and regulations necessary for adequate supervision of Grenada's offshore sector, which prompted the FATF to remove Grenada's name from the NCCT list in February 2003. As of November 2005, Grenada has one inactive offshore bank, one trust company, one management company, and one international insurance company. Grenada is reported to have over 20 Internet gaming sites. There are also 810 international business companies (IBCs). The domestic financial sector includes six commercial banks, 26 registered domestic insurance companies, two credit unions, and four or five money remitters. The GOG has repealed its economic citizenship legislation.

Grenada's Money Laundering Prevention Act (MLPA) of 1999 criminalizes money laundering related to offenses under the Drug Abuse (Prevention and Control) Act, whether occurring within or outside of Grenada, or other offenses occurring within or outside of Grenada, punishable by death or at least five years' imprisonment in Grenada. The MLPA also establishes a Supervisory Authority to receive, review, and forward to local authorities suspicious activity reports (SARs) from covered institutions, and imposes customer identification requirements on banking and other financial institutions. Financial institutions must report SARs to the Supervisory Authority within 14 days of the date that the transaction was determined to be suspicious. A financial institution or an employee who willfully fails to file a SAR or makes a false report is liable to criminal penalties that include imprisonment or fines up to ECD $250,000 ($93,000), and possibly revocation of the financial institution's license to

operate. The Proceeds of Crime (Amendment) Act of 2003 extends anti-money laundering responsibilities to a number of non-bank financial institutions.

The Supervisory Authority issues anti-money laundering guidelines, pursuant to Section 12(g) of the MLPA, that direct financial institutions to maintain records, train staff, identify suspicious activities, and designate reporting officers. The guidelines also provide examples to help bankers recognize and report suspicious transactions. The Supervisory Authority is authorized to conduct anti-money laundering inspections and investigations. The Supervisory Authority can also conduct investigations and inquiries on behalf of foreign counterpart authorities and provide them with the results. Financial institutions could be fined for not granting access to Supervisory Authority personnel.

The Grenada International Financial Services Authority (GIFSA) monitors and regulates offshore banking. GIFSA makes written recommendations to the Minister of Finance in regard to the revocation of offshore entities' licenses and issues certificates of incorporation to IBCs. The GIFSA was brought under stricter management with an amendment to the GIFSA Act (No. 13 of 2001) that eliminated the regulator's role in marketing the offshore sector. In the future, GIFSA is expected to assume authority for regulating both onshore and offshore institutions, in some areas sharing supervision with the Eastern Caribbean Central Bank (ECCB). It is expected that GIFSA will be renamed the Grenada Authority for the Regulation of Financial Institutions. Legislation implementing the Grenada Authority for the Regulation of Financial Institutions as the new regulatory body was defeated in the Senate; however, the legislation will be reintroduced in 2006.

The International Companies Act regulates IBCs and requires registered agents to maintain records of the names and addresses of directors and beneficial owners of all shares, as well as the date the person's name was entered or deleted on the share register. Currently, there are 15 registered agents licensed by the GIFSA. There is an ECD $30,000 ($11,500) penalty, and possible revocation of the registered agent's license, for failure to maintain records. The International Companies Act also gives GIFSA the authority to conduct on-site inspections to ensure that records are being maintained on IBCs and bearer shares. GIFSA began conducting inspections in August 2002.

The International Financial Services (Miscellaneous Amendments) Act 2002 requires all offshore financial institutions to recall and cancel any issued bearer shares and to replace them with registered shares. The holders of bearer shares in non-financial institutions must lodge their bearer share certificates with a licensed registered agent. These agents are required by law to verify the identity of the beneficial owners of all shares and to maintain this information for seven years. GIFSA was given the authority to access the records and information maintained by the registered agents, and can share this information with regulatory, supervisory, and administrative agencies.

The Minister of Finance has signed a memorandum of understanding (MOU) with the ECCB that grants the ECCB oversight of the offshore banking sector in Grenada. Legislation that would incorporate the ECCB's new role into existing offshore banking legislation was adopted in 2003, but is not in effect. The ECCB will have the authority to share bank and customer information with foreign authorities. The ECCB already provides similar regulation and supervision to Grenada's domestic banking sector.

Grenada's legal framework effectively enables GIFSA to obtain customer account records from an offshore financial institution upon request, and to share the customer account information that regulated financial institutions must maintain under due diligence requirements with other regulatory, supervisory, and administrative bodies. GIFSA also has the ability to access auditors' working papers, and can share this information as well as examination reports with relevant authorities.

In June 2001, the GOG established a Financial Intelligence Unit (FIU) headed by a prosecutor from the Attorney General's office; the staff includes an assistant superintendent of police, four additional police officers, and two support personnel. In 2003, Grenada enacted an FIU Act (No. 1 of 2003). The

FIU, which operates within the police force but is assigned to the Supervisory Authority, is charged with receiving SARs from the Supervisory Authority and with investigating alleged money laundering offenses. By November 2005, the FIU had received 39 SARs, which resulted in the investigations of 29 SARs. Two arrests were made on drug-related money laundering charges, and the two cases are currently pending before the court. Approximately ECD $9,000 ($3,300) was seized in 2005. The FIU can provide information concerning SARs to any foreign FIU. Grenada has cooperated extensively with U.S. law enforcement in numerous money laundering and other financial crimes investigations. As a result, several subjects in the United States were successfully prosecuted.

In 2003, Grenada enacted counterterrorist financing (CFT) legislation, which provides authority to identify, freeze, and seize terrorist assets. The CFT legislation allows for the exchange of information with another country regardless of the existence of a mutual legal assistance treaty. The GOG circulates lists of terrorists and terrorist entities to all financial institutions in Grenada. There has been no known identified evidence of terrorist financing in Grenada. Money laundering in Grenada is primarily tied to narcotics proceeds. To date the GOG has not identified any indigenous alternative remittance systems, but suspect there are some in operation. Grenada has not taken any specific initiatives focused on alternative remittance systems or the misuse of charitable and nonprofit entities.

During 2003, the GOG passed the Exchange of Information Act No. 2 of 2003, which will strengthen the GOG's ability to share information with foreign regulators. A Mutual Legal Assistance Treaty and an Extradition Treaty have been in force between Grenada and the United States since 1999. Grenada also has a Tax Information Exchange Agreement with the United States. Grenada's cooperation under the Mutual Legal Assistance Treaty has recently been excellent. Grenada also has demonstrated consistently good cooperation with the U.S. Government by responding rapidly to requests for information involving money laundering cases. Grenada is an active member of the Caribbean Financial Action Task Force (CFATF), and underwent a second CFATF mutual evaluation in September 2003. Grenada became a member of the Egmont Group in June 2004. Grenada is a member of the OAS Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering. Grenada is a party to the 1988 UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime.

Although the Government of Grenada has strengthened the regulation and oversight of its financial sector, it must remain alert to potential abuses and must steadfastly implement the laws and regulations it has adopted. Grenada should also continue to enhance its information sharing, particularly with other Caribbean jurisdictions. The GOG should also move forward in adopting civil forfeiture legislation.

Guatemala

Guatemala is a major transit country for illegal narcotics from Colombia and precursor chemicals from Europe. Those factors, combined with historically weak law enforcement and judicial regimes, corruption, and increasing organized crime activity, lead authorities to suspect that significant money laundering occurs in Guatemala. According to law enforcement sources, narcotics trafficking is the primary source of money laundered in Guatemala; however, the laundering of proceeds from other illicit sources, such as human trafficking, contraband, kidnapping, tax evasion, vehicle theft, and corruption, is substantial. Officials of the Government of Guatemala (GOG) believe that couriers, offshore accounts, and wire transfers are used to launder funds, which are subsequently invested in real estate, capital goods, large commercial projects, and shell companies, or are otherwise transferred through the financial system.

Guatemala is not considered a regional financial center, but it is an offshore center. Exchange controls have largely disappeared and dollar accounts are common, but some larger banks conduct significant

business through their offshore subsidiaries. The Guatemalan financial services industry is comprised of 26 commercial banks (three more in the process of liquidation); approximately 11 offshore banks (all affiliated, as required by law, with a domestic financial group); 6 licensed money exchangers (hundreds exist informally); 27 money remitters, including wire remitters and remittance-targeting courier services; 18 insurance companies; 17 financial societies (bank institutions that act as financial intermediaries specializing in investment operations); 15 bonded warehouses; 213 cooperatives, credit unions, and savings and loan institutions; 11 credit card issuers; seven leasing entities; 12 finanzas (financial guarantors); and 1 check-clearing entity run by the Central Bank.

The Superintendence of Banks (SIB), which operates under the general direction of the Monetary Board, has oversight and inspection authority over the Bank of Guatemala, as well as over banks, credit institutions, financial enterprises, securities entities, insurance companies, currency exchange houses, and other institutions as may be designated by the Bank of Guatemala Act. Guatemala's relatively small free trade zones target regional maquila (assembly line industries) and logistic center operations, and are not considered by GOG officials to be a money laundering concern; although proceeds from tax-related contraband are probably laundered through them.

The offshore financial sector initially offered a way to circumvent currency controls and other costly financial regulations. However, financial sector liberalization has largely removed many incentives for legitimate businesses to conduct offshore operations. All offshore institutions are subject to the same requirements as onshore institutions. In June 2002, Guatemala enacted the Banks and Financial Groups Law (No. 19-2002), which places offshore banks under the oversight of the SIB. The law requires offshore banks to be authorized by the Monetary Board and to maintain an affiliation with a domestic institution. It also prohibits an offshore bank that is authorized in Guatemala from doing business in another jurisdiction; however, banks authorized by other jurisdictions may do business in Guatemala under certain limited conditions.

Guatemala completed the process of reviewing and licensing its offshore banks in 2004, which included performing background checks of directors and shareholders. In order to authorize an offshore bank, the financial group to which it belongs must first be authorized, under a 2003 resolution of the Monetary Board. Eleven offshore banks have been authorized. By law, no offshore financial services businesses other than banks are allowed, but there is evidence that they exist in spite of that prohibition. In 2004, the SIB and Guatemala's financial intelligence unit, the Intendencia de Verificación Especial, concluded a process of reviewing and licensing all offshore entities, a process which resulted in the closure of two operations. No offshore trusts have been authorized, and offshore casinos and Internet gaming sites are not regulated.

There is continuing concern over the volume of money passing informally through Guatemala. Much of the more than $2.8 billion in remittance flows pass through informal channels, although sector reforms are leading to the increasing use of banks and other formal means of transmission. Implementing regulations for the recently passed terrorism finance legislation include measures to increase reporting requirements on remittance transmitters. Money seized at the airports, approximately $275,000 in 2005, suggest that proceeds from illicit activity are regularly hand carried over Guatemalan borders. Increasing financial sector competition should continue to expand services and bring more people into the formal banking sector, isolating those who abuse informal channels.

In June 2001, the Financial Action Task Force (FATF) placed Guatemala on the list of Non-Cooperative Countries and Territories (NCCT) in the fight against money laundering. Since that time, authorities have implemented the necessary reforms to bring Guatemala into compliance with international standards, including the creation of a financial intelligence unit (FIU) and the passage of comprehensive anti-money laundering legislation. An inspection in May 2004 by a FATF review team found that the GOG had made excellent progress, and Guatemala was removed from the NCCT list at the FATF plenary in June 2004.

In November 2001, Guatemala enacted Decree 67-2001, the "Law Against Money and Asset Laundering," to address several of the deficiencies identified by the FATF. Article 2 of the law expands the range of predicate offenses for money laundering from drug offenses to any serious crime. Individuals convicted of money or asset laundering are subject to a non-commutable prison term ranging from six to 20 years, and fines equal to the value of the assets, instruments, or products resulting from the crime. Convicted foreigners will be expelled from Guatemala. Conspiracy and attempt to commit money laundering are also penalized.

Over time, the GOG has taken important steps to reform its anti-money laundering program. On April 25, 2001, the Guatemalan Monetary Board issued Resolution JM-191, approving the "Regulation to Prevent and Detect the Laundering of Assets" (RPDLA) submitted by the Superintendence of Banks. The RPDLA, effective May 1, 2001, requires all financial institutions under the oversight and inspection of the SIB to establish anti-money laundering measures, and introduces requirements for transaction reporting and record keeping. Covered institutions must establish money laundering detection units, designate compliance officers, and train personnel to detect suspicious transactions. The Guatemalan financial sector has largely complied with these requirements and has a generally cooperative relationship with the SIB.

Decree 67-2001 adds record keeping and transaction reporting requirements to those already in place as a result of the RPDLA. These new requirements apply to all entities under the oversight of the SIB, as well as several other entities, including credit card issuers and operators, check cashers, sellers or purchasers of travelers' checks or postal money orders, and currency exchangers. The law establishes that owners, managers, and other employees are expressly immune from criminal, civil, or administrative liability when they provide information in compliance with the law. However, it holds institutions and businesses responsible, regardless of the responsibility of owners, directors, or other employees, and they may face cancellation of their banking licenses and/or criminal charges for laundering money or allowing laundering to occur. The requirements also apply to offshore entities that are described by the law as "foreign-domiciled entities" that operate in Guatemala but are registered under the laws of another jurisdiction.

Covered institutions are prohibited from maintaining anonymous accounts or accounts that appear under fictitious or inexact names. However, non-banks may issue bearer shares, and there is limited banking secrecy. Covered entities are required to keep a registry of their customers as well as of the transactions undertaken by them, such as the opening of new accounts, the leasing of safety deposit boxes, or the execution of cash transactions exceeding approximately U.S. $10,000. Under the law, covered entities must maintain records of these registries and transactions for five years.

Decree 67-2001 also obligates individuals and legal entities to report to the competent authorities cross-border movements of currency in excess of approximately $10,000. At Guatemala City airport, a new special unit was formed in 2003 to enforce the use of customs declarations upon entry to and exit from Guatemala. Compliance is not regularly monitored at land borders.

Decree 67-2001 establishes an FIU, the Intendencia de Verificación Especial (IVE), within the Superintendence of Banks, to supervise covered financial institutions and ensure their compliance with the law. The IVE began operations in 2002 and has a staff of 26. The IVE has the authority to obtain all information related to financial, commercial, or business transactions that may be connected to money laundering. Covered entities are required to report to the IVE any suspicious transactions within 25 days of detection and to submit a comprehensive report every trimester, even if no suspicious transactions have been detected. Entities also must maintain a registry of all cash transactions exceeding approximately $10,000 or more per day, and report these transactions to the IVE.

The IVE conducts inspections on the covered entities' management, compliance officers, anti-money laundering training programs, "know-your-client" policies, and auditing programs. The IVE may

impose sanctions on financial institutions for noncompliance with reporting requirements, and has imposed over $100,000 in civil penalties to date. Terrorist finance legislation passed in August 2005 requires remitters to maintain the sender's name and address information (principally U.S.-based) on transfers equal to or over an amount to be determined by implementing regulations.

Since its inception, the IVE has received approximately 1,600 suspicious transaction reports (STRs) from the 400 covered entities in Guatemala. All STRs are received electronically, and the IVE has developed a system of prioritizing them for analysis. After determining that an STR is highly suspicious, the IVE gathers further information from public records and databases, other covered entities and foreign FIUs, and assembles a case. Bank secrecy can be lifted for the investigation of money laundering crimes. Once the IVE has determined a case warrants further investigation, the case must receive the approval of the SIB before being sent to the Anti-Money or Other Assets Laundering Unit (AML Unit) within the Public Ministry. Under current regulations, the IVE cannot directly share the information it provides to the AML Unit with any other special prosecutors (principally the anticorruption or counternarcotics units) in the Public Ministry. The IVE also assists the Public Ministry by providing information upon request for other cases the prosecutors are investigating.

Sixteen cases have been referred by the IVE to the AML Unit, four of which stem from public corruption. In several cases, assets have been frozen. Nine money laundering prosecutions have been concluded, all of which resulted in a conviction. A sentence has been rendered in one case, with the remaining eight cases awaiting the completion of appeals. Additional cases have been developed with the cooperation of the Public Ministry and the IVE. The Public Ministry's AML Unit had initiated 197 cases as of December 2005. In addition, 93 cases were dismissed and 66 cases are either under continuing investigation or in initial stages of the trials, and the remaining cases were transferred to other offices for investigation and prosecution (such as the anticorruption unit) due to the nature of their particular predicate offenses. Several high profile cases of laundering proceeds from major corruption scandals involving officials of the previous government are currently under investigation and have resulted in arrests and substantial seizures of funds and assets. These seizures have been supported by the cooperating financial institutions along with the vast majority of public and political interests.

Under current legislation, any assets linked to money laundering can be seized. Within the GOG, the IVE, the National Civil Police, and the Public Ministry have the authority to trace assets; the Public Ministry can seize assets temporarily or in urgent cases; and the Courts of Justice have the authority to permanently seize assets. The GOG passed reforms in 1998 to allow the police to use narcotics traffickers' seized assets. These provisions also allow for 50 percent of the money to be used by the IVE and others involved in combating money laundering. In 2003, the Guatemalan Congress approved reforms to enable seized money to be shared among several GOG agencies. Nevertheless, the Constitutional Court ruled that forfeited currency remains under the jurisdiction of the Supreme Court of Justice.

An additional problem is that the courts do not allow seized currency to benefit enforcement agencies while cases remain open. For money laundering and narcotics cases, any seized money is deposited in a bank safe and all material evidence is sent to the warehouse of the Public Ministry. There is no central tracking system for seized assets, and it is currently impossible for the GOG to provide an accurate listing of the seized assets in custody. In 2005, Guatemalan authorities seized more than U.S. $6.5 million in bulk currency, significantly less that the $20 million seized in 2003 (although one case alone in 2003 accounted for more than $14 million). The lack of access to the resources of seized assets outside of the judiciary has made sustaining seizure levels difficult for the resource-strapped enforcement agencies.

In June 2005, the Guatemalan Congress passed antiterrorist finance legislation. Implementing regulations were submitted to the Monetary Board in December 2005. According to the GOG, Article

391 of the penal code already sanctioned all preparatory acts leading up to a crime and financing would likely be considered a preparatory act. Technically, both judges and prosecutors could have issued a freeze order on terrorist assets, but no test case ever validated these procedures. The new Terrorism Finance legislation removed potential uncertainty regarding the legality of freezing assets when no predicate offense had been legally established but the assets have been determined destined to terrorists or to support terrorist acts. The GOG has been cooperative in looking for terrorist financing funds. The new legislation is intended to bring Guatemala into compliance with the Nine FATF Special Recommendations on Terrorist Financing and the UNSCR 1373.

The SIB, through the IVE, has signed Memoranda of Understanding (MOUs) with Argentina, the Bahamas, Barbados, Bolivia, Brazil, Colombia, Costa Rica, the Dominican Republic, El Salvador, Honduras, Mexico, Montserrat, Panama, Peru, Spain and Venezuela. During 2004, the SIB signed MOUs with Belgium, France, South Korea and the United States. Guatemala signed MOUs with Albania, Saint Vincent and the Grenadines, Haiti, Bermuda, Italy, Chile, the Lesser Antilles, Lebanon, Ukraine, Romania, and Bulgaria. Guatemalan law enforcement is actively cooperating with U.S. Government law enforcement agencies on cases of mutual interest.

Guatemala is a party to the 1988 UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime. The GOG has signed, but not yet ratified, the UN Convention against Corruption. Guatemala is a party to the Central American Convention for the Prevention of Money Laundering and Related Crimes, and is a member of the OAS Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering (OAS/CICAD) and the Caribbean Financial Action Task Force (CFATF). In 2003, the IVE became a member of the Egmont Group.

Corruption and organized crime remain strong forces in Guatemala and may prove to be the biggest hurdles facing the GOG in the long term. Guatemala has made efforts to comply with international standards and improve its anti-money laundering regime. In 2004, Guatemalan authorities completed implementation of new procedures to license and monitor offshore banks, and demonstrated that they could use anti-money laundering laws to successfully target criminals. In 2005 there was a deepening of this implementation and improvement of monitoring procedures, including expanded antiterrorism finance tools. However, Guatemala should take steps to immobilize bearer shares, and to identify and regulate offshore financial services and gaming establishments.

Guatemala should continue efforts to improve enforcement and implementation of needed reforms. Cooperation between the IVE and the Public Ministry has improved since the new administration took office in January 2004, and several investigations have led to prosecutions. However, Guatemala should continue to focus its efforts on boosting its ability to successfully investigate and prosecute money launderers and on distributing seized assets to law enforcement agencies to assist in the fight against money laundering and other financial crime.

Guernsey

The Bailiwick of Guernsey (the Bailiwick) covers a number of the Channel Islands (Guernsey, Alderney, Sark, and Herm in order of size and population). The Islands are a Crown Dependency because the United Kingdom (UK) is responsible for their defense and international relations. However, the Bailiwick is not part of the UK. Alderney and Sark have their own separate parliaments and civil law systems. Guernsey's parliament legislates criminal law for all of the islands in the Bailiwick. The Bailiwick alone has competence to legislate in and for domestic taxation. The Bailiwick is a sophisticated financial center and, as such, it continues to be vulnerable to money laundering at the layering and integration stages.

There are approximately 16,000 companies registered in the Bailiwick. Non-residents own approximately half of the companies, and they have an exempt tax status. These companies do not fall within the standard definition of an international business company (IBC). Local residents own the remainder of the companies, including trading and private investment companies. Exempt companies are not prohibited from conducting business in the Bailiwick, but must pay taxes on profits of any business conducted on the islands. Companies can be incorporated in Guernsey and Alderney, but not in Sark, which has no company legislation. Companies in Guernsey may not be formed or acquired without disclosure of beneficial ownership to the Guernsey Financial Services Commission (the Commission).

Guernsey has 54 banks, all of which have offices, records, and a substantial presence in the Bailiwick. The banks are licensed to conduct business with residents and non-residents alike. Although total deposits into the financial institutions of the Bailiwick have remained constant, deposits from Switzerland have increased from one percent in 2003 to four percent in 2004; the increase appears to continue in 2005. There are approximately 650 international insurance companies and approximately 700 collective investment funds. There are also approximately 20 *bureaux de change*, which file accounts with the tax authorities. Many are part of a licensed bank, and it is the bank that publishes and files accounts.

Guernsey has put in place a comprehensive legal framework to counter money laundering and the financing of terrorism. The Proceeds of Crime (Bailiwick of Guernsey) Law 1999, as amended, is supplemented by the Criminal Justice Proceeds of Crime (Bailiwick of Guernsey) Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Regulations, 2002. The legislation criminalizes money laundering for all crimes except drug-trafficking, which is covered by the Drug Trafficking (Bailiwick of Guernsey) Law, 2000. The Proceeds of Crime Law and the Regulations are supplemented by Guidance Notes on the Prevention of Money Laundering and Countering the Financing of Terrorism, issued by the Commission. There is no exemption for fiscal offenses. The 1999 law creates a system of suspicious transaction reporting (including tax evasion) to the Guernsey Financial Intelligence Service (FIS). In 2003, Guernsey incorporated amendments to the Banking Supervision Law and began publishing the Code of Practice for Banks. The Bailiwick narcotics trafficking, anti-money laundering, and terrorism laws designate the same foreign countries as the UK to enforce foreign restraint and confiscation orders.

The Drug Trafficking (Bailiwick of Guernsey) Law 2000 consolidates and extends money laundering legislation related to narcotics trafficking. It introduces the offense of failing to disclose the knowledge or suspicion of drug money laundering. The duty to disclose extends beyond financial institutions to cover others as well, for example, bureaux de change and check cashers.

In addition, the Bailiwick authorities recently enacted the Prevention of Corruption (Bailiwick of Guernsey) Law of 2003. They have also resolved to merge existing drug trafficking, money laundering and other crimes into one statute, and to introduce a civil forfeiture law.

On April 1, 2001, the Regulation of Fiduciaries, Administration Businesses, and Company Directors, etc. (Bailiwick of Guernsey) Law of 2000 ("the Fiduciary Law") came into effect. The Fiduciary Law was enacted to license, regulate and supervise company and trust service providers. Under Section 35 of the Fiduciary Law, the Commission creates Codes of Practice for corporate service providers, trust service providers and company directors. Under the law, the Commission must license all fiduciaries, corporate service providers and persons acting as company directors of any business. In order to be licensed, these agencies must pass strict tests. These include "know your customer" requirements and the identification of clients. These organizations are subject to regular inspection, and failure to comply could result in the fiduciary being prosecuted and/or its license being revoked. The Bailiwick is fully compliant with the Offshore Group of Banking Supervisors Statement of Best Practice for Company and Trust Service Providers.

Since 1988, the Commission has regulated the Bailiwick's financial services businesses. The Commission regulates banks, insurance companies, mutual funds and other collective investment schemes, investment firms, fiduciaries, company administrators and company directors. The Bailiwick does not permit bank accounts to be opened unless there has been a "know your customer" inquiry and verification details are provided. The AML/CFT Regulations contain penalties to be applied when financial services businesses do not follow the requirements of the Regulations. Company incorporation is by act of the Royal Court, which maintains the registry. All first-time applications to form a Bailiwick company have to be made to the Commission, which then evaluates each application. The court will not permit incorporation unless the Commission and the Attorney General or Solicitor General has given prior approval. The Commission conducts regular on-site inspections and analyzes the accounts of all regulated institutions. In 2004, the Commission conducted 124 on-site inspections of financial institutions to insure compliance with the AML/CFT legislation.

On July 1, 2005, the European Union Savings Tax Directive (ESD) came into force. The ESD is an agreement between the Member States of the European Union (EU) to automatically exchange information with other Member States about EU tax resident individuals who earn income in one EU Member State but reside in another. Although not part of the EU, the three UK Crown Dependencies (Guernsey Jersey, and Isle of Man), have voluntarily agreed to apply the same measures to those in the ESD and have elected to implement the withholding tax option (also known as the "retention tax option") within the Crown Dependencies.

Under the retention tax option, each financial services provider will automatically deduct tax from interest and other savings income paid to EU resident individuals. The tax will then be submitted to local and Member States tax authorities annually. The tax authorities receive a bulk payment but do not receive personal details of individual customers. If individuals elect the exchange of information option, then no tax is deducted from their interest payments but details of the customer's identity, residence, paying agent, level and time period of savings income received by the financial services provider will be reported to local tax authorities where the account is held and then forwarded to the country where the customer resides.

The Guernsey authorities have established a forum, the Crown Dependencies Anti-Money Laundering Group, where the Attorneys General from the Crown Dependencies, Directors General and other representatives of the regulatory bodies, and representatives of police, Customs, and the FIS meet to coordinate the anti-money laundering and counterterrorism policies and strategy in the Dependencies.

The FIS operates as the Bailiwick's financial intelligence unit (FIU). The FIS began operations in April 2001, and is currently staffed by Police and Customs/Excise Officers. The FIS is directed by the Service Authority, which is a small committee of senior Police and Customs Officers who co-ordinate with the Bailiwick's financial crime strategy and report to the Chief Officers of Police and Customs/Excise. The FIS is mandated to place specific focus and priority on money laundering and terrorism financing issues. Suspicious Transaction Reports (STRs) are filed with the FIS, which is the central point within the Bailiwick for the receipt, collation, evaluation, and dissemination of all financial crime intelligence. The FIS received 777 STRs in 2002, 705 STRs in 2003, and 757 STRs in 2004.

In November 2002, the International Monetary Fund (IMF) undertook an assessment of Guernsey's compliance with internationally accepted standards and measures of good practice relative to its regulatory and supervisory arrangements for the financial sector. The IMF report states that Guernsey has a comprehensive system of financial sector regulation with a high level of compliance with international standards. As for AML/CFT, the IMF report highlights that Guernsey has a developed legal and institutional framework for AML/CFT and a high level of compliance with the FATF Recommendations.

There has been counterterrorism legislation covering the Bailiwick since 1974. The Terrorism and Crime (Bailiwick of Guernsey) Law, 2002, replicates equivalent UK legislation.

The Criminal Justice (International Cooperation) (Bailiwick of Guernsey) Law, 2000, furthers cooperation between Guernsey and other jurisdictions by allowing certain investigative information concerning financial transactions to be exchanged. Guernsey cooperates with international law enforcement on money laundering cases. In cases of serious or complex fraud, Guernsey's Attorney General can provide assistance under the Criminal Justice (Fraud Investigation) (Bailiwick of Guernsey) Law 1991. The Commission also cooperates with regulatory/supervisory and law enforcement bodies.

On September 19, 2002, the United States and Guernsey signed a Tax Information Exchange Agreement, which is not yet in force. The agreement provides for the exchange of information on a variety of tax investigations, paving the way for audits that could uncover tax evasion or money laundering activities. Currently, similar agreements are being negotiated with other countries, among them members of the European Union.

After its extension to the Bailiwick, Guernsey enacted the necessary legislation to implement the Council of Europe Convention on Mutual Assistance in Criminal Matters, the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime, and the 1988 UN Drug Convention. The 1988 Agreement Concerning the Investigation of Drug Trafficking Offenses and the Seizure and Forfeiture of Proceeds and Instrumentalities of Drug Trafficking, as amended in 1994, was extended to the Bailiwick in 1996. The Bailiwick has requested that the UK Government seek the extension to the Bailiwick of the UN International Convention for the Suppression of the Financing of Terrorism.

The Attorney General's Office is represented in the European Judicial Network and has been participating in the European Union's PHARE anti-money laundering project. The Commission cooperates with regulatory/supervisory and law enforcement bodies. It is a member of the International Association of Insurance Supervisors, the Offshore Group of Insurance Supervisors, the Association of International Fraud Agencies, the International Organization of Securities Commissions, the Enlarged Contact Group for the Supervision of Collective Investment Funds, and the Offshore Group of Banking Supervisors. The FIS is a member of the Egmont Group.

Guernsey has put in place a comprehensive anti-money laundering regime, and has demonstrated its ongoing commitment to fighting financial crime. Bailiwick officials should continue both to carefully monitor Guernsey's anti-money laundering program to assure its effectiveness, and to cooperate with international anti-money laundering authorities. The Bailiwick should work with the UK to extend the UN International Convention for the Suppression of the Financing of Terrorism to Guernsey.

Guyana

Guyana is neither an important regional financial center nor an offshore financial center, nor does it have any notable offshore business sector or free trade zones. However, the scale of money laundering is thought to be large relative to the size of the economy, with some experts estimating that the informal economy is forty to sixty percent of the size of the formal sector. Money laundering has been linked to trafficking in drugs, firearms and persons, as well as corruption and fraud. Drug trafficking and money laundering appear to be propping up the Guyanese economy. Known drug traffickers have acquired substantial landholdings and timber concessions, are building large hotel and housing developments, and own retail businesses that sell imported goods at impossibly low prices. Political instability, government inefficiency, an internal security crisis, and a lack of resources have significantly impaired Guyana's efforts to bolster its anti-money laundering regime. Investigating and trying money laundering cases is not a priority for law enforcement. The Government of Guyana

(GOG) made no arrests or prosecutions for money laundering in 2005 due to lack of adequate legislation, regulations, and resources, as well as the apparent lack of political resolve to tackle money laundering as a serious crime.

The Money Laundering Prevention Act passed in 2000 is not yet fully in force, due to inadequate implementing regulations, difficulties associated with finding suitable personnel to staff the Financial Investigations Unit (FIU), and the Bank of Guyana's lack of capacity to fully execute its mandate. Crimes covered by the Money Laundering Prevention Act include narcotics trafficking, illicit trafficking of firearms, extortion, corruption, bribery, fraud, counterfeiting, and forgery. The law also requires that incoming or outgoing funds over $10,000 be reported. Licensed financial institutions are required to report suspicious transactions, although banks are left to determine thresholds individually according to banking best practices. Financial institutions must keep suspicious activity reports for seven years. The legislation also includes provisions regarding confidentiality in the reporting process, good faith reporting, penalties for destroying records related to an investigation, asset forfeiture, and international cooperation.

The Government of Guyana established a financial intelligence unit (FIU) within the Ministry of Finance in 2003. The FIU is currently staffed by a director and a police investigator. Building on assistance from U.S. funding through July 2005, the Government of Guyana (GOG) currently funds salaries and operating expenses. As of December 2005, the FIU has conducted preliminary investigations on approximately 36 cases. In addition to the FIU, government bodies responsible for investigating financial crimes include the Guyana Revenue Authority, the Customs Anti-Narcotics Unit, the Attorney General, and the Director for Public Prosecutions.

The Money Laundering Act of 2000 provides for seizure of assets derived as proceeds of crime, including money, investments, and real and personal property, but the guidelines for implementing seizures/forfeitures have not been finalized. The FIU has prepared drafts of legislation related to terrorist finance and money laundering. This more robust legislation is currently under review and is expected to be presented to parliament in spring of 2006. The new legislation is also expected to provide for oversight of export industries, real estate, and alternative remittance systems.

The Ministry of Foreign Affairs and the Bank of Guyana (the Central Bank), continue to assist U.S. efforts to combat terrorist financing by working towards coming into compliance with relevant United Nations Security Council Resolutions (UNSCRs). In 2001 the Bank of Guyana, the sole financial regulator as designated by the Financial Institutions Act of March 1995, issued orders to all licensed financial institutions expressly instructing the freezing of all financial assets of terrorists, terrorist organizations, individuals, and entities associated with terrorists and their organizations. Guyana has no domestic laws authorizing the freezing of terrorist assets, but the government created a special committee on the implementation of UNSCRs, co-chaired by the Head of the Presidential Secretariat and the Director General of the Ministry of Foreign Affairs. To date the procedures have not been tested, as no terrorist assets have been identified as located in Guyana. The FIU Director also disseminates the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list to relevant financial institutions.

Guyana is a member of the OAS' Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. A 2002 CICAD review of Guyana's efforts against money laundering noted numerous deficiencies in implementation, resources, and political will. Guyana is also a member of the Caribbean Financial Action Task Force (CFATF), and recently participated in CFATF's first mutual evaluation process. Guyana is a party to the 1988 UN Drug Convention. Guyana became a party to the UN Convention against Transnational Organized Crime by accession on September 14, 2004. Guyana has not signed the UN International Convention for the Suppression of the Financing of Terrorism.

Guyana should publish regulations to implement its money laundering law and provide greater autonomy for the FIU by making it an independent unit with its own budget. Guyana should also provide appropriate resources and awareness training to its regulatory, law enforcement and prosecutorial personnel. Guyana should criminalize terrorist financing and adopt measures that would allow it to block terrorist assets.

Haiti

Haiti is not a major regional financial center, and, given Haiti's dire economic condition and unstable political situation, it is doubtful that it will become a major player in the region's formal financial sector in the near future. Money laundering and other financial crimes occur in the banking system and in casinos, foreign currency, and real estate transactions. Money laundering activity is linked to the drug trade as Haiti continues to be a major drug-transit country. While the informal economy in Haiti is significant and partly funded by narcotics proceeds, smuggling is historically prevalent and predates narcotics trafficking. Flights to Panama City, Panama, remain the main identifiable mode of transportation for money couriers. Usually travelers, predominantly Haitian citizens, hide large sums, $30,000-$100,000 on their persons. Haitian narcotics officers interdicting these outbound funds often collect a 6-12 percent fee and allow the couriers to continue without arrest. During interviews, couriers usually declare that they intend to use the large amounts of U.S. currency to purchase clothing and other items to be sold upon their return to Haiti, a common practice in the informal economic sector. Further complicating the picture is the cash that is routinely transported to Haiti from Haitians and their relatives in the United States in the form of remittances, representing an estimated 30 percent of Haiti's gross domestic product (GDP).

In March 2004, an interim government was established in Haiti following former President Jean Bertrand Aristide's resignation and departure. The Interim Government of Haiti (IGOH) has taken initiatives to establish improvements in economic and monetary policies as well as working to improve governance and transparency. In response to the corruption that continues to plague Haiti, the IGOH created an Anti-Corruption Unit as well as a commission to examine transactions conducted by the government from 2001 through February 2004. The commission published its report in July 2005, but to date the IGOH has not submitted for prosecution any cases based on the information provided in the report.

Despite political instability, Haiti has taken steps to address its money laundering and financial crimes problems. Since 2001, Haiti has used the Law on Money Laundering from Illicit Drug Trafficking and other Crimes and Punishable Offenses (AML Law) as its primary anti-money laundering tool. All financial institutions and natural persons are subject to the money laundering controls of the AML Law. The AML Law criminalizes money laundering and applies to a wide range of financial institutions—including banks, money changers, casinos, and real estate agents. Insurance companies are not covered; however, they are only nominally represented in the Haitian economy. The AML Law requires financial institutions to establish money laundering prevention programs and to verify the identity of customers who open accounts or conduct transactions that exceed 200,000 gourdes (approximately $4,760). It also requires exchange brokers and transfer bureaus to obtain declarations identifying the source of funds exceeding 200,000 gourdes or its equivalent in foreign currency. The nonfinancial sector, nonetheless, remains largely unregulated.

In 2002, Haiti formed a National Committee to Fight Money Laundering, the Comité National de Lutte Contre le Blanchiment des Avoirs (CNLBA). The CNLBA is in charge of promoting, coordinating, and recommending policies to prevent, detect, and suppress the laundering of assets obtained from the illicit trafficking of drugs and other serious offenses. The financial intelligence unit (FIU) created in 2003, the Unite Centrale de Renseignements Financiers (UCREF), is responsible for receiving and analyzing reports submitted in accordance with the law. The UCREF was expanded

since its creation from 8 to 42 employees, including 25 investigators. Entities are required to report to the UCREF any transaction involving funds that appear to be derived from a crime, as well as those exceeding 200,000 gourdes. Failure to report such transactions is punishable by more than three years' imprisonment. Banks are required to maintain records for at least five years and are required to present this information to judicial authorities and UCREF officials upon request. Bank secrecy or professional secrecy cannot be invoked as grounds for refusing information requests from these authorities.

The UCREF assisted in obtaining, validating and certifying Haitian bank records for use as exhibits in U.S. court proceedings. In 2005, UCREF confiscated $800,000 and froze $2.86 million related to money laundering offenses. Approximately 400 investigations were underway in 2005. Data provided largely by UCREF in 2005 resulted in the freezing of $17.6 million in assets of convicted drug trafficker Serge Edouard. The UCREF also assisted the IGOH in filing the first-ever civil lawsuit in a U.S. court for reparation of Haitian Government funds diverted through U.S. banks and businesses. Though these 2005 achievements of the UCREF are a marked improvement, the CNLBA is still not fully functional or funded, and many of the UCREF's employees still lack experience and the ability to independently investigate cases, which translates into slow progress in moving cases into the judicial system.

The AML Law has provisions for the forfeiture and seizure of assets; however the government cannot declare the asset or business forfeited until there is a conviction. The inability to seize or freeze assets early in the judicial process reduces the government's authority and resources to pursue cases. The IGOH is supportive of a stronger, more proactive asset seizure law, yet its temporary governmental mandate does not allow for the passage of new laws. The IGOH has set-up a Financial Crimes Task Force under the auspices of the Ministries of Justice, Finance, and the Central Bank, charged with identifying and investigating major financial crimes and coordinating with the UCREF in recommending prosecutions.

Supported by the U.S. Embassy Narcotics Affairs Section (NAS) and the U.S. Treasury Office of Technical Assistance (OTA), this task force and UCREF cooperated with the U.S. Internal Revenue Service in 2005 to investigate several significant cases of U.S. tax fraud. One major case developed by the task force, without U.S. assistance, is presently being prosecuted. At least six other significant cases are currently under investigation. With U.S. guidance and support, the IGOH took steps to reorganize the UCREF and the Financial Crimes Task Force. Efforts were underway at the end of 2005 to separate the intelligence gathering and investigative functions to provide for essential checks and balances and reduce the potential for internal fraud abuses.

The UCREF has three memoranda of understanding with the Dominican Republic, Panama and, Honduras. The UCREF has not yet been accepted and accredited to the Egmont Group. Haiti is a member of the OAS/CICAD Experts Group to Control Money Laundering and the Caribbean Financial Action Task Force. Haiti is a party to the 1988 UN Drug Convention. Haiti has signed, but not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. Haiti still has not passed legislation specifically criminalizing the financing of terrorists and terrorism, nor has it signed the UN International Convention for the Suppression of the Financing of Terrorism. The AML Law provides for investigation and prosecution in all cases of illegally derived money. Under this law, terrorist finance assets may be frozen and seized. Currently, there is no indication of terrorist financing.

Presidential elections are scheduled for early 2006; the incoming administration should work diligently and expeditiously to fully implement and enforce the AML Law, which will require them to confront the rampant corruption present in almost all public institutions. Haiti should also further strengthen the organizational structures and personal skills of employees both in the UCREF and the

Financial Crimes Task Force. The Government of Haiti should criminalize terrorist financing and become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Honduras

Three years after passing a new law against money laundering, the Government of Honduras (GOH) has made considerable progress in implementing the law, establishing and training the entities responsible for the investigation of financial crimes, and improving cooperation among these entities. Sustained progress will depend upon increased commitment from the government to aggressively prosecute financial crimes.

Honduras is not an important regional or offshore financial center and is not considered to have a significant black market for smuggled goods, though there have been recent high-profile smuggling cases involving gasoline and other consumer goods. Money laundering takes place, primarily through the banking sector, but also through currency exchange houses and front companies. The vulnerabilities of Honduras to money laundering stem primarily from significant trafficking of narcotics, particularly cocaine, throughout the region; the smuggling of contraband may also generate funds that are laundered through the banking system. Money laundering in Honduras derives both from domestic and foreign criminal activity, and the proceeds are controlled by local drug trafficking organizations and organized crime syndicates. Honduras is not experiencing an increase in financial crimes such as bank fraud. Corruption remains a serious problem, particularly within the judiciary and law enforcement sectors.

Money laundering has been a criminal offense in Honduras since 1998, when the passage of Law No. 27-98 criminalized the laundering of narcotics-related proceeds and introduced various record keeping and reporting requirements for financial institutions. However, weaknesses in the law, including a narrow definition of money laundering, make it virtually impossible to successfully prosecute the crime.

In 2002, Honduras passed Decree No. 45-2002, which greatly strengthened its legal framework and available investigative and prosecutorial tools to fight money laundering. Under the new legislation, the definition of money laundering was expanded to include under the crime of money laundering the transfer of assets that proceed directly or indirectly from trafficking of drugs, arms, human organs or persons, auto theft, kidnapping, bank and other forms of financial fraud, and terrorism. The penalty for money laundering is a prison sentence of 15-20 years. The law also requires all persons entering or leaving Honduras to declare cash and convertible securities (títulos valores de convertibilidad inmediata) that they are carrying if the amount exceeds $10,000 or its equivalent.

Decree No. 45-2002, created the financial intelligence unit (FIU), Unidad de Informacion Financiera, within the National Banking and Securities Commission. Banks and other financial institutions are required to report to the FIU currency transactions over $10,000 in dollar denominated accounts in local currency accounts. The law requires the FIU and reporting institutions to keep a registry of reported transactions for five years. Banks are required to know the identity of all their clients and depositors, regardless of the amount of a client's deposits and to keep adequate records of the information. The law also includes banker negligence provisions that make individual bankers subject to two-to-five-year prison terms if, by "carelessness, negligence, inexperience or non-observance of the law, they permit money to be laundered through their institutions." All of the above requirements apply to all financial institutions that are regulated by the National Banking and Securities Commission, including state and private banks, savings and loan associations, bonded warehouses, stock markets, currency exchange houses, securities dealers, insurance companies, credit associations, and casinos. The law does not, however, extend to the activities of lawyers or accountants.

Decree No. 45-2002 requires that a public prosecutor be assigned to the FIU. In practice, two prosecutors are assigned to the FIU, each on a part-time basis, with responsibility for specific cases divided between them depending on their expertise. The prosecutors, under urgent conditions and with special authorization, may subpoena data and information directly from financial institutions. Public prosecutors and police investigators are permitted to use electronic surveillance techniques to investigate money laundering.

Under the Criminal Procedure Code, officials responsible for filing reports on behalf of covered entities are protected by law with respect to their cooperation with law enforcement authorities. However, some have alleged that their personal security is put at risk if the information they report leads to the prosecution of money launderers. This issue has not been present in 2005, however, as only cases originating from the police and prosecutors have been presented in court.

There had been some ambiguity in Honduran law concerning the responsibility of banks to report information to the supervisory authorities, and the duty of these institutions to keep customer information confidential. A new law passed in September 2004, the Financial Systems Law (Decree No. 129-2004), clarifies this ambiguity, explicitly stating that the provision of information requested by regulatory, judicial, or other legal authorities shall not be regarded as an improper divulgence of confidential information.

In late December 2004, Decree No. 24-2004 created the Interagency Commission for the Prevention of Money Laundering and Financing of Terrorism (CIPLAFT). The group was tasked as the coordinating entity responsible for ensuring that all anti-money laundering and anti-financing of terrorism organizations operate efficiently and consistent with all relevant laws, regulations, resolutions, and directives. The group meets every three months and includes representatives from the FIU, the Prosecutor's Office, the police and other offices that touch on the subject of money laundering and terrorist financing.

Prior to 2004, there had been no successful prosecutions of money laundering crimes in Honduras. In 2004, however, Honduran authorities arrested 16 persons for money laundering crimes, issued six additional outstanding arrest warrants, and secured five convictions. Six additional convictions were achieved in 2005.

The GOH has been supportive of counterterrorism efforts. Decree No. 45-2002 states that an asset transfer related to terrorism is a crime; however, terrorist financing has not been identified as a crime itself. This law does not explicitly grant the GOH the authority to freeze or seize terrorist assets; however, under separate authority, the National Banking and Insurance Commission has issued freeze orders for suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224.

The Ministry of Foreign Affairs is responsible for instructing the Commission to issue freeze orders. The Commission directs Honduran financial institutions to search for, hold, and report on terrorist-linked accounts and transactions, which, if found, would be frozen. The Commission has reported that to date no accounts linked to the entities or individuals on the lists have been found in the Honduran financial system.

While Honduras is a major recipient of flows of remittances (estimated at U.S. $1.5 billion in 2005), there has been no evidence to date linking these remittances to the financing of terrorism. Remittances primarily flow from Hondurans living in the United States to their relatives in Honduras. Most remittances are sent through wire transfer or bank services, with some cash probably being transported physically from the United States to Honduras. There is no significant indigenous alternative remittance system operating in Honduras, nor is there any evidence that charitable or non-profit entities in Honduras have been used as conduits for the financing of terrorism.

Under Honduran legislation, companies may register for "free trade zone" status, and benefit from the associated tax benefits, regardless of their location in the country. Companies that wish to receive free trade zone status must register within the Office of Productive Sectors within the Ministry of Industry and Commerce. The majority of companies with free trade zone status operate mostly in the textile and apparel industry. There is no indication that these free trade zone companies are being used in trade-based money laundering schemes or by the financiers of terrorism.

Honduras cooperates with U.S. investigations and requests for information pursuant to the 1988 United Nations Drug Convention. Honduras has signed memoranda of understanding to exchange information on money laundering investigations with Panama, El Salvador, Guatemala, Mexico, Peru, Colombia, and the Dominican Republic. Honduras strives to comply with the Basel Committee's "Core Principles for Effective Banking Supervision," and the new Financial System Law, Decree No. 129-2004, is designed to improve compliance with these international standards At the regional level, Honduras is a member of the Central American Council of Bank Superintendents, which meets periodically to exchange information.

Honduras is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime, and the UN International Convention for the Suppression of the Financing of Terrorism. In November 2004, Honduras became a party to the Organization of American States (OAS) Inter-American Convention on Terrorism. Honduras is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Group of Experts to Control Money Laundering, and the Caribbean Financial Action Task Force (CFATF). In mid-2005, the Honduran FIU was admitted as a member in the Egmont Group.

No specific written agreement exists between the United States and Honduras to establish a mechanism for exchanging adequate records in connection with investigations and proceedings relating to narcotics, terrorism, terrorist financing, and other crime investigations. However, Honduras has cooperated, when requested, with appropriate law enforcement agencies of the U.S. Government and other governments investigating financial crimes.

The Honduran Congress first enacted an asset seizure law in 1993 that subsequent Honduran Supreme Court rulings substantially weakened. Decree No. 45-2002 strengthens the asset seizure provisions of the law, establishing an Office of Seized Assets (OABI) under the Public Ministry. The law authorizes the OABI to guard and administer "all goods, products or instruments" of a crime, and states that money seized or money raised from the auctioning of seized goods should be transferred to the public entities that participated in the investigation and prosecution of the crime. Under the Criminal Procedure Code, when goods or money are seized in any criminal investigation, a criminal charge must be submitted against the suspect within 60 days of the seizure; if one is not submitted, the suspect has the right to demand the release of the seized assets.

Decree No. 45-2002 is not entirely clear on the issue of whether a legitimate business can be seized if used to launder money derived from criminal activities. The chief prosecutor for organized crime maintains that the authorities do have this power, because once a "legitimate" business is used to launder criminal assets, it ceases to be "legitimate" and is subject to seizure proceedings. However, this authority is not explicitly granted in the law, and there has been no test case to date which would set an interpretation. There are currently no new laws being considered regarding seizure of forfeiture of assets of criminal activity.

The total value of assets seized since the 2002 law came into effect is estimated at $6.4 millions in seized assets (cars, houses, boats, etc.) as of December 2005. The lack of clear records, and differences in accounting between OABI, the Police and the Investigators Office, make prior year comparisons difficult. Most of these seized assets are alleged to have derived from crimes related to drug trafficking; none are suspected of being connected to terrorist activity. The law allows for both civil

and criminal forfeiture, and there are no significant legal loopholes that allow criminals to shield their assets.

OABI has not yet established firm control over the asset seizure and forfeiture process. Implementation of the existing law, as well as the process of equipping the OABI to maintain control over seized assets and effectively dispose of them, has been slow and ineffective. The implementing regulations governing the OABI were not finalized and published until more than a year after the passage of the law, and the key regulation that governs the distribution of assets is still pending action by the Attorney General. Plans to build separate offices and a warehouse for this entity are still incomplete, resulting in seized assets currently being kept in various locations under dispersed authority. Money seized is also kept in a variety of accounts without clear records of control, or kept in cash as evidence. Due to the absence of approved implementing regulations on distribution of assets, the Public Ministry on several occasions used seized cash to pay certain employees' salaries, without the money's first having passed through a proper legal process for disposition. Similarly, assets such as vehicles, properties, and boats that are seized are in many cases are left unused, rather than being distributed for use by government agencies.

In 2005, the Government of Honduras continued its positive steps to implement Decree No. 45-2002. However, the different units involved in the fight against money laundering continue to suffer from lack of resources and limited interagency communication. Further progress in implementing the new money laundering legislation will depend on the training and retention of personnel familiar with money laundering and financial crimes and an improved ability to target and pursue more cases that have a higher probability of success. Key to enabling these agencies is to free more resources from OABI. The GOH should continue to support the developing government entities responsible for combating money laundering and other financial crimes, and ensure that resources are available to strengthen its anti-money laundering regime.

Hong Kong

Hong Kong is a major international financial center. Its low taxes and simplified tax system, sophisticated banking system, the availability of secretarial services and shell company formation agents, and the absence of currency and exchange controls, facilitate financial activity but also make it vulnerable to money laundering. The primary sources of laundered funds are narcotics trafficking (particularly heroin, methamphetamine, and ecstasy), tax evasion, fraud, illegal gambling and bookmaking, and commercial crimes. Laundering channels include Hong Kong's banking system, and its legitimate and underground remittance and money transfer networks.

Hong Kong is substantially in compliance with the Financial Action Task Force's (FATF) Forty Recommendations on Money Laundering, and has pledged to adhere to the revised FATF Forty Recommendations. Overall, Hong Kong has developed a strong anti-money laundering regime, though improvements should be made. It is a regional leader in anti-money laundering efforts. Hong Kong has been a member of the FATF since 1990.

Money laundering is a criminal offense in Hong Kong under the Drug Trafficking (Recovery of Proceeds) Ordinance (DTRoP) and the Organized and Serious Crimes Ordinance (OSCO). The money laundering offense extends to the proceeds of drug-related and other indictable crimes. Money laundering is punishable by up to 14 years' imprisonment and a fine of HK$5,000,000 (approximately $643,000).

Money laundering ordinances apply to covered institutions including banks and non-bank financial institutions, as well as to intermediaries such as lawyers and accountants. All persons must report suspicious transactions of any amount to the Joint Financial Intelligence Unit (JFIU). The JFIU does not investigate suspicious transactions itself, but receives, stores, and disseminates suspicious

transactions reports (STRs) to the appropriate investigative unit. Typically, STRs are passed to either the Narcotics Bureau or the Organized Crime and Triad Bureau of the Hong Kong Police Force, or to the Customs Drug Investigation Bureau of the Hong Kong Customs and Excise Department.

Financial regulatory authorities issued anti-money laundering guidelines reflecting the revised FATF Forty Recommendations on Money Laundering to institutions under their purview, and monitor compliance through on-site inspections and other means. Hong Kong law enforcement agencies provide training and feedback on suspicious transaction reporting.

Financial institutions are required to know and record the identities of their customers and maintain records for five to seven years. The filing of a suspicious transaction report cannot be considered a breach of any restrictions on the disclosure of information imposed by contract or law. Remittance agents and money changers must register their businesses with the police and keep customer identification and transaction records for cash transactions equal to or over HK$20,000 (approximately $2,564).

Hong Kong does not require reporting of the movement of currency above any threshold level across its borders, or reporting of large currency transactions above any threshold level. However, the Narcotics Division is preparing a consultation paper regarding proposed money laundering legislation that it plans to introduce to the legislature. The proposed legislation would likely authorize Hong Kong Customs officials to stop and question passengers about money they are bringing into or taking out of Hong Kong. The draft bill would also mandate that Customs officials maintain records of individuals carrying more than $15,000 across the border, even if it is not related to a crime.

The bill would not likely mandate currency declarations at the border, but would widen the Hong Kong Government's ability to seize cash being laundered from all "serious crimes," instead of only cash stemming form narcotics trafficking or related to terrorism. Under the bill, bankers, lawyers, accountants, real estate agents, precious metals dealers, and other professionals would face criminal sanctions if they assisted in money laundering through a failure to "know their customers." The new bill would involve a statutory requirement to obtain sufficient information about the client-including the beneficial ownership of corporate clients and the source of wealth of individuals. This measure would make the failure of nonfinancial firms to report suspicious transactions an offense.

There is no distinction made in Hong Kong between onshore and offshore entities, including banks, and no differential treatment is provided for nonresidents, including on taxes, exchange controls, or disclosure of information regarding the beneficial owner of accounts or other legal entities. Hong Kong's financial regulatory regimes are applicable to residents and nonresidents alike. The Hong Kong Monetary Authority (HKMA) regulates banks. The Insurance Authority and the Securities and Futures Commission regulate insurance and securities firms, respectively. All three impose licensing requirements and screen business applicants. There are no legal casinos or Internet gambling sites in Hong Kong.

In Hong Kong, it is not uncommon to use solicitors and accountants, acting as company formation agents, to set up shell or nominee entities to conceal ownership of accounts and assets. Hong Kong registered 7,279 new international business companies (IBCs) in 2005. Many of the more than 500,000 IBCs created in Hong Kong are owned by other IBCs registered in the British Virgin Islands. Many of the IBCs are established with nominee directors. The concealment of the ownership of accounts and assets is ideal for the laundering of funds. Additionally, some banks permit the shell companies to open bank accounts based only on the vouching of the company formation agent. In such cases, the Hong Kong Monetary Authority's anti-money laundering guidelines require banks to verify the identity of the owners of the company, including beneficial owners. The bank should also assess whether the intermediary is "fit and proper". However, solicitors and accountants have filed a low number of suspicious transaction reports in recent years, and consequently have become a focus of attention to improve reporting through regulatory requirements and oversight.

The open nature of Hong Kong's financial system has long made it the primary conduit for funds being transferred out of China, which maintains a closed capital account. Hong Kong's role has been evolving as China's financial system gradually opens. On February 25, 2004, Hong Kong banks began to offer Chinese currency- (renminbi or RMB-) based, deposit, exchange, and remittance services. Later in the year, Hong Kong banks began to issue RMB-based credit cards, which could be used both in mainland China and in Hong Kong shops that had signed up to the Chinese payments system, China UnionPay. In November 2005, Hong Kong banks were permitted modest increases in the scope of RMB business they can offer to clients. The new provisions raised daily limits and expanded services. Making loans in Hong Kong in RMB, however, is still not permitted for any bank. This change brought many financial transactions related to China out of the money-transfer industry and into the more highly regulated banking industry, which is better equipped to guard against money laundering.

Under the Drug Trafficking (Recovery of Proceeds) Ordinance (DTRoP) and the Organized and Serious Crimes Ordinance (OSCO), a court may issue a restraining order against a defendant's property at or near the time criminal proceedings are instituted. Both ordinances were strengthened in January 2003, through a legislative amendment lowering the evidentiary threshold for initiating confiscation and restraint orders against persons or properties suspected of drug trafficking. Property includes money, goods, real property, and instruments of crime. A court may issue confiscation orders at the value of a defendant's proceeds from illicit activities. Cash imported into or exported from Hong Kong that is connected to narcotics trafficking may be seized, and a court may order its forfeiture.

As of September 1, 2005, the value of assets under restraint was $187 million, and the value of assets under confiscation order, but not yet paid to the government, was $14.45 million, according to figures from the JFIU. It also reported that as of September 1, 2005, the amount confiscated and paid to the government since the enactment of DTRoP and OSCO was $52.5 million, and a total of 126 persons had been convicted of money laundering over that period. Hong Kong has shared confiscated assets with the United States.

In July 2002, the legislature passed several amendments to the DTRoP and OSCO to strengthen restraint and confiscation provisions. These changes, which became effective on January 1, 2003, include the following: there is no longer a requirement of actual notice to an absconded offender; there is no longer a requirement that the court fix a period of time in which a defendant is required to pay a confiscation judgment; the court is allowed to issue a restraining order against assets upon the arrest (rather than charging) of a person; the holder of property is required to produce documents and otherwise assist the government in assessing the value of the property; and an assumption is created under the DTRoP, to be consistent with OSCO, that property held within six years of the period of the violation by a person convicted of drug money laundering is proceeds from that money laundering.

Since legislation was adopted in 1994 mandating the filing of suspicious transaction reports (STRs), the number of STRs received by JFIU has generally increased. In the first nine months of 2005, a total of 10,354 STRs were filed, compared to a total of 14,029 for the twelve months of 2004 and 11,671 for the twelve months of 2003.

A new Financial Investigations Division, established in the Narcotics Bureau, is supporting the investigations of STRs. The new division contains a section dedicated to money laundering investigations related to drug trafficking and terrorist financing. The division provides the main link with overseas and local law enforcement agencies on investigations and intelligence exchange concerning money laundering and terrorist finance. It also contains the JFIU, including a new intelligence analysis team.

The new division will analyze STRs to develop information that could aid in prosecuting money laundering cases, the number of which has also increased since 1996, soon after the passage of OSCO (1994). In terms of actual prosecutions for money laundering, there were 35 during the first 8 months of 2005, compared to 40 for the entire year of 2004 and 29 for 2003.

In July 2002, Hong Kong's legislature passed the United Nations (Anti-Terrorism Measures) Ordinance that criminalizes the supply of funds to terrorists. On July 3, 2004, the Legislative Council passed the United Nations (Anti-Terrorism Measures)(Amendment) Ordinance. This law is intended to implement UNSCR 1373 and the FATF Special Eight Recommendations on Terrorist Financing that were in place in July 2004. It extends the Hong Kong Government's freezing power beyond funds to the non-fund property of terrorists and terrorist organizations. Furthermore, it prohibits the provision or collection of funds by a person intending or knowing that the funds will be used in whole or in part to commit terrorist acts. Hong Kong's financial regulatory authorities have directed the institutions they supervise to conduct record searches for assets of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224.

The People's Republic of China represents Hong Kong on defense and foreign policy matters, including UN affairs. After the PRC becomes a party to a UN terrorism treaty, the Hong Kong Government submits implementing legislation to Hong Kong's Legislative Council. After passage, the HKG executes the relevant UN treaty. The PRC has yet to ratify the UN International Convention for the Suppression of the Financing of Terrorism.

In 2005, Hong Kong financial authorities arranged outreach activities to raise awareness of terrorism financing in the financial community. For instance, Hong Kong's bank regulatory agency, the Hong Kong Monetary Authority (HKMA), issued a circular on November 14 noting that banks were obligated to report suspicious transactions, seek legal advice on the implication of foreign laws and orders, be aware of the list of weapons of mass destruction proliferators published under U.S. Executive Order 13382, implement the latest "know your customer" principles, and ascertain the appropriateness of maintaining high-risk accounts. The HKMA circulated a guideline in June 2004 that incorporated the FATF Special Eight Recommendations on Terrorist Financing The instruction also required banks to verify fund sources before accepting money from offshore companies established with the intention of disguising beneficial ownership, correspondent banks on the FATF's non-cooperative countries and territories list, or prominent politicians and heads of state.

The rule also required banks to maintain a database of terrorist names and management information systems that detect unusual patterns of activity in customer accounts. The Securities and Futures Commission (SFC) and the Office of the Commissioner of Insurance (OCI) circulated guidance notes in 2005 that provided additional guidance on customer due diligence and other issues, reflecting the new requirements in the revised FATF Forty Recommendations on Money Laundering, and Special Recommendations on Terrorist Financing. The Hong Kong government has modified its regulations in order to make them consistent with the revised FATF Forty Recommendations on Money Laundering.

Other bodies governing segments of the financial sector are also active in anti-money laundering efforts. The Hong Kong Estates Agents Authority, for instance, has drawn up specific guidelines for real estate agents on filing suspicious transaction reports, and the Law Society of Hong Kong and the Hong Kong Institute of Certified Public Accountants are in the process of drafting such guidance.

The Hong Kong police assisted the United States in terrorism investigations in 2005. In 2003, Hong Kong took part in the International Monetary Fund's Financial Sector Assessment Program (FSAP), which aims to strengthen the financial stability of a jurisdiction by identifying the strengths and weaknesses of its financial system and assessing compliance with key international standards. As part of the FSAP, a team of IMF and World Bank-sponsored legal and financial experts assessed the effectiveness of Hong Kong's anti-money laundering regime against the FATF Forty Recommendations on Money Laundering and the FATF Special Recommendations on Terrorist Financing. The team described Hong Kong's anti-money laundering measures as "resilient, sound, and overseen by a comprehensive supervisory framework."

Through the PRC, Hong Kong is subject to the 1988 UN Drug Convention. It is an active member of the FATF and Offshore Group of Banking Supervisors and also a founding member of the Asia Pacific Group on Money Laundering (APG). Hong Kong's banking supervisory framework is in line with the requirements of the Basel Committee on Banking Supervision's "Core Principles for Effective Banking Supervision." Hong Kong's JFIU is a member of the Egmont Group and is able to share information with its international counterparts. Hong Kong is known to cooperate with foreign jurisdictions in combating money laundering.

Hong Kong's mutual legal assistance agreements generally provide for asset tracing, seizure, and sharing. Hong Kong signed and ratified a mutual legal assistance agreement with the United States that came into force in January 2000.

As of December 2005, Hong Kong had mutual legal assistance agreements with a total of 19 other jurisdictions: Australia, Canada, the United States, Italy, the Philippines, the Netherlands, Ukraine, Singapore, Portugal, Ireland, France, the United Kingdom, New Zealand, the Republic of Korea, Belgium, Switzerland, Denmark, Israel and Poland. Hong Kong has also signed surrender-of-fugitive-offenders agreements with 14 countries, and has signed Agreements for the transfer-of-sentenced-persons with seven countries, including the United States.

Hong Kong authorities exchange information on an informal basis with overseas counterparts, with Interpol, and with Hong Kong-based liaison officers of overseas law enforcement agencies. An amendment to the Banking Ordinance in 1999 allows the HKMA to disclose information to an overseas supervisory authority about individual customers, subject to conditions regarding data protection. The HKMA has entered into memoranda of understanding with overseas supervisory authorities of banks for the exchange of supervisory information and cooperation, including on-site examinations of banks operating in the host country.

The Government of Hong Kong should further strengthen its anti-money laundering regime by establishing threshold reporting requirements for currency transactions and putting into place "structuring" provisions to counter evasion efforts. Hong Kong should also establish mandatory cross-border currency reporting requirements and continue to encourage more suspicious transaction reporting by lawyers and accountants, as well as by business establishments such as auto dealerships, real estate companies, and jewelry stores. Hong Kong should also take steps to stop the use of "shell" companies, IBCs, and other mechanisms that conceal the beneficial ownership of accounts by more closely regulating corporate formation agents.

Hungary

Hungary has a pivotal location in Central Europe, with a well-developed financial services industry. Criminal organizations from Russia and other countries such as Ukraine are entrenched in Hungary. Hungarian law enforcement takes these threats seriously, forcing out a major Russian organized crime leader in 2005. The economy is largely cash-based. Money laundering is related to a variety of criminal activities, including narcotics, prostitution, and organized crime. Trafficking in humans is also a growing organized crime threat as women and children are smuggled from Russia, Romania, Ukraine, Moldova, Bulgaria, and the Balkans through Hungary en route to Scandinavian countries. Additional financial crimes such as counterfeiting of euros, real estate fraud, and the copying/stealing of bankcards are also prevalent. Financial crime has not increased in recent years, though there have been some isolated, albeit well-publicized, cases. Combating cross-border criminal activities is a priority for Hungary's law enforcement community.

Hungary became a full member of the European Union (EU) on May 1, 2004. Upon EU accession, all EU regulations became effective immediately in Hungary. As a full EU member, Hungary also is working to implement EU directives, including those relating to money laundering. Hungary had been

placed on the Financial Action Task Force (FATF) list of non-cooperative countries and territories (NCCT) in the fight against money laundering in June 2001, but was removed completely from this list in the summer of 2003 due to significant improvements in its money laundering regime. Since then, it has striven to implement the FATF Forty Recommendations and the Nine Special Recommendations on Terrorist Financing.

Hungary banned offshore financial centers by Act CXII of 1996 on Credit Institutions. Offshore casinos are also prohibited from operating by the 1996 Act. There are offshore companies registered in Hungary that enjoy a preferential tax rate and are exempt from the local corporate turnover tax of two percent. Due to EU accession, however, the preferential tax treatment is being phased out and ceases at the end of 2005. Beginning in 2006, these companies are being converted automatically into Hungarian companies, subject to all Hungarian corporate taxes. The only special status they will thereafter retain is the ability to keep books in foreign currencies.

Act CXX of 2001 eliminates bearer shares and requires that all such shares be transferred to identifiable shares by the end of 2003. Thus, now all shares are subject to transparency requirements, and both owners and any beneficiaries must be registered.

By mid-2003, Hungary had successfully transferred 90 percent of anonymous savings accounts into identifiable accounts. As of December 31, 2004, such accounts can be accessed and converted only by written permission from the police.

Hungary no longer permits the operation of free trade zones. Law CXXVI of 2003 stipulates that permits for companies operating in free trade zones would expire, but allows companies to request new permits that would convert them into normal companies in 2004. The companies affected could have transferred their assets up until the end of April 2004 without a value-added tax (VAT) or customs duty. Upon Hungary's EU accession on May 1, 2004, these companies' operations immediately came under EU Council Regulation 2913/1992 and the European Commission Regulation 2454/1992. Currently, there are no companies operating in free trade zones. The Finance Ministry, however, is again planning to propose new free trade zones.

Anti-money laundering legislation in Hungary dates back to Act XXIV of 1994. Hungary's money laundering legislation covers all serious crimes punishable by imprisonment. In 2003, the Government of Hungary (GOH) re-codified its money laundering legislation in Act XV of 2003, "On the Prevention and Impeding of Money Laundering," which became effective on June 16, 2003. The 2003 Act extends the anti-money laundering legislation to encompass the following additional professions and business sectors: financial services, investment services, insurance, stock brokers, postal money transfers, real estate agents, auditors, accountants, tax advisors, gambling casinos, traders of gems or other precious metals, private voluntary pension funds, lawyers, and public notaries. Act XV also criminalizes tipping off and forces self-regulating professions to submit internal rules to identify asset holders, track transactions, and report suspicious transactions. In April 2002, Section 303 of the Penal Code on Money Laundering was amended to criminalize as punishable offenses the laundering of one's own proceeds, laundering through negligence, and conspiracy to commit money laundering.

Hungary's financial regulatory body, the Hungarian Financial Supervisory Authority (HFSA), is charged with supervising all types of financial service providers. The one exception to this is cash processing, which is supervised by Hungary's Central Bank, the National Bank of Hungary. Auditors, casinos, lawyers, and notaries are supervised by their own trade associations. The Hungarian National Police (HNP) supervises all other professions covered under the 2003 Act, because they have neither self-regulatory professional bodies nor state supervision.

The 2003 Act also states that if an individual carries currency exceeding one million HUF (approximately $5,300) across a border, the amount must be declared in writing to the customs

authority. Customs authorities are also obligated to establish the identity of an individual crossing the border if any suspicion of money laundering arises.

As of 2001, only banks or their authorized agents can operate currency exchange booths. These exchange booths are subject to "double supervision," as they are subject to the banks' internal control mechanisms, which are in turn subject to supervision by the HFSA. The exchange booths are required to verify customer identity for currency exchange transactions totaling or exceeding HUF 300,000 (approximately $1,600). These amounts can come either from a single transaction or consecutive separate transactions exceeding this threshold. The exchange booths are also required to file suspicious transaction reports for currency exchange transactions in any amount. There are currently about 300 exchange booths in Hungary.

The 2003 Act also states that covered service providers are required to identify their customers or any authorized individual representing their customers, when entering into a business relationship. In transactions exceeding two million HUF (approximately $10,600) or transactions of any amount where suspicion of money laundering arises, the customer must be identified. Under the anti-money laundering legislation, banks, financial institutions, and other service providers are required to maintain records for at least ten years. All service providers are required to report suspicious transactions directly, or through their representation bodies, to the police authority as soon as they occur. Lawyers and notaries are exempt from their reporting obligations only when they are representing their clients in a criminal court case. Under all other circumstances, they are obligated to file reports. Both lawyers and notaries submit their reports to their respective bar and notary associations, which then forward the reports on to the police. All other service providers submit their reports directly to the police. The police may perform on-site random checks of service providers. According to Hungarian bank secrecy regulations, financial service providers are obliged to supply law enforcement authorities with relevant data.

When these professions were included in the anti-money laundering legislation of 2003, there were some initial concerns and protests as to how the legislation would be put into practice. As the police briefed representatives of these professions and rules were adopted, the concerns have diminished. Currently, only antique shops are known still to have concerns, although they are believed to be meeting their reporting obligations.

Reporting individuals are protected in their anti-money laundering reporting obligations. If the report involves suspicious activity related to terrorist financing, the law allows for the possibility of protection. Currently, however, actual extension of protection is granted at the discretion of the prosecutor.

Hungary's financial intelligence unit (FIU) is part of the HNP. It investigates money laundering cases and has considerable authority to request and release information, nationally and internationally. In the summer of 2004, the HNP completed a major organizational restructuring that included the establishment of the National Bureau of Investigation (NBI). Among its mandates, the NBI is charged with the detection and investigation of major corruption and money laundering cases. One of the main objectives of this restructuring was to eliminate the parallel jurisdictions that existed between the Financial Crime Investigation and Economic Crime Investigation areas and to implement a more coordinated investigative effort for money laundering investigations. The combined Economic and Financial Crimes Department of the NBI has a staff of 134 at the headquarters level. The FIU within this department has a staff of 42. In 2004, it received 14,120 STRs. Reportedly, the number of STRs received in 2005 was expected to remain similar to that of 2004. An increase in the number of investigators has helped the FIU investigate cases.

In 2003, a money laundering scandal surfaced involving a Hungarian subsidiary, K&H Equities, of a Dutch-owned bank. A broker reportedly skimmed funds from some clients in order to pad the returns of other more favored clients. Money was laundered through several banks. The case is currently

before the courts. After it was discovered that bank tellers had failed to file STRs in the K&H case, "banker negligence" laws were enacted that made individual bankers responsible if their institutions launder money. According to the Hungarian FIU, this has resulted in over-reporting.

The Hungarian Criminal Code, Act XIX of 1998, and amended by Act II of 2003, contains a provision on the forfeiture of assets. Under this provision, assets that were used to commit crimes, would endanger public safety, or were created as a result of criminal activity, are subject to forfeiture. All property related to criminal activity during the period of time when the owner was a party to a criminal organization can be seized, unless proven to have been obtained in good faith as due compensation. Act II of 2003 states that persons or members of criminal organizations sponsoring activities of a terrorist group by providing material assets or any other support face five to fifteen years of imprisonment.

The Hungarian Criminal Code treats terrorist financing-related crimes differently than all other crimes. For all other crimes, the police freeze the assets and must then inform the bank within 24 hours as to whether there will be an investigation. Police investigations must be completed within two years of filing charges. Forfeiture and seizure for all crimes, including terrorist financing, is determined by a court ruling. The banking community has cooperated fully with enforcement efforts to trace funds and seize/freeze bank accounts. In all cases, some of the frozen assets may be released, for example, to cover health-related expenses or basic sustenance, if the FIU approves a written request from the owner of the assets. After subtracting any related civil damages, proceeds from asset seizures and forfeitures go to the government.

Act IV of 1978, Article 261, criminalizes terrorist acts. Hungary criminalizes terrorism and all forms of the financing of terrorism by Act II of 2003, which modifies Criminal Code Article 261. This includes providing funds or collecting funds for terrorist actions or facilitating or supporting such actions by any means. The penalty for such crimes is imprisonment of five to fifteen years.

Hungary can also freeze terrorist finance-related assets. Act XIX of 1998 on Criminal Procedures, Articles 151, 159, and 160, provide for the immediate seizure, sequestration, and precautionary measures against terrorist assets. In cases where terrorist financing is suspected, banks freeze the assets and then promptly notify HFSA, the FIU, and the Ministry of Finance. The FIU must inform the banks within 24 hours whether or not it will conduct an investigation. The GOH circulates to its financial institutions the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee consolidated list and the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224. In 2003, there was one arrest for terrorist financing, when a foreigner attempted to donate to a charitable organization listed on the UN's consolidated list of terrorists. The bank immediately froze the assets, but the individual was deported from the country without the case going to trial. In 2004, there was one suspected case of terrorist financing. Assets were frozen in a bank account that received a transfer from a bank in Saudi Arabia. However, the court ruled that the recipient of the funds could not be judged guilty solely on the basis of receiving funds from an entity on the UN's consolidated list of suspected terrorists.

Act CXII of 1996 on Credit Institutions bans the use of any indigenous alternative remittance systems that bypass, in whole or in part, financial institutions. In cases where money is transferred to a charitable or non-profit entity, the GOH has proven it will freeze the assets regardless of the amount, as was true in the one notable case in 2003.

Hungary and the United States have a Mutual Legal Assistance Treaty and a non-binding information-sharing arrangement with the United States that is intended to enable U.S. and Hungarian law enforcement to work more closely to fight organized crime and illicit transnational activities. In furtherance of this goal, in May 2000, Hungary and the U.S. Federal Bureau of Investigation established a joint task force to combat Russian organized crime groups. Hungary has signed bilateral

agreements with 41 other countries to cooperate in combating terrorism, drug-trafficking, and organized crime.

Hungary is a member of the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) and underwent a third round mutual evaluation in 2005. Hungary's FIU has been a member of the Egmont Group since 1998.

In 2000, Hungary signed and ratified the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime. Hungary is a party to the UN International Convention for the Suppression of the Financing of Terrorism and the 1988 UN Drug Convention. The GOH signed the UN Convention against Corruption on December 10, 2003 and ratified it on April 19, 2005.

Hungary has made progress in developing its anti-money laundering regime. However, continued effort is needed with regard to implementation. Also, an increased level of cooperation and coordination is needed among the different law enforcement entities involved in the anti-money laundering regime in Hungary. Additional training for prosecutors, judges, and police is also necessary in order to promote the successful prosecution of money laundering cases. Increased AML/CFT training for employees of financial institutions and other obliged entities is also necessary in order to effectively combat the rise in defensive reporting.

India

India's status as a growing regional financial center, its large system of informal cross-border money flows and its widely perceived tax avoidance problem all contribute to the country's vulnerability to money laundering activities. Some common sources of illegal proceeds in India are narcotics trafficking, trade in illegal gems (particularly diamonds), smuggling, trafficking in persons, corruption, and income tax evasion. India is a major drug-transit country.

India's historically strict foreign-exchange laws and transaction reporting requirements, together with the banking industry's "know-your-customer" policy, make it difficult for criminals to use banks or other financial institutions to launder money. Large portions of illegal proceeds are accordingly laundered through the alternative remittance system called "hawala" or "hundi." The hawala market is estimated at anywhere between 30 and 40 percent of the formal market. Remittances to India reported through legal, formal channels in 2004-2005 amounted to $20.5 billion.

Under the hawala system, individuals transfer value from one location to another, often without the actual movement of currency. Key features of the hawala system are that it transfers value without actually moving funds. When accounts need to be balanced between hawaladars, a number of techniques are used including cash and bank transfers. But historically and culturally, trade is the most common vehicle to provide "counter valuation." This is often accomplished through invoice manipulation such as over and under valuation. Any commodity can be used in hawala value transfer but gold remains most popular. The hawala system provides anonymity and security to transacting individuals. Reportedly, many Indians do not trust banks and prefer to avoid the lengthy paperwork required to complete a money transfer through a financial institution. Hawala dealers can provide the same remittance service as a bank with little or no documentation and at rates less than those charged by banks. The Government of India (GOI) neither regulates hawala dealers nor requires them to register with the government. The Reserve Bank of India (RBI), the country's Central Bank, argues that the widespread hawala dealers operate illegally and therefore cannot be registered and are beyond the reach of regulation. Reportedly, the RBI does intend to increase its regulation of non-bank money transfer operations by entities such as currency exchange kiosks and wire transfer services.

Historically, gold has been one of the most important commodities involved in Indian hawala transactions. There is a widespread cultural demand for gold in the region. (India liberalized its gold

trade restrictions in the mid-1990s). In recent years, it is thought that the growing Indian diamond trade has also been increasingly important in providing countervaluation, a method of "balancing the books" in external hawala transactions. Invoice manipulation (for example, inaccurately reflecting the value of a good sold on the invoice) is pervasive and is used extensively to both avoid customs duties and taxes and to launder illicit proceeds through trade-based money laundering.

India has both legal and illegal unregulated black market channels for selling goods. Smuggled goods such as food items, computer parts, cellular phones, gold, and a wide range of imported consumer goods are routinely sold through the black market. By avoiding customs duties and taxes and dealing in cash transactions, black market merchants offer better prices than those offered by regulated merchants. However, with trade liberalization and the increase in the number of foreign companies doing business in India, the volume of business in smuggled goods has fallen significantly. Most products previously sold through the black market are now sold through lawful channels.

Tax evasion is also widespread. Changes in the tax system are gradually being implemented, as the GOI now requires individuals to use a personal identification number to pay taxes, purchase foreign exchange, and apply for passports. The GOI introduced a value added tax (VAT) in April 2005. This tax replaces a basket of complicated state sales taxes and excise taxes, thus reducing the incentive and opportunities for businesses to conceal their sales or income levels. Twenty-one Indian states have already implemented the VAT, and the GOI anticipates that the remaining nine states will do so by April 2006.

The Criminal Law Amendment Ordinance allows for the attachment and forfeiture of money or property obtained through bribery, criminal breach of trust, corruption, or theft, and of assets that are disproportionately large in comparison to an individual's known sources of income. The 1973 Code of Criminal Procedure, Chapter XXXIV (Sections 451-459), establishes India's basic framework for confiscating illegal proceeds. The Narcotic Drugs and Psychotropic Substances Act (NDPSA) of 1985, as amended in 2000, calls for the tracing and forfeiture of assets that have been acquired through narcotics trafficking, and prohibits attempts to transfer and conceal those assets. The Smugglers and Foreign Exchange Manipulators Act (SAFEMA) also allows the seizure and forfeiture of assets linked to Customs Act violations. The competent authority (CA), located in the Ministry of Finance (MOF), administers both the NDPSA and SAFEMA.

Amendments to the NDPSA dating from 2001 allow the CA to seize any asset owned or used by a narcotics trafficker immediately upon arrest; previously, assets could be seized only after conviction. However, Indian law enforcement officers lack training in the procedures for identifying individuals who might be subject to asset seizure/forfeiture, and in tracing assets to be seized. They also appear to lack sufficient training in drafting and expeditiously implementing asset freezing orders. During 2005, the CA held nine asset seizure and forfeiture workshops pursuant to the NDPSA in New Delhi, Himchal Pradesh, Uttar Pradesh, Rajasthan, and Andra Pradesh, to train law enforcement officers in asset seizure and forfeiture procedures and regulations. The GOI hopes the training will lead to increased seizures and forfeitures from illicit narcotics proceeds.

The Foreign Exchange Management Act (FEMA), which was enacted in 2000, is one of the GOI's primary tools for fighting money laundering. The FEMA's objectives include the establishment of controls over foreign exchange, the prevention of capital flight, and the maintenance of external solvency. FEMA also imposes fines on unlicensed foreign exchange dealers. A closely related piece of legislation is the Conservation of Foreign Exchange and Prevention of Smuggling Act (COFEPOSA), which provides for preventive detention in smuggling and other matters relating to foreign exchange violations. The MOF's Directorate of Enforcement (DOE) enforces FEMA and COFEPOSA. The RBI also plays an active role in the regulation and supervision of foreign exchange transactions.

On November 27, 2002, the lower house of Parliament finally passed the Prevention of Money Laundering Act (PMLA), which had first been introduced in 1998. The bill was amended in August

2002 by the upper house to include terrorist financing provisions. India's President signed the law in January 2003. This legislation criminalizes money laundering, establishes fines and sentences for money laundering offenses, imposes reporting and record keeping requirements on financial institutions, provides for the seizure and confiscation of criminal proceeds, and provides for the creation of a Financial Intelligence Unit (FIU). Implementing rules and regulations for the PMLA were promulgated in July 2005. Penalties for offenses under the PMLA are severe and may include imprisonment for three to seven years and fines as high as $10,280. If the money laundering offense is related to a drug offense under the NDPSA, imprisonment can be extended to a maximum of ten years. The PMLA mandates that banks, financial institutions and intermediaries (including stock market intermediaries such as brokers) maintain records of all cash transactions exceeding $21,740. However, there have been no prosecutions or convictions under the PMLA since its inception.

With the notification of the PMLA in July 2005, India is establishing a central financial intelligence unit (FIU) to centralize and coordinate most of its anti-money laundering and counter terrorist financing strategies. The FIU will be an independent unit located within the Central Economic Intelligence Bureau (CEIB), under the administrative control of the MOF's Department of Revenue. The MOF has authorized 43 positions for the FIU, including a director (joint secretary), seven additional directors, one technical director, ten technical officers, and clerical personnel. This multi-disciplinary team of officers will be seconded for a two-year rotation. The directors are from various government agencies—Police, Revenue Department, Income Tax, Customs, RBI, Intelligence Bureau, Securities and Exchange Board of India (SEBI), and the Legal Affairs Department of the Ministry of Law. The FIU expects to have all these positions filled, and to begin receiving suspicious transaction reports (STRs) by March 2006.

The FIU will be solely responsible for receiving, processing, analyzing, and disseminating information on STRs, and will independently refer suspicious cases to the appropriate enforcement agency. The MOF's Enforcement Directorate will handle the investigations and prosecution of money laundering cases. The GOI has established an Economic Intelligence Council (EIC) to enhance coordination among the various enforcement agencies and directorates in the MOF. The EIC provides a forum for enforcement agencies to strengthen intelligence and operational coordination, to formulate common strategies to combat economic offenses, and to discuss cases requiring interagency cooperation. In addition to the EIC, there are 18 regional economic committees in India. The CEIB will function as the secretariat for the EIC. The CEIB interacts with the National Security Council, the Intelligence Bureau, and the Ministry of Home Affairs on matters concerning national security and terrorism.

The FIU's core team will phase in its operations as follows: Phase 1, beginning in January 2006, will entail the bulk filing of information manually and the securing of this information electronically on CDs. Phase two, with a target date of June 2006, will focus on firming up formats and analytical tools, customization of requirements, and testing of analytical tools. The final phase, to be completed by December 2006, will include the sharing of information domestically and with other FIUs, the latter on a case-by-case basis. The FIU and the MOF are making all efforts to become compliant with Egmont standards with the ultimate goal of becoming a member of the Egmont Group.

The Central Bureau of Investigation, the Directorate of Revenue Intelligence, Customs, and Excise, the RBI, the Competent Authority, and the MOF are all active in anti-money laundering efforts. In 2004, the Directorate of Revenue Intelligence (DRI) referred four hawala-based money laundering cases with a U.S. nexus to the U.S. Department of Homeland Security/Immigration and Customs Enforcement (DHA/ICE). DHS/ICE carried out successful investigations on three of these cases and forwarded tangible results to the MOF's DOE. In 2005, the DOE forwarded two additional hawala-linked money laundering cases to DHS/ICE. DHS/ICE has provided investigative assistance.

Many banking institutions, prompted by the RBI, have taken steps on their own to combat money laundering. Many banks have compliance officers to ensure that anti-money laundering regulations are

observed. The RBI issued a notice in 2002 to commercial banks instructing them to adopt the "know-your-customer rules". The Indian Bankers Association established a working group to develop self-regulatory anti-money laundering procedures. Foreign customers applying for accounts in India must show positive proof of identity when opening a bank account. Banks also require that the source of funds must be declared if the deposit is more than the equivalent of $10,000. Finally, banks must report suspicious transactions. The GOI has the power to order banks to freeze assets. In November 2004, the RBI issued a circular updating its know-your-customer guidelines drafted to ensure that they comply with Financial Action Task Force (FATF) recommendations. The guidelines include the requirement that banks identify politically connected account holders residing outside India and identify the source of funds before accepting deposits from these individuals. The RBI has placed politically exposed persons (those entrusted with prominent public functions in other countries) in the highest risk category for the commission of financial crimes. The RBI also asked all commercial banks to become FATF-compliant regarding customer identification for existing as well as new accounts by December 2005.

India does not have an offshore financial center but does license offshore banking units (OBUs). These OBUs are required to be predominantly owned by individuals of Indian nationality or origin resident outside India and include overseas companies, partnership firms, societies and other corporate bodies. OBUs must also be audited to affirm that ownership by a nonresident Indian is not less than 60 percent. These entities are susceptible to money laundering activities, in part because of a lack of stringent monitoring of transactions in which they are involved. Finally, OBUs must be audited financially, but the firm that does the auditing does not have to have government approval.

India is a party to the 1988 UN Drug Convention, and is a member of the Asia/Pacific Group on Money Laundering. It is a signatory to, but has not yet ratified, the UN Convention against Transnational Organized Crime. India is a party to the UN International Convention for the Suppression of the Financing of Terrorism. In October 2001, the GOI and the United States signed a mutual legal assistance treaty, which entered into force in October 2005. India has also signed a police and security cooperation protocol with Turkey, which among other things provides for joint efforts to combat money laundering The GOI is implementing this convention through the Unlawful Activities Prevention Act. India is a party to 1988 UN Drug (Vienna) Convention. India implements the 1988 UN Drug Convention through amendments to the NDPSA (in 1989 and 2001) and the PMLA. It signed the Palermo Convention in December 2002 but has not yet ratified it.

India is a member of INTERPOL, and the CBI is the official INTERPOL unit in India. All state police forces and other law enforcement agencies have a link through INTERPOL/New Delhi to their counterparts in other countries for purposes of criminal investigations. India's Customs service is a member of the World Customs Organization, and shares enforcement information with countries in the Asia/Pacific region.

The GOI maintains tight controls over charities, which are required to register with the RBI. In April 2002, the Indian Parliament passed the Prevention of Terrorism Act (POTA), which criminalizes terrorist financing. In March 2003, the GOI announced that it had charged 32 terrorist groups under the POTA and had notified three others that they were involved in what were considered illegal activities. In July 2003, the GOI announced that it had arrested 702 persons under the POTA. In November 2004, the Parliament repealed the POTA and amended the 1967 Unlawful Activities (Prevention) Act to include the POTA's salient elements, including the criminalization of terrorist financing and the legal definitions for terrorism and terrorist acts. A GOI/POTA review committee will have one year review all 333 pending POTA cases, after which time any case that is not resolved will be dismissed. Terrorist financing in India, as well as in much of the subcontinent, is linked to the hawala system. The Government of India should cooperate fully with international initiatives to provide increased transparency in hawala, and, if necessary should initiate regulation and increase law enforcement actions in this area. Indian citizens' involvement in the underworld of the international

diamond trade should be examined. It also needs to quickly finalize the implementing regulations to the anti-money laundering law and ensure that the new FIU is fully operational in order to disseminate suspicious transaction reports to domestic law endowment and enhance information sharing with other FIUs globally. Meaningful tax reform will also assist in negating the popularity of hawala and lessen money laundering. Increased enforcement action should also be taken to combat trade-based money laundering. India should become a party to the UN Convention against Transnational Organized Crime.

Indonesia

Although neither a regional financial center nor an offshore financial haven, Indonesia is vulnerable to money laundering and terrorist financing due to a poorly regulated financial system, the lack of effective law enforcement and widespread corruption. Most money laundering in the country is connected to non-drug criminal activity such as gambling, prostitution, bank fraud, piracy and counterfeiting, illegal logging and corruption. Indonesia also has a long history of smuggling, facilitated by thousands of miles of un-patrolled coastline and a law enforcement system riddled with corruption. The proceeds of these illicit activities are easily parked offshore and only repatriated as required for commercial and personal needs.

As a result of Indonesia's ongoing efforts to implement the reforms to its Anti-Money Laundering (AML) regime, the Financial Action Task Force (FATF) removed Indonesia from its list of Non-Cooperative Countries and Territories (NCCT) on February 11, 2005. In order to ensure continued effective implementation of the reforms enacted, the FATF is monitoring Indonesia's progress for one year. The removal of Indonesia from the NCCT list recognized a concerted, interagency effort—personally directed by President Susilo Bambang Yudhoyono—to further develop Indonesia's nascent AML regime.

Indonesia's Financial Intelligent Unit (PPATK), established in December 2002 and fully functional since October 2003, continues to make steady progress in developing its human and institutional capacity. The PPATK is an independent agency that receives, maintains, analyzes, and evaluates currency and suspicious financial transactions, provides advice and assistance to relevant authorities, and issues publications. As of December 16, the PPATK has received approximately 3,059 suspicious transactions reports (STRs) from 102 banks and 23 non-bank financial institutions. The volume of STRs has increased from an average of 70 per month in 2004, to 160 per month in 2005. The agency also reported that it had received over 1.4 million cash transaction reports (CTRs). Based on their analysis of 646 STRs, PPATK investigators have referred 344 cases to the police. Based on referrals of STRs and other related information from the PPATK, as of September 2005, there has been 1 successful prosecution involving terrorism, 19 successful prosecutions involving bank fraud and/or corruption, and 1 successful prosecution for money laundering. Sentences in these cases ranged from 4 months in prison to the death penalty. Fifteen of the twenty one cases had sentences imposed of 8 years in prison or more; the money laundering verdict handed down a sentence of 8 years in prison.

Indonesia's Anti-Money Laundering and Counter Terrorism Finance (CTF) Donors' Coordination Group, co-chaired by the PPATK and the Australian Agency for International Development (AUSAID), has become a model for AML/CTF donors' coordination groups in other countries. Since Indonesia's removal form the NCCT list, donors and the Government of Indonesia (GOI) have placed greater emphasis on more practical training; technical and capacity building assistance for the non-bank financial sector, police, prosecutors and judges; cash smuggling; and regulation of charities and money changers.

The PPATK is actively pursuing broader cooperation with relevant GOI agencies. The PPATK has signed nine domestic memoranda of understanding (MOUs) to assist in financial intelligence information exchange with the following entities: Attorney General's Office (AGO) Bank Indonesia

(BI), the Capital Market Supervisory Agency (Bapepam), the Directorate General of Financial Institutions, the Directorate General of Taxation, Director General for Customs and Excise the Center for International Forestry Research, the Indonesian National Police, the Ministry of Forestry and the Corruption Eradication Committee.

Sustained public awareness campaigns, new bank and financial institution disclosure requirements, and the PPATK's support for Indonesia's first credible anticorruption drive have led to increased public awareness about money-laundering and, to a lesser degree, terrorism finance. Weak human and technical capacity, poor interagency cooperation, and corruption, however, still remain significant impediments to the continuing development of an effective and credible AML regime.

Until recently, banks and other financial institutions did not routinely question the sources of funds or require identification of depositors or beneficial owners. Financial reporting requirements were put in place only in the wake of the 1998 Asian financial crisis when the GOI became interested in controlling capital flight and recovering foreign assets of large-scale corporate debtors or alleged corrupt officials.

In April 2002, Indonesia passed Law No. 15/2002 Concerning the Crime of Money Laundering, Indonesia's anti-money laundering (AML) law, which made money laundering a criminal offense. The law identifies 15 predicate offenses related to money laundering, including narcotics trafficking and most major crimes. Law No. 15/2002 established the PPATK to develop policy and regulations to combat money laundering and terrorist finance.

In September 2003, Parliament passed Law No. 25/2003 amending Law No. 15/2002 Concerning the Crime of Money Laundering that addressed many FATF concerns. Amending Law No. 25/2003 provides a new definition of the crime of money laundering making it an offense for anyone to deal intentionally with assets known or reasonably suspected to constitute proceeds of crime with the purpose of disguising or concealing the origins of the assets, as seen in Articles 1(1) and 3. The amendment removes the threshold requirement for proceeds of crime and expands the definition of proceeds of crime to cover assets employed in terrorist activities. Article 1(7)(c) expands the scope of regulations requiring STRs to include attempted or unfinished transactions. Article 13(2) shortens the time to file an STR to three days or less after the discovery of an indication of a suspicious transaction. Article 17A makes it an offense to disclose information about the reported transactions to third parties, which carries a maximum of five years' imprisonment and a maximum of one billion rupiah (approximately $100,000). Articles 44 and 44A provide for mutual legal assistance with respect to money laundering cases, with the ability to provide assistance using the compulsory powers of the court. Article 44B imposes a mandatory obligation on the PPATK to implement provisions of international conventions or international recommendations on the prevention and eradication of money laundering. The Ministry of Justice and Human Rights finalized a draft Mutual Legal Assistance Law in early 2005 and the draft was sent from the President to the Parliament on June 9, 2005, for approval. Until this legislation is formally passed, the GOI uses informal, non-binding procedures to facilitate MLA from other states.

Bank Indonesia (BI), the Indonesian Central Bank, issued Regulation No. 3/10/PBI/2001, "The Application of Know Your Customer Principles," on June 18, 2001. This regulation requires banks to obtain information on prospective customers, including third party beneficial owners, and to verify the identity of all owners, with personal interviews if necessary. The regulation also requires banks to establish special monitoring units and appoint compliance officers responsible for implementation of the new rules and to maintain adequate information systems to comply with the law. Finally, the regulation requires banks to analyze and monitor customer transactions and report to BI within seven days any "suspicious transactions" in excess of Rp 100 million (approximately $10,000). The regulation defines suspicious transactions according to a 39-point matrix that includes key indicators such as unusual cash transactions, unusual ownership patterns, or unexplained changes in transactional

behavior. BI specifically requires banks to treat as suspicious any transactions to or from countries "connected with the production, processing and/or market for drugs or terrorism."

BI has issued an Internal Circular Letter No. 6/50/INTERN, dated September 10, 2004 concerning Guidelines for the Supervision and Examination of the Implementation of KYC and AML by Commercial Banks. In addition, BI also issued a Circular Letter to Commercial Banks No. 6/37/DPNP dated September 10, 2004 concerning the Assessment and Imposition of Sanction on the Implementation of KYC and other Obligation Related to Law on Money Laundering Crime. BI is also preparing Guidelines for Money Changers on Record Keeping and Reporting Procedures and Money Changer Examinations given by BI examiners.

Currently, banks must report all foreign exchange transactions and foreign obligations to BI. With respect to the physical movement of currency, Article 16 of Law No. 15/2002 contains a reporting requirement for any person taking cash into or out of Indonesia in the amount of 100 million Rupiah (approximately $10,000) or more, or the equivalent in another currency, which must be reported to the Director General of Customs. These reports must be given to the PPATK in no later than five business days and contain details of the identity of the person. Indonesian Central Bank regulation 3/18/PBI/2001 and the Directorate General of Customs and Excise Decree No.01/BC/2005 contain the requirements and procedures of inspection, prohibition, deposit of Indonesia Rupiah into or out of Indonesia. The Decree provides implementing guidance for Ministry of Finance Regulation No.624/PMK.04/2004 of December 31, 2004, which requires individuals who import or export more than rupiah 50 to 100 million in cash (approximately $5,000-$10,000) to report such transactions to Customs. This information is to be declared on the Indonesian Customs Declaration (BC2.2) and Customs officials at Jakarta, Batam and Pekanbaru airports submitted 325 such forms between January 19 and August 31, 2005, with 200 submitted after May 2.

Indonesia's bank secrecy law covers information on bank depositors and their accounts. Such information is generally kept confidential and can only be accessed by the authorities in limited circumstances. However, Article 27(4) of the Law No. 15/2002 now expressly exempts the PPATK from "the provisions of other laws related to bank secrecy and the secrecy of other financial transactions" in relation to its functions in receiving and requesting reports and conducting audits of providers of financial services. In addition, Article 14 of the Law No. 15/2002 exempts providers of financial services from bank secrecy provisions when carrying out their reporting obligations, and Article 15 of their anti-money laundering legislation gives providers of financial services, their officials and employees protection from civil or criminal action in making such disclosures.

Indonesia's laws provide only limited authority to block or seize assets. Under BI regulations 2/19/PBI/2000, police, prosecutors, or judges may order the seizure of assets of individuals or entities that have been either declared suspects, or indicted for a crime. This does not require the permission of BI, but, in practice, for law enforcement agencies to identify such assets held in Indonesian banks, BI's permission would be required. In the case of money laundering as the suspected crime, however, bank secrecy laws would not apply, according to the anti-money laundering law.

The GOI does have the authority to trace and freeze assets of individuals or entities on the UNSCR 1267 Sanctions Committee's consolidated list, and through BI, has circulated the consolidated list to all banks operating in Indonesia, with instructions to freeze any such accounts. The interagency process to issue freeze orders, which includes the Foreign Ministry, Attorney General, Police, and BI, takes several weeks from UN designation to bank notification. The implementation of this process has not led to the discovery of accounts or assets of individuals or entities on UN 1267 consolidated list. However, during the course of terrorism investigations, the Indonesia police have located and frozen accounts of individuals on the UN 1267 consolidated list.

The GOI is currently drafting additional amendments to Law No. 15/2002 that would provide the PPATK with preliminary investigative authority and the ability to temporarily freeze assets. The

amendments are intended to provide technical investigative support to police and prosecutors and to deter capital flight. Indonesia's AML Law and Government Implementing Regulation No. 57/2003 provide protections to whistleblowers and witnesses. The GOI has also finalized a whistleblower and witness protection law, which is now under parliamentary consideration.

The October 18, 2002, emergency counterterrorism regulation, the Government Regulation in Lieu of Law of the Republic of Indonesia (Perpu), No. 1 of 2002 on Eradication of Terrorism criminalizes terrorism and provides the legal basis for the GOI to act against terrorists, including the tracking and freezing of assets. The Perpu provides a minimum of three years and a maximum of 15 years imprisonment for anyone who is convicted of intentionally providing or collecting funds that are knowingly used in part or in whole for acts of terrorism. This regulation is necessary because Indonesia's anti-money laundering law criminalizes the laundering of "proceeds" of crimes, but it is often unclear to what extent terrorism generates proceeds. In October 2004, an Indonesian court convicted and sentenced one Indonesian to four years in prison on terrorism charges connected to his role in the financing of the August 2003 bombing of the Jakarta Marriott Hotel.

The GOI has just begun to take into account alternative remittance systems or charitable or nonprofit entities in its strategy to combat terrorist finance and money laundering. The PPATK has issued guidelines for non-bank financial service providers and money remittance agents on the prevention and eradication of money laundering and the identification and reporting of suspicious and other cash transactions. The GOI recently initiated a dialogue with charities and nonprofit entities on improving regulation and oversight of those sectors.

Indonesia is an active member of the Asia/Pacific Group on Money Laundering (APG) and the Bank for International Settlements. BI claims that it voluntarily follows the Basel Committee's "Core Principles for Effective Banking Supervision." The GOI is a party to the 1988 UN Drug Convention, and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. Indonesia has signed, but not yet become a party to, the UN International Convention for the Suppression of the Financing of Terrorism.

In June 2004, Indonesia became a member of the Egmont Group and, as such, is bound to share financial intelligence with other members in accordance with the organization's charter. The PPATK is actively pursuing broader cooperation with other Financial Intelligence Units (FIUS) and has MOUs with Thailand, Malaysia, Republic of Korea, Philippines, Romania, Australia, Belgium, Italy, Spain, Poland and Peru. The PPATK has also entered into an Exchange of Letters enabling international exchange with Hong Kong. Indonesia has signed Mutual Legal Assistance Treaties with Australia, China and South Korea, and Indonesia joined other ASEAN nations in signing the ASEAN Treaty on Mutual Legal Assistant in Criminal Matter on November 29, 2004. The Indonesian Regional Law Enforcement Cooperation Centre was formally opened in 2005 and was created to develop the operational law enforcement capacity needed to fight transnational crimes.

The GOI should continue its steady progress in strengthening its anti-money laundering regime to make it more effective. In particular, it must improve interagency cooperation in investigating and prosecuting cases. In this regard, Indonesia should review the adequacy of its Code for Criminal Procedure and Rules of Evidence and enact legislation to allow the use of modern techniques to enter evidence in court proceedings. Indonesia should also enact mutual legal assistance legislation as soon as possible and cooperate closely with other countries in providing and receiving this assistance. Indonesia should review and streamline its process for reviewing UN designations and identifying, freezing and seizing terrorist assets. Indonesia should become a party to the UN International Convention for the Suppression of the Financing of Terrorism and should ratify the UN Convention against Transnational Organized Crime.

Iran

The U.S. Department of State has designated Iran as a State Sponsor of Terrorism. No new information has been reported for Iran in 2005, so this report repeats information from last year and may be therefore be outdated in some aspects.

Iran is not a regional financial center. Iran has a robust underground economy and the use of alternative remittance systems like hawala to launder money is widespread. The underground economy is spurred—in part—by attempts to avoid restrictive taxation. In 2003, a prominent Iranian banking official was quoted as estimating that money laundering encompasses 20 percent of Iran's economy and that the under-development of financial institutions leads to an imbalance in financial markets causing underground financial activities to flourish. Further, Iran's real estate market is used to launder money. Real estate transactions take place in Iran, but often no funds change hands there; rather, payment is made overseas. This is typically done because of the difficulty in transferring funds out of Iran and the weakness of Iran's currency, the rial.

Hawala is also used to transfer value to and from Iran. Factors contributing to the widespread use of hawala are currency exchange restrictions and the large number of Iranian expatriates. The smuggling of goods into Afghanistan from Iran leads to a significant amount of trade-based money laundering. Goods purchased in Dubai are sent to one of many ports in southern Iran and then via land routes to other markets in Afghanistan and Pakistan. The goods imported into Iran and sent into Afghanistan are often part of the Afghan Transit Trade. Many of these goods are eventually found on the regional black markets. Iran is also a major transit route for opiates smuggled from Afghanistan.

In 2003, the Majlis (Parliament) passed an anti-money laundering act. The law includes customer identification requirements, mandatory record keeping for five years after the opening of accounts, and the reporting of suspicious activities. Iran is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. It has not signed the UN International Convention for the Suppression of the Financing of Terrorism.

It does not have a law on terrorist financing. The Government of Iran should construct a viable anti-money laundering and terrorist financing regime that adheres to international standards. It should ratify the UN Convention against Transnational Organized Crime. It should also become a party to the UN International Convention for the Suppression of the Financing of Terrorism. It should not support terrorism or the funding of terrorism.

Iraq

Iraq's economy is cash-based. The two state-owned banks control at least 90 percent of the banking sector. However, the sector is growing and at least 10 new banks, both domestic and international, have been licensed to operate in Iraq. Iraq has free trade zones in: Basra/Khor al-Zubair, Ninewa/Falafel, Sulaymaniyah, and Al-Quaymen. Under the Free Zone (FZ) Authority Law, goods imported and exported from the FZ are generally exempt from all taxes and duties, unless imported into Iraq. Additionally, capital, profits, and investment income from projects in the FZ are exempt from taxes and fees throughout the life of the project, including in the foundation and construction phases.

The Coalition Provisional Authority (CPA), the international body that governed Iraq beginning in April 2003, issued Regulations and Orders that carried the weight of law in Iraq. The CPA ceased to exist in June 2004, at which time the Iraqi Interim Government assumed authority for governing Iraq. Drafted and agreed by Iraqi leaders, the Transitional Administrative Law (TAL) describes the powers of the Iraqi government during the transition period. Under TAL Article 26, Regulations and Orders issued by the CPA pursuant to its authority under international law remain in force until rescinded or amended by legislation duly enacted and having the force of law. The constitution, which was ratified

in October 2005 but which does not take effect until a permanent government is formed, also provides for the continuation of existing law, including CPA Regulations and Orders, until the existing law is annulled or amended in accordance with the constitution.

CPA Order No. 93, "Anti-Money Laundering Act of 2004" (AML Act), governs financial institutions in connection with: money laundering, financing of crime, financing terrorism, and the vigilance required of financial institutions in regard to financial transactions. The law also criminalizes money laundering, financing crime, including the financing of terrorism, and structuring transactions to avoid legal requirements. The AML Act covers: banks; asset, investment fund and securities dealers or managers; insurance entities; money transmitters and foreign currency exchanges, as well as persons who deal in financial instruments, precious metals or gems; and persons who undertake hawala transactions. Covered entities are required to verify the identity of any customer opening an account for any amount. Covered entities are also required to verify the identity of non-account holders performing a transaction or series of potentially related transactions whose value is equal to or greater than five million Iraqi dinar (approximately $3,500). Beneficial owners must be identified upon account opening or for transactions exceeding ten million Iraqi dinar (approximately $7,000). Records must be maintained for at least five years. Covered entities must report suspicious transactions and wait for guidance before proceeding with the transaction; the relevant funds are frozen until guidance is received. Suspicious transaction reports (STRs) are to be completed for all transactions over four million Iraqi dinar (approximately $3,000) that is believed to, for example, involve funds that are derived from illegal activities or money laundering, intended for the financing of crime, including terrorism, or over which a criminal organization has disposal power, or a transaction conducted to evade any law for which there is no apparent business or other lawful purpose. The "tipping off" of customers by bank employees where a transaction has generated a suspicious transaction report is prohibited. However, bank employees are protected from liability for cooperating with the government. Willful violations of the reporting requirement may result in imprisonment or fines.

CPA Order No. 94, "Banking Law of 2004," gives the Central Bank of Iraq (CBI) the authority to license banks and to conduct due diligence on proposed bank management. Order No. 94 establishes requirements for bank capital, confidentiality of records, audit and reporting requirements for banks, and prudential standards. The CBI is responsible for the supervision of financial institutions. The CBI is mandated by the AML Act to issue regulations and require financial institutions to provide employee training, appoint compliance officers, develop internal procedures and controls to deter money laundering, and establish an independent audit function. The AML Act provides that the CBI will issue guidelines on suspicious financial activities and conduct on-site examinations to determine institutions' compliance. The CBI also may issue regulations to require large currency transaction reports for the cross-border transport of currency of more than 15 million Iraqi dinar (approximately $10,000). Neither Iraqis nor foreigners are permitted to transport more than $10,000 in currency when exiting Iraq. The CBI is also mandated by the AML Act to distribute the UN 1267 Sanction Committee's consolidated list of suspected terrorists or terrorist organizations. No asset freezes pertaining to any names on the consolidated list have been reported to date. Order No. 94 gives administrative enforcement authority to the CBI, up to and including the removal of institution management and revocation of bank licenses.

The AML Act calls for the establishment of the Money Laundering Reporting Office (MLRO) within the CBI. The MLRO has yet to become operational. The CBI and the USG are working together to build this capacity and implement the day-to-day functions of a financial intelligence unit (FIU). The MLRO will operate independently to collect, analyze and disseminate information on financial transactions subject to financial monitoring and reporting, including suspicious activity reports. The MLRO is also empowered to exchange information with other Iraqi or foreign government agencies.

The predicate offenses for the crimes of money laundering and the financing of crime are quite broad and extend beyond "all serious offenses" to include "some form of unlawful activity." The penalties

for violating the AML Act depend on the specific nature of the underlying criminal activity. For example, "money laundering" is punishable by a fine of up to 40 million dinar (approximately $27,080), or twice the value of the property involved in the transaction (whichever is greater), or imprisonment of up to four years, or both. Other offenses for which there are specific penalties include the financing of crime (a fine of up to 20 million dinar (approximately $13,540), two years' imprisonment, or both) and structuring transactions (up to 10 million dinar (approximately $6,770), one year imprisonment, or both). No arrests or prosecutions under the AML Act have been reported to date.

The AML Act also includes provisions for the forfeiture of any property, real or personal, including but not limited to funds involved in a covered offense, or any property traceable to the property, or any property gained as a result of such an offense, without prejudicing the rights of bona fide third parties. It also blocks any funds or assets, other than real property (which is covered by a separate regulation), belonging to members of the former Iraqi regime and authorizes the Minister of Finance to confiscate such assets following a judicial or administrative order. The lack of automation or infrastructure in the banking sector, however, hinders the government's ability to identify and freeze assets linked to illicit activity.

Iraq became a member of the Middle East and North Africa Financial Action Task Force (MENAFATF) in September 2005. Iraq is a party to the 1988 UN Drug Convention but not the UN International Convention for the Suppression of the Financing of Terrorism or the UN Convention against Transnational Organized Crime. Iraq should ratify these conventions. It should take an active part in MENAFATF and implement its recommendations. Iraq should continue its efforts to build capacity and actively implement the provisions of the AML Act and related authorities. As a priority, Iraq, should establish the MLRO and FIU, as well as develop increased capacity to investigate financial crimes and enforce the provisions of the AML Act. In addition, it should ensure that any new legislation that either replaces or enhances the AML Act or the Banking Law meets current international standards.

Ireland

Narcotics trafficking, fraud, and tax offenses are the primary sources of funds laundered in Ireland. Money laundering mostly occurs in financial institutions such as bureaux de change. Additionally, investigations in Ireland indicate that some business professionals have specialized in the creation of legal entities, such as shell corporations, as a means of laundering money. Trusts are also established as a means of transferring funds from the country of origin to offshore locations. The use of shell corporations and trusts makes it more difficult to establish the true beneficiary of the funds, which makes it difficult to follow the money trail and establish a link between the funds and the criminal.

Suspicious Transaction Reports (STRs), received by the Revenue Commissioners and the Garda Bureau of Fraud Investigation (GBFI), cites the use of solicitors, accountants, and company formation agencies in Ireland to create shell companies. Investigations have disclosed that these companies are used to provide a series of transactions connected to money laundering, fraudulent activity, and tax offenses. The difficulties in establishing the beneficial owner have been complicated by the fact that the directors are usually nominees and are often principals of a solicitors' firm or a company formation agency.

Ireland criminalized money laundering relating to narcotics trafficking and other offenses in 1994. Financial institutions (banks, building societies, the Post Office, stockbrokers, credit unions, bureaux de change, life insurance companies, and insurance brokers) are required to report suspicious transactions and currency transactions exceeding approximately $15,000. The financial institutions are also required to implement customer identification procedures, and retain records of financial transactions. In 2003, Ireland amended its Anti-Money Laundering law to extend the requirements of

customer identification and suspicious transaction reporting to lawyers, accountants, auditors, real estate agents, auctioneers, and dealers in high-value goods, thus aligning its laws with the Council Directive 2001/97/EC on prevention of the use of the financial system for money laundering (2nd EU Money Laundering Directive)

The Irish Financial Services Regulatory Authority (IFSRA) supervises the financial institutions for compliance with money laundering procedures. The Central Bank reports to the Irish Police regarding institutions under its supervision. The reports cover failure to establish identity of customers, failure to retain evidence of identification, and failure to adopt measures to prevent and detect the commission of a money laundering offense. In addition to STRs, there are customs reporting requirements for anyone transporting more than 12,700 euro (approximately $15,300).

Ireland's international banking and financial services sector is concentrated in Dublin's International Financial Services Centre (IFSC). In 2005, there were approximately 430 international financial institutions and companies operating in the IFSC. Services offered include banking, fiscal management, re-insurance, fund administration, and foreign exchange dealing. The IFSRA regulates the IFSC companies that conduct banking, insurance, and fund transactions. Tax privileges for IFSC companies were phased out over recent years and expired in 2005.

In 1999, the Corporate Law was amended to address problems arising from the abuse of Irish-registered nonresident companies (companies which are incorporated in Ireland, but do not carry out any activity in the country). The legislation requires that every company applying for registration must demonstrate that it intends to carry on an activity in the country. Companies must maintain at all times an Irish resident director or post a bond as a surety for failure to comply with the appropriate company law. In addition, the number of directorships that any one person can hold, subject to certain exemptions, is limited to 25. This is aimed at curbing the use of nominee directors as a means of disguising beneficial ownership or control.

In August 2001, the Government of Ireland (GOI) enacted the Company Law Enforcement Act 2001 (Company Act), to deal with problems associated with shell companies. The legislation establishes the Office of the Director of Corporate Enforcement (ODCE), whose responsibility it is to investigate and enforce the Company Act. The ODCE also has a general supervisory role in respect of liquidators and receivers. Under the law, the beneficial directors of a company have to be named. The Company Act also creates a mandatory reporting obligation for auditors to report suspicions of breaches of company law to the ODCE. In 2005, the ODCE had 16 prosecutions resulting in fines of varying amounts, four less than in 2004.

The Garda Bureau of Fraud Investigation (GBFI), Ireland's financial intelligence unit (FIU), analyzes financial disclosures. In 2003, a new Irish legal requirement went into effect, mandating that covered institutions file STRs with the Revenue (Tax) Department in addition to the BFI. Ireland estimates that up to 80 percent of STRs may involve tax violations. The Value Added Tax (VAT) fraud scams are the most prolific and have increased significantly in recent years. In 2004, the Criminal Assets Bureau took action in a number of such cases, the details of which are not yet available. The number of STRs filed increased from 4,254 in 2003 to 5,491 in 2004. Convictions for money laundering offenses under the Criminal Justice Act totaled four in 2001, two in 2002, and two in 2003. In 2004, there were seven prosecutions resulting in three convictions, currently awaiting sentencing. A conviction on charges of money laundering carries a maximum penalty of 14 years' imprisonment and an unlimited fine. To date, the strongest penalty applied for the conviction of money laundering is six years.

Under certain circumstances, the High Court can freeze, and, where appropriate, seize the proceeds of crimes. When criminal activity is suspected, the exchange of information between police and the Revenue Commissioner is authorized. The Criminal Assets Bureau (CAB) was established in 1996 to confiscate the proceeds of crime in cases where there is no criminal conviction. The CAB reports to the Minister for Justice and includes experts from Police, Tax, Customs, and Social Security Agencies.

Under the Proceeds of Crime Act 1996, specified property may be frozen for a period of seven years, unless the court is satisfied that all or part of the property is not the proceeds of crime. Since 1996, the CAB has frozen over 55 million euro of assets. In 2004, the CAB collected 16.4 million euro in taxes against the proceeds of criminal activity. In 2003, the CAB also initiated criminal prosecutions against a number of suspects for breaches of criminal law, and proceeded with successful investigations/prosecutions for revenue and social welfare offenses previously not presented before the criminal courts.

On March 9, the Irish government made strides in strengthening antiterrorism legislation when President Mary McAleese signed the Criminal Justice (Terrorism Offenses) Bill 2002 into law. This legislation brought Ireland in line with United Nations Conventions and European Union Framework decisions on combating terrorism. It enabled Ireland to ratify and accede to the remaining four UN conventions on terrorism. (Ireland had previously acceded to eight of twelve) and significantly strengthened the government's ability to seize assets and prosecute those suspected of supporting terrorism. Until this law passed, GOI authorities could pursue and prosecute suspects of terrorism, notably terrorism financing, only if they also had committed criminal offenses in Ireland or had been designated by the UN 1267 Sanctions Committee's consolidated list or by the EU. Implementation of the new anti terrorism legislation and its anti-money laundering law amendments, plus stringent enforcement of all such initiatives, will enhance Ireland's efforts to maintain an effective anti-money laundering program. The Central Bank, moreover, participates with the Irish Parliament subcommittee in drafting guidance notes for regulated institutions on combating and preventing terrorist financing. These notes were revised and issued to institutions upon the passing of the bill.

The law allows the Irish Police to apply to the courts to freeze assets where certain evidentiary requirements are met. Ireland reported to the European Commission the names of seven individuals, the most recent one in 2004, who maintained a total of nine accounts that were frozen in accordance with the provisions of the European Union's (EU) Anti-Terrorist Legislation. The aggregate value of the funds frozen is approximately 90,000 euro (approximately $109,000).

In February seven people from the Republic of Ireland were arrested in a police raid on suspects believed to be laundering some of the 26.5 pounds sterling (38 million euro- approximately $45,260,000) stolen from the Northern Bank, Belfast on December 23, 2004. Over 2.3m pounds sterling and 94,000 (approximately $120,000) euro was seized in Cork and Dublin. Up to 100 officers from the Criminal Assets Bureau, Garda Bureau of Fraud Investigation, Special Detective Unit and Crime and Security Section were involved in the arrests, with no charges filed, or prosecutions begun.

In July, the United States and Ireland signed instruments on extradition and mutual legal assistance. These instruments are part of a sequence of bilateral agreements that the United States is concluding with all 25 EU Member States, in order to implement twin agreements on extradition and mutual legal assistance with the European Union in 2003. The instruments signed by Ireland will supplement and update the 1983 U.S.-Ireland extradition treaty and the 2001 bilateral treaty on mutual legal assistance (MLAT). The 1983 extradition treaty between Ireland and the U.S. is in force, while the ratification process for the 2001 MLAT has not yet been completed by the GOI. Regarding mutual assistance, the instruments provide for searches of suspect foreign located bank accounts, joint investigative teams, and testimony by video-link.

Ireland is a member of the EU, and the FATF. The FIU is a member of the Egmont Group. Ireland is a party to the UN International Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, and the 1988 UN Drug Convention. Ireland is also a party to the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime.

"Shell" companies-companies that have no physical presence and normally have nominee directors are contrary to FATF's international standards. These "paper companies" are convenient vehicles for the

laundering of funds and could be used to finance terrorism. The GOI should consider strengthening measures to prevent the establishment of such companies. Similarly, law enforcement should have a stronger role in identifying the true beneficial owners of shell companies as well as of trusts in the course of investigations.

Isle of Man

The Isle of Man (IOM) is a Crown Dependency of the United Kingdom located between England and Ireland in the Irish Sea. Its large and sophisticated financial center is potentially vulnerable to money laundering at the layering and integration stages. The U.S. dollar is the most common currency used for criminal activity in the IOM. Most of the illicit funds in the IOM are from fraud schemes and narcotics trafficking in other jurisdictions, including the United Kingdom. Identity theft and Internet abuse are growing segments of financial crime activity.

As of September 30, 2004, the IOM's financial industry consisted of approximately 19 life insurance companies, 25 insurance managers, more than 177 captive insurance companies, more than 17.2 billion pounds (approximately $32.7 billion) in life insurance funds and 5.6 billion pounds (approximately $10.6 billion) in non-life insurance funds under management, 53 licensed banks and two licensed building societies, 82 investment business license holders, 30.1 billion pounds (approximately $57.2 billion) in bank deposits, and 164 collective investment schemes with 6.5 billion pounds (approximately $12.4 billion) of funds under management. There are also 171 licensed corporate service providers, with approximately another seven seeking licenses.

Money laundering related to narcotics trafficking was criminalized in 1987. The Prevention of Terrorism Act 1990 made it an offense to contribute to terrorist organizations, or to assist a terrorist organization in the retention or control of terrorist funds. In 1998, money laundering arising from all serious crimes was criminalized. Financial institutions and professionals such as banks, fund managers, stockbrokers, insurance companies, investment businesses, credit unions, bureaux de change, check cashing facilities, money transmission services, real estate agents, auditors, casinos, accountants, lawyers, and trustees are required to report suspicious transactions and comply with the requirements of the anti-money laundering (AML) code, such as customer identification.

The Financial Supervision Commission (FSC) and the Insurance and Pension Authority (IPA) regulate the IOM financial sector. The FSC is responsible for the licensing, authorization, and supervision of banks, building societies, investment businesses, collective investment schemes, corporate service providers, and companies. The IPA regulates insurance companies, insurance management companies, general insurance intermediaries, and retirement benefit schemes and their administrators. In addition, the FSC also maintains the Company Registry Database for the IOM, which contains company records dating back to the first company incorporated in 1865. Statutory documents filed by IOM companies can now be searched and purchased online through the FSC's website.

Instances of failure to disclose suspicious activity would result in both a report being made to the Financial Crimes Unit (FCU), the IOM's financial intelligence unit (FIU), and possible punitive action by the regulator, which could include revoking the business license. To assist license holders in the effective implementation of anti-money laundering techniques, the regulators hold regular seminars and additional workshop training sessions in partnership with the FCU and the Isle of Man Customs and Excise.

In December 2000, the FSC issued a consultation paper, jointly with the Crown Dependencies of Guernsey and Jersey, called Overriding Principles for a Revised Know Your Customer Framework, to develop a more coordinated approach on anti-money laundering. Further work between the Crown Dependencies is being undertaken to develop a coordinated strategy on money laundering, to ensure compliance as far as possible with the revised Financial Action Task Force (FATF) Forty

Recommendations on Money Laundering. The IOM is also assisting the FATF Working Groups considering matters relating to customer identification and companies' issues.

In August 2002, money service businesses (MSBs) not already regulated by the FSC or IPA were required to register with Customs and Excise. This implemented the 1991 EU Directive on Money Laundering, revised by the Second Directive 2001/97/EC, for MSBs and provides for their supervision by Customs and Excise to ensure compliance with the AML Codes.

The IPA, as regulator of the IOM's insurance and pensions business, issues Anti-Money Laundering Standards for Insurance Businesses (the "Standards"). The Standards are binding upon the industry and include the Overriding Principles. These include a requirement that all insurance businesses check their whole book of businesses to determine that they have sufficient information available to prove customer identity. The current set of Standards became effective March 31, 2003. In addition, the IPA conducts on-site visits to examine procedures and policies of companies under its supervision.

The Online Gambling Regulation Act 2001 and an accompanying AML (Online Gambling) Code 2002 are supplemented by AML guidance notes issued by the Gambling Control Commission, a regulatory body which provides more detailed guidance on the prevention of money laundering through the use of online gambling. The Online Gambling legislation brought regulation to what was technically an unregulated gaming environment. The dedicated Online Gambling AML Code was at the time unique within this segment of the gambling industry.

The Companies, Etc. (Amendment) Act 2003 calls for additional supervision for all licensable businesses, e.g., banking, investment, insurance and corporate service providers. The act further provides that no future bearer shares will be issued after April 1, 2004, and all existing bearer shares must be registered before any rights relating to such shares can be exercised.

The FCU, formed in April 2000, evolved from the police Fraud Squad and now includes both police and customs staff. It is the central point for the collection, analysis, investigation, and dissemination of suspicious transaction reports (STRs) from obligated entities. The entities required to report suspicious transactions include banks/financial institutions, bureaux de change. casinos, post offices, lawyers, accountants, advocates, and businesses involved with investments, insurance, real estate, gaming/lotteries, and money changers. The FIU received 2,265 suspicious transaction reports (STRs) in 2005, 2,315 STRs in 2004, and 1,920 STRs in 2003. In 2005, the FIU referred approximately 11 percent of the STRs to the United Kingdom, two percent to other European jurisdictions and 12 percent to non-European jurisdictions as referrals to law enforcement for investigation. In 2004, the FIU referred 19 percent of the STRs to the United Kingdom, eight percent to Europe and 31 percent to non-European jurisdictions. There is no minimum threshold for obligated entities to file a STR and reporting individuals (compliance officers, bankers, etc.) are protected by law when filing suspicious transactions.

The FCU is organized under the Department of Home Affairs. The FIU has access to Customs, police and tax information. The STRs are disseminated through agreements to the IOM Customs, Tax Administrators, Financial Supervision Commission (FSC) and the Insurance and Pension Authority (IPA). The FCU is responsible for investigating financial crimes and terrorist financing cases. In 2005, there were four arrests and one prosecution for money laundering involving narcotics.

The Criminal Justice Acts of 1990 and 1991, as amended, extend the power to freeze and confiscate assets to a wider range of crimes, increase the penalties for a breach of money laundering codes, and repeal the requirement for the Attorney General's consent prior to disclosure of certain information. Assistance by way of restraint and confiscation of assets of a defendant is available under the 1990 Act to all countries and territories designated by Order under the Act, and the availability of such assistance is not convention-based nor does it require reciprocity. Assistance is also available under

the 1991 Act to all countries and territories in the form of the provision of evidence for the purposes of criminal investigations and proceedings.

Under the 1990 Act the provision of documents and information is available to all countries and territories for the purposes of investigations into serious or complex fraud. Similar assistance is also available to all countries and territories in relation to drug trafficking and terrorist investigations. All decisions for assistance are made by the Attorney General of the IOM on a case-by-case basis, depending on the circumstances of the inquiry. The law also addresses the disclosure of a suspicion of money laundering. Since June 2001, it has been an offense to fail to make a disclosure of suspicion of money laundering for all predicate crimes, whereas previously this just applied to drug- and terrorism-related crimes. The law also lowers the standard for seizing cash from "reasonable grounds" to believe that it was related to drug or terrorism crimes to a "suspicion" of any criminal conduct. The law also provides powers to constables, including customs officers, to investigate whether a person has benefited from any criminal conduct. These powers allow information to be obtained about that person's financial affairs. These powers can be used to assist in criminal investigations abroad as well as in the IOM.

The United Kingdom implemented the amendments to its Proceeds of Crime Act in 2004. The IOM is currently reviewing new legislation that will redo its Criminal Justice Act along similar lines. The new amendments are under consideration and are expected to come into force in late 2005 or early 2006.

The Customs and Excise (Amendment) Act 2001 gives various law enforcement and statutory bodies within the IOM the ability to exchange information, where such information would assist them in discharging their functions. The Act also permits Customs and Excise to release information it holds to any agency within or outside the IOM for the purposes of any criminal investigation and proceeding. Such exchanges can be either spontaneous or by request.

The Government of the IOM enacted the Anti-Terrorism and Crime Act, 2003. The purpose of the Act is to enhance reporting, by making it an offense not to report suspicious transactions relating to money intended to finance terrorism. The IOM Terrorism (United Nations Measure) Order 2001 implements UNSCR 1373 by providing for the freezing of terrorist funds, as well as by creating a criminal offense with respect to facilitators of terrorism or its financing. All charities are registered and supervised by the Charities Commission. All other UN and EU financial sanctions have been adopted or applied in the IOM, and are administered by Customs and Excise. Institutions are obliged to freeze affected funds and report the facts to Customs and Excise. The FSC's anti-money laundering guidance notes have been revised to include information relevant to terrorist events. The Guidance Notes were issued in December 2001. Additional amendments are being reviewed that will incorporate the new FATF recommendations and EU directives.

The IOM has developed a legal and constitutional framework for combating money laundering and the financing of terrorism. There appears to be a high level of awareness of anti-money laundering and counterterrorist financing issues within the financial sector, and considerable effort has been made to put appropriate practices into place. In November 2003, the Government of the IOM published the full report made by the International Monetary Fund (IMF) following its examination of the regulation and supervision of the IOM's financial sector. In this report the IMF commends the IOM for its robust regulatory regime. The IMF found that "the financial regulatory and supervisory system of the Isle of Man complies well with the assessed international standards." The report concludes the Isle of Man fully meets international standards in areas such as banking, insurance, securities, anti-money laundering, and combating the financing of terrorism.

The IOM is a member of the Offshore Group of Banking Supervisors. The IOM is also a member of the International Association of Insurance Supervisors and the Offshore Group of Insurance Supervisors. The FCU belongs to the Egmont Group. The IOM cooperates with international anti-

money laundering authorities on regulatory and criminal matters. Application of the 1988 UN Drug Convention was extended to the IOM in 1993.

Isle of Man officials should continue to support and educate the local financial sector to help it combat current trends in money laundering. The authorities also should continue to work with international anti-money laundering authorities to deter financial crime and the financing of terrorism and terrorists.

Israel

Israel is not a regional financial center. It primarily conducts financial activity with the financial markets of the United States and Europe, and to a lesser extent with Asia. Less than a quarter of all Israeli money laundering or terrorist financing seizures are related to narcotics proceeds. The majority of the seizures are related to fraud, theft, embezzlement, and illegal money services providers (MSP). Most significant criminal activities that were investigated in 2005 were related to intentional false property transactions reporting. Israel does not have free trade zones and is not considered an offshore financial center.

Israel enacted the "Prohibition on Money Laundering Law" (PMLL) on August 8, 2000 (Law No. 5760-2000). The PMLL established a framework for an anti-money laundering system, but required the passage of several implementing regulations before the law could fully take effect. Among other things, the PMLL criminalized money laundering and included more than 18 serious crimes, in addition to offenses described in the prevention of terrorism ordinance, as predicate offenses for money laundering.

In addition, Israel adopted in 2001 the "Prohibition on Money Laundering (The Banking Corporations Requirement Regarding Identification, Reporting, and Record Keeping) Order." The Order establishes specific procedures for banks with respect to customer identification, record keeping, and the reporting of irregular and suspicious transactions. The PMLL requires the declaration of currency transferred (including cash, travelers' checks, and banker checks) into or out of Israel for sums above 80,000 new Israeli shekels (nis) (about $17,200). This applies to any person entering or leaving Israel and to any person bringing or taking money into or out of Israel by mail or by any other methods, including cash couriers. This offense is punishable by up to six months' imprisonment or a fine of nis 202,000 ($43,400), or ten times the amount that was not declared, whichever is higher. Alternatively, an administrative sanction of nis 101,000 ($21,700), or five times the amount that was not declared, may be imposed. In 2003, the Government of Israel (GOI) lowered the threshold for reporting cash transaction reports (CTRs) to nis 50,000 ($10,500), lowered the document retention threshold to nis 10,000 ($2,100), and imposed more stringent reporting requirements.

The PMLL also provided for the establishment of the Israeli Money Laundering Prohibition Authority (IMPA) as the country's financial intelligence unit (FIU). IMPA became operational in 2002. The PMLL requires financial institutions to report "unusual transactions" to IMPA as soon as possible under the circumstances. The term "unusual transactions" is loosely defined. However, it is used so that the IMPA will receive reports even when the financial institution is unable to link the unusual transaction with money laundering. In addition, suspicious transaction reporting is required of members of the stock exchange, portfolio managers, insurers or insurance agents, provident funds and companies managing a provident fund, providers of currency services, and the Postal Bank. The PMLL does not apply to intermediaries such as lawyers and accountants.

In 2002, Israel enacted several new amendments to the PMLL that resulted in the addition of the money services businesses (MSB) to the list of entities required to file cash transaction reports (CTRs) and suspicious transaction reports (STRs), the establishment of a mechanism for customs officials to input into the IMPA database, the creation of regulations stipulating the time and method of bank reporting, and the creation of rules on safeguarding the IMPA database and rules for requesting and

transmitting information between IMPA, the Israeli National Police (INP) and the Israel Security Agency. The PMLL also authorized the issuance of regulations requiring financial service providers to identify, report, and keep records for specified transactions for seven years.

The Financial Action Task Force (FATF) removed Israel from its Non-Cooperative Countries and Territories (NCCT) list in June 2002. A U.S. advisory issued by the Department of Treasury's Financial Crimes Enforcement Network in 2000 to U.S. financial institutions, emphasizing the need for enhanced scrutiny of certain transactions and banking relationships in Israel to ensure that appropriate measures are taken to minimize risk for money laundering, was also withdrawn in 2002. That same year, IMPA was admitted into the Egmont Group of financial intelligence units.

The PMLL mandates the registration of MSBs through the Providers of Currency Services Registrar at the Ministry of Finance. In 2004, Israeli courts convicted several MSBs for failure to register with the Registrar of Currency Services. In addition, several criminal investigations have been conducted against other currency-services providers, some of which have resulted in money laundering indictments, which are still pending. The closure of unregistered MSBs was a priority objective of the INP in 2004, and it raided at least 19 such locations. The INP and the Financial Service Providers Regulatory Authority maintain a high level of coordination, routinely exchange information, and have conducted multiple joint enforcement actions. In the past year, Israeli courts convicted several MSBs for violating the obligation to register with the Registrar of Currency Services. In addition, several criminal investigations were brought against other MSBs, some of which resulted in money laundering indictments that are still pending criminal trials.

The Israeli National Police (INP) reports no indications of an overall increase in financial crime relative to previous years. However, during 2005, Israel has been the nexus of several high profile money laundering cases. In March 2005, the International Crimes Unit (ICU) of the Israeli National Police (INP) raided Bank Hapoalim and its trust company, in what was described as the biggest money laundering scandal ever in Israel. The police froze over 180 accounts with more than $376 million, and some 24 employees were detained, including the manager and four senior executives. The operation came to light with information obtained by the ICU. In addition, the police arrested an Israeli citizen in March in connection with what is considered to be one of the largest robbery attempts in British history. Hackers planned to steal about $450 million from a Japanese bank in London, and then launder part of the funds through a bank account that belonged to the Israeli citizen's company.

The legislative regime criminalizing the financing of terrorism includes provisions of the defense regulations (state of emergency) (1945), the prevention of terrorism ordinance (1948), the penal law (1977), and the PMLL. On December 29, 2004, the Israeli parliament adopted the prohibition on terrorist financing law 5765-2004, which is geared to further modernize and enhance Israel's ability to combat terrorist financing and to cooperate with other countries on such matters. This law went into effect in August 2005. Under the International Legal Assistance Law of 1998, Israeli courts are empowered to enforce forfeiture orders executed in foreign courts for crimes committed outside Israel. The new anti-money laundering law has recently enhanced this ability.

Israel has established systems for identifying, tracing, freezing, seizing, and forfeiting narcotics-related assets, as well as assets derived from or intended for other serious crimes, including the funding of terrorism. The identification and tracing of such assets is part of the ongoing function of the Israeli intelligence authorities and IMPA. In 2005, 6,005 suspicious transaction reports were received by IMPA. During this period IMPA disseminated several hundred intelligence reports to law enforcement agencies in response to requests. In addition, twelve different investigations yielded indictments (some of them multiple indictments). In another case, prosecutors indicted a number of bank officials for money laundering offenses for violation of the obligation to report unusual transactions and for advising their customers on ways of avoiding reporting to IMPA. In 2005, the INP seized

approximately $75 million in suspected criminal assets. Total seizures for each of the previous three years ranged from $23-$27 million each year.

Israel is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. Israel signed the UN Convention against Transnational Organized Crime on December 13, 2000, but has not yet ratified it. In June 2003, the Knesset adopted the Combating Criminal Organizations Law, which includes comprehensive measures with regard to organized crime. On November 29, 2005, Israel signed the United Nations Convention against Corruption.

The Government of Israel continued to make progress in strengthening its anti-money laundering and terrorist financing regime in 2005. Israel has entered into several bilateral agreements and memoranda of understanding aimed at combating financial crimes. However, there is a continuing need for more effective bank supervision and proactive investigations of money laundering associated with criminal activity, especially on the part of organized crime figures and syndicates.

Israel should also examine the misuse of the international diamond trade to launder funds. Israel should continue to enforce regulations pursuant to the PMLL and continue improving its anti-money laundering and counterterrorist financing regime through ensuring the diligent reporting of suspicious activities by banks and non-financial institutions. Israel should ratify the UN Convention against Transnational Organized Crime.

Italy

Italy is not an important regional or offshore financial center. However, money laundering is a concern both because of the prevalence of homegrown organized crime groups and the recent influx of criminal organizations from abroad, especially from Albania, Romania, and Russia. Counternarcotics efforts are complicated by the heavy involvement in international narcotics trafficking of domestic and Italian-based foreign organized crime groups. Italy is a consumer country and a major transit point for heroin coming from the Near East and Southwest Asia through the Balkans en route to Western/Central Europe and, to a lesser extent, the United States. Italian and ethnic Albanian criminal organizations work together to funnel drugs to and through Italy. Additional priority trafficking groups include other Balkan organized crime entities, as well as Nigerian, Dominican, and Colombian and other South American trafficking groups. In addition to the narcotics trade, laundered funds come from a myriad of criminal activities, such as alien smuggling, contraband cigarette smuggling, pirated goods, extortion, usury, and kidnapping. Financial crimes not directly linked to money laundering, such as credit card and Internet fraud, are increasing.

Money laundering occurs both in the regular banking sector and, more frequently, in the non-bank financial system, i.e., casinos, money transfer houses, and the gold market. Money launderers predominantly use non-bank financial institutions for the illicit export of currency—primarily U.S. dollars and euros—to be laundered in offshore companies. There is a substantial black market for smuggled goods in the country, but it is not funded significantly by narcotics proceeds.

Money laundering is defined as a criminal offense when it relates to a separate, intentional felony offense. All intentional criminal offenses are predicates to the crime of money laundering, regardless of the applicable sentence for the predicate offense. Italy has strict laws on the control of currency deposits in banks. Banks must identify their customers and record and report to the Italian exchange office (UIC)—Italy's financial intelligence unit (FIU)—any cash transaction that exceeds approximately $15,000. The Bank of Italy's mandatory guidelines require the reporting of all suspicious cash transactions and other activity—such as a third party payment on an international transaction—on a case-by-case basis. Italian law prohibits the use of cash or negotiable bearer

instruments for transferring money in amounts in excess of approximately $15,000, except through authorized intermediaries/brokers.

Banks and other financial institutions are required to maintain for ten years records necessary to reconstruct significant transactions, including information about the point of origin of funds transfers and related messages sent to or from Italy. Banks operating in Italy must remit account data to a central archive controlled by the Bank of Italy. This archive was established for record keeping and financial oversight purposes, but has proved useful for tracking money laundering. A "banker negligence" law makes individual bankers responsible if their institutions launder money. The law protects bankers and others with respect to their cooperation with law enforcement.

Italy has addressed the problem of international transportation of illegal-source currency and monetary instruments by applying the $15,000-equivalent reporting requirement to cross-border transport of domestic and foreign currencies and negotiable bearer instruments. Reporting is mandatory for cross-border transactions involving negotiable bearer monetary instruments (e.g., checks), but not for wire transfers; nevertheless, financial institutions are required to maintain a uniform anti-money laundering database for wire transfers and to submit this data on a monthly basis to the UIC. During 2004, the last year for which complete figures are available, the UIC received 6,816 suspicious transaction reports (STRs) related to money laundering and 288 related to the financing of terrorism. The UIC itself does little filtering of the STRs, but rather sends virtually all of them to the Anti-Mafia Investigative Unit (DIA) and the Guardia di Finanza (GdF), Italy's financial police. During 2004, law enforcement opened 328 investigations based on STRs, which resulted in 103 prosecutions.

Because of Italy's strong banking controls, narcotics traffickers are using different ways of laundering drug proceeds. To deter nontraditional money laundering, the Government of Italy (GOI) has enacted a decree to broaden the category of institutions and professionals required to abide by anti-money laundering regulations. The list now includes debt collectors, exchange houses, insurance companies, casinos, real estate agents, brokerage firms, gold and valuables dealers and importers, auction houses, art galleries, antiques dealers, labor advisors, lawyers, and notaries. Not all implementing regulations for the decree have been issued, so while Italy has comprehensive internal auditing and training requirements for its (broadly-defined) financial sector, implementation of these measures by non-bank financial institutions lags behind that of banks, as evidenced by the relatively low number of STRs filed by non-bank financial institutions. According to UIC data, banking institutions submit 88 per cent of all STRs. Other financial intermediaries such as exchange houses submit 5.5 per cent, insurance companies 3.1 per cent, the postal sector 2.6 per cent, and all other sectors less than one per cent.

The UIC, which is an arm of the Bank of Italy, receives and analyzes STRs filed by covered institutions, and then forwards them to the National Anti-Mafia Directorate (local public prosecutors), the Anti-Mafia Directorate, or the GdF for further investigation. The UIC compiles a register of financial and non-financial intermediaries that carry on activities that could be vulnerable to money laundering. The UIC also performs supervisory and regulatory functions such as issuing decrees, regulations, and circulars. It does not require a court order to compel supervised institutions to provide details on regulated transactions.

A special currency unit of the GdF is the Italian law enforcement agency with primary jurisdiction for conducting financial investigations in Italy. STRs led the GdF to identify $14,400,000 in laundered money in 2003. Both the UIC and the special currency unit have access to the Bank of Italy's central archive. Investigators from other divisions in the GdF and other Italian law enforcement agencies must obtain a court order prior to being granted access to the archive.

Italy has established reliable systems for identifying, tracing, freezing, seizing, and forfeiting assets from narcotics trafficking and other serious crimes, including terrorism. These assets include currency accounts, real estate, vehicles, vessels, drugs, legitimate businesses used to launder drug money, and

other instruments of crime. Under anti-Mafia legislation, seized financial and non-financial assets of organized crime groups can be forfeited. The law allows for forfeiture in both civil and criminal cases. Italy does not have any significant legal loopholes that allow traffickers and other criminals to shield assets. However, the burden of proof is on the Italian government to make a case in court that assets are related to narcotics trafficking or other serious crimes. Law enforcement officials have adequate powers and resources to trace and seize assets; however, their efforts can be affected by which local magistrate is working a particular case. Funds from asset forfeitures are entered into the general State accounts. Italy shares assets with member states of the Council of Europe. The GOI is currently involved in multilateral negotiations with the European Union (EU) to enhance asset tracing and seizure.

In October 2001, Italy passed a decree (subsequently converted into legislation) that created the Inter-Ministerial Financial Security Committee (FSC), which is charged with coordinating GOI efforts to track and interdict terrorist financing. The committee includes representatives from the Economics, Justice, and Foreign Affairs Ministries; law enforcement agencies; and the intelligence services. The Committee has far-reaching powers that include waiving provisions of the Official Secrecy Act to obtain information from all government ministries and the as-yet-unused authority to order a freeze of terrorist-related assets.

A second October 2001 decree (also converted into legislation) made financing of terrorist activity a criminal offense, with prison terms of between seven and 15 years. The legislation also requires financial institutions to report suspicious activity related to terrorist financing. Both measures facilitate the freezing of terrorist assets. The GOI cooperates fully with efforts by the United States to trace and seize assets. Italy is second only to the United States in the number of suspected terrorists and terrorist organizations it has submitted to the UNSCR 1267 Sanctions Committee for designation. The UIC transmits to financial institutions the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224 as well as those designated by the EU. The UIC may provisionally suspend for 48 hours transactions deemed suspect. The courts must then act to freeze or seize the assets. Under Italian law, financial and economic assets linked to terrorists can only be seized through a criminal sequestration order. Courts may issue such orders as part of criminal investigation of crimes linked to international terrorism. The sequestration order may be issued with respect to any asset, resource, or item of property, provided that these are goods or resources linked to the criminal activities under investigation. A provision of the Italian implementing legislation of the third EU money laundering directive would give the GOI the authority to issue a decree law allowing the freezing, seizing, and forfeiture of non-financial assets belonging to terrorist groups and individuals. This legislation ahs not yet been enacted by the Parliament. In Italy, the term "alternative remittance system" refers to non-bank regulated institutions such as money transfer businesses. Informal remittance systems do exist, primarily to serve Italy's significant immigrant communities. Italy does not regulate charities per se. Primarily for tax purposes, Italy in 1997 created a category of "not-for-profit organizations of social utility" (ONLUS). Such an organization can be an association, a foundation or a fundraising committee. To be classified as an ONLUS, the organization must register with the Economics Ministry and prepare an annual report. There are currently 19,000 registered ONLUS. The ONLUS Agency was established in 2000 and has the power to issue guidelines and to draft legislation for the non-profit sector; to maintain data and statistics; to alert other authorities in cases of violation of existing obligations; and to mandate delistings from the ONLUS registry. The ONLUS Agency recently launched a $240,000 project for the creation of a centralized database, to gather mandatory information related to all Italian ONLUS. The ONLUS Agency has reviewed 1,500 ONLUS and recommended the dissolution of several that were not in compliance with Italian law. Italian authorities believe that, based on analysis by the UIC and on investigations by the GdF, the risk of terrorist financing in the Italian non-profit sector is low.

Italian cooperation with the United States on money laundering matters has been exemplary. The United States and Italy have signed a customs assistance agreement as well as extradition and Mutual Legal Assistance treaties (MLAT). Both in response to requests under the MLAT and on an informal basis, Italy provides the United States records related to narcotics trafficking, terrorism and terrorist financing investigations and proceedings. Italy also cooperates closely with U.S. law enforcement agencies and other governments investigating illicit financing related to these and other serious crimes. The MLAT provides a basis for the United States to forfeit and share assets with Italy, but Italian law currently precludes Italy from reciprocating.

Italy is a party to the 1988 UN Drug Convention; the UN International Convention for the Suppression of the Financing of Terrorism; and the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime. Italy has signed, but not yet ratified, the UN Convention Against Transnational Organized Crime.

Italy is a member of the Financial Action task Force (FATF) and held the FATF presidency in 1997-98. As a member of the Egmont Group, Italy's UIC shares information with other countries' FIUs. The UIC has been authorized to conclude information-sharing agreements concerning suspicious financial transactions with other countries. To date, Italy has signed memoranda of understanding with France, Spain, the Czech Republic, Croatia, Slovenia, Belgium, Panama, Latvia, the Russian Federation, Canada, and Australia. Italy also is negotiating agreements with Japan, Argentina, Malta, Thailand, Singapore, Hong Kong, Malaysia, and Switzerland, and has a number of bilateral agreements with foreign governments in the areas of investigative cooperation on narcotics trafficking and organized crime. There is no known instance of refusal to cooperate with foreign governments.

Italy is firmly committed to the fight against money laundering and terrorist financing, both domestically and internationally. However, given the relatively low number of STRs being filed by non-bank financial institutions, the GOI should increase its training efforts and supervision in this sector, to decrease its vulnerability to abuse by criminal or terrorist groups. Italy should also continue its active participation in multilateral fora dedicated to the global fight against money laundering and terrorist financing. It should ratify the UN Convention Against Transnational Organized Crime.

Jamaica

Jamaica, the foremost producer and exporter of marijuana in the Caribbean, is also a major transit country for cocaine flowing from South America to the United States and other international destinations. The profits from these significant illegal drug flows must be legitimated and therefore make Jamaica susceptible to money laundering activities and other financial crimes. Reportedly, Jamaican authorities have seen evidence that persons involved in the drug trade have been trying to legitimize their operations by establishing commercial enterprises and attempting to launder funds through real property transactions. There is a significant black market for smuggled goods, which is due to tax evasion.

Jamaica is not an offshore financial center and its banking system continues to be under intense scrutiny from regulators in the wake of several major banking scandals that surfaced in the 1990s. Because of this scrutiny, Jamaican financial instruments are considered an unattractive mechanism for laundering money. As a result, much of the proceeds from drug-trafficking and other criminal activity are used to acquire tangible assets such as real estate or luxury cars, while still more merely pass through Jamaica in the form of cash shipments to South America. Further complicating the picture are the hundreds of millions of U.S. dollars in remittances sent home to Jamaica by the substantial Jamaican population overseas.

The Government of Jamaica (GOJ) does not encourage or facilitate money laundering, nor has any senior official been investigated or charged with the laundering of proceeds from illegal activity.

The Money Laundering Act (MLA), implemented on January 5, 1998, governs Jamaica's anti-money laundering regime. The MLA criminalizes narcotics-related money laundering and introduces record keeping and reporting requirements for financial institutions on all currency transactions over $10,000. Exchange bureaus have a reporting threshold of $8,000. The MLA was amended in March 1999 to raise the threshold to $50,000, after complaints from financial sector institutions that had difficulties with the amount of paperwork resulting from the $10,000 threshold. At that time, a requirement was also added for banks to report suspicious transactions of any amount to the Director of Public Prosecutions (DPP). In February 2000, the MLA was amended to add fraud, firearms trafficking, and corruption as predicate offenses for money laundering. Jamaica is in the process of further amending and modernizing the MLA.

The GOJ is also attempting to pass the Proceeds of Crime Act that will enable it to identify, trace, freeze, seize and forfeit narcotics related assets as well as assets derived from other serious crimes. The major provisions of this legislation include all property or assets associated with an individual convicted or suspected of involvement with a crime. This includes legitimate businesses used to launder drug money or support terrorist activity. Currently, the Financial Investigations Division (FID) of the Ministry of Finance and the Jamaica Constabulary Force (JCF) are the entities responsible for tracing and seizing assets. The proceeds go to the forfeited asset fund.

During 2004, the Jamaican Parliament passed amendments to the Bank of Jamaica Act, the Banking Act, the Financial Institution Act and the Building Society Act that govern the periodic examination of commercial banks and financial institutions. The Acts provide the legal and policy parameters for the licensing and supervision of financial institutions and lay the foundation for the proposed amendments to the MLA.

In addition to a new Customs arrival form that requires declaration of currency or monetary instruments over $10,000 (or its equivalent) that was introduced in 2003, the GOJ changed its immigration form in conjunction with the implementation of a new border security entry/exit system designed to better control the flow of persons in and out of Jamaica. This measure should assist law enforcement efforts to combat the movement of large amounts of cash—often in shipments totaling hundreds of thousands of U.S. dollars through Jamaica. Jamaica has identified cash couriers violating the law and forfeited the cash. Cash smuggling reports are shared between government agencies.

There are two free trade zones that operate in Jamaica, one in Montego Bay and one in Kingston. Due to the demise of the garment industry, the free trade zones are mostly used for warehousing. There are plans to change the operations of the Kingston free zone into a base for logistic services and make Kingston a distribution hub for goods. The Montego Bay free zone is expected to become a major business center and position itself as a call center, focusing on information communication technology.

The FID consists of 14 forensic examiners, six police officers who have full arrest powers, a director and 5 administrative staff. The FID receives, analyses, and disseminates information. Matters requiring investigation are referred to the Financial Crimes Unit which is not a regulatory body. The FID also has responsibility for investigating financial crimes including money laundering and terrorist financing. They are adequately staffed and trained to fulfill their responsibilities.

If the Proceeds of Crime Act and Financial Investigation Division Act are passed, they are expected to lead to additional sharing of information. The Financial Investigation Unit (FIU), part of the FID, has discussed membership in the Egmont Group with Canadian authorities who have agreed to sponsor Jamaica's application.

Jamaica has an on-going continuing education program to ensure compliance with the suspicious transaction reporting (STR) requirements and mandatory reporting of suspicious transactions. The Bank of Jamaica supervises compliance. The FID reports that non-banking financial institutions have a

seventy percent compliance rate with money laundering controls. Reporting individuals are protected by law with respect to their cooperation with law enforcement entities. STRs were filed in 2005 by: banks (125), currency exchanges (355), investment/securities dealers (8), merchant banks (3), building societies (84), credit unions (7) and remittance companies (6,828). The FID claims that the high number of STRs submitted by remittance companies is due to their lack of knowledge of the threshold limits.

June 15, 2005 marked Jamaica's first money laundering conviction. Further action is still required in the area of asset forfeiture. Law enforcement authorities are hampered by the fact that Jamaica has no civil forfeiture law, and under the 1994 Drug Offenses (Forfeiture of Proceeds) Act, a criminal drug-trafficking conviction is required as a prerequisite to forfeiture. This often means that even when police discover illicit funds, the money cannot be seized or frozen and must be returned to the criminals. Assets that are eventually forfeited are deposited into a fund shared by the Ministries of National Security, Justice and Finance. In 2004, GOJ agencies shared $85,000 from seizures from drug-trafficking, money laundering, tax and customs evasion and larceny. The new Proceeds of Crime Act, currently circulating in Parliament, will go a long way to address the shortcomings but the legislative process is moving slowly.

The Terrorism Prevention Act of 2005 criminalizes the financing of terrorism consistent with UNSCR 1373. Under this act, Jamaica has the authority to identify, freeze and seize terrorist finance related assets. Jamaica has not encountered any misuse of charitable or non-profit entities as conduits for the financing of terrorism. Jamaica has signed and ratified the UN International Convention for the Suppression of the Financing of Terrorism. Additionally, the Ministry of Foreign Affairs and Foreign Trade circulates, to all relevant agencies, the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee consolidated list. To date, no accounts owned by those included on the consolidated list have been discovered in Jamaica. The Terrorism Prevention Act is not expected to become law in the near future.

Jamaica and the United States have a Mutual Legal Assistance Treaty that entered into force in 1995. Jamaica is a party to the 1988 UN Drug Convention, the Inter-American Convention against Corruption, and the UN Convention against Transnational Organized Crime. Jamaica is also a member of the Caribbean Financial Action Task Force and the Organization of American States Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering.

The progress the GOJ has made in fighting money laundering is tempered by stalled legislation. A more aggressive effort is necessary to bring its regime into line with international standards.

Japan

Japan is a large and important world financial center. Although the Japanese government continues to strengthen legal institutions to permit more effective enforcement of financial transaction laws, Japan still faces substantial risk of money laundering by organized crime and other domestic and international criminal elements. The principal sources of laundered funds are narcotics trafficking and financial crimes (illicit gambling, loan-sharking, extortion, abuse of legitimate corporate activities, internet fraud schemes, and all types of property-related crimes), often linked to Japan's organized criminal organizations. The National Police Agency of Japan estimates the aggregate annual income from organized criminal organizations is approximately $10 billion, $3.38 billion of which is income from the trafficking of methamphetamine.

U.S. law enforcement investigations periodically show a link between drug-related money laundering activities in the United States and bank accounts in Japan. The number of Internet-related money laundering cases is increasing. In some cases, criminal proceeds were concealed in bank accounts

obtained through an Internet market. Laws enacted in 2004 now make online sales of bank accounts illegal.

The Financial Services Agency (FSA) and Ministry of Finance are working on measures, expected to be promulgated in 2006, to enable authorities to more closely monitor domestic and international money remittances. In a related move, the Cabinet office published a counterterrorist action plan on December 10, 2004 that states Japan's intention to fully implement certain Financial Action Task Force Special Recommendations on Terrorist Financing by the end of June 2006. Specific measures will be announced this year.

On November 17, 2005, the Japanese Government's (GOJ) headquarters for the Promotion of Measures Against Transnational Organized Crime and Other Relative Issues and the headquarters for International Terrorism agreed that relevant ministries would submit a bill to the 2007 ordinary session of the Diet to enhance compliance with the revised FATF Forty Recommendations and the FATF Nine Special Recommendations on Terrorist Financing.

Drug-related money laundering was first criminalized under The Anti-Drug Special Law that took effect in July 1992. This law also mandates the filing of suspicious transaction reports for suspected proceeds of drug offenses, and authorizes controlled drug deliveries. The legislation also creates a system to confiscate illegal profits gained through drug crimes. The seizure provisions apply to tangible and intangible assets, direct illegal profit, substitute assets, and criminally derived property that have been commingled with legitimate assets.

The narrow scope of the Anti-Drug Special Law and the burden required of law enforcement to prove a direct link between money and assets to specific drug activity limits the law's effectiveness. As a result, Japanese police and prosecutors have undertaken few investigations and prosecutions of suspected money laundering. Many Japanese officials in the law enforcement community, including Japanese Customs, believe that Japan's organized crime groups have been taking advantage of this limitation to launder money.

Japan expanded its money laundering law beyond narcotics trafficking to include money laundering predicates such as murder, aggravated assault, extortion, theft, fraud, and kidnapping when it passed the 1999 Anti-Organized Crime Law, which took effect in February 2000. The law also extends the confiscation laws to include the additional money laundering predicate offenses and value-based forfeitures. It also authorizes electronic surveillance of organized crime members, and enhances the suspicious transaction reporting system.

An amendment to the Anti-Organized Crime Law was submitted on February 20, 2004 to the Diet for approval, and remains under consideration. The amendment would expand the predicate offenses for money laundering from approximately 200 offenses to nearly 350 offenses, with almost all offenses punishable by imprisonment.

Japan's Financial Services Agency (FSA) supervises public-sector financial institutions and securities transactions. The FSA classifies and analyzes information on suspicious transactions reported by financial institutions, and provides law enforcement authorities with information. Japanese banks and financial institutions are required by law to record and report the identity of customers engaged in large currency transactions. There are no secrecy laws that prevent disclosure of client and ownership information to bank supervisors and law enforcement authorities.

To facilitate the exchange of information related to suspected money laundering activity, the FSA established the Japan Financial Intelligence Office (JAFIO) on February 1, 2000, as Japan's financial intelligence unit. Financial institutions in Japan forward suspicious transaction reports (STRs) to JAFIO, which analyzes and disseminates STRs as appropriate. At the end of 2005, the GOJ announced plans to transfer JAFIO from the FSA to the National Police Agency, possibly in April 2007.

In 2005, JAFIO received 98,935 STRs, up slightly from the 95,315 STRs received in 2004. Of these, JAFIO disseminated 66,812 STRs to law enforcement authorities in 2005. Some 86 percent of the reports were submitted by banks, 7 percent by credit cooperatives, 4.6 percent from the country's large postal savings system, 1.2 percent from non-bank money lenders, and almost none from insurance companies.

JAFIO concluded international cooperation agreements during 2004 with Singapore's Financial Intelligence Unit (FIU) and with FinCEN, establishing cooperative frameworks for the exchange of financial intelligence related to money laundering and terrorist financing. JAFIO already had similar agreements in place with the FIUs of the United Kingdom, Belgium, and South Korea. In terms of international information exchange on money laundering, in 2004, JAFIO received 75 requests for information from foreign FIUs and provided responses to 70 of the requests.

Japanese financial institutions have cooperated with law enforcement agencies, including U.S. and other foreign government agencies investigating financial crimes related to narcotics. In 2003, the United States and Japan concluded a Mutual Legal Assistance Treaty (MLAT). Although Japan has not adopted "due diligence" or "banker negligence" laws to make individual bankers legally responsible if their institutions launder money, there are administrative guidelines that require due diligence. Japanese law protects bankers and other financial institution employees who cooperate with law enforcement entities.

In April 2002, the Diet enacted the Law on Customer Identification and Retention of Records on Transactions with Customers by Financial Institutions (a "know your customer" law). The law reinforced and codified the customer identification and record keeping procedures that banks had practiced for years. The Foreign Exchange and Foreign Trade Law was also revised so that financial institutions are required to make positive customer identification for both domestic transactions and transfers abroad in amounts of more than two million yen (approximately $19,230). Banks and financial institutions are required to maintain customer identification records for seven years.

In 2004, the FSA cited Citibank Japan's failure to properly screen clients under anti-money laundering mandates as one of a list of problems that caused the FSA to shut down Citibank Japan's private banking unit banking unit. In February 2004, the FSA disciplined Standard Chartered Bank for failing to properly check customer identities and for violating the obligation to report suspicious transactions.

The Foreign Exchange and Foreign Trade Law requires travelers entering and departing Japan to report physically transported currency and monetary instruments (including securities and gold weighing over one kilogram) exceeding one million yen (approximately $9,615), or its equivalent in foreign currency, to customs authorities. Failure to submit a report, or submitting a false or fraudulent one, can result in a fine of up to 200,000 yen (approximately $1,923) or six months' imprisonment.

In response to the events of September 11, 2001, the FSA used the anti-money laundering framework provided in the Anti-Organized Crime Law to require financial institutions to report transactions where funds appeared either to stem from criminal proceeds or to be linked to individuals and/or entities suspected to have relations with terrorist activities. The 2002 Act on Punishment of Financing of Offenses of Public Intimidation added terrorist financing to the list of predicate offenses for money laundering, and provided for the freezing of terrorism-related assets. It was enacted in July 2002. Japan signed the UN International Convention for the Suppression of the Financing of Terrorism on October 30, 2001, and became a party on June 11, 2002. After September 11, 2001, Japan has regularly searched for and designated for asset freeze any accounts that might be linked to all the suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list.

Underground banking systems operate widely in Japan, especially in immigrant communities. Such systems violate the Banking Law and the Foreign Exchange Law. The police have investigated 35

underground banking cases in which foreign groups transferred illicit proceeds to foreign countries. The aggregate value of such transfers has amounted to 420 billion yen (approximately $4 billion) since the beginning of 1992. About 120 billion yen ($1.1 billion) have been illegally transferred to China and Korea, and about 90 billion yen ($865 million) to Peru. In November 2004, the Diet approved legislation banning the sale of bank accounts, in a bid to prevent the use of purchased accounts for fraud or money laundering.

Japan has not enacted laws that allow for sharing of seized narcotics assets with other countries. However, the Japanese Government cooperates with efforts by the United States and other countries to trace and seize assets, and makes use of tips on the flow of drug-derived assets from foreign law enforcement efforts, to trace funds and seize bank accounts.

Japan is a party to the 1988 UN Drug Convention and has signed but not ratified the UN Transnational Organized Crime Convention. Japan is a member of the Financial Action Task Force. JAFIO became a member of the Egmont Group of FIUs in 2000. Japan has also taken a leadership role as a member in the Asia/Pacific Group on Money Laundering. In 2002, Japan's FSA and the U.S. Securities and Exchange Commission and Commodity Futures Trading Commission signed a nonbinding Statement of Intent (SOI) concerning cooperation and the exchange of information related to securities law violations. In January 2006 the FSA and the U.S. SEC and CFTC signed an amendment to their SOI to include financial derivatives.

The Government of Japan has many legal tools and agencies in place to successfully detect, investigate, and combat money laundering. In order to strengthen its anti-money laundering regime, Japan should stringently enforce the Anti-Organized Crime Law. Japan should also enact penalties for noncompliance with the Foreign Exchange and Foreign Trade Law, adopt measures to share seized assets with foreign governments, and enact banker "due diligence" provisions. The GOJ should also become a party to the UN Transnational Organized Crime Convention.

Jersey

The Bailiwick of Jersey (BOJ), one of the Channel Islands, is a Crown Dependency of the United Kingdom. The Islands are known as Crown Dependencies because the United Kingdom is responsible for their defense and international relations. Jersey's sophisticated array of offshore services is similar to that of international financial services centers worldwide.

In 2005, the financial services industry consists of 50 banks; 953 trust companies, 157 insurance companies (which are largely captive insurance companies); and 833 (2004 statistic) collective investment funds. Other services include investment advice, dealing, and management companies, and mutual fund companies. In addition the financial services, companies offer corporate services, such as special purpose vehicles for debt restructuring and employee share ownership schemes. For high net worth individuals, there are many wealth management services. Due to Jersey's investment services, most of the illicit money in Jersey is derived from foreign criminal activity. Domestically, local drugs trafficking and corruption of politically exposed persons (PEP) are sources of illicit proceeds found in the country. In 2004 and 2005, joint operations between Police and Customs led to the apprehension and prosecution of several local drug syndicates. Money laundering mostly occurs with Jersey's banking system, investment companies, and local Trust companies.

The International Monetary Fund (IMF) conducted an assessment of the anti-money laundering regime of Jersey in October 2003. The IMF found Jersey's Financial Services Commission (JFSC), the financial services regulator, to be in compliance with international standards, but it provided recommendations for improvement in three areas.

The Jersey Finance and Economics Committee is the government body responsible for administering the law regulating, supervising, promoting, and developing the Island's finance industry. The IMF

notes that the Finance and Economics Committee's power to give direction to the JFSC could appear as a conflict of interest between the two agencies, and suggests that a separate body be established to speak for the industry's consumers. The IMF's second proposal is the establishment of rules for banks dealing with market risk, along with a code of conduct for collective investment funds. Third, the IMF recommends that a contingency plan be established for the failure of a major institution.

Jersey is currently addressing the issues and has already published the rules for collective investment funds. The JFSC intends to continue strengthening the existing regulatory powers with amendments to the Financial Services Commission Law 1998, to provide legislative support for its inspections, and the introduction of monetary fines for administrative and regulatory breaches. The amendments will also include stricter codification of industry guidelines and tighter enforcement of anti-money laundering and terrorist financing controls. The next IMF inspection is planned for 2006.

Jersey's main anti-money laundering laws are: the Drug Trafficking Offenses (Jersey) Law of 1988, which criminalizes money laundering related to narcotics trafficking, and the Proceeds of Crime (Jersey) Law, 1999, which extends the predicate offenses for money laundering to all offenses punishable by at least one year in prison. The Prevention of Terrorism (Jersey) Law 1996, which criminalizes money laundering related to terrorist activity, was replaced by the Terrorism (Jersey) Law 2002, that came into force in January 2003. The Terrorism (Jersey) Law 2002 is a response to the events of September 11, 2001, and enhances the powers of the Island authorities to investigate terrorist offenses, to cooperate with law enforcement agencies in other jurisdictions, and to seize assets. The Corruption (Jersey) Law 2005 was passed in alignment with the Council of Europe Criminal Law Convention on Corruption. The new corruption law is expected to be implemented in the spring of 2006.

The JFSC has issued anti-money laundering Guidance Notes that the courts take into account when considering whether or not an offense has been committed under the Money Laundering Order. Upon conviction of money laundering, a person could receive imprisonment of one year or more. The reporting of suspicious transactions is mandatory under the narcotics trafficking, terrorism, and anti-money laundering laws. There is no threshold for filing a suspicious transaction report, and the reporting individual is protected from criminal and civil charges by law. Banks and other financial service companies must maintain financial records of their customers for a minimum of 10 years after completion of business.

After consultation with the financial services industry, the JFSC issued a position paper (jointly issued with Guernsey and the Isle of Man) that sets out a number of proposals for further tightening the essential due diligence requirements that financial institutions should meet regarding their customers. The position paper states the JFSC's intention to insist, inter alia, on the responsibility of all financial institutions to verify the identity of their customers, regardless of the action of intermediaries. The paper also states an intention to require a progressive program to obtain verification documentation for customer relationships established before the Proceeds of Crime (Jersey) Law came into force in 1999. Each year working groups review specific portions of these principles and draft Anti-Money Laundering Guidance Notes to incorporate changes.

Approximately 30,000 Jersey companies are registered with the Registrar of Companies, who is the Director General of the JFSC. In addition to public filing requirements relating to shareholders, the JFSC requires details of the ultimate individual beneficial owner of each Jersey-registered company to be filed, in confidence, with the Commission. That information is available, under appropriate circumstances and in accordance with the law, to U.S. and other investigators.

In addition, a number of companies that are registered in other jurisdictions are administered in Jersey. Some companies, known as "exempt companies," do not have to pay Jersey income tax and are only available to nonresidents. Jersey does not provide "offshore" licenses. All regulated individuals are

equally entitled to sell their services to residents and nonresidents alike. All financial businesses must have a presence in Jersey, and management must be in Jersey.

Jersey has established a Financial Intelligence Unit (FIU) known as the Joint Financial Crime Unit (JFCU). This unit is responsible for receiving, investigating, and disseminating suspicious transaction reports (STRs). The unit includes Jersey Police and Customs officers, as well as a financial crime analyst. In 2003 the JFCU received 1,272 suspicious transaction reports; 1,248 in 2004; and 1,162 in 2005. Approximately 25 percent of the STRs filed in 2004 and 2005 resulted in further police investigations. The JFCU is a member of the Egmont Group.

On July 1, 2005, the European Union Savings Tax Directive (ESD) came into force. The ESD is an agreement between the Member States of the European Union (EU) to automatically exchange information with other Member States about EU tax resident individuals who earn income in one EU Member State but reside in another. Although not part of the EU, the three UK Crown Dependencies (Jersey, Guernsey and Isle of Man) have voluntarily agreed to apply the same measures to those in the ESD and have elected to implement the withholding tax option (also known as the 'retention tax option') within the Crown Dependencies.

Under the retention tax option, each financial services provider will automatically deduct tax from interest and other savings income paid to EU resident individuals. The tax will then be submitted to local and Member States tax authorities annually. The tax authorities receive a bulk payment but do not receive personal details of individual customers. If individuals elect the exchange of information option, then no tax is deducted from their interest payments but details of the customer's identity, residence, paying agent, level and time period of savings income received by the financial services provider will be reported to local tax authorities where the account is held and then forwarded to the country where the customer resides. In 2005, the JFCU received 137 disclosures relating to individuals who had opted to select the 'retention tax option' of the ESD.

Jersey does not circulate the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list, the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224, the EU designated list, or other government's designated list. However, Jersey institutions are expected to gather information of designated entities from the Internet and other public sources. Alternate remittance systems do not appear to be prevalent in Jersey.

The JFIU, in conjunction with the Attorney Generals Office, trace, seize and freeze assets. A confiscation order can be obtained if the link to a crime is proven. If the criminal has benefited from a crime, legitimate assets can be forfeited to meet a confiscation order. There is no period of time ascribed to the action of freezing until the assets are released. Frozen assets are confiscated by the Attorney Generals Office on application to the Court. Proceeds from asset seizures and forfeitures are placed in two funds. Drug trafficking proceeds go to one fund, and the proceeds of other crimes go to the second fund. The drug trafficking funds are used to support harm reduction programs, education initiatives, and to assist law enforcement in the fight against drug trafficking. Only limited civil forfeiture is allowed in relation to cash proceeds of drug trafficking located at the ports. Jersey is currently considering the introduction of civil asset forfeiture powers.

Jersey has extensive powers to cooperate with other law enforcement and regulatory agencies and regularly does so. The JFSC is also able to cooperate with regulatory authorities, for example, to ensure that financial institutions meet anti-money laundering obligations. In 2005, the JFSC and the Jersey FIU worked together in order to deny the licensing of a Trust company and close a medium size business for failure to adhere to the AML legislation and guidance issued by the regulator. The JFSC reached agreements on information exchange with securities regulators in Germany, France, and the United States. The JFSC has a memorandum of understanding for information exchange with Belgium. The 1988 Agreement Concerning the Investigation of Drug Trafficking Offenses and the

Seizure and Forfeiture of Proceeds and Instrumentalities of Drug Trafficking, as amended in 1994, were extended to Jersey in 1996. Application of the 1988 UN Drug Convention was extended to Jersey on July 7, 1997. Jersey authorities have also put in place sanction orders freezing accounts of individuals connected with terrorist activity.

The Government of Jersey has established an anti-money laundering program that in some instances, such as the regulation of trust company businesses and the requirement for companies to file beneficial ownership with Jersey's Financial Services Commission (JFSC) go beyond what international standards require, in order to directly address Jersey's particular vulnerabilities to money laundering. Jersey should establish reporting requirements for the cross-border transportation of currency and monetary instruments. Jersey should continue to demonstrate its commitment to fighting financial crime by enhancing its anti-money laundering/counterterrorist financing regime in areas of vulnerability.

Jordan

Jordan is not a regional or offshore financial center and is not considered a major venue for international criminal activity. The banking and financial sectors, including moneychangers, are supervised by competent authorities according to international standards. The Central Bank of Jordan, which regulates foreign exchange transactions, issued anti-money laundering regulations designed to meet the Financial Action Task Force (FATF) Forty Recommendations on Money Laundering in August 2001. Under Jordanian law, money laundering is considered an "unlawful activity" subject to criminal prosecution.

An October 8, 2001 revision to the Penal Code criminalized terrorist activities, specifically including financing of terrorist organizations. Jordan reports that it has checked for assets of the suspected terrorists and terrorist organizations listed on the UNSCR 1267 Sanctions Committee's consolidated list, although no such assets have been identified to date. In December 2004, the United States and Jordan signed an Agreement regarding Mutual Assistance between their Customs Administrations that provides for mutual assistance with respect to customs offenses and the sharing and disposition of forfeited assets.

Jordan has yet to enact a comprehensive anti-money laundering law (AML). Although Jordan's cabinet has approved the draft law, the Parliament has yet to endorse it. There is hope that Parliament will pass the law during the 2005-06 winter session. Currently, the Central Bank's suspicious transaction follow-up unit acts as a financial intelligence unit (FIU). However, the FIU's authority is only based on a regulatory (instead of legislative) foundation until an AML is passed.

Jordanian officials report that financial institutions file suspicious transactions reports and cooperate with prosecutors' requests for information related to narcotics trafficking and terrorism cases. The Central Bank of Jordan has instructed financial institutions to be particularly careful when handling foreign currency transactions, especially if the amounts involved are large or if the source of funds is in question. The Banking Law of 2000 (as amended in 2003) allows judges to waive banking secrecy provisions in any number of criminal cases, including suspected money laundering and terrorism financing.

Jordan is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. Jordan has signed, but not ratified, the UN Convention against Transnational Organized Crime. Jordan is a charter member of the Middle East and North Africa Financial Action Task Force (MENAFATF) that was inaugurated in Bahrain in November 2004. The MENAFATF is a FATF-style regional body. The creation of the MENAFATF is critical for pushing the region to improve the transparency and regulatory frameworks of its financial sectors.

Jordan should enact a comprehensive anti-money laundering law. It should ratify the UN Convention against Transnational Organized Crime. Jordanian law enforcement and customs should examine forms of trade-based money laundering.

Kenya

As a regional financial and trade center for Eastern, Central, and Southern Africa, Kenya's economy has a large informal sector and a thriving network of cash-based, unrecorded transfers, primarily used by expatriates to send and receive remittances internationally. As such, Kenya is vulnerable to money laundering. Recently, Kenya has taken steps to trace millions of dollars of public funds that were laundered abroad; corruption facilitated the removal of such funds from the country.

Section 49 of the Narcotic Drugs and Psychotropic Substance Control Act of 1994 criminalizes money laundering related to narcotics trafficking. Narcotics-related money laundering is punishable by a maximum prison sentence of 14 years, though to date no clear instances of the laundering of funds from narcotics trafficking have been prosecuted. The Central Bank is the regulatory and supervisory authority for Kenya's deposit-taking institutions and has responsibility for over 51 entities. The Kenyan Parliament enacted legislation at the end of 2004 that strengthens the Central Bank's supervisory authority, but it makes no specific reference to money laundering.

In October 2000, the Central Bank issued regulations that require deposit-taking institutions to verify the identity of customers wishing to open an account or conduct a transaction. The regulations also require that these institutions report suspicious transactions. Under the regulations, banks must maintain records of large transactions and report them to the Central Bank. These regulations do not cover non-bank financial institutions such as money remitters, casinos, or investment companies, and there is no enforcement mechanism behind the regulations. Some banks do file suspicious transaction reports voluntarily, but they run the risk of civil litigation, as there are no adequate "safe harbor" provisions for reporting such transactions to the Central Bank. The trigger amount is also very high: on a daily basis, all commercial banks are required to submit reports detailing all transactions greater than $100,000. Controls on money laundering are seldom applied to financial institutions, non-bank institutions or intermediaries outside the banking sector. For example, there are casinos operating in Kenya, but they are under no obligation to file suspicious transaction reports.

Kenya has little in the way of cross-border currency controls. Kenyan regulations require that any amount of cash above $5,000 be disclosed at the point of entry or departure, but this provision is rarely enforced. Central Bank guidelines call for currency exchange firms to furnish reports on a daily basis on any single foreign exchange transaction above $10,000, and on cumulative daily foreign exchange inflows and outflows above $100,000. Under September 2002 guidelines, foreign exchange dealers are required to ensure that cross-border payments are not connected with illegal financial transactions.

The Banking Act amendment of December 2001 authorizes disclosure of financial information by the Central Bank to any monetary authority or financial regulatory authority within or outside Kenya. In 2002, the Kenya Bankers Association issued guidelines requiring banks to report suspicious transactions to the Central Bank. These guidelines do not have the force of law, and only a handful of suspicious transactions have been reported so far.

In April 2003, the Government of Kenya's (GOK) introduced the Suppression of Terrorism Bill into Parliament. The bill contains provisions that would strengthen the GOK's ability to combat terrorism. While the public does support the government's attempts to increase transparency and to combat corruption, terrorism, and money laundering, the legislation is opposed by many who fear that it could be used to commit human rights violations. A GOK official stated in October 2004 that the bill was in the process of being re-drafted. All charitable and nonprofit organizations are registered with the Government and have to submit annual reports. Noncompliance with the annual reporting requirement

can lead to de-registration; however, such penalties are rarely imposed. The government did de-register some non-governmental organizations with Islamic links in 1998 in the wake of the bombing of the U.S. Embassy in Nairobi, although they were later re-registered.

At present, the government entities responsible for tracing and seizing assets include the Central Bank of Kenya Banking Fraud Investigation Unit, the Kenya Police (through the Anti-Narcotics Unit and the Anti-Terrorism Police Unit), and the Kenya Revenue Authority. The actual seizure or forfeiture of assets under current law is rare. There is currently no law authorizing the seizure of the financial assets of terrorists.

The passage of anti-money laundering legislation and the creation of a financial intelligence unit by Kenya will help to formalize its relationship with the U.S. and with other countries. In 2001, the Government of Kenya formed the Anti-Money Laundering (AML) Task Force with the mandate of drafting a comprehensive anti-money laundering law, sensitizing the public and government to money laundering issues, and addressing terrorist financing. The Task Force meets regularly to discuss AML issues.

After the inception of the task force, a bill on money laundering was drafted, and submitted to the Attorney General for final revision, but the November 21 Constitutional referendum delayed further action. In November 2005, the Attorney General had identified 21 other statutes that would need to be amended to be consistent with the AML bill. In February 2006, the World Bank, International Monetary Fund and the GOK held a workshop with stakeholders to review the draft legislation. The Task Force believes that it has clarified the issues raised by the Attorney General, and is waiting for the Attorney General to finalize the bill and send it to the Cabinet for approval and transmission to Parliament. However, uncertainties over when the President will reconvene Parliament, together with political instability generated by the eruption of multiple major corruption scandals, will likely delay further any action on the AML bill.

The key points of the legislation include tracing, seizing, and freezing suspect accounts, including those involved in the financing of terrorism; confiscation of the proceeds of crime; declaration of the source of funds; outlawing of anonymous bank accounts; and introduction of mandatory reporting of suspicious transactions above a certain amount. The proposed legislation doe not explicitly authorize the seizing of legitimate businesses used to launder money. The draft legislation provides only for criminal forfeiture.

Kenya is a party to the 1988 UN Drug Convention. In 2003, it became a party to the UN International Convention for the Suppression of the Financing of Terrorism. In 2004, it acceded to the UN Convention against Transnational Organized Crime. Kenya is an active member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body. Kenya has an informal arrangement with the United States for the exchange of information regarding narcotics, terrorism financing, and other serious crime investigations. Kenya has cooperated with the United States and the United Kingdom, but lacks the institutional capacity, investigative skills, and equipment to conduct complex investigations independently.

Kenya should expedite the passage of anti-money laundering and counterterrorism legislation as first steps in building a comprehensive anti-money laundering regime. It should also establish a financial intelligence unit (FIU) to serve as a vital part of this regime. It should do a better job of enforcing the anti-money laundering laws and regulations already in force.

Korea, Democratic Peoples Republic of

For decades, citizens of the Democratic Peoples Republic of Korea (DPRK) have been apprehended trafficking in narcotics and engaged in other forms of criminal behavior, including passing counterfeit U.S. currency and trade in counterfeit products, such as cigarettes.

Substantial evidence exists that North Korean governmental entities and officials have laundered the proceeds of narcotics trafficking and have been engaged in counterfeit and other illegal activities through a network of front companies that use financial institutions in Macau for their operations. On September 20, the U.S. Department of Treasury designated Banco Delta Asia SARL in Macau as a "primary money laundering concern" under Section 311 of the USA PATRIOT Act. The Department of the Treasury noted that the bank "…has been a willing pawn for the North Korean Government to engage in corrupt financial activities through Macau." The Federal Register Notice designating the bank cited "the involvement of North Korean Government agencies and front companies in a wide variety of illegal activities, including drug trafficking and the counterfeiting of goods and currency" and noted that North Korea has been positively linked to nearly 50 drug seizures in 20 different countries since 1990, a significant number of which involved the arrest or detention of North Korean diplomats or officials.

In addition, indictments in the United States and the work of several corporate investigative teams employed by the holders of major United States and foreign cigarette and pharmaceutical trademarks have provided further compelling evidence of DPRK involvement in a wide range of criminal activities carried out in league with criminal organizations around the world, including trafficking in counterfeit branded items (cigarettes, Viagra), and high-quality counterfeit U.S. currency ("supernotes").

Korea, Republic of

South Korea is not considered an attractive location for international financial crimes or terrorist financing because of a recent legacy of foreign exchange controls. Most money laundering appears to be associated with domestic criminal activity or corruption and official bribery. Still, criminal groups based in South Korea maintain international associations with others involved in human and contraband smuggling and related organized crime. As law enforcement authorities have gained more expertise investigating money laundering and financial crimes, they have also become more cognizant of the problem.

On the whole, the South Korean Government has been a willing partner in the fight against financial crime, and has pursued international agreements toward that end. The Financial Transactions Reports Act (FTRA), passed in September 2001, requires financial institutions to report suspicious transactions to the Korea Financial Intelligence Unit (KoFIU), which operates within the Ministry of Finance and Economy. The KoFIU was officially launched in November 2001, and is composed of 60 experts from various agencies, including the Ministry of Finance and Economy, the Justice Ministry, the Financial Supervisory Commission, the Bank of Korea, the National Tax Service, the National Police Agency, and the Korea Customs Service. KoFIU analyzes suspicious transaction reports (STRs) and forwards information deemed to require further investigation to the Public Prosecutor's office, and, as of 2006, also to the Korean police.

In 2005, the government further strengthened its anti-money laundering regime by introducing mandatory currency transaction reporting (CTRs) for high-value cash transactions, on top of continued suspicious transaction reporting. Beginning in January 2006, financial institutions must report within 24 hours all cash transactions of 50 million won ($49,213) or more by individuals to KoFIU. That reporting threshold will be lowered to 30 million won ($29,528) in 2008 and to 20 million won ($19,685) in 2010. The new requirement for CTR filing will complement the existing system of suspicious transaction reporting. In January 2004 the government had already tightened its requirements for STRs by lowering the monetary threshold under which financial institutions must file STRs, to 20 million won (approximately $19,000) from the previous 50 million won. Improper disclosure of financial reports is punishable by up to five years imprisonment and a fine of up to 30 million won (about $25,000). Beginning in January 2006, financial institutions are also required to

perform enhanced customer due diligence (CDD), which will strengthen previous customer identification requirements set out in the Real Name Financial Transaction and Guarantee of Secrecy Act. Under the enhanced CDD guidelines, financial institutions are required to identify and verify customer identification data such as address and telephone numbers upon account opening and when conducting transactions of 20 million won or more.

Between January 1, 2002, and August 31, 2005, KoFIU received a total of 14,665 STRs from financial institutions. The number of such cases has continued to climb noticeably each year, principally due to the lowering of the threshold for reporting suspicious transactions. For instance, in 2003, there were 1,744 STRs filed. That figure rose to 4,680 STRs in 2004, and then to 7,966 STRs in the first eight months of 2005. During this nearly four-year period, KoFIU completed analysis of 13,681 of these reports, and provided 2,090 reports to law enforcement agencies. Results were disseminated to law enforcement agencies such as the Public Prosecutor's Office (PPO), National Police Agency (NPA), National Tax Service (NTS), Korea Customs Service (KCS), and the Financial Supervisory Commission (FSC).

In December 2004, local police arrested several brokers who arranged for undocumented foreign workers to send illegal remittances abroad via the illegal underground "hawala" system. In mid-May, 2005, police arrested two Iranians on charges of arranging 60 billion won ($59 million) in illegal hawala transactions for an unknown number of their compatriots living and working in Korea. In November, 2005, ranking officers of five Mongolian banks were charged with violating bank and foreign exchange laws for running a similar illegal remittance system and for illegally operating in Korea without a banking license. The Mongolian financial firms allegedly transferred $12.1 million in funds to Mongolia from 4,200 Mongolians working in Korea. KoFIU supervises and inspects the implementation of internal reporting systems established by financial institutions. KoFIU is also charged with coordinating the efforts of other government bodies, and the Policy Coordination Committee held meetings in 2004 and 2005 to discuss policies and revisions of the FTRA. Officials charged with investigating money laundering and financial crimes are beginning to widen their scope to include crimes related to commodities trading and industrial smuggling, and continue to search for possible links of such illegal activities to international terrorist activity. On December 1, 2004, KoFIU introduced a new online electronic reporting system, through which financial institutions can report suspicious transactions more quickly.

Money laundering controls are applied to non-banking financial institutions, such as exchange houses, stock brokerages, casinos, insurance companies, merchant banks, mutual savings, finance companies, credit unions, credit cooperatives, trust companies, and securities companies. In early December, 2005, Finance Ministry officials indicated they were considering more stringent restrictions on casinos in the wake of the arrest of a Korean business executive charged with laundering 8.3 billion won ($8.17 million) to be used to bribe politicians and bureaucrats. Intermediaries such as lawyers, accountants, or broker/dealers are not covered by Korea's money laundering controls. Any traveler carrying more than $10,000 or the equivalent in other foreign currency is required to report the currency to the Korea Customs Service.

Money laundering related to narcotics trafficking has been criminalized since 1995, and financial institutions have been required to report transactions known to be connected to narcotics trafficking to the Public Prosecutor's Office since 1997. All financial transactions using anonymous, fictitious, and nominee names have been banned since the 1997 enactment of the Real Name Financial Transaction and Guarantee of Secrecy Act. The Act also requires that, apart from judicial requests for information, persons working in financial institutions are not to provide or reveal to others any information or data on the contents of financial transactions without receiving a written request or consent from the parties involved. However, secrecy laws do not apply when such information must be provided for submission to a court or as a result of a warrant issued by the judiciary.

In a move designed to broaden its anti-money laundering regime, the Republic of Korea (ROK) also criminalized the laundering of the proceeds from 38 additional offenses, including economic crimes, bribery, organized crime, and illegal capital flight, through the Proceeds of Crime Act (POCA), enacted in September 2001. The POCA provides for imprisonment and/or a fine for anyone receiving, disguising, or disposing of criminal funds. The legislation also provides for confiscation and forfeiture of illegal proceeds.

South Korea still lacks specific legislation on terrorism financing. Two versions of a new counterterrorism bill continue to languish in Korea's unicameral legislature, the National Assembly. Previous attempts to pass similar bills have not succeeded. Many politicians and nongovernmental organizations (NGOs), recalling past civil rights abuses in Korea by former administrations, oppose the passage of counterterrorism legislation because of fears about possible misuse by the National Intelligence Service. The proposed legislation is crafted to allow the Korean Government additional latitude in fighting terrorism, though general financial crimes and money laundering have already been criminalized in previously enacted laws.

The pending counterterrorism bill, if passed, would permit the government to seize legitimate businesses that support terrorist activity. Currently, under the special act against illicit drug trafficking and other related laws, legitimate businesses can be seized if they are used to launder drug money, but businesses supporting terrorist activity cannot be seized unless other crimes are committed. At this time, there are no known charitable or nonprofit entities operating in Korea that are used as conduits for the financing of terrorism.

Through KoFIU, the government circulated to its financial institutions the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list, the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224and those listed by the European Union under relevant authorities. Korea implemented regulations on October 9, 2001, to freeze financial assets of Taliban-related authorities designated by the UN Security Council. The government then revised the regulations, agreeing to list immediately all U.S. Government-requested terrorist designations under U.S. Executive Order 13224 of December 12, 2002. No listed terrorists are known to be maintaining financial accounts in Korea at this time. Korean banks have not identified any terrorist assets. There have been no cases of terrorism financing identified since January 1, 2002.

Korean Government authorities are just beginning to assess whether the hawala system is an area of concern. Currently, gamblers who bet abroad often use alternative remittance and payment systems; however, government authorities have already criminalized those activities through the Foreign Exchange Regulation Act and other laws. Hawala-type vendors do exist in South Korea and operate primarily among the country's small population of approximately 30,000 foreigners from the Middle East and thousands more, mainly ethnic Koreans, from Mongolia, Uzbekistan, and Russia.

South Korea actively cooperates with the United States and other countries to trace and seize assets. The Anti-Public Corruption Forfeiture Act of 1994 provides for the forfeiture of the proceeds of assets derived from corruption. In November 2001, Korea established a system for identifying, tracing, freezing, seizing, and forfeiting narcotics-related and/or other assets of serious crimes. Under the system, KoFIU is responsible for analyzing and providing information on STRs that require further investigation. The Bank Account Tracing Team under the Narcotics Investigation Department of the Seoul District Prosecutor's Office (established in April 2002) is responsible for tracing and seizing drug-related assets. The Korean Government established six additional new bank account tracking teams in 2004 to serve out of the District Prosecutor's offices in the metropolitan cities of Busan, Daegu, Kwangju, Incheon, Daejon, and Ulsan, to expand its reach. Its legal framework does not allow civil forfeiture.

Korea continues to address the problem of the transportation of counterfeit international currency. The National Intelligence Service's (NIS') International Crime Center indicated that through November 2005, there were 123 reported cases of counterfeit dollars worth $269,840, compared to 141 cases of $66,525 worth in the first nine months of 2004. Bank experts confirm that the amount of forged U.S. currency is on the rise. The Korea Exchange Bank reported that the number of counterfeit $100 notes found during the first nine months of 2005—worth $190,000 total—had tripled compared to all of 2004. In April 2005, the local press reported that police arrested a Korean who had smuggled $140,000 in $100 "supernotes" from China—a record amount for South Korea.

South Korea has a number of thriving free economic zones (FEZs) that enjoy certain special privileges. However, companies operating within them are subject to the same general laws on financial transactions as companies operating elsewhere, and there is no indication these FEZs are being used in trade-based money laundering schemes or for terrorist financing. Korea mandates extensive entrance screening to determine companies' eligibility to participate in FEZ areas, and firms are subject to standard disclosure rules and criminal laws. As of December 2005, Korea had seven FEZs, as a result of the June 2004 recategorization of the three port cities of Busan, Incheon, and Kwangyang as FEZs. They were recategorized from their previous designation of "customs-free areas" in order to avoid confusion from the earlier dual system of production-focused FEZs, and logistics-oriented "customs-free zones." Incheon International Airport is slated to become the eighth FEZ.

Korea is a party to the 1988 UN Drug Convention and, in December 2000, signed, but has not yet ratified, the UN Convention against Transnational Organized Crime. Korea is a party to the UN International Convention for Suppression of the Financing of Terrorism. The ROK also signed in December 2003, but has not ratified, the UN Convention against Corruption. Korea is an active member of the Asia/Pacific Group on Money Laundering (APG), and in 2004 hosted the APG annual meeting. Korea also became a member of the Egmont Group in 2002. An extradition treaty between the United States and the ROK entered into force in December 1999. The United States and the ROK cooperate in judicial matters under a Mutual Legal Assistance Treaty, which entered into force in 1997. In addition, the FIU continues to actively pursue information-sharing agreements with a number of countries, and had signed memoranda of understanding with 29 countries—the latest being the People's Republic of China—as of November, 2005.

The Government of the Republic of Korea should criminalize the financing and support of terrorism and should continue to move forward to adopt and implement its pending legislation. The government should extend its anti-money laundering regime to all financial intermediaries. The Republic of Korea should continue its policy of active participation in international anti-money laundering efforts, both bilaterally and in multilateral fora. Spurred by enhanced local and international concern, Korean law enforcement officials and policymakers now understand the potential negative impact of such activity on their country, and have begun to take steps to combat its growth. Their efforts will grow increasingly important due to the rapid growth and greater integration into the world economy of Korea's financial sector.

Kuwait

Kuwait, although not a major regional financial center, is experiencing unprecedented economic growth that is enhancing the country's regional financial influence. Money laundering is not believed to be a significant problem, and that which does take place is reported to be generated largely as revenues from drug and alcohol smuggling into the country and the sale of counterfeit goods.

Kuwait has nine commercial banks, including two Islamic banks, all of which provide traditional banking services comparable to Western-style commercial banks. Kuwait also has two specialized banks, the Kuwait Real Estate Bank (KREB), which is in the process of converting to an Islamic bank, and the government-owned Industrial Bank of Kuwait. Both of these banks provide medium and long-

term financing. With the conversion of KREB, there will be three Islamic banks, including the Kuwait Finance House (KFH) and Bubyan Islamic Bank. As of May 31, 2004, KFH came fully under the supervision of CBK. The Bubiyan Islamic Bank was established by the Kuwaiti Investment Authority (KIA) and is in the process of being formed, after its May 2004 initial public offering. Since before the terrorist attacks of September 11, 2001, the CBK has been working on bringing Islamic financial institutions under its supervision.

The banking sector was opened to foreign competition under the 2001 Direct Foreign Investment Law, and the Central Bank of Kuwait (CBK) has already granted licenses to four foreign banks. However, while foreign banks may now operate in Kuwait, they are restricted to opening only one branch. BNP Paribas, National Bank of Abu Dhabi and HSBC are already doing business in Kuwait, while Citibank expects to begin operations in 2006.

On March 10, 2002, the Emir (Head of State) of Kuwait signed Law No. 35, which criminalizes money laundering. The law stipulates that banks and financial institutions may not keep or open any anonymous accounts or accounts in fictitious or symbolic names, and that banks must require proper identification of regular and occasional clients. The law also requires banks to keep all records of transactions and customer identification information for a minimum of five years, conduct training and establish internal control systems, and report any suspicious transactions.

Law No. 35/2002 designates the Office of Public Prosecution (OPP) as the sole authority to receive suspicious transaction reports and take appropriate action on money laundering operations. Reports of suspicious transactions are then referred from the OPP to the Central Bank of Kuwait (CBK) for analysis. The law provides for a penalty of up to seven years' imprisonment in addition to fines and asset confiscation. The penalty is doubled if an organized group commits the crime, or if the offender took advantage of his influence or his professional position. Moreover, banks and financial institutions may face a steep fine (approximately $3.3 million) if found in violation of the law. Law 35/2002 does not cite terrorist financing as a crime; however, the definition of criminal activity is broad.

The law includes articles on international cooperation, and on monitoring cash and precious metals transactions. Currency smuggling into Kuwait is also outlawed under Law No. 35/2002, although reporting requirements are not uniformly enforced at ports of entry. Provisions of Article 4 of Law No. 35/2002 state that every person shall, upon entering the country, inform the customs authorities of any national or foreign currency, gold bullion, or any other precious materials in his/her possession, valued in excess of Kuwait dinars 3,000 (approximately $10,000). However, the law does not require individuals to file customs declarations when carrying cash or precious metals out of Kuwait. The law authorizes the Minister of Finance to set forth the resolutions necessary to ensure its implementation. The Minister of Finance, as stipulated by Law No. 35/2002, can issue resolutions to enhance combating money laundering operations, without actually amending the legislation. Several cases have been opened under Law No. 35/2002, but the majority of them were closed after investigations did not disclose prosecutable offenses. Only two cases have gone to court. The cases reportedly involved money smuggling and failure to report currency transactions, and did not involve banks. Amendments to Law 35/2002 are under discussion but have yet to be finalized.

In addition to Law No. 35/2002, anti-money laundering reporting requirements and other rules are contained in the CBK's instructions No. (2/sb/92/2002), which took effect on December 1, 2002, superseding instructions No. (2/sb/50/97). The revised instructions provide for, inter alia, customer identification and the prohibition of anonymous or fictitious accounts (Articles 1-5); the requirement to keep records of all banking transactions for five years (Article 7); electronic transactions (Article 8); the requirement to investigate transactions that are unusually large or have no apparent economic or lawful purpose (Article 10); the requirement to establish internal controls and policies to combat money laundering and terrorism finance, including the establishment of internal units to oversee compliance with relevant regulations (Article 14 and 15); and, the requirement to report to the CBK all

cash transactions in excess of $10,000 (Article 20). In addition, the CBK distributed detailed instructions and guidelines to help bank employees identify suspicious transactions. At the Central Bank's instructions, banks are no longer required to block assets for 48 hours on suspected accounts in an effort to avoid "tipping off" suspected accountholders. The Central Bank, upon notification from the Ministry of Foreign Affairs (MFA), issues circulars to units subject to supervision requiring them to freeze the assets of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the U.S. pursuant to E.O. 13224. Financial entities are instructed to freeze any such assets immediately and for an indefinite period of time, pending further instructions from the Central Bank, which in turn receives its designation guidance from the MFA.

In addition, CBK issued circular No. (2/sb/95/2003) in 2003, which is directed toward money changing companies (they are permitted to engage in wire transfers, selling and buying drafts and travelers' checks), and contains similar instructions with respect to combating money laundering and suspicious activities reporting guidelines. A similar order (31/2003) was issued by the Kuwait Stock Market to all companies under its jurisdiction. There are about 130 money exchange businesses (MEBs) operating in Kuwait (authorized only to exchange foreign currency), none of which are companies, and therefore, are not under the supervision of the CBK but rather under the Ministry of Commerce and Industry. The CBK has reached an agreement with the Ministry of Commerce and Industry to enforce all anti-money laundering (AML) laws and regulations in supervising such businesses. Furthermore, the Ministry will work diligently to encourage the MEBs to apply for and obtain company licenses and register with the CBK.

The Ministry of Commerce and Industry also supervises insurance agents, brokers and companies, investment companies, exchange bureaus, jewelry establishments (including gold, metal and other precious commodity traders), brokers in the Kuwait Stock Exchange, and other financial brokers. Since September 2002, these firms must abide by all regulations concerning customer identification, record keeping of all transactions for five years, establishment of internal control systems, and the reporting of suspicious transactions.

The supervision of anti-money laundering responsibilities on the part of the Ministry of Commerce and Industry is carried out by its Office of Combating Money Laundering Operations (OMLO), which was established in 2003 to improve private sector awareness and compliance with the provisions of Law No. 35/2002.The office currently has about 2,500 companies under its supervision. All new companies seeking a business license are required to receive AML awareness training from the OMLO before a license is granted. The OMLO also conducts both mandatory follow-up visits and unannounced inspections.

Businesses that are found to be in violation of provisions of Law No. 35/2002 receive an official warning from the Ministry for the first offense. The second and third violations result in closure for two weeks and one month, respectively. The fourth violation results in revocation of the license and closure of the business. Reportedly, three exchange houses were closed recently, one for operating without a license and the other two for violating instructions from the Ministry.

In April 2004, the Ministry of Finance issued Ministerial Decision No. 11 (MD No. 11/224), which transferred the chairmanship of the National Committee for Anti-Money Laundering and the Combating of the Financing of Terrorism, formerly headed by the Minister of Finance, to the Governor of the CBK. The Committee is comprised of representatives of the Ministries of Interior, Foreign Affairs, Commerce and Industry, and Finance, Labor and Social Affairs, Office of Public Prosecution, Kuwait Stock Exchange, General Customs Authority, the Union of Kuwaiti Banks, and the CBK. The National Committee is in the process of finalizing a draft legal review of Law No. 35/2002 to ensure its compliance with current international standards.

Since its inception, the National Committee has been pursuing its mandate of: drawing up the country's strategy and policy with regard to anti-money laundering and terrorist financing; drafting the necessary legislation and amendments to Law No. 35/2002, along with pertinent regulations; coordinating between the concerned ministries and agencies in matters related to combating money laundering and terrorist financing; following up on domestic, regional, and international developments and making needed recommendations in this regard; setting up appropriate channels of communication with regional and international institutions and organizations; and representing Kuwait in domestic, regional, and international meetings and conferences. In addition, the Chairman is entrusted with issuing regulations and procedures that he deems appropriate for the Committee duties and responsibilities and the organization of its activities.

In August 2002, the Kuwaiti Ministry of Social Affairs and Labor issued a ministerial decree creating the Department of Charitable Organizations. The primary responsibilities of the new department are to receive applications for registration from charitable organizations, monitor their operations, and establish a new accounting system to insure that such organizations comply with the law both at home and abroad. The Department has established guidelines for charities explaining donation collection procedures and regulating financial activities. The Department is also charged with conducting periodic inspections to insure that charities maintain administrative, accounting, and organizational standards according to Kuwaiti law. Further, the Department mandates the certification of charities' financial activities by external auditors, and limits the ability to transfer funds abroad to select charities approved by the Ministry. The Ministry also requires all fund transfers abroad to be made between authorized charity officials. Banks and money exchange businesses (MEBs) are not allowed to transfer any charitable funds outside of Kuwait without prior permission from the Ministry. In addition, any such wire transactions must be reported to the CBK, which maintains a monthly database of all transactions conducted by charities. Unauthorized public donations, including zakat (alms) collections in mosques, are also prohibited. During the 2005 Ramadan season, the Ministry introduced a new pilot program requiring charities to raise donations through the sale of government-provided coupons.

On June 23, 2003, the CBK issued Resolution No. 1/191/2003, establishing the Kuwaiti Financial Inquiries Unit (KFIU) as an independent entity within the Central Bank. The KFIU is comprised of seven part-time CBK officials and headed by the Central Bank Governor. The responsibilities of the KFIU are to receive and analyze reports of suspected money laundering from the OPP, to establish a database of suspicious transactions, to conduct anti-money laundering training, and to carry out domestic and international exchanges of information in cooperation with the OPP. Although the KFIU should act as the country's financial intelligence unit, Law No. 35/2002 did not mandate the KFIU to act as the central or sole unit for the receipt, analysis, and dissemination of suspicious transaction reports (STRs); instead, these critical functions were divided between the KFIU and OPP.

Banks in Kuwait are required to file STRs with the OPP, rather than directly with the KFIU. However, based on an MOU with the Central Bank, STRs are referred from the OPP to the KFIU for analysis. The KFIU conducts analysis and reports any findings to the OPP for the initiation of a criminal case, if necessary. The KFIU's access to information is limited, due to its inability to share information abroad without the approval of the OPP. Kuwaiti officials agree that the current limits on information sharing by the FIU are a problem that requires amending of the law, currently under revision by the National Committee.

Kuwait is a member of the Gulf Cooperation Council (GCC), which is itself a member of the Financial Action Task Force (FATF). In November 2004, Kuwait signed the memorandum of understanding governing the establishment of the Middle East and North Africa Financial Action Task Force (MENAFATF), a FATF-style regional body. Kuwait has played an active role in the MENAFATF through its participation in the drafting of regulations and guidelines pertaining to charities oversight and cash couriers. In December 2005, the CBK hosted a training seminar for those who will be

conducting mutual evaluations of MENAFATF members. The Kuwait General Administration of Customs also hosted a separate conference in December 2005 on combating cash smuggling. Kuwait is a party to the 1988 UN Drug Convention. It has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. It has not signed the UN International Convention for the Suppression of the Financing of Terrorism.

Kuwait is making progress in enforcing its anti-money laundering program. However, it should significantly accelerate its ongoing efforts to revise its 2002 anti-money laundering law (Law No. 35/2002), improve the sharing of financial information, strengthen the structure and responsibilities of the KFIU, secure Egmont Group membership for the KFIU, and criminalize terrorist financing. Kuwait's National Committee on Combating Money Laundering and Terrorist Financing should complete its analysis of the 2002 law and amend it to conform to current international standards. Kuwait should expand the practice of in-bound currency reporting to include all ports of entry. Kuwait should also make outbound currency and precious metals declarations mandatory. More interagency cooperation and coordination between the KFIU and other concerned parties, including Customs, could yield significant improvements in proactive investigations and international information exchange. The KFIU should be allowed to independently share financial information with its foreign counterparts, and receive, analyze, and disseminate suspicious transaction reports without obtaining prior authorization from the OPP. Kuwait should continue to enhance its charity oversight efforts, including increased coordination and diligence with third countries and organizations receiving assistance from Kuwaiti charities. Kuwait should become a party to both the UN Convention against Transnational Organized Crime and the UN International Convention for the Suppression of the Financing of Terrorism.

Laos

Laos is on the fringe of the region's banking network. Its banking sector is dominated by state-owned commercial banks in need of extensive reform. The small scale and poor financial condition of Lao banks may make them more likely to be venues for certain kinds of illicit transactions. Lao banks are not optimal for moving large amounts of money in any single transaction, due to the visibility of such movements in a small, low-tech environment. What money laundering does take place through Lao banks is likely to have been from illegal timber sales or domestic criminal activity, including drug trafficking. In a recent high-profile case involving a foreign-owned company accused of securities fraud, Lao customs authorities seized $300,000 in cash a businessman was transporting to Thailand, in contravention of Lao law. Subsequent investigation indicated that this business had transferred several million dollars from abroad through the Lao banking system in the past year, much of which was reportedly withdrawn in cash. The case revealed the weakness of the Lao banking system in monitoring suspicious transactions.

Laos has drafted a money laundering law with antiterrorism finance components, based upon a model law provided by the Asian Development Bank. The legislation was proposed during the second half of 2004 and has passed through the Ministry of Justice. It awaits prime ministerial approval and is expected to be passed by the National Assembly in April 2005, possibly with changes. The law will criminalize money laundering and terrorist financing. A Financial Intelligence Unit (FIU) will also be established, to supplant the small and informal one currently in place. Reportedly, a provision will be made for the freezing of suspect transactions and forfeiture of laundering proceeds. The Bank of Laos currently has a very small Banking Supervision Department, and it is believed the Department will be augmented and used to help implement the new legislation. Provision will be made for mutual assistance in criminal matters between Laos and other countries.

Lao law prohibits the export of the national currency, the Kip. It is likely that the currency restrictions and undeveloped banking sector encourage the use of alternative remittance systems.

The GOL is a party to the 1971 UN Convention on Psychotropic Substances and has become a party to the 1988 UN Drug Convention. The GOL participates in Association of Southeast Asian Nations (ASEAN) regional conferences on money laundering. Laos also has observer status in the Asia Pacific Anti-Money Laundering Group, and plans to join fully once its anti-money laundering law is enacted.

Laos should pass anti-money laundering and antiterrorism financing legislation. Laos should also become a party to the UN International Convention for the Suppression of Financing of Terrorism and the UN Convention against Transnational Organized Crime.

Latvia*

[*The Latvia country report was updated on March 31, 2006. See updated version.]

Latvia is a growing regional financial center that has a large number of commercial banks with a sizeable non-resident deposit base. Although these banks continue to face money laundering risks, Latvian government agencies and banks acted in 2005 to significantly strengthen the financial sector and to comply with international anti-money laundering (AML) standards. Many of the improvements addressed money laundering concerns outlined in the Notices of Proposed Rulemaking against two Latvian banks—VEF Banka and Multibanka—that was issued by the U.S. Government on April 26, 2005, under Section 311 of the USA PATRIOT Act.

Sources of laundered money in Latvia primarily involve tax evasion, but also include counterfeiting, corruption, white-collar crime, extortion, financial/banking crimes, stolen cars, contraband smuggling, and prostitution. A significant amount of the proceeds of tax evasion are believed to originate from outside of Latvia. Organized crime is thought to account for a portion of criminal proceeds that are obtained domestically.

The Government of Latvia (GOL) criminalized money laundering for all serious crimes in 1998. There are requirements for customer identification, the maintenance of records on all transactions, and the reporting of large cash transactions and suspicious transactions to the Office for the Prevention of the Laundering of Proceeds Derived from Criminal Activity (Control Service), which is Latvia's Financial Intelligence Unit (FIU).

The Law on the Prevention of Laundering of Proceeds Derived from Criminal Activity (the anti-money laundering law (AML)) requires all institutions engaging in financial transactions to report suspicious activity. On February 1, 2004, Latvia adopted amendments to the AML law that expand the scope of reporting institutions, and include auditors, lawyers, and high-value dealers, as well as credit institutions. The law lists four categories of entities obligated to report suspicious activities: participants in financial and capital markets (credit institutions, insurance companies, private pension funds, stock exchanges, brokerage companies, investment companies, credit unions, and investment consultants); organizers and holders of lotteries and gambling enterprises; companies engaged in foreign currency exchange; and individuals and companies who perform professional activities and services associated with financial transactions (money transfer services, tax consultants, auditors, auditing companies, notaries, attorneys, real estate companies, art dealers, and commodities traders). Another 2004 amendment provides for the inclusion of all offenses listed in the criminal law, including terrorism, as predicate offenses for money laundering. The amendments also provide the FIU with authority to stop transactions for up to 45 days.

In January 2005, the Council of Ministers adopted Regulation 55 that created a Council for the Prevention of Laundering of Proceeds Derived from Criminal Activity, a state-level AML body chaired by the Prime Minister. In April 2005, Latvia made it illegal for banks and individuals to ignore money laundering, and criminalized the misrepresentation of the ownership of funds. Latvia has not specifically criminalized terrorist financing. The GOL maintains that existing laws are sufficient to criminally prosecute cases of terrorist finance, although to date these laws have not been tested.

In May 2005, additional amendments to the AML and the criminal law were adopted that significantly enhanced the ability of Latvian law enforcement agencies to share information with each other and with Latvia's banking regulator, the Financial and Capital Markets Commission (FCMC). In 2005, Latvia also passed a new Criminal Procedures Code, which removed many procedural hurdles that previously made it difficult for Latvian law enforcement agencies to aggressively investigate and prosecute financial crimes. For example, prosecutors no longer need to prove "knowledge" of the criminal origin of funds before charging a person or institution with a financial crime. Reportedly, there are also plans to increase staffing levels for AML units within the Financial Police, the Economic Police, and the FIU.

In November 2005, Latvia passed legislation instituting a cross-border currency declaration requirement, which will take effect on June 30, 2006. The cash declaration law stipulates that any person crossing the Latvian border and either importing into or exporting from the customs territory of the European Union, cash (or bank notes, financial instruments, checks, bonds) equivalent to or exceeding 10,000 euros (approximately $12,300), is obligated to declare the money to a customs officer, or, where there is no customs checkpoint, to a Border Guard.

Banks are not allowed to open accounts without prior customer due diligence, and the AML law stipulates that banks must obtain client identification documents for both residents and non-residents. For legal entities, banks must collect additional information on incorporation and registration. In June 2005, sanctions against banks that violated the AML statutes were toughened to provide for fines of as much as the equivalent of $176,000.

In addition to suspicious transactions, the law also mandates institutions to report unusual transactions. Obligated entities must report single cash transactions or several related transactions, if the equivalent is 40,000 lats (approximately $70,400) or more, or if, due to indicators that suggest unusual transactions, there is cause for suspicion regarding the laundering or attempted laundering of the proceeds from crime. Financial institutions must keep transaction and identification data for at least five years after ending a business relationship with a client. If money laundering or terrorist financing is suspected, financial institutions have the ability to freeze accounts. If a financial institution finds the activity of an account questionable, it may close the account on its own initiative.

Since July 2001, the Finance and Capital Market Commission (FCMC) has served as the GOL's unified public financial services regulator, overseeing commercial banks and non-bank financial institutions, the Riga Stock Exchange, and insurance companies. The Bank of Latvia supervises the currency exchange sector. The FCMC conducts regular audits of credit institutions and will apply sanctions to companies that fail to file mandatory reports of unusual transactions. The Control Service also checks to insure that it receives matching STRs on transactions that occur between Latvian banks.

The FCMC has approved guidelines for identifying customers and unusual and suspicious transactions, as well as guidance on the internal control mechanisms that financial institutions should have in place. The FCMC has mandated that financial institutions pay closer attention to suspicious transactions, particularly those involving jurisdictions on the Financial Action Task Force's (FATF) list of Non-Cooperative Countries and Territories (NCCTs). The May 2005 amendments to the AML law gave the FCMC the ability to share information with Latvian law enforcement agencies and to receive data on potential financial crime patterns uncovered by police or prosecutorial authorities. The June 2005 amendments to the Criminal Procedures Code added a new article criminalizing the deliberate provision of false information to a credit or a financial institution about a beneficiary.

Separate from legislative and regulatory requirements, the Association of Latvian Commercial Banks (ALCB) plays an active role in setting standards on AML issues for Latvian banks. Under the leadership of the ALCB and at the urging of the FCMC, Latvian banks collectively undertook a major review of existing customer relationships in the first half of 2005, which resulted in Latvian banks closing more than 10,000 accounts connected to customers unwilling or unable to comply with

enhanced due diligence requirements. In May 2004, the ALCB adopted regulations on the Prevention of Money Laundering as guidance for Latvian banks. In June 2005, the ALCB adopted a Declaration on Taking Aggressive Action against Money Laundering, which was signed by all Latvian banks. In 2005, the ACLB also adopted a voluntary measure, observed by all Latvian banks, to limit cash withdrawals from automated teller machines to 1,000 lats (approximately $1,760) per day. The ACLB guidelines are respected by member banks. In addition to acting as an industry representative to government and the regulator, the ACLB organizes regular education courses on AML/CFT issues for employees of Latvian banks.

The Control Service, Latvia's FIU, is structurally part of the Latvian Prosecutor General's Office. The Control Service has the overall responsibility to coordinate and elaborate Latvia's AML policy and assess its effectiveness. During the first 11 months of 2005, the Control Service received 24,150 reports, of which 14,436 were reports of suspicious transactions. During that same time frame, the Control Service forwarded 139 cases to law enforcement, which included information from 2,120 unusual or suspicious transactions. The Control Service received 16,128 reports in 2004, and 15,371 reports in 2003. Approximately 40 percent of the reports received in 2004 and 2005 were for suspicious transactions and 60 percent were classified as unusual transactions.

In practice, the Control Service conducts a preliminary investigation of the suspicious and unusual reports and then may pass the information on to various authorities that investigate money laundering cases. The Control Service can forward case information to: specialized Anti-Money Laundering Investigation Units of the State Police, including the Economic Police and the Office for the Combat of Organized Crime; the Financial Police (under the State Revenue Service of the Ministry of Finance); the Bureau for the Prevention and Combat of Corruption (Anti-Corruption Bureau, ACB) for crimes committed by public officials; the Security Police (for cases concerning terrorism and terrorism financing); and other law enforcement authorities.

The Prosecutor General's Office also maintains a specially-cleared staff of seven prosecutors to prosecute cases linked to money laundering. In the first 10 months of 2005, the Prosecutor General's Office referred eight criminal cases to court for criminal offenses connected to money laundering. In one court case involving seven defendants, four of them received sentences for money laundering.

The adoption of Latvia's new Criminal Procedures Code in 2005 provided additional measures for the seizure and forfeiture of assets. The law allows law enforcement authorities better identify, trace, and confiscate criminal proceeds. Investigators have the ability to initiate parallel actions for the seizure of assets recovered during criminal investigations (previously this was possible only when investigations were complete). Latvia continues to work to adapt its legislation to the Framework Decision of the Council of the European Union of July 22, 2003 (2003/577/JHA) on the Execution in the European Union of Orders for Freezing Property or Evidence. Interagency cooperation between Latvian law enforcement agencies is improving, due to new legislative amendments that allow better information sharing and increased resources to conduct investigations. Still, cooperation is best at the highest governmental levels. At the end of 2004, the Latvian Prime Minister announced plans to create a senior (ministerial) level working group on financial crime, including representatives from government ministries, law enforcement, central bank officials and the FCMC, which led to the adoption of Council of Ministers Regulation 55 that formed the Council for the Prevention of Laundering of Proceeds Derived from Criminal Activity. The Council was the driving force behind the legislative amendments passed in May 2005.

The GOL has initiated a number of measures aimed at combating the financing of terrorism. It has issued regulations to implement the sanctions imposed by UNSCR 1267 and the subsequent respective resolutions (Cabinet of Ministers' Regulation No. 437, "On the Sanction Regime of the United Nations Security Council against the Afghan Islam Emirates in the Republic of Latvia)." On October 14, 2004, Regulation No. 840 "On the Countries and International Organizations Whose Lists Include

Persons Suspected of Committing Acts of Terrorism or Complicity Therein" entered into force. The regulations require that financial institutions report to the Control Service transactions related to any suspected terrorists or terrorist organizations on the UNSCR 1267 Sanctions Committee's consolidated list or on certain other terrorist lists, including those shared with Latvia by international partners. The Control Service maintains consolidated terrorist finance and watch lists and regularly sends these to financial institutions. On several occasions, Latvian financial institutions have temporarily frozen monetary funds associated with names on terrorist finance watch lists, including those issued by the U.S. Office of Foreign Assets Control (OFAC). To date, there have been no confirmed matches to names on the list. Article 17 of the AML law authorizes the Control Service to freeze the funds of persons included on one of the terrorist lists for up to six months. Any associated investigations, asset or property seizures, and forfeitures are handled in accordance with the new Criminal Procedure Code.

Only conventional money remitters (such as Western Union and Moneygram) are permitted in Latvia. The remitters work through the banks and not as separate entities. Any other type of alternative remittance service is prohibited in Latvia.

Latvia has a growing legal gambling industry. Through September 2005, the gaming industry accounted for 70,530,000 lats (approximately $124,200,000) of revenue, a 138 percent increase over the same period in 2004. In 2004, Latvia enacted a new law that restricts slot machines to defined gaming halls (places that have greater than ten gaming machines). New legislation adopted in November 2005 stipulates that no licenses can be issued for gaming businesses outside of casinos and gaming halls beginning in 2006.

The Ministry of Finance's Department of Lotteries and Gambling Supervisory Inspection regulates the gaming industry in Latvia. Casino inspectors preside over daily cash-out operations at each of the country's casinos. All casino customers must register and show proof of identification prior to entering the casino premises. Casinos and gaming halls must provide information about winnings of greater than 5,000 lats (approximately $8,800) to the Ministry of Finance and the FIU. The Ministry of Finance has statutory authority to inquire about all casino owners and officers, and it works with the FIU to review licensing applications. In the first nine months of 2005, there were 2,191 inspections, which resulted in 155 violations.

There are four special economic zones in Latvia that provide a variety of significant tax incentives for the manufacturing, outsourcing, logistics centers, and trans-shipment of goods to other free trade zones. These zones are located at the free ports of Ventspis, Riga, and Liepaja, and in the inland city of Rezekne near the Russian and Belarusian Borders. There have been instances of reported cigarette smuggling to and from warehouses in the free trade zones, as well as outside them.

Latvia participates in MONEYVAL (the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures) and underwent a second-round mutual evaluation in 2002, the results of which were discussed during the MONEYVAL committee meeting in May 2004. Latvia is currently participating in a voluntary International Monetary Fund (IMF) evaluation that will further assess the country's AML regulatory and legal framework. This assessment will also be considered as MONEYVAL's third-round evaluation of Latvia.

Latvia is a party to the UN International Convention for the Suppression of the Financing of Terrorism and eleven other multilateral counterterrorism conventions. It ratified the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of Proceeds from Crime in 1998, and the Council of Europe Criminal Law Convention on Corruption in December 2001. A Mutual Legal Assistance Treaty (MLAT) has been in force between the United States and Latvia since 1999, and new amended extradition and MLAT agreements were signed in December 2005 (the amended agreements are awaiting ratification in Latvia). Latvia is a party to the 1988 UN Drug Convention, and it ratified the UN Convention against Transnational Organized Crime in December 2001.

The Control Service, Latvia's FIU, has been a member of the Egmont Group since 1999 and has cooperation agreements on information exchange with FIUs in Belgium, Bulgaria, Canada, the Czech Republic, Estonia, Finland, Guernsey, Italy, Lithuania, Malta, Russia, Slovenia, and Poland. In addition, Latvia has signed multilateral agreements with several EU countries to automatically exchange information between the EU financial intelligence units using FIU.NET.

The GOL made substantial improvements in its anti-money laundering and counterterrorist financing regime in 2005. It should specifically criminalize terrorist financing or ensure that existing laws allow for the efficient and effective prosecution of such activity. It should continue to implement and use the 2005 amendments to its AML law and Criminal Procedures Code to increase information sharing and cooperation between Latvian law enforcement agencies at the working level, and to strengthen its capacity and record in aggressively prosecuting and convicting those involved in financial crimes.

Lebanon

Lebanon is a financial hub for banking activities in the Middle East. It has one of the more sophisticated banking sectors in the region. The banking sector continues to record an increase in deposits. As of October 2005, there were 64 banks (54 commercial banks and ten investment banks) operating in Lebanon with total deposits of $57 billion. Four U.S. banks and bank representative offices operate in Lebanon: Citibank, American Express Bank, the Bank of New York, and JP Morgan Chase Bank.

The Central Bank (Banque du Liban) (CBL) regulates all financial institutions and money exchange houses. Banking sources emphasize that Lebanon is not a significant financial center for money laundering, but acknowledge that it does have a number of vulnerabilities. The narcotics trade is not a principal source of proceeds in money laundering. Lebanon imposes no controls on the movement of capital. It has a substantial influx of remittances from expatriate workers and family members.

Laundered criminal proceeds come primarily from domestic criminal activity. Money laundering proceeds are largely controlled by organized crime. During 2005, the banking sector has seen two cases of bank fraud consisting of embezzlement by bank employees in branch offices. There is some smuggling of cigarettes and pirated software, but this does not generate large amounts of funds that are laundered through the banking system. There is a black market for counterfeit goods and pirated software, CDs, and DVDs. Lebanese customs officials have had some recent success in combating counterfeit and pirated goods. The illicit narcotics trade is not a principal source of money laundering proceeds.

Offshore banking is not permitted in Lebanon, nor are offshore trusts or offshore insurance companies. Legislative Decree No. 46, dated June 1983, governs offshore companies. It restricts offshore companies' activity to negotiating and signing agreements concerning business carried on outside Lebanon or in the Lebanese Customs Free Zone; thus, offshore companies are barred from engaging in activities such as industry, banking, and insurance. All offshore companies must register with the Beirut Commercial Registry, and the owners of an offshore company must submit a copy of their identification. Moreover, the Registrar of the Beirut Court keeps a special register, in which all documents and information issued by the offshore company are to be retained.

There are currently two free trade zones operating in Lebanon, at the Port of Beirut and at the Port of Tripoli. The free trade zones fall under the supervision of Customs. Exporters moving goods into and out of the free zones submit a detailed manifest to Customs. If Customs suspects a transaction to be related to money laundering or terrorism finance, it reports it to Lebanon's financial intelligence unit (FIU), the Special Investigation Commission (SIC). Lebanon has no cross-border currency reporting requirements. However, since January 2003, Customs checks travelers randomly and notifies the SIC when large amounts of cash are found.

Lebanon has continued to make progress toward developing an effective money laundering and terrorism finance regime incorporating the Financial Action Task Force (FATF) Recommendations, which culminated in the FATF's removal of Lebanon from the list of Non-Cooperative Countries and Territories (NCCTs) in 2002. With Lebanon's removal from the NCCT list, the U.S. Treasury's Financial Crimes Enforcement Network (FinCEN) lifted its advisory, which had instructed all U.S. financial institutions to "give enhanced scrutiny" to all transactions involving Lebanon.

In 2004, Lebanon passed a law requiring diamond traders to seek proper certification of origin for imported diamonds; the Ministry of Economy and Trade is in charge of issuing certification for re-exported diamonds. This law, designed to prevent the traffic in conflict diamonds, allowed Lebanon to join the Kimberly Process, a voluntary joint government, international diamond industry, and civil society initiative to stem the flow of rough diamonds—that are used by rebel and terrorist movements to finance their operations—through imposing extensive requirements on participants to certify the legitimate origin of rough diamonds. In August 2003, Lebanon passed a decree prohibiting imports of rough diamonds from countries that are not members of the Kimberly Process.

In 2001, Lebanon enacted Law No. 318, which created a framework for lifting bank secrecy, broadening the criminalization of money laundering beyond drugs, mandating suspicious transaction reporting, requiring financial institutions to obtain customer identification information, and facilitating access to banking information and records by judicial authorities. Under this law, money laundering is a criminal offense and punishable by imprisonment for a period of three to seven years and by a fine of no less than twenty million Lebanese pounds (approximately $13,267). The provisions of Law No. 318 expand the type of financial institutions subject to the provisions of the Banking Secrecy Law of 1956, to include institutions such as exchange offices, financial intermediation companies, leasing companies, mutual funds, insurance companies, companies promoting and selling real estate and construction, and dealers in high-value commodities. In addition, Law No. 318 requires companies engaged in transactions for high-value items (precious metals, antiquities) and real estate to report suspicious transactions.

These companies are also required to ascertain, through official documents, the identity and address of each client, and must keep photocopies of these documents as well as photocopies of the operation-related documents for a period of no less than five years. The CBL regulates private couriers who transport currency. Western Union and Money Gram are licensed by the CBL and are subject to the provisions of this law. Charitable and nonprofit organizations must be registered with the Ministry of Interior, are required to have proper corporate governance, including audited financial statements, and are subject to the same suspicious reporting requirements.

All financial institutions and money exchange houses are regulated by the CBL. Law 318 (2001) clarified the CBL's powers to: require financial institutions to identify all clients, including transient clients; maintain records of customer identification information; request information about the beneficial owners of accounts; conduct internal audits; and exercise due diligence in conducting transactions for clients.

Law No. 318 (2001) also established an FIU, called the Special Investigation Commission (SIC), which is an independent entity with judicial status that can investigate money laundering operations and monitor compliance of banks and other financial institutions with the provisions of Law No. 318. The SIC serves as the key element of Lebanon's anti-money laundering regime and has been the critical driving force behind the implementation process. The SIC is responsible for receiving and investigating reports of suspicious transactions. The SIC is the only entity with the authority to lift bank secrecy for administrative and judicial agencies, and it is the administrative body through which foreign FIU requests for assistance are processed.

Since its inception, the SIC has been active in providing support to international criminal case referrals. From January through November 2005, the SIC investigated 173 cases involving allegations

of money laundering and terrorist financing activities. Out of these cases, nine were originated at U.S. Government request. Eighteen of the 173 cases were related to terrorist financing. Bank secrecy regulations were lifted in 76 instances. The SIC transmitted the 76 cases to the general state prosecutor for further investigations and to determine if these cases would be referred to the penal judge for indictment. One case relating to drug charges and involving two individuals was transmitted by the general state prosecutor to the penal judge. The general state prosecutor reported two cases to the SIC for the freezing of assets. One case involved individuals convicted of organized crime activities, and the other case involved individuals convicted of drug charges. From January to November 2005, the SIC froze the accounts of 46 individuals in eleven of the 173 cases investigated. Total dollar amounts frozen by the SIC in all these cases is about $11 million. The SIC has also worked with the UN International Independent Investigation's Commission (UNIIC) investigation into the assassination of Rafiq Hariri, helping the international inquiry lift bank secrecy laws on certain accounts and freeze the assets of suspects.

During 2003, Lebanon adopted additional measures to strengthen efforts to combat money laundering and terrorism financing, such as establishing anti-money laundering units in customs and the police. In 2003, Lebanon joined the Egmont Group of financial intelligence units. The SIC has reported increased inter-agency cooperation with other Lebanese law enforcement units, such as Customs and the police.

In order to more effectively combat money laundering and terrorist financing, Lebanon also adopted two laws important laws in 2003, Numbers 547 and 553. Law 547 expanded Article One of Law 318 (2001), criminalizing any funds resulting from the financing or contribution to the financing of terrorism or terrorist acts or organizations, based on the definition of terrorism as it appears in the Lebanese penal code (which distinguishes between "terrorism" and "resistance"). Law 547 also criminalized acts of theft or embezzlement of public or private funds, or their appropriation by fraudulent means, counterfeiting, or breach of trust, for banks and financial institutions, or falling within the scope of their activities. It also criminalized counterfeiting of money, credit cards, debit cards, and charge cards, or any official document or commercial paper, including checks. Law 553 added an article to the penal code (Article 316) on terrorist financing, which stipulates that any person who voluntarily, either directly or indirectly, finances or contributes to terrorist organizations or terrorists acts is punishable by imprisonment with hard labor for a period not less than three years and not more than seven years, as well as a fine not less than the amount contributed but not exceeding three times that amount.

In 2005, a SARC (suspicious activity report by casinos) system was put in place for the exchange of information between the SIC, customs, the internal security force (ISF) anti-money laundering and terrorist finance unit, and the general state prosecutor. The cooperation led to an increase in the number of suspicious transactions reports (STRs), and as a result, the SIC initiated several investigations in 2005.

Lebanese law allows for property forfeiture in civil as well as criminal proceedings. The Government of Lebanon (GOL) enforces existing drug-related asset seizure and forfeiture laws. Current legislation provides for the confiscation of assets the court determines to be related to or proceeding from money laundering or terrorist financing. In addition, vehicles used to transport narcotics can be seized. Legitimate businesses established from illegal proceeds after passage of Law 318 are also subject to seizure.

Lebanon was one of the founding members of the Middle East and North Africa Financial Action Task Force (MENAFATF), a FATF-style regional body that promotes best practices to combat money laundering and terrorist financing in the region. It was inaugurated on November 30, 2004, in Bahrain. As it assumed its presidency for the first year, Lebanon hosted the second MENAFATF plenary in September 2005.

Lebanon has endorsed the Basel Committee's "Core Principles for Effective Banking Supervision" and is compliant on 24 out of the 25 "Core Principles." Compliance with the pending "Core Principle" is being addressed, and a draft law providing legal protection to bank supervisors awaits the cabinet's approval. Banks are compliant with the Basel I capital accord and are preparing to comply with Basel II recommendations concerning capital adequacy.

The SIC circulates to all financial institutions the names of suspected terrorists and terrorist organizations on the UNSCR 1267 Sanctions Committee's consolidated list, the list of Specially Designated Global Terrorists designated by the U.S. pursuant to E.O. 13224 and those that European Union have designated under their relevant authorities. The SIC has signed a number of memoranda of understanding with other FIUs concerning international cooperation in anti-money laundering and combating terrorist financing. The SIC cooperates with competent U.S. authorities on exchanging records and information within the framework of Law 318.

Lebanon is a party to the 1988 UN Drug Convention, although it has expressed reservations to several sections relating to bank secrecy. It has signed and ratified the UN Convention against Transnational Organized Crime. The Government is still debating signing the UN International Convention for the Suppression of the Financing of Terrorism.

The Government of Lebanon continues to improve its efforts to develop an effective anti-money laundering and counterterrorism finance regime. The end of the Syrian military occupation in April 2005 and the gradual decline of Syrian influence over the economy (both licit and illicit), security services, and political life in Lebanon may present an opportunity for the GOL to further strengthen its efforts against money laundering, corruption and terrorist financing. The GOL should encourage more efficient cooperation between financial investigators and other concerned parties, such as police and Customs, which could yield significant improvements in initiating and conducting investigations. It should become a party to the UN International Convention for the Suppression of Terrorist Financing.

Lesotho

Lesotho is not a financial center and does not have a significant money laundering problem. There is currently no legislation criminalizing money laundering or terrorist financing. In 2003, the Government of Lesotho (GOL) drafted a "Money Laundering and Proceeds of Crime" bill. The bill was revised in 2004 and a comprehensive draft is currently under review following input by a team of advisors from the International Monetary Fund (IMF) before presentation to the Cabinet. It is hoped that the bill will be passed in 2006.

In 2005, a Pakistani businessman residing in South Africa was arrested at the airport in Lesotho for attempting to smuggle large sums of South African currency out of the country. On another occasion in 2005, a Lesotho citizen of Indian origin was also arrested at airport for carrying large sums of U.S. dollars. They were both charged with violation of the Exchange Control Regulations of the Central Bank of Lesotho.

Lesotho requires banks to know the identity of their customers and to report suspicious transactions to the Central Bank. The GOL also requires banks to report all transactions exceeding 100,000 maloti (approximately $16,000) to the Central Bank. Financial institutions are also required to maintain, for a period of ten years, all necessary records to enable them to comply with information requests from competent authorities.

The GOL created a multi-agency committee to assist in its implementation of UNSCR 1373. The Commonwealth Secretariat is assisting members of the committee to formulate national policy and draft legislation on terrorism, and intends to sponsor related training for countries of the region.

Lesotho is a party to the 1988 UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime. Lesotho is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body. However, it has not yet signed the ESAAMLG Memorandum of Understanding (MOU).

The Government of Lesotho should criminalize money laundering and terrorist financing and should develop a viable anti-money laundering regime. It should sign the MOU for ESAAMLG.

Liechtenstein

The Principality of Liechtenstein's well-developed offshore financial services sector, relatively low tax rates, liberal incorporation and corporate governance rules, and tradition of strict bank secrecy have contributed significantly to the ability of financial intermediaries in Liechtenstein to attract funds from abroad. These same factors have historically made the country attractive to money launderers. Rumors and accusations of misuse of Liechtenstein's banking system persist in spite of the progress the principality has made in its efforts against money laundering.

Liechtenstein's financial services sector includes 16 banks, three non-bank financial companies, 16 public investment companies, and a number of insurance and reinsurance companies. The three largest banks account for ninety percent of the market. Liechtenstein's 230 licensed fiduciary companies and 60 lawyers serve as nominees for or manage more than 75,000 entities (mostly corporations or trusts) available primarily to nonresidents of Liechtenstein. Approximately one third of these entities hold controlling interests in separate entities chartered outside of Liechtenstein. Laws permit corporations to issue bearer shares.

Narcotics-related money laundering has been a criminal offense in Liechtenstein since 1993, and the number of predicate offenses for money laundering has increased over time. The Government of Liechtenstein (GOL) is reviewing the Criminal Code in order to further expand the list of predicate offenses. Article 165 criminalizes laundering one's own funds and imposes penalties for money laundering. However, negligent money laundering is not addressed.

The first general anti-money laundering legislation was added to Liechtenstein's laws in 1996. Although the 1996 law applied some money laundering controls to financial institutions and intermediaries operating in Liechtenstein, the anti-money laundering regime at that time suffered from serious systemic problems and deficiencies. In response to international pressure, beginning in 2000, the GOL took legislative and administrative steps to improve its anti-money laundering regime.

Liechtenstein's primary piece of anti-money laundering legislation, the Due Diligence Act (DDA) of November 26, 2004, entered into force on February 1, 2005. The act repealed a number of prior laws, including the 1996 Due Diligence Act and its amendments. The DDA applies to banks, e-money institutions, casinos, dealers in high-value goods, and a number of other classes of entities. Along with a January 2005 ordinance (the Due Diligence Ordinance), the DDA sets out the basic requirements of the anti-money laundering regime: customer identification, suspicious transaction reporting, and record keeping. The act mandates that banks and postal institutions not engage in business relationships with shell banks nor maintain passbooks, accounts, or deposits payable to the bearer.

The GOL announced that by 2008 it would implement a new set of EU regulations requiring that money transfers above 15,000 euro ($17,678) be accompanied by information on the identity of the sender, including his or her name, address, and account number. The proposed measures will ensure that this information will be immediately available to appropriate law enforcement authorities and will assist them in detecting, investigating, and prosecuting terrorists and other criminals.

The Financial Market Authority (FMA) serves as Liechtenstein's central financial supervisory authority. Beginning operations on January 1, 2005, FMA assumed the responsibilities of several former administrative bodies, including the Financial Supervisory Authority and the Due Diligence Unit, both of which once exercised responsibility over money laundering issues. FMA reports exclusively to the Liechtenstein Parliament, making it independent from Liechtenstein's government. It oversees a large variety of financial actors, including banks, finance companies, insurance companies, currency exchange offices, and real estate brokers. FMA works closely with Liechtenstein's financial intelligence unit (FIU), the Office of the Prosecutor, and the police.

Liechtenstein's FIU, known as the Einheit fuer Finanzinformationen (EFFI), receives suspicious transaction reports (STRs) relating to money laundering and terrorist financing. The EFFI became operational in March 2001 and a member of the Egmont Group three months later. The EFFI has developed a system for STR analysis that involves internal examination, consultation with police, and a five-day period to decide whether to forward the report to prosecutors for further action. The EFFI has set up a database to analyze the STRs and has access to various governmental databases, although it cannot seek additional financial/bank information unrelated to a filed STR. The suspicious transaction reporting requirement applies to banks, insurers, financial advisers, postal services, exchange offices, attorneys, financial regulators, casinos, and other entities. The GOL has reformed its suspicious transaction reporting system to permit reporting for a much broader range of offenses than in the past and based on a suspicion rather than the previous standard of "a strong suspicion."

In 2004, the number of STRs increased by 36 percent from the previous year to 234. Of these 234 reports, the majority were submitted by banks (57 percent) and professional trustees (38 percent). As in 2003, fraud and money laundering remained the most prevalent types of offenses indicated by the entities submitting STRs to the FIU. The share of STRs involving fraud increased from 38 percent to 48 percent, while the share of STRs involving money laundering decreased from 37 percent to 20 percent.

Although the number of STRs filed by financial institutions in Liechtenstein is relatively small, they have generated several money laundering investigations. The EFFI works closely with the prosecutor's office and law enforcement authorities, as well as with a special economic and organized crime unit of the National Police known as "EWOK." When authorized to do so by a Special Investigative Judge, the police can use special investigative measures.

In 2004, the FIU forwarded 79 percent of the total number of STRs it received to prosecution authorities, up from 72 percent in 2003 and 61 percent in 2002. Three indictments have resulted from those 100 STR referrals. Most of the beneficial owners in transactions resulting in STRs were from Switzerland and Germany. With 8 percent of the total, the United States ranked third in terms of beneficial owners in STR filings. Liechtenstein itself ranked only sixth, with 4 percent of the total. The EFFI reports that about $120 million worth of suspicious money originated from the United States in 2004, compared to $260 million in 2003. The Russian Federation was the largest source of money suspected to have been criminally-generated with a total of $950 million.

In 2004, the EFFI received 119 inquiries from 16 foreign FIUs, slightly fewer than in 2003. In the same period, the EFFI submitted 134 inquiries to 14 different countries, down from 145 inquiries in 2003. The most frequent judicial cooperation requests originated from or were directed to Germany, Switzerland, and Austria.

Liechtenstein has in place legislation to seize, freeze, and share forfeited assets with cooperating countries. The Special Law on Mutual Assistance in International Criminal Matters gives priority to international agreements. Money laundering is an extraditable offense, and legal assistance is granted on the basis of dual criminality (i.e., the offense must be a criminal offense in both jurisdictions). Article 235A provides for the sharing of confiscated assets, and this has been used in practice. Liechtenstein has not adopted the EU-driven policy of reversing the burden of proof (i.e., making it

necessary for the defendant to prove that he had acquired assets legally instead of the state's having to prove he had acquired them illegally).

A series of amendments to Liechtenstein law, adopted by Parliament on May 15, 2003, include a new catchall criminal offense for terrorist financing along with amendments to the Criminal Code and the Code of Criminal Procedure. Liechtenstein also has issued ordinances to implement United Nations Security Council Resolutions (UNSCRs) 1267 and 1333. Amendments to the ordinances in October and November 2001 allow the GOL to freeze the accounts of individuals and entities that were designated pursuant to these UNSCRs. The GOL updates these ordinances regularly.

On November 7, 2001, law enforcement entities in Switzerland, Liechtenstein, and Italy conducted raids and seized documents relating to Al-Taqwa and Nada Management, both of which had been designated under UNSRC 1267. Liechtenstein froze five Al-Taqwa accounts and investigated five companies. In connection with these actions, the GOL responded to a mutual legal assistance request from Switzerland and opened a domestic investigation based on money laundering and organized crime. The total value reported frozen as of December 2003 by the Liechtenstein authorities based on UNSCR 1267 is $145,300. According to the 2003 Liechtenstein report to the UN, six Taliban-related entities have been located in Liechtenstein. Their assets have been frozen and overlap with the $145,300 reported above.

The GOL has also improved its international cooperation provisions in both administrative and judicial matters. A mutual legal assistance treaty (MLAT) between Liechtenstein and the United States entered into force on August 1, 2003. The U. S. Department of Justice has acknowledged Liechtenstein's cooperation in the Al-Taqwa case and in other fraud and narcotics cases. The EFFI has in place a memorandum of understanding (MOU) with the FIUs in Belgium, Monaco, Croatia, Poland, and Georgia. Further MOUs are being prepared with Switzerland, France, Italy, San Marino, Canada, Malta, Russia, and Lithuania. Preliminary talks are being held with Germany.

Liechtenstein is a member of the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL). The GOL is a party to the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime and the UN International Convention for the Suppression of the Financing of Terrorism. Liechtenstein has also signed, but not yet ratified, the UN Convention against Transnational Organized Crime. Liechtenstein has endorsed the Basel Committee's "Core Principles for Effective Banking Supervision" and has adopted the EU Convention on Combating Terrorism.

The Government of Liechtenstein has made consistent progress in addressing previously noted shortcomings in its anti-money laundering regime. It should continue to build upon the foundation of its evolving anti-money laundering and counterterrorist financing regime. Liechtenstein should accede to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. Liechtenstein should require reporting of cross-border currency movements and ensure that trustees and other fiduciaries comply fully with all aspects of the new anti-money laundering legislation and attendant regulations, including the obligation to report suspicious transactions. The EFFI, the financial intelligence unit, should be given access to additional financial information. While Liechtenstein recognizes the rights of third parties and protects uninvolved parties in matters of confiscation, the government should distinguish between bona fide third parties and others.

Luxembourg

Despite its standing as the second-smallest member of the European Union (EU), Luxembourg is one of the largest financial centers in the world. Its strict bank secrecy laws allow international financial institutions to benefit from and operate a wide range of services and activities. With $1.4 trillion under management, Luxembourg is the second largest mutual fund investment center in the world, following

the United States. Luxembourg is considered an offshore financial center, with foreign-owned banks accounting for a majority of the nation's total bank assets. Although there are a handful of domestic banks operating in the country, the majority of banks registered in Luxembourg are foreign subsidiaries of banks in Germany, France, and Belgium. For this reason (and also due to the proximity of these three nations to Luxembourg), a significant share of Luxembourg's suspicious transaction reports (STRs) are generated from transactions involving clients in these three countries.

As of December 2005, 154 banks, with a balance sheet total reaching 758 billion euros (approximately $893 billion), were registered in Luxembourg. In addition, as of November 2005, a total of 2,053 "undertakings for collective investment" (UCIs), or mutual fund companies, whose net assets had reached nearly 1.5 trillion euros (approximately $1.8 trillion), were operating out of Luxembourg. Luxembourg has about 15,000 holding companies, 97 insurance companies, and 260 reinsurance companies. As of September 2005, the Luxembourg Stock Exchange listed over 35,000 securities issued by nearly 4,100 entities from about 100 different countries. Legislation passed in June 2004 permits the registration of venture capital funds (société d'investissement en capital a risqué, or "SICAR"). As of December 2005, 40 SICARs had been registered.

While Luxembourg is not a major hub for illicit drug distribution, the size and sophistication of its financial center create opportunities for drug-related and other forms of money laundering and terrorist financing. According to a December 2004 International Monetary Fund (IMF) report, Luxembourg has "a solid criminal legal framework and supervisory system" to counter money laundering and terrorist financing, and is "broadly compliant with almost all of the Financial Action Task Force (FATF) Recommendations." The report also notes that Luxembourg's high level of cross-border business, obligatory banking secrecy, private banking, and "certain investment vehicles" create a challenging environment for countering money laundering and terrorist financing.

Luxembourg's financial sector laws are based to a large extent on EU directives. The Law of July 7, 1989, updated in 1998 and 2004, serves as Luxembourg's primary anti-money laundering (AML) and terrorist financing law, criminalizing the laundering of proceeds for an extensive list of predicate offenses, including narcotics trafficking. The list of predicate offenses has gradually increased over time, encompassing corruption, weapons offenses, organized crime, and fraud against the EU. Most recently, a law was passed on May 23, 2005, implementing the Council of Europe's Criminal Law Convention on Corruption, an action which made private-sector corruption a predicate offense for money laundering. Although only natural persons are currently subject to the law, a draft bill is ready for parliament's consideration in 2006 that would add legal persons to its jurisdiction.

On November 12, 2004, in an effort to bring Luxembourg into full compliance with the requirements of the EU's Council Directive 2001/97/EC on prevention of the use of the financial system for money laundering (2nd EU Money Laundering Directive), Luxembourg's parliament approved legislation updating the nation's AML laws. These legislative amendments formally transferred the requirements of Directive 2001/97/EC into domestic law. The 2004 amendments also broaden the scope of institutions subject to money laundering regulations. Under the current law, banks, pension funds, insurance brokers, UCIs, management companies, external auditors, accountants, notaries, lawyers, casinos and gaming establishments, real estate agents, tax and economic advisors, domiciliary agents, insurance providers, and dealers in high-value goods, such as jewelry and cars, are considered covered institutions. The AML law does not cover SICAR entities.

All covered entities are required to file STRs with the financial intelligence unit (FIU) and, though not legally required, are expected to send a copy of the report to their respective oversight authorities. Financial institutions are required to retain pertinent records for a minimum of five years; additional commercial rules require that certain bank records be kept for up to ten years. The AML law also contains "safe harbor" provisions that protect covered individuals and entities from legal liability when filing STRs or assisting government officials during the course of a money laundering

investigation. The banking community generally cooperates with enforcement efforts to trace funds and seize or freeze bank accounts; the record of cooperation by notaries and others is still being tested, as the legislation has only been in effect for about a year.

The 2004 AML amendments contain requirements regarding financial institutions' internal AML programs. They impose stricter "know your customer" requirements, mandating their application to all new and existing customers (including beneficial owners) trading in goods worth at least 15,000 euros (approximately $17,678). If a transaction or business relationship is remotely based, the law details measures required for customer identification. Financial institutions must ensure adequate internal organization and employee training and must also cooperate with authorities, proactively monitoring their customers for potential risk. "Tipping off" is prohibited.

In late 2005, two new pieces of EU-wide legislation were issued: Directive 2005/60/EC on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (3rd EU Money Laundering Directive) and Regulation (EC) No. 1889/2005 of the European Parliament and of the Council of 26 October 2005 on controls of cash entering or leaving the European Community. EU member states, including Luxembourg, must implement the Third Anti-Money Laundering Directive by December 15, 2007. The cash reporting regulation is directly applicable under Luxembourg's legal system and applies from June 15, 2007.

Although Luxembourg's strict bank secrecy rules may appear vulnerable to abuse by those transferring illegally obtained assets, under Luxembourg law the secrecy rules are waived in the prosecution of money laundering and other criminal cases. No court order is required to investigate otherwise secret account information in suspected money laundering cases or when a STR is filed. Financial professionals are obliged to cooperate with the public prosecutor in investigating such cases.

The Commission de Surveillance du Secteur Financier (CSSF), an independent government body under the jurisdiction of the Ministry of Finance, serves as the prudential oversight authority for banks, credit institutions, the securities market, some pension funds, and other financial sector entities covered by the country's AML and terrorist financing laws. The Luxembourg Central Bank oversees the payment and securities settlement system, and the Commissariat aux Assurances (CAA), also under the Ministry of Finance, is the regulatory authority for the insurance sector. The identities of the beneficial owners of accounts are available to all entities involved in oversight functions, including registered independent auditors, in-house bank auditors, and the CSSF. Under the direction of the Ministry of the Treasury, the CSSF has established a committee, the Comite de Pilotage Anti-Blanchiment (COPILAB), composed of supervisory and law enforcement authorities, the FIU, and financial industry representatives. The committee meets monthly to develop a common public-private approach to strengthen Luxembourg's AML regime.

No distinctions are made in Luxembourg's laws and regulations between onshore and offshore activities. Foreign institutions seeking establishment in Luxembourg must demonstrate prior establishment in a foreign country and meet stringent minimum capital requirements. Luxembourg companies must maintain a registered office in Luxembourg, and background checks are performed on all applicants. A ministerial decree published in July 2004 modified the Luxembourg Stock Exchange's internal regulations to make it easier to list offshore funds, provided the fund complies with CSSF requirements (as detailed in Circular 04/151). Also, a government registry publicly lists company directors. Although nominee (anonymous) directors are not permitted, bearer shares are permitted.

Established within Luxembourg's Ministry of Justice, the Cellule de Renseignement Financier (CRF) serves as Luxembourg's Financial Intelligence Unit (FIU), receiving and analyzing STRs while also seizing and freezing assets when necessary. While entities to which the FIU is subordinate can require it to take action against a suspect, they cannot prevent the FIU from prosecuting. Some members of the financial community continue to call for the creation of an administrative FIU body separate from

the office of the public prosecutor. The CRF is responsible for providing members of the financial community with access to updated information on money laundering and terrorist financing practices. The FIU and CSSF work together in investigations involving significant money laundering cases. The CRF is among the most proactive FIUs in sharing information with colleagues from other FIUs.

In 2005, covered institutions filed a total of 831 STRs compared to a total of 943 in 2004. This figure represents a slight decrease in comparison to 2003, but considerably more than were received in 2001 and 2002. Among the 2,471 individuals involved in STRs in 2004, 383 were residents of Luxembourg, 350 of France, and 333 of Belgium. Residents of Germany, Italy, the UK, Russia, and the United States also were associated with a significant number of STRs. The majority of STRs are filed by banks.

In July 2003, Luxembourg's parliament passed a multifaceted counterterrorism financing law. The law defines terrorist acts, terrorist organizations, and terrorism financing in the Luxembourg Criminal Code. In addition, the specific crimes, as defined, will carry penalties of 15 years to life. The law also extends the definition of money laundering to incorporate certain terrorism-related crimes, and, with regard to special investigative measures, provides an exception to notification requirements in selected wiretapping cases. The November 2004 AML law amendments bring Luxembourg into compliance with the FATF's Special Recommendation IV by extending the reporting obligations of the financial sector to terrorist financing, independently from any context of money laundering. Covered institutions are required to report any transaction believed to be related to terrorist financing, regardless of the source of the funds.

The Ministry of Justice studies and reports on potential abuses of charitable and non-profit entities to protect their integrity. Justice and Home Affairs ministers from Luxembourg and other EU member states agreed in December 2005 to take into account five principles with regard to implementing FATF Special Recommendation VIII on non-profit organizations: safeguarding the integrity of the sector; dialogue with stakeholders; continuing knowledge development of the sector; transparency, accountability, and good governance; and effective, proportional oversight.

Luxembourg authorities have not found evidence of any widespread use in Luxembourg of alternative remittance systems such as hawala, black market exchanges, or trade-based money laundering. One case awaiting trial in 2005 involved a hawala transaction by a Luxembourg-based suspect using a German-based alternative remittance system. Officials comment that existing AML rules would apply to alternative remittance systems, and no separate legislative initiatives are currently being considered to formally address them. However, given recent interest by EU institutions in alternative remittance systems and wire transfers, the GOL will likely begin to implement FATF Special Recommendation VI in the first part of 2006.

Luxembourg law allows for criminal forfeitures. Funds found to be the result of money laundering can be confiscated even if they are not the proceeds of a crime. The GOL can, on a case-by-case basis, freeze and seize assets, including assets belonging to legitimate businesses used for money laundering. The government has adequate police powers and resources to trace, seize, and freeze assets without undue delay. Luxembourg cooperates with and provides assistance to foreign governments in their efforts to trace, freeze, seize and cause the forfeiture of assets. Luxembourg has a comprehensive system not only for the seizure and forfeiture of criminal assets, but also for the sharing of those assets with other governments. As of September 2005, illegal drug proceeds totaling over $22 million were frozen in Luxembourg at the request of U.S. authorities. The GOL worked with the U.S. Department of Justice throughout the year on several drug-related money laundering and asset forfeiture cases. In 2005, based on a U.S. legal assistance request, the GOL repatriated to the U.S. nearly $1,000,000 to victims of a fraud involving a former officer of Riggs Bank in Washington, D.C. Luxembourg and the United States have had a mutual legal assistance treaty (MLAT) since February 2001. In addition, in 2005 Luxembourg and the U.S. signed supplemental instruments required as part of the

implementation of a U.S.-EU agreement designed to modernize extradition procedures and expand mutual legal assistance.

In an effort to identify and freeze the assets of suspected terrorists, the GOL routinely disseminates to its financial institutions the names of suspected terrorists or terrorist organizations on the UN 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the U.S. pursuant to E.O.13224. Luxembourg does not yet have domestic legal authority to designate terrorist groups. The GOL continues to work on draft legislation with regard to this issue. Authorities can and do take action against groups targeted through the EU designation process, the UN, or pursuant to bilateral requests from other countries. Under the 2004 amendments to Luxembourg's AML law, bilateral freeze requests are limited to a new maximum of three months; designations under the EU, UN, or international investigation processes continue to be subject to freezes for an indefinite time period. Upon request from the United States, Luxembourg has frozen the bank accounts of certain individuals suspected of involvement in terrorism. Luxembourg has also independently frozen several accounts, resulting in court challenges by the account holders. Since 2001, over $200 million in suspect accounts have been frozen by Luxembourg authorities pending further investigations. Most of the assets were subsequently released.

Luxembourg is a member of the FATF, and its FIU is a member of the Egmont Group. The FIU has negotiated memoranda of understanding with several countries, including Belgium, Finland, France, Andorra, Monaco, and Russia. Luxembourg is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. Luxembourg has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. In 2005, Luxembourg ratified the Council of Europe's Criminal Law Convention on Corruption.

The Government of Luxembourg has enacted laws and adopted practices that help to prevent the abuse of its bank secrecy laws and has enacted a comprehensive legal and supervisory anti-money laundering and counterterrorism financing regime. Further action should be taken to address issues such as the lack of a distinct legal framework for the financial intelligence unit and the small number of money laundering investigations and prosecutions. The financial intelligence unit should work with regulatory agencies to formulate and issue substantive guidance to financial institutions on anti-money laundering trends and techniques. Luxembourg should continue to strengthen enforcement to prevent abuse of its financial sector, and should continue its active participation in international fora. Luxembourg should enact legislative amendments to address the continued use of bearer shares. It should ratify the UN Convention against Transnational Organized Crime.

Macau

Under the one country-two systems principle that underlies Macau's 1999 reversion to the People's Republic of China, Macau has substantial autonomy in all areas except defense and foreign affairs. Macau's free port, lack of foreign exchange controls, and significant gambling industry create an environment that can be exploited for money laundering purposes. In addition, Macau is a gateway to China, and can be used as a transit point to remit funds and criminal proceeds to and from China. Macau has a small economy heavily dependent on gaming, but is emerging as a financial center. Its offshore financial sector is not fully developed. Macau's international gambling industry, however, remains particularly vulnerable to money laundering.

Main money laundering methods in the financial system are wire transfers; currency exchange/cash conversion; the use of casinos to remit or launder money; and the use of nominees, trusts, family members, or third parties to transfer cash. Macau has taken several steps over the past three years to improve its institutional capacity to tackle money laundering, but still needs to pass anti-money laundering legislation and establish a financial intelligence unit (FIU). These measures will be helpful if they are passed and if the MSAR supports lead to greater enforcement of the new measures.

In 2005, the Macau Special Administrative Region Government (MSAR) submitted to the Legislative Assembly anti-money laundering legislation that would incorporate some of the aspects of the revised FATF Forty Recommendations. The legislation calls for the establishment of a financial intelligence unit (FIU); however, long-awaited details of the FIU's establishment are not included. These are expected to be finalized in implementing regulations at a later date. The 2005 money laundering bill broadened the definition of money laundering to include all serious predicate crimes that entail a maximum penalty of three years in prison, with heavier penalties for money laundering related to terrorism, illegal narcotics, and the international slave trade. The proposed legislation also allows the defendant to mitigate his criminal exposure if he "redresses" damages done to his victims prior to trial. It also mandated greater customer identification, a duty to refuse to undertake suspicious transactions, and penalties for entities failing to report suspicious transactions. However, it does not appear to criminalize "tipping off" a customer that a suspicious transaction report has been filed.

The draft legislation extended the obligation of suspicious transaction reporting to lawyers, notaries, accountants, auditors, tax consultants and offshore companies. As of December 2005, the bill was being debated in the Legislative Assembly, and the MSAR had not yet decided whether it would create a new entity as the FIU or assign new responsibilities and powers to an existing organization. In 2005, an interagency body consisting of representatives from the Monetary Authority of Macau, Macau Customs Service, Unitary Police, International Law Office, Gaming Inspection and Coordination Office, and other economic and law-enforcement agencies continued to discuss the mechanics of establishing the FIU and continued to exchange information in the FIU's absence.

In 2005, the MSAR also submitted to the Legislative Assembly a new counterterrorism bill aimed at strengthening counterterrorist financing measures. The bill, generally drafted to comply with UNSCR 1373, would make it illegal to conceal or handle finances on behalf of terrorist organizations. Individuals would be liable even if they were not members of designated terrorist organizations themselves. The legislation would also allow prosecution of persons who commit terrorist acts outside of Macau in certain cases, and would mandate stiffer penalties. However, the draft legislation does not mention how to freeze without delay terrorist assets, nor does it discuss international cooperation on terrorism financing. In January 2005, the Monetary Authority of Macau issued a circular to all banks and other authorized institutions requiring them to maintain a database of suspicious terrorists and terrorist organizations.

While Macau's proposed laws should create a more robust legal framework to combat money laundering, it will also need to enforce these laws. In an August, 2002 IMF "Assessment of the Regulation and Supervision of the Financial Sector of Macao", the IMF concluded that Macau was "materially noncompliant" with the Basel Committee's anti-money laundering principles, and recommended a number of improvements. On September 15, 2005, the U.S. Department of Treasury designated Macau-based Banco Delta Asia as a primary money-laundering concern under the USA PATRIOT Act. According to the U.S. Treasury Department, Banco Delta Asia provided financial services for more than 20 years to North Korea and has facilitated many of that regime's criminal activities, including circulating counterfeit U.S. currency.

Macau's financial system is governed by the 1993 Financial System Act and amendments, which lay out regulations to prevent use of the banking system for money laundering. It imposes requirements for the mandatory identification and registration of financial institution shareholders, customer identification, and external audits that include reviews of compliance with anti-money laundering statutes. The 1997 Law on Organized Crime criminalizes money laundering for the proceeds of all domestic and foreign criminal activities, and contains provisions for the freezing of suspect assets and instrumentalities of crime. Legal entities may be civilly liable for money laundering offenses, and their employees may be criminally liable.

The 1998 Ordinance on Money Laundering sets forth requirements for reporting suspicious transactions to the Judiciary Police and other appropriate supervisory authorities. These reporting requirements apply to all legal entities supervised by the regulatory agencies of the MSAR, including pawnbrokers, antique dealers, art dealers, jewelers, and real estate agents. In October 2002 the Judiciary Police set up the Fraud Investigation Section. One of its key functions is to receive all suspicious transaction reports (STRs) in Macau and to undertake subsequent investigations. In November 2003, the Monetary Authority of Macau issued a circular to banks, requiring that STRs be accompanied by a table specifying the transaction types and money laundering methods, in line with the collection categories identified by the Asia/Pacific Group on Money Laundering. Macau law provides for forfeiture of cash and assets that assist in or are intended for the commission of a crime. There is no significant difference between the regulation and supervision of onshore and of offshore financial activities.

The gaming sector and related tourism are critical parts of Macau's economy. Taxes from gaming comprised 75 percent of government revenue in the first ten months of 2005, while revenues from gaming increased 17 percent during the first ten months of 2005, compared with a year earlier. The MSAR ended a long-standing gaming monopoly early in 2002 when it awarded concessions to two additional operators, the U.S.-based Venetian and Wynn Corporations. The Venetian opened its first casino, the Sands, on May 18, 2004. In addition, MGM began constructing a casino in conjunction with the previous monopoly operator, Sociedade de Jogos de Macau (SJM), owned by local businessperson Stanley Ho. Wynn and MGM are scheduled to open casinos in 2006, and the Venetian will complete its flagship casino in 2007.

Under the old monopoly framework, organized crime groups were, and continue to be, associated with the gaming industry through their control of VIP gaming rooms and activities such as racketeering, loan sharking, and prostitution. The VIP rooms catered to clients seeking anonymity within Macau's gambling establishments, and were removed from official scrutiny. As a result, the gaming industry provided an avenue for the laundering of illicit funds and served as a conduit for the unmonitored transfer of funds out of China. Unlike SJM and new entrant Galaxy, the Sands does not cede control of its VIP gaming facilities to outside organizations. This approach impedes organized crime's ability to penetrate the Sands operation.

The MSAR's draft money laundering legislation includes provisions designed to prevent money laundering in the gambling industry. The legislation aims to make money laundering by casinos more difficult, improve oversight, and tighten reporting requirements. On June 7, 2004, Macau's Legislative Assembly passed legislation allowing casinos and junket operators to make loans, in chips, to customers, in an effort to prevent loan-sharking by outsiders. The law requires both casinos and junket operators to register with the government.

Terrorist financing is criminalized under the Macau criminal code (Decree Law 58/95/M of November 14, 1995, Articles 22, 26, 27, and 286). The MSAR has the authority to freeze terrorist assets, although a judicial order is required. Macau financial authorities directed the institutions they supervise to conduct searches for terrorist assets, using the list, listed on the UN 1267 Sanctions Committee consolidated list and the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224. No assets were identified in 2005.

The Macau legislature passed a counterterrorism law in April 2002 that is intended to assist with Macau's compliance with UNSCR 1373. The legislation criminalizes violations of UN Security Council resolutions, including counterterrorist resolutions, and strengthens counterterrorist financing provisions. The UN International Convention for the Suppression of the Financing of Terrorism will apply to Macau when the PRC becomes a party to it.

The increased attention paid to financial crimes in Macau since the events of September 11, 2001, has led to a general increase in the number of suspicious transaction reports (STRs); however, the number

of STRs remains low. Macau's Judiciary Police received 107 STRs in 2003, and 109 in 2004, and 68 in the first seven months of 2005 from individuals, banks, companies, and government agencies. Of the 109 STRs received during 2004, the Judiciary Police investigated 101 cases. From July 2004 to July 2005, the Public Prosecutors Office initiated seven money laundering legal proceedings, but the Macau Government could not provide accurate data regarding how many of these or previous cases resulted in convictions. The Judiciary Police vetted eight information requests from foreign countries during this period.

In May 2002, the Macau Monetary Authority revised its anti-money laundering regulations for banks, to bring them into greater conformity with international practices. Guidance also was issued for banks, money changers, and remittance agents, addressing record keeping and suspicious transaction reporting for cash transactions over $2,500. For such transactions, banks, insurance companies, and moneychangers must practice customer due diligence. In 2003, the Macau Monetary Authority examined all money changers and remittance companies to determine their compliance with these regulations. The Monetary Authority of Macau, in coordination with the IMF, updated its bank inspection manuals to strengthen anti-money laundering provisions. The Monetary Authority inspects banks every two years, including their adherence to anti-money laundering regulations.

The United States has no law enforcement cooperation agreements with Macau, though informal cooperation between the United States and Macau routinely takes place. The Judiciary Police have been cooperating with law enforcement authorities in other jurisdictions through the Macau branch of Interpol, to suppress cross-border money laundering. In addition to Interpol, the Fraud Investigation Section of the Judiciary Police has established direct communication and information sharing with authorities in Hong Kong and mainland China.

The Monetary Authority of Macau also cooperates internationally with other financial authorities. It has signed memoranda of understanding with the People's Bank of China, China's Central Bank, the China Insurance Regulatory Commission, the China Banking Regulatory Commission, the Hong Kong Monetary Authority, the Hong Kong Securities and Futures Commission, the Insurance Authority of Hong Kong, and Portuguese bodies including the Bank of Portugal, the Banco de Cabo Verde and the Instituto de Seguros de Portugal.

Macau participates in a number of regional and international organizations. It is a member of the Asia/Pacific Group on Money Laundering (APG), the Offshore Group of Banking Supervisors, the International Association of Insurance Supervisors, the Offshore Group of Insurance Supervisors, the Asian Association of Insurance Commissioners, the International Association of Insurance Fraud Agencies, and the South East Asia, New Zealand and Australia Forum of Banking Supervisors (SEAZA). In 2003, Macau hosted the annual meeting of the APG, which adopted the revised FATF Forty Recommendations and a strategic plan for anti-money laundering efforts in the region from 2003 to 2006. In September 2003, Macau became a party to the UN Convention against Transnational Organized Crime, as a result of China's ratification. Macau also became a party to the 1988 UN Drug Convention through China's ratification. Macau has taken a number of steps in the past three years to raise industry awareness of money laundering. During a March 2004 IMF technical assistance mission, the IMF and Monetary Authority of Macau organized a seminar for financial sector representatives on the FATF Revised Forty Recommendations. The Macau Monetary Authority trains banks on anti-money laundering measures on a regular basis.

Macau should implement and enforce existing laws and regulations, and pass and implement its pending legislation. Macau should ensure that regulations, structures, and training are put in place to prevent money laundering in the gaming industry, including implementing, as quickly as possible, the regulations it has drafted on the prevention of money laundering in casinos. The MSAR should take steps to implement the new FATF Special Recommendation Nine, adopted by the FATF in October 2004, requiring countries to implement detection and declaration systems for cross-border bulk

currency movement. Macau should increase public awareness of the money laundering problem, improve interagency coordination, and boost cooperation between the MSAR and the private sector in combating money laundering. The Government of Macau should ensure that it expeditiously establishes a financial intelligence unit meeting Egmont standards for information sharing. It should expedite the drafting and issuing of implementing regulations to its anti-money laundering/counterterrorist financing laws, once enacted. The Government of Macau also should be more proactive in finding and freezing accounts related to money laundering of illegal proceeds such as from weapons proliferators and counterfeiters.

Malawi

Malawi is not a regional financial center. The Reserve Bank of Malawi (RBM), Malawi's Central Bank, supervises the country's six commercial banks. Some money laundering is tied to smuggling and converting remittance savings systems abroad. Under Malawi's existing exchange control regime, foreign exchange remittances not backed by a "genuine" or official transaction are illegal; traders, therefore, use underground methods in their efforts to remit savings abroad

Financial institutions are required to record and report the identity of customers making large transactions, and banks must maintain those records for seven years. Banks are allowed, but not required, to submit suspicious transaction reports to the RBM. The RBM inspects banks' records every quarter and has access to those records on an "as needed" basis for specific investigations.

Malawi's current laws do not specifically criminalize money laundering, but can be used to prosecute money laundering cases. The Government of Malawi (GOM) drafted a "Money Laundering and Proceeds of Serious Crime" bill, which was first considered in Parliament's Commerce and Industry Committee in 2003. The committee requested revisions in the proposed legislation before it is considered in the full Parliament. The draft law would criminalize money laundering related to all serious crimes. The draft law would also establish a legal framework for identifying, freezing, and seizing assets related to money laundering. The bill stipulates that the seized assets become the property of the GOM and should be used in the fight against money laundering. Reportedly, there has been no further action by the Parliament regarding the draft legislation.

While the GOM has not specifically criminalized terrorist financing, the RBM has the legal authority to identify and freeze assets suspected of involvement in terrorist financing. The RBM has circulated to the financial community the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224. The RBM continues to monitor the financial system for money laundering activity.

Malawi has signed the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) Memorandum of Understanding. Malawi is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism, and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime.

The Government of Malawi should enact comprehensive anti-money laundering legislation and counterterrorist finance legislation in order to develop viable regimes to thwart both money laundering and terrorist financing regimes as it has agreed to do as a member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG). Malawi should become a party to the UN Convention against Transnational Organized Crime.

Malaysia

Malaysia is not a regional center for money laundering. However, its formal and informal financial sectors are vulnerable to abuse by narcotic traffickers, financiers of terrorism, and criminal elements. Malaysia's relatively lax customs inspection at ports of entry and free trade zones, its uneven enforcement of intellectual property rights, and its offshore financial services center serve to increase its vulnerability.

Since 2000, Malaysia has made significant progress in constructing a comprehensive anti-money laundering regime. Malaysia's National Coordination Committee to Counter Money Laundering (NCC), comprised of members from 13 government agencies, oversaw the drafting of Malaysia's Anti-Money Laundering Act 2001 (AMLA) and coordinates government-wide anti-money laundering efforts.

The AMLA, enacted in January 2002, criminalized money laundering and lifted bank secrecy provisions for criminal investigations involving more than 150 predicate offenses. The law also created a financial intelligence unit (FIU) located in the Central Bank, Bank Negara Malaysia (BNM). The FIU is tasked with receiving and analyzing information, and sharing financial intelligence with the appropriate enforcement agencies for further investigations. The Malaysian FIU works with more than twelve other agencies to identify and investigate suspicious transactions.

The Government of Malaysia (GOM) has a well-developed regulatory framework, including licensing and background checks, to oversee onshore financial institutions. BNM's guidelines require customer identification and verification, financial record keeping, and suspicious activity reporting. These guidelines are intended to require banking institutions to determine the true identities of customers opening accounts and to develop a transaction profile of each customer in order to identify unusual or suspicious transactions. A comprehensive supervisory framework has been implemented to audit financial institutions' compliance with AMLA. Currently, there are 300 examiners who are responsible for money laundering inspections for both onshore and offshore banks

Malaysia has strict "know your customer" rules under the AMLA. Every transaction, regardless of its size, is recorded. Reporting institutions must maintain records for at least six years and report any suspicious transactions to Malaysia's financial intelligence unit, Unit Perisikan Kewangan-Bank Negara Malaysia. Regardless of the transaction size, if the reporting institution deems a transaction suspicious, it must report that transaction to the FIU. Officials indicate that they receive regular reports from institutions, but cannot divulge the volume or frequency of such reports. Reporting individuals and their institutions are protected by statute with respect to their cooperation with law enforcement. While Malaysia's bank secrecy laws prevent general access to financial information, those secrecy provisions are waived in the case of money laundering investigations.

Malaysia has adopted due diligence or banker negligence laws that make individual bankers responsible if their institutions launder money. Both reporting institutions and individuals are required to adopt internal compliance programs to guard against any offense. Under the AMLA, any person or group that engages in, attempts to engage in, or abets the commission of money laundering, would be subject to criminal sanction. All reporting institutions are required to file suspicious transaction reports and are subject to the same review by the FIU and other law enforcement agencies. Reporting institutions include: commercial banks, Islamic banks, money changers, discount houses, insurers, insurance brokers, Islamic insurance and reinsurance (takaful and retakaful) operators, offshore banks, offshore insurers, offshore trusts, the Pilgrim's Fund (to pay for Hajj trips to Mecca), Malaysia's postal service, development banks such as Malaysia's National Savings Bank (Bank Simpanan Nasional), the People's Cooperation Bank (Bank Kerjasama Rakyat Malaysia Berhad), and licensed casinos.

By using a consultative approach, Malaysia's FIU continues to expand the scope of institutions that must report suspicious transactions. This approach encouraged Malaysia's professional societies for lawyers and accountants to add suspicious transaction reporting requirements to their bylaws. Likewise, in consultation with the Security Commission, stockbrokers and brokerage houses are now required to submit suspicious transaction reports. Other designated professions include public notaries and company secretaries. The Government's consultative approach has minimized potential political fallout from the statute's expansion.

Malaysia's Islamic finance sector, accounting for approximately 11 percent of total deposits, is subject to the same strict supervision to combat financial crime as the commercial banks. A combination of legacy exchange controls imposed after the 1997-98 Asian financial crisis and robust regulation and supervision by the Central Bank makes the Islamic financial sector as unattractive to financial criminals as is the conventional financial sector.

In 1998 Malaysia imposed foreign exchange controls that restrict the flow of the local currency, the ringgit, from Malaysia. Onshore banks must record cross-border transfers over RM5,000 (approximately $1,326). Since April 2003, an individual form is completed for each transfer above RM50,000 (approximately $13, 260). Recording is done in a bulk register for transactions between RM5,001 and RM50,000. Banks are obligated to record the amount and purpose of these transactions.

Malaysia's offshore banking center on the island of Labuan, is more vulnerable to money laundering and the financing of terrorism than the rest of the formal financial sector in Malaysia. However, its regulation of the offshore banking sector has improved over the past few years. The Labuan Offshore Financial Services Authority (LOFSA) is under the authority of the Central Bank, Bank Negara. The offshore sector has different regulations for the establishment and operation of offshore businesses. But the same anti-money laundering laws as those governing domestic financial service providers govern the offshore sector. Offshore banks, insurance companies, and trust companies are required to file suspicious transaction reports under the country's anti-money laundering law.

LOFSA licenses offshore banks, banking companies, trusts, and insurance companies, and performs stringent background checks before granting an offshore license. The financial institutions operating in Labuan are generally among the largest international banks and insurers. Nominee (anonymous) directors are not permitted for offshore banks, trusts or insurance companies. Labuan has 5,022 registered offshore companies, money banking companies, trusts, and insurance companies. Offshore companies must be established through a trust company. Trust companies are required by law to establish true beneficial owners and submit suspicious transaction reports as necessary. Conversely, there is no requirement to reveal the true identity of the beneficial owner of international corporations. LOFSA officials may require any organization operating in Labuan to disclose information on its beneficial owner or owners. Bearer instruments are strictly prohibited in Labuan. Over the past few years, LOFSA has injected more formality into the system by working with the FIU to require training on the reporting requirements covered under the AMLA.

Presently, Labuan has 59 offshore banks in operation, along with 112 insurance and insurance-related companies, 68 leasing operations, 37 fund management groups (19 private funds, 3 public funds, and 15 fund management companies), 20 trust companies, and 3 money broking companies. Many of the companies in Labuan are Japanese firms established primarily to service Japanese companies in Malaysia. Malaysia bans offshore casinos and Internet gaming sites.

The Free Zone Act of 1990 is the enabling legislation for free trade zones in Malaysia. The zones are divided into Free Industrial Zones (FIZ), where manufacturing and assembly takes place, and Free Commercial Zones (FCZ), generally for warehousing commercial stock. The Minister of Finance may designate any suitable area as an FIZ or FCZ. Currently there are 13 FIZs and 12 FCZs in Malaysia. The Minister of Finance may appoint any federal, state, or local government agency or entity as an authority to administer, maintain and operate any free trade zone. Legal treatment for such zones is

also different. The time needed to obtain such licenses from the administrative authority for the given free trade zone depends on the type of approval. Clearance time ranges from two to eight weeks. There is no information available suggesting that Malaysia's free industrial and free commercial zones are being used for trade-based money laundering schemes or by the financiers of terrorism. However, the GOM considers these zones as areas outside the country, and they receive lenient tax and customs treatment relative to the rest of the country.

In April 2002, the GOM passed the Mutual Assistance in Criminal Matters Bill and has concluded Mutual Legal Assistance treaties with several regional countries. In 2004, Malaysia made its first money laundering arrest, which ended in a conviction in December 2005. The Government of Malaysia has added five new arrests in 2005, with a total of 188 money laundering charges valued at RM 29.9 million ($7.9 million). Malaysia cooperates with regional, multilateral, and international partners to combat financial crimes and permits foreign countries to check the operations of their banks' branches. The FIU has signed memoranda of understanding (MOUs) with the FIUs of Australia, Indonesia, Thailand, and the Philippines. MOUs with the United States, the United Kingdom, China, Japan, South Korea, the Netherlands, Finland, Albania, and Argentina are reportedly pending.

In March 2006, the GOM expects to enact amendments to five different pieces of legislation that will enable it to accede to the UN Convention on the Suppression of the Financing of Terrorism. Parliament passed amendments to the Anti-Money Laundering Act, the Penal Code, the Subordinate Courts Act, and the Courts of Judicature Act in November 2003. The criminal procedure code is the last major piece of domestic legislation that needs amendment before all of the legislation can be incorporated into domestic law (a select committee has finished its review and plans to submit the final draft early 2006). The amendments to the AMLA, once enacted, will make the financing of terrorism one of the 185 predicate offenses for which money laundering can be charged as a crime. When implemented, the 2003 amendments will increase penalties for terrorist acts, allow for the forfeiture of terrorist-related assets, allow for the prosecution of individuals who provide material support for terrorists, expand the use of wiretaps and other surveillance of terrorist suspects, and permit video testimony in terrorist cases. Malaysia is also a party to the 1988 UN Drug Convention. Malaysia is a party to the UN Convention against Transnational Organized Crime .

The GOM has cooperated closely with U.S. law enforcement in investigating terrorist-related cases since the signing of a joint declaration to combat international terrorism with the United States in May 2002. The GOM currently has the authority to identify and freeze terrorist or terrorist-related assets, and has issued orders to all licensed financial institutions, both onshore and offshore, to freeze the assets of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list. The Ministry of Foreign Affairs opened the Southeast Asia Regional Centre for Counter-Terrorism (SEARCCT) in August 2003, which has hosted a series of counterterrorism courses and seminars, including training on counterterrorism finance.

The GOM has rules regulating charities and other non-profit entities. The Registrar of Societies is the principal government official who supervises and controls charitable organizations, with input from the Inland Revenue Board and occasionally the Companies Commission. The Registrar mandates that every registered society of a charitable nature submits its annual returns, which include financial statements. Should the Registrar find activities he deems suspicious, he may revoke their registration or file a suspicious transaction report. The FIU plans to conduct a review of the non-profit sector with the Registrar and the Companies Commission to ensure that they are well-regulated and following their bylaws. Malaysia's tax law allows contributions to charitable organizations (zakat, as required by Islam) to be deducted from one's total tax liability, encouraging the reporting of such contributions. Islamic zakat contributions can be taken as payroll deductions, another tool to prevent the abuse of charitable giving.

Malaysia has endorsed the Basel Committee's Core Principles for Effective Banking Supervision. Labuan Offshore Financial Services Authority serves as a member of the Offshore Group of Banking Supervisors. Malaysia is a member of the Asia/Pacific Group on Money Laundering. Malaysia's FIU gained membership to the Egmont Group of financial intelligence units in July 2003. Malaysia generally follows international standards related to money laundering, including the FATF Forty Recommendations on Money Laundering and the Nine Special Recommendations on Terrorist Financing. The FIU has provided capacity building and training in anti-money laundering efforts to some of its ASEAN partners, including Cambodia, Laos, and Vietnam. In February 2006, the Asian Development Bank (ADB) will be funding a team from the FIU to run a workshop in Laos for two state-owned banks, and then draft Laos's anti-money laundering compliance procedures by the end of September.

The GOM continues to make a broad, sustained effort to combat money laundering and terrorist financing flows within its borders. To further strengthen its anti-money laundering regime, Malaysia should insist on the identification and registration of the true beneficial owners of the more than 5,000 international business companies of Labuan. The Malaysian parliament is expected to enact terrorist financing legislation in 2006, and on that basis, Malaysia should accede to the UN International Convention for the Suppression of the Financing of Terrorism and to all other terrorist-related UN conventions.

Marshall Islands

The Republic of the Marshall Islands (RMI), a group of atolls located in the North Pacific Ocean, is a sovereign state in free association with the United States. The population of RMI is approximately 60,000. The financial system in RMI has total banking system assets of $95.4 million and total deposits of $53.1 million. The RMI financial sector consists of two commercial banks, one of which is insured by the Federal Deposit Insurance Corporation (FDIC), and a government-owned development bank whose primary function is to perform development lending in government-prioritized sectors; there are also several low-volume insurance agencies that primarily sell policies on behalf of foreign insurance companies. In realization of the country's vulnerability to systemic shock in the financial sector, the government introduced a reform program geared toward enhancing transparency, accountability, and good governance. Among other initiatives, the reform program called for the establishment of the requisite infrastructure for detecting, preventing, and combating money laundering and terrorist financing.

The Marshall Islands has not seen an increase in financial crime in recent years. There have not been any prosecutions for money laundering. However, an evolving trend that poses a challenge to RMI's anti-money laundering/counterterrorist financing effort is the significant outflow of cash, generally attributed to expatriate businesses sending proceeds out of the country. There is currently no requirement to report cross-border currency transfers.

Money laundering has been criminalized and customer identification and suspicious transaction reporting mandated. The Marshall Islands also issued guidance to its financial institutions for the reporting of suspicious transactions. In addition, the RMI drafted anti-money laundering regulations.

In November 2000, the Government of the Marshall Islands (GRMI) approved the establishment of a financial intelligence unit that may exchange information with international law enforcement and regulatory agencies. The Domestic Financial Intelligence Unit (DFIU) is located within the Banking Commission. The DFIU has the power to receive, analyze, and disseminate financial intelligence. In 2003, its processes were streamlined and automated to the fullest extent possible. In December 2005, the DFIU installed a system for banking institutions, under the supervision of the Banking Commission, to electronically submit suspicious activity reports (SAR) and currency transaction

reports (CTRs). The system utilizes Analyst Notebook software that allows the DFIU to review and analyze the data links between related transactions.

In May 2002, the GRMI passed and enacted its Anti-Money Laundering Regulations, 2002. The 2002 regulations provide the standards for reporting and compliance within the financial sector. Components of this legislation include reporting of beneficial ownership, internal training requirements regarding the detection and prevention of money laundering by financial institutions, record keeping, and suspicious and currency transaction reporting. Additionally, the Banking Commission and the Attorney General's office worked with the Federal Deposit Insurance Corporation to develop a set of examination policies and an examination procedures manual. Both sets of documents are being used by examiners from the Banking Commission as guides in the on-site reviews of banks' and financial institutions' compliance with the anti-money laundering regulations. Since the establishment of the statutory and regulatory framework, the Banking Commission has conducted on-site examinations of financial institutions and cash dealers. Money laundering controls extend to all financial institutions, but do not cover professionals, i.e., lawyers and accountants. However, individuals can be held liable for money laundering violations by their institutions.

Under the Banking Amendment, the Proceeds of Crime Act, and the Counter-Terrorism Act, the RMI can freeze, seize, and upon conviction transfer to the general fund, the proceeds of any crime that results in a one-year or greater sentence. Provisions allow for a broad range of forfeiture: any real or personal property owned by the person, any property used in the crime, and any proceeds of the crime. The Mutual Assistance Act allows the transfer to a requesting government of proceeds of such a crime committed in a foreign country. The Counter-Terrorism Act provides for the closing of any businesses involved in exporting or importing terrorist funds or supplies. These laws allow for both civil and criminal forfeiture. Although the laws are designed to meet the GRMI's international obligations, their effectiveness has not been tested, as there has been no terrorist activity in the RMI and therefore no seizures.

Depending on the nature of the offense, the Attorney General or the Banking Commission would be responsible for enforcement and for seizures of assets. Police powers are adequate, but resources are limited. However, the GRMI retains a close relationship to U.S. institutions and could call on them for assistance in cases of concern to the United States. Assets can be frozen "without undue delay."

Since the passage of its anti-money laundering law, and a suite of counterterrorism laws, as well as the subsequent promulgation of implementing regulations, the GRMI has undertaken a number of initiatives to further strengthen its anti-money laundering/counterterrorist financing (AML/CFT) regime. The government and local institutions have received positive reports from the Financial Action Task Force (FATF).

However, a very significant problem has resulted from efforts to comply with AML/CFT requirements. This issue is causing a system-wide disturbance in banking and more specifically in transaction settlement and clearance. The Bank of the Marshall Islands (BOMI), in an effort to assure full compliance, commissioned an internal audit of its procedures and controls in 2003. The results of that audit identified several weaknesses which BOMI has taken steps to correct. However, the existence of the audit, and fears of sanctions under the Bank Secrecy Act and the USA PATRIOT Act, led Citizens Security Bank of Guam to discontinue its "payable through" relationship with BOMI, effective February 15th, 2004. Suspension of "payable through" meant that BOMI checks cannot be used outside the country. This situation has disrupted that status quo in the business community. The second largest population center, Ebeye, has no banking services available for international transactions, as there is no Bank of Guam branch on Ebeye. This remained a serious problem to the RMI in 2005, as there are only two financial institutions in operation. Customers on Majuro have shifted deposits to the Bank of Guam, which closes all avenues for healthy competition on demand

deposit accounts between the two available banks. The RMI has limited possibilities to seek reinstatement of a "payable through" for its local bank.

The RMI offshore financial sector is vulnerable to money laundering. Nonresident corporations (NRCs), the equivalent of international business companies, can be formed. Currently, there are 5,500 registered NRCs, half of which are companies formed for registering ships. NRCs are allowed to offer bearer shares. Corporate officers, directors, and shareholders may be of any nationality and live anywhere. NRCs are not required to disclose the names of officers, directors, and shareholders or beneficial owners, and corporate entities may be listed as officers and shareholders. The corporate registry program, however, does not allow the registering of offshore banks, offshore insurance firms, and other companies which are financial in nature.

Although NRCs must maintain registered offices in the Marshall Islands, corporations can transfer domicile into and out of the Marshall Islands with relative ease. Marketers of offshore services via the Internet promote the Marshall Islands as a favored jurisdiction for establishing NRCs. In addition to NRCs, the Marshall Islands offer nonresident trusts, partnerships, unincorporated associations, and domestic and foreign limited liability companies. Offshore banks and insurance companies are not permitted in the Marshall Islands.

Having established the requisite supervisory processes to ensure compliance with legislative mandates for detection and suppression of money laundering and terrorist financing, the GRMI's main emphasis was on fine-tuning these processes. After undertaking nine on-site examinations of financial institutions, following procedures developed in cooperation with the FDIC, the Banking Commission has now gained a better understanding of the risk profile of these institutions with respect to their exposure to money laundering and terrorist financing. This has proven especially useful in amalgamating some supervisory processes with the routine FIU processes, thereby maximizing benefit for the limited resources available to the GRMI. The Banking Commission had planned that some of the supervisory processes would be incorporated into the required annual audits of banks. This initiative has been fully implemented since 2004. The Banking Commission recruited an Assistant Commissioner who is spearheading this task along with other examination tasks relating to anti-money laundering compliance and prudential banking practices.

The GRMI has enacted a Proceeds of Crime Act, Counter-Terrorism Act, and Foreign Evidence Act. Although the GRMI is not a signatory to the 1988 UN Convention, RMI is a party to all 12 major UN conventions and protocols for terrorism including the UN International Convention for the Suppression of the Financing of Terrorism.

The Marshall Islands is a member of the Asia/Pacific Group on Money Laundering. The DFIU became a member of the Egmont Group in June 2002. RMI is also a founding member of the recently established Association Financial Supervisors of Pacific Islands Countries, a group of regulators from the Pacific Islands Forum countries that will be representing the region in the Basel group.

The GRMI has stabilized its key defenses against money laundering and terrorist financing, and has commenced work aimed at aligning its anti-money laundering system with the revised 40 plus 9 Recommendations of the Financial Action Task Force on Money Laundering. The Republic of the Marshall Islands should become a party 1988 UN Drug Convention. Additionally, the GRMI should require the identification of the beneficial owners of Non-resident Corporations.

Mexico

The illicit drug trade continues to be the principal source of funds laundered through the Mexican financial system. Mexico is a major drug producing and drug-transit country. Mexico also serves as one of the major conduits for proceeds from illegal drug sales leaving the United States. Other crimes, including corruption, kidnapping, firearms trafficking, and immigrant trafficking are also major

sources of illegal proceeds. The smuggling of bulk shipments of U.S. currency into Mexico and the movement of the cash back into the United States via couriers, armored vehicles, and wire transfers, remain favored methods for laundering drug proceeds. Mexico's financial institutions are vulnerable to currency transactions involving international narcotics trafficking proceeds that include significant amounts of U.S. currency or currency derived from illegal drug sales in the United States.

Currently, there are 29 commercial banks and 71 foreign financial representative offices operating in Mexico, with seven commercial banks representing 89 percent of total assets in the banking sector. Commercial banks, foreign exchange companies, and general commercial establishments are allowed to offer money exchange services. Mexico has 87 insurance companies, 13 bonding institutions, 178 credit unions, and 24 money exchange houses. The size of the underground economy is unknown, although it is estimated to account for anywhere between 20 and 40 percent of the gross domestic product in Mexico. However, the informal economy is considered to be much less of a problem overall than that of the narcotics-driven segments of the economy. Beginning in 2005, permits were issued for casinos to operate in Mexico. Gambling is also legally allowed through national lotteries, horse races, and sport pools. Casinos and offshore banks are currently not subject to anti-money laundering reporting requirements.

Since 2000, Mexicans have received an estimated $52 billion in remittances, and conservative estimates indicate that this amount will increase to over $80 billion by the end of 2006. Remittances from the United States to Mexico reached a record high $20 billion in 2005. Although non-bank companies continue to dominate the market for remittances, many U.S. banks have teamed up with their Mexican counterparts to develop systems to simplify and expedite the transfer of money. These measures include wider acceptance by U.S. banks of the matricula consular, an identification card issued by Mexican consular offices to Mexican citizens residing in the United States that has been criticized, based on security issues. In some cases, neither the sender nor the recipient of a remittance is required to open a bank account in the United States or Mexico, but must simply provide the matricula consular as identification and pay a flat fee. Although these systems have been designed to make the transfer of money faster and less expensive for the customers, the rapid movement of such vast sums of money by persons of questionable identity leaves the new money transfer systems open to potential money laundering and exploitation by organized crime groups.

According to U.S. law enforcement officials, Mexico remains one of the most challenging money laundering jurisdictions for the United States, especially with regard to the investigation of money laundering activities involving the cross-border smuggling of bulk currency from drug transactions. While Mexico has taken a number of steps to improve its anti-money laundering system, significant amounts of narcotics-related proceeds are still smuggled across the border. In addition, such proceeds can still be introduced into the financial system through Mexican banks or casas de cambio, or repatriated across the border without record of the true owner of the funds. Corruption is also a concern. In recent years, various Mexican officials, including former officials from the Mexico City government, have come under investigation for alleged money-laundering activities.

In 2005, U.S. authorities observed a significant increase in the number of complex money-laundering investigations by the Financial Crimes Unit of the Office of the Deputy Attorney General Against Organized Crimes (SIEDO), including cases coordinated with U.S. officials. The U.S. Treasury Department's Office of Foreign Asset Control (OFAC) announced in January 2005 the designation of 39 "Tier II" targets involved in significant narcotics trafficking. Some of these designations centered on foreign exchange centers, which fall under the supervision of the Secretariat of Finance and Public Credit (Hacienda). The designation of these companies, which are associated with the previously designated Arellano Felix drug trafficking organization, under the Foreign Narcotics Kingpin Designation Act, resulted from cooperation among OFAC, other U.S. government entities and SIEDO. These designations allowed U.S. and Mexican authorities to seek the freezing of assets of Mexican drug cartels, hindering their ability to take advantage of the U.S. and Mexican financial systems.

The Government of Mexico (GOM) continues efforts to implement an anti-money laundering program according to international standards such as those of the Financial Action Task Force (FATF), which Mexico joined in June 2000. Money laundering related to all serious crimes was criminalized in 1996 under Article 400 bis of the Federal Penal Code, and is punishable by imprisonment of five to fifteen years and a fine. Penalties are increased when a government official in charge of the prevention, investigation, or prosecution of money laundering commits the offense.

In 1997, the GOM established a financial intelligence unit (FIU) under the Hacienda. Previously known as the Dirección General Adjunta de Investigación de Operaciones (DGAIO), the FIU was renamed the Unidad de Inteligencia Financiera (UIF) in 2004 with the consolidation of all of the Hacienda offices responsible for investigating financial crimes into the UIF. The UIF is responsible for receiving, analyzing and disseminating financial reports from a wide range of obligated entities. The UIF also reviews all crimes linked to Mexico's financial system and examines the financial activities of public officials. The UIF's personnel number approximately 70—mostly forensic accountants, lawyers, and analysts. Its director reports to the Minister of Finance.

Regulations have been implemented for banks and other financial institutions (mutual savings companies, insurance companies, financial advisers, stock markets, and credit institutions), as well as exchange houses, and money remittance businesses to know and identify customers and maintain records of transactions. These entities must report suspicious transactions, transactions over $10,000, and transactions involving employees of financial institutions who engage in unusual activity to the UIF. Financial institutions with a reporting obligation now require occasional customers performing transactions equivalent to or exceeding $3,000 in value to be identified, so the transactions can be aggregated daily to prevent circumvention of the requirements to file cash transaction reports (CTR) and suspicious transaction reports (STR). Financial institutions also have implemented programs for screening new employees and verifying the character and qualifications of their board members and high-ranking officers. Real estate brokerages, attorney, notaries, accountants and dealers in precious metals and stones are required under a November 2005 provision of the tax law to report all transactions exceeding $10,000 to the UIF, via the Tax Administration Service. In 2005, the FIU received approximately 4,800,000 CTRs and 57,700 STRs from obligated entities.

In December 2000, Mexico amended its Customs Law to reduce the threshold for reporting inbound cross-border transportation of currency or monetary instruments from $20,000 to $10,000. At the same time, it established a requirement for the reporting of outbound cross-border transportation of currency or monetary instruments of $10,000 or more. These reports are also received by the UIF. Efforts are ongoing to compare the declarations filed in Mexico with those filed in the U.S. to determine compliance with this reporting requirement. However, Mexico's reporting requirements include a wider range of monetary instruments (e.g. bank drafts) than those of the United States.

Following the analysis of CTRs and STRs, the UIF sends reports that are deemed to require further investigation, and have been approved by Hacienda's legal counsel, to the Office of the Attorney General (PGR). As of November, the UIF had sent 56 cases to the PGR in 2005. The PGR's special financial crimes unit is part of SIEDO, which works closely with the UIF in carrying out money laundering investigations. The PGR and SHCP instituted and strengthened coordination between the two ministries with the signing of memoranda of understanding (MOUs) in June 2004 and October 2005. In addition to working with SIEDO, UIF personnel have initiated working-level relationships with other federal law enforcement entities, including the Federal Investigative Agency (AFI), in order to support the investigations of criminal activities with ties to money laundering. The UIF is also negotiating MOUs with the Ministry of the Economy and the Ministry for Immigration that would allow the UIF access to their databases.

In September 2003, Mexico underwent its second mutual evaluation by the FATF, and the findings of the evaluation team were accepted at the FATF plenary meetings in June 2004. The evaluation team

found that the GOM had made progress since the first mutual evaluation by removing specific exemptions to customer identification obligations, implementing on-line reporting forms and a new automated transmission process for reporting transactions to the UIF, and slightly reducing the delay in reporting transactions overall. The GOM also developed an overall anti-money laundering strategy and plan.

However, the FATF evaluation team also identified a number of deficiencies in the system. Mexico does not have a separate offense of terrorist financing. Bank and trust secrecy were considered impediments to many aspects of Mexico's anti-money laundering/counterterrorist financing system, particularly for law enforcement and prosecutorial and judicial authorities during investigations and prosecutions. As a result of these deficiencies, the GOM must update the FATF on its progress, which it did at the June and October 2005 plenary meetings of the FATF. While Mexico has not yet criminalized terrorist financing, it has made improvements to its bank secrecy laws. Amendments to the Banking Law that were approved in April 2005 now allow specific government entities, such as the PGR and the state attorney generals, to receive records directly from banks without prior approval from the National Banking and Securities Commission (CNBV). Previously, all requests to lift bank secrecy had to be approved by the CNBV. Financial institutions must respond to these requests within three days.

In November 2003, the Senate passed a bill amending the Federal Penal Code that would link terrorist financing to money laundering. However, little progress was made with regard to the passage of this bill by the Congress. In 2005, the draft legislation was re-submitted as two separate draft laws: one to criminalize the financing of terrorism and one to address outstanding international cooperation issues. This legislation, once passed, is intended to bring Mexico into compliance with international standards. The proposed amendments would also create two new crimes: conspiracy to launder assets and international terrorism (when committed in Mexico to inflict damage on a foreign state). The draft legislation is currently under consideration in the Senate.

Although Mexico does not have a specific crime criminalizing the financing of terrorism because terrorism is declared to be a serious crime, money laundering associated with terrorism is punishable under the existing Penal Code. The GOM has responded to U.S. Government (USG) efforts to identify and block terrorist-related funds, and, although no assets were frozen, it continues to monitor suspicious financial transactions.

Although the United States and Mexico both have forfeiture laws and provisions for seizing assets abroad derived from criminal activity, USG requests to Mexico for the seizure, forfeiture, and repatriation of criminal assets have not met with success, as Mexican authorities have difficulties with assets seized for forfeiture in Mexico if these assets are not clearly linked to narcotics. Most assets seized during law enforcement operations go to the Service for the Management and Transfer of Assets (SAE), a semi-autonomous branch of the Hacienda established in late 2002. Although Mexican officials have made significant progress in modernizing their approach to asset seizure, actual asset forfeiture remains a challenge. In two significant U.S. cases involving fraud, authorities seized real property and money generated from the crime. Although authorities gained forfeiture of the property in the United States, counterparts in Mexico did not carry out such orders in Mexico, nor have they returned related assets to the United States for forfeiture.

Mexico has developed a broad network of bilateral agreements with the United States, and regularly meets in bilateral law enforcement working groups with the United States. The U.S.-Mexico Mutual Legal Assistance Treaty entered into force in 1991. The GOM and the USG continue to implement other bilateral treaties and agreements for cooperation in law enforcement issues, including the Financial Information Exchange Agreement (FIEA) and the memorandum of understanding (MOU) for the exchange of information on the Cross-border Movement of Currency and Monetary Instruments. In February 2005, the UIF and the U.S. financial intelligence unit, FinCEN, signed an

MOU further detailing the procedures for information exchange. The U.S. Customs Service and Mexico City entrepreneurs have established a Business Anti-Smuggling Coalition, including a financial BASC chapter created to deter money laundering, which remained active in 2005.

In addition to its membership in the FATF, Mexico participates in the Caribbean Financial Action Task Force as a cooperating and supporting nation and in the South American Financial Action Task Force as an observer member. Mexico is a member of the Egmont Group and the OAS/CICAD Experts Group to Control Money Laundering. The GOM is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, the UN Convention against Corruption, the UN International Convention for the Suppression of the Financing of Terrorism, and the Inter-American Convention Against Terrorism. The UIF has signed memoranda of understanding for the exchange of information with the FIUs of Argentina, Bolivia, Brazil Colombia, Chile, Dominican Republic, El Salvador, Guatemala, Honduras, Paraguay, Peru and Ukraine, in addition to the MOU with the United States.

The Government of Mexico should fully implement and improve the mechanisms for asset forfeiture and money laundering cooperation with the United States, and should increase efforts to control the bulk smuggling of currency across its borders. Mexico should also closely monitor remittance systems for possible exploitation by criminal or terrorist groups. Mexico should enact its proposed legislation to criminalize the financing and support of terrorists and terrorist organizations. Furthermore, despite the preventive mechanisms that have been put in place, improved cooperation among law enforcement authorities and a strong public campaign against corruption, Mexico continues to face challenges in prosecuting and convicting money launderers, and should continue to focus its efforts on improving its ability to do so.

Monaco

The second-smallest country in Europe, the Principality of Monaco is known for its tradition of bank secrecy, network of casinos, and favorable tax regime. The principality does not face the ordinary forms of organized crime, and the crime that does exist does not seem to generate significant illegal proceeds (save for fraud and offenses under the "Law on Checks"); rather, money laundering offenses relate mainly to offenses committed abroad. Russian organized crime and the Italian Mafia reportedly have laundered money in Monaco. Monaco remains on an OECD list of so-called "non-cooperative" countries in terms of provision of tax information.

Monaco has a population of approximately 32,000, of which only 7,000 are Monegasque nationals. Monaco's approximately 60 banks and financial institutions hold more than 300,000 accounts and manage total assets of about 70 billion euros ($82.5 billion). Approximately 85 percent of the banking customers are nonresident. In 2002, the financial sector represented over 17 percent of Monaco's economic activity. Monaco's non-banking financial institutions include insurance companies, portfolio management companies, and trusts created through notaries, of which there are three, all nominated by the Prince. The real estate sector is another important area because of the high prices for land throughout the principality. There are four casinos run by the Société des Bains de Mer, in which the state holds a majority interest.

Monaco's banking sector is linked to the French banking sector through the Franco-Monegasque Exchange Control Convention signed in 1945 and supplemented periodically, most recently in 2001. Through this convention, Monaco operates under the banking legislation and regulations issued by the French Banking and Financial Regulations Committee, including Article 57 of France's 1984 law regarding banking secrecy. Most of Monaco's banking sector is concentrated in portfolio management and private banking. The subsidiaries of foreign banks operating in Monaco can withhold customer information from the parent bank.

Although the French Banking Commission is the supervisor for Monegasque institutions, Monaco shoulders the responsibility for legislating and enforcing measures to counter money laundering and terrorism financing. The Finance Counselor (within the Government Council) is responsible for anti-money laundering implementation and policy.

Money laundering in Monaco is a criminal offense. It is criminalized by Act 1.162 of July 7, 1993, "On the Participation of Financial Institutions in the Fight against Money Laundering," and Section 218-3 of the Criminal Code, amended by Act 1.253 of July 12, 2002, "Relating to the Participation of Financial Undertakings in Countering Money Laundering and the Financing of Terrorism." Section 218-3 of the Criminal Code is being reviewed in order to expand the list of predicate offenses.

Banks, insurance companies, and stockbrokers are required to report suspicious transactions and to disclose the identities of those involved. Casino operators must alert the government of suspicious gambling payments possibly derived from drug-trafficking or organized crime. The law imposes a five-to-ten-year jail sentence for anyone convicted of using illicit funds to purchase property, which is itself subject to confiscation.

The 2002 amendments to Act 1.162 expanded the scope of money laundering requirements to include corporate service providers, portfolio managers, certain trustees (those subject to Law 214), and institutions within the offshore sector. New procedural requirements have also been put into place, such as internal compliance, client identification, and records maintenance. Meetings are held with compliance officers so that implementation issues and concerns may be aired and addressed.

Offshore companies are subject to the same due diligence and suspicious reporting obligations as banking institutions, and Monegasque authorities conduct on-site audits. The 2002 legislation strengthened the "know your client" obligations for casinos and obliges companies responsible for the management and administration of foreign entities not only to report suspicions to Monaco's financial intelligence unit (FIU), but also to set up internal anti-laundering and counterterrorist financing procedures, the enforcement of which is monitored by the FIU.

Banking laws do not allow anonymous accounts, but Monaco does permit the existence of alias accounts, which allow the account's owner to use a pseudonym in lieu of his or her real name. Cashiers do not know the client, but the bank knows the identity of the customer and retains client identification information.

Prior approval is required to engage in any economic activity in Monaco, regardless of its nature. The Monegasque authorities issue approvals of the type of business to be engaged in, and the location for a given length of time. Of particular importance is the fact that this government approval is personal and may not be assigned. Changes in any of the above terms require the issuance of a new approval.

Monaco established its FIU, the Service d'Information et de Controle sur les Circuits Financiers (SICCFIN), to collect information on suspected money launderers. SICCFIN receives suspicious transaction reports, analyzes them, and forwards them to the prosecutor when they relate to drug-trafficking, organized crime, terrorism, terrorist organizations, or the funding thereof. SICCFIN also is responsible for supervising the implementation of anti-money laundering legislation. SICCFIN has provided training to intermediaries, most recently to lawyers and notaries. Under Law 1.162, Article 4, SICCFIN may suspend a transaction for up to twelve hours and advise the judicial authorities to investigate.

In November 2001, Monaco and France reached an agreement on initiatives to counter money laundering in the principality. The French Finance Ministry stated that SICCFIN had doubled the number of its staff, and that there had been a "noteworthy" increase in the number of suspicious activity reports being filed. The 2002 amendments to the money laundering legislation increased SICCFIN's investigatory powers. In 2002, SICCFIN received 275 disclosures, 33 of which were passed to the public prosecutor for further investigation. In 2003, SICCFIN received 254 disclosures,

19 of which were referred to the public prosecutors. In 2004, SICCFIN had received an additional 341 disclosures, of which 18 were passed to the public prosecutor for further investigation. In 2004 SICCFIN received 55 requests for financial information from other FIUs.

Investigation and prosecution are handled by the two-officer Money Laundering Unit (Unite de Lutte au Blanchiment) within the police. The Organized Crime Group (Groupe de Repression du Banditisme) may also handle cases. Depending on the number and types of cases, there are seven police officers equipped to deal with money laundering. Monaco has had three convictions for money laundering and one acquittal.

Monaco's legislation allows for the confiscation of property of illegal origin as well as a percentage of illegally acquired and legitimate property that has been co-mingled. A court order is required for confiscation. In the case of money laundering, confiscation of property is restricted to the offenses listed in the Criminal Code. On the basis of letters rogatory, over 11.7 million euros ($13.8 million) have been seized. Monaco has extradited criminals, mainly to Russia.

In July and August 2002, Monaco passed Act 1.253 and promulgated two Sovereign Orders intended to implement United Nations Security Council Resolution 1373 by outlawing terrorism and its financing. Monaco is a party to the UN International Convention for the Suppression of the Financing of Terrorism; in April and August 2002, Monaco promulgated Sovereign Orders to import into domestic law the international obligations it accepted when it ratified that convention.

The Securities Regulatory Commissions of Monaco and France signed a memorandum of understanding on March 8, 2002, on the sharing of information between the two bodies. The agreement was a step in Monaco's efforts to conform to standards proscribed by the International Organization of Securities Commissions, whose mission is to establish international standards to promote the integrity of securities markets. The Government of Monaco sees the MOU as an important tool in combating financial crimes, particularly money laundering.

In 2004 SICCFIN signed information exchange agreements with counterparts in Malta, Poland, Andorra, Mauritius, Slovakia, Canada, and Peru. In previous years it had signed such agreements with Slovenia, Italy, Ireland, Lebanon, Switzerland, Liechtenstein, Panama, Luxembourg, France, Spain, Belgium, Portugal, and the United Kingdom. SICCFIN is a member of the Egmont Group.

Monaco was admitted to the Council of Europe on October 4, 2004. Well before that date, in 2002, SICCFIN approached the Council of Europe's MONEYVAL Committee and requested full participation in that Committee, including having an evaluation conducted on its anti-money laundering regime. In October 2002, the evaluation was performed; the evaluators acknowledged the extensive and thorough regime that has been developed.

Monaco is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime In May 2002, Monaco acceded to the Council of Europe Convention on the Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime.

The Government of Monaco should amend the Criminal Code to include an "all-crimes" approach, rather than the current list of predicate offenses. Monaco should also amend its legislation to implement full corporate criminal liability. Monaco should continue to enhance its anti-money laundering and confiscation regimes.

Morocco

Morocco is not a regional financial center, and the extent of the money laundering problem in the country is not known. Morocco remains an important producer and exporter of cannabis, with estimated revenues of $13 billion annually, according to a joint study released in May 2005 by the United Nations Office on Drugs and Crime (UNODC) and Morocco's Agency for the Promotion and

the Economic and Social Development of the Northern Prefectures and Provinces of the Kingdom. Some of these proceeds may be laundered in Morocco and abroad. There is no indication that international or domestic terrorist networks have engaged in widespread use of the narcotics trade to finance terrorist organizations and operations in Morocco.

Morocco has a significant informal economic sector, including remittances from abroad and cash-based transactions. There are unverified reports of trade-based money laundering, including bulk cash smuggling, under-and over-invoicing, and the purchase of smuggled goods. Banking officials have indicated that the country's system of unregulated money exchanges provides opportunities for potential launderers. Morocco has a free trade zone in Tangier, with customs exemptions for goods manufactured in the zone for export abroad. There have been no reports of trade-based money laundering schemes or terrorist financing activities using the Tangier free zone or the zone's offshore banks, which are regulated by an interagency commission chaired by the Ministry of Finance. A Free Trade Agreement with the United States will go into effect in 2006.

There were no reported arrests or prosecutions for money laundering or terrorist financing in Morocco in 2005. Morocco has a relatively effective system for disseminating U.S. Government (USG) and United Nations Security Council Resolution (UNSCR) terrorist freeze lists to the financial sector and law enforcement. Morocco has provided detailed and timely reports requested by the UNSCR 1267 Sanctions Committee. A handful of small value accounts have been administratively frozen based on the U.S. list of Specially Designated Global Terrorists, designated pursuant to E.O. Executive Order 13224.

The Moroccan financial sector is modeled after the French system and consists of 16 banks, five government-owned specialized financial institutions, approximately 30 credit agencies, and 12 leasing companies. The monetary authorities in Morocco are the Ministry of Finance and the Central Bank, Bank Al Maghrib (CBM), which monitors and regulates the banking system. A separate Foreign Exchange Office regulates international transactions. Morocco has used administrative instruments and procedures to freeze suspect accounts.

The CBM issued Memorandum No. 36 in December 2003, in advance of the passage of still pending anti-money laundering legislation, instructing banks and other financial institutions to conduct their own internal analysis/investigations. It also mandates "know your customer" procedures, reporting of suspicious transactions and the retention of suspicious activity reports. Morocco also has in effect: legislation prohibiting anonymous bank accounts; foreign currency controls that require declarations to be filed when transporting currency across the border (although these are not strictly enforced); and internal bank controls designed to counter money laundering and other illegal/suspicious activities.

In June 2003, Morocco adopted a comprehensive counterterrorism bill that provided the legal basis for the lifting of bank secrecy to obtain information on suspected terrorists, freeze suspect accounts and prosecute terrorist finance-related crimes. The law also provides for the seizing and confiscation of terrorist assets and for international cooperation with regard to foreign requests for freezing assets of a suspected terrorist entity. This law was designed to bring Morocco into compliance with UNSCR 1373 requirements for the criminalization of the financing of terrorism.

As of December 2005, Morocco has enacted two banking/financial sector reform bills that will further strengthen Morocco's anti-money laundering system. A specific anti-money laundering (AML) bill is in the process of being presented to Parliament for passage. The proposed law reportedly includes, among other provisions, a suspicious transaction reporting scheme and the creation of a Financial Intelligence Unit (FIU). All three bills are based on the Financial Action Task Force (FATF) Forty Recommendations and Egmont Group guidelines and will help bring Morocco's financial sector in line with international standards.

Together, the three bills will enhance the supervisory and enforcement authority of the Central Bank and outline investigative and prosecutorial procedures. The Central Bank has already mandated "know your customer" requirements and the reporting of suspicious transactions by financial institutions. All money transfer activities that take place outside the realm of the official Moroccan banking system-as set by the CBM guidelines-are deemed illegal. The bills also expand the CBM's regulatory authority over non-banking financial transactions. Other significant provisions include: the lifting of bank secrecy during investigations, as well as legal liability protection of bankers and investigators for cooperation during investigations.

Morocco is a party to the 1988 UN Drug Convention, the UN International Convention for the Suppression of Financing of Terrorism, and the UN Convention against Transnational Organized Crime; in fact, Morocco has ratified or acceded to 11 of the 12 UN and international conventions and treaties related to counterterrorism. Morocco is a charter member of the Middle East and North Africa Financial Action Task Force (MENAFATF) that was inaugurated in Bahrain in November 2004. The MENAFATF is a FATF-style regional body. The creation of the MENAFATF is critical for pushing the region to improve the transparency and regulatory frameworks of its financial sectors.

Morocco should strengthen its AML capacity by moving expeditiously to pass the anti-money laundering bill. Upon passage of the AML legislation, and as part of a comprehensive anti-money laundering program, Morocco should establish a centralized Financial Intelligence Unit (FIU) that will receive and analyze suspicious transaction reports and disseminate them to appropriate law enforcement agencies for investigation.

Mozambique

Mozambique is not a regional financial center. Although there have not been prosecutions, money laundering is believed to be fairly common and is linked principally to customs fraud and narcotics trafficking. Authorities believe the proceeds from these illicit activities have helped finance the recent spate of large-and small-scale commercial real estate developments, particularly in the capital. Multi-million dollar construction projects are allegedly financed with cash, and branch businesses owned by these same developers reputedly conceal illicit proceeds gained by selling imported goods on which no duties have been paid, and by trafficking illegal drugs from South Asia and South America. Most narcotics are destined for South African and European markets; Mozambique is not a significant consumption destination and is rarely a transshipment point to the United States. Local organized crime controls narcotics trafficking operations in the country, with significant involvement by Pakistani and Indian immigrants. While money laundering in the banking sector is considered to be a serious problem, foreign currency exchange houses, cash couriers, and the hawala remittance system also play a significant role in financial crimes and money laundering. Despite these problems, or perhaps because of them, there are no documented links between Mozambique-based drug traffickers, money launderers and the financing of terrorists.

The financial sector in general is not believed to be experiencing any increase in crimes such as money laundering, but a formal assessment of criminal trends is difficult due to a dearth of reporting, investigations or prosecutions. There were no money laundering arrests in 2005, nor any prosecutions. Black markets for smuggled goods and financial services are widespread, dwarfing the formal retail and banking sectors in most parts of the country. The presence of these markets makes it difficult to determine when and where laundering of illicit proceeds from customs fraud and narcotics trafficking—as well as bribes and kickbacks, skimmed money from contracts, undeclared income, and theft—are occurring. Much of the laundering is believed to be happening behind the scenes at foreign currency exchange houses. The government has banned the opening of any new exchange houses, and government officials have publicly discussed the need for more intense scrutiny on those currently in operation. While no evidence has been uncovered through formal investigations, it is widely believed

that corrupt officials are directly involved with customs fraud, narcotics trafficking and the laundering of profits.

Money laundering has long been a criminal offense in Mozambique, but the crime had not been narrowly defined until enactment of the 2002 Anti-Money Laundering Act. The Act contains specific provisions related to narcotics trafficking, in addition to a wider range of offenses considered predicates for money laundering. While the initial set of implementing regulations for the anti-money laundering law were only issued in September 2004, by year's end, all regulations and amendments had been passed, including provisions for the creation of the country's first financial intelligence unit (FIU). The World Bank and International Monetary Fund have worked with the government to help establish the framework for the FIU, which is to begin operating formally in 2006. The FIU will be housed in the prime minister's office, and participating members of the FIU will represent the Central Bank, Ministry of Justice, Ministry of the Interior, Ministry of Finance, and the Office of the Attorney General. The new FIU will reportedly have regulatory and investigative duties, and can, through the Attorney General's office, refer cases for criminal prosecution.

According to the 2002 law, banks and exchange houses must immediately record and report to the Attorney General's office any cash transaction valued at 441 times the monthly minimum wage, or about $23,000 at current exchange rates. In addition, exchange houses are required to turn in records of all transactions on a daily basis. All credit card transaction attempts over $5,000 must also be reported and can only be processed with approval from the Central Bank. Banks and exchange houses are required to keep transaction records for 15 years (Article 15 of 2002 law). Financial institutions are required to report any suspicious transactions immediately to the Attorney General's office (Article 16). The Attorney General, in turn, is required to determine within 48 hours whether to permit the transaction (Article 19).

The 2002 law includes due diligence provisions that make both respective bankers and banks responsible if financial institutions launder money (Article 27). Money laundering controls apply to all formal non-banking financial institutions, including exchange houses, brokerages houses, casinos and insurance companies. Individuals who report suspicious transactions in good faith receive protection under the 2002 law (Article 21). Bank secrecy laws exist in Mozambique but do not apply in the case of suspected money laundering (Article 17).

The 1996 Money Exchange Act requires any individual carrying more than $5,000 across the border to file a report with Customs. Taking more than 500,000 meticais (about $20) out of the country is prohibited. Cash couriers must comply with these cross-border currency requirements, but it is believed that there is an increasing trend of couriers transporting large amounts of cash outside the country via airline flights.

Mozambique has not explicitly criminalized the financing of terrorism. Its 1991 Crimes against the Security of State Act criminalizes terrorism, but financing is not addressed. The 2002 anti-money laundering law does list terrorism finance as a serious crime subject to the scope of the law, but elaborates no further (Article 4). The same law codifies Mozambique's long-held authority to identify, freeze, seize and/or forfeit the assets of those charged with financial crimes, including terrorist financing (Articles 5 and 6). Financial institutions do not have direct access to the names of persons or entities included on the UN 1267 Sanctions Committee's consolidated list or the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224; these lists are distributed only to the Central Bank, the Attorney General, the Ministry of Finance, and the Ministry of Foreign Affairs. Authorities in these institutions have not positively identified any of the persons or entities on these lists as operating in Mozambique, and therefore no assets have been identified, frozen, or seized.

Mozambique is not considered an offshore financial center. Many local businessmen use offshore banking in nearby countries, such as Mauritius. There are no free trade zones in Mozambique.

Authorities acknowledge that alternative remittance systems are common in Mozambique, many of which operate in exchange houses that, on paper, are heavily regulated but in fact can easily avoid reporting requirements. The hawala system of remittance, for example, is believed to be widely used within the South Asian community. There are no serious legislative, judicial, or regulatory measures being considered to address this problem. Charitable institutions must receive approval by the Ministry of Justice (MOJ) before receiving a charter, and are subject to investigation by the MOJ thereafter. However, there have been no public reports of the MOJ seriously investigating any charities.

Mozambique is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. Mozambique is a signatory to the UN Convention against Transnational Organized Crime. It is also a founding member of a FATF-style regional body, the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). Mozambique has entered a series of formal agreements with neighboring countries to share financial information required by law enforcement bodies. Cooperation with the United States on these matters has taken place on an informal basis.

The 2002 Anti-Money Laundering Act contains provisions authorizing the seizure and forfeiture of assets, including those of legitimate businesses used to launder money. In such a case, the Central Bank would be responsible for the initial tracing of assets and the Attorney General would be responsible for freezing and confiscating assets. The Attorney General also has authority to auction confiscated assets and to distribute proceeds to a range of parties. Despite this legal framework, the institutions authorized to implement the law do not have an established system for identifying and freezing narcotics-related assets, and no assets have been seized to date under the 2002 Anti-Money Laundering Act.

The law allows for both civil and criminal forfeiture. An example of civil forfeiture would be the seizure of cash in excess of the $5,000 limit from an individual who tried, secretly, to carry this amount across the border. The seized funds would be sent by Customs to the Central Bank. Appeals then could be made directly to the Bank. Private financial institutions are more closely regulated by criminal forfeiture acts, but are also subject to civil suits. Financial institutions also have the right to file a civil suit against the government for loss of business in cases of unreasonable suspension, a provision that will likely discourage enforcement of the law.

The Government of Mozambique should clarify that the financing of terrorism is specifically criminalized, either by its 1991 or 2002 legislation, or else it should do so in a new instrument. It should ensure that the financial intelligence unit to be established in 2006 operates in accordance with international standards. It should deposit the instrument of ratification for the UN Convention against Transnational Organized Crime. It must also address some additional and serious obstacles to enforcement of its laws, such as resource constraints affecting the Attorney General's office and the Criminal Investigative Police, significant corruption, and intimidating tactics on the part of organized crime. It should improve interagency coordination, and provide intensive training in forensic audit, analytical, and investigation practices to members of the financial intelligence unit. These practical measures will be necessary to enforce any laws.

The Netherlands

The Netherlands is a major financial center and as such is an attractive target for the laundering of funds generated from a variety of illicit activities. Activities involving money laundering are often related to the sale of heroin, cocaine, cannabis, or synthetic and designer drugs (such as ecstasy). As a major financial center, several Dutch financial institutions engage in international business transactions involving large amounts of United States currency. There are, however, no indications that significant amounts of U.S. dollar transactions conducted by financial institutions in the Netherlands stem from illicit activity. Activities involving financial fraud are believed to generate a

considerable portion of domestic money laundering. Much of the money laundered in the Netherlands is likely owned by major drug cartels and other international criminal organizations. There are no indications of syndicate-type structures in organized crime or money laundering, and there is virtually no black market for smuggled goods in the Netherlands. Although under the Schengen Accord there are no formal controls on the borders with Germany and Belgium, the Dutch authorities run special operations in the border areas to keep smuggling to a minimum. The Netherlands is not an offshore financial center nor are there any free trade zones in the Netherlands.

In 1994, the Government of the Netherlands (GON) criminalized money laundering related to all crimes. In December 2001, legislation was enacted making facilitating, encouraging, or engaging in money laundering a separate criminal offense, easing the public prosecutor's burden of proof regarding the criminal origins of proceeds. Under the law, the public prosecutor needs only to prove that the proceeds "apparently" originated from a crime; self-laundering is also covered. In two cases in 2004 and 2005, the Dutch Supreme Court confirmed the wide application of the money laundering offenses by stating that the public prosecutor does not need to prove the exact origin of laundered proceeds and that the general criminal origin as well as the knowledge of the perpetrator may be deducted from objective circumstances.

The Netherlands has an "all offenses" regime for predicate offenses of money laundering. The penalty for "deliberate acts" of money laundering is a maximum of four years' imprisonment and a maximum fine of 45,000 euros (approximately $53,800), while "liable acts" of money laundering (of people who do not know first-hand of the criminal nature of the origin of the money, but should have reason to suspect it) are subject to a maximum imprisonment of one year and a fine no greater than 45,000 euros (approximately $53,800). Habitual money laundering may be punished with a maximum imprisonment of six years and a maximum fine of 45,000 euros (approximately $53,800), and those convicted may also have their professional licenses revoked. In addition to criminal prosecution for money laundering offenses, money laundering suspects can also be charged with participation in a criminal organization (Article 140 of the Penal Code), violations of the financial regulatory acts, violations of the Sanctions Act, or noncompliance with the obligation to declare unusual transactions according to the Economic Offenses Act.

The Netherlands has comprehensive anti-money laundering legislation. The Services Identification Act and the Disclosure Act set forth identification and reporting requirements. All financial institutions in the Netherlands, including banks, bureaux de change, casinos, life insurance companies, securities firms, stock brokers, and credit card companies, are required to report cash transactions over 15,000 euros (approximately $18,800), as well as any less substantial transaction that appears unusual, a broader standard than "suspicious" transactions, to the Office for Disclosure of Unusual Transactions (MOT), the Netherlands' financial intelligence unit (FIU). In December 2001, the reporting requirements were expanded to include trust companies, financing companies, and commercial dealers of high-value goods. In June 2003, notaries, lawyers, real estate agents/intermediaries, accountants, business economic consultants, independent legal advisers, trust companies and other providers of trust related services, and tax advisors were added. Reporting entities that fail to file reports with the MOT may be fined 11,250 euros (approximately $13,500), or be imprisoned up to two years. Under the Services Identification Act, all those that are subject to reporting obligations must identify their clients, including the identity of ultimate beneficial owners, either at the time of the transaction or prior to the transaction, before providing financial services.

In 2004, an evaluation of the anti-money laundering reporting system, commissioned by the Minister of Justice, was published. In response to the report the GON enacted a number of measures to enhance the effectiveness of the existing system. In November 2005, the Board of Procurators General issued a National Directive on money laundering crime that included an obligation to conduct a financial investigation in every serious crime case, guidelines for determining when to prosecute for money laundering and technical explanations of money laundering offenses, case law, and the use of financial

intelligence. A new set of indicators, which determine when an unusual transaction must be filed, also entered into force in November 2005. These new indicators represent a partial shift from a rule-based to a risk-based system and are aimed at reducing the administrative costs of reporting unusual transactions for the reporting institutions without limiting the preventive nature of the reporting system. The Dutch parliament has also approved amendments that expand supervision authority and introduces punitive damages, to the Services Identification Act and Disclosure Act, scheduled to take effect in 2006.

Financial institutions are also required by law to maintain records necessary to reconstruct financial transactions for at least seven years. The requirements also have been applicable to the Central Bank of the Netherlands (to the extent that it provides covered services) since 1998. There are no secrecy laws or fiscal regulations that prohibit Dutch banks from disclosing client and owner information to bank supervisors, law enforcement officials, or tax authorities. Financial institutions and all other institutions under the reporting and identification acts, and their employees, are specifically protected by law from criminal or civil liability related to cooperation with law enforcement or bank supervisory authorities. Furthermore, current legislation requires Customs authorities to report unusual transactions to the MOT; however, the Netherlands does not currently have a currency declaration requirement for incoming travelers. Under the 2004 Dutch European Union (EU) Presidency, the EU reached agreement on a cash courier regulation, which implements the Financial Action Task Force (FATF) Special Recommendation Nine on terrorist financing. The implementation is expected to occur in the Netherlands in 2007.

The Money Transfer and Exchange Offices Act, which was passed in June 2001, requires money transfer offices, as well as exchange offices, to obtain a permit to operate, and subjects them to supervision by the Central Bank. Every money transfer client has to be identified.

The Central Bank of the Netherlands, which merged with the Pension and Insurance Chamber in April 2004, and the Financial Markets Authority, as the supervisors of the Dutch financial sector, regularly exchange information nationally and internationally. Sharing of information by Dutch supervisors does not require formal agreements or memoranda of understanding (MOUs).

The MOT, which was established in 1994, reviews and analyzes the unusual transactions and cash transactions filed by banks and financial institutions. The MOT receives over 98 percent of unusual transaction reports electronically through its secure website. It forwards suspicious transaction reports with preliminary investigative information to the Police Investigation Service and to the Office for Operational Support of the National Public Prosecutor for MOT cases (BLOM). In 2006, the MOT and the BLOM will merge and both entities will be integrated within the National Police (KLPD). This new FIU structure (MOT/BLOM) will provide an administrative function that will receive, analyze, and disseminate unusual currency transaction reports. It will also provide a police function that will serve as a point of contact for law enforcement. Foreign FIUs will be able to turn to this new organization with requests for financial and law enforcement information. Over the last five years, the MOT and the BLOM have cooperated closely in responding to international requests for information, so this merger will not change the nature of the Dutch reporting system.

In 2003, the MOT received 177,157 unusual transaction reports, totaling over 1.5 billion euros (approximately $1.7 billion) and forwarded 37,748 to the BLOM and other police services as suspicious transactions for further investigation. In 2004, the MOT received 174,835 reports, totaling over 3 billion euros (approximately $3.6 billion), and forwarded 41,003 to the BLOM and other police services. The average amount reported was 79,000 euros (approximately $94,500) in 2004, an increase from the 41,000 euros (approximately $49,000) average reported in 2003. Reportedly, this significant increase was due to a few large transactions.

In order to facilitate the forwarding of suspicious transactions, the MOT and BLOM created an electronic network called Intranet Suspicious Transactions (IST). Also, a secure website for the actual

reporting of unusual transactions by financial institutions was developed, thus completing the electronic infrastructure. Furthermore, fully automatic matches of data with the police databases are included with the unusual transaction reports forwarded to the BLOM. Since the money laundering detection system also covers areas outside the financial sector, the system is used for detecting and tracing terrorist financing activity.

On January 1, 2003, the MOT and BLOM formed a special unit (the MBA-unit) to work together to analyze data generated from the IST. Once the data is analyzed by the MBA-unit, it forwards reports to the police. In 2004, the MBA-unit sent 200 reports to the police for further investigations.

In 2004, BLOM opened 712 investigations, which involved 15,203 transactions. BLOM conducted 80 Hit-And-Run Money Laundering (HARM) team actions, including eight involving exchange transactions, 60 involving the physical presence of large amounts of cross border cash money, and six cases involving withdrawals, deposits, wire transfers or offers of bank checks. Of the 80 HARM actions, 58 were the result of BLOM's own investigations. With regard to the cross-border movement of cash, the royal constabulary apprehended 60 outgoing cash couriers at Amsterdam Schiphol Airport and confiscated nearly 10 million euros (approximately $12 million) in cash. In 2004, the office of the public prosecutor issued summons for money laundering offenses in 244 cases, resulting in 138 convictions with 87 cases still pending.

The Public Prosecutor HARM team was established in 2001. Both the MOT and BLOM are internationally recognized institutions that play a major role in the Dutch anti-money laundering regime. BLOM provides the anti-money laundering division of Europol with suspicious transaction reports, and Europol applies the same analysis tools as BLOM.

The Netherlands has enacted legislation governing asset forfeitures. The 1992 Asset Seizure and Confiscation Act enable the authorities to confiscate assets that are illicitly obtained or otherwise connected to criminal acts. The legislation was amended in 2003 to improve and strengthen the options for identifying, freezing, and seizing criminal assets. The police and several special investigation services are responsible for enforcement in this area. These entities have adequate powers and resources to trace and seize assets. Asset seizure has been integrated into all law enforcement investigations into serious crime.

The system is principally value-based, though property-based orders can also be made. Any tangible assets, such as real estate or other conveyances that were purchased directly with the proceeds of a crime tracked to illegal activities, may be seized. Property subject to confiscation as an instrumentality may consist of both moveable property and claims. Assets can be seized as a value-based confiscation. Asset seizure and confiscation legislation also provides for the seizure of additional assets controlled by drug trafficker. Legislation defines property for the purpose of confiscation as "any object and any property right." Proceeds from narcotics asset seizures and forfeitures are deposited in the general fund of the Ministry of Finance. Dutch authorities have not identified any significant legal loopholes that allow drug traffickers to shield assets.

In order to promote the confiscation of criminal assets, special court procedures have been created, enabling law enforcement to continue financial investigations in order to prepare confiscation after the underlying crimes have been successfully adjudicated. All police services investigating in the field of organized crime rely on the real time assistance of financial detectives and accountants, as well as on the assistance of the Proceeds of Crime Office (BOOM), a special bureau advising the Office of the Public Prosecutor in international and complex seizure and confiscation cases. To further international cooperation in this area, the Camden Asset Recovery Network (CARIN) was set up in The Hague in September 2004. BOOM played a leading role in the establishment of this informal international network of asset recovery specialists, whose aim is the exchange of information and expertise in the area of asset recovery.

Statistics provided by the Office of the Public Prosecutor show that the amount of assets seized in 2004 amounted to 11 million euros (approximately $13 million), compared to 10 million euros (approximately $11 million) in 2003. (These figures do not include tax-related confiscations. Dutch Tax Authorities can tax any income, whether legal or illegal.) The United States and the Netherlands have an agreement on asset sharing dating back to 1994. The Netherlands also has a treaty on asset sharing with the United Kingdom, as well as an agreement with Luxembourg.

In June 2004, the Minister of Justice sent an evaluation study to the Parliament on specific problems encountered with asset forfeiture in large, complex cases. In response to this report, the GON announced several measures to improve the effectiveness of asset seizure enforcement, including steps to increase expertise in the financial and economic field, assign extra public prosecutors to improve the coordination and handling of large, complex cases, and establish a specific asset forfeiture fund. The Office of the Public Prosecutor has designed a new centralized approach for large confiscation cases and a more flexible approach for handling smaller cases. Both will take effect in 2006. These measures should significantly increase BOOM's capacity to handle asset forfeiture cases.

Terrorist financing is a crime in the Netherlands. The "Sanction Provision for the Duty to Report on Terrorism" was passed in 1977 and amended in June 2002, to implement European Union (EU) Regulation 2580/2001 and UNSCR 1373. This ministerial decree provides authority to the Netherlands to identify, freeze, and seize terrorist finance assets. The decree also requires financial institutions to report to the MOT all transactions (actually carried out or intended) that involve persons, groups, and entities that have been linked, either domestically or internationally, with terrorism. Any terrorist crime will automatically qualify as a predicate offense under the Netherlands "all offenses" regime for predicate offenses of money laundering. Involvement in financial transactions with suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list or designated by the EU has been made a criminal offense. The Dutch Finance Ministry, in close coordination with the Foreign Affairs Ministry, distributes lists of designated entities to financial institutions and relevant government bodies (including local tax authorities). Freezing of assets is an administrative procedure. The Netherlands has frozen more terrorist-related assets than any other EU member state.

The Act on Terrorist Offenses took effect on August 10, 2004. The Act introduces Article 140A of the Criminal Code, which criminalizes participation in an organization when the intent is to commit acts of terrorism, and defines participation as membership or providing provision of monetary or other material support. Article 140A carries a maximum penalty of fifteen years' imprisonment for participation in and life imprisonment for leadership of a terrorist organization. The GON is considering new legislation that would expand, among other things, investigative powers and the use of coercive measures in antiterrorist inquiries.

Unusual transaction reports by the financial sector act as the first step against the abuse of religious organizations, foundations and charitable institutions for terrorist financing. No individual or legal entity (churches or religious institutions included) is exempt from the obligation of identification when using the financial system. Financial institutions must also inquire about the identity of the ultimate beneficial owners. Thus, a paper trail is maintained throughout the payment chain. A second step is provided by Dutch civil law, which requires registration of all active foundations in the registers of the Chambers of Commerce. Each foundation's formal statutes (creation of the foundation must be certified by a notary of law) must be submitted to the Chambers. Charitable institutions also register with, and report to, the tax authorities in order to qualify for favorable tax treatment. Approximately 15,000 organizations (and their managements) are registered in this way. The organizations have to file their statutes, showing their purpose and mode of operations, and submit annual reports. Samples are taken for auditing. Finally, many Dutch charities are registered with or monitored by private "watchdog" organizations or self-regulatory bodies, the most important of which is the Central Bureau for Fund Raising. In April 2005, the GON approved a plan to replace the current initial screening of

founders of private and public-limited partnerships and foundations with an ongoing screening system. The new system will be introduced in the course of 2007 to improve Dutch efforts to fight fraud, money laundering, and terrorist financing.

Data about informal hawala banking as a potential money laundering/terrorist financing source is still scarce. Initial research by the Dutch police and Internal Revenue Service and Economic Control Service (FIOD/ECD) indicates that the number of *hawala*-type banks in the Netherlands is rising. The Dutch Government plans to implement improved procedures for tracing and prosecuting informal (unlicensed) or hawala-type banking, with the Dutch Central Bank, FIOD/ECD, the Financial Expertise Center, and the Police playing a coordinating and central role. The Dutch Finance Ministry plans to participate in a World Bank-initiated international survey on money flows by immigrants to their native countries, with a focus on relations between the Netherlands and Suriname. The Dutch Central Bank will also initiate a study into the number of informal banking institutions in the Netherlands. In Amsterdam, a special police unit has been investigating underground bankers. These investigations have resulted in the disruption of three major underground banking schemes.

Reportedly, the Netherlands is in full compliance with all FATF Recommendations, with respect to both legislation and enforcement. The Netherlands also complies with the Council Directive 2001/97/EC on prevention of the use of the financial system for money laundering (2nd EU Money Laundering Directive), and in some areas is ahead of the EU legislation (such as full money laundering controls on money remitters, including licensing and identification of customers). In December 2004, the Dutch EU Presidency reached political agreement within the EU on the Third Money Laundering Directive, which was subsequently adopted by the EU in 2005 with full implementation by EU Member States by 2007. The Dutch have already implemented some obligations resulting from this directive, such as effective supervision of currency exchange offices and trust companies.

In December 2003, the International Monetary Fund (IMF) conducted an assessment of the Dutch anti-money laundering and counterterrorist financing system. The Report on the Observance of Standards and Codes (ROSC), released in September 2004, indicates that the Netherlands has a sound anti-money laundering and counterterrorist financing framework. In 2005, the Second Round of the Council of Europe's Group of States Against Corruption (GRECO) evaluation of the Netherlands resulted in positive conclusions regarding Dutch seizure and confiscation legislation.

The MOT supervised the PHARE Project for the European Union (March 2002-December 2003). The PHARE Project was the European Commission's Anti-Money Laundering Project for Economic Reconstruction Assistance to Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Hungary, Slovenia, Romania, Bulgaria, Cyprus, and Malta. The purpose of the project was to provide support to Central and Eastern European countries in the development and/or improvement of anti-money laundering regulations. For this purpose, the MOT established a project team and a consortium of international experts. Although the PHARE project concluded in December 2003, the MOT has moved forward with the development of the FIU.NET Project, (an electronic exchange of current information between European FIUs by means of a secure intranet).

The United States enjoys good cooperation with the Netherlands in fighting international crime, including money laundering. In September 2004, the United States and the Netherlands signed two agreements in the area of mutual legal assistance and extradition, stemming from the agreements that were concluded in 2003 between the EU and the United States. One of the amendments to the existing bilateral agreement is the exchange of information on bank accounts. The MOT has established close links with the U.S Treasury's FinCEN and is also involved in efforts to expand international cooperation between disclosure offices.

The Netherlands is a member of the Financial Action Task Force. The GON participates in the Caribbean Financial Action Task Force as a Cooperating and Supporting Nation. The MOT is a

member of the Egmont Group. The MOT has concluded formal information sharing memoranda of understanding (MOUs) with Belgium, Aruba and the Netherlands Antilles. The Netherlands is a party to the 1988 UN Drug Convention and the 1990 Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime. The Dutch participate in the Basel Committee, and have endorsed the Committee's "Core Principles for Effective Banking Supervision." The Netherlands is a party to the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime.

The Netherlands should continue the strong enforcement of its anti-money laundering program and its leadership in the international arena.

Netherlands Antilles

The Netherlands Antilles, which has autonomous control over its internal affairs, is a part of the Kingdom of the Netherlands. The Netherlands Antilles is comprised of Curacao, Bonaire, the Dutch part of Sint Maarten/St. Martin, Saba, and Sint Eustatius. The Government of the Netherlands Antilles (GONA) is located in Willemstad, the capital of Curacao, which is also the financial center of the five islands. Narcotics trafficking and a lack of border control between Sint Maarten and St. Martin create opportunities for money launderers in the Netherlands Antilles. Of note is the surge over the past few years of remittance transfers from the Netherlands.

The Netherlands Antilles has a significant offshore financial sector with 23 international banks and approximately 207 trust companies providing financial and administrative services to their international clientele, including approximately 15,571 offshore companies, mutual funds, and international finance companies. The islands also have eight local credit institutions, five savings and credit funds, thirteen foreign credit institutions, seven local commercial banks, four foreign commercial banks, two savings banks, seventeen credit unions, 18 consolidated international banks and 19 non-consolidated international banks. There are 31 institutional investors that may carry out insurance business, 19 captive insurance companies, six professional reinsurance companies, 27 pension funds and one other fund.

On February 1st, 2001, the GONA approved the proposed amendments to the free zone law allowing e-commerce activities into these areas (National Ordinance Economic Zone no.18, 2001). As of this date, it is no longer necessary for goods to be physically present within the zone as was required under the former free zone law. Furthermore, the name "Free Zone" was changed to "Economic Zone" (E-Zone). Seven areas within the Netherlands Antilles qualify as e-zones of which five are designated for e-commerce. The remaining two e-zones, which are located at the airport and the harbor, are designated for goods. These zones are minimally regulated; however, administrators and businesses in the zones have indicated an interest in receiving guidance on detecting unusual transactions.

The Central Bank supervises all banking and credit institutions, including banks for local and international business, specialized credit institutions, savings banks, credit unions, savings and credit funds, and pension funds. However, authorities in other countries supervise some mutual funds. The laws and regulations on bank supervision state that international banks must have a physical presence on the island and hold records there. All life insurance and general insurance companies need to apply for a license from the Central Bank. In early 2003, legislation was introduced to transfer supervision of the trust sector to the Central Bank. International corporations may be registered using bearer shares. The practice of the financial sector in the Netherlands Antilles is for either the bank or the company service providers to maintain copies of bearer share certificates for international corporations, which include information on the beneficial owner(s). There is a proposal to require that the name of the ultimate beneficial owner of the bearer share be recorded in a registry and made accessible to law enforcement officials upon a treaty-based request for the information.

Money laundering is a crime. Legislation in 1993 and subsequent interpretations regarding the "underlying crime" establish that prosecutors do not need to prove that a suspected money launderer also committed an underlying crime in order to obtain a money laundering conviction. Thus, it is sufficient to establish that the money launderer knew, or should have known, of the money's illegal origin.

In recent years, the GONA has taken steps to strengthen its anti-money laundering regime by expanding suspicious activity reporting requirements to gem and real estate dealers, introducing indicators for the reporting of unusual transactions for the gaming industry, issuing guidelines to the banking sector on detecting and deterring money laundering, and modifying existing money laundering legislation that penalizes currency and securities transactions, by including the use of valuable goods. The 2002 National Ordinance on the Supervision of Fiduciary Business institutes a Supervisory Board that oversees the international financial sector. At the same time, GONA subjected the members of this sector to know-your-customer rules. A GONA interagency anti-money laundering working group cooperates with its Kingdom counterparts.

Suspicious transactions are by law reported to the financial intelligence unit, the Netherlands Antilles Reporting Center, MOT NA. The GONA is amending the national ordinance regarding the MOT NA which should go into effect in 2006. The objective is to add new non-financial reporters, such as lawyers, accountants, notaries, jewelers, and real estate agents. The GONA hopes to have in place all relevant laws and agreements prior to the IMF audit in 2007. On June 1, 2003, the Central Bank issued new consolidated reporting guidelines, replacing those of 1996. These guidelines are more closely focused on banks, insurance companies, pension funds, money transfer services, and financial administrators and now specifically include counterterrorism detectors. The Central Bank also established a Financial Integrity Unit to monitor corporate governance and market behavior. Entities under supervision must submit an annual statement of compliance.

Onshore banks are increasingly using their discretionary authority to protect themselves against money laundering. The largest commercial bank lowered its limits on money grams to $2,000. Banks are reluctant to do business with the Internet gaming providers, provoking complaints from that sector. In 2003 Curacao was reported to have six sports booking sites and 100 Internet casinos. The Meldpunt Ongebruikelijke Transacties (MOT NA), the Netherlands Antilles's financial intelligence unit (FIU) has issued a manual for casinos on how to file reports and has started to install software in casinos that will allow reports to be submitted electronically.

The current staff of eight at the MOT NA continues to work to enhance the effectiveness and efficiency of its reporting system. Significant progress has been made in automating suspicious activity reporting; in 2003 reporting institutions sent 99.2 percent of their reports to the MOT NA electronically. Most of the matches with external databases are done electronically. The MOT NA transmits information electronically to the police. On October 18, 2002, the GONA published new indicators for the reporting of unusual transactions with regard to terrorism financing. The new indicators require that unusual transactions reported to the police or judicial authorities in connection with money laundering or the financing of terrorism must also be reported to the MOT NA. This requirement also extends to unusual transactions relating to credit cards, money transfers, and game of chance transactions.

In May 2002 cross-border currency reporting legislation came into force. The law specifies reporting procedures for an individual bringing in or taking out more than NAF 20,000 (approximately $11,000) in cash or bearer instruments, and also applies to courier services. Declaration of currency exceeding the limit must include origin and destination. There is a fine of up to NAF 500,000 (approximately $281,000) or one year in prison.

In 2000, the National Ordinance on Freezing, Seizing, and Forfeiture of Assets Derived from Crime went into effect. The law allows the prosecutor to seize the proceeds of any crime once the crime is

proven in court. In January 2002, the GONA enacted legislation allowing a judge or prosecutor to freeze assets related to the Taliban *cum suis* and Usama Bin Ladin *cum suis* (*cum suis* means that all companies and persons connected with the Taliban or Usama Bin Ladin are included). The legislation contains a list of individuals and organizations suspected of terrorism. The Central Bank instructed financial institutions to query their databases for information on the suspects and to immediately freeze any assets that were found. In October 2002, the Central Bank instructed the financial institutions under its supervision to continue these efforts and to consult the UN website for updates to the list.

The Netherlands Antilles law allows the exchange of information between the MOT NA and foreign FIUs by means of memoranda of understanding and by treaty. The MOT NA's policy is to answer requests within 48 hours after receipt. A tax information exchange agreement (TIEA) was signed between the Netherlands Antilles and the United States. As of the end of 2005 implementing legislation in the parliament was pending which would allow this agreement to go into effect.

The Mutual Legal Assistance Treaty between the Netherlands and the United States also applies to the Netherlands Antilles. In September 2003, the U.S. Attorney in St. Thomas indicted five defendants, including one from Sint Maarten, for charges including laundering funds totaling $68 million. Cooperation with Sint Maarten under the MLAT was an important element in the investigation.

The MOT NA is an active member of the Egmont Group. The Netherlands Antilles is a member of the Caribbean Financial Action Task Force (CFATF), and as part of the Kingdom of the Netherlands, the Netherlands Antilles participates in the FATF. In 1999, the Netherlands extended application of the 1988 UN Drug Convention to the Netherlands Antilles. The Kingdom of the Netherlands became a party to the UN International Convention for the Suppression of the Financing of Terrorism in 2002. In accordance with Netherlands Antilles law, which stipulates that all the legislation must be in place prior to ratification, the GONA is preparing legislation that will enable the Netherlands Antilles to ratify the Convention.

The Government of the Netherlands Antilles has shown a commitment to combating money laundering. An increase to the MOT NA staff is particularly notable. The Netherlands Antilles should continue its focus on increasing regulation and supervision of the offshore sector and free trade zones and pursuing money laundering investigations and prosecutions. The Netherlands Antilles should criminalize the financing of terrorism, and should enact the necessary legislation to implement the UN International Convention for the Suppression of the Financing of Terrorism.

Nicaragua

Nicaragua is not a regional financial center; however this may soon change. The country is not a major drug producing country, but continues to be a significant transshipment point for South American cocaine and heroin destined for the United States, and, on a smaller scale, for Europe. Reportedly, there is evidence that the problem is growing and is increasingly linked to arms trafficking. This situation makes Nicaragua's financial system an attractive target for narcotics-related money laundering. Nicaraguan officials have expressed concern that, as neighbors have tightened their money laundering laws, established financial intelligence units (FIUs) and taken other actions, more illicit money has moved into the vulnerable Nicaraguan financial system. However, this concern has not resulted in the strengthening of Nicaragua's legal and institutional frameworks to effectively combat money laundering and the financing of terrorism.

Nicaragua's geographical position, with access to both the Atlantic and the Pacific Oceans, makes it an area heavily used by transnational organized crime groups. Organized crime groups also benefit from Nicaragua's weak legal system and its ineffective fight against financial crimes, money laundering, and terrorism.

While Nicaragua has pledged to fight the financing of terrorism, money laundering and other financial crimes, limited resources, corruption (especially in the judiciary), and the lack of political will in some sectors continue to complicate efforts to counteract these criminal activities. Nicaragua has recently made improvements to its oversight and regulatory control of its financial system. However, money laundering unrelated to drug-trafficking is legally undefined, the country does not have an operational FIU and all attempts to correct this deficiency have been stalled in the National Assembly for years.

In May 2005, GE Consumer Finance, one of the largest financial service firms in the world, announced that it was buying a 49.99 percent stake in Banco de America Central (BAC) which operates in several Central American countries, including Nicaragua, where it is one of the largest banks. Also, Banistmo, a Panamanian bank, recently began operations in Nicaragua. The ratification of the Central America/Dominican Republic Free Trade Agreement (CAFTA-DR) and regional integration suggest more involvement from international financial institutions.

Nicaragua does not permit direct offshore bank operations, but it does permit them to operate through nationally chartered entities. Bank and company bearer shares are permitted. Nicaragua has a well-developed indigenous gaming industry, which remains largely unregulated. There are no known offshore or Internet gaming sites in Nicaragua. On October 26, 2005, the National Assembly reformed Nicaragua's General Banks, Non-banking Financial Institutions, and Financial Groups Law, that if enforced would hold bank officials responsible for their institutions' money laundering. Article 164 of the law calls for sanctions for financial institutions and professionals of the financial sector, including internal auditors who do not develop anti money laundering programs or do not report to the appropriate authorities suspicious and unusual transactions that may be linked to money laundering, as required by the anti-money laundering law.

In 1999, Nicaragua passed Law 285 that requires banks to report cash deposits over $10,000 to the Superintendence of Banks and Other Financial Institutions (SIBOIF), which then forwards the reports for analysis to the Commission of Financial Analysis (CAF). Law 285 is not, however, being used as an effective tool against money laundering crimes committed by organized criminal organizations. The National Prosecutor's and the Attorney General's legal positions on the Law 285 differ significantly. The National Prosecutor, who also heads the CAF, is loyal to ex-President Arnoldo Aleman (convicted of laundering stolen government funds) and has sought to limit the application of the money laundering law to drug crimes. The Attorney General has led President Bolanos's charge against public corruption and has argued in and out of court that the money-laundering law as written applies to public corruption and other non-drug crimes. However, there were no money laundering prosecutions in Nicaragua in 2005, even when financial transactions have been linked to narcotics trafficking.

The CAF is not a financial intelligence unit. On paper, the CAF is composed of representatives from various elements of law enforcement and banking regulators and is responsible for detecting money laundering trends, coordinating with other agencies and reporting its findings to Nicaragua's National Anti-Drug Council. The CAF is ineffective due to a lack of budget, trained personnel, equipment, and strategic goals. The CAF is headed by the National Prosecutor who receives the reports from banks and decides whether to refer them to the Nicaraguan National Police (NNP) for further investigation. The Economics Crimes Unit within the NNP is in charge of investigating financial crimes, including money laundering and terrorist financing. The Nicaraguan Deputy Attorney General is critical of the inactivity and ineffectiveness of the CAF. He claimed that of the 354 suspicious activity reports received by the CAF from financial institutions in the first part of 2005, not a single criminal money laundering investigation, including those related to drug trafficking, has been initiated by the National Prosecutor.

Legislation that would improve Nicaragua's anti-money laundering regime has been stalled in the National Assembly for years. There are at least two pending bills. An amended drug and anti-money

laundering law would better define the crime of money laundering, and another special bill that creates a central FIU replacing the CAF and would require more stringent reporting of large and/or suspicious bank deposits. Reportedly, it is unlikely that these reform bills will make it out of the Assembly in the foreseeable future.

Draft legislation to criminalize terrorist financing is under consideration by the National Assembly, reportedly without any sign of imminent passage. It is possible that many elements of terrorist financing can be prosecuted under existing laws. Nicaragua has the authority—through five Bank Superintendence administrative decrees—to identify, freeze, and seize terrorist-related assets, but has not as yet identified any such cases. Reportedly, there are no hawala or other similar alternative remittance systems operating in Nicaragua, and the Nicaraguans have not detected any use of gold, precious metals, or charitable organizations to disguise such transactions. However, there are informal "cash and carry" networks for delivering remittances from abroad.

Corruption within the judiciary is a serious problem; judges often let detained drug suspects go free after a short detention, a practice that puts drug traffickers back on the streets, increasing the threat of money laundering. In a recent high-profile case judges released over $600,000 of funds from a suspected drug trafficker. From all indications, a number of judges may have been involved in the case and may have received payoffs. In another judicial scandal, two Mexican citizens were acquitted and had returned over $300,000 in undeclared currency that Nicaraguan customs seized when they entered the country. This case also involves a judge connected to the first drug-money scandal. Due to the rampant corruption in the Nicaraguan judiciary, the United States has cut off direct assistance to the Nicaraguan Supreme Court.

The SIBOIF is an independent and reputable financial institution regulator. Its financial experts have a good working relationship with the U.S. Government and have reached out to the NNP to work with them. On December 1, the SIBOIF, pursuant to the Nicaraguan Banking Law, closed down a business, Agave Azul, that was operating an illegal Ponzi scheme. Agave Azul opened for business in May 2005 and to date it has over 13,000 investors, according to police accounts. Under the scheme, investors (some of them National Assembly members that had invested up to $60,000) bought shares with the promise/expectation that they would earn a monthly rate of return of at least 15 percent on their investment. Investors recruited others to buy shares in the fake business that claimed to sell tequila. The investors' money was collected and sent via wire transfer to two banks in the United States and one in El Salvador.

Since May 2005 approximately $3,000,000 in U.S. currency has been deposited in Agave Azul accounts in at least two U.S. banks. SIBOIF notified the National Prosecutor about the scheme in early August 2005 and demanded action. The National Prosecutor failed to act. Though Agave Azul was closed by the SIBOIF, continuing inaction by the National Prosecutor is hampering the investigation. Efforts to freeze the business' bank accounts in the United States were unsuccessful due to the failure of the NNP to provide complete financial information and the unwillingness of the National Prosecutor to seek U.S. Government cooperation. Despite the failures in this investigation, the actions of the SIBOIF in cooperation with NNP show a dedication to investigate financial crimes and substantial level of cooperation between the Attorney General's Office and the NNP on financial crimes and money laundering issues.

U.S. Government efforts are focused on formalizing the existing cooperation by creating a vetted Anti-Corruption Unit that would be housed within the NNP and also include officials from the Attorney General's Office, with the aim of leading thorough investigations and strong prosecutions of corruption, money laundering and related crimes. Nicaragua ratified the Inter-American Convention on Mutual Legal Assistance in Criminal Matters in 2002, an agreement that facilitates the sharing of legal information between countries. Nicaragua is a party to the 1988 UN Drug Convention. The country has also ratified the UN Convention on the Suppression of the Financing of Terrorism and the

UN Convention against Transnational Organized Crime. Nicaragua is a member of the Organization of American States (OAS) and the Caribbean Financial Action Task Force (CFATF).

In October 2005, a delegation of the U.S. Department of the Treasury, including officials from the Financial Enforcement Network (FinCEN), Office of Technical Assistance (OTA), and the Internal Revenue Service (IRS), went to Nicaragua. They were accompanied by Delia Cárdenas, the Panamanian Superintendent of Banks and the then President of CFATF. Cárdenas went to Nicaragua to express CFATF's dissatisfaction with Nicaragua's refusal to comply with international standards and to develop a functional financial analysis unit to replace the ineffective CAF. Not long after the visit by Cárdenas, the SIBOIF and other members of the CAF sent a letter to a key National Assembly leader seeking action on creation of a financial intelligence unit.

The Government of Nicaragua needs to move to counter money laundering by expanding the predicate crimes for money laundering beyond narcotics trafficking, criminalizing terrorist financing, and allocating the necessary resources to develop an effective FIU. Nicaragua should develop a more effective method of obtaining information/cooperation from foreign law enforcement agencies and banks. Nicaragua should take steps to immobilize its bearer shares and adequately regulate its gambling industry. These steps, coupled with increased enforcement, would significantly strengthen the country's financial system against money laundering and terrorist financing, and would make progress complying with relevant international anti-money laundering standards and controls.

Nigeria

The Federal Republic of Nigeria is the most populous country in Africa and is West Africa's largest democracy. Nigeria's large economy is also a hub of trafficking of persons and narcotics. Nigeria is a major drug-transit country and is a center of criminal financial activity for the entire continent. It is not an offshore financial center. Individuals and criminal organizations have taken advantage of the country's location, weak laws, systemic corruption, lack of enforcement, and poor economic conditions to strengthen their ability to perpetrate all manner of financial crimes at home and abroad. Nigerian criminal organizations have proven adept at devising new ways of subverting international and domestic law enforcement efforts and evading detection. Their success in avoiding detection and prosecution has led to an increase in many types of financial crimes, including bank fraud, real estate fraud, identity theft, and advance fee fraud. Despite years of government effort to counter rampant crime and corruption, Nigerians continue to be plagued by crime. The establishment of the Economic and Financial Crimes Commission (EFCC) and of the Independent Corrupt Practices Commission (ICPC) and the improvement in training qualified prosecutors in Nigerian courts has yielded some successes in 2005.

In addition to narcotics-related money laundering, advance fee fraud is a lucrative financial crime that generates hundreds of millions of illicit dollars annually for criminals. Initially, Nigerian criminals made advance fee fraud infamous; more recently, nationals of many African countries and from a variety of countries around the world have begun to perpetrate advance fee fraud. This type of fraud is referred to internationally as "Four-One-Nine" fraud (419 is a reference to the fraud section in Nigeria's criminal code). While there are many variations, the main goal of 419 frauds is to deceive victims into payment of an advance fee by persuading them that they will receive a very large benefit in return. These "get rich quick" schemes have ended for some victims in monetary losses, kidnapping, or murder. Through the Internet, businesses and individuals around the world have been and continue to be targeted by perpetrators of 419 scams. The EFCC has tried to combat 419-related cyber crimes, but there have only been a few recorded successes as a result of their cyber crime initiatives.

In June 2001, the Financial Action Task Force (FATF) placed Nigeria on its list of noncooperative countries and territories (NCCT) in combating money laundering. Among the deficiencies cited by the

FATF were the failure to criminalize money laundering for offenses other than those related to narcotics, the lack of customer identification requirements for over-the-counter transactions under a threshold of $100,000, inadequate suspicious transaction reporting requirements, the absence of anti-money laundering measures applied to stock brokerage firms and other financial institutions, and a high level of government corruption. In April 2002, FinCEN, the U.S. financial intelligence unit, issued an advisory to inform banks and other financial institutions operating in the United States of serious deficiencies in the anti-money laundering regime of Nigeria.

In June 2002, the FATF stated that it would consider recommending countermeasures against Nigeria at its October 2002 plenary if Nigeria did not engage with the FATF Africa Middle East Review Group and move quickly to enact legislative reforms that addressed FATF concerns. In October 2002, the FATF recommended countermeasures against Nigeria if the Government of Nigeria (GON) did not enact sufficient legislative reforms by December 15, 2002. That same month, Nigeria submitted an anti-money laundering implementation plan to the FATF, but it was deemed insufficient to justify de-listing Nigeria.

In December 2002, after placement on the NCCT list and under threat of a FATF recommendation for countermeasures, Nigeria enacted three pieces of legislation: an amendment to the 1995 Money Laundering Act that extends the scope of the law to cover the proceeds of all crimes; an amendment to the 1991 Banking and Other Financial Institutions (BOFI) Act that expands coverage of the law to stock brokerage firms and foreign currency exchange facilities, gives the Central Bank of Nigeria (CBN) greater power to deny bank licenses, and allows the CBN to freeze suspicious accounts; and the Economic and Financial Crimes Commission (Establishment) Act that establishes the Economic and Financial Crimes Commission (EFCC), that coordinates anti-money laundering investigations and information sharing. The Economic and Financial Crimes Commission Act also criminalizes the financing of terrorism and participation in terrorism. Violation of the Act carries a penalty of up to life imprisonment. Based on this legislation, FATF decided not to recommend countermeasures against Nigeria; however, Nigeria remains on the NCCT list.

In April 2003, the EFCC was formally constituted, with the primary mandate to investigate and prosecute financial crimes. It has recovered or seized assets from various people guilty of fraud inside and outside of Nigeria, including a syndicate that included highly placed government officials who were defrauding the Federal Inland Revenue Service (FIRS). Several influential individuals have been arrested and are currently awaiting trial. In an effort to expedite the trial process, the Commission has been assigned two high court judges in Lagos and two in Abuja to hear all cases involving financial crimes.

In 2004, the National Assembly passed the Money Laundering (Prohibition) Act (2004), which applies to the proceeds of all financial crimes. It also covers stock brokerage firms and foreign currency exchange facilities, in addition to banks and financial institutions. The legislation gives the CBN greater power to deny bank licenses and freeze suspicious accounts. This legislation also strengthens financial institutions by requiring more stringent identification of accounts, removing a threshold for suspicious transactions, and lengthening the period for retention of records. In November 2004, the EFCC reported that the great majority of Nigeria's banks were not in compliance with the new law, typically by not adhering to the know-your-customer and know-your-customer's-business provisions of the law and by neglecting to file suspicious transactions reports (STRs). The EFCC promised a new initiative to educate bank personnel and the general public about the provisions of the law before imposing sanctions for non-compliance. Nigeria has not yet detected a case of terrorist financing laundered through the banking system.

Under the 2004 Money Laundering (Prohibition) Act and 1995 Foreign Exchange (Monitoring and Miscellaneous Provisions) Act, money laundering controls apply to non-banking financial institutions. These acts effectively cover brokerage houses, stock brokerages, casinos, insurance companies, and

intermediaries such as lawyers and accountants. The Commerce Ministry oversees compliance, which to date has not been very rigorous or effective.

In 2004, the 2002 Economic and Financial Crimes Commission (Establishment) Act was amended. The 2004 EFCC act enlarged the number of EFCC board members, enabled the EFCC police members to bear arms, and banned interim court appeals that hinder the trial court process. The commission's primary mandate is to investigate and prosecute financial crimes, and in particular to coordinate anti-money laundering investigations and information sharing in Nigeria and internationally.

In 2005, the EFCC established the Nigerian Financial Intelligence Unit (NFIU). The NFIU draws its powers from the Money Laundering (Prohibition) Act of 2004 and the Economic and Financial Crimes Commission Act of 2004. It is the central agency for the collection, analysis and dissemination of information on money laundering and terrorism financing. All financial institutions and designated non-financial institutions are required by law to furnish the NFIU with details of their financial transactions. Provisions have been included to give the NFIU power to receive suspicious transaction reports made by financial institutions and non-designated financial institutions, as well as to receive reports involving the transfer to or from a foreign country of funds or securities exceeding $10,000 in value.

The NFIU is a significant component of the EFCC. It complements the EFCC's directorate of investigations but does not carry out its own investigations. It is staffed with competent officials, many with degrees in accounting and law. The NFIU is playing a pivotal role in receiving and analyzing STRs. As a result, banks have improved their responsiveness to forwarding records to the NFIU. Under the EFCC act, whistle-blowers are protected. Nigeria has no secrecy laws that prevent the disclosure of client and ownership information by domestic financial services companies to bank regulatory and law enforcement authorities. The NFIU has access to records and databanks of all government and financial institutions, and it has entered into memorandums of understandings (MOUs) on information sharing with several other financial intelligence centers. The establishment of the NFIU is part of Nigeria's efforts toward removal from the NCCT list.

Nigeria criminalized the financing of terrorism under the Economic and Financial Crimes Commission (Establishment) Act of 2004. The EFCC has authority under the act to identify, freeze, seize, and forfeit terrorist finance-related assets. Statistics do not exist to show any shift in the number of financial crimes committed that are not related to laundering or terrorist financing. However, due to the recent creation of the EFCC, the enactment of new laws, and a successful public enlightenment campaign, crimes such as bank fraud and counterfeiting are being reported and prosecuted for the first time. In addition to the EFCC, the National Drug Law Enforcement Agency (NDLEA), the Independent Corrupt Practices Commission (ICPC), and the Criminal Investigation Department of the Nigeria Police Force (NPF/CID) are empowered to investigate financial crimes. The NDLEA is adequately staffed to meet the basic requirements of the mandate, but its performance has been uneven this year and there have been allegations of corruption. The NDLEA chairman was recently relieved of his duties after a five-year stint, and a new chairman was appointed to improve the agency's performance. The Nigerian Police Force is incapable of handling financial crimes because of corruption and poor institutional capacity. The EFCC is the agency most capable of effectively investigating and prosecuting financial crimes, including money laundering and terrorist financing. The EFCC coordinates all other agencies in financial crimes investigations.

In 2005, the EFCC marked significant successes in combating financial crime. Two fraudsters in a Brazilian bank scam involving a total of $242 million in assets were successfully prosecuted and convicted for terms of 25 and 12 years in prison, respectively. Their assets were seized, and they were ordered to give $110 million in restitution to the bank. Last in 2005, the EFCC returned $4.481 million to an elderly woman swindled by a Nigerian 419 kingpin in 1995. The kingpin was arrested, prosecuted, convicted, and is serving his prison sentence. A former inspector general of police was

arrested and prosecuted for financial crimes valued at over $13 million. His assets were seized and bank accounts frozen. He is currently serving a prison sentence of six months and still faces 92 charges of money laundering and official corruption. Two sitting state governors are currently the subject of money laundering investigations. The EFCC, working with the FBI, also has an active case involving a group of money brokers using banks in the United States to launder money. The money laundering legislation of 2004 has given the EFCC the authority to investigate and prosecute such cases. The EFCC also has the authority to prevent the use of charitable and non-profit entities as laundering vehicles, though no such case has yet been reported. There were 23 money-laundering convictions in 2005. The trial court process has improved after several experienced judges were assigned specifically to handle EFCC cases; this has motivated EFCC officials to bring more cases to court. During 2005, the EFCC seized money laundering-related assets worth $1billion, more than a 100 percent increase from 2004.

Depending on the nature of the case, the tracing, seizing, and freezing of assets may be done by the NDLEA, NPF, or the ICPC, in addition to the EFCC. The proceeds from seizures and forfeitures are remitted to the federal government, and a portion of the recovered sums is used to provide restitution to the victims of the criminal acts. The NDLEA handles all narcotics-related cases. While the NDLEA has adequate resources to trace, seize, and freeze assets, it made no significant asset seizures in 2005.

For cases that are investigated by the EFCC, the seizure of property is governed by the EFCC (Establishment) Act of 2004. Section 20 of the act provides for the forfeiture of assets and properties to the federal government after the accused has been convicted of money laundering, including foreign assets acquired as a result of such crime. The properties subject to forfeiture are set forth in Section 24. They include any real or personal property that represents the gross receipts a person obtains directly as a result of the violation of the act or which is traceable to such gross receipts. They also include any property that represents the proceeds of an offense under the laws of a foreign country within whose jurisdiction such offense or activity would be punishable for a term exceeding one year. Section 25 states that all means of conveyance, including aircraft, vehicles, or vessels that are used or intended to be used to transport or in any manner to facilitate the transportation, sale, receipt, possession or concealment of economic or financial crimes would be punishable. Section 26 provides for circumstances under which property subject to forfeiture may be seized. Under the NDLEA act, farms on which illicit crops are cultivated can be destroyed. The banking community is cooperating with law enforcement to trace funds and seize or freeze bank accounts. It should be noted, however, that forfeiture is currently possible only under the criminal law. There is no comparable law governing civil forfeiture, but a committee has been set up by the EFCC to draft such legislation.

Nigeria is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, and the UN International Convention for the Suppression of the Financing of Terrorism, and it has signed the UN Convention against Corruption. The United States and Nigeria have a Mutual Legal Assistance Treaty, which entered into force in January 2003. Nigeria has signed memoranda of understanding with Russia, Iran, India, Pakistan and Uganda to facilitate cooperation in the fight against narcotics trafficking and money laundering. Nigeria has also signed bilateral agreements for exchange of information on money laundering with South Africa, the United Kingdom, and all Commonwealth and Economic Community of West African States countries. Nigeria has been instrumental in the establishment of a permanent secretariat for the intergovernmental task force against money laundering in West Africa (GIABA). Nigeria has also ratified the African Union Convention on Preventing and Combating Corruption, which was adopted in Mozambique in July 2003.

The Government of Nigeria has done a better job preventing and pursuing money laundering both within and outside the country in 2005. It should continue to engage with the FATF to ensure that Nigeria's remaining anti-money laundering deficiencies are corrected. The Nigerian Government should continue to pursue their anticorruption program and support both the ICPC and EFCC in their

mandates to investigate and prosecute corrupt government officials and individuals, while at the same time maintaining the independence of those entities from the realm of politics. The supervision of banking and non-banking financial institutions should be strengthened and moved from the Ministry of Commerce. Nigeria should construct a comprehensive anti-money laundering regime that willingly shares information with foreign regulatory and law enforcement agencies, is capable of thwarting money laundering and terrorist financing, and conforms to all relevant international standards.

Pakistan

Financial crimes related to narcotics trafficking, terrorism, smuggling, tax evasion, and corruption remain a significant problem in Pakistan. Pakistani criminal networks play a central role in the transshipment of narcotics and smuggled goods from Afghanistan to international markets. Pakistan is a major drug-transit country. The proceeds of narcotics trafficking and funding for terrorist activities are often laundered by means of the alternative remittance system called hawala. This system is also widely used by the Pakistani people for legitimate purposes. Reportedly, a network of private unregulated charities has also emerged as a significant source of illicit funds for international terrorist networks.

Pakistan does not have a comprehensive anti-money laundering law. Its current anti-money laundering (AML) regime is weak, outdated and based on a loose patchwork of laws and regulations. The National Accountability Bureau (NAB), the Anti-Narcotics Force (ANF), the Federal Investigative Agency (FIA), and the Customs authorities oversee Pakistan's AML law enforcement efforts. These agencies have had some success in investigating and prosecuting corruption, drug trafficking, and terrorism. The major laws in these areas include: The Anti-Terrorism Act of 1997 which defines the crimes of terrorist finance and money laundering and establishes jurisdictions and punishments (amended in October 2004 to increase maximum punishments); The National Accountability Ordinance of 1999, which requires financial institutions to report suspicious transactions to the NAB and establishes accountability courts; and, The Control of Narcotic Substances Act of 1997, which also requires the reporting of suspicious transactions to the ANF, contains provisions for the freezing and seizing of assets associated with narcotics trafficking, and establishes special courts for offenses (including financing) involving illegal narcotics. All these laws include provisions to allow investigators to access financial records and conduct financial investigations.

Since 2002, Pakistan's Ministry of Finance has been coordinating an inter-ministerial effort to draft AML and counterterrorism financing legislation, with the goal of bringing Pakistan into compliance with international norms. As of December 2005, draft AML legislation was approved by the cabinet and has been transferred to the National Assembly. The draft law provides for the establishment of a Financial Intelligence Unit (FIU). However, the draft legislation does not comport with international standards in several key respects, including its definition of money laundering, which is not consistent with the1988 UN Drug Convention or the UN Convention on Transnational Organized Crime or the FATF recommendations; the forfeiture scheme, particularly where its application is dependent upon a prosecution for the predicate offense; and, the imposition of a threshold requirement for the filing of suspicious transactions reports.

The State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP) are the primary financial regulators. Notwithstanding the absence of stand-alone AML legislation, the SBP and SECP, have independently established AML units to enhance their oversight of the financial sector. The SBP has introduced regulations intended to be consistent with FATF recommendations in the areas of "know your customer" policy, record retention, due diligence of correspondent banks, and the reporting of suspicious transactions. The SECP, which has regulatory oversight for non-bank financial institutions, has applied "know your customer" regulations to stock exchanges, trusts, and other non-bank financial institutions. Pakistan's cooperation in the global war on terrorism has brought

renewed focus on the role of informal financial networks in financing terrorist activity. In June 2004, the SBP required all hawalas to register as authorized foreign exchange dealers and to meet minimum capital requirements. Failure to comply was punished by forced closures. However, despite increased enforcement efforts, unregistered hawalas continue to operate illegally. A large percentage of hawala transfers to Pakistan are for the repatriation of wages from the roughly five million Pakistani expatriates residing abroad. The U.S. Government has observed an increasing migration of transactions from the informal to the formal financial institutions sector, due to the GOP's increased regulation of the domestic hawala business, post-September 11 changes in the behavior patterns of overseas Pakistanis, and a substantial increase in credit available in the formal financial sector.

Smuggling, trade-based money laundering and physical cross-border cash transfers are prevalent methods used to launder money and finance terrorism in Pakistan. Pakistani criminal networks play a central role in the transshipment of narcotics and smuggled goods from Afghanistan to international markets. Goods such as foodstuffs, electronics, vegetable oils, and other products that are primarily exported from Dubai to Karachi are falsely documented as being forwarded to Afghanistan via the "Afghan transit trade". Through smuggling, corruption, avoidance of customs duties and taxes, as well as barter deals for narcotics, many of the goods destined for Afghanistan find their way into the burgeoning Pakistani black market. The trading in these goods and commodities is also believed to be used to provide counter valuation in hawala transactions. A nexus of private, unregulated charities has also emerged as a major source of illicit funds for international terrorist networks.

While a range of terrorist financing risks and vulnerabilities continue to exist, Pakistan has taken significant steps to combat organizations used for terrorist financing and a number of groups have been proscribed as terrorist organizations under the Anti Terrorism Act of 1997. As of December 20, 2005, Pakistan's Central Bank had frozen roughly $10.5 million belonging to 12 entities and individuals associated with Usama Bin Laden, Al Qaeda, or the Taliban, pursuant to UNSCR 1267.

Pakistan is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, either the UN Convention against Transnational Organized Crime or the UN Convention Against Corruption. As of December 2005, Pakistan had not signed the UN International Convention for the Suppression of the Financing of Terrorism. Pakistan is an active member of the Asia/Pacific Group on Money Laundering (APG). In 2005, the APG conducted a peer review (mutual evaluation) of Pakistan's AML/CTF laws, rules and procedures. The APG delegation identified a number of deficiencies and highlighted the need for a comprehensive AML law.

The Government of Pakistan should move quickly to enact an AML law that comports with international standards. It also should issue financial regulations to consolidate and de-conflict the reporting of all suspicious transactions, and establish an FIU consistent with international standards. In addition, in light of the role that private charities have played in terrorist financing, Pakistan should develop a system to regulate the finances of charitable organizations and to close those that finance terrorism. Pakistan also needs to exert greater efforts to track and suppress cash couriers and trade-based money laundering. Pakistan should become a party to the UN Convention against Transnational Organized Crime, the UN International Convention for the Suppression of Terrorist Financing, and the UN Convention Against Corruption.

Palau

Palau is an archipelago of more than 300 islands in the Western Pacific with a population of nearly 20,000 and per capita GDP of about $6,000. Upon its independence in 1994, the Republic of Palau entered the Compact of Free Association with the United States. The U.S. dollar is legal tender. Palau is not a major financial center. Nor does it offer offshore financial services. There are no offshore banks, trust companies, securities brokers/dealers or casinos in Palau. Palauan authorities believe that drug trafficking and prostitution are the primary sources of illegal proceeds that are laundered.

In January 2005, Palau prosecuted its first ever case under the Money Laundering and Proceeds of Crimes Act (MLPCA) of 2001 (MLPCA) against a foreign national engaged in a large prostitution operation. The defendant was convicted on all three counts as well as a variety of other counts.

Amid reports in late 1999 and early 2000 that offshore banks in Palau had carried out large-scale money laundering activities, a few international banks banned financial transactions with Palau. In response, Palau established a Banking Law Review Task Force that recommended financial control legislation to the Olbill Era Kelulau (OEK), the national bicameral legislature, in 2001. Following that, Palau took several steps toward addressing financial security through banking regulation and supervision and putting in place a legal framework for an anti-money laundering regime. Several pieces of legislation were enacted in June 2001.

The Money Laundering and Proceeds of Crimes Act (MLPCA) of 2001 criminalized money laundering and created a financial intelligence unit. This legislation imposes suspicious transactions reporting (for suspicious transactions over $10,000) and record keeping requirements for five years from the date of the transaction. Credit and financial institutions are required to keep regular reports of all transactions made in cash or bearer securities in excess of $10,000 or its equivalent in foreign cash or bearer securities. This threshold reporting also covers domestic or international transfers of funds of currency or securities involving a sum greater than $10,000. All such transactions (domestic and/or international) are required to go through a credit or financial institution licensed under the laws of the Republic of Palau.

The Financial Institutions Act of 2001 established the Financial Institutions Commission, an independent regulatory agency, which is responsible for licensing, supervising and regulating financial institutions, defined as banks and security brokers and dealers in Palau. The insurance industry is not currently regulated by the FIC and insurance companies in Palau are primarily agents for companies registered in the U.S. or out of the U.S. Territory of Guam. Currently, there are seven fully licensed banks in Palau and one with a conditional license. Seven of the banks are majority foreign owned, and one is wholly Palauan owned. Three other banks had their licenses invalidated in 2002 and a license of another bank was revoked in 2003. One bank had its license revoked in early 2005 and one bank that is operating on a conditional license has met the conditions for reopening and is now functioning under the supervision of the FIC under a Consent Order. The FIC, Senate and private banks recently met and agreed on revisions to the FIA that are intended to strengthen the supervisory powers of the FIC and promote greater financial stability within Palau's bank market. There has been no indication when these amendments will be heard by the full Senate.

Other entities subject to the provisions of the MLPCA, such as the seven money services businesses, two finance companies and five insurance companies, are essentially unsupervised. Once the amendments to the MLPCA are passed, all alternative money remittance systems will be licensed and regulated by the FIC. The amendments to the MLPCA are have been pending since January 2004 and have no advanced past first reading in the Senate. Credit and financial institutions are required to verify customers' identity and address. In addition, these institutions are required to check for information by "any legal and reasonable means" to obtain the true identity of the principal/party upon whose behalf the customer is acting. If identification cannot, in fact, be obtained, all transactions must cease immediately.

The lack of both and human and fiscal resources has hampered the development of a viable anti-money laundering regime in Palau. The Republic has only recently established a functioning Financial Intelligence Unit (FIU), though its operations are severely restricted by a lack of dedicated human and no dedicated budget. The implementing regulations to ensure compliance with the MLPCA have yet to be written but the authorities have stated that they will be drafted once the revisions to the MLPCA have been passed. The will of the Executive branch to comply with international standards, however, was clearly demonstrated by President Remengesau in 2003, when he vetoed a bill that would have

extended the deadline for bank compliance and would have reduced the minimum capital for a bank from $500,000 to $250,000. Additionally, the President established the Anti-Money Laundering Working Group that is comprised of the Office of the President, the FIC, the Office of the Attorney General, Customs, the FIU, Immigration and the Bureau of Public Safety.

Palau has enacted several legislative mechanisms to foster international cooperation. The Mutual Assistance in Criminal Matters Act (MACA), passed in June 2001, enables authorities to cooperate with other jurisdictions in criminal enforcement actions related to money laundering and to share in seized assets. The Foreign Evidence Act of 2001 provides for the admissibility in civil and criminal proceedings of certain types of evidence obtained from a foreign State pursuant to a request by the Attorney General under the MACA. Under the Compact of Free Association with the United States, a full range of law enforcement cooperation is authorized and in 2004 Palau was able to assist the Department of Justice in a money laundering investigation by securing evidence critical to the case and freezing the suspected funds. Palau has also entered into an MOU with the Taiwan, R.O.C. and the Philippines for mutual sharing of information and inter-agency cooperation in relation to financial crimes and money laundering.

Pursuant to the adoption of the Asia/Pacific Group's (APG) mutual evaluation of Palau at its September 2003 Plenary, the Government of Palau (GOP) has proposed amendments to the MLPCA that, if enacted, would strengthen Palau's anti-money laundering regime. Among the more significant proposals are the following: the promulgation of reporting regulations for all covered financial institutions as well as alternative remittance providers; the requirement to obtain the identification of the beneficial owner of any type of account; mandatory reporting of suspicious transaction reports to the FIU regardless of the amount of the transaction; the requirement that any currency transaction over $5000 be done by wire transfer; the requirement that alternative remittance systems providers report any cash remittance over $500; and, a burden shifting regime for the seizure and forfeiture of assets upon a conviction for money laundering.

The President has also recently proposed the Cash Courier Act of 2004 that was drafted by the Palau Anti-Money Laundering Working Group. To date the CCA has not advanced past first reading in the Senate.

The Omnibus Terrorism Act is currently pending in the OEK since September 2002. If enacted with changes proposed by the President of the Republic, the Act would comport with current international standards, including provisions for the freezing of assets of entities and persons designated by the United Nations as terrorists or terrorist organizations, provisions for the regulation of non-profit entities to prevent abuses by criminal organizations and terrorists and provisions for criminalizing the financing of terrorism. The OEK has issued resolutions ratifying Palau's accession to all the United Nation's Conventions and Protocols relating to terrorism.

The Government of Palau has taken several steps toward enacting a legal framework by which to combat money laundering. It has signed Pacific Island Forum anti-money laundering initiatives and as a member of the Asia/Pacific Group on Money Laundering, Palau is committed to implement the Financial Action Task Force Revised Forty Recommendations and its Nine Special Recommendations on Terrorist Financing. As a party to the UN Convention for the Suppression of the Financing of Terrorism, Palau should criminalize the financing of terrorism. In continuing it efforts to comport with international standards, Palau should enact legislation and promulgate implementing regulations to the MLPCA, as recommended by the APG, including but not limited to establishing funding for the FIU, eliminating the threshold for reporting suspicious transactions and beginning a broad-based implementation of the legal reforms already put in place.

Panama

Panama is a major drug-transit country, and particularly vulnerable to money laundering because of its proximity to major drug-producing countries, its sophisticated international banking sector, its U.S. dollar-based economy, and the Colon Free Zone (CFZs). Some goods originating in or transshipped through the CFZ are purchased with narcotics proceeds (mainly via dollars obtained in the United States) through the Colombian Black Market Peso Exchange. Despite significant progress to strengthen Panama's anti-money laundering regime, Panama must remain vigilant to the threat that money laundering continues to pose to the stability of the country's legitimate financial institutions. The economy of Panama is 80 percent service-based, 14 percent industry and 6 percent agriculture. The service sector is comprised mainly of maritime transportation, commerce, tourism, banking, and financial services.

After Hong Kong and the British Virgin Islands, Panama has the highest number of offshore-registered companies, approximately 350,000. Panama's large offshore financial sector includes international business companies, 34 offshore banks, captive insurance companies (corporate entities created and controlled by a parent company, professional association, or group of businesses), and fiduciary companies. Transfer of negotiable (bearer) bonds is another potential vulnerability that could be exploited by money launderers. The high volume of trade occurring through the CFZ (there are approximately 2,600 businesses established in the Zone) presents opportunities for trade-based money laundering.

Law No. 41 (Article 389) of October 2, 2000, amends the Penal Code by expanding the predicate offenses for money laundering beyond narcotics trafficking, to include criminal fraud, arms trafficking, trafficking in humans, kidnapping, extortion, embezzlement, corruption of public officials, terrorism, international theft, and trafficking of motor vehicles. Law No. 41 establishes a punishment of 5 to 12 years imprisonment and a fine. Law No. 42 of October 2, 2000, requires financial institutions (banks, trust companies, money exchangers, credit unions, savings and loans associations, stock exchanges and brokerage firms, and investment administrators) to report to the Unidad de Análisis Financiero (UAF), Panama's Financial Intelligence Unit (FIU), currency transactions in excess of $10,000 and suspicious financial transactions. Law 42 also mandates that casinos, CFZ businesses, the national lottery, real estate agencies and developers, and insurance/reinsurance companies report to the UAF currency or quasi-currency transactions that exceed $10,000. Furthermore, Law 42 requires Panamanian trust companies to identify to the Superintendence of Banks the real and ultimate beneficial owners of trusts.

In June 2003, the Panamanian Legislative Assembly approved the Financial Crimes Bill (Law No. 45 of June 4, 2003), which establishes criminal penalties of up to ten years in prison and fines of up to one million dollars for financial crimes that undermine public trust in the banking system, the financial services sector, or the stock market. The legislation criminalized a wide range of activities related to financial intermediation, including the following: illicit transfers of monies, accounting fraud, insider training, and the submission of fraudulent data to supervisory authorities. Law No. 1 of January 5, 2004, adds crimes against intellectual property as a predicate offense for money laundering.

Also in June 2003, the Panamanian Legislative Assembly approved Law No. 48 that regulates money remitters. On May 25, 2005, the Panamanian Legislative Assembly approved Law No. 16 that regulates activities of pawnshops and establishes the obligation to report suspicious transactions in these businesses to the UAF.

Executive Order 213 of October 3, 2000, amending Executive Order 16 of 1984 relating to trust operations, provides for the dissemination of information related to trusts to appropriate administrative and judicial authorities. Furthermore, in October 2000, Panama's Superintendence of Banks issued Agreement No. 9 of 2000 that defines requirements that banks must follow for identification of customers, exercise of due diligence, and retention of transaction records and increased the number of

finance company inspections. In 2005, the Superintendence of Banks modified that Agreement, in order to include fiduciary companies within the prevention measures and to bring the Banking Center into line with international standards to be in compliance with Financial Action Task Force (FATF) recommendations.

The Ministry of Commerce and Industries, by means of the Resolutions No. 327 and 328 of August 9, 2004, sought to prevent operations of promotional companies, real estate agents, and money remittance houses being used to commit the crime of money laundering and the financing of terrorism. As a result, these companies are now compelled to identify their clients, declare cash transactions over $10,000, and report suspicious transactions to the UAF.

The Autonomous Panamanian Cooperative Institute established a specialized unit for the supervision of loans and credit cooperatives regarding compliance with the requirements of Law 42. In 2004, the Stock Commission announced that it would begin investigating suspicious activity. During 2005, the National Securities Commission carried out numerous training sessions and workshops for its personnel and regulated entities on money laundering. The CFZ Administration prepared and issued a procedures manual for the users of the CFZ, outlining their responsibilities regarding prevention of money laundering and requirements under Law 42. The UAF continues efforts to raise the level of compliance for reporting suspicious financial transactions, particularly by non-bank financial institutions and businesses in the CFZ.

With support from the Inter-American Development Bank (IDB), the Government of Panama (GOP) is implementing a "Program for the Improvement of the Transparency and Integrity of the Financial System." The Program is targeted, through enhanced communication and information flow, training programs, and technology, at strengthening the capabilities of government institutions responsible for preventing and combating financial crimes and terrorist financed activities. Overall, 1500 employees from 14 institutions have benefited from this training, including representatives of the private sector, stock markets, credit unions, bank compliance officials etc. In addition, with the help of this program, Panama has launched an educational campaign to prevent money laundering and terrorist financing. The program began in 2002 and is intended to raise citizens' awareness of these crimes. In 2004, this program included a training course for the Gaming Control Board and a Hemispheric Congress on Prevention of Money Laundering.

In 2005, a pilot program was developed for money laundering prevention training that was financed by the IDB and executed by the Caribbean Financial Action Task Force (CFATF). Over 5,000 public and private sector employees were trained through this program. Participants included representatives from banks, credit unions, real estate agencies, stockbrokers, insurance companies, CFZ trading companies, financial institutions, and money order companies. The U.S. Government also provided anti-money laundering training in 2005, through the Departments of Justice and Homeland Security.

By means of Law No. 22 of 9 of May of 2002, the GOP adopted the UN International Convention for the Suppression of the Financing of Terrorism. In 2002 the Institute of Autonomous Panamanian Cooperatives, UAF, and the U.S. Embassy Narcotics Assistance Section cosponsored a roundtable on money laundering that offered practical training to financial institutions to assist in meeting the reporting requirements under Law No. 42.

To increase GOP interagency coordination, the UAF and Panamanian Customs are developing an office at the Tocumen International Airport to expedite the entry of customs currency declaration information into the UAF's database. This will enable the UAF to begin more timely investigations. Panamanian Customs continued a program at Tocumen International Airport to deter currency smuggling by seizing and forfeiting all undeclared funds in excess of $10,000 from arriving passengers. Bulk cash shipments, including through Tocumen Airport, continue to be of great concern, with smugglers often under-declaring the amount of cash being brought into the country.

Executive Order No. 163 of October 3, 2000, which amends the June 1995 decree that created the UAF, also allows the UAF to provide information related to possible money laundering directly to the Office of the Attorney General for investigation. The UAF routinely transfers cases to the financial investigations unit (Unidad de Investigaciones Financiera—UIF) for investigation. During 2004 the Financial Fraud Prosecutor's office investigated 2,459 cases related to financial crimes, 86 of which led to a conviction. These included credit card fraud and fraud involving banking institutions. Since money laundering was criminalized in 2000, there have been, to May 2005, ten investigations of money laundering and one conviction. Seven of those cases were tried to a conclusion, one case remains active, and two cases were dismissed. The average prosecution time for money laundering cases is 18.9 months.

GOP cooperation in the investigation of the Western Hemisphere's largest Black Market Peso Exchange money laundering scheme was instrumental in the U.S. conviction in 2002 of Yardena Hebroni, owner of Speed Joyeros, a CFZ enterprise. The GOP also revoked the Panamanian residency of Hebroni, an Israeli national, after she was ordered deported from the United States. In an investigation that was initiated in 2004, the GOP received cooperation from the Government of Nicaragua in a money laundering case against former Nicaraguan President Arnoldo Aleman. In 2005, the Panamanian Judicial System formally indicted Aleman for money laundering and he awaits a preliminary hearing to determine whether the case should go to trial. Also during 2004-2005, there were investigations into possible money laundering and corruption by high-level Costa Rican and Peruvian government officials.

During November 2005, Panamanian authorities initiated their takedown of Operation Nino, which resulted in the arrest of 12 defendants and the seizure of over $1 million as well as a cache of small arms. This case was initiated in late 2004, when Mexican and Colombian-based narcotics traffickers solicited a Panamanian customs inspector to facilitate the smuggling of bulk currency into Panama. The case was significant because over $13 million was smuggled into Panama in an eight-month period. The investigation involved multiple agencies, used Panamanian undercover authority, and targeted bulk currency.

The GOP identified the combating of money laundering as one of five goals in its five-year National Drug Control Strategy issued in 2002. The Strategy commits the GOP to devoting $2.3 million to anti-money laundering projects, the largest being institutional development of the UAF. The UAF currently maintains inter-institutional cooperation agreements with the Attorney General's Office and the Superintendence of Banks, and have signed a cooperation agreement with the Public Registry of Panama.

Decree No. 22 of June 2003, gave the Presidential High Level Commission against Narcotics Related Money Laundering responsibility for combating terrorist financing. Law No. 50 of July 2003 criminalizes terrorist financing and gives the UAF responsibility for prevention of this crime. The Panama Public Force (PPF) and the judicial system have limited resources to deter terrorists, due to insufficient personnel and lack of expertise in handling complex international investigations. On January 18, 2003, the GOP entered into a border security cooperation agreement with Colombia, and also increased funds to the PPF to help secure the frontier. In response to United States efforts to identify and block terrorist-related funds, the GOP continues to monitor suspicious financial transactions.

The GOP also created the Department of Analysis and Study of Terrorist Activities. This department is tasked with working with the United Nations and the Organization of American States to investigate transnational issues, including money laundering. Panama has an implementation plan for compliance with the FATF Forty Recommendations on Money Laundering and its nine Special Recommendations on Terrorist Financing.

Panama and the United States have a Mutual Legal Assistance Treaty that entered into force in 1995. The GOP has also assisted numerous countries needing help in strengthening their anti-money laundering programs, including Guatemala, Costa Rica, Russia, Honduras, and Nicaragua. Panama also hosted the Seventh Hemispheric Congress on the Prevention of Money Laundering in August 2003. Executive Decree No. 163 authorizes the UAF to share information with FIUs of other countries, subject to entering into a memorandum of understanding or other information exchange agreement. The UAF has signed more than 27 memoranda of understanding with FIUs, including the Financial Crimes Enforcement Network (FinCEN), the U.S. FIU.

Panama is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD), and is the current Chair of the Caribbean Financial Action Task Force. Panama is also a member of the Offshore Group of Banking Supervisors, and the UAF is a member of the Egmont Group. Panama is a party to the 1988 UN Drug Convention. Panama is a signatory to 11 of the UN terrorism conventions and protocols. During 2002, the GOP became a party to the UN International Convention for the Suppression of the Financing of Terrorism, and in 2004, of the UN Convention against Transnational Organized Crime.

In May 2005, the International Monetary Fund (IMF) conducted an assessment of Panama's Anti-Money Laundering and Counter-Financing of Terrorism (AML/CFT) regime.

The Government of Panama should continue its regional assistance efforts. It should also continue implementing the reforms it has undertaken to its anti-money laundering regime in order to reduce the vulnerability of Panama's financial sector and to enhance Panama's ability to investigate and prosecute financial crimes, including money laundering and potential terrorist financing.

Paraguay

Paraguay is a principal money laundering center, involving both the banking and non-banking financial sectors. The multi-billion dollar contraband re-export trade that occurs largely on the border shared with Argentina and Brazil (the Triborder Area) facilitates much of the money laundering in Paraguay. Paraguay is a major drug-transit country. The Government of Paraguay (GOP) suspects that proceeds from narcotics trafficking are often laundered, but it is difficult to determine the percentage of the total amount of laundered funds generated from narcotics sales. Weak controls in the financial sector, an open border, and minimal enforcement activity for financial crimes allow money launderers and terrorist financiers to take advantage of Paraguay's financial system. Although the Government of Paraguay (GOP) has made some progress in 2005, it will need to pursue more aggressive policies in 2006 in order to increase its effectiveness in combating money laundering and terrorist financing.

Paraguay is particularly vulnerable to money laundering, as little personal background information is required to open a bank account or to make financial transactions in Paraguay. Paraguay is an attractive financial center for neighboring countries, particularly Brazil. Foreign banks are registered in Paraguay and nonresidents are allowed to hold bank accounts, but current regulations forbid banks from advertising or seeking deposits from outside the country. Paraguay is not considered to be an offshore financial center, but the GOP does allow representative offices of offshore banks to maintain a presence in the country. Shell companies are not permitted; trusts, however, are permitted and are regulated by the Central Bank. The Superintendent of Banks audits financial institutions and supervises all banks under the same rules and regulations. However, there are few effective controls over businesses, and a large informal economy exists outside the regulatory scope of the GOP.

Money laundering in Paraguay is facilitated by the multi-billion dollar contraband re-export trade that occurs largely in the Triborder Area shared by Paraguay, Argentina, and Brazil. Ciudad del Este (CDE), on the border between Brazil and Paraguay, represents the heart of Paraguay's informal economy. The area is well known for arms and narcotics trafficking, as well as crimes against

intellectual property rights. A wide variety of counterfeit goods, including cigarettes, CDs, DVDs, and computer software, are imported from Asia and transported primarily across the border into Brazil, with a significantly smaller amount remaining in Paraguay for sale in the local economy. Some senior government officials, including members of Congress, have been accused of involvement in the smuggling of contraband or pirated goods. To date, there have been few criminal investigations, much less prosecutions of senior GOP officials' involvement in smuggling contraband or pirated goods. Government officials, in both Paraguay and the United States, also suspect the area to be a source of terrorist financing. Raids in CDE have led to the seizure of extremist Islamic materials and receipts of wire transfers from Paraguay to the Middle East and the United States. Paraguay has taken some measures to tackle this "gray" economy and to develop strategies to implement a formal, diversified economy.

A new law to improve the effectiveness of Paraguay's anti-money laundering regime was drafted in late 2003 and was formally introduced to Congress in May 2004. The new money laundering legislation, if approved, will institute important reforms. In addition to confirming the UAF's role as the sole FIU, it establishes SEPRELAD as an independent secretariat or agency reporting directly to the Office of the President. The draft law also establishes money laundering as an autonomous crime punishable by a prison term of five to 20 years. It establishes predicate offenses as any crimes that are punishable by a prison term exceeding six months, and specifically criminalizes money laundering tied to the financing of terrorist groups or acts. The full range of covered institutions will be required to report suspicious transactions to the UAF and to maintain registries of large currency transactions that equal or exceed $10,000.

Other provisions of the draft law include penalties for failure to file or falsification of reports, "know your client provisions," and standardized record keeping for a minimum of seven years. The UAF will continue to refer cases as appropriate for further police (SENAD) investigation and to the Attorney General's Office for prosecution. It will also serve as the central entity for related information exchanges with other concerned foreign entities. The law further specifies that the financial crimes investigative unit of SENAD is the principal authority for carrying out all counternarcotics and other financial investigations, including money laundering, and will also have the authority to initiate investigation of cases on its own.

There are other challenges, however, that the new money laundering legislation, when passed, will not address. With only eight positions available for prosecutors dedicated to financial crimes, of which only six are filled, Paraguay currently has limited resources to investigate and prosecute money laundering and financial crimes. New criteria were issued in 2005 for the selection of judges, prosecutors and public defenders; however, the process remains one that is largely based on politics, nepotism and influence peddling, affording the ruling party an opportunity to manipulate the justice system to its advantage.

Moreover, unless the new law is enacted, most judges have little incentive to investigate money laundering cases because many believe that sentencing on predicate offenses is sufficient punishment. Thus, there have not been any successful money laundering prosecutions in Paraguay so far, and improvement is unlikely until the new law becomes a reality. As it is, those individuals implicated in money laundering are typically prosecuted on tax evasion charges. For example, in May 2004, Assad Barakat—widely alleged to be involved in money laundering—was convicted of tax evasion and sentenced to six and one-half years in prison. In late 2004, prosecutors began investigating several tax evasion cases involving suspected money laundering by both authorized and unauthorized money exchange offices in Ciudad del Este. A preliminary hearing is scheduled in December 2005 for Kassem Hijazi, who is suspected of having laundered proceeds from illicit activities in the Triborder Area and sending a portion of those funds to support Lebanese Hizbollah activities.

In 2005, in cooperation with the U.S. Department of Homeland Security's Office of Immigration and Customs Enforcement (ICE), Paraguay began the process of developing a prototype Trade Transparency Unit (TTU) that will examine discrepancies in trade data that could be indicative of customs fraud or trade-based money laundering. The development of such a unit constitutes a positive step with respect to Special Recommendation VI of the Financial Action Task Force (FATF) on the use of alternative remittance systems. Trade-based systems such as hawala and black market exchanges often use fraudulent trade documents and over and under-invoicing schemes to provide countervaluation in transferring value and settling accounts.

In 2003, the GOP noted that it was trying to introduce "maquilas" (assembly line industries). In 2005, the maquilas sector experienced rapid growth with 23 maquilas currently in operation. The largest maquila, a synthetic rubber factory, is Brazilian-owned and located just outside of Ciudad del Este. The company has invested $18 million in the project, one of the largest foreign investments in the Paraguayan economy. The GOP is trying to strengthen its tourism industry by proposing advances to its tourism infrastructure such as the international airport in Asuncion, making it a regional transportation hub for cargo and possibly passenger airlines. The new customs code implemented in early 2004 provides for the creation of formal free trade zones. One zone currently exists in Ciudad del Este and another is planned for the town of Villeta, near Asuncion. Paraguay's customs agency is responsible for monitoring these zones; however, there is little oversight. As a result, the addition of free trade zones may provide additional venues for money laundering.

There are no effective controls on the amount of currency that can be brought into or out of Paraguay. Cross-border reporting requirements are limited to those issued by airlines at the time of entry into Paraguay. Persons transporting $10,000 into or out of Paraguay are required to file a customs report, but these reports are often not actually collected or checked. Customs operations at the airports or land ports of entry provide no control of the cross-border movement of cash. The non-bank financial sector, particularly exchange houses, is used to move illegal proceeds both from within and outside of Paraguay into the formal banking system of the United States. Most of these funds move from Brazil through Ciudad del Este to the banking sector. Paraguay exercises a dual monetary system in which most high-priced goods are paid for in U.S. dollars. Large sums of dollars generated from normal commercial activity and suspected illicit commercial activity are transported physically from Paraguay through Uruguay to banking centers in the United States. Within the past year, the GOP has begun to recognize and address the problem of the international transportation of currency and monetary instruments derived from illegal sources.

Bank fraud, which has led to several bank failures, and other financial crimes related to corruption, are serious problems in Paraguay. Following bank failures in 2002 and 2003, Paraguay continues to experience problems in the banking industry. In 2004, Citibank decided to end its participation in small-consumer banking in Paraguay, and subsequently closed almost all of its branches nationwide. The GOP continues to work with the U.S. Treasury and Justice Departments to trace, account for, and return the missing $16 million diverted from the Central Bank in 2002 to private accounts allegedly linked to the family of former President Luis Gonzalez Macchi.

Money laundering is a criminal offense under Paraguay's two anti-money laundering statutes, Law 1015 of 1996 and Article 196 of Paraguay's Criminal Code, adopted in 1997. The existence of the two laws has led to substantial confusion due to overlapping provisions. Under Article 196, the scope of predicate offenses includes only offenses that carry a maximum penalty of five years or more; Law 1015 includes additional offenses. Article 196 also establishes a maximum penalty of five years for money laundering offenses, while Law 1015 carries a prison term of two to ten years. This is particularly significant because, under the new Criminal Code and Criminal Procedure Code, defendants who accept charges that carry a maximum penalty of five years or less are automatically entitled to a suspended sentence and a fine instead of jail time, at least for the first offense. Since a defendant cannot be charged with money laundering unless he or she has first been convicted of the

predicate offense, many judges are apparently reluctant to prosecute any defendant on money laundering charges because a sentence has already been issued for a predicate offense.

Law 1015 of 1996 also contains "due diligence" and "banker negligence" provisions and applies money laundering controls to non-banking financial institutions, such as exchange houses. Bank secrecy laws do not prevent banks and financial institutions from disclosing information to bank supervisors and law enforcement entities. Under Paraguay's Commercial Law 1023 and Law 1015, banks are required to maintain account records for five years, but there is little government enforcement of this regulation. However, bankers and others are protected under the anti-money laundering law with respect to their cooperation with law enforcement agencies. Additional provisions of Law 1015 require banks and financial institutions to know and record the identity of customers engaging in significant currency transactions and to report those, as well as suspicious activities, to Paraguay's financial intelligence unit (FIU), the Unidad de Análisis Financiera (UAF).

The UAF began operating in 1997 within the Secretary for the Prevention of Money Laundering (SEPRELAD), under the auspices of the Ministry of Industry and Commerce (MIC). In recent years, the GOP has made significant efforts to strengthen SEPRELAD, which for years had suffered from a burdensome bureaucratic structure, lack of financial support, and the inability to keep trained personnel. As a result, cooperation between SEPRELAD and other government agencies on anti-money laundering issues has improved significantly over the last two years. Initially reluctant to seek SEPRELAD's assistance due to past weaknesses, most government entities are increasingly prepared to work with SEPRELAD. Reporting from obligated entities has also increased, with the UAF receiving over 1,000 suspicious activity reports in 2005. In 2004, SEPRELAD helped to create and coordinate an interagency money laundering working group, whose members include the director of the UAF, the director of the Financial Crimes Investigation Unit of the National Anti-Drug Secretariat (SENAD), the Assistant Attorney General for Economic Crimes, the Superintendent of Banks, the Vice Minister for Tax Administration of the Ministry of Finance, the director of Customs, and a criminal appellate judge. SEPRELAD has signed several agreements with other government entities to strengthen interagency cooperation, including memoranda of understanding with the Public Ministry and the Superintendence of Banks.

The UAF and the Superintendence of Banks have also improved cooperation between their two entities, which had been strained by the creation of a second FIU in the Superintendence in 2001. In 2003, the "Risk Control Division" was created to replace the Superintendent of Banks' FIU and eliminate its duplicative function with the UAF. The Risk Control Division has the primary responsibility of reviewing the records of national financial institutions for suspected terrorist activity and is empowered to coordinate information exchange with the Central Banks of other MERCOSUR countries. According to SEPRELAD officials, cooperation between the UAF and the Risk Control Division improved significantly in 2005. The two groups signed a memorandum of understanding (MOU) in October 2005, laying out the provisions for increased cooperation. The MOU includes provisions for SEPRELAD to issue regulations for the banking industry, including the designations of a compliance officer and utilizing due diligence and "know your customer" policies. The UAF has since issued these regulations in Resolution 233 of October 11, 2005.

The UAF is seeking to strengthen its relationship with other financial intelligence units and has signed agreements for information exchange with regional financial intelligence units. In March 2005, the UAF and the U.S. financial intelligence unit, the Financial Crimes Enforcement Network (FinCEN), signed an MOU to resume information exchange following a four-year suspension. The sharing of financial information between the two units had been suspended by FinCEN in May 2001 following an unauthorized disclosure of FinCEN information by the GOP. Information exchange was resumed following an evaluation of the progress made by the UAF and the strengthening of internal procedures for disseminating financial information. The UAF also increased its role in regional and international anti-money laundering groups, including the Egmont Group and the Financial Action Task Force for

South America (GAFISUD). The UAF's director participates in the GAFISUD FIU Working Group and a committee within the Egmont Group, further expanding Paraguay's role in these organizations. GAFISUD conducted its second mutual evaluation of Paraguay in September 2005. The results of this evaluation, which have not yet been made public, were presented at the GAFISUD plenary meetings in December.

Under current laws, the GOP has limited authority to freeze, seize, or forfeit assets of suspected money launderers. In most cases, assets that the GOP is permitted to freeze, seize, or forfeit are limited to transport vehicles, such as planes and cars, and normally do not include bank accounts. However, authorities may not auction off these assets until a conviction is announced by the judicial system. At best, the GOP can establish a "preventative embargo" against assets of persons under investigation for a crime in which the state risks loss of revenue from furtherance of a criminal act, such as tax evasion. However, in those cases the limit of the embargo is set as the amount of liability of the suspect to the government. The new anti-money laundering legislation will, when passed, allow prosecutors to recommend that judges freeze or confiscate assets connected to money laundering and its predicate offenses. The draft law also provides for the creation of a special asset forfeiture fund to be administered by a consortium of national governmental agencies, which will support programs for crime prevention and suppression, including combating money laundering, and related training.

The GOP currently has no authority to freeze, seize, or forfeit assets related to the financing of terrorism. The financing of terrorism is not criminalized under current Paraguayan law. However, the Ministry of Foreign Affairs often provides the Central Bank and other government entities with the names of suspected terrorists and terrorist organizations on the UNSCR 1267 Sanctions Committee consolidated list. Through 2005, the GOP has not identified, seized, or forfeited any such assets linked to these groups or individuals. The current law also does not provide any measures for thwarting the misuse of charitable or non-profit entities that can be used as conduits for the financing of terrorism. Following the submission of the draft anti-money laundering law to Congress in May 2004, a working group began drafting legislation to address terrorism and terrorist financing. The draft legislation will allow the GOP to conform to international standards on the suppression of terrorist financing. The draft anti-money laundering legislation will also specifically criminalize money laundering tied to the financing of terrorist groups or acts.

The GOP ratified the UN International Convention for the Suppression of the Financing of Terrorism in November 2004 and the Inter-American Convention on Terrorism in January 2005. In June 2005, Paraguay ratified the UN Convention against Corruption. Paraguay is also a party to the UN Convention against Transnational Organized Crime, which it ratified in September 2004, as well as the 1988 UN Drug Convention. The GOP participates in Summit of the Americas and Inter-American Drug Abuse Control Commission (CICAD)-related meetings on money laundering, and is a member of the South American Financial Action Task Force (GAFISUD), the Egmont Group, and the "3 Plus 1" Security Group between the United States and the Triborder Area countries.

While the Government of Paraguay took a number of positive steps in 2005, there are other initiatives that should be pursued to increase the effectiveness of Paraguay's efforts to combat money laundering and terrorist financing. Most important is enactment of the new money laundering law intended to meet international standards. Uneven political support for the new money laundering law has hindered its passage in Congress. Paraguay also needs to continue its efforts to combat corruption and increase information sharing among concerned agencies when and if the corruption issues are resolved. Paraguay does not have a counterterrorism law or a law criminalizing terrorist financing; while the new money laundering law would increase the GOP's abilities to combat terrorist financing, it should also take steps as quickly as possible to ensure that comprehensive counterterrorism legislation is passed. Reforms to the criminal procedure code that would allow prosecutors to carry out long-term criminal investigations should be considered. Further reforms in the selection of judges, prosecutors and public defenders are needed. Reforms to the customs agency are also necessary in order to allow

for increased inspections and interdictions at ports of entry and to develop strategies targeting the physical movement of bulk cash. It is essential that the Unidad de Análisis Financiera (UAF) continue to receive the financial and human resources necessary to operate as an effective, fully functioning financial intelligence unit capable of effectively combating money laundering, terrorist financing, and other financial crimes.

Peru

Peru is not a major regional financial center, nor is it an offshore money laundering haven. Peru is a major drug producing and drug-transit country. Narcotics-related and other money laundering does occur, and the Government of Peru (GOP) has taken several steps to improve its money laundering legislation and enforcement abilities. Nevertheless, more reliable and adequate mechanisms are necessary to better assess the scale and methodology of money laundering in Peru. Peru is the world's second largest producer of cocaine, and, although no reliable figures exist regarding the exact size of the narcotics market in Peru, conservative estimates indicate that the cocaine trade generates between 1.5 to two billion dollars per year. As a result, money laundering is believed to occur on a significant scale in order to integrate these illegal proceeds into the Peruvian economy.

Money laundering has historically been facilitated by a number of factors, primarily Peru's cash-based economy. Peru's economy is heavily dependent upon the U.S. dollar, and approximately 65 percent of the economy is dollarized, allowing traffickers to handle large bulk shipments of U.S. currency with minimal complications. Currently no restrictions exist on the amount of foreign currency an individual can exchange or hold in a personal account, and until recently, there were no controls on bulk cash shipments coming into Peru.

Corruption remains an issue of serious concern in Peru. It is estimated that 15 percent of the public budget is lost due to corruption. A number of former government officials, most from the Fujimori administration, are under investigation for corruption-related crimes, including money laundering. These officials have been accused of transferring tens of millions of dollars in proceeds from illicit activities (e.g., bribes, kickbacks, or protection money) into offshore accounts in the Cayman Islands, the United States, and/or Switzerland. The Peruvian Attorney General, a Special Prosecutor, the office of the Superintendent of Banks (SBS) and the Peruvian Congress have conducted numerous investigations, some of which are ongoing, involving dozens of former GOP officials. In 2004, the GOP continued to make strong efforts at uncovering and recovering the millions of U.S. dollars believed to be the proceeds of money laundering activities carried out by Vladimiro Montesinos, former director of the Peruvian National Intelligence Service. However, anti-money laundering legislation was very limited prior to 2002. Therefore, obtaining money laundering convictions for crimes committed prior to 2002 will be challenging.

In 2005, the GOP obtained its first two convictions against money laundering. One case was related to public corruption, the other involved the laundering of drug proceeds. There are three cases currently being prosecuted in the Peruvian court system.

Beginning in June 2002, Peru has adopted substantial changes to its existing anti-money laundering regime, significantly broadening the definition of money laundering beyond a crime associated with narcotics trafficking. Prior to the changes, money laundering was only a crime when directly linked to narcotics trafficking and "narcoterrorism," It also included nine predicate offenses that did not include corruption, bribery or fraud. Under Law 27.765 of 2002, predicate offenses for money laundering were expanded to include the laundering of assets related to all serious crimes, such as narcotics trafficking, terrorism, corruption, trafficking of persons, and kidnapping. However, there remains confusion on the part of some GOP officials and attorneys as to whether money laundering must still be linked to the earlier list of predicate offenses. The law's brevity and lack of implementing regulations are also likely to limit its effectiveness in obtaining convictions. However, reportedly, money laundering is an

autonomous offense. There does not have to be a conviction relating to the predicate offense. Rather it must only be established that the predicate offense occurred and that the proceeds of crime from that offense were laundered.

The penalties for money laundering were also revised in 2002. Instead of a life sentence for the crime of laundering money, Law 27.765 sets prison terms of up to 15 years for convicted launderers, with a minimum sentence of 25 years for cases linked to narcotics trafficking, terrorism, and laundering through banks or financial institutions. In addition, revisions to the Penal Code criminalize "willful blindness," the failure to report money laundering conducted through one's financial institution when one has knowledge of the money's illegal source, and imposes a three to six year sentence for failure to file suspicious transaction reports.

Law 27.693 of 2002 provided for the creation of Peru's financial intelligence unit, the Unidad de Inteligencia Financiera (UIF). Reportedly, recent changes have the UIF under the Ministry of Justice. The UIF began operations in June 2003 and today has 52 personnel. As Peru's financial intelligence unit, the UIF is the government entity responsible for receiving, analyzing and disseminating suspicious transaction reports (STRs) filed by obligated entities. Law 27.693 and Law 28.306 of 2004 expanded the entities obligated to report suspicious transactions beyond just banks and financial institutions. In addition to financial institutions, insurance companies, stock funds and brokers, the stock and commodities exchanges, credit and debit card companies, money exchange houses, mail and courier services, travel and tourism agencies, hotels and restaurants, notaries, the customs agency, casinos, auto dealers, construction or real estate firms, notary publics, and dealers in precious stones and metals are all required to report suspicious transactions to the UIF within 30 days. The FIU cannot receive STRs electronically; covered entities must hand-deliver STRs to the UIF.

In addition to the predicate offenses in Law 27.693, Law 28.306 of 2004 mandates that obligated entities also report suspicious transactions related to terrorist financing, and expanded the UIF's functions to include the ability to analyze reports related to terrorist financing. Terrorist financing is criminalized under Executive Order 25.475.

Obligated entities are also required to maintain reports on large cash transactions. Individual cash transactions exceeding $10,000 or transactions totaling $50,000 in one month must be maintained in internal databases for a minimum of five years and made available to the UIF upon request. Non financial institutions, such as exchange houses, casinos, lotteries or others, must report individual transactions over $2,500 or monthly transactions over $10,000. Individuals or entities transporting more than $10,000 in currency or monetary instruments into or out of Peru must file reports with the customs agency, and the UIF may have access to those reports upon request.

Reporting requirements for suspicious transactions entered into effect in September 2003, and as of November 2005, the UIF had received 869 STRs. Of those, the UIF asked the submitting entity for additional information on approximately 70 percent of the reports. Under Law 28.306, the UIF is able to sanction persons and entities for failure to report suspicious transactions, large cash transactions, or the transportation of currency or monetary instruments. The UIF also has regulatory responsibilities for all obligated entities that do not fall under the supervision of another regulatory body (such as the Superintendence of Banks).

The UIF currently does not receive cash transactions reports (CTRs) or reports on the international transportation of currency or monetary instruments. CTRs are maintained in internal registries within the obligated entities, and reports on the international transportation of currency or monetary instruments are maintained by the customs agency. If the UIF receives an STR and determines that the STR warrants further analysis, it contacts the covered entity that filed the report for additional background information—including any CTRs that may have been filed—and/or the customs agency to determine if the subject of the STR had reported the transportation of currency or monetary instruments. Some requests for reports of transactions over $10,000—such as those that are deposits

into savings accounts—are protected under the constitution by bank secrecy provisions and require an order from the Public Ministry or SUNAT, the tax authority. A period of 15-30 days is required to lift the bank secrecy restrictions. All other types of cash transaction reports, however, may be requested directly from the reporting institution. There are two bills under consideration in Congress that would make bank secrecy provisions less stringent and strengthen disclosure requirements.

To assist with its analytical functions, the UIF may request information from such government entities as the National Superintendence for Tax Administration, Customs, the Securities and Exchange Commission, the Public Records Office, the Public or Private Risk Information Centers, and the National Identification Registry and Vital Statistics Office, among others. However, the UIF can only share information with other agencies—including foreign entities—if there is a joint investigation underway. Once the UIF has completed the analysis process and determined that a case warrants further investigation or prosecution, the case is sent to the Public Ministry.

As of November 2005, the UIF had sent 36 suspected cases of money laundering to the Public Ministry for investigation. Of those cases, six investigations have been completed and are being presented to the judiciary for prosecution. The UIF has also assisted the Public Ministry with two cases that resulted in money laundering convictions. Although the cases did not originate with the UIF, the UIF's assistance in analyzing financial information was fundamental in gaining the two convictions for money laundering.

Within the counternarcotics section of the Public Ministry, two specialized prosecutors are responsible for dealing with money laundering cases. In addition to being able to request any additional information from the UIF in their investigations, the Public Ministry may also request the assistance of the Directorate of Counter-Narcotics (DINANDRO) of the Peruvian National Police. With the passage of Law 28.306 in July 2004, DINANDRO and the UIF are now able to collaborate on investigations, although each agency must go through the Public Ministry in order to do so. DINANDRO may provide the UIF with intelligence for the cases the UIF is analyzing, while it provides the Public Ministry with assistance on cases that have been sent to the Public Ministry by the UIF.

The UIF was given regulatory responsibilities in July 2004 under Law 28.306. Most covered entities fall under the supervision of the Superintendence of Banks and Insurance (banks, the insurance sector, financial institutions), the Peruvian Securities and Exchange Commission (securities, bonds), and the Ministry of Tourism (casinos). All entities that are not supervised by these three regulatory bodies, such as auto dealers, construction and real estate firms, etc., fall under the supervision of the UIF. However, some covered entities remain unsupervised. For instance, although money remittance businesses are regulated by the Superintendence of Banks, the Superintendence is not required to supervise any money remittance business that does less than 1,240,000 soles (about $400,000) in transfers per year. There is also difficulty in regulating casinos, as roughly 60 percent of that sector is informal. An assessment of the gaming industry conducted by GOP and U.S. officials in 2004 identified alarming deficiencies in oversight and described an industry that is vulnerable to being used to launder large volumes of cash. Approximately 580 slot houses operate in Peru, with less than 65 percent or so paying taxes. Estimates indicate that less than 42 percent of the actual income earned is being reported, while official gaming revenues totaled $650 million in 2003. This billion-dollar cash industry continues to operate with little supervision.

Peru currently lacks comprehensive and effective asset forfeiture legislation. The Financial Investigative Office of DINANDRO has seized numerous properties over the last several years, but few were turned over to the police to support counternarcotics efforts. While Peruvian law does provide for asset forfeiture in money laundering cases, and these funds can be used in part to finance the UIF, no clear mechanism exists to distribute seized assets among government agencies. The government's "Fedadoi" fund currently holds around $75 million in monies recovered after having

been stolen or diverted during the Fujimori administration. A bill to amend the asset forfeiture regime is being considered by Congress.

Terrorism is considered a problem in Peru, which is home to the terrorist organization Shining Path. Although the Shining Path has been designated by the United States as a foreign terrorist organization pursuant to Section 219 of the Immigration and Nationality Act and under Executive Order (E.O.) 13224, and the United States and 100 other countries have issued freezing orders against its assets, the GOP has no legal authority to quickly and administratively seize or freeze terrorist assets. In the event that such assets are identified, the Superintendent for Banks must petition a judge to seize or freeze them and a final judicial decision is then needed to dispose of or use such assets. Peru also has not yet taken any actions to thwart the misuse of charitable or non-profit entities that can be used as conduits for the financing of terrorism.

Foreign Ministry Officials are working with other GOP agencies to complete the necessary legal revisions that will permit asset-freezing actions. The Office of the Superintendent of Banks routinely circulates to all financial institutions in Peru updated lists of individuals and entities that have been included on the UNSCR 1267 Sanctions Committee's consolidated list as being linked to Usama Bin Ladin, the Taliban, and al-Qaida, as well as those on the list of Specially Designated Global Terrorist Entities designated by the United States pursuant to E.O. 13224 on terrorist financing. To date, no assets connected to designated individuals or entities have been identified, frozen, or seized.

Peru ratified the UN International Convention for the Suppression of the Financing of Terrorism on November 10, 2001, and the Organization of American States Inter-American Convention on Terrorism in 2003. Peru is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption. The GOP participates in the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Money Laundering Experts Working Group. Peru is also a member of the South American Financial Action Task Force (GAFISUD), and in 2005 held the GAFISUD presidency. Peru also underwent a mutual evaluation by GAFISUD in 2005, the results of which were reported to the GAFISUD plenary in July. In June 2005, the UIF became a member of the Egmont Group of financial intelligence units. An extradition treaty between the U.S. Government and the GOP entered into force in 2003.

The Government of Peru has made significant advances in strengthening its anti-money laundering regime in recent years. However, some progress is still required. There are still a number of weaknesses in Peru's anti-money laundering system: bank secrecy must be lifted in order for the Unidad de Inteligencia Financiera to have access to certain cash transaction reports, smaller financial institutions are not regulated, and the UIF is not able to work directly with law enforcement agencies; rather, the Public Ministry must coordinate any collaboration between the UIF and the other agency. Anticorruption efforts in Peru should be a priority, and Peru should also enact legislation that allows for administrative as well as judicial blocking of terrorist assets. These issues should be addressed in order to strengthen Peru's ability to combat money laundering and terrorist financing.

Philippines

The Philippines is a regional financial center. In the past few years, the illegal drug trade in the Philippines reportedly has evolved into a billion-dollar industry. The Philippines continues to experience an increase in foreign organized criminal activity from China, Hong Kong, and Taiwan. Reportedly, insurgency groups operating in the Philippines fund their activities, in part, through the trafficking of narcotics and arms, as well as engaging in money laundering through alleged ties to organized crime. The proceeds of corrupt activities by government officials are also a source of laundered funds. Most of the narcotics trafficking transiting through the Philippines is exchanged using letters of credit. There is little cash and negligible amounts of U.S. dollars used in the

transactions, except for the small amounts of narcotics that make it all the way to the United States for street sale. Drugs circulated within the Philippines are usually exchanged for local currency.

In June 2000, the Financial Action Task Force (FATF) placed the Philippines on its list of Non-Cooperative Countries and Territories (NCCT) for lacking basic anti-money laundering regulations, including customer identification and record keeping requirements, and excessive bank secrecy provisions.

The Government of the Republic of the Philippines (GORP) initially established an anti-money laundering regime by passing the Anti-Money Laundering Act of 2001 (AMLA). The GORP enacted Implementing Rules and Regulations (IRR) for the AMLA in April 2002. The AMLA criminalized money laundering, an offense defined to include the conduct of activity involving the proceeds from unlawful activity in any one of 14 major categories of crimes, and imposes penalties that include a term of imprisonment of up to 14 years and a fine no less than 3,000,000 pesos (approximately $54,000); but no more than twice the value or property involved in the offense. The Act also imposed identification, record keeping, and reporting requirements on banks, trusts, and other institutions regulated by the Central Bank, insurance companies, securities dealers, foreign exchange dealers, and money remitters, as well as any other entity dealing in valuable objects or cash substitutes regulated by the Securities and Exchange Commission (SEC).

However, the FATF deemed the original legislation inadequate and pressured the Philippines to amend the legislation to be more in line with international standards. The GORP subsequently made important progress in developing its anti-money laundering and terrorist financing regime, with the enactment of amendments to the Anti-Money Laundering Act of 2001 in March 2003. The amendments to the AMLA lowered the threshold amount for covered transactions (cash or other equivalent monetary instrument) from 4,000,000 pesos to 500,000 pesos ($80,000 to $10,000) within one banking day; expanded financial institution reporting requirements to include the reporting of suspicious transactions, regardless of amount; authorized the Central Bank (Bangko Sentral ng Pilipinas or BSP) to examine any particular deposit or investment with any bank or non-bank institution in the course of a periodic or special examination (in accordance with the rules of examination of the BSP); ensured institutional compliance with the Anti-Money Laundering Act; and deleted the prohibitions against the Anti-Money Laundering Council's examining particular deposits or investments opened or created before the Act.

The FATF deemed those amendments to have sufficiently addressed the main legal deficiencies in the original Philippines anti-money laundering regime, and decided not to recommend the application of countermeasures. The FATF removed the Philippines from its Non-Cooperating Countries and Territories (NCCT) List in February 2005.

The AMLA established the Anti-Money Laundering Council (AMLC) as the country's financial intelligence unit (FIU). The Council is composed of the Governor of the Central Bank, the Commissioner of the Insurance Commission, and the Chairman of the Securities and Exchange Commission. By law, the AMLC Secretariat is an independent agency responsible for receiving, maintaining, analyzing, and evaluating covered and suspicious transactions. It provides advice and assistance to relevant authorities and issues relevant publications. The AMLC completed the first phase of its information technology upgrades in 2004. This was a significant milestone that allowed AMLC to electronically receive, store, and search CTRs filed by regulated institutions. Through 2005, the AMLC had received more than 1,760 suspicious transaction reports (STRs) involving 8,144 suspicious transactions, and had received over 44 million covered transaction reports (CTRs). AMLC is currently in the process of acquiring software to implement link analysis and visualization to enhance its ability to produce information in graphic form from the CTRS and STRs filed electronically by regulated institutions.

AMLC's role goes well beyond traditional FIU responsibilities and includes the investigation and prosecution of money laundering cases. AMLC has the ability to seize terrorist assets involved in money laundering on behalf of the Republic of the Philippines after a money laundering offense has been proven beyond a reasonable doubt. In order to freeze assets allegedly connected to money laundering, the AMLC must establish probable cause that the funds relate to an offense enumerated in the Act, such as terrorism. The Court of Appeals then may freeze the bank account for 20 days. The AMLC may apply to extend a freeze order prior to its expiration. The AMLC is required to obtain a court order to examine bank records for activities not listed in the Act, except for certain serious offenses such as kidnapping for ransom, drugs, and terrorism-related crimes. The AMLC and the courts are working to shorten the time needed so funds are not withdrawn before the freeze order is obtained.

The Philippines has no comprehensive legislation pertaining to civil and criminal forfeiture. Various government authorities, including the Bureau of Customs and the Philippine National Police, have the ability to temporarily seize property obtained in connection with criminal activity. Money and property must be included in the indictment, however, to permit forfeiture. Because ownership is difficult to determine in these cases, assets are rarely included in the indictment and are rarely forfeited. The AMLA gives the AMLC the authority to seize assets involved in money laundering operations that may end up as forfeited property after conviction, even if it is a legitimate business. In December 2005, the Supreme Court issued a new criminal procedure rule covering civil forfeiture, asset preservation, and freeze orders. The new rule provides a way to preserve assets prior to any forfeiture action and lists the procedures to follow during the action. The rule also contains clear direction to the AMLC and the court of appeals on the issuance of freeze orders for assets under investigation that had been confused by changes in the amendment to the AMLA in 2003. There are currently 88 prosecutions underway in the Philippine court system that involved AMLC investigations or prosecutions, including 34 for money laundering, 24 for civil forfeiture, and the rest pertaining to freeze orders and bank inquiries. Although some of these cases may conclude shortly, to date the Philippines has not had a money laundering conviction.

The GORP is quick to respond when new terrorist entities are added to the list of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list. Upon notification that the UN 1267 Sanctions Committee has approved an additional name to the consolidated list, the AMLC takes immediate steps to inform the local banks and issue orders to freeze the assets in the banking system. Under the AMLA and the bank secrecy act, officers, employees, representatives, agents, consultants, and associates of financial institutions are exempt from civil or criminal prosecution for reporting covered transactions. These institutions must maintain and store records of transactions for a period of five years, extending beyond the date of account or bank closure. The AMLC has frozen funds at the request of the UN Security Council, the United States and other foreign governments. Through November 2005, the AMLC has frozen funds in excess of 500 million Philippine pesos ($ approximately $9,700,000).

Questions remain regarding the covered institutions fully complying with the Philippine anti-money laundering regime. For example, the BSP does not have a mechanism in place to ensure that the financial community is adhering to the reporting requirements. Banks in more distant parts of the country, especially Mindinao where terrorist groups operate more freely, may feel threatened and inhibited from providing information about financial transactions requested by AMLC. While bank secrecy provisions to the BSP's supervisory functions were lifted in Section 11 of the AMLA, implementation still appears to be incomplete. Due to the Philippines' "privacy issues," examiners of the BSP are not allowed to review documents held by covered institutions in order to determine if the covered institutions are complying with the reporting requirement. BSP examiners are only allowed to ask AMLC, as a result of their examination, if a STR has been filed. If AMLC determines one was not

filed, then the AMLC has the responsibility to make inquiries of the covered institution. This process is slow and cumbersome; AMLC is working with the BSP to find ways of streamlining the process.

An important development in 2005 was the AMLC's effectiveness in including foreign exchange offices as covered institutions subject to the money laundering provisions. The Monetary Board issued a decision in February 2005 defining the 15,000 exchange houses as financial institutions and instituting a new licensing system to bring them under the provisions of the AMLA. Under this decision, all exchange dealers were to have received training from the AMLC by July 2005 to obtain licenses and ensure compliance with the Act. With so many dealers and with continued misunderstanding of the new regulations, only 2,500 exchange dealers were trained and registered by the end of July. Training teams from the AMLC have held over 1,000 classes for dealers and bankers throughout the country to implement this decision. By the end of November, an estimated half of the foreign exchange offices still in operation have received the mandatory training and have been registered. This requirement reduced the number of foreign exchange dealers dramatically; as less reputable offices chose to close down rather than seek licensing.

There are still several sectors operating outside of AMLC control, under the revised AMLA. Although the revised AMLA specifically covers exchange houses, insurance companies, and casinos, it does not cover stockbrokers or accountants. Although covered transactions for which AMLC solicits reports include asset transfers, the law does not require direct oversight of car dealers and sales of construction equipment, which are emerging as creative ways to launder money and avoid the reporting requirement. The AMLC has the authority to request the chain of casinos operated by the state-owned Philippine Amusement and Gaming Corporation (PAGCOR) to submit covered and suspicious transaction reports, but it has not yet done so.

There is increasing recognition that the nearly 20 casinos nationwide offer abundant opportunity for money laundering, especially with many of these casinos catering to international clientele arriving on charter flights from around Asia. Several of these gambling facilities are located near small provincial international airports that may have less rigid enforcement procedures and standards for cash smuggling. PAGCOR is the sole franchisee in the country for all games of chance, including lotteries conducted through cell phones. At present, there are no offshore casinos or Internet gaming sites.

The Philippines has over 5,000 non-governmental organizations (NGOs) that do not fall under the requirements of the AMLA. Charitable and non-profit entities are not required to make covered or suspicious transaction reports. The SEC provides limited regulatory control over the registration and operation of NGOs. These entities are rarely held accountable for failure to provide year-end reports of their activities, and there is no consistent accounting and verification of their financial records. Because of their ability to circumvent the usual documentation and reporting requirements imposed on banks for financial transfers, NGOs could be used as conduits for terrorist financing without detection. The AMLC is aware of the problem and is working to bring charitable and not-for-profit entities under the interpretation of the amended implementing regulations for covered institutions.

There are nine offshore banking units (OBUs) established since 1976. At present, OBUs account for less than two percent of total banking system assets in the country. The Bangko Sentral ng Pilipinas (BSP) regulates onshore banking, exercises regulatory supervision over OBUs, and requires them to meet reporting provisions and other banking rules and regulations. In addition to registering with the SEC, financial institutions must obtain a secondary license from the BSP subject to relatively stringent standards that would make it difficult to establish shell companies in financial services of this nature. For example, a financial institution operating an OBU must be physically present in the Philippines. Anonymous directors and trustees are not allowed. The SEC does not permit the issuance of bearer shares for banks and other companies.

Despite the efforts of the GORP authorities to publicize regulations and enforce penalties, cash smuggling remains a major concern for the Philippines. Although there is no limit on the amount of

foreign currency an individual or entity can bring into or take out of the country, any amount in excess of $10,000 equivalent must be declared upon arrival or departure. Based on the amount of foreign currency exchanged and expended, there is systematic abuse of the currency declaration requirements and a large amount of unreported cash entering the Philippines.

The problem of cash smuggling is exacerbated by the large volume of foreign currency remitted to the Philippines by Overseas Filipino Workers (OFWs). The amount of remitted funds grew by 25 percent during the first ten months of 2005, and should exceed $10 billion for the year, equal to 11 percent of GDP. The BSP estimates that an additional $2-3 billion is remitted outside the formal banking system. Most of these funds are brought in person by OFWs or by designated individuals on their return home and not through any alternative remittance system. Since most of these funds enter the country in smaller quantities than $10,000, there is no declaration requirement and the amounts are difficult to calculate. The GORP encourages local banks to set up offices in remitting countries and facilitate fund remittances, especially in the United States, to help reduce the expense of remitting funds.

The Philippines is a member of the Asia/Pacific Group on Money Laundering and became the 101st member of the Egmont Group of FIUs in July 2005. The GORP is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime (2002) and to all 12 international conventions and protocols related to terrorism, including the UN International Convention for the Suppression of the Financing of Terrorism (2004). The Anti-Money Laundering Council is able to freeze funds and transactions identified with or traced to suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224, and other foreign governments.

For several years, the GORP has realized the need to enact and implement an antiterrorism law that among other things would define and criminalize terrorism and terrorist financing, and give military and law enforcement entities greater tools to detect and interdict terrorist activity. President Arroyo declared in her State of the Nation address in June 2005 that the passage of such a law was one of her priorities for the remainder of the year. The Philippines legislature took steps to achieve that result in fall 2005 in consolidating bills and bringing them to the floor for full consideration. The Senate tabled its version of an antiterrorism bill (SB 2137) in October and the house calendared its own Bill (HV 4839) in November. The Senate and house held hearings in late 2005; the bill passed its second reading in the house in December with the third and final reading expected in mid-January 2006.

Reportedly, the GORP remains optimistic that both houses will pass a comprehensive law addressing terrorism in 2006. In lieu of specific counterterrorist legislation, the government has broadly criminalized terrorist financing through Republic Law legislation, which defines "hijacking and other violations under Republic Act No. 6235; destructive arson and murder, as defined under the Revised Penal Code, as amended, included those perpetrated by terrorists against non-combatant persons and similar targets" as one of the violations under the definition of unlawful acts. The Revised Implementing Rules and Regulations R.A. No. 9160, as amended by R.A. No.9194, further state that any proceeds derived or realized from an unlawful activity includes all material and monetary effects will be deemed a violation against the law.

The Government of the Republic of the Philippines has made significant progress enhancing and implementing its amended anti-money laundering regime. To fully comport with international standards and become a more effective partner in the global effort to staunch money laundering and thwart terrorism and its financing, it should enact and implement new legislation that criminalizes terrorism and terrorist financing. Additionally, the Central Bank should be empowered to levy administrative penalties against covered entities in the financial community that do not comply with reporting requirements. Stockbrokers and accountants should be required to report CTRS and STRs and AMLC should use its authority to require all casinos to file CTRs and STRs. The GORP should

enact comprehensive legislation regarding freezing and forfeiture of assets that would empower AMLC to issue administrative freezing orders to avoid funds being withdrawn before a court order is issued. The creation of an asset forfeiture fund would enable law enforcement agencies to draw on the fund to augment their budgets for investigative purposes. Such a fund would benefit the AMLC and enable it to purchase needed equipment. Finally, AMLC should consider clearly separating its analytical and investigative responsibilities and establish a separate investigative division that would focus its attention on dismantling money laundering and terrorist financing operations.

Poland

Poland's geographic location places it directly along one of the main routes between the former Soviet Union republics and Western Europe that is used by narcotics traffickers and organized crime groups. According to Polish Government estimates, narcotics trafficking, organized crime activity, auto theft, smuggling, extortion, counterfeiting, burglary, and other crimes generate criminal proceeds in the range of $2-3 billion yearly. The Government of Poland (GOP) estimates that the unregistered or gray economy, used primarily for tax evasion, may be as high as 15 percent of Poland's $280 billion GDP; it believes the black economy is only one percent of GDP. Poland's entry into the European Union (EU) in May 2004 increased its ability to control its eastern borders, thereby allowing Poland to become more effective in its efforts to combat all types of crime, including narcotics trafficking and organized crime.

Poland's banks serve as transit points for the transfer of criminal proceeds. As of December 2004, 55 commercial banks were licensed for operation in Poland, as were slightly less than 590 "cooperative banks" that serve the rural and agricultural community. The GOP considers the nation's banks, insurance companies, and brokerage houses to be important venues of money laundering. Polish casinos may likewise be sites for money laundering activity. According to the GOP, fuel smuggling, by which local companies and organized crime groups seek to avoid excise taxes by forging gasoline delivery documents, is a major source of proceeds to be laundered. It is also believed that some money laundering in Poland derives from Russia or other countries of the former Soviet Union.

The Criminal Code criminalizes money laundering. Article 299 of the Criminal Code addresses self-laundering and criminalizes tipping off. In June 2001, the parliament passed amendments that broadened the definition of money laundering to encompass all serious crimes ("Act on Counteracting Introduction into Financial Circulation of Property Values Derived from Illegal or Undisclosed Sources," known as the "Act of 16 November"). In March 2003, Parliament further amended the law to broaden the definition of money laundering to include assets originating from illegal or undisclosed sources.

Poland has adopted a National Security Strategy that treats the anti-money laundering effort as a top priority. The GOP has worked diligently to bring its laws into full conformity with EU obligations. On November 16, 2000, a law went into effect that improves Poland's ability to combat money laundering (entitled the November 2000 Act on Counteracting Introduction into Financial Circulation of Property Values Derived from Illegal or Undisclosed Sources). The GOP has updated this law several times to bring it into conformity with EU standards and to improve its operational effectiveness. This law increases penalties for money laundering and contains safe harbor provisions that exempt financial institution employees from normal restrictions on the disclosure of confidential banking information. The law also provides for the creation of a financial intelligence unit (FIU), the General Inspectorate of Financial Information (GIIF), housed within the Ministry of Finance, to collect and analyze large and suspicious transactions.

A major weakness of Poland's initial money laundering regime was that it did not cover many non-bank financial institutions that had traditionally been used for money laundering. To remedy this situation, between 2002 and 2004 the Parliament passed several amendments to the 2000 money

laundering law. The amendments expand the scope of institutions subject to identity verification, record keeping, and suspicious transaction reporting requirements. Financial institutions subject to the reporting requirements prior to March 2004 amendments included banks, the National Depository for Securities, post offices, auction houses, antique shops, brokerages, casinos, insurance companies, investment and pension funds, leasing firms, private currency exchange offices, real estate agencies, and notaries public. The March 2004 amendments to the money laundering law widen the scope of covered institutions to include lawyers, legal counselors, auditors, and charities, as well as the National Bank of Poland in its functions of selling numismatic items, purchasing gold, and exchanging damaged banknotes. The law also requires casinos to report the purchase of chips worth 1,000 euros or more. The law's extension to the legal profession was not without controversy. Lawyers strongly opposed the new amendments, claiming that the law violates attorney-client confidentiality privileges.

In 2002, Parliament adopted measures to bring the nation's anti-money laundering legislation into compliance with EU standards regarding the reporting threshold, and also amended Poland's customs law to require the reporting of any cross-border movement of more than 10,000 euros in currency or financial instruments. In addition to requiring that the GIIF be notified of all financial deals exceeding 15,000 euros, covered institutions are also required to file reports of suspicious transactions, regardless of the size of the transaction. Polish law also requires financial institutions to put internal anti-money laundering procedures into effect, a process that is overseen by the GIIF.

The GIIF began operations on January 1, 2001. In its first year of existence, the GIIF received over 350 suspicious transaction reports (STRs). In 2002, the GIIF received 614 STRs, from which prosecutors prepared 70 cases. In 2003, the GIIF received 965 STRs, resulting in the development of 152 cases by the Prosecutor's Office. In 2004, the GIIF received 1,397 STRs, which resulted in the development of 148 cases by the Prosecutor's Office. Between January and October 2005, the GIIF received 1,425 STRs, resulting in the creation of 169 cases. Banks filed eighty percent of the STRs submitted in 2004. At a minimum, all reports submitted by the GIIF to the Prosecutor's Office have resulted in the instigation of initial investigative proceedings. Although there were only four convictions under the money laundering law in 2004 (this figure is twice the number from 2003), many of the investigations begun by the GIIF have resulted in convictions for other non-financial offenses. As of October 2005, the GIIF received 26.1 million reports on transactions exceeding the threshold level. The GIIF receives approximately 1.8 million reports per month.

The vast majority of required notifications to the GIIF are sent through a newly developed electronic reporting system, which is Europe's most technically sophisticated and collects more complete information than the previously required report regarding the transaction in question (e.g., how payment was made-cash or credit, where and when). Only a small percentage of notifications are now submitted by paper, mainly from small institutions that lack the equipment to use the electronic system. Although the new system is an important advance for Poland's anti-money laundering program, the processing and analyzing of the large number of reports that are sent to the GIIF will prove to be a challenge for the understaffed FIU. To help improve the FIU's efficiency in handling the large volume of reports filed by obliged institutions, the GIIF plans to install new analytical software that will permit advanced and detailed analysis of financial information.

The GIIF also does on-site training and compliance monitoring investigations. In 2005, the GIIF carried out 195 compliance investigations as compared to 15 in 2004, and received several hundred follow-up reports from institutions responsible for routinely supervising covered institutions. In January 2004, the GIIF introduced a new electronic learning course designed to familiarize obliged institutions with Poland's anti-money laundering regulations. In March 2005, an updated version of the course was installed on the Ministry of Finance Website.

The Polish Code of Criminal Procedure, Article 237, allows for certain Special Investigative Measures. However, money laundering investigations are not specifically covered, although the

organized crime provisions might apply in some cases. Two main police units deal with the detection and prevention of money laundering: the General Investigative Bureau and the Unit for Combating Financial Crime. Overall, both police units cooperate well with the GIIF. The Internal Security Agency (ABW) may also investigate the most serious money laundering cases.

A recognized need exists for an improved level of coordination and information exchange between the GIIF and law enforcement entities, especially with regard to the suspicious transaction information that the GIIF forwards to the National Prosecutor's Office. To alleviate this problem the GIIF and the National Prosecutor's Office signed a cooperation agreement in 2004. The agreement calls for the creation of a computer-based system that would facilitate information exchange between the two institutions. Work on the development of this new system is currently underway. With regard to information exchange with its foreign counterparts, the GIIF remains active. In 2004, it sent official requests to foreign financial intelligence units on 102 cases concerning 224 national and foreign entities suspected of money laundering, while foreign FIUs sent 51 requests to the GIIF, concerning 163 national and foreign entities suspected of attempting to legalize proceeds from crime.

The GIIF is authorized to put a suspicious transaction on hold for 48 hours. The Public Prosecutor then has the right to suspend the transaction for an additional three months, pending a court decision. In 2004, Article 45 of the criminal code was amended to further improve the government's ability to seize assets. On the basis of the amended article, an alleged perpetrator must prove that his assets have a legal source; otherwise, the assets are presumed to be related to the crime and as such can be seized. Both the Ministry of Justice and the GIIF desire to see more aggressive asset forfeiture regulations. However, because the former communist regime employed harsh asset forfeiture techniques against political opponents, lingering political sensitivities make it difficult to approve stringent asset seizure laws. In 2003, the GIIF suspended 20 transactions worth 9 million euros and blocked nine accounts worth 5.2 million euros. During the first 11 months of 2004, the GIIF suspended five transactions worth 650,000 euros and blocked 12 accounts worth 2.1 million euros.

The GOP recently created an office of counterterrorist operations within the National Police. The office coordinates and supervises regional counterterrorism units and trains local police in counterterrorism measures. Poland has also created a terrorist watch list of entities suspected of involvement in terrorist financing. The list contains the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list, the names of Specially Designated Global Terrorists designated by the U.S. pursuant to E.O. 13224, and the names designated by the EU under its relevant authorities. All covered institutions are required to verify that their customers are not included on the watch list. In the event that a covered institution discovers a possible terrorist link, the GIIF has the right to suspend suspicious transactions and accounts. Despite these efforts, Poland has not yet criminalized terrorist financing, arguing that all possible terrorist activities are already illegal and serve as predicate offenses for money laundering and terrorist financing investigations. The Ministry of Justice has completed draft amendments to the criminal code that would criminalize terrorist financing as well as elements of all terrorism-related activity. The amendments have been presented to the Minister of Justice, but have not yet been approved by Parliament.

As a member of the Council of Europe, Poland participates in the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL). It has undergone first and second round mutual evaluations by that group and is scheduled for a third in 2006. The GIIF is an active participant in the Egmont Group and in FIU.NET, the EU-sponsored information exchange network for FIUs. All information exchanged between the GIIF and its counterparts in other EU states takes place via FIU.NET.

A Mutual Legal Assistance Treaty between the United States and Poland came into force in 1999. In addition, Poland has signed bilateral mutual legal assistance treaties with Sweden, Finland, Ukraine,

Lithuania, Latvia, Estonia, Germany, Greece, and Hungary. Polish law requires the GIIF to have memoranda of understanding (MOUs) with other international competent authorities before it can participate in information exchanges. The GIIF has been diligent in executing MOUs with its counterparts in other countries, signing a total of 27 MOUs between 2002 and 2004. The GIIF-FinCEN MOU was signed in fall 2003. An additional six memoranda on exchange of financial information with Guernsey, Chile, Croatia, Indonesia, Macedonia, and Switzerland were signed in 2005. Because Poland is an EU member state, the exchange of information between the GIIF and the FIUs of other member states is regulated by the EU Council Decision of October 17, 2000.

Poland is a party to the 1988 UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism, the European Convention on Extradition and its Protocols, the European Convention on Mutual Assistance in Criminal Matters, and the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime. In November 2001, Poland ratified the UN Convention against Transnational Organized Crime, which was, in part, a Polish initiative.

Over the past several years, the Government of Poland has worked diligently to implement a comprehensive anti-money laundering regime that meets international standards. Further improvements could be made by promoting additional training at the private sector level and by working to improve communication and coordination between the General Inspectorate of Financial Information and relevant law enforcement agencies. The Code of Criminal Procedure should also be amended to allow the use of Special Investigative Measures in money laundering investigations, which would help law enforcement attain a better record of prosecutions and convictions. Poland should also act on the draft amendments to the criminal code and specifically criminalize terrorist financing.

Portugal

Portugal is an entry point for narcotics transiting into Europe, and officials of the Government of Portugal (GOP) indicate that most of the money laundered in Portugal is narcotics-related. The GOP also reports that currency exchanges, wire transfers, and real estate purchases are used for laundering criminal proceeds.

Portugal has a comprehensive anti-money laundering regime that criminalizes the laundering of proceeds of serious offenses, including terrorism, arms trafficking, kidnapping, and corruption. Financial and non-financial institutions have a mandatory requirement of reporting all suspicious transactions to the Public Prosecutor regardless of threshold amount.

Money laundering is specifically defined in Penal Code Article 368-A. Act 11/2004 of 27 March, which implements the European Union's Second Money Laundering Directive, defines the legal framework for the prevention and repression of money laundering. Act 11/2004 mandates suspicious transaction reporting by credit institutions, investment companies, life insurance companies, traders in high-value goods (e.g., precious stones, aircraft), and numerous other entities. "Tipping off" is prohibited and liability protection is provided for regulated entities making disclosures in good faith. If a regulated entity has knowledge of a transaction likely to be related to a money laundering offense, it must inform the Portuguese Government. The GOP may order the entity not to complete the transaction. If stopping the transaction is impossible or likely to frustrate efforts to pursue the beneficiaries of a suspected money laundering operation, the government also may allow the entity to proceed with the transaction but require the entity to provide it with complete details. All financial institutions, including insurance companies, must identify their customers, maintain records for a minimum of ten years, and demand written proof from customers regarding the origin and beneficiary of transactions that exceed 12,500 euros. Non-financial institutions, such as casinos, property dealers, lotteries and dealers in high-value assets, must also identify customers engaging in large transactions, maintain records, and report suspicious activities to the Office of the Public Prosecutor. Until March

2004, banking secrecy laws made it extremely difficult for investigators to obtain information about bank accounts and financial transactions of individuals or companies without their permission.

Decree-Law 295/2003 of November 21, 2003, sets out reporting requirements for the transportation across borders of cash, non-manufactured gold, and certain negotiable financial instruments, e.g., travelers' checks. When a person travels across the Portuguese border with more than 12,500 euros (U.S. $14,730) worth of such assets, a declaration must be made to Portuguese customs officials. A new EU regulation on cross-border currency reporting (EC 1889/2005), issued in November 2005, also must be implemented in Portugal.

The November 2003 law also revised and tightened the legal framework for foreign currency exchange transactions, including gold, subjecting them to the reporting requirement for transactions exceeding 12,500 euros. Beyond the requirements to report large transactions, foreign exchange bureaus are not subject to any special requirements to report suspicious transactions. The law does, however, give the GOP the authority to investigate suspicious transactions without notifying targets of the investigation.

New rules that took effect in January 2005 permit tax authorities to lift secrecy rules without authorization from the target of an investigation. The rules require companies to have at least one bank account and, for companies with more than 20 employees, to conduct their business through bank transfers, checks, and direct debits rather than cash. These rules are mainly designed to help the GOP investigate possible cases of tax evasion but may ease enforcement of other financial crimes as well.

With regard to non-banking financial institutions, namely financial intermediaries, the Portuguese Securities Market Commission set forth Regulation 7/2005 (amending Regulation 12/2000 on Financial Intermediation) requiring financial intermediaries to submit detailed annual Control and Supervision Reports to the Commission by 30 June the following year. The regulation is due to enter into force on January 1, 2006.

The three principle regulatory agencies for supervision of the financial sector in Portugal are the Central Bank of Portugal, the Portuguese Insurance Institute, and the Portuguese Securities Market Commission. The Gambling Inspectorate General, the Economic Activities Inspectorate General, the Registries and Notaries General Directorate, the National Association for Certified Public Accountants and the Association for Assistant Accountants, the Bar Association, and the Chamber of Solicitors also monitor and enforce the reporting requirements of the obliged entities.

Portugal's financial intelligence unit (FIU), known as the Financial Information Unit, or Unidade de Informação Financeira (UIF), was established through Decree-Law 304/2002 of December 13, 2002, and is operates independently as a department of the Portuguese Judicial Police (Polícia Judiciária). At the national level, UIF is responsible for gathering, centralizing, processing, and publishing information pertaining to investigations of money laundering and tax crimes. It also facilitates cooperation and coordination with other judicial and supervising authorities. At the international level, UIF coordinates with other FIUs. UIF has policing duties but no regulatory authority.

From January to September 2005, UIF received well over 40,000 reports of suspicious transactions. Portugal's General Directorate for Games was the source of 89 percent of the total number of reports, as it reports all transactions at casinos above a certain threshold. Banks submitted 237 suspicious transaction reports, and Portugal's Central Bank submitted an additional 98 reports. In this same time period, UIF sent 131 cases for further investigation to the Judicial Police and other police departments. Most of the case information originated from financial institutions and the Central Bank. Four cases resulted in proposals to suspend banking operations involving a total of approximately 3.25 million euros (U.S. $3.8 million).

Portuguese laws provide for the confiscation of property and assets connected to money laundering, and authorize the Judicial Police to trace illicitly obtained assets (including those passing through

casinos and lotteries), even if the predicate crime is committed outside of Portugal. Police may request files of individuals under investigation and, with a court order, can obtain and use audio and videotape as evidence in court. The law allows the Public Prosecutor to request that a lien be placed on the assets of individuals being prosecuted, in order to facilitate asset seizures related to narcotics and weapons trafficking, terrorism, and money laundering.

Act 5/2002 shifted the burden of proof in cases of criminal asset forfeiture from the government to the defendant; an individual must prove that his assets were not obtained as a result of his illegal activities. The law defines criminal assets as those owned by an individual at the time of indictment and thereafter. The law also presumes that assets transferred by an individual to a third party within the previous five years still belong to the individual in question, unless proven otherwise. GOP law enforcement agencies seized a total of 2.4 million euros in cash and accounts in 2003 and 5.1 million euros in 2004 in association with drug and money laundering investigations. Portugal has comprehensive legal procedures that enable it to cooperate with foreign jurisdictions and share seized assets.

In August 2003, Portugal passed Act 52/2003, which specifically defines terrorist acts and organizations and criminalizes the transfer of funds related to the commission of terrorist acts. Portugal has created a Terrorist Financing Task Force that includes the Ministries of Finance and Justice, the Judicial Police, the Security and Intelligence Service, the Bank of Portugal, and the Portuguese Insurance Institution. Portugal has applied all of the Financial Action task Force (FATF) Special Recommendations on Terrorist Financing. Names of individuals and entities included on the UNSCR 1267 Committee's consolidated list, or that the United States and EU have linked to terrorism, are passed to private sector organizations through the Bank of Portugal, the Stock Exchange Commission, and the Portuguese Insurance Institution. In practice, the actual seizure of assets would only occur once the EU's clearinghouse process agrees to the EU-wide seizure of assets of terrorists and terrorist-linked groups. Portugal is actively cooperating in the search and identification of assets used for terrorist financing. To date, no significant assets have been identified or seized.

The Portuguese Madeira Islands International Business Center (MIBC) has a free trade zone, an international shipping register, offshore banking, trusts, holding companies, stock corporations, and private limited companies. The latter two business groups, of which there are approximately 6,500 companies registered in Madeira, are similar to international business corporations. All entities established in the MIBC will remain tax exempt until 2011. Twenty-seven offshore banks are currently licensed to operate within the MIBC. The Madeira Development Company supervises offshore banks.

Companies can also take advantage of Portugal's double taxation agreements. Decree-Law 10/94 permits existing banks and insurance companies to establish offshore branches. Applications are submitted to the Central Bank of Portugal for notification, in the case of EU institutions, or authorization, in the case of non-EU or new entities. The law allows establishment of "external branches" that conduct operations exclusively with nonresidents or other Madeiran offshore entities, and "international branches" that conduct both offshore and domestic business. Although Madeira has some local autonomy, Portuguese and EU legislative rules regulate its offshore sector, and the competent oversight authorities supervise it. Exchange of information agreements contained in double taxation treaties allow for the disclosure of information relating to narcotics or weapons trafficking. Bearer shares are not permitted.

Portugal is a member of the Council of Europe, the European Union, and the FATF. Portugal is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. Portugal is also a party to the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime, and became a party to the UN International Convention for

the Suppression of the Financing of Terrorism on October 18, 2002. The Money Laundering Investigation Unit of Portugal's Judicial Police is a member of the Egmont Group.

The Government of Portugal has put into place a comprehensive and effective regime to combat money laundering. Laws passed in 2002 strengthen its ability to investigate and prosecute; steps taken in 2003 extended the regime's reach to terrorist financing; and legislative measures adopted in 2004 have consolidated the anti-money laundering legal framework, imposing on financial and non-financial institutions obligations to prevent and repress the use of the financial system for the purpose of money laundering.

Qatar

Qatar has a relatively small population (approximately 850,000 residents), with a low rate of general and financial crime. The financial sector, though modern, is limited in size and subject to strict regulation by the Qatar Central Bank (QCB). There are 15 licensed banks, including two Islamic banks and a Qatar Industrial Development Bank. Qatar has 19 exchange houses, three investment companies and one commercial finance company. Although Qatar is a cash-intensive economy, cash placement by money launderers is believed by authorities to be a negligible risk due to the close-knit nature of the society in Qatar and the rigorous "know your customer" procedures required by Qatari law.

On September 11, 2002, the Emir of the State of Qatar signed the Anti-Money Laundering Law. According to Article 28 of the law, money laundering offenses involve the acquisition, holding, disposing of, managing, keeping, exchanging, depositing, investing, transferring, or converting of funds from illegal proceeds. The law imposes penalties of imprisonment of five to seven years, in addition to fines. The law expanded the powers of confiscation of proceeds gained from the commission of a crime, and instrumentalities used to commit a crime, to include the identification and freezing of assets as well as the ultimate confiscation of the illegal proceeds upon conviction of the defendant for money laundering.

The law requires all financial institutions to report suspicious transactions to the QCB and retain records for up to 15 years. The law also gives the QCB greater powers to inspect suspicious bank accounts, and grants the authorities the right to confiscate money in illegal transactions. Article 17 permits Qatar to extradite convicted criminals in accordance with international or bilateral treaties.

The Anti-Money Laundering Law established the National Anti-Money Laundering Committee (NAMLC) to oversee and coordinate money laundering combating efforts. It is chaired by the Deputy Governor of the Qatar Central Bank, in addition to ten other members from the Ministries of Interior, Civil Service Affairs and Housing, Economy and Commerce, Finance, Justice, QCB, Customs and Ports Authority, and the State Security Bureau.

In February 2004, the Government of Qatar passed the Combating Terrorism Law. According to Article Four of the law, any individual or entity that provides financial or logistical support, or raises money for activities considered terrorist crimes, is subject to punishment. The punishments are listed in Article Two of the law, which include the death penalty, life imprisonment, and 10 or 15 year jail sentences, depending on the nature of the crime.

The Qatari Financial Intelligence Unit (FIU) was established in October 2004. The FIU is responsible for reviewing all financial transaction reports, identifying suspicious transactions and financial activities of concern, ensuring that all government ministries and agencies have procedures and standards to ensure proper oversight of financial transactions, and recommending actions to be taken by the NAMLC if suspicious transactions or financial activities of concern are identified. The FIU is coordinating closely with the Doha Securities Market (DSM) to establish procedures and standards to monitor all financial activities that occur in Qatar's stock market. In November 2004, the FIU

established monitoring standards in coordination with the National Post Office to ensure that post offices throughout the country monitor carefully all cash transfers. The FIU is also taking steps to monitor financial activities that take place in the Ministry of Justice's Registration Department and Qatar's camel market. Qatar's FIU became a full member of the Egmont Group in June 2005.

In addition to reporting suspicious transactions, all financial institutions (including businesses conducting hawala transactions) must report transactions of Qatari riyals (QR) 100,000 (approximately $33,000) or above to the QCB. Any repeated cash transactions of QR 30,000 (approximately $10,000) or higher made by an individual or entity must be reported. Any transaction of QR 100,000 or higher and repeated transactions of QR 30,000 or higher will be investigated by the FIU in coordination with the Ministries of Justice and Interior. Exchange houses must report any transaction of QR 40,000 (approximately $13,330) or higher. All financial institutions also must identify the person entering into a business relationship or conducting a transaction. In December 2004, QCB installed a central reporting system to assist the FIU in monitoring all financial transactions made by banks.

Only Qatari citizens, legal foreign residents, and citizens of other Gulf Cooperation Council (GCC) states are permitted to open bank accounts. All accounts must be opened in person. In January 2002, QCB issued Circular Number 9 regarding the Combat of Money Laundering and Financing of Terrorism. This circular was designed to increase the awareness of all banks operating in Qatar with respect to anti-money laundering and counterterrorist financing, by explaining money laundering and terrorist finance schemes and monitoring suspicious activities.

In addition to Circular Number 9, Qatar has taken other steps to combat the financing of terrorism, including requiring banks to freeze the assets of suspected terrorists and terrorist organizations on the UN 1267 Sanctions Committee's consolidated list. In 2002, the GOQ established a national committee to review the UN 1267 Sanctions Committee's consolidated list and recommend any necessary actions against individuals or entities found in Qatar. On August 24, 2003, the Anti-Money Laundering law was amended (Amendment 21/2003) and published in the official gazette. Amendment 21 revised three articles in the anti-money laundering law. Article 2 was amended to broaden the definition for money laundering to include any activities related to terrorist financing. Article 8 added the customs and ports authority to the NAMLC. Article 12 authorized the Central Bank governor to freeze suspicious accounts up to ten days and to inform the attorney general within three days of any action taken. The Attorney General may renew or nullify the freeze order for a period of up to three months. After this process, a freeze order may not be renewed unless authorized by court order.

The QCB, Public Prosecutor, and the Criminal Investigation Division (CID) of the Ministry of Interior are the principal entities that have responsibility for investigating and prosecuting money laundering cases. The FIU receives all suspicious transaction reports and conducts an initial analysis. The FIU also obtains additional information from the banks and other government ministries before determining whether to forward the suspicious transaction report to the Ministry of Interior. The Public Prosecutor and CID work closely on all criminal cases, although in financial cases they often seek the assistance of the QCB. There are no specialized units within the Public Prosecutor or CID's offices that initiate or investigate financial crimes.

On January 12, 2005, the Government of Qatar announced plans for the establishment of the Qatar Financial Centre (QFC), an international financial center to lure major international financial institutions and corporations to set up their offices in the country. The center began operating on May 1, 2005. The QFC is a totally independent body, managed by the QFC authority. The authority oversees business conduct and grants licenses to operate in the center. All companies setting up their offices at QFC are entitled to a three-year tax exemption, full repatriation of profits and 100 percent foreign ownership. At the end of three years they will be subject to a relatively low tax rate on profits.

In March 2004, the Government of Qatar passed a law to establish the Qatar Authority for Charitable Works, which monitors all charitable activity in and outside of Qatar. This law incorporates the

Charitable Societies Law (Law No. 8/1998), which details the monitoring and supervision of Qatar's charities. The Secretary General of the Authority approves all international fund transfers by the charities. The Authority has primary responsibility for monitoring overseas charitable, development, and humanitarian projects that were previously under the oversight of several government agencies such as the Ministry of Foreign Affairs, the Ministry of Finance and the Ministry of Economy and Commerce. Overseas activities must be undertaken in collaboration with a non-governmental organization (NGO) that is legally registered in the receiving country. The Authority prepares an annual report on the status of all projects and submits the report to relevant ministries. The Authority is in the process of developing concrete measures to exert more control over domestic charity collection.

Article 37 of Law Number 8 of 1998, concerning the establishment and governance of private associations and institutions, stipulates that the Ministry of Awqaf (Endowments) and Islamic Affairs shall oversee and monitor all the activities of private institutions within the boundaries that are regulated by executive provisions. The Ministry may examine the institution's books, records, and documents that are related to its activities and it may amend its bylaws. The institution shall provide the Ministry with any information, documents, or other data it requests. According to Article 1 of Law 15 of 1993, banks with offshore business shall be formed either as joint stock companies having their head offices in the State of Qatar or as branches of Qatari or foreign banks.

Qatar does not yet have any cross-border reporting requirements for financial transactions. Immigration and customs authorities are reviewing this policy and are increasingly interested in expanding their ability to detect trade-based money laundering. The Government of Qatar has established a subcommittee under the NAMLC to implement cross-border reporting requirements. The subcommittee is composed of the QCB, Customs Authority, FIU, and members of the NAMLC.

Qatar is a party to the 1988 UN Drug Convention but not the UN Convention for the Suppression of the Financing of Terrorism or the UN Convention against Transnational Organized Crime. Qatar is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF), a FATF-style regional body that promotes best practices to combat money laundering and terrorist financing in the region that was established in November 2004.

Qatar has demonstrated a willingness to fight financial crimes, including terrorist financing, and to work cooperatively with other countries in doing so. Implementation and enforcement of the new law and regulations are essential to the success of Qatar's efforts. Qatar should continue to work to ensure that law enforcement, prosecutors, and customs authorities receive the necessary training to improve their capabilities in recognizing and pursuing various forms of terrorist financing, money laundering and other financial crimes. Qatar should institute cross-border cash reporting requirements. Qatar should become a party to the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime.

Romania

Romania's geographic location makes it a natural transit country for trafficking in narcotics, arms, stolen vehicles, and persons. As such, the nation is vulnerable to financial crimes. Romania's National Bank estimates the dollar amount of financial crimes to range from $1 billion to $1.5 billion per year. Tax evasion and value-added tax (VAT) fraud constitute approximately 45 percent ($500-$600 million per year) of this total. Financial sector fraud, fraudulent bankruptcy claims, and smuggling of illicit goods are additional types of financial crimes prevalent in the country. Romania also has one of the highest occurrences of online credit card fraud in the world.

Laundered money comes primarily from domestic criminal activity carried out by international crime syndicates, which often launder money through limited liability companies set up for this purpose. The

U.S. dollar is the preferred currency. Endemic corruption in Romania and its neighboring countries abets money laundering. The proceeds from the smuggling of cigarettes, alcohol, coffee, and other dutiable commodities are also laundered in Romania. From Romania, most of the laundered funds go to offshore financial shelters in the Caribbean.

Romania first criminalized money laundering with the adoption in January 1999 of Law No. 21/99, On the Prevention and Punishment of Money Laundering. The law became effective in April 1999 and required customer identification, record keeping, reporting transactions of a suspicious or unusual nature, and currency transaction reporting for transactions over 10,000 euros.

The law also established a financial intelligence unit (FIU), known as the National Office for the Prevention and Control of Money Laundering (NOPCML), and mandated that the NOPCML oversee the implementation of internal anti-money laundering procedures and training for all domestic financial institutions covered by the law. The list of entities subjected to money laundering controls included banks, non-bank financial institutions, attorneys, accountants, and notaries. However, in practice, the controls on non-bank financial institutions have not been as rigorous as those imposed on banks.

In December 2002, the Law on the Prevention and Sanctioning of Money Laundering (Law 656/2002) went into effect, changing the list of predicate offenses to the all-crimes approach. Every cash operation and every external wire transfer involving a sum exceeding 10,000 euros must be reported to the NOPCML and be monitored. NOPCML is authorized to participate in inspections and controls in conjunction with supervisory authorities.

In addition, the new law expands the number and types of entities required to report to the NOPCML. Some of these new entities include art dealers, travel agents, privatization agents, postal officials, money transferors, and real estate agents. Training for these entities is necessary to ensure compliance with reporting, record keeping, recognition of suspicious transactions, and development of internal controls. The new law also provides for both suspicious transaction reports (STRs) and currency transaction reports (CTRs) to be forwarded to the NOPCML, with the CTR amounts conforming to European Union (EU) standards.

In keeping with new international standards, the National Bank of Romania (BNR) introduced Norm No. 3, Know Your Customer, in December 2003, to strengthen information disclosure for external wire transfers and correspondent banking. When sending out wire transfers, banks must include information about the originator's name, address, and account. The same information is required for incoming wires as well. Banks are further required to undertake proper due diligence before entering into international correspondent relations, and are prohibited from opening correspondent accounts with shell banks. The BNR is currently working on a project to strengthen its anti-money laundering (AML) and counterterrorist financing (CTF) regulations through the introduction of improved bank examination procedures. Plans are also underway to replicate the project in the insurance industry. In 2005, the Insurance Supervision Commission has instituted similar regulations for the insurance industry

The know-your-customer identification requirements have also been honed, so that identification of the client becomes necessary upon account opening and when single or multiple transactions meet or approach 10,000 euros. In accordance with a new national strategy on money laundering, lawyers are now obligated to report to the NOPCML. In addition, and in line with the Second EU Directive, tipping off has been prohibited. Romanian law permits the disclosure of client and ownership information to bank supervisors and law enforcement authorities, and protects banking officials with respect to their cooperation with law enforcement.

During the first ten months of 2005, the number of files sent to the General Prosecutor's Office on suspicion of money laundering reached 411, compared to 501 in 2004. The number of files sent to the

National Anti-Corruption Department on suspicion of money laundering connected with corruption reached 41 notifications in the first ten months of 2005, compared to 22 in 2004. The approximate amount associated with the above cases was $349.1 million during the first ten months of 2005, compared to $594.9 million in 2004. The number of files sent to the General Prosecutor's Office for suspicion of money laundering connected to terrorism financing was three in the first ten months of 2005, involving approximately $3.3 million, compared to one case involving $3.1 million in 2004. According to NOPCML estimates, the annual amounts of money laundered reached $651.7 million in 2003, $604.5 million in 2004, and $349.1 million in the first ten months of 2005.

Despite these improvements, the NOPCML is still hampered by a lack of sufficient resources (outdated IT systems) and personnel who are in need of comprehensive training regarding AML/CTF issues, as well as training in advanced analytical research methodologies. The Law on the Prevention and Sanctioning of Money Laundering increased the powers of NOPCML, but it did not provide for an increase in administrative capacity. The NOPCML has begun a process of international cooperation to exchange information with other FIUs. The NOPCML has also worked closely with Italy to improve its efficiency and effectiveness through an EU Project, which was completed in July 2005.

The total number of suspicious transactions reported to the NOPCML rose from 2,053 in 2004 to 2,826 in the first ten months of 2005. Of this figure, reporting by banks and other credit institutions rose from 1,417 in 2004 to 1,993 in the first ten months of 2005. Reporting entities have requested improved feedback from the NOPCML.

Efforts to prosecute these cases have been hampered by delays in reporting suspicious transactions (though somewhat improved in 2005) and by a lack of resources in some regions. The Directorate of Economic and Financial Crimes of the national police also has a mandate to pursue money laundering. However, despite hundreds of money laundering cases investigated since 2001, the interface with the justice system remains inadequate. In 2004, only one individual received a final conviction for money laundering under Law 656/2002, bringing the total to five between January 2002 and October 2005. At the end of the first nine months of 2005, the General Prosecutor's Office closed 133 criminal files related to money laundering, resulting in six indictments and 127 non-indictments since January 2005. There are 1,114 money laundering files pending. The National Anti-Corruption Department has opened 59 cases since 2004, of which four have resulted in an indictment and 34 in non indictments. Eleven cases are still pending.

Romania's 2002 anti-money laundering law was amended in July 2005 as Law 230/2005. The new law provides for a uniform approach to combating and preventing money laundering and terrorist financing. The purpose of the law is to meet the requirements of EU Directive 2001/97/EC and EU Directive 91/308/EEC on Preventing Use of the Financial System for Money Laundering, as well as the requirements of the European Council's Framework Decision of June 2001 on Identification, Search, Seizure, and Confiscation of the Means and Goods Obtained from Such Offenses. The law also responds to the Recommendations of the Financial Action Task Force (FATF). Law 230/2005 also provides that transactions suspected of connection to terrorism financing must be reported to the NOPCML and are subject to obligations regarding customer identification and the collection, preservation and disclosure of information.

The GOR announced a national anticorruption plan in early 2003 and passed a law against organized crime in April 2003. A new Criminal Procedure Code was passed and became effective on July 1, 2003. The new Code contains provisions for authorizing wiretapping and intercepting and recording telephone calls for up to 30 days, in certain circumstances. These circumstances, as provided for within the Code, include terrorist acts and money laundering.

In response to the events of September 11, 2001, Romania passed a number of legislative measures designed to sanction acts contributing to terrorism. Emergency Ordinance 141, passed in October 2001, provides that the taking of measures, or the production or acquisition of means or instruments,

with intent to commit terrorist acts, are offenses of exactly the same level as terrorist acts themselves. These offenses are punishable with imprisonment ranging from five to 20 years.

In April 2002, the Supreme Defense Council of the Country (CSAT) adopted a National Security Strategy, which includes a General Protocol on the Organization and Functioning of the National System on Preventing and Combating of Terrorist Acts. This system, effective July 2002 and coordinated through the Intelligence Service, brings together and coordinates a multitude of agencies, including 14 ministries, the General Prosecutor's Office, the National Bank, and the NOPCML. The Government of Romania (GOR) has also set up an inter-ministerial committee to investigate the potential use of the Romanian financial system by terrorist organizations.

Romanian law has some limited provisions for asset forfeiture in the Law on Combating Corruption, No. 78/2000, and the Law on Prevention and Combat of Tax Evasion, No. 241, introduced in July 2005. The Romanian Government, particularly the BNR, has been cooperative in seeking to identify and freeze terrorist assets. Emergency Ordinance 159, passed in late 2001, includes provisions for preventing the use of the financial and banking system to finance terrorist attacks, and sets forth the parameters for the government to combat such use. The BNR, which oversees all banking operations in the country, issued Norm No. 5 in support of Emergency Ordinance 159. Emergency Ordinance 153 was passed to strengthen the government's ability to carry out the obligations under UNSCR 1373, including the identification, freezing, and seizure of terrorist funds or assets. Legislative changes in 2005 extended the length of time a suspect account may be suspended. The NOPCML is now allowed to suspend accounts suspected of money laundering activity for three working days, as opposed to the previous two day limit. In addition, once the case is sent to the General Prosecutor's Office, it may further extend the period by four working days instead of the previously allowed three days.

In November 2004, the Parliament adopted law 535/2004 on preventing and combating terrorism, which abrogates some of the previous government ordinances and incorporates many of their provisions. The law includes a chapter on combating the financing of terrorism by prohibiting financial and banking transactions with persons included on international terrorist lists, and requiring authorization for transactions conducted with entities suspected of terrorist activities in Romania.

The BNR receives lists of individuals and terrorist organizations provided by the United States, the UNSCR 1267 Sanctions Committee, and the EU, and it circulates these to banks and financial institutions. The new law on terrorism provides that the assets used or provided to terrorist entities will be forfeited, together with finances resulting from terrorist activity. To date, in regard to terrorist financing, no arrests, seizures, or prosecutions have been carried out.

The EU's Europe Agreement with Romania provides for cooperation in the fight against drug abuse and money laundering. Romania is a member of the Council of Europe (COE) and participates in the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL). A mutual evaluation in April 1999 by that Committee uncovered a number of areas of concern, including the high evidence standard required for reporting suspicious transactions, a potential conflict with the bank secrecy legislation, and the lack of provisions for cases in which the reporting provisions are intentionally ignored. Romania has been working to address these concerns, bringing in legal experts from the EU to consult. In late 2003, Romania also underwent a Financial Sector Assessment Program (FSAP) by the World Bank as part of that organization's pilot program.

The GOR recognizes the link between organized crime and terrorism. Bucharest is the site of the Southeast European Cooperative Initiative's Center for Combating Transborder Crime, a regional center that focuses on intelligence sharing related to criminal activities, including terrorism. Romania also participates in a number of regional initiatives to combat terrorism. Romania has worked within SEEGROUP (a working body of the NATO initiative for Southeast Europe) to coordinate counterterrorist measures undertaken by the states of Southeastern Europe. The Romanian and

Bulgarian interior ministers signed an inter-governmental agreement in July 2002 to cooperate in the fight against organized crime, drug smuggling, and terrorism.

The NOPCML is a member of the Egmont Group. A Mutual Legal Assistance Treaty signed in 2001 between the United States and Romania entered into force in October 2001. The GOR has demonstrated its commitment to international anticrime initiatives by participating in regional and global anticrime efforts. Romania is a party to the 1988 UN Drug Convention, the Agreement on Cooperation to Prevent and Combat Transborder Crime, and the UN Convention against Transnational Organized Crime. Romania also is a party to the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime; the Council of Europe's Criminal Law Convention on Corruption; and the UN International Convention for the Suppression of the Financing of Terrorism. On November 2, 2004, Romania became a party to the UN Convention against Corruption.

Although legislation and regulations designed to combat financial crime are fairly new, they are quite comprehensive in scope. Nevertheless, implementation lags. The FIU has improved in its ability to report and investigate cases in a timely fashion. However, these investigations have resulted in only a handful of successful prosecutions to date. Romania should ensure that non-bank entities are fully aware of their reporting and record-keeping responsibilities and are adequately supervised. Romania should improve communications between reporting and monitoring entities, as well as between prosecutors and monitors. The General Prosecutor's Office should place a higher priority on money laundering cases. Romania should further implement existing procedures for the timely freezing, seizure, and forfeiture of criminal or terrorist-related assets.

Russia

Russia has enjoyed rapid economic growth in recent years, mainly driven by high world energy prices. However, Russia has been slow to complete structural reforms of the banking sector, and overall public confidence in Russian banks remains low. Russia's financial system does not attract a significant portion of legal or illegal depositors, and therefore Russia is not considered an important regional financial center. Over the past several years, however, Russia has committed significant resources to improve its ability to combat the laundering of criminal financial proceeds domestically and internationally. Through aggressive enactment and implementation of comprehensive money laundering and counterterrorism financing legislation, Russia now has well-established legal and enforcement frameworks to deal with money laundering and terrorism financing.

Despite having the political will to combat financial crime and making noticeable progress in doing so, Russia remains vulnerable to such activity because of its vast natural resource wealth, the pervasiveness of organized crime, and a high level of corruption. Other factors include porous borders, Russia's role as a geographic gateway to Europe and Asia, a weak banking system, and under-funding of regulatory and law enforcement agencies. Criminal elements from Russia and neighboring countries continue to use Russia's financial system to launder money because of familiarity with the language, culture, and economic system. The majority of laundered funds do not appear to be from activities related to narcotics production or trafficking, although these activities likely occur. Experts believe that most of the dirty money flowing through Russia derives from domestic criminal or quasi-criminal activity, including evasion of tax and customs duties and smuggling operations.

Net private capital inflows for 2005 were $0.3 billion, according to the Russian Ministry of Finance, marking a reversal from the $9.3 billion in outflows in 2004. In contrast to the capital flight that occurred during the 1990s, the majority of more recent outflows involve the legitimate movement of money to more secure and profitable investments abroad, which reflects the maturing of the Russian business sector. However, at least a portion of this money undoubtedly involves the proceeds of criminal activity.

Russia has the legislative and regulatory framework in place to pursue and prosecute financial crimes, including money laundering and terrorism finance. The Russian Federation's Federal Law No. 115-FZ "On Combating Legalization (Laundering) of Criminally Gained Income and Financing of Terrorism" became effective on February 1, 2002, with subsequent amendments to the laws on banking, the securities markets, and the criminal code taking effect in October 2002, January 2003, December 2003, and July 2004. Law RF 115-FZ obligates banking and non-banking financial institutions to monitor and report certain types of transactions, keep records, and identify their customers.

According to the original language of RF 115-FZ, those institutions legally required to report included: banks, credit organizations, securities market professionals, insurance and leasing companies, federal postal service, jewelry and precious metals merchants, betting shops, and companies managing investment and non-state pension funds. Amendments to the law that came into force on August 31, 2004, extend the reporting duty to real estate agents, lawyers and notaries, and persons rendering legal or accounting services that involve certain transactions (e.g., managing money, securities, or other property; managing bank accounts or securities accounts; attracting or managing money for organizations; or incorporating, managing, and buying or selling organizations).

Article 8 of Law 115-FZ provides for the establishment of Russia's financial intelligence unit as an independent executive agency administratively subordinated to the Ministry of Finance. In March 2004, President Putin issued a decree to upgrade the unit, formerly called the Financial Monitoring Committee, to a service, now called the Federal Service for Financial Monitoring (FSFM). All financial institutions with an obligation to report certain transactions must send this information to the FSFM. The FSFM's mission is to implement a unified state policy to combat money laundering and terrorism finance, yet it has no law enforcement investigative powers. In June 2005, President Putin approved a national strategy for combating money laundering and terrorism finance, part of which called for the creation of a new interagency commission on money laundering. The Ministry of Justice established the commission in November 2005, which is comprised of 12 ministries and government departments. The new commission will be chaired by the head of the FSFM and will be responsible for monitoring and coordinating the government's activity on money laundering and terrorism financing.

Various regulatory bodies ensure compliance with Russia's anti-money laundering and counterterrorism finance laws. The FSFM is specifically responsible for regulating real estate and leasing companies, pawnshops, and gambling services. The Central Bank of Russia (CBR) supervises credit institutions; the Federal Insurance Supervision Service oversees insurance companies; the Federal Service for Financial Markets regulates entities managing non-governmental pension and investment funds, as well as professional participants in the securities sector; and the Assay Chamber (under the Ministry of Finance) supervises entities buying and selling precious metals or stones.

The CBR has issued guidelines regarding anti-money laundering practices within credit institutions, including "know your customer" (KYC) and bank due diligence programs. Banks are required to obtain and retain for five years information regarding individuals and legal entities and beneficial owners of corporate entities. Further, banks must adopt internal compliance rules and procedures and appoint compliance officers. Since July 2004, the amendment to Law 115-FZ now requires banks to identify the original source of funds and to report to the FSFM all suspicious transactions. Institutions that fail to meet mandatory reporting requirements face revocation of their licenses to carry out relevant activity, limits on certain banking operations, and possible criminal or administrative penalties. An administrative fine of up to $16,700 can be levied against an institution, with a fine of up to $700 on an officer of an institution. The maximum criminal penalty is 10 years in prison with applicable fines.

Since the CBR issued Order 1317-U in August 2003, Russian financial institutions must now report all transactions with their counterparts in offshore zones. In some cases, offshore banks are also subject to

enhanced due diligence and maintenance of additional mandatory reserves to offset potential risks undertaken by the Russian institution for specific transactions. The CBR has also raised the standards for "eligible" offshore financial institutions, thereby reducing their number. Overall wire transfers from Russian banks to offshore financial centers have dropped significantly as a result of such regulatory measures.

Foreign financial entities, including those from known offshore havens, are not permitted to operate directly in Russia; they must do so solely through subsidiaries incorporated in Russia, which are subject to domestic supervisory authorities. During the process of incorporating and licensing these subsidiaries, Russian authorities must identify and investigate each director of the Russian unit; therefore nominee or anonymous directors are, as a practical matter, not permitted under Russian law and regulation. In September 2005, the CBR completed its review of all banks that sought admission to the recently established Deposit Insurance System (DIS). To gain admission to the DIS, a bank had to verifiably demonstrate to the CBR that it complies with Russian identification and transparency requirements. Currently, 927 of Russia's estimated 1200 banks have been admitted to the DIS, effectively weeding out over 200 banks from Russia's banking system.

By law, Russian businesses must obtain government permission before opening operations abroad, including in offshore zones. A department within the Ministry of Economic Development and Trade (MEDT) reviews such requests from Russian firms, and once the MEDT approves, the CBR must then approve the overseas currency transfer. In either case, the regulatory body responsible for the offshore activity is the same as for domestic activity, i.e., the Federal Service for Financial Markets regulates brokerage and securities firms, while the CBR regulates banking activity.

All obligated financial institutions must monitor and report to the government: any transaction that equals or exceeds 600,000 rubles (approximately $20,000) and involves or relates to: cash payments, individuals or legal entities domiciled in states that do not participate in the international fight against money laundering, bank deposits, precious stones and metals, payments under life insurance policies, or gambling; all transactions of "extremist organizations" or individuals included on Russia's domestic list of such entities and individuals; and suspicious transactions.

Each of the FSFM's seven territorial offices corresponds with one of the federal districts that comprise the Russian Federation. The Central Federal District office is headquartered in Moscow; the remaining six are located in the major financial and industrial regions throughout Russia. The primary functions of the territorial offices are to coordinate with regional law enforcement and other authorities to enhance the incoming information flow into the FSFM, and to supervise compliance with anti-money laundering and counterterrorism financing legislation by institutions under FSFM supervision. Additionally, the satellite offices must identify and register at the regional level all pawnshops, leasing and real estate firms, and gaming entities under their jurisdiction. The regional offices also are charged with coordinating the efforts of the CBR and other supervisory agencies to implement anti-money laundering and counterterrorist financing regulations.

Russia's anti-money laundering law, as amended, provides the FSFM with the appropriate authority to gather information regarding the activities of investment foundations, non-state pension funds, gambling businesses, real estate agents, lawyers and notaries, persons rendering legal/accountancy services, and sales of precious metals and jewelry. Virtually all financial institutions submit reports to the FSFM via encrypted software provided by the FSFM. According to press reports, Russia's national database contains over four million reports involving operations and deals worth over $877 billion. The FSFM estimates that Russian citizens may have laundered as much as $7 billion in 2005. The FSFM receives approximately 10,000 transaction reports daily. Of these daily reports, 75 percent result from mandatory (currency) transaction reports, and the remaining 25 percent relate to suspicious transactions.

During the first ten months of 2005, the FSFM carried out 3,803 financial investigations, referring 2,026 of them to law enforcement agencies for possible criminal investigations. According to the Economic Crimes Unit of the Ministry of Interior (MVD), in 2005 Russian law enforcement investigated 7,269 cases of money laundering, sent 6,186 of the cases to court, and convicted 216 individuals on money laundering charges. Both the FSFM and MVD estimate that the number of suspicious transaction reports in 2005 has grown five-fold over the previous year, an increase which both agencies attribute to a greater focus government-wide on financial crimes and terrorism financing.

On terrorism finance, the FSFM reports that it has compiled a list of 1,300 organizations and individuals suspected of financing terrorism, 400 of which were foreign. To date, the FSFM has uncovered 113 bank accounts related to organizations and individuals included on Russia's terrorism list. Depending on the nature of the activity, the FSFM provides information to the appropriate law enforcement authorities for further investigation, i.e., the MVD for criminal matters, the Federal Drug Control Service (FSKN) for narcotics-related activity, or the Federal Security Service (FSB) for terrorism-related cases.

As part of administrative reforms enacted in 2004, the FSKN now has a full division committed to money laundering, staffed by agents with experience in counternarcotics and economic crimes. This division cooperates closely with the FSFM in pursuing narcotics-related money laundering cases. In 2005, the FSKN reportedly initiated approximately 1,550 money laundering cases and referred over 400 of these cases to the General Procuracy for prosecution. In July 2005, the FSKN announced that it had uncovered a major money laundering ring that was using an alternative remittance system to conduct illegal transactions involving money gained from drug smuggling. According to the FSKN's press service, the FSKN uncovered monthly transactions of up to $14 million that were linked to this criminal ring. The FSKN arrested four individuals, and opened criminal cases under Article 172 (illegal banking activities) and Article 174.1 (money laundering) of Russia's criminal code. Consistent with Financial Action Task Force (FATF) recommendations, the criminal code was amended in December 2003 to remove a specific monetary threshold for crimes connected with money laundering, thus paving the way for prosecution of criminal offenses regardless of the sum involved.

With its legislative and enforcement mechanisms in place, Russia has begun to prosecute high-level money laundering cases. In 2005, the CBR revoked the licenses of 37 banks for failing to observe banking regulations. Of these, 14 banks lost their licenses for violating Russia's anti-money laundering laws. In early 2005, the FSFM announced that it suspected ten unnamed banks of involvement in money laundering activities. Subsequently, the CBR announced that it was considering revoking the licenses of two banks for suspicion of money laundering. According to press reports, Russian law enforcement agencies conducted several raids and launched criminal investigations into banks suspected of money laundering. This increased targeting of suspect credit and non-credit institutions demonstrates Russia's broad-based commitment to enforcing its anti-money laundering and counterterrorism financing legislation and an improvement in compliance levels as a result of its actions.

Russia has a legislative and financial monitoring scheme that permits the tracking, seizure and forfeiture of criminal proceeds. None of this legislation is specifically tied to narcotics proceeds. Russian legislation provides for investigative techniques such as search, seizure, and compelling the production of documents, as well as the identification, freezing, seizing, and confiscation of funds or other assets. Where sufficient grounds exist to suppose that property was obtained as the result of a crime, investigators and prosecutors can apply to the court to have the property frozen or seized. Law enforcement agencies have the power to identify and trace property that is, or may become, subject to confiscation or is suspected of being the proceeds of crime or terrorist financing. Moreover, the law allows the FSFM, in concert with banks, to freeze possible terrorist-related financial transactions up to

one week. Banks may freeze transactions for two days, and the FSFM may follow up with freezing for an additional five days.

In accordance with its international agreements, Russia recognizes rulings of foreign courts relating to the confiscation of proceeds from crime within its territory and can fully or partially transfer confiscated proceeds of crime to the foreign state whose court issued the confiscation order. However, Russian law still does not provide for the seizure of instruments of crime. Businesses can be seized only if it can be shown that they were acquired with criminal proceeds. Legitimate businesses cannot be seized solely on the basis that they were used as "instruments" to facilitate the commission of a crime. The Presidential Administration as well as Russian law enforcement agencies have expressed concern about the ineffective implementation of Russia's confiscation laws. The government has proposed amendments that are currently under review by the Duma which would make it easier to identify and seize criminal instrumentalities and proceeds. While Russian law enforcement has adequate police powers to trace assets, and the law permits confiscation of assets, most Russian law enforcement personnel lack experience and expertise in these areas.

The Russian Federation has enacted several pieces of legislation and issued executive orders to strengthen its ability to fight terrorism. On January 11, 2002, President Putin signed a decree entitled "On Measures to Implement the UN Security Council Resolution (UNSCR) No. 1373 of September 28, 2001." Noteworthy among this decree's provisions are the introduction of criminal liability for intentionally providing or collecting assets for terrorist use, and the instructions to relevant agencies to seize assets of terrorist groups. This latter clause, however, conflicted with existing domestic legislation. Accordingly, on September 24, 2002, the Duma approved an amendment to the anti-money laundering law, resolving the conflict and allowing banks to freeze assets immediately, pursuant to UNSCR 1373. This law came into force on January 2, 2003. Further, Article 205.1 of the criminal code, which was enacted in October 2002, criminalizes terrorist financing. On October 31, 2002, the Federation Council, Russia's upper house, approved a supplemental article to the 2003 federal budget, allocating from surplus government revenues an additional 3 billion rubles ($100 million) in support of federal counterterrorism programs and improvement of national security.

In February 2003, at the request of the General Procuracy, the Russian Supreme Court issued an official list of 15 terrorist organizations. According to press reports, the financial assets of these organizations were immediately frozen. In addition, Russia has assisted the United States in investigating high profile cases involving terrorist financing. In 2003, Russia provided vital financial documentation and other evidence that helped establish the criminal activities of the Benevolence International Foundation (BIF). In April 2005, a U.S. Federal Court convicted a British national for attempting to smuggle shoulder-held missiles into the U.S. with the intent to sell the weapons to a presumed terrorist group. The subject was arrested in a sting operation that involved 18 months of collaboration among U.S., Russian, and British authorities. He was found guilty on five counts, including material support to terrorists, unlawful arms sale, smuggling, and two counts of money laundering. However, Russia and the U.S. continue to differ about the purpose of the UN 1267 Sanctions Committee's designation process, and such political differences have hampered bilateral cooperation in this forum.

Russia became a full member of the FATF in June 2003 and was the driving force behind the creation of the Eurasian Group on Combating Legalization of Proceeds from Crime and Terrorist Financing (EAG), which also includes Belarus, China, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan as members, and several other nations and multilateral organizations as observers, including the United States. The EAG Secretariat is located in Moscow. Since its inception, the EAG has held three plenary sessions (two in Moscow and one in Shanghai) in addition to several working group and typologies meetings. Russia, in its current role as President of the EAG, continues to play a strong leadership role in bringing the region up to international standards in its capacity to fight money laundering and terrorism financing.

The United States and Russia signed a Mutual Legal Assistance Treaty in 1999, which entered into force on January 31, 2002. The FSFM has signed cooperation agreements with the Financial Intelligence Units (FIUs) of 24 countries, including Belgium, Columbia, Cyprus, Czech Republic, Estonia, Finland, France, Israel, Italy, Korea, Latvia, Liechtenstein, Luxembourg, Monaco, Panama, Peru, Poland, Portugal, Slovenia, Sweden, Ukraine, the United Kingdom, the United States, and Venezuela. Additionally, the FSFM is an active member of the Egmont Group, having sponsored several candidate countries for membership in 2004. U.S. law enforcement agencies exchange operational information with their Russian counterparts on a regular basis. In 2005, Russian law enforcement agencies cooperated with the U.S. in a high- profile case that led to the conviction of a Russian national in a U.S. District Court on charges that he laundered over $130 million through a Moscow bank. The individual was sentenced to 51 months imprisonment and ordered to pay $17.4 million in restitution to the Russian government.

In addition to membership in the FATF, Russia holds membership in the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL). Russia ratified the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime in January 2001. Russia is a party to the 1988 UN Drug Convention and on May 26, 2004, became a party to the UN Convention against Transnational Organized Crime. In November 2002, Russia ratified the UN International Convention for the Suppression of the Financing of Terrorism. Russia also became a signatory to, but has not yet ratified, the UN Convention against Corruption.

Russia has developed a solid legislative and regulatory foundation for combating money laundering and terrorism financing. Given its role in spearheading the creation of the EAG, Russia has demonstrated both the political will and a capability to improve the region's capacity for countering money laundering and terrorism financing. President Putin also sent a clear signal of support when he approved a national money laundering strategy in June 2005 and charged an inter-agency commission to implement the strategy in the short term.

Nevertheless, some vulnerabilities remain. To meet President Putin's stated goal of combating money laundering and corruption, Russia needs to follow through on its commitment to improve CBR oversight of shell companies and scrutinize more closely those banks that do not carry out traditional banking activities. To prevent endemic corruption and deficiencies in the business environment from undermining Russia's efforts to establish a well functioning anti-money laundering and counterterrorism finance regime, Russia should strive to stamp out official corruption, particularly at high levels, and to increase transparency in the financial sector and the corporate environment. Russia should also commit adequate resources to its regulatory and law enforcement entities in order to help them fulfill their responsibilities, and enact legislation that would provide for the seizure of instruments, as opposed to merely the proceeds, of criminal activity. Finally, Russia should continue to play a leadership role in the region with regard to anti-money laundering and counterterrorist finance regime implementation.

Samoa

Samoa does not have major organized crime, fraud, or drug problems. The most common crimes that generate revenue within the jurisdiction are primarily the result of low-level fraud and theft. The domestic banking system is very small, and there is relatively little risk of significant money laundering derived from domestic sources. Samoa's offshore banking sector is relatively small. The Government of Samoa (GOS) enacted the Money Laundering Prevention Act (the Act) in 2000. This law criminalizes money laundering associated with numerous crimes, sets measures for the prevention of money laundering and related financial supervision. Newly adopted regulations and guidelines fully implementing this legislation came into force in 2002. Under the Act, a conviction for a money

laundering offense is punishable by a fine not to exceed Western Samoa Tala (WST) one million (approximately $354,000), a term of imprisonment not to exceed seven years, or both.

The Act requires financial institutions to report transactions considered suspicious to the Money Laundering Prevention Authority (MLPA), the Samoa Financial Intelligence Unit (FIU) currently working under the auspices of the Governor of the Central Bank. The MLPA receives and analyzes Samoa disclosures, and if it establishes reasonable grounds to suspect that a transaction involves the proceeds of crime, it refers the information to the Attorney General and the Commissioner of Police. In 2003, Samoa established under the authority of the Ministry of the Prime Minister, an independent and permanent Transnational Crime Unit (TCU). The TCU is staffed by personnel from the Samoa Police Service, Immigration Division of the Ministry of the Prime Minister and Division of Customs. The TCU is responsible for intelligence gathering and analysis and investigating transnational crimes, including money laundering, terrorist financing and the smuggling of narcotics and people.

The Act requires financial institutions to record new business transactions exceeding WST 30,000 (approximately $10,000), to retain records for a minimum of seven years, and to identify all parties to the transactions. This threshold reporting system could expose the financial institutions to potential abuse. Nevertheless, Section 43(a) of the Money Laundering Prevention Regulations 2002 requires financial institutions to identify their customers when "there are reasonable grounds for believing that the one-off transaction is linked to one or more other one-off transactions and the total amount to be paid by or to the applicant for business in respect to all of the linked transactions is WST 30,000, or the equivalent in another currency." Moreover, proposed amendments to the Act would delete the threshold reporting system, leaving it open for all financial institutions to report any amount or transaction that purports to involve money laundering.

Section 12 of the Act establishes that all financial institutions have an obligation under this law to "develop and establish internal policies, procedures and controls to combat money laundering, and develop audit functions in order to evaluate such policies, procedures and controls." The Regulations and Guidelines that have been developed remedy the lack of specificity in the Act about the obligation of financial institutions to establish the identity of the beneficial owner of an account managed by an intermediary. Specifically, Section 12.06 of the Money Laundering Prevention Guidelines for the Financial Sector provides that "…If funds to be deposited or invested are being supplied by or on behalf of a third party, the identity of the third party (i.e., the underlying beneficiary) should also be established and verified." The law requires individuals to report to the MLPA if they are carrying with them WST 10,000 (approximately $3,300) or more, in cash or negotiable instruments, upon entering or leaving Samoa.

The Act removes secrecy protections and prohibitions on the disclosure of relevant information. Moreover, it provides protection from both civil and criminal liability for disclosures related to potential money laundering offenses to the competent authority.

The Central Bank of Samoa, the Office of the Registrar of International and Foreign Companies, and the MLPA regulate the financial system. There are four locally incorporated commercial banks, supervised by the Central Bank. The Office of the Registrar of International and Foreign Companies has responsibility for regulation and administration of the offshore sector. There are no casinos, but two local lotteries are in operation.

Samoa is an offshore financial center, with eight offshore banks licensed. For entities registered or licensed under the various Offshore Finance Centre Acts, there are no currency or exchange controls or regulations, and no foreign exchange levies payable on foreign currency transactions. No income tax or other duties, nor any other direct or indirect tax or stamp duty is payable by registered/licensed entities. In addition to the eight offshore banks, Samoa currently has 13,465 international business corporations (IBCs), three international insurance companies, six trustee companies, and 175 international trusts. Section 16 of the Offshore Banking Act stipulates prohibition for any person from

applying to be a director, manager, or officer of an offshore bank who has been sentenced for an offense involving dishonesty. The prohibition is also reflected in the application forms and Personal Questionnaire that are completed by prospective applicants that detail the licensing requirements for offshore banks. The application forms list the required supporting documentation for proposed directors of a bank. These include references from a lawyer, accountant, and a bank, police clearances, curriculum vitae, certified copies of passports and personal statements of assets and liabilities (if also a beneficial owner). The Inspector of Offshore Banks must be satisfied with all supporting documentation that a proposed director is fit and proper in terms of his integrity, competence and solvency.

International cooperation can occur only if Samoa has entered into a mutual cooperation agreement with the requesting nation. Under the Act, the MLPA has no powers to exchange information with overseas counterparts. All cooperation under the MLPA is through the Attorney General's Office, which is the Competent Authority under the Act for receiving and implementing. However, according to a 2003 Samoa Report to the UN Counter-Terrorism Committee, Samoa is reviewing the legal framework for the effective operation of the MLPA in order to further strengthen domestic and international information exchange. In addition, the Office of the Attorney General, in conjunction with the Central Bank, the Ministry of Police and the Division of Customs of the Ministry for Revenue, is currently preparing amendments to the Money Laundering Prevention Act of 2000 for purposes of strengthening and complementing legislation that is being drafted or developed, including the Proceeds of Crime Bill, the Mutual Assistance in Criminal Matters Bill, and the Extradition Amendment Bill. At the 2005 Asia/Pacific Group Plenary, Samoa reported that these bills and an Insurance Act would be tabled for Parliament's approval in December, 2005. The Attorney General's stated that enactment of the relevant amendments to these bills would be enacted in the first quarter of 2006.. Samoa also reported that in 2004, the MLPA received 23 suspicious transaction reports in 2004. Samoa is a party to the UN International Convention for the Suppression of the Financing of Terrorism. In 2002, Samoa enacted the Prevention and Suppression of Terrorism Act. The Act defines and criminalizes terrorist offenses, including offenses dealing specifically with the financing of terrorist activities. The combined effect of the Money Laundering Prevention Act of 2000 and the Prevention and Suppression of Terrorism Act of 2002 is to make it an offense for any person to provide assistance to a criminal to obtain, conceal, retain or invest funds or to finance or facilitate the financing of terrorism.

Samoa is a member of the Asia/Pacific Group on Money Laundering and the Pacific Island Forum. Samoa hosted the annual plenary of the Pacific Island Forum in August, 2004. Samoa has not signed the 1988 UN Drug Convention. Nor has it signed the UN Convention against Transnational Organized Crime.

Since the passage of the Money Laundering Prevention Act in June 2000, Samoa has continued to strengthen its anti-money laundering regime and has issued regulations and guidelines to financial institutions so that they have a clear understanding of their obligations under the Act. Particular emphasis is directed toward regulation of the offshore financial sector, principally the establishment of due diligence procedures for owners and directors of banks and the elimination of anonymous accounts for onshore and offshore banks. The GOS is strengthening relevant legislation to identify the beneficial owners of IBCs to help ensure that criminals do not use them for money laundering or other financial crimes. Samoa is in the process of adopting amended and additional legislation to allow for international cooperation and information sharing.

The inability of the Money Laundering Prevention Authority simply to exchange information on an administrative level is a material weakness of the current system and is an impediment to international cooperation. To rectify that situation, the Government of Samoa should enact legislation to provide the Money Laundering Prevention Authority with the legal authority to share information with foreign

analogs. Samoa should also accede to the 1988 UN Drug Convention and become a party to the UN Convention against Transnational Organized Crime.

Saudi Arabia

Saudi Arabia is a growing financial center in the Gulf Region of the Middle East. There is little known money laundering in Saudi Arabia related to traditional predicate offenses. All eleven commercial banks in Saudi Arabia operate as standard "western-style" financial institutions and all banks operate under the supervision of the Saudi Arabian Monetary Authority (SAMA). Saudi Arabia is not an offshore financial center. There are no free zones for manufacturing, although there are bonded transit areas for the transshipment of goods not entering the country. The money laundering and terrorist financing that does occur are not primarily related to narcotics proceeds in Saudi Arabia. There was no significant increase in financial crimes during 2005, although a definitive determination is hard to make because of the absence of official criminal statistics, and any market in smuggled goods does not appear to be related to the narcotics trade.

Saudi donors and unregulated charities have been a major source of financing to extremist and terrorist groups over the past 25 years. However, the Final Report of the National Commission on Terrorist Attacks Upon the United States ("The 9/11 Commission") found no evidence that either the Saudi Government, as an institution, or senior Saudi officials individually, funded al-Qaida. Following the al-Qaida bombings in Riyadh on May 12, 2003, the Government of Saudi Arabia (GOSA) has taken significant steps to help counteract terrorist financing.

In 2003, Saudi Arabia approved a new anti-money laundering law that for the first time contains criminal penalties for money laundering and terrorist financing. The law bans conducting commercial or financial transactions with persons or entities using pseudonyms or acting anonymously; requires financial institutions to maintain records of transactions for a minimum of ten years and adopt precautionary measures to uncover and prevent money laundering operations; requires banks and financial institutions to report suspicious transactions; authorizes government prosecutors to investigate money laundering and terrorist financing; and allows for the exchange of information and judicial actions against money laundering operations with countries with which Saudi Arabia has official agreements.

SAMA guidelines correspond to the Recommendations of the Financial Action Task Force (FATF). On May 27, 2003 SAMA issued updated anti-money laundering and counterterrorist finance guidelines for the Saudi banking system. The guidelines require that banks have mechanisms to monitor all types of "Specially Designated Nationals" as listed by SAMA; that fund transfer systems be capable of detecting specially designated nationals; that SAMA circulars on opening accounts and dealing with charity and donation collection be strictly adhered to; and that the banks be able to provide the remitter's identifying information for all outgoing transfers. The new guidelines also require banks to use software to profile customers to detect unusual transaction patterns; establish a monitoring threshold of SR 100,000 ($26,667); and develop internal control systems and compliance systems. SAMA also issued new "know your customer" guidelines, requiring banks to freeze accounts of customers who do not provide updated account information. Saudi law prohibits non-resident individuals or corporations from opening bank accounts in Saudi Arabia without the specific authorization of SAMA. There are no bank secrecy laws that prevent financial institutions from reporting client and ownership information to bank supervisors and law enforcement authorities. The GOSA provides anti-money laundering training for bank employees, prosecutors, judges, customs officers and other government officials.

In 2003, the GOSA established an anti-money laundering unit in SAMA and in 2005 the GOSA opened a Financial Investigation Unit (FIU) under the auspices of the Ministry of Interior. Saudi banks are required to have their own anti-money laundering units with specialized staff to work with SAMA,

the FIU and law enforcement authorities. All banks are also required to report any suspicious transactions to the FIU. The Saudi FIU collects and analyzes suspicious transaction reports and other available information and decides whether to make referrals to the Ministry of Interior's Bureau of Investigation and Prosecution or other entities for further investigation and prosecution. The FIU is staffed by officers from the Mabahith and SAMA. The FIU is committed to obtaining membership in the Egmont Group within the next two years.

Hawala transactions outside banks and licensed money changers are illegal in Saudi Arabia. Reportedly, some money laundering cases that SAMA has investigated in the past decade involved the hawala system. In order to help counteract the appeal of hawala, particularly to many of the approximately six million expatriates living in Saudi Arabia, Saudi banks have taken the initiative and created fast, efficient, high quality, and cost-effective fund transfer systems that have proven capable of attracting customers accustomed to using hawalas. An important advantage for the authorities in combating potential money laundering and terrorist financing in this system is that the senders and recipients of fund transfers through this formal financial sector are clearly identified. In 2005, in an effort to further regulate the over $16 billion in remittances that leave Saudi Arabia every year, in 2005 SAMA consolidated the eight largest money changers into a single bank, Bank Al-Bilad.

In late 2005, the GOSA enacted stricter regulations on the cross-border movement of money and precious metals. Money and gold in excess of $16,000 must be declared upon entry and exit from the country. While the regulations were effective immediately, Customs staff training and public education probably will not be completed until early-to-mid 2006.

Contributions to charities in Saudi Arabia are usually in the form of Zakat, which refers to an Islamic religious duty with specified humanitarian purposes. The 9/11 Commission Report noted that the GOSA failed to adequately supervise Islamic charities in the country. To help address this problem, in 2002 Saudi Arabia announced its intention to establish a commission to oversee Saudi charities with foreign operations. In 2004, the GOSA issued guidelines for the National Commission for Relief and Charitable Work Abroad. However, as of the end of 2005, there has been no further announcement on the Charities Commission structure, leadership or staffing. The U.S. government is working with the Saudi authorities to clarify the status of the international charities with headquarters in Saudi Arabia and the role of the Charities Commission.

As required by regulations in effect for over 20 years, domestic charities in Saudi Arabia are licensed, registered audited, and supervised by the Ministry of Social Affairs. The Ministry has engaged outside accounting firms to perform annual audits of charities' books and has established an electronic database for tracking the operations of the charities they oversee. New banking rules implemented in 2003 that apply to all charities include stipulations that accounts can be only opened in Saudi Riyals; there are enhanced customer identification requirements; there is one main consolidated account for each charity; there are no cash disbursements—payments may be made only by checks payable to the first beneficiary and deposited in a Saudi bank; the use of ATM and credit cards for charitable purposes will not be permitted; and there will be no money transfers outside of Saudi Arabia. According to GOSA officials, these regulations apply to international charities as well and are being actively enforced.

Saudi Arabia participates in the activities of the Financial Action Task Force (FATF) through its membership in the Gulf Cooperation Council (GCC). In July 2004, reporting on the results of a mutual evaluation conducted in September 2003, the FATF concluded that the framework of Saudi Arabia's anti-money laundering regime met the general obligations for the FATF recommendations for combating money laundering and financing of terrorism, but noted the need to implement these new laws and regulations. Saudi Arabia also supported the creation of the Middle East and North Africa Financial Action Task Force (MENAFATF) that was inaugurated in Bahrain in November 2004; the GOSA was one of the original charter signatories. The MENAFATF is a FATF-style regional body.

The success of the MENAFATF is a critical element in the region's efforts to expedite the adoption and implementation of international anti-money laundering and counterterrorist financing standards.

Saudi Arabia is working to implement the UN Security Council resolutions on terrorist financing. SAMA circulates to all financial institutions under its supervision the names of suspected terrorists and terrorist organizations on the UNSCR 1267 Sanctions Committee's consolidated list. In January 2004, Saudi Arabia and the United States made a joint request to the UNSCR 1267 Sanctions Committee to designate the Kenya, Pakistan, Tanzania and Indonesia branches of the Al-Haramain Islamic Foundation as a supporter of terrorism. In June 2004, Saudi Arabia announced that it had completely dissolved the Al- Haramain Islamic Foundation. The GOSA and U.S. continue to work bilaterally to investigate terrorist financing. Saudi Arabia has signed, but is not yet a party, to the UN International Convention for the Suppression of the Financing of Terrorism. It ratified the UN Convention against Transnational Organized Crime on January 18, 2005.

The Government of Saudi Arabia is moving to monitor and enforce its anti-money laundering and terrorist finance laws, regulations and guidelines. However, it needs to establish the High Commission for Charities. As in many countries in this region, there is still an over-reliance on suspicious transaction reporting to generate money laundering investigations. Saudi Arabia's unwillingness to publicly disseminate statistics regarding money laundering prosecutions impedes the evaluation and design of enhancements to the judicial aspects of its AML system. Law enforcement agencies should take the initiative and proactively generate leads and investigations, and be able to follow the financial trails wherever they lead. Donations in the form of gold and other gifts need to be scrutinized. International charities need to be made subject to the same government oversight as domestic charities, including the rules of both SAMA and the Charities Commission. The GOSA should become a party to the UN International Convention for Suppression of the Financing of Terrorism.

Serbia and Montenegro

At the crossroads of Europe and on the highway known as the "Balkan route," narcotics trafficking, smuggling of persons, drugs, weapons and pirated goods, money laundering, and other criminal activities continue in Serbia and Montenegro (SAM, formerly the Federal Republic of Yugoslavia). Serbia and Montenegro is located in Southeastern Europe (the Balkans), bordering the Adriatic Sea to the west and Romania and Bulgaria to the east. SAM is a state union consisting of two republics, the Republic of Serbia and the Republic of Montenegro. In the Republic of Serbia is the nominally autonomous province of Vojvodina. Kosovo, recognized by the UN as part of SAM, has been administered by the United Nations Mission in Kosovo since 1999. (Since Serbia no longer exercises effective control over Kosovo, this report does not address Kosovo.) The state union has a population of approximately 10.7 million, of which about 8 million live in Serbia, about 600,000 in Montenegro and slightly over two million in Kosovo. Each republic has a separate government and parliament. However, there is also a parliament on the federal level.

The country continues to have a significant black market for smuggled goods. Illegal proceeds are generated from drug trafficking, official corruption, tax evasion, organized crime and other types of financial crimes. Proceeds from illegal activities are being heavily invested in all forms of real estate. The construction and renovation of commercial buildings such as offices, apartments, high-end retail businesses as well as personal residences is evident in the capitals of Belgrade and Podgorica as well as other major cities. Investment by foreign individuals and businesses in expensive real estate along the Montenegro coast has raised prices and generated concerns about the source of funds used for these investments.

Tax evasion, which is a predicate crime for money laundering, and trade-based money laundering in the form of over- and under-invoicing, are common methods used to launder money. Serbia introduced a VAT tax in 2005 and the full impact of refund fraud associated with the administration of the VAT

is still not clear. Serbia's Tax Administration does not have the capacity or resources to investigate the large number of suspicious transactions that are forwarded by Serbia's Financial Intelligence Unit (FIU). This creates a situation where criminals can spend and invest criminal proceeds freely with little fear of challenge by the tax authorities or other law enforcement agencies. In both Serbia and Montenegro, the difficulty of convicting a suspect of money laundering without a conviction for the original criminal act and the unwillingness of the courts to accept circumstantial evidence to support money laundering or tax evasion charges is hampering law enforcement and prosecutors in following the movement and investment of illegal proceeds and effectively using the anti-money laundering laws.

Some Serbian officials also estimate that up to half of all significant financial transactions in SAM may be connected in some way to money laundering. Neither republic has identified any activities relating to the financing of terrorism. Both Montenegro and Serbia (2005) have criminalized the financing of terrorism.

State Union. In March 2002, the leadership of the FRY, Serbia, and Montenegro signed the Belgrade Agreement on restructuring the relationship between the two republics. On February 4, 2003, the FRY parliament voted to adopt a new Constitutional Charter that established the state union of "Serbia and Montenegro." Under this state union structure, most governmental authority previously invested in federal Yugoslav authorities devolved to the individual republics. As a result, responsibility for the laws and institutions that determine policies shifted. Subsequently, both the Republic of Serbia (Serbia) and the smaller Republic of Montenegro (Montenegro) have addressed money laundering and terrorism financing. However, each republic has done so in its own way. Banks in both republics have demonstrated substantial compliance with the laws in their respective jurisdictions.

Serbia and Montenegro has no laws governing its cooperation with other governments, related to narcotics, terrorism, or terrorist financing. Cooperation is instead based on participation in Interpol, bilateral cooperation agreements, and agreements concerning international legal assistance. There are no laws at all governing the sharing of confiscated assets with other countries, nor is any legislation under consideration; SAM may at this time enter into bilateral agreements for this purpose.

Serbia and Montenegro does not have a mutual legal assistance arrangement with the United States. SAM has signed 34 bilateral agreements on mutual legal assistance with 21 countries: Algeria, Austria, Belgium, Bulgaria, the Czech Republic, France, Greece, Croatia, Iraq, Italy, Cyprus, Germany, Poland, Romania, Hungary, Macedonia, Mongolia, Russian Federation, Spain, Turkey, the United Kingdom. These agreements authorize extradition of suspected terrorists. Both SAM and its constituent republics cooperate with their counterparts and neighbors. In April 2003, SAM joined eight other participants in the South Eastern Europe Cooperation Process, in adopting a joint "Belgrade Declaration" to call for the continuation of regional cooperation and the intensification of the fight against terrorism and organized crime. SAM worked with Interpol to set up an office for that organization in Belgrade as part of its efforts to contribute to the fight against terrorism and other transnational crimes; a sub-office for liaison with Interpol exists in the Montenegrin Interior Ministry.

Ratification of international Conventions and treaties currently lies at the State Union level. Serbia and Montenegro is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. On October 9, 2003, SAM ratified the Council of Europe's Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime. SAM is a party to 11 of the 12 UN Conventions or Protocols dealing with terrorism, including the UN International Convention for the Suppression of the Financing of Terrorism, although the domestic implementation procedures do not provide the framework for full application in Serbia. Both Serbia and Montenegro have criminalized the financing of terrorism, but the freezing, seizing and confiscation of assets of terrorists in accordance with UN Security Council resolutions still lacks a legal basis in Serbia; Montenegro can since 2005 take action on the basis of such decisions. In December 2003, SAM

signed, and recently ratified, the UN Convention against Corruption. As a new member of the Council of Europe, SAM is a full and active member of the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL), and underwent a first-round evaluation by a team from that Committee in October 2003. The report urged both republics to improve the provisions on provisional measures and confiscation, as well as to adopt specific provisions on the countering of the financing of terrorism, both the criminalization and the obligation to report in case of a suspicion of financing of terrorism.

Serbia. The Yugoslav Federal Assembly adopted an Anti-Money Laundering Law (AML Law) in September 2001; it came into effect in July 2002. This law effectively created Serbia's Financial Intelligence Unit (FIU), the Administration for the Prevention of Money Laundering. In July 2003, the FIU became a member of the Egmont Group, and has since begun active participation in information exchanges with counterpart FIUs.

In September 2005, Serbia criminalized terrorist financing and codified an expanded definition of money laundering into the Penal Code. This gives police and prosecutors more flexibility to pursue money laundering charges since the money laundering conduct is broader under the new law and in conformity with international standards. The penalty for money laundering is up to 10 years imprisonment. This is significant in that under Serbian law and procedure, it falls into the serious crime category and permits the use of Mutual Legal Assistance (MLAT) procedures to obtain information from abroad. Previous penalties for money laundering kept money laundering out of the serious crime category, and use of the MLAT or letters rogatory were not an option in cases where a serious crime could not be identified as the source of the suspected illegal proceeds.

On November 28, 2005, Serbia adopted a revised money laundering law that elevates the status of the FIU to that of an administrative body under the Ministry of Finance from its previous position of "sector" in that Ministry. This will provide more autonomy for the agency to carry out its mandate and provide additional resources. One important change is that the Administration will have its own line item operating budget. The law also expands the number of entities required to collect certain information on all transactions over 15,000 Euros, or the dinar equivalent, and to report all cash transactions exceeding this threshold to the FIU. Suspicious transactions in any amount must be reported to the FIU. The law also requires attorneys and accountants to report suspicious transactions. Other significant changes include the authority of the FIU to freeze transactions for up to 72 hours and to require covered entities and individuals to monitor customers' accounts where money laundering is suspected. Under Serbian law, assets derived from criminal activity or suspected of involvement in the financing of terrorism can be confiscated upon conviction for an offense.

Serbia signed a memorandum of understanding (MOU) on the exchange of information with the National Bank of Serbia in 2004 and is negotiating MOUs with the Customs and Tax Administrations. The Government of Serbia has established an interagency working group tasked with developing an implementation plan for the recommendations from MONEYVAL's review in October 2003. It is also tasked with drafting a new law to address the procedures needed to comply with UN Security Council resolutions regarding the freezing, seizing and confiscation of suspected terrorist assets and to require suspicions of terrorist financing to be reported to the FIU.

The FIU is the authority charged with enforcing the UN terrorism sanction lists. Although it routinely checks for suspect accounts, it has found no evidence of terrorism financing within the banking system and no evidence of the usage of alternative remittance systems. The Department for Combating Organized Crime (UBPOK), in the Ministry of Interior, is the law enforcement body responsible for countering terrorism. UBPOK cooperates and shares information with its counterpart agencies in all of the countries bordering SAM.

The government still needs better interagency coordination to improve information sharing, record keeping and statistics, and thereby introduce a more effective regime and permit a meaningful assessment of its AML/CFT efforts at all levels of government.

Montenegro. In August 2002, the Central Bank of Montenegro (CBCG) issued a decree that requires banks and other financial institutions to report suspicious transactions, establish anti-money laundering control programs, and train their employees to detect money laundering. The CBCG dissolved all offshore banks for failure to re-register and reestablish themselves as regular banks. The Finance Ministry has not released complete information about the actual disposition of the 400 offshore entities whose names they turned over to CBCG.

Money laundering was criminalized in 2002, and the Criminal Code was amended in June 2003 to enable the government to confiscate money and property involved in criminal activity. Additionally, according to the Code, business licenses of legal or natural persons may be revoked and business activities banned if the subject is found guilty of criminal activities, including narcotics trafficking or terrorist financing. In April 2004, Montenegro further amended its Criminal Procedure Code to bring it into conformity with the standards of the Council of Europe.

Montenegro passed anti-money laundering legislation on September 24, 2003. The law obliges banks, post offices, state entities, casinos, lotteries and betting houses, insurance companies, jewelers, travel agencies, auto and boat dealers, and stock exchange entities to file reports on all transactions exceeding 15,000 euros, as well as on any related transactions that aggregate 15,000 euros or more, even if each particular transaction does not exceed the threshold. Financial institutions are also obliged to report suspicious transactions, even if only a small amount of money is involved. Failure to report, according to the law, could result in fines up to 20,000 euros as well as sentences of up to 12 years. The law establishes mandates for the collection and analysis of these reports by Montenegro's FIU, which also has the responsibility to disseminate these reports to the competent authorities for further action. The FIU became operational in November 2003 and began receiving reports of transactions in July 2004. All reporting by banking institutions is received electronically. The Montenegro FIU became an Egmont member in June 2005. It has executed a number of Memorandums of Understanding to exchange information with most established FIUs in the region.

Montenegro can seize and forfeit assets. In September 2004, the Government of Montenegro seized over one million euros in undeclared currency in connection with the arrest of two Chinese nationals attempting to enter Montenegro. Further investigation revealed that these individuals had moved over four million euros through bank accounts in Montenegro. The criminal charges were dismissed by the court of first instance which said that the Prosecutor's office had not provided proof that the funds were from an illegal source. This case has been appealed.

Amendments to Montenegro's laws on terrorism and terrorist financing were initiated in November 2004 and adopted in March 2005. These amendments were designed to bring Montenegrin law into conformance with international standards. Responsibility for the detection and prevention of terrorist financing was transferred in 2004 from the CBCG to the FIU. The FIU promptly circulates to banks and other financial institutions the names of suspected terrorists and terrorist organizations listed on the UNSCR 1267 Sanction Committee's consolidated list. No terrorist financing or use of alternative remittance systems have been detected within Montenegro.

It would be beneficial for the U.S. to have an updated extradition treaty with SAM as well as a bilateral mutual legal assistance agreement. Both republics should enact legislation to establish robust asset seizure and forfeiture regimes. Both Serbia and Montenegro should ensure that sufficient resources are available for their FIUs and law enforcement agencies to work effectively and efficiently. Both should continue to participate in international fora that offer training and technical assistance for police, customs, and judiciary officials involved with combating money laundering and terrorist financing. They should both implement a comprehensive framework to support a

counterterrorism regime that complies with international standards. Serbia should adopt the new law to address the procedures needed to comply with UN Security Council resolutions regarding the freezing, seizing and confiscation of suspected terrorist assets and to require suspicions of terrorist financing to be reported to the FIU.

Seychelles

Seychelles is a not a major financial center, but it does have a developed offshore financial sector that makes the country vulnerable to money laundering. The Government of Seychelles (GOS), in efforts to diversify its economy beyond tourism, has taken steps to develop an offshore financial sector to increase foreign exchange earnings. The GOS actively markets Seychelles as an offshore financial and business center that allows the registration of nonresident companies. There are currently over 25,461 registered international business companies (IBCs) in Seychelles that pay no taxes in Seychelles, and are not subject to foreign exchange controls. The Seychelles International Business Authority (SIBA), which acts as the central agency for the registration for IBCs, promotes the fact that IBCs need not file annual reports. The SIBA is part of the Ministry of International Trade, and also manages the Seychelles International Trade Zone.

In addition to IBCs, Seychelles permits offshore trusts (registered through a licensed trustee), offshore insurance companies, and offshore banking. Three offshore insurance companies have been licensed, one for Captive Insurance and two for General Insurance). The International Corporate Service Providers Act 2003, which is designed to regulate all the activities of the corporate service providers as well as the trustee service providers, entered into force in 2004. A major weakness of the Seychelles' offshore program is that it still permits the issuance of bearer shares, a feature that can facilitate money laundering by making it extremely difficult to identify the beneficial owners of an IBC. Seychelles officials stated in 2000 that they were reviewing the question of bearer shares and intended to outlaw them. In the interim, the GOS has indicated that it will not approve the issuance of any more bearer shares.

In 1996, the GOS enacted the Anti-Money Laundering Act (AMLA), which criminalizes the laundering of funds from all serious crimes, requires financial institutions and individuals to report to the Central Bank transactions involving suspected cases of money laundering, and establishes safe harbor protection for individuals and institutions filing such reports. There are no bank secrecy laws in Seychelles. The AMLA imposes record keeping and customer identification requirements for financial institutions, and also provides for the forfeiture of the proceeds of crime. Under the AMLA, money laundering controls are applied to non-banking financial institutions, including exchange houses, stock brokerages, and insurance agencies, but not to lawyers and accountants. The transactions of charitable and non-profit entities are scrutinized by the authorities to prevent their misuse, and such alternative remittance systems as hawala are regulated. No offshore casinos or Internet gaming sites have yet been licensed; if they are, they will be subject to stringent legislation modeled on the Australian Internet Gaming Act. There is no cross-border currency reporting requirement.

Under the AMLA, anyone who engages directly or indirectly in a transaction involving money or other property (or who receives, possesses, conceals, disposes of, or brings into Seychelles any money or property) associated with a crime, knowing or having reasonable grounds to know that the money or property is derived from an illegal activity, is guilty of money laundering. In addition, anyone who aids, abets, procures, or conspires with another person to commit the crime, while knowing, or having reasonable grounds for knowing that the money was derived from an illegal activity, is likewise guilty of money laundering. While there have been about thirty investigations, there have been no arrests or prosecutions for money laundering or terrorist financing since January 1, 2003.

In 1998, the Central Bank of Seychelles issued a comprehensive set of guidance notes that clarified and strengthened the provisions of the AMLA. The Central Bank of the Seychelles receives and

analyzes suspicious activity reports and disseminates them to the competent authorities. In November 2002, the Central Bank circulated to all local commercial banks a document on due diligence issued by the Basel Committee.

In December 2004, the Seychelles National Assembly enacted the Financial Institutions Bill of 2004, which imposes more stringent rules on banking operations. The bill, which was drafted in consultation with the International Monetary Fund, aims at ensuring greater transparency in financial transactions and regulating the financial activities of both domestic and offshore banks in line with international standards. One provision of the new law requires that banks change their auditors every five years. Auditors must notify the Central Bank if they uncover criminal activity such as money laundering in the course of an audit.

In 2004, the GOS enacted the Prevention of Terrorism Bill of 2004. The legislation specifically recognizes the government's authority to identify, freeze, and seize terrorist finance-related assets. Under the new law, assets used in the commission of a terrorist act can be seized and legitimate businesses can be seized if used to launder drug money, support terrorist activity, or are otherwise related to criminal activities. Both civil and criminal forfeiture are allowed under current legislation.

The Mutual Assistance in Criminal Matters Act of 1995 empowers the Seychelles Central Authority to provide assistance in connection with a request to conduct searches and seizures relating to serious offenses under the law of the requesting state. Previously, the Seychelles authorities could work only with states that were members of the Commonwealth or that had a treaty for bilateral mutual legal assistance with the Seychelles regarding criminal matters. The Prevention of Terrorism Bill of 2004 extends the authority of the GOS to include the freezing and seizing of terrorism-related assets, upon the request of a foreign state. To date, no such assets have been identified, frozen, or seized.

The Government of Seychelles is a member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body. The Seychelles is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. Seychelles signed and ratified the UN International Convention for the Suppression of the Financing of Terrorism on March 30, 2004. The Seychelles circulates to relevant authorities the updated lists of names of suspected terrorists and terrorist organizations on the UNSCR 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the U.S. pursuant to E.O. 13224. Seychelles should expand its anti-money laundering efforts by moving to prohibit bearer shares and requiring the complete identification of beneficial owners of international business companies (IBCs). Seychelles should establish a financial intelligence unit to collect, analyze, and share financial data with foreign counterparts, in order to effectively combat money laundering and other financial crimes. Seychelles should criminalize the financing of terrorism and continue to actively participate in ESAAMLG.

Sierra Leone

Sierra Leone, which has a small commercial banking sector, is not a regional financial center. Loose oversight of financial institutions, weak regulations, widespread corruption, and a prevalent informal money-exchange system create an atmosphere that is conducive to money laundering. Given the importance of the large diamond sector to the economy, the prevalence of money laundering in the diamond sectors of neighboring countries, and the loose oversight of the financial sector, Sierra Leone's diamond sector is particularly vulnerable to money laundering.

The President signed the Anti-Money Laundering Act in July 2005. The new law requires that international financial transfers over $10,000 go through formal financial institution channels. The law designates the Governor of the Bank of Sierra Leone as the Anti-Money Laundering Authority and also establishes a financial intelligence unit to oversee financial institution operations. Sierra Leone is

still a cash economy, and the new anti-money laundering law has not been widely publicized. There have been a few arrests under the law but no convictions to date.

In July 1996, the Central Banks of The Gambia, Ghana, Liberia, Nigeria and Sierra Leone established the West African Institute for Financial and Economic Management (WAIFEM) (www.waifem.org). The Institute's principal mandate is to build sustainable capacity for macroeconomic management in the five countries. It also conducts research and consultancy services in the area of macro policy management. In September 2005, the Bank of Sierra Leone hosted a WAIFEM-sponsored regional anti-money laundering workshop.

Sierra Leone is a party to the 1988 UN Drug Convention, the UN Convention Against Corruption, and the UN International Convention for the Suppression of the Financing of Terrorism. It has signed, but not yet ratified, the UN Convention against Transnational Organized Crime.

Now that Sierra Leone has the Anti-Money Laundering Act in place, the challenges will be increasing awareness and enforcement. The country should implement the law as soon as possible. It should ratify the UN Convention against Transnational Organized Crime.

Singapore

As a significant international financial and investment center, and in particular as a major offshore financial center, Singapore is vulnerable to potential money launderers. Bank secrecy laws and the lack of routine currency reporting requirements make Singapore an attractive destination for drug traffickers, criminals, terrorist organizations and their supporters seeking to launder money, and for flight capital. Money laundering occurs mainly in the offshore sector, but may also occur in the non-bank financial system, which includes large numbers of moneychangers and remittance agencies.

Some structural gaps remain in financial regulation that may hamper efforts to control these crimes. The Corruption, Drug Trafficking, and Other Serious Crimes (Confiscation of Benefits) Act of 1999 (CDSA) criminalizes the laundering of proceeds from narcotics and 184 other categories of serious offenses, including ones committed overseas, which would be serious offenses if they had been committed in Singapore. As part of amendments to the CDSA that came into effect in September 2005, Singapore added two more categories of offenses. Despite these changes, Singapore's current list of designated predicate offenses for money laundering does not include many of those in line with the Financial Action Task Force's (FATF's) Recommendations.

Singapore has a sizeable offshore financial sector. In 2005, there were 110 commercial banks in operation, including five local and 24 foreign-owned full banks, 46 offshore banks, and 35 wholesale banks. All offshore and wholesale banks are also foreign-owned. Singapore does not permit shell banks, in either the domestic or offshore sectors. The Monetary Authority of Singapore (MAS), a semi-autonomous entity under the Ministry of Finance, serves as Singapore's Central Bank and financial sector regulator, particularly with respect to Singapore's anti-money laundering and countering the financing of terrorism efforts (AML/CFT). MAS performs extensive prudential and regulatory checks on all applicants for banking licenses, including whether banks are under adequate home country banking supervision. Banks must have clearly identified directors. Unlicensed banking transactions are illegal.

Beginning in 2000, MAS began issuing a series of regulatory guidelines ("Notices") requiring banks to apply "know your customer" standards, adopt internal policies for staff compliance, and cooperate with Singapore enforcement agencies on money laundering cases. Similar guidelines exist for securities dealers and other financial service providers. Banks must obtain documentation such as passports or identity cards from all personal customers to verify names, permanent contact addresses, dates of birth, and nationalities, and to check the bona fides of company customers. The regulations specifically require that financial institutions obtain evidence of the identity of the beneficial owners

of offshore companies or trusts. They also mandate specific record keeping and reporting requirements, outline examples of suspicious transactions that should prompt reporting, and establish mandatory intra-company point-of-contact and staff training requirements. Similar guidelines and notices exist for finance companies, merchant banks, life insurers, brokers, securities dealers, investment advisors, and futures brokers and advisors.

In January 2005, as part of a draft revision of its overall AML/CFT regulations for banks, MAS commenced a review of Notice 626, which proscribes banks from entering into, or continuing, correspondent banking relationships with shell banks, in line with the Revised FATF Forty Recommendations adopted in June 2003. Draft Notice 626, which is still under review, also mandates originator information on cross-border wire transfers, in line with FATF's Special Recommendation Seven on wire transfers. It also clarifies procedures for customer due diligence and includes a risk-based approach to customer due diligence, and mandates enhanced customer due diligence for foreign politically exposed persons. It furthermore extends coverage of the regulations to include terrorist financing activities. In addition to the revised Notice 626, Singapore is reviewing regulations governing other financial institutions and designated non-financial businesses and professions to bring them into conformity with FATF recommendations.

In addition to banks offering trust, nominee, and fiduciary accounts, Singapore has 16 trust companies. All banks and trust companies, whether domestic or offshore, are subject to the same regulation, record keeping, and reporting requirements, including regarding money laundering and suspicious transactions. In August 2005, Singapore introduced regulations under the new Trust Companies Act (enacted in January 2005 to replace the Singapore Trustees Act) that mandated licensing of trust companies and MAS approval for appointments of managers and directors.

In April 2005, Singapore lifted its ban on casinos, paving the way for the development of integrated resorts with casinos. Total investment in the two resorts, both of which are expected to open in 2009, is estimated to exceed $4 billion. In October 2005, Singapore released for public comment draft legislation for the Casino Control Act. The Act calls for creation of a Casino Regulatory Authority and mandates certain cash reporting requirements. Internet gaming sites are illegal in Singapore.

Any person who wishes to engage in for-profit business in Singapore, whether local or foreign, must register under the Companies Act. Every Singapore-incorporated company is required to have at least two directors, one of whom must be a resident in Singapore, and one or more company secretaries who must be resident in Singapore. There is no nationality requirement. A company incorporated in Singapore has the same status and powers as a natural person. Bearer shares are not permitted.

Financial institutions must report suspicious transactions and positively identify customers engaging in large currency transactions, and are required to maintain adequate records. However, there is no systematic reporting of large currency transactions. There are no reporting requirements on amounts of currency brought into or taken out of Singapore. Singapore is considering implementation of FATF Special Recommendation Nine, which requires either a declaration or disclosure system for monitoring cross-border movement of currency and bearer negotiable instruments.

The Singapore Police's Suspicious Transaction Reporting Office (STRO) has served as the country's Financial Intelligence Unit (FIU) since January 2000. In December 2004, STRO concluded a Memorandum of Understanding (MOU) concerning the exchange of financial intelligence with its U.S. counterpart, FinCEN. STRO has also signed MOUs with counterparts in Australia, Belgium and Japan, and continues to actively seek MOUs with additional FIUs. To improve its suspicious transaction reporting, STRO is developing a computerized system to allow electronic online submission of STRs, as well as the dissemination of AML/CFT material. It plans to encourage all financial institutions and relevant professions to eventually participate in this system. Procedural regulations and bank secrecy laws limit STRO's ability to provide information relating to financial crimes.

Singapore is an important participant in the regional effort to stop terrorist financing in Southeast Asia. The Terrorism (Suppression of Financing) Act that took effect January 29, 2003, criminalizes terrorist financing, although the provisions of the Act are actually much broader. In addition to making it a criminal offense to deal with terrorist property (including financial assets), the Act criminalizes the provision or collection of any property (including financial assets) with the intention that the property be used, or having reasonable grounds to believe that the property will be used, to commit any terrorist act or for various terrorist purposes. The Act also provides that any person in Singapore, and every citizen of Singapore outside Singapore, who has information about any transaction or proposed transaction in respect of terrorist property, or who has information that he/she believes might be of material assistance in preventing a terrorism financing offense, must immediately inform the police. The Act gives the authorities the power to freeze and seize terrorist assets.

Based on an assessment of Singapore's financial sector published in April 2004, the International Monetary Fund and World Bank concluded that the country imposes few restrictions on intergovernmental terrorist financing-related mutual legal assistance, even in the absence of a Mutual Legal Assistance Treaty, because it is a party to the UN International Convention for the Suppression of the Financing of Terrorism. The IMF, however, urged Singapore to improve its mutual legal assistance for other offenses, noting serious limitations on assistance with the provision of bank records, search and seizure of evidence, restraining proceeds of crime, and the enforcement of foreign confiscation orders.

MAS has broad powers to direct financial institutions to comply with international terrorist financing obligations. In 2002, the MAS issued regulations to implement this authority. The regulations bar banks and financial institutions from providing resources and services of any kind that will benefit terrorists or terrorist financing. Financial institutions must notify the MAS immediately if they have in their possession, custody or control any property belonging to designated terrorists or any information on transactions involving terrorists' funds. The regulations apply to all branches and offices of any financial institutions incorporated in Singapore or incorporated outside of Singapore, but located in Singapore. The regulations include periodically updated names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list.

Singapore's approximately 600,000 foreign guest workers are the main users of alternative remittance systems. As of June 2005, there were 406 money-changers and 102 remittance agents. All must be licensed and are subject to the Money-Changing and Remittance Businesses Act (MCRBA), which includes requirements for record-keeping and the filing of suspicious transaction reports. Firms must submit a financial statement every three months and report the largest amount transmitted on a single day. They must also answer questions about their business and overseas partners. Unlicensed informal networks, such as hawala, are illegal. In August 2005, Singapore amended the MCRBA to apply certain AML/CFT regulations to remittance licensees and money-changers engaged in inward remittance transactions. The Act eliminated sole proprietorships and required all remittance agents to incorporate under the Companies Act with a minimum paid-up capital of S$100,000 (approximately $60,000).

Singapore has eight free trade zones (FTZs) for sea borne cargo and two for airfreight regulated under the Free Trade Zone Act. The FTZs may be used for storage, repackaging of import an export cargo, assembly and other manufacturing activities approved by the Director General of Customs in conjunction with the Ministry of Finance.

Charities in Singapore are subject to extensive government regulation, including close oversight and reporting requirements, and restrictions that limit the amount of funding that can be transferred out of Singapore. Singapore had a total of 1,747 registered charities as of December 2004. All charities must register with the Commissioner of Charities and submit governing documents outlining the charity's objectives and particulars on all trustees. The Commissioner of Charities has the power to investigate

charities, search and seize records, restrict the transactions into which the charity can enter, suspend charity staff or trustees, and/or establish a scheme for the administration of the charity. Charities must keep detailed accounting records and retain them for at least seven years.

Singapore will implement tighter regulations under the Income Tax Act governing public fund-raising by charities beginning January 1, 2007. Charities authorized to receive tax-deductible donations will be required to disclose the amount of funds raised in excess of S$1 million (approximately $600,000), expenses incurred, and planned use of funds. Under the Charities (Fund-raising Appeals for Foreign Charitable Purposes) Regulations 1994, any charity or person who wishes to conduct or participate in any fund-raising for any foreign charitable purpose must apply for a permit. The applicant must demonstrate that at least 80 percent of the funds raised will be used in Singapore, although the Commissioner of Charities has discretion to allow for a lower percentage. Permit holders are subject to additional record keeping and reporting requirements, including details on every item of expenditure disbursed, amounts transmitted to persons outside Singapore, and names of recipients. The government issued 34 permits in 2004 related to fund raising for foreign charitable purposes. There are no restrictions or direct reporting requirements on foreign donations to charities in Singapore.

To regulate law enforcement cooperation and facilitate information exchange, Singapore enacted the Mutual Assistance in Criminal Matters Act (MACMA) in March 2000. The MACMA provides for international cooperation on any of the 184 predicate "serious offenses" listed under the CDSA. The provisions of the MACMA apply to countries whether or not they have concluded treaties, MOUs or other agreements with Singapore. In November 2000, Singapore and the United States signed the Agreement Concerning the Investigation of Drug Trafficking Offenses and Seizure and Forfeiture of Proceeds and Instrumentalities of Drug Trafficking. This was the first agreement concluded pursuant to the MACMA. This agreement, which entered into force in early 2001, facilitates the exchange of banking and corporate information on drug money laundering suspects and targets, including access to bank records. It also entails reciprocal honoring of seizure/forfeiture warrants. This agreement applies only to narcotics cases, and does not cover non-narcotics-related money laundering, terrorist financing, or financial fraud.

In May 2003, Singapore issued a regulation pursuant to the MACMA and the Terrorism Act and that enables the government to provide legal assistance to the United States and the United Kingdom in matters related to terrorism financing offenses. Singapore concluded a mutual legal assistance agreement with Hong Kong in 2003. In 2004, it signed a treaty on mutual legal assistance in criminal matters with seven other members of ASEAN—Brunei, Cambodia, Indonesia, Laos, Malaysia, the Philippines and Vietnam. The treaty will come into effect after ratification by the respective governments. As of December 2005, Singapore, Malaysia, and Vietnam have ratified the treaty. In 2005, Singapore and India signed a similar treaty.

In addition to the UN International Convention for the Suppression of the Financing of Terrorism, Singapore is also party to the 1988 UN Drug Convention, and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. In addition to FATF, Singapore is a member of the Asia/Pacific Group on Money Laundering, the Egmont Group, and the Offshore Group of Banking Supervisors. Singapore hosted the June 2005 Plenary meeting of the FATF, the first time a FATF Plenary was held in Southeast Asia. FATF is slated to review Singapore's AML/CFT regime, most likely in 2007.

Singapore should continue close monitoring of its domestic and offshore financial sectors. As a major financial center, it should also take measures to regulate and monitor large currency and bearer negotiable instrument movements into and out of the country, in line with the Financial Action Task Force's (FATF) Special Recommendation Nine, adopted in October 2004, that mandates countries implement measures such as declaration systems in order to detect cross-border currency smuggling. The conclusion of broad mutual legal assistance agreements is also important to further Singapore's

ability to work internationally to counter money laundering and terrorist financing. In order to conform to international standards, Singapore should lift its rigid bank secrecy restrictions and significantly increase its list of predicated crimes for money laundering.

Slovakia

Slovakia is not considered an important regional financial center. The geographic, economic, and legal conditions that shape the money laundering environment in Slovakia are typical of those in other Central European transition economies. Slovakia's location along the major lines of communication connecting Western, Eastern, and Southeastern Europe makes it a transit country for smuggling and trafficking in narcotics, arms, stolen vehicles, and humans. Organized crime activity and the opportunities to use gray market channels also lead to a favorable money laundering environment. Financial crimes such as fraud, tax evasion, embezzlement, and illegal business activity have been quite problematic for Slovak authorities.

Slovakia's original anti-money laundering legislation, Act No. 249/1994 (later amended by Act No. 58/1996) came into effect in 1994. Article 252 of the Slovak Criminal Code, Legalization of Proceeds from Criminal Activity, came into force at the same time. These measures criminalize money laundering for all serious crimes, and impose customer identification, record keeping, and suspicious transaction reporting requirements on banks. A money laundering conviction does not require a conviction for the predicate offense, and a predicate offense does not have to occur in Slovakia to be considered as such. The failure of a covered entity to report a suspicious transaction and "tipping off" are criminal offenses.

As a result of amendments made to the Slovak Civil Code in 2001, new anonymous passbook savings accounts are banned. All banks in Slovakia were ordered to stop offering new anonymous accounts. All existing owners of anonymous accounts were required to disclose their identity to the bank and to close the anonymous account by December 31, 2003. Owners of accounts that were not closed may withdraw money for an additional three-year non-interest-bearing grace period. However, funds remaining after January 1, 2007 will be confiscated and deposited in a fund for the administration of the Ministry of Finance, where they will be available for collection by the accountholder for another five years. As of January 1, 2007, bearer passbook accounts will cease to exist.

In 2000, the legislature approved modifications to existing anti-money laundering regulations, with the passage of Act No. 367/2000, On Protection against the Legalization of Proceeds from Criminal Activities. The Act came into force on January 1, 2001. One of the most significant changes that Act No. 367/2000 introduces is in relation to the types of transactions subject to the reporting requirements. The law replaces the standard for suspicious transactions with an expanded definition of unusual business activity. According to this modified definition, an unusual business activity is any transaction that could result in the legalization of income, the source of which is suspected to be criminal. Such transactions include the attempted disposal of income or property with the knowledge or suspicion that it was acquired through criminal activity in Slovakia or a third country. Designated transactions also include the acquisition, possession, or use of real estate, moveable property, securities, money, or any other property with monetary value, for the purpose of concealing or disguising its ownership. Act No. 367/2000 also expands the list of entities subject to reporting requirements to include foreign bank subsidiaries, the Slovak Export-Import Bank, non-bank financial institutions such as casinos, post offices, brokers, stock exchanges, commodity exchanges, securities markets, asset management companies, insurance companies, real estate companies, tax advisors, auditors, credit unions, leasing firms, auctioneers, foreign exchange houses, and pawnshops, all of which have been particularly susceptible to money laundering.

As recommended in 2001 by the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) in its second-round evaluation of Slovakia, the

Government of Slovakia (GOS) amended Act No. 367/2000 in order to address shortcomings of the original legislation, and in order to comply with European Directive 2001/97/EC. As a result, Slovakian legislation is now in full harmony with the Second European Union (EU) Directive. The FATF's 2002-3 Annual Report stated that the amended legislation provided a "basically sound preventive legal structure."

Amendments to Act No. 367/2000 in 2002 further extend reporting requirements to: antique, art, and collectible brokers; dealers in precious metals or stones, or other high-value goods; legal advisors; consultants; securities dealers; foundations; financial managers and consultants; and accounting services. Covered persons are required to identify all customers, including legal entities, if they find that the customers prepared or conducted transactions deemed to be suspicious, or if a sum or related sums exceeding 15,000 euros within a 12-month period is involved. (Previous law had set the reporting threshold at 2,600 euros.) Insurance sellers must identify all clients whose premium exceeds 1,000 euros in a year or whose one-time premium exceeds 2,500 euros. Casinos are obligated to identify all customers. Transactions may be delayed by the covered entities up to 48 hours, with another 24-hour extension allowed if authorized by the Financial Police. If the suspicion turns out to be unfounded, the state assumes the burden of compensation for losses stemming from the delay.

Originally, Slovakia's financial intelligence unit (FIU), the Financial Intelligence Unit of the Bureau of Organized Crime, was established under the Ministry of the Interior and was a part of the Bureau of Financial Police (BFP). However, as of January 2004, the BFP ceased to exist and its duties were assumed by the newly created Office to Fight Organized Crime (OFOC), which focuses on all forms of organized crime, including narcotics, money laundering, human trafficking, and prostitution. The OFOC has four regional units of financial police, each responsible for a different part of Slovakia (Bratislava, Eastern Slovakia, Western Slovakia, and Central Slovakia). After the abolition of the BFP, the FIU was re-organized and moved to the OFOC.

The FIU has five primary departments: Analytical, Unusual Business Transactions, Supervision of Obliged Entities, International Cooperation, and Property Checks. The FIU increased its administrative capacity by raising its staff level from 25 to 34 personnel, and its analysts participate regularly in international and domestic fora related to combating money laundering. The FIU has jurisdictional responsibility over money laundering violations, receives and evaluates suspicious transaction reports (STRs), and collects additional information to establish the suspicion of money laundering. If justified, the unit forwards the case to one of the regional financial police units. Once enough information has been obtained to warrant suspicion that a criminal offense has occurred, the FIU takes appropriate measures, including asking a financial institution or bank to delay business or a financial transaction. The FIU can also submit the case to the state prosecutor's office for investigation and prosecution.

In 2004, the BFP (through the FIU) filed 818 reports alleging suspicious business operations totaling $632 million. The BFP submitted 82 proposals for the action of tax authorities and 20 proposals to launch criminal prosecutions worth an estimated value of $1.5 million. During the same period, the Financial Police conducted and/or started 70 on-site inspections of obliged entities, and in 23 cases inspectors levied fines amounting to $75,313. A total of 29 inspections have been completed; of those, no penalties were levied in 22 of the cases. Penalties worth a total value of $21,875 were paid in 6 cases.

During the first eleven months of 2005, the FIU of the OFOC received 1,094 reports alleging unusual financial transactions worth $319.1 million. It submitted eight proposals for criminal prosecution with a value of $455 million and 179 proposals for tax prosecution worth $36.5 million. In addition, the Financial Police regional units submitted 134 proposals for criminal prosecutions. The OFOC conducted or started 93 on-site inspections of "obliged persons" and levied penalties in 33 cases with a total value of $129,063.

In 2003, a law amending and supplementing the Criminal Procedure Code and Criminal Code entered into force. The amendment strengthens the competencies of law enforcement by granting investigators the authority to conduct sting operations and introduces provisions regarding corporate criminal liability. In addition, crown witnesses (a criminal who voluntarily opts to cooperate with law enforcement bodies) are now protected by the law and can be granted immunity or receive a shortened sentence. This rule does not apply to those that organized or instigated the crime.

In late 2003, the Slovak cabinet approved a draft law on measures against entities that acquired property through illegal income (also known as the Law on Proving the Origin of Property). According to the draft law, an undocumented increase in property exceeding an amount 200 times the minimum monthly wage would be scrutinized and would be considered possibly illegal. Anyone who has suspicions about possibly illegally acquired property may report it to the police, who are then obliged to investigate the allegations, ultimately reporting to the Office of the Attorney General if findings are conclusive. The Attorney General's Office may then order the property to be confiscated. Due to widespread public opposition, the Ministry of Justice withdrew the draft law from Parliament in January 2004. However, on June 23, 2005, Parliament nevertheless approved it, and it came into force on September 1, 2005. Despite its approval, the new law was still controversial, and its implementation was frozen by the Constitutional Courts on October 6, 2005.

Slovakia has responded to the problem of the financing of terrorism by amending its money laundering law with Act No. 445/2002, which criminalizes terrorist financing and obliges covered entities to report transactions possibly linked to terrorist financing. All competent authorities in the Slovak Republic have full power to freeze or confiscate terrorist assets consistent with UNSCR 1373. According to Act No. 367/2000 and its later amendments, financial institutions are required to report to the regional financial police when they freeze or identify suspected terrorist-linked assets. The Government of Slovakia (GOS) has agreed to freeze immediately all accounts owned by entities on the UNSCR 1267 Sanctions Committee's and EU's consolidated lists, but not those of the United States. No terrorist finance-related accounts have been frozen or seized in Slovakia, but were a terrorism-related account to be identified, the Financial Police could hold any related financial transaction for up to 48 hours, and then gather evidence to freeze the account and seize any assets. The GOS is a party to all 12 of the UN Conventions concerning the fight against terrorism. However, as reported in its 2004 self-assessment questionnaire on anti-money laundering efforts for the Council of Europe (COE), Slovakia is still not fully compliant with the Financial Action Task Force's (FATF's) Special Recommendations on Terrorist Financing. The COE's Committee of Experts gave Slovakia a rating of "partial compliance" in 2004, with regard to Special Recommendation I (Implementation of UNSCR 1373) and Special Recommendation VII (enhanced scrutiny of transfers lacking originator information).

In late 2005, following its official release, Slovak authorities started to prepare for implementation of the Third EU Money Laundering Directive. The Finance Ministry, the National Bank of Slovakia, and the Ministry of Interior plan to establish an interdepartmental committee in early 2006 to coordinate the modification of Slovak legislation to conform to the new Directive.

In 2002, the GOS ratified the UN International Convention for the Suppression of the Financing of Terrorism. The provisions of the Convention have been incorporated into amendments of the Bank Act, Penal Code, and Act No. 367/2000. However, Slovakia elected to pursue several optional terms of the convention that were fully incorporated in March 2003. The FIU is a member of the Egmont Group and has signed memoranda of understanding (MOUs) with the FIUs of Slovenia, Monaco, Ukraine, Australia, Belgium, Poland, and the Czech Republic. The GOS also hopes to sign MOUs with Albania and Taiwan in 2006. Slovakia's FIU is the responsible authority for international exchange of information regarding money laundering under the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime.

Slovakia is a party to the European Convention on Mutual Legal Assistance in Criminal Matters, the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime, the 1988 UN Drug Convention, and the UN Convention against Transnational Organized Crime. It also has signed the UN Convention against Corruption. Slovakia became a member of the Organization for Economic Cooperation and Development (OECD) in December 2000, thereby expanding its opportunities for multilateral engagement.

Slovakia is a member of the Group of States Against Corruption (GRECO), a platform of the Council of Europe to fight against corruption. GRECO reviewed Slovakia for the first time in 2000. The first round evaluation report on Slovakia contained 19 recommendations, of which 15 were satisfactorily addressed by 2003. GRECO evaluated the last four recommendations as "implemented" in October 2005. In late 2003, Slovakia faced additional examination by GRECO. With regards to money laundering, GRECO recommended that "the Slovak authorities undertake a comprehensive and sustained program of specialized professional training for judges, prosecutors and police regarding the effective and appropriate use of criminal and administrative laws relating to money laundering, accounting offenses, and the use of legal persons to shield corrupt activity."

Slovakia is a member of the Council of Europe and has actively participated in MONEYVAL, the Council of Europe's FATF-style regional body, since 1997. Slovakia sends experts to conduct mutual evaluations on fellow member countries; it also underwent mutual evaluations by this group in 1998 and 2001. Slovakia has since implemented changes to its money laundering regime based on the results of these evaluations. In 2005, Slovakia faced a third round of evaluations, which was aimed at assessing its level of compliance with the FATF's Recommendations and the EU's Second Money Laundering Directive. The MONEYVAL report should be released in the first half of 2006.

The Government of Slovakia should continue to improve its anti-money laundering regime. Continued implementation of the provisions of Slovakia's anti-money laundering legislation will give the Slovak financial system greater protection, by helping it prevent and detect money laundering in all financial sectors. Slovakia should also improve supervision of some of its non-financial sectors to ensure that reporting requirements are followed. Slovakia should provide adequate resources to assure that its FIU, law enforcement, and prosecutorial agencies are adequately funded and trained to effectively perform their various responsibilities.

South Africa

South Africa's position as the major financial center in the region, its relatively sophisticated banking and financial sector, and its large cash-based market, all make it a very attractive target for transnational and domestic crime syndicates. Nigerian, Pakistani, and Indian drug traffickers, Chinese triads and Taiwanese groups, and the Russian mafia have all been identified as operating in South Africa, along with native South African criminal groups. Although the links between different types of crime have been observed throughout the region, money laundering is primarily related to the illicit narcotics trade. Other common types of crimes related to money laundering are: fraud, theft, corruption, currency speculation, illicit dealings in precious metals and diamonds, human trafficking, and smuggling. Most criminal organizations are also involved in legitimate business operations. There is a significant black market for smuggled goods.

South Africa is not an offshore financial center, nor does it have free trade zones. It does, however, operate Industrial Development Zones (IDZs). The South African revenue service monitors the customs control of these zones. Imports and exports that are involved in manufacturing or processing in the zone are duty-free, provided that the finished product is exported. South Africa maintains IDZs in Port Elizabeth, East London, Richards Bay, and Johannesburg International Airport. The South African Government (SAG) estimates that between $2 and $8 billion is laundered each year through South African financial institutions. The Proceeds of Crime Act (No. 76 of 1996) criminalizes money

laundering for all serious crimes. This act was supplemented by the Prevention of Organized Crime Act (no. 121 of 1998), which confirms the criminal character of money laundering, mandates the reporting of suspicious transactions, and provides a "safe harbor" for good faith compliance. Violation of this act carries a fine of up to rand 100 million (approximately $16,667,330) or imprisonment for up to 30 years. Subsequent regulations direct that the reports be sent to the commercial crime unit of the South African Police Service. Both of these acts contain criminal and civil forfeiture provisions.

On May 20, 2005, the Protection of Constitutional Democracy Against Terrorist and Related Activities Act (POCDATARA) came into effect. The Act criminalized terrorist activity and terrorist financing and gave the government investigative and asset seizure powers in cases of suspected terrorist activity. The Act is applicable to charitable and non-profit organizations operating in South Africa. The Act requires financial institutions to report suspected terrorist activity to the South African financial intelligence unit (FIU), the Financial Intelligence Centre (FIC).

The mandate of the FIC is to coordinate policy and efforts to counter money laundering activities. The FIC similarly acts as a centralized repository of information and statistics on money laundering. The FIC began operating in February 2003. In July 2003, the FIC was admitted as a member of the Egmont Group of financial intelligence units. In addition to the FIC, South Africa has a Money Laundering Advisory Council (MLAC) to advise the Minister of Finance on policies and measures to combat money laundering.

The Financial Intelligence Centre Act (FICA) requires a wide range of financial institutions and businesses to identify customers, maintain records of transactions for at least five years, appoint compliance officers to train employees to comply with the law, and report transactions of a suspicious or unusual nature. Regulated businesses include companies and firms considered particularly vulnerable to money laundering activities, such as banks, life insurance companies, foreign exchange dealers, casinos, and real estate agents. If the FIC has reasonable grounds to suspect that a transaction involves the proceeds of criminal activities, it forwards this information to the investigative and prosecutorial authorities. If there is suspicion of terrorist financing, that information is to be forwarded to the National Intelligence Service. There are no bank secrecy laws in effect that prevent the disclosure of ownership information to bank supervisors and law enforcement authorities. However, very few actual cases have been prosecuted to date.

During the FIC's first full year of operation, it received 105 information requests from local law enforcement and 56 from international law enforcement agencies. The FIC continued to make progress in 2005 in building its capabilities and in establishing its credibility with the South African law enforcement community. During its most recent fiscal year, it received 92 information requests from local law enforcement and 107 from international law enforcement agencies. The FIC continued to grow significantly during the year and maintained its focus on further analytical training for its staff and the banking community in order to increase the quality of suspicious transaction reports.

From March 2004 through March 2005, the FIC received 15,757 suspicious transaction reports (STRs), more than a 110 percent increase from the previous year's 7,480 STRs. The FIC reports that this increase is due to the development and distribution of its batch-reporting tool. Precise information is not available on how many of these STRs led to criminal investigations, but the number is believed to be very low. In addition, the quality and consistency of the STRs remains uneven, as the FIC and South Africa's banks continue to work to provide effective and comprehensive training programs. Many banks believe the reporting requirements hamper their efforts to attract new customers. In particular, retroactive know-your-customer (KYC) requirements mean that account holders who do not present identifying documents in person risk having their accounts frozen. The National Treasury has extended the staggered timetable for fully implementing KYC (higher-risk clients first) to September 30, 2006. Certain KYC requirements were waived for low-cost bank account holders when South Africa's banks introduced these accounts in 2004. Reporting requirements were also specifically

waived for brokers assisting clients with a one-time amnesty offer according to the Exchange Control and Amnesty and Amendment of Taxation Laws Act of 2003.

Because of the cash-driven nature of the South African economy, alternative remittance systems that bypass the formal financial sector exist, used largely by the strong local Islamic community. Currently, there is no legal obligation requiring alternative remittance systems to report cash transactions within the country; however, the South African Revenue Service (SARS) requires large cash amounts to be declared at entry and exit points.

The Financial Action Task Force (FATF) conducted a mutual evaluation of South Africa in 2003 and made several recommendations regarding controls on cross-border currency movement, thresholds, and amendments to the Exchange Control Act. While legislation has been adopted in response to the recommendations, full implementation has not taken place.

South Africa has cooperated with the United States in exchanging information related to money laundering and terrorist financing. The two nations have a mutual legal assistance treaty and a bilateral extradition treaty. In June 2003, South Africa became the first African nation to be admitted into the Financial Action Task Force (FATF), and it holds the FATF Presidency for the period June 2005-June 2006. South Africa is also an active member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body, having signed the memorandum of understanding in 2003.

The SAG is a party to the 1988 UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption.

The South African Government should implement the FATF Special Recommendation Nine to establish better control over cross-border currency movement. It should begin to regulate the country's alternative remittance systems. It should monitor and make publicly available the number of criminal investigations resulting from STRs, and it should increase the number of actual money laundering prosecutions. It should fully implement the new law (Protection of Constitutional Democracy Against Terrorist and Related Activities Act—POCDATARA) against terrorist activity and terrorist financing.

Spain

Spain is an important money laundering destination for Latin American drug runners and Eastern European criminal syndicates. Criminals of all types launder money by investing in the strong real estate market, particularly in Spain's coastal regions. Moreover, during 2005, Spanish police arrested several individuals reportedly engaged in terrorist financing activities.

Money laundered in Spain is primarily a product of the Colombian cocaine trade, although money from other Latin American countries is also laundered there. Using narcotics proceeds, Colombian companies purchase goods in Asia and sell them legally at cartel-run stores in Spain and other European countries. Drug proceeds from Morocco, Turkey, and other regions also enter Spain. Cash is smuggled in and out of Spain via couriers, luggage, shipping containers, and by small craft operating along Spain's long coastline. Informal non-bank outlets such as "locutorios" make small international transfers for the immigrant community, continually moving money in and out of Spain. Regulators also suspect the presence of hawala-like networks in the Islamic community. Other sources of illicit funds in Spain are tax evasion and smuggling. The smuggling of electronics and tobacco from Gibraltar remains an ongoing issue.

The Government of Spain (GOS) remains committed to combating narcotics trafficking, terrorism, and financial crimes, and continues to work to tighten financial controls. The criminalization of money laundering was added to the penal code in 1988 when laundering the proceeds from narcotics

trafficking was made a criminal offense. In 1995 the law was expanded to cover all serious crimes that require a prison sentence greater than three years. Amendments to the code on November 25, 2003, made all forms of money laundering financial crimes The penal code can also apply to individuals in financial firms if their institutions have been used for financial crimes. An amendment to the penal code in 1991 made such persons culpable for both fraudulent acts and negligence connected with money laundering.

In December 1993, specific measures to prevent money laundering were adopted to regulate the legal entities in the financial sector and individuals moving large sums of cash (Law 19/1993). The regulations for enactment were established by Royal Decree 925/1995, which set the standards for regulation of the financial system. The regulations were amended most recently in January 2005 by Royal Decree 54/2005. Pursuant to these laws and regulations, the financial sector is required to identify customers, keep records of transactions, and report suspicious financial transactions. Spanish banks are required by law to maintain fiscal information for five years and mercantile records for six years.

The money laundering law applies to most entities active in the financial system, including banks, mutual savings associations, credit companies, insurance companies, financial advisers, brokerage and securities firms, postal services, currency exchange outlets, casinos, and individuals and unofficial financial institutions exchanging or transmitting money (alternative remittance systems). The 2003 amendments added lawyers and notaries as covered entities. Previously, notaries and lawyers were required to report suspicious cases, but now they are considered part of the financial system and under the supervision of appropriate regulators.

Law 19/2003 regulates the movements of capital and foreign transactions and implements parts of Council Directive 2001/97/EC on prevention of the use of the financial system for money laundering (2nd EU Money Laundering Directive). The law obligates financial institutions to make monthly reports on large transactions. Banks are required to report all international transfers greater than 30,000 euros (approximately $35,355). The law also requires the declaration and reporting of internal transfers of funds greater than 80,500 euros (approximately $94,870). Individuals traveling internationally are required to report the importation or exportation of currency greater than 6,000 euros (approximately $7,070). Law 19/2003 allows the seizure of up to 100 percent of the currency if illegal activity under financial crimes ordinances can be proven. Spanish authorities claim they have seen a drop in cash couriers since the law's enactment in July 2003. For cases where the money cannot be connected to criminal activity, and has not been declared, the authorities may seize the money until the origin of the funds is proven.

The Commission for the Prevention of Money Laundering and Financial Crimes (CPBC) coordinates the fight against money laundering in Spain. The Secretary of State for Economy heads the commission and all of the agencies involved in the prevention of money laundering participate. Agencies represented include the National Drug Plan Office, the Ministry of Economy, the Public Prosecutor's Office (Fiscalia), Customs, the Spanish National Police, the Guardia Civil, the National Stock Market Committee, the Treasury, the Bank of Spain, and the Director General of Insurance and Pension Funds. Any member of the Commission may request an investigation.

The CPBC delegates responsibility to two additional organizations. The first is a secretariat in the Treasury, located in the Ministry of Economy. Following investigation and a guilty verdict by a court, this regulating body carries out penalties. Sanctions can include closure, fines, account freezes, or seizures of assets. Law 19/2003 allows seizures of assets of third parties in criminal transactions, and a seizure of real estate in an amount equivalent to the illegal profit.

The CPBC also delegates responsibility to the Executive Service of the Commission for the Prevention of Money Laundering (SEPBLAC), which serves as Spain's financial intelligence unit. SEPBLAC receives and analyzes suspicious transaction reports (STRs) and currency transaction reports (CTRs).

SEPBLAC has the primary responsibility for any investigation in money laundering cases and directly supervises the anti-money laundering procedures of banks and financial institutions. Incriminating information is turned over to the national government prosecutors for prosecution. SEPBLAC received 1,351 STRs in 2002, 1,598 STRs in 2003, and 2,414 STRs in 2004. In addition, SEPBLAC received 205,252 CTRs in 2002, 294,508 CTRs in 2003, and 334,452 CTRs in 2004. SEPBLAC has noted an increase in both quantity and quality of suspicious transaction reporting in 2004. The Fund of Seized Goods of Narcotics Traffickers receives seized assets.

Terrorist financing issues are governed by a separate code of law and commission, the Commission of Vigilance against Terrorist Finance Activities (CVAFT). This commission was created under Law 12/2003 "on the Prevention and Blocking of the Financing of Terrorism." The commission is headed by the Ministry of Interior and includes representatives from the Public Prosecutor's Office and Ministries of Justice and Economy. SEPBLAC serves as the Executive Service and as the Secretariat for this Commission. Currently, only the head of CVAFT can request information in terrorist financing cases, so other members must rely on the commission head to begin an investigation.

Crimes of terrorism are defined in Article 571 of the Penal Code, and penalties are set forth in Articles 572 and 574. Sanctions range from ten to thirty years' imprisonment with longer terms if the terrorist actions were directed against government officials. The Spanish authorities' ability to freeze accounts granted in the most recent law is more aggressive than that of most of their European counterparts. Though many laws are based on EU directives, Law 12/2003 on the prevention and freezing of terrorist financing goes beyond EU requirements. However, the implementing regulations for this law have not yet been submitted to Spain's Council of Ministers for approval. Once in full effect, this law will allow administrative freezing of suspect assets without a judge's order. Nonetheless, Spain has thus far frozen an estimated 500,000 euro (approximately $590,000) in al-Qaida funds.

Although the sums involved in terrorist financing are low in comparison with the overall money-laundering problem in Spain, it is clear from arrests in 2005 and 2006 that Spain is an important logistical base for global Islamic terrorists. At the same time, money from the extortion of businesses in the Basque region is moved through the financial system and used to finance the Basque terrorist group ETA.

Spanish police and intelligence services are very active in the area of terrorist financing; as of November 2005, Spanish law enforcement officials were engaged in 85 different terrorist financing investigations. In a well-publicized 2005 operation, two Pakistani hawaladars were arrested on terrorism-finance related charges. Other arrests in December 2005 involved 16 suspected Islamic militants in Seville, Malaga, Granada, and Lerida, several of whom allegedly belonged to a "recruitment and financing group."

All legal charities in Spain are placed on a register maintained by the Ministry of Justice. Responsibility for policing registered charities lies with the Ministry of Public Administration. If a charity fails to comply with legal requirements, sanctions or other criminal charges may be levied.

Spain is a member of the FATF, and its head of delegation co-chairs the FATF Terrorist Finance Working Group. Spain is a participating and cooperating nation to the South American Financial Action Task Force (GAFISUD), and a cooperating and supporting nation to the Caribbean Financial Action Task Force (CFATF). Spain is a major provider of counterterrorism assistance. The GOS is a party to the UN Convention against Transnational Organized Crime and the UN International Convention for the Suppression of the Financing of Terrorism. SEPBLAC is a member of the Egmont Group and is currently chairing the Egmont Group's Outreach Working Group.

The GOS has signed criminal mutual legal assistance agreements with Argentina, Australia, Canada, Chile, the Dominican Republic, Mexico, Morocco, Uruguay, and the United States. Spain's mutual legal assistance treaty with the United States has been in effect since 1993 and provides for sharing of

seized assets. Spain and its FIU, SEPBLAC, have entered into bilateral agreements for cooperation and information exchange on money laundering issues with a number of countries, including Bolivia, Colombia, Chile, El Salvador, France, Israel, Mexico, Panama, Russia, Turkey, and the United States. Spain actively collaborates with Europol, supplying and exchanging information on terrorist groups.

U.S. law enforcement agencies reported excellent cooperation with their Spanish counterparts in 2004. U.S. customs officials work closely with the Spanish customs service, Spanish prosecutors, the national police corps, and the Civil Guard. The U.S. Drug Enforcement Administration works closely with SEPBLAC, the national police, and the Civil Guard. These organizations regularly share information.

The scale and sophistication of money laundering activities in Spain create a very large law enforcement problem. The Government of Spain makes every effort to eliminate financial crime in the country. Spain should continue the strong enforcement of its anti-money laundering program and its leadership in the international arena. It should consider whether additional measures are required to address possible money laundering in the stock market to ensure that the sector is not used for financial crimes and should fully implement Law 12/2003 to allow administrative freezing of suspect assets.

St. Kitts and Nevis

The Government of St. Kitts and Nevis (GOSKN) is a federation composed of two islands in the Eastern Caribbean; each island has the authority to organize its own financial structure. The federation is at major risk for corruption and money laundering, due to the high volume of narcotics trafficking activity through and around the islands and the presence of known traffickers on the islands. An inadequately regulated economic citizenship program adds to the problem.

GOSKN officials were unable to disclose 2005 statistics or information on its financial sector because Parliament has yet to approve the Financial Intelligence Unit's (FIU) Annual Report. The GOSKN did not publicly release statistics for 2004 until mid-year 2005. Most of the offshore financial activity in the federation is concentrated in Nevis, in which there is one offshore bank (a wholly owned subsidiary of a domestic bank). Figures from 2003 reported that the Nevis domestic financial market consists of five domestic banks, four domestic insurance companies (all of which are subsidiaries of St. Kitts companies), and two money remitters. There are approximately 15,000 international business companies (IBCs) and 950 trusts, with 50 trust and company service providers. St. Kitts had four domestic banks, 120 credit unions, four domestic insurance companies, two money remitters, and 15 company service providers. There are also four trusts, one casino, and 450 exempt companies. Applicants may apply as an IBC for an Internet gaming license; however, St. Kitts claims to have no Internet gaming operations.

The Proceeds of Crime Act No. 16 of 2000 criminalizes money laundering for serious offenses (defined to include more than drug offenses) and imposes penalties ranging from imprisonment to monetary fines. The Act also overrides secrecy provisions that may have constituted obstacles to the access of administrative and judicial authorities to information with respect to account holders or beneficial owners. Other measures designed to remedy shortcomings in St. Kitts and Nevis's anti-money laundering regime include the Financial Services Commission Act No. 17 of 2000, the Nevis Offshore Banking (Amendment) Ordinance No. 3 of 2000, the Anti-Money Laundering Regulations No. 15 of 2001, the Companies (Amendment) Act No. 14 of 2001, the Anti-Money Laundering (Amendment) Regulations No. 36 of 2001, the Nevis Business Corporation (Amendment) Ordinance No. 3 of 2001, and the Nevis Offshore Banking (Amendment) Ordinance No. 4 of 2001.

A regional stock exchange, common to the members of the Organization of Eastern Caribbean States and supervised by a regional regulator, is located in St. Kitts. The Eastern Caribbean Central Bank has

direct responsibility for regulating and supervising the offshore bank in Nevis, as it does for the entire domestic sector of St. Kitts and Nevis (SKN), and for making recommendations regarding approval of offshore bank licenses. The St. Kitts and Nevis Financial Services Commission, with regulators on both islands, regulates non-bank financial institutions for anti-money laundering compliance.

The GOSKN also issued regulations requiring financial institutions to identify their customers, to maintain a record of transactions, to report suspicious transactions, and to establish anti-money laundering training programs. The Financial Services Commission has issued guidance notes on the prevention of money laundering, pursuant to the Anti-Money Laundering Regulations. The Commission's Regulator is authorized to carry out anti-money laundering examinations. The GOSKN has separated the offshore marketing and the regulatory functions. In particular, an offshore Marketing and Development Department, separate from the Financial Services Commission, was established in April 2001. Legislation requires certain identifying information to be maintained about bearer certificates, including the name and address of the bearer of the certificate, as well as its beneficial owner. In addition to these measures, Nevis issued regulations aimed at facilitating the identification of beneficial owners of corporations and corporate shareholders. However, an official GOSKN website for offshore finance contends that Nevis-registered companies are not required to divulge beneficial ownership.

The Financial Intelligence Unit Act No. 15 of 2000 authorizes the creation of the Financial Intelligence Unit (FIU). The FIU began operations in 2001 and has a director, deputy director, and four police officers. The FIU receives, collects, and investigates suspicious activity reports (SARs). The FIU is also charged with liaising with foreign jurisdictions. In 2004, the FIU had received 104 SARs. No SAR figures were released for 2005. In 2005, U.S. law enforcement worked with the GOSKN on an investigation which resulted in a seizure of $338,000 from the offshore bank of Nevis.

Financial Services (Exchange of Information) Regulations were promulgated in 2002. These regulations define the parameters for the exchange of information between domestic regulatory agencies and foreign regulatory agencies. Financial services officials in SKN have been seeking to educate relevant stakeholders as to their responsibilities related to anti-money laundering, using radio, television, newspapers, and seminars. The GOSKN encouraged the founding of an association of compliance officers within relevant financial institutions, and provided training in anti-money laundering to government financial services personnel.

St. Kitts and Nevis enacted the Anti-Terrorism Act No. 21, effective November 27, 2002. Sections 12 and 15 of the Act criminalize terrorist financing. The Act implements various UN Conventions against terrorism. The GOSKN has some existing controls that apply to alternative remittance systems, but has undertaken no initiatives that apply directly to the potential terrorist misuse of charitable and nonprofit entities.

A mutual legal assistance treaty between SKN and the United States entered into force in early 2000. St. Kitts and Nevis is a member of the Caribbean Financial Action Task Force (CFATF) and the Organization of American States Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering (OAS/CICAD). St. Kitts and Nevis is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism, and on May 21, 2004, ratified the UN Convention against Transnational Organized Crime.

The Government of St. Kitts and Nevis continues to be vulnerable to money laundering and other financial crimes. St. Kitts and Nevis should continue to devote sufficient resources to effectively implement its anti-money laundering regime. Specifically, St. Kitts and Nevis should determine the number of Internet gaming sites present on the islands. Oversight of these entities is crucial, as they are vulnerable to abuse by criminal and terrorist groups. Additionally, St. Kitts and Nevis should curtail its economic citizenship program.

St. Lucia

St. Lucia has developed an offshore financial service center that could potentially make the island more vulnerable to money laundering and other financial crimes. Currently, St. Lucia has four offshore banks, 1,884 international business companies, 43 international trusts, 17 international insurance companies, two money remitters, three mutual fund administrators, nine registered agents and three registered trustees (service providers) and a total of 30 domestic financial institutions. St. Lucia has a free trade zone. The Government of St. Lucia (GOSL) also is considering the establishment of gaming enterprises.

The 1993 Proceeds of Crime Act criminalizes money laundering with respect to narcotics. The Proceeds of Crime Act also provides for a voluntary system of reporting account information to the police or prosecutor when such information may be relevant to an investigation or prosecution. In addition, the Act requires financial institutions to retain information on new accounts and transactions for seven years. In September 2003, legislation was adopted that extends anti-money laundering compliance requirements to credit unions, money remitters and pawnbrokers, as well as strengthens criminal penalties for money laundering. Many of the 1993 Proceeds of Crime Act provisions are superseded by the 1999 Money Laundering (Prevention) Act (ML Prevention Act), which criminalizes the laundering of proceeds with respect to 15 prescribed offenses, including narcotics trafficking, corruption, fraud, terrorism, gambling and robbery. The ML Prevention Act mandates suspicious transaction reporting requirements and imposes record keeping requirements. In addition, the ML Prevention Act imposes a duty on financial institutions to take "reasonable measures" to establish the identity of customers, and requires accounts to be maintained in the true name of the holder. It also requires an institution to take reasonable measures to identify the underlying beneficial owner when an agent, trustee or nominee operates an account. These obligations apply to domestic and offshore financial institutions, including credit unions, trust companies, and insurance companies. In April 2000, the Financial Services Supervision Unit issued detailed guidance notes, entitled "Minimum Due Diligence Checks, to be conducted by Registered Agents and Trustees."

Pursuant to the ML Prevention Act, the Money Laundering (Prevention) Authority (the Authority) was established in early 2000. The Authority consists of five persons "who have sound knowledge of the law, banking or finance." The Authority's functions include receipt of suspicious transaction reports, subsequent investigation of the transactions, dissemination of information within (e.g., to the Director of Public Prosecutions) or outside of St. Lucia, and monitoring of compliance with the law. The ML Prevention Act imposes a duty on the Authority to cooperate with competent foreign authorities. Assistance includes the provision of documents, testimony, conduct of examinations, execution of search and seizure orders, and the provision of information and evidentiary items. The Authority has a number of regulatory powers, including the right to enter the premises of a financial institution during normal working hours to inspect transaction records or copy relevant documentation, to issue guidelines to financial institutions, and to instruct a financial institution to facilitate an investigation by the Authority.

In 1999, the GOSL also enacted a comprehensive inventory of offshore legislation, consisting of the International Business Companies (IBC) Act, the Registered Agent and Trustee Licensing Act, the International Trusts Act, the International Insurance Act, the Mutual Funds Act and the International Banks Act. An IBC may be incorporated under the IBC Act. Only a person licensed under the Registered Agent and Trustee Licensing Act as a licensee may apply to the Registrar of IBCs to incorporate and register a company as an IBC. The registration process involves submission of the memorandum and articles of the company by the registered agent, payment of the prescribed fee and the Registrar's determination of compliance with the requirements of the IBC Act. IBCs can be registered online through the GOSL's web page. IBCs intending to engage in banking, insurance or mutual funds business may not be registered without the approval of the Minister responsible for

international financial services. An IBC may be struck off the register on the grounds of carrying on business against the public interest.

The Financial Intelligence Authority Act No. 17 of 2002 authorizes the establishment of a Financial Intelligence Unit (FIU) for St. Lucia, which became operational in October 2003. Some functions of the Authority have been transferred to the new FIU. The FIU is able to compel the production of information necessary to investigate possible offenses under the 1993 Proceeds of Crime Act and the ML Prevention Act. Failure to provide information to the FIU is a crime, punishable by a fine or up to ten years imprisonment. The Financial Intelligence Authority Act permits the sharing of information obtained by the FIU with foreign FIUs. The Caribbean Anti-Money Laundering Program (CALP) has trained St. Lucia's FIU personnel. In September 2003, legislation was adopted merging the Authority with the FIU. In 2005, the FIU received 85 suspicious transaction reports. There has been no money laundering convictions to date in St. Lucia. However, there is a money laundering case pending.

The GOSL established the Committee on Financial Services in 2001. The Committee, which meets monthly, is designed to safeguard St. Lucia's financial services sector. The Committee is composed of the Minister of Finance, the Attorney General, the Solicitor General, the Director of Public Prosecutions, the Director of Financial Services, the Registrar of Business Companies, the Commissioner of Police, the Deputy Permanent Secretary of the Ministry of Commerce, the police officer in charge of the Special Branch, the Comptroller of Inland Revenue and others. The GOSL announced in 2003 its intention to form an integrated regulatory unit to supervise the onshore and offshore financial institutions the GOSL currently regulates. The Eastern Caribbean Central Bank regulates St. Lucia's domestic banking sector. Counter-terrorism and counterterrorist financing legislation is pending before the St. Lucia Parliament. In 2002, St. Lucia signed the Inter-American Convention Against Terrorism, which includes counterterrorist financing provisions. St. Lucia circulates lists of terrorists and terrorist entities to all financial institutions. To date, no accounts associated with terrorists or terrorist entities have been found in St. Lucia. The GOSL has not taken any specific initiatives focused on the misuse of charitable and nonprofit entities.

As a member of the Caribbean Financial Action Task Force (CFATF), St. Lucia underwent a First Round Mutual Evaluation immediately prior to the establishment of its offshore sector. St. Lucia underwent its Second Round evaluation in September 2003. St. Lucia is a member of the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. In February 2000, St. Lucia and the United States brought into force a Mutual Legal Assistance Treaty. St. Lucia also has a Tax Information Exchange Agreement with the United States. The GOSL has been cooperative with the USG in financial crime investigations. St. Lucia is a party to the 1988 UN Drug Convention and, on September 26, 2001, signed, but has not yet ratified, the UN Convention against Transnational Organized Crime. The GOSL has not signed the UN International Convention for the Suppression of the Financing of Terrorism.

The Government of St. Lucia should become a party to the UN International Convention for the Suppression of the Financing of Terrorism and adopt counterterrorism financing legislation. St. Lucia should continue to enhance and implement its money laundering legislation and programs, including adopting civil forfeiture legislation.

St. Vincent and the Grenadines

St. Vincent and the Grenadines remains vulnerable to money laundering, other financial crimes, and the facilitation of terrorist financing, as a result of the rapid expansion and inadequate regulation of its offshore sector. The offshore sector includes six offshore banks, 6,632 international business corporations, 14 offshore insurance companies, 29 mutual funds, 33 registered agents, and 114 international trusts. No physical presence is required for offshore financial institutions and businesses. Nominee directors are not mandatory except where an international business corporation is formed to

carry on banking business. Bearer shares are permitted for international business corporations but not for banks. The domestic sector comprises of two commercial banks, a development bank, two savings and loan banks, a building society, 13 insurance companies, 10 credit unions, and two money remitters. There are no free trade zones in St. Vincent and the Grenadines (SVG) nor have any Internet gaming licenses been issued.

The Eastern Caribbean Central Bank (ECCB) supervises SVG's four domestic banks. Beginning in October 2001 with an administrative agreement, and finalized in the International Banks (Amendment) Act No. 30 of 2002, the Government of St. Vincent and the Grenadines (GOSVG) gave the ECCB increasing authority to review and make recommendations regarding approval of offshore bank license applications, and to directly supervise the offshore banks in cooperation with the GOSVG's International Financial Services Authority (IFSA). The agreement includes provisions for joint on-site inspections to evaluate the financial soundness and anti-money laundering programs of offshore banks. The IFSA alone continues to supervise and regulate the other offshore sector entities; however, its staff exercises only rudimentary controls over these institutions. The GOSVG has strengthened the structure and staffing of the IFSA by appointing five new members to the IFSA board. This brings the total to 12 staffers to regulate offshore insurance and mutual funds.

In June 2003, the Financial Action Task Force (FATF) recognized that the GOSVG, through enactment and implementation of appropriate legal reforms, had sufficiently addressed deficiencies identified by the FATF in 2000, and removed it from the list of Non-Cooperative Countries or Territories (NCCT). With SVG's removal from the NCCT list, the U.S. Treasury's Financial Crimes Enforcement Network (FinCEN) lifted its advisory, which had instructed all U.S. financial institutions to "give enhanced scrutiny" to all transactions involving St. Vincent and the Grenadines. The FATF encouraged the GOSVG to consider tightening provisions relating to the granting of exemptions from customer identification requirements.

Since July 2000, the GOSVG has passed substantial legislation, primarily the International Banks (Amendment) Act No. 7 of 2000 that deals with the authorization and regulation requirements for offshore banks as well as with the rules regarding the transfer of shares and beneficial interest. The GOSVG also enacted the International Banks (Amendment) Act of October 2000, which enables the Offshore Finance Inspector to have access to the name or title of a customer account and any other confidential information about the customer that is in the possession of a licensee. The GOSVG prepared a further amendment to the International Banks Act with a view to improving licensing procedures and better regulating the offshore banking sector.

The GOSVG enacted the Proceeds of Crime and Money Laundering (Prevention) Act in December 2001 and the Proceeds of Crime (Money Laundering) Regulations in January 2002. Subsequent amendments further strengthen provisions of the Act and the Regulations. Among other measures, the Act criminalizes money laundering and imposes on financial institutions and regulated businesses a requirement to report suspicious transactions likely to be related to money laundering or the proceeds of crime. The related regulations establish mandatory record keeping rules and limited customer identification/verification requirements. Financial institutions are required to maintain all records relating to transactions for a minimum of seven years. Reporting is required for all suspicious activities despite the transaction amount. Customers are required to complete a source of funds declaration for a cash transaction over $10,000 ECD ($3,703). However, it is not mandatory to report other transactions exceeding $10,000 ECD.

The GOSVG enacted the International Business Companies Amendment Act No. 26 of 2002, which became effective on May 27, 2002, to immobilize and register bearer shares. The GOSVG also revoked the Confidentiality Act and passed the Exchange of Information Act No. 29 of 2002 to authorize and facilitate the exchange of information, particularly among regulatory bodies. In April 2001, the GOSVG revoked its economic citizenship program, which provided the legal basis to sell

citizenship and passports, although there were no reports of passports having been issued under the program.

The Financial Intelligence Unit Act No. 38 of 2001 (FIU Act) establishes the Financial Intelligence Unit (FIU) that began operation in May 2002. The FIU Act allows for the exchange of information with foreign FIUs. An amendment to the FIU Act permits the sharing of information even at the investigative or intelligence stage. The FIU has a staff of 14 and became a member of the Egmont Group in June 2003. As of November 2005, the FIU had received 104 suspicious activity reports for the year and almost 500 since its inception. In November 2004, the FIU began an anti-money laundering /counterterrorist finance training initiative at the financial institutions.

There have been no money laundering convictions; however, there were five money laundering cases pending in 2005. In 2005 the GOSVG froze approximately 500,254 ECD ($185,279) and seized $396,232 ECD ($146,753). In 2003, the GOSVG reintroduced a customs declaration form to be completed by incoming travelers. Incoming travelers are required to declare currency over approximately $3,703.

The GOSVG is a member of the Caribbean Financial Action Task Force, and underwent its Second Round mutual evaluation in November 2002. In addition, the GOSVG is a member of the Organization of American States Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering (OAS/CICAD). The GOSVG is a party to the 1988 UN Drug Convention and acceded to the Inter-American Convention against Corruption in 2001. The GOSVG signed, but has not yet ratified, the UN Convention against Transnational Organized Crime. The GOSVG is a party to the UN International Convention for the Suppression of the Financing of Terrorism and is deemed to be partially compliant with its requirements. The GOSVG enacted the United Nations Terrorism Measures Act No. 34, effective August 2, 2002. Sections 3 and 4 of the Act criminalize terrorist financing. The GOSVG has not undertaken any specific initiatives focused on the misuse of charitable and nonprofit entities. The GOSVG circulates lists of terrorists and terrorist entities to all financial institutions in SVG. To date, no accounts associated with terrorists have been found.

An updated extradition treaty and a Mutual Legal Assistance Treaty between the United States and the GOSVG entered into force in September 1999. The FIU executes the Mutual Legal Assistance Treaty requests.

The Government of St. Vincent and the Grenadines should address all remaining concerns raised by the international community in regard to its anti-money laundering regime. These include the areas of customer identification, money remitters, outstanding bearer shares, and money laundering prosecutions. St. Vincent and the Grenadines should continue to provide training to its regulatory, law enforcement, and Financial Intelligence Unit personnel in money laundering operations and investigations. The GOSVG should also ensure that it properly supervises the offshore sector. St. Vincent and the Grenadines should pass counterterrorist financing legislation that will provide the authority to identify, freeze and seize terrorist assets. In addition, the GOSVG should pass civil forfeiture legislation and consider the utility of special investigative techniques.

Swaziland

Swaziland is a growing regional financial center. International narcotics trafficking, primarily in marijuana, continues to grow in Swaziland. The country's proximity to South Africa, lack of effective counternarcotics legislation, limited enforcement resources, relatively open society and developed economic infrastructure make it attractive for trafficking organizations and increase the risk for money laundering.

Although the Money Laundering Act of 2001 (Act) criminalizes money laundering for specified predicate offenses, including narcotics trafficking, kidnapping, counterfeiting, extortion, fraud, and

arms trafficking, it does not adequately address processes and procedures for the police to follow when money laundering is suspected. As a result, the Central Bank of Swaziland and the Ministry of Finance have assisted in drafting amendments to the Act for review by the Cabinet. The penalty for money laundering is six years imprisonment, a fine amounting to roughly $3,500, or both. The Act establishes a currency reporting requirement, requires banks to report suspicious transactions to the Central Bank, and provides conditions when assets may be frozen and forfeited. The Act also requires banks to retain records for five years, to improve the ability to trace suspicious transactions and patterns.

On November 16, 2004, the Central Bank of Swaziland and the Bankers Association of Swaziland issued a general statement on anti-money laundering regarding the importance of positive identification in banking. The statement says that Swaziland's financial institutions will not conduct transactions with any customers failing to furnish proof of their identity and that service shall not be provided when there is any reason to suspect that money laundering may be involved. As of June 30, 2005, all existing customers of Swaziland's financial institutions must present current information to establish their actual identity.

To assist the banking community with tracking suspicious transactions, the Central Bank distributed anti-money laundering guidelines to all banks. As of November 2005, the Central Bank received an estimated 75 reports of suspicious transactions. The police bear responsibility for investigating such cases, but no investigations have taken place. The police also would be responsible for seizing any assets related to money laundering, but no seizures have taken place under the Act.

Members of the Royal Swaziland Police Service (RSPS) have noted that they lack the ability to understand and monitor small businesses. The RSPS has little liaison or cooperation with those ministries of the Government of the Kingdom of Swaziland (GKOS) involved with regulating businesses and business owners. Their expressed concerns in this arena include a perceived escalation in the number of foreign business owners throughout Swaziland. While the RSPS is becoming aware that businesses, such as used car lots, cellular and electronic shops, and sundries stores, are commonly used throughout the world as fronts and/or laundering mechanisms, the RSPS lacks the inter-departmental infrastructure and agreements to address this growing concern. The small business sector in Swaziland has been traditionally overlooked as a very real potential money laundering and support element for drug traffickers and terrorist groups. More inter-departmental and inter-ministerial cooperation is needed in order to properly assess and address this vulnerability.

The Act allows for providing assistance to foreign countries that have entered into mutual assistance treaties with the GKOS. An amendment to the Act will allow for Swaziland to comply with regional agreements and international conventions.

Swaziland is party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. The GKOS has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. Swaziland is a member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body.

The Government of the Kingdom of the Swaziland (GKOS) should criminalize terrorist financing. Swaziland should also establish an anti-money laundering regime consistent with international standards, including a financial intelligence unit capable of sharing information with foreign law enforcement and regulatory officials. The Kingdom of the Swaziland should provide the appropriate resources and training to its law enforcement personnel to allow them to adequately perform their duties.

Switzerland

Switzerland is a major international financial center, with some 338 banks and a large number of non-bank financial intermediaries. Authorities suspect that Switzerland is vulnerable at the layering and

integration stages of the money laundering process. Switzerland's central geographic location, relative political, social, and monetary stability, wide range and sophistication of available financial services, and long tradition of bank secrecy are all factors that make Switzerland a major international financial center. These same factors also make Switzerland attractive to potential money launderers. However, Swiss authorities are aware of this and are sensitive to the size of the Swiss banking industry relative to the size of the economy. Total assets and liabilities in Swiss banking institutions were over 2.4 trillion Swiss francs ($1.8 trillion) in 2004, with foreigners accounting for over half of this figure. By comparison, Switzerland's GDP in 2004 was approximately $250 billion.

Reporting indicates that criminals attempt to launder proceeds in Switzerland from a wide range of illegal activities conducted worldwide, particularly financial crimes, narcotics trafficking, arms trafficking, organized crime, and corruption. Although both Swiss and foreign individuals or entities conduct money laundering activities in Switzerland, narcotics-related money laundering operations are largely controlled by foreign narcotics trafficking organizations, often from the Balkans or Eastern Europe. Some of the money generated by Albanian narcotics trafficking rings in Switzerland has been funneled to armed Albanian extremists in the Balkans.

Swiss bank accounts also frequently figure in investigations of fraud and corruption of government officials and leaders, most often from foreign countries. Recent examples of public figures that have been the subject of money laundering allegations or investigations include a former Kyrgyzstan President, a former Russian Minister of Atomic Energy, and the son of the Nigerian dictator Sani Abacha. The former Swiss Ambassador to Luxembourg was sentenced to three and a half years in jail for money laundering and other crimes in June 2005.

Money laundering is a criminal offense in Switzerland. Swiss law, however, does not recognize certain types of criminal offenses as predicate offenses for money laundering, including illegal trafficking in migrants, counterfeiting and pirating of products, smuggling, insider trading, and market manipulation. The adoption of anti-money laundering (AML) regulations planned for 2007 will make these crimes predicate offenses.

Switzerland has significant AML legislation in place, making banks and other financial intermediaries subject to strict know-your-customer and reporting requirements. Switzerland has also implemented legislation for identifying, tracing, freezing, seizing, and forfeiting narcotics-related assets. Legislation that aligns the Swiss supervisory arrangements with the Basel Committee's "Core Principles for Effective Banking Supervision" is contained in the Swiss Money Laundering Act.

Swiss money laundering laws and regulations apply to both banks and non-bank financial institutions. The Federal Banking Commission, the Federal Office of Private Insurance, and the Swiss Federal Gaming Board serve as primary oversight authorities for a number of financial intermediaries, including banks, securities dealers, insurance institutions, and casinos. Other financial intermediaries are required to either come under the direct supervision of the Money Laundering Control Authority (MLCA) of the Federal Finance Department or join an accredited self-regulatory organization (SRO). The SROs are non-governmental self-regulating organizations authorized by the Swiss government to oversee implementation of AML measures by their members. The SROs must be independent of the management of the intermediaries they supervise and must enforce compliance with due diligence obligations. Noncompliance can result in a fine or a revoked license. About 6,000 financial intermediaries are associated with SROs; the majority of these are financial management companies.

The Swiss Federal Banking Commission's AML regulations were revised in 2002 and became effective in 2003. These regulations, aimed at the banking and securities industries, codify a risk-based approach to suspicious transaction and client identification and install a global know-your-customer risk management program for all banks, including those with branches and subsidiaries abroad. In the case of higher-risk business relationships, additional investigation by the financial intermediary is required. The regulations require increased due diligence in the cases of politically exposed persons by

ensuring that decisions to commence relationships with such persons be undertaken by at least one member of the senior executive body of a firm. All provisions apply to correspondent banking relationships as well. Swiss banks may not maintain business relationships with shell banks (banks with no physical presence at their place of incorporation), but there is no requirement that banks ensure that foreign clients do not authorize shell banks to access their accounts in Swiss banks.

The 2002 Banking Commission regulations mandate that all cross-border wire transfers must contain identifying details about the funds' remitters, though banks and other covered entities may omit such information for "legitimate reasons." The Swiss Federal Banking Commission has said that there are no plans at the moment to follow EU regulations aimed at registering names, addresses, and account numbers of everyone making even small money transfers between EU member states.

In July 2003, the government-sponsored Zimmerli Commission, tasked by the Department of Finance with examining reform of finance market regulators, presented 46 recommendations. Among the most far-reaching of these was the recommendation to merge the Federal Banking Commission and the Federal Office for Private Insurance—the institutions supervising the banking and insurance sectors—into a single, integrated financial market supervision body, to be called FINMA. In November 2004, the Cabinet instructed the Department of Finance to draft a parliamentary bill providing for the establishment of FINMA. Under the Cabinet's proposal, MLCA would also be included within the FINMA. The draft bill is scheduled for submission to Parliament by early 2006.

Switzerland's banking industry offers the same account services for both residents and nonresidents. These can be opened through various intermediaries who advertise their services. As part of Switzerland's international financial services, banks offer certain well-regulated offshore services, including permitting nonresidents to form offshore companies to conduct business, which can be used for tax reduction purposes. Pursuant to an agreement signed by the EU and Switzerland in 2004, EU residents have tax withheld on interest payments from savings accounts. This measure, enacted in concert with the EU's Savings Directive (2003/48/EC), was implemented on July 1, 2005, and may reduce the use of Swiss bank accounts by EU residents.

Swiss commercial law does not recognize any offshore mechanism per se and its provisions apply equally to residents and nonresidents. The stock company and the limited liability company are two standard forms of incorporation offered by Swiss commercial law. The financial intermediary is required to verify the identity of the beneficial owner of the stock company and must also be informed of any change regarding the beneficial owner. Bearer shares may be issued by stock companies but not by limited liability companies.

Switzerland has duty free zones. The customs authorities supervise the admission into and the removal of goods from customs warehouses. Warehoused goods may only undergo manipulations necessary for their maintenance, such as repacking, splitting, sorting, mixing, sampling and removal of the external packaging. Any further manipulation is subject to authorization. Goods may not be manufactured in the duty free zones. Swiss law has full force in the duty free zones; for example, export laws on strategic goods, war material, and medicinal products, as well as laws relating to anti-money laundering prohibitions, all apply. In view of the fact that customs authorities may and frequently do enter any customs warehouse area they choose, they believe they would be aware of the nature of any "value added" activity taking place in duty free zones.

Switzerland ranks fifth in the highly profitable artwork trading market, exporting $686 million worth of artwork worldwide in 2004. The Swiss market offers lucrative opportunities for organized crime to transfer stolen art or to use art to launder criminal funds. The United States is by far Switzerland's most important trading partner in this area, having purchased $253 million worth of "Swiss" works of art in 2004. The 2003 Cultural Property Transfer Act, implemented in 2005, codifies in Swiss law elements of the 1970 United Nations Educational, Scientific, and Cultural Organization (UNESCO) Convention. This measure increases from five to thirty years the time period during which stolen

pieces of art may be confiscated from those who purchased them in good faith. The law also allows police forces to search bonded warehouses and art galleries.

The Money Laundering Reporting Office Switzerland (MROS) is Switzerland's financial intelligence unit (FIU), charged with receiving and processing suspicious transaction reports (STRs). MROS does not have any investigative powers of its own nor can it obtain additional information from reporting entities after receiving a STR. In 2004, the number of STRs received by MROS fell by five percent over 2003, with 821 reports involving approximately $586 million. As in 2002 and 2003, the majority of reports came from money transmitters where funds transfers are conducted quickly and the rapid-turnover does not allow the financial intermediary the same ability as a bank or a fiduciary to gather background information on a transaction, thus arousing greater suspicion.

At the same time, the number of STRs provided by banks in 2004 increased relative to 2003, both in absolute numbers (from 302 to 340) and in terms of the percentage of all STRs (from 35 percent to 41 percent). Banks increasingly reported attempts at money laundering by prospective clients prior to the establishment of a banking relationship, which has resulted in a government plan to make the reporting of attempted money laundering mandatory for all financial intermediaries.

Under the 2002 Efficiency Bill, the Swiss Attorney General is vested with the power to prosecute crimes addressed by Article 340bis of the Swiss Penal Code, which also covers money laundering offenses. In the past, the individual cantons (administrative components of the Swiss Confederation) were charged with investigating money laundering offenses. Additional legislation, effective January 1, 2002, increased the effectiveness of the prosecution of organized crime, money laundering, corruption, and other white-collar crime, by increasing the personnel and financing of the criminal police section of the federal police office. The law confers on the federal police and Attorney General's office the authority to take over cases that have international dimensions, involve several cantons, or which deal with money laundering, organized crime, corruption, and white collar crime.

If financial institutions determine that assets were derived from criminal activity, the assets must be frozen immediately until a prosecutor decides on further action. Under Swiss law, suspect assets may be frozen for up to five days while a prosecutor investigates the suspicious activity. Switzerland cooperates with the United States to trace and seize assets, and has shared a large amount of funds seized with the U.S. Government (USG) and other governments. The Government of Switzerland has worked closely with the USG on numerous money laundering cases.

Swiss legislation permits "spontaneous transmittal," a process allowing the Swiss investigating magistrate to signal to foreign law enforcement authorities the existence of evidence in Switzerland. The Swiss used this provision in 2001 to signal Peru that they had uncovered accounts linked to former Peruvian presidential advisor Vladimiro Montesinos.

Revisions to the Swiss Penal Code regarding terrorist financing, adopted by the Swiss Parliament in March 2003, entered into force on October 1, 2003. Article 260quinquies of the Penal Code provides for a maximum sentence of five years' imprisonment for terrorist financing. Article 100quater of the Penal Code, also added in 2003, extends criminal liability for terrorist financing to include companies. The FATF's 2005 mutual evaluation of Switzerland found it "largely compliant" with FATF Special Recommendation II regarding the criminalization of terrorist financing; however, it noted that the Swiss Penal Code criminalizes the financing of an act of criminal violence, not the financing of an individual, independent of a particular act.

Since September 11, 2001, Swiss authorities have been alerting Swiss banks and non-bank financial intermediaries to check their records and accounts against lists of persons and entities with links to terrorism. The accounts of these individuals and entities are to be reported to the Ministry of Justice as suspicious transactions. Based on the "state security" clause of the Swiss Constitution, the authorities

have ordered banks and other financial institutions to freeze the assets of suspected terrorists and terrorist organizations on the UNSCR 1267 Sanctions Committee's consolidated list.

Along with the U.S. and UN lists, the Swiss Economic and Finance Ministries have drawn up their own list of approximately 44 individuals and entities connected with international terrorism or its financing. Swiss authorities have thus far blocked about 82 accounts totaling $25 million from individuals or companies linked to Usama Bin Ladin and al-Qaida under relevant UN resolutions. The Swiss Attorney General also separately froze 41 accounts representing about $25 million on the grounds that they were related to terrorism financing, but the extent to which these funds overlap with the UN consolidated list has yet to be determined.

In the 2004 reporting period, MROS received reports of eleven cases possibly linked to the funding of terrorism, up from five reports in 2003. The total amount of money involved was $683,100. Four of the eleven reports involved Specially Designated Global Terrorists designated by the U.S. pursuant to E.O. 13224. All eleven reports were forwarded to law enforcement agencies.

Switzerland has ratified the Council of Europe's Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime and is a party to the UN International Convention for the Suppression of the Financing of Terrorism. Switzerland has signed, but not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. Switzerland ratified the 1988 UN Drug Convention on September 14, 2005.

Swiss authorities cooperate with counterpart bodies from other countries. Requests from FinCEN, the U.S. FIU, accounted for eight percent of requests received by MROS from foreign FIUs. Switzerland has a mutual legal assistance treaty in place with the United States, and Swiss law allows authorities to furnish information to U.S. regulatory agencies, provided it is kept confidential and used for supervisory purposes. Switzerland is a member of the Financial Action Task Force (FATF) and the Basel Committee on Banking Supervision, and its FIU is a member of the Egmont Group.

The FATF conducted a mutual evaluation of Switzerland's anti-money laundering (AML) and counterterrorist financing (CTF) regime in 2005. The FATF concluded that Switzerland was at least partially compliant in most areas. However, the evaluators found Switzerland to be non-compliant with respect to correspondent banking, beneficial ownership of legal persons, and cash couriers.

The Government of Switzerland hopes to correct the country's image as a haven for illicit banking services. The Swiss believe that their system of self-regulation, which incorporates a "culture of cooperation" between regulators and banks, equals or exceeds that of other countries. The primary interest of the Swiss system is to avert bad risks by countering them at the account-opening phase, where due diligence and know-your-customer procedures address the issues, rather than relying on an early-warning system on all filed transactions. The Swiss Government believes that because of the due diligence approach the Swiss have taken, there are fewer STRs filed than in some other countries. At the same time, 75 percent of the STRs that are filed lead to the opening of criminal investigations.

While generally positive, Switzerland's recent FATF mutual evaluation report nonetheless identified weaknesses in the Swiss anti-money laundering and counterterrorist financing regime, including problems with correspondent banking, identification of beneficial owners, and the cross-border transportation of currency. The Government of Switzerland should continue to improve on its regime while simultaneously working toward full implementation of existing laws and regulations. It should ratify the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

Syria

Syria, a designated State Sponsor of terrorism, is not an important regional or offshore financial center, due primarily to its still under-developed private banking sector and the fact that the Syrian Pound (SYP) is not a fully convertible currency. However, there remain significant AML/CFT vulnerabilities in Syria's financial and non-bank financial sectors that have not been addressed by necessary legislation or other government action. In addition, Syria's black market hawaladars are unregulated, and the country's borders remain porous. Most of the money laundering threat is believed to be of domestic origin and to involve Syria's political and business elite, whose corruption and extra-legal activities represent the biggest obstacle to Syria fully choking off money laundering and terrorist financing activities.

Syria's free trade zones also may provide an easy entry or transit point for the proceeds of criminal activities. There are seven free zones in Syria, serviced mostly by subsidiaries of Lebanese banks, including BLOM Bank, BEMO (Banque Europeenne Pour le Moyen-Orient Sal), and BBAC (Bank of Beirut and Arab Countries). The volume of goods entering the free zones is estimated to be in the billions of dollars, since all automobiles and automotive parts enter the zones free of customs tariffs before being imported into Syria. There also is a significant amount of trade that transits Syria through the zones, gaining Syrian value added before being shipped to foreign markets. While all industries and financial institutions located in the free zones must be registered with the General Organization for Free Zones, which is located in the Ministry of Economy and Trade, the Syrian General Directorate of Customs does not have strong procedures to check country of origin certification or the resources to adequately monitor goods that enter Syria through the zones. There are indications that Syrians have used the free zones to import goods into Syria in violation of USG sanctions under the Syrian Accountability and Lebanese Sovereignty Act.

The banking sector is dominated by the Commercial Bank of Syria (CBS), which holds almost 90 percent of all deposits and controls most of the country's foreign currency reserves. With the liberalization of the sector and competition from the private banks, the CBS is preparing to provide a range of retail services and more competitive interest rates. However, the CBS and the country's four other specialized public banks- the Agricultural Cooperative Bank, the Industrial Bank, the Real Estate Bank, and the People's Credit Bank- still primarily focus on financing Syria's public enterprises. In May 2004, the U.S. Department of the Treasury designated the CBS, along with its subsidiary, the Syrian Lebanese Commercial Bank, as a financial institution of "primary money laundering concern," pursuant to Section 311 of the USA PATRIOT Act, due to a reasonable belief that the CBS has been used by terrorists or persons associated with terrorist organizations and as a conduit for the laundering of proceeds generated from the illicit sale of Iraqi oil. This designation remains in place due to continued concerns that the CBS may still be exploited by criminal enterprises. However, the final rulemaking on the implementation of the special measure against the CBS has not been issued.

Syria began taking steps to develop a private banking sector in April 2001, with Law No. 28, which legalized private banking, and Law No. 29, which established rules on bank secrecy. Bank of Syria and Overseas, a subsidiary of Lebanon's BLOM Bank, was the first private bank to open in Syria in January 2004, followed quickly by Banque BEMO Saudi Fransi and the International Bank for Trade and Finance. Bank Audi became the fourth private bank in Syria, opening a Damascus branch in October 2005. The sector's total capitalization is small, approximately $300 million, and while the banks report steady growth in their deposit accounts and are playing an increasing role in providing the business sector with foreign currency to finance imports, unnecessary regulations that do not allow banks to make money on their liquidity hamper the sector's continued development.

Recent legislation provides the Central Bank of Syria with new authority to oversee the banking sector and investigate financial crimes. The SARG passed Decree 59 in September 2003 to criminalize money laundering and create an Anti-Money Laundering Commission, which was established in May

2004. In response to international pressure to improve its AML/CFT regulations, the SARG passed Decree 33 in May 2005, which strengthens the Commission and lays the foundation for a functioning FIU. The Decree finalized the Commission's composition to include the Governor of the Central Bank, a Supreme Court Judge, the Deputy Minister of Finance, the Deputy Governor for Banking Affairs, the SARG's Legal Advisor, and will include the Chairman of the Syrian Financial Market once the Market is operational.

Under Decree 33, all banks and non-financial institutions are required to file Suspicious Activity Reports (SARs) with the Commission-which is acting as the FIU-for all transactions over $10,000, as well as all suspicious transactions regardless of amount. The chairmen of Syria's private banks report that they employ internationally recognized "know your customer" (KYC) procedures to screen transactions and employ their own investigators to check suspicious accounts. In September 2005, the Commission informed banks that they must use KYC procedures to follow up on their customers every three years and maintain records on closed accounts for five years. Non-bank financial institutions are also to file SARs with the Commission, but many of them are still unfamiliar with the requirements of the law. The Syrian Chamber of Commerce has organized workshops for its membership about the law, but it will take some time for the information to penetrate the market.

Once a SAR has been filed, the Commission has the authority to conduct an investigation, waive bank secrecy on specific accounts in order to gather additional information, share information with the police and judicial authorities, and direct the police to carry out a criminal investigation. In addition, Decree 33 empowers the Governor of the Central Bank, who is the chairman of the Commission, to share information and sign Memoranda of Understanding (MOUs) with foreign FIUs. In November 2005, the Prime Minister announced that the Commission had completed an internal reorganization, creating four specialized units to: oversee financial investigations; share information with other SARG entities including customs, police and the judiciary; produce AML/CFT guidelines and verify their implementation; and develop a financial crimes database.

Decree 33 provides the Commission with a relatively broad definition of what constitutes a crime of money laundering, but one that does not fully meet international standards. The definition includes acts that attempt to conceal the proceeds of criminal activities, the act of knowingly helping a criminal launder funds, and the possession of money or property that resulted from the laundering of criminal proceeds. In addition, the law specifically lists thirteen crimes that are covered under the AML legislation, including narcotics offenses, fraud, and the theft of material for weapons of mass destruction. However, it is unclear whether terrorist financing is a predicate offense for money laundering or otherwise punishable under Decree 33.

While a SAR is under investigation, the Commission can freeze accounts of suspected money launderers for a non-renewable period of up to eighteen days. However, the Syrian judicial system moves slowly and there are some concerns that this period is too short to hinder criminal activities. The law also stipulates the sanctions for convicted money launderers, including a three to six-year jail sentence and a fine that is equal to or double the amount of money laundered. Further, the law allows the SARG to confiscate both the money and assets of the convicted money launderer. The Commission circulates among its private and public banks the names of suspected terrorists and terrorist organizations listed on the UNSCR 1267 Sanction Committee's consolidated list, and it has taken action to freeze the assets of designated individuals.

Despite the legislative powers of the Commission, only 100 suspicious transactions were reported in 2005, including SARs from the police who identified suspected money laundering activities in the course of other investigations. There have been no arrests or convictions in 2005. Since money laundering legislation is new, most judges are not yet familiar with the evidentiary requirements of the law. The Commission has estimated that it will take at least a year before Syria's judicial system is fully capable of prosecuting money laundering cases. The Commission further reported that it has not

conducted investigations into any of the SARs filed over the past year, and that its ongoing investigations are into the financial activities of individuals who already were charged and imprisoned for financial crimes before Decree 33 went into effect. The Commission itself is hampered by human resource constraints. It has a staff of six, and hopes to expand to fifteen by the end of 2006. Most of the staff has not received much training in AML/CFT detection, although the European Commission has expressed a willingness to establish a training center in the Central Bank.

Although Decree 33 provides the Central Bank with a foundation to combat money laundering, most Syrians still do not maintain bank accounts. Very few Syrians use checks or credit cards, and the use of ATM machines is relatively new. The Syrian economy is primarily cash-based, and Syrians use moneychangers, some of whom also act as hawaladars, for many financial transactions. It is illegal for persons to participate in the informal financial sector, but it remains significant. Estimates of the volume of business conducted in the black market by Syrian moneychangers range between $15-70 million a day. Due to the lack of hard data on this sector, the SARG admits that it does not have visibility into the amount of money that currently is in circulation. The SARG has begun issuing new regulations to entice people to use the banking sector, including offering high interest Certificates of Deposit and allowing Syrians to access more foreign currency from banks when they are traveling abroad. In addition, the SARG has advertised a deadline of mid-January 2006 by which it hopes to pass a Moneychangers Law to regulate the sector. Once the Moneychangers Law is passed, the Commission will have the authority to monitor the sector under Decree 33. Until the SARG passes sufficient legislation and enforcement mechanisms, the hawaladars in Syria's black market remain a source of concern for money laundering and terrorist financing.

The SARG also has not updated its laws regarding charitable organizations to include strong AML/CFT language. While the SARG decided at the end of 2004 to restrict charitable organizations to only distributing non-financial assistance, the current laws do not require organizations to submit detailed financial information or information on their donors. However, the Commission has stated its intention to cooperate with the Ministry of Social Affairs to deal with this issue.

While the SARG maintains strict controls on the amount of money that individuals can take with them out of the country, there is a high incidence of cash smuggling across the Lebanese and Jordanian borders. Most of the smuggling involves the SYP, as there are strong markets for Syrian currency among expatriate workers and tourists in Lebanon, Jordan and the Gulf countries, although some of the smuggling may involve the proceeds of narcotics and other criminal activity as previously reported. In addition to cash smuggling, there also is a high rate of commodity smuggling out of Syria, particularly of diesel fuel, caused by individuals buying diesel domestically at the low subsidized rate and selling it for much higher prices in neighboring countries. There are reports that some smuggling is occurring with the knowledge of or perhaps even under the authority of the Syrian security services.

The General Directorate of Customs lacks the necessary staff and financial resources to effectively handle the problem of smuggling, and it currently lacks the means to share information among border posts or other government agencies. Customs recently announced that it plans to develop a special office to combat AML/CFT in coordination with the Ministry of Finance and Syria's security services, and plans to place cameras at all border posts and link them with a unified database. Customs currently lacks the infrastructure to effectively monitor or control even the legitimate movement of currency across its borders. Tourists are not required to declare the amount of money they are bringing into Syria, for instance. In order to combat corruption among customs officers, the General Directorate of Customs announced in December 2005 that it plans to ban all cash transactions at the borders, including the payment of customs duties, and will replace cash transactions with a system that utilizes pre-paid cards. However, most of the plans to unify and streamline customs procedures are far from being realized and depend upon technical and financial support from foreign donors.

Syria is one of the fourteen founding members of the Middle East and North Africa Financial Action Task Force (MENAFATF), a FATF-style regional body. In 2006, it is scheduled for a mutual evaluation by its peers in MENAFATF. In 2005, Syria hosted a team from the Egmont Group regarding the creation of its FIU. Syria has stated its intention to join the Egmont Group in the near future. In addition, Syria will host a legal team from FATF in early 2006, which will assess its progress in enforcing AML/CFT statutes. Syria is a party to the 1988 UN Drug Convention. In April 2005, it became a party to the International Convention on the Suppression of the Financing of Terrorism. It has signed, but not yet ratified, the UN Convention against Transnational Organized Crime.

While Syria has made strides throughout 2005 in developing AML/CFT regulations that govern its formal financial sector, non-bank financial institutions and the unregulated black market remain very vulnerable to money laundering and terrorist financiers. In addition, the General Directorate of Customs, the Central Bank and the judicial system in particular lack the resources to effectively implement AML/CFT legislation. Although the SARG has stated its intention to create the technical foundation through which different government agencies can share information about financial crimes, this does not exist to date. Syria should ratify the UN Convention against Transnational Organized Crime. It should criminalize terrorist financing or clarify that Decree 33 already does so. In addition, there are concerns that the SARG lacks the political will to punish terrorist financing or to classify what it sees as legitimate resistance groups as terrorist organizations. Further, corruption at the highest levels of government and business may be the biggest obstacle to developing a comprehensive and effective AML/CFT regime.

Taiwan

Taiwan's modern financial sector and its role as a hub for international trade make it attractive to money laundering. Its location astride international shipping lanes makes it vulnerable to transnational crimes such as narcotics trafficking and smuggling. In 2005, the number of drug-related cases investigated, and the amount of illegal drugs seized has risen markedly. The use of alternative remittance systems or "underground banking" is a money laundering vulnerability. There is a significant volume of informal financial activity through unregulated non-bank channels. Most illegal or unregulated financial activities are related to tax evasion, fraud, or intellectual- property violations. According to suspicious activity reports (SARs) filed by financial institutions on Taiwan, the predicate crimes commonly linked to SARs include financial crimes, corruption, narcotics, and other general crimes.

Taiwan's anti-money laundering legislation is embodied in the Money Laundering Control Act (MLCA) of April 23, 1997. Its major provisions include a list of predicate offenses for money laundering, customer identification and record keeping requirements, disclosure of suspicious transactions, international cooperation, and the creation of a financial intelligence unit, the Money Laundering Prevention Center (MLPC).

The Legislative Yuan (parliament) amended the MLCA in 2003 to expand the list of predicate crimes for money laundering, widen the range of institutions subject to suspicious transaction reporting, and mandate compulsory reporting to the MLPC of significant currency transactions of over New Taiwan Dollars (TDW)1 million (approximately $30,000). Between August 2003, when the amended MLCA came into force, and May 31, 2004, the MLPC received over one million such reports on currency transactions-with 99 percent of them reported electronically. Also as a result of the 2003 MLCA amendments, the list of institutions subject to reporting requirements was expanded, to include casinos, automobile dealers, jewelers, boat and plane dealers, real estate brokers, credit cooperatives, consulting companies, insurance companies, and securities dealers, as well as traditional financial institutions.

Taiwan also set up a single financial regulator, the Financial Supervisory Commission (FSC) on July 1, 2004. The FSC consolidates the functions of regulatory monitoring for the banking, securities, futures and insurance industries, and also conducts financial examinations across these sectors. In mid-December 2005, the Financial Supervisory Commission (FSC) began an incentive program for the public to provide information on financial crimes. The reward for information on a financial case with fines of TDW 10 million (approximately $300,000) or at least a one-year sentence is up to TDW 500,000 (approximately $15,000). The reward for information on a case with a fine of between TDW 2-10 million (approximately $60,000-$300,000) or less than a one-year sentence is up to TDW 200,000 (approximately $6,000).

Two new articles added to the 2003 amendments to the MLCA granted prosecutors and judges the power to freeze assets related to suspicious transactions and gave law enforcement more powers related to asset forfeiture and the sharing of confiscated assets. In terms of reporting requirements, financial institutions are required to identify, record, and report the identities of customers engaging in significant or suspicious transactions. There is no threshold amount specified for filing suspicious transaction reports. The time limit for reporting cash transactions of over TDW 1 million (approximately $39,000) is within five business days. Banks are barred from informing customers that a suspicious transaction report has been filed. Reports of suspicious transactions must be submitted to the MLPC within 10 business days after the transaction took place.

Institutions are also required to maintain records necessary to reconstruct significant transactions, for an adequate amount of time. Bank secrecy laws are overridden by anti-money laundering legislation, allowing the MPLC to access all relevant financial account information. Financial institutions are held responsible if they do not report suspicious transactions. In May 2004, the Ministry of Finance issued instructions requiring banks to demand two types of identification and to keep copies when bank accounts are opened upon request for a third party, in order to prove the true identity of the account holder. Individual bankers can be fined TDW 200,000-1 million ($7,800-$39,000) for not following the MLPA.

All foreign financial institutions and offshore banking units follow the same regulations as domestic financial entities. Offshore banks, international businesses, and shell companies must comply with the disclosure regulations from the Central Bank, Bureau of Monetary Affairs (CB), and MLPC. These supervisory agencies conduct background checks on applicants for banking and business licenses. Offshore casinos and Internet gambling sites are illegal.

On January 5, 2006, the Offshore Business Unit (OBU) Amendment was ratified to allow expansion of OBU operations to the same scope as Domestic Business Units (DBU). This was done to assist China-based Taiwan businesspeople in financing their offshore business operations. DBUs engaging in cross-strait financial business must follow the regulations of the "Act Governing Relations between Peoples of the Taiwan Area and the Mainland Area" and "Regulations Governing Approval of Banks to Engage in Financial Activities between the Taiwan Area and the Mainland Area." The Competent Authority, as referred to in these Regulations, is the Ministry of Finance.

Taiwan prosecuted 947 cases involving financial crimes from January to October 2005. Among these cases, 871 involved unregistered trading in stock markets, credit-card theft, currency counterfeiting, or fraud. Among the other money laundering cases, six were corruption-related and two were drug-related. In addition, the number of drug-related investigations jumped markedly in 2005, from 64,497 in January-November 2004 to 81,058 in January-November 2005. Among these 81,058 drug cases, 80,858 investigations were completed, 27,152 subjects were indicted, and 21,206 subjects were cleared. From January-October 2005, the volume of seized drugs totaled 12,728 kilograms, about 66.3 percent higher than that seized in the same period of 2004.

Individuals are required to report currency transported into or out of Taiwan in excess of TDW 60,000 (approximately $1,850). Starting in March 2004, transactions over 6,000 Chinese renminbi ($725)

must also be reported. When foreign currency in excess of TDW 500,000 (approximately $15,400) is brought into or out of Taiwan, the bank customer is required to report the transfer to the Central Bank, though there is no requirement for Central Bank approval prior to the transaction. Prior approval is required, however, for exchanges between New Taiwan dollars and foreign exchange when the amount exceeds $5 million for an individual resident and $50 million for a corporate entity. Effective September 2003, the Directorate General of Customs assumed responsibility for providing the MLPC on a monthly basis with electronic records of travelers entering and exiting the country carrying any single foreign currency amounting to TDW 1.5 million (approximately $58,500).

The authorities on Taiwan are actively involved in countering the financing of terrorism. In 2003, a new "Counter-Terrorism Action Law" (CTAL) was drafted, although as of December 2005 it was still under review by the Legislative Yuan. The new law would explicitly designate the financing of terrorism as a major crime. Under the proposed CTAL, the National Police Administration, the MJIB, and the Coast Guard would be able to seize terrorist assets even without a criminal case in Taiwan. Also, in emergency situations, law enforcement agencies would be able to freeze assets for three days without a court order.

Assets and income obtained from terrorist-related crimes could also be permanently confiscated under the proposed CTAL, unless the assets could be identified as belonging to victims of the crimes. Taiwan officials currently have the authority to freeze and/or seize terrorist-related financial assets under the MLCA promulgated in 1996 and amended in February 2003 to cover terrorist finance activities. Under the Act, the prosecutor in a criminal case can initiate freezing assets, or without criminal charges, the freezing/seizure can be done in response to a request made under a treaty or international agreement.

The Bureau of Monetary Affairs (BOMA) has circulated to all domestic and foreign financial institutions in Taiwan the names of individuals and entities included on the UN 1267 Sanctions Committee's consolidated list. Taiwan and the United States have established procedures to exchange records concerning suspicious terrorist financial activities. After receiving financial terrorist lists from the American Institute in Taiwan, BOMA conveys the list to relevant financial institutions. Banks are required to file a report on cash remittances if the remitter/remittee is on a terrorist list. Although as noted above Taiwan does not have the authority to confiscate the assets, the MLCA was amended to allow the freezing of accounts suspected of being linked to terrorism.

Alternative remittance systems, or underground banks, are considered to be operating in violation of Banking Law Article 29. Authorities in Taiwan consider these entities to be unregulated financial institutions. Foreign labor employment brokers are authorized to use banks to remit income earned by foreign workers to their home countries. These remittances are not regulated or reported. Thus, money laundering regulations are not imposed on these foreign labor employment brokers. However, if the brokers accept money in Taiwan dollars for delivery overseas in another currency, they are violating Taiwan law. It is also illegal for small shops to accept money in Taiwan dollars and remit it overseas. Violators are subject to a maximum of three years in prison, and/or forfeiture of the remittance and/or a fine equal to the remittance amount.

Authorities in Taiwan do not believe that charitable and nonprofit organizations in Taiwan are being used as conduits for the financing of terrorism, and there are currently no plans to investigate such entities further for terrorist financing. Such organizations are required to register with the government.

All of Taiwan's five free trade zones, including Taipei Free Trade Zone, Taichung Free Trade Zone, Keelung Free Trade Zone, Kaohsiung Free Trade Zone, and Taoyuan Air Cargo Free Trade Zone have opened since 2004. According to the Center for Economic Deregulation and Innovation (CEDI) under the Council for Economic Planning & Development, by the end of 2005 there were seven shipping and logistics companies listed in the Kaohsiung Free Trade Zone, four in Taichung Free Trade Zone, five

in Keelung Free Trade Zone, one in Taipei Free Trade Zone, and 49 manufacturers and enterprises in Taoyuan Air Cargo Free Trade Zone.

According to Taiwan's Banking Law and Securities Trading Law, in order for a financial institution to conduct foreign currency operations, Taiwan's Central Bank must first grant approval. The financial institution must then submit an application to port authorities to establish an offshore banking unit (OBU) in the free-trade zone. No financial entity has yet applied to establish such an OBU in any of the five free trade zones.

Taiwan has established drug-related asset seizure and forfeiture regulations that state that according to treaties or agreements, Taiwan's Ministry of Justice shall share seized assets with foreign official agencies, private institutions or international parties that provide Taiwan with assistance in investigations or enforcement. Assets of drug traffickers, including instruments of crime and intangible property, can be seized along with legitimate businesses used to launder money. The injured parties can be compensated with seized assets. The Ministry of Justice distributes other seized assets to the prosecutor's office, police or other anti-money laundering agencies. The law does not allow for civil forfeiture. A mutual legal assistance agreement between the American Institute in Taiwan (AIT) and the Taipei Economic and Cultural Representative Office in the United States (TECRO) entered into force in March 2002. It provides a basis for the law enforcement agencies of the people represented by AIT and TECRO to cooperate in investigations and prosecutions for narcotics trafficking, money laundering (including the financing of terrorism), and other financial crimes.

Although Taiwan is not a UN member and cannot be a party to the 1988 UN Drug Convention, the authorities in Taiwan have passed and implemented laws in compliance with the goals and objectives of the Convention. Similarly, Taiwan cannot be a party to the UN International Convention for the Suppression of the Financing of Terrorism, as a nonmember of the United Nations, but it has agreed unilaterally to abide by its provisions. Taiwan is a founding member of the Asia/Pacific Group on Money Laundering (APG) and in 2005, was elected to the APG steering committee. The MLPC is a member of the Egmont Group of Financial Intelligence Units. The Investigation Bureau of the Ministry of Justice expanded information exchanges with various countries/jurisdictions from 17 jurisdictions in 2004 to 20 in 2005.

Over the past five years, Taiwan has created and implemented an anti-money laundering regime that comports with international standards. The MLCA amendments of 2003 address a number of vulnerabilities, especially in the area of asset forfeiture. The authorities on Taiwan should continue to strengthen the existing anti-money laundering regime as they implement the new measures. Taiwan should endeavor to pass the proposed Counter-Terrorism Action Law to better address terrorist financing issues. The authorities on Taiwan should also enact legislation that would promulgate regulations regarding alternate remittance systems.

Tanzania

Tanzania is not considered an important regional financial center, but it is vulnerable to money laundering because of the weaknesses of its financial institutions and law enforcement capabilities. A weak financial sector and an under-trained, under-funded law enforcement apparatus make money laundering difficult to track and prosecute. Officials suspect that some real estate and used car businesses are used for money laundering purposes. Government officials have also cited the emerging casino industry as an area of concern for money laundering. Money laundering is even more likely to occur in the informal non-bank financial sector, as the formal sector is still relatively undeveloped. Front companies used to launder funds include hawaladars and bureaux de change, especially on the island of Zanzibar, where fewer federal regulations apply. Officials indicate that money laundering schemes in Zanzibar generally take the form of foreign investment in the tourist industry and bulk cash

smuggling. The most likely sources of illicit funds include Asia and the Middle East, and to a lesser extent Europe. Such transactions rarely include significant amounts of U.S. currency.

The Proceeds of Crime Act of 1991 criminalizes narcotics-related money laundering. However, the Act does not adequately define money laundering, and it has only been used to prosecute corruption cases. The law obliges financial institutions to maintain records of financial transactions exceeding 100,000 shillings (approximately $109) for a period of 10 years.

Current law does not include banker negligence laws. If the institution has reasonable grounds to believe that a transaction relates to money laundering, it may communicate this information to the police for investigation, although such reporting is not required. The Central Bank, the Bank of Tanzania (BOT), has issued regulations requiring financial institutions to file suspicious transaction reports (STRs), but this requirement is not being enforced, and no mechanism currently exists for receiving and analyzing the STRs.

The 2002 Prevention of Terrorism Act criminalizes terrorist financing. It also requires all financial institutions to inform the government each quarter as to whether any of their assets or transactions may be associated with a terrorist group, although the implementing regulations for this provision have not yet been drafted. Under the Act, the government may seize assets associated with terrorist groups. The BOT circulates to Tanzanian financial institutions the names of suspected terrorists and terrorist organizations on the UNSCR 1267 Sanction Committee's consolidated list, but to date no assets have been frozen under this provision. The Government of Tanzania (GOT) did take action in 2004 against one charitable organization on the list by closing its offices and deporting its foreign directors. However, it is not clear whether Tanzania has the investigative capacity to identify and seize related assets. Tanzania has cooperated with the U.S. in investigating and combating terrorism and exchanging counterterrorism information. There are no specific laws in place allowing Tanzania to exchange record with the U.S. on narcotics transactions and narcotics-related money laundering.

The GOT became a party to the UN International Convention for the Suppression of the Financing of Terrorism in 2003. Tanzania is a party to the 1988 UN Drug Convention. It has not yet signed the UN Convention against Transnational Organized Crime. Tanzania is a member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG). The GOT continues to play a leading role in the operation of this FATF-style regional body and has detailed personnel to the ESAAMLG Secretariat, located in donated office space in Dar Es Salaam. Tanzania also continues to host the annual ESAAMLG task force meetings.

Tanzania has created a multi-disciplinary committee on money laundering and a drafting committee that has prepared new anti-money laundering (AML) legislation. A Tanzanian Ministry of Finance (MOF) official stated in August 2004 that the drafting committee was in the process of receiving comments on the language of its draft bill from various stakeholders, and that the bill would likely be presented to the Parliament in January 2005. However, the GOT delayed tabling the AML legislation in Parliament. The national multi-disciplinary committee, established with the help of ESAAMLG, revised the draft AML bill from January through May 2005, gaining additional stakeholder input. In May 2005, the Committee presented the AML legislation to the Cabinet for approval. According to officials from the MOF and the BOT, the Cabinet failed to approve and send the AML bill to Parliament due to time constraints and focus on the 2005 national elections. Representatives from the multi-disciplinary committee are hopeful that the legislation will be tabled in Parliament as early as February 2006. Among its other provisions, the proposed legislation provides for the creation of a financial intelligence unit (FIU) that will collect mandatory suspicious transaction reporting from financial institutions and will be empowered to share this information with other FIUs and foreign law enforcement agencies.

Money laundering controls and reporting requirements are not currently applied to non-bank financial institutions, such as cash couriers, casinos, hawaladars and bureaux de change. The draft AML bill

includes the expansion of money laundering controls to cover such institutions. Currently, the BOT supervises bureaux de change through annual audits and inspections, while the National Gaming Authority supervises casinos and other gaming activities involving large sums of money, including lotteries. There are no legal requirements for non-bank financial institutions to report suspicious transactions. There are currently no cross-border currency reporting requirements, even for cash couriers, although the Proceeds of Crime Act does characterize cash smuggling as a "predicate offense." The draft AML bill includes strengthened provisions to criminalize cash smuggling in and out of Tanzania.

The Government of Tanzania should finally enact and implement the anti-money laundering law that has been under review for several years. It should continue to work through the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) to establish the financial intelligence unit (FIU) mandated in the draft law and to otherwise develop a comprehensive anti-money laundering regime that comports with international standards. It should become a party to the UN Convention against Transnational Organized Crime.

Thailand

Thailand is vulnerable to money laundering from its significant underground economy as well as from all types of cross-border crime including illicit narcotics, contraband, and smuggling. Money launderers use both the banking and non-banking financial institutions and private businesses to move funds from narcotics trafficking and other criminal enterprises. As the amount of opium and heroin produced in the Golden Triangle region of Burma, Laos, and Thailand decreased during the past decade, drug traffickers transitioned to importing and distributing methamphetamine tablets, and began using commercial banks to hide and move their proceeds. Thailand is a significant destination and source country for international migrant smuggling and trafficking in persons, a production and distribution center for counterfeit consumer goods, and increasingly a center for the production and sale of fraudulent travel documents. Banks and alternative remittance systems are illegally used to shelter and move funds produced by all of these activities as well as by illegal gambling, illegal lotteries, and prostitution. The majority of reported money laundering cases is narcotics-related, and there is no pervasive evidence of money laundering ties in Thailand with international terrorist groups. The Thai black market for smuggled goods includes pirated goods as well as automobiles from neighboring nations.

Thailand's anti-money laundering legislation, the Anti-Money Laundering Act (AMLA) B.E. 2542 (1999), criminalizes money laundering for the following predicate offenses: narcotics trafficking, trafficking in women or children for sexual purposes, fraud, financial institution fraud, public corruption, customs evasion, extortion, public fraud, blackmail, and terrorist activity. On August 11, 2003, as permitted by the Thai constitution, the Royal Thai Government (RTG) issued two Emergency Decrees to enact measures related to terrorist financing that had been under consideration by the Executive Branch and Parliament for more than a year and a half. The first of these Decrees amended Section 135 of the Penal Code to establish terrorism as a criminal offense. The second Decree amended Section 3 of the AMLA to add the newly established offense of terrorism and terrorist financing as an eighth predicate offense for money laundering. The Decrees took effect when they were published. Parliament endorsed their status as legal acts in April 2004.

The current list of predicate offenses in the AMLA does not comport with international best practices, consistent with Recommendations 1 and 2 of the Forty Recommendations of the Financial Action Task Force (FATF), to apply the crime of money laundering to all serious offenses or with the minimum list of acceptable designated categories of offenses. Additionally, the definition of "property involved in an offense" in the AMLA is limited to proceeds of predicate offenses and does not extend to instrumentalities of a predicate offense or a money laundering offense. Proposed amendments

pending with the Cabinet since 2004 would expand the list of predicate offenses to include environmental crimes, foreign exchange violations, illegal gambling, arms trafficking, labor fraud, bid rigging, share manipulation, and excise tax offenses. However, even with the enactment of these additional predicate offenses, the list will still be deficient under international standards as it excludes, among other crimes, intellectual property rights offenses. The proposed amendments to AMLA would also create a forfeiture fund and authorize international asset sharing with cooperating jurisdictions.

The AMLA created the Anti-Money Laundering Office (AMLO), Thailand's financial intelligence unit (FIU), which became fully operational in 2001. When first established, AMLO reported directly to the Prime Minister. In October 2002, pursuant to a reorganization of the executive branch, AMLO was designated as an independent agency under the Minister of Justice. AMLO receives, analyzes, and processes suspicious and large transaction reports, as required by the AMLA. In addition, AMLO is responsible for investigating money laundering cases for civil forfeiture and for the custody, management, and disposal of seized and forfeited property. AMLO is also tasked with providing training to the public and private sectors concerning the AMLA. The law also created the Transaction Committee, which operates within AMLO to review and approve disclosure requests to financial institutions and asset restraint/seizure requests. The AMLA also established the Anti-Money Laundering Board, which is comprised of ministerial-level officials and agency heads and serves as an advisory board that meets periodically to set national policy on money laundering issues and to propose relevant ministerial regulations. Under the authority of MOUs with other domestic agencies as well as with 23 foreign entities, a total of 57 convictions was a result of 1,215 financial crimes investigations in 2005. AMLO, the Royal Thai Police Special Branch, and the Royal Thai Police Crimes Suppression Division are responsible for investigating financial crimes.

The Ministry of Justice also houses a criminal investigative agency, the Department of Special Investigations (DSI), which is separate from the Royal Thai Police although many DSI personnel originally were RTP officers. DSI has responsibility for investigating the criminal offense of money laundering (as distinct from civil asset forfeiture actions carried out by AMLO), and for many of the money laundering predicates defined by the AMLA, including terrorism. The DSI, AMLO, and the Royal Thai police all have authority to identify, freeze, and/or forfeit terrorist finance-related assets.

The AMLA requires customer identification, record keeping, the reporting of large and suspicious transactions, and provides for the civil forfeiture of property involved in a money laundering offense. Financial institutions are also required to keep customer identification and specific transaction records for a period of five years from the date the account was closed, or from the date the transaction occurred, whichever is longer. Reporting individuals (banks and others) who cooperate with law enforcement entities are protected from liability. Thailand does not have secrecy laws that prevent disclosure of client and ownership information of bank accounts to supervisors and law enforcement authorities. The AMLA gives AMLO the authority to compel a financial institution to disclose such information.

The Bank of Thailand (BOT), Securities Exchange Commission, and AMLO are empowered to supervise and examine financial institutions for compliance with anti-money laundering/counterterrorist financial laws and regulations. Anti-money laundering controls are also enforced by other Royal Thai Government regulatory agencies, including the Board of Trade, Securities and Exchange Commission, and the Department of Insurance. Financial institutions that are required to report suspicious activities are broadly defined by the AMLA as any business or juristic person undertaking banking or non-banking business. The land registration offices are also required to report on any transaction involving property of five million baht or greater, or a cash payment of two million baht or greater, for the purchase of real property.

The Money Exchange Act of B.E. 2485 (1942), amended in 1984, requires reporting of cash carried in or out of the country in excess of 50,000 baht (approximately $1,250), which is still enforced in theory

but is unrealistic in amount. There is no limitation on the amount of foreign currency that a person can take in or out of Thailand, but it has to be reported. A customer can transfer an unlimited amount of money through a commercial bank, with the required supporting documentation.

Although the Bank of Thailand regulates financial institutions in Thailand, bank examiners are prohibited, except under limited circumstances, from examining the financial transactions of a private individual. This prohibition acts as an impediment to the BOT's auditing of a financial institution's compliance with the AMLA or BOT regulations. Besides this lack of power to conduct transactional testing, BOT does not currently examine its financial institutions for anti-money laundering compliance. The BOT is working closely with AMLO and had hoped to begin such examinations in 2004. The BOT has now agreed that AMLO should be responsible for on- and off-site audits for AMLA compliance, although no such audits have occurred as of yet..

Thailand is not an offshore financial center nor does it host offshore banks, shell companies, or trusts. Licenses were first granted to Thai and foreign financial institutions to establish Bangkok International Banking Facilities (BIBFs) in March 1993. BIBFs may perform a number of financial and investment banking services, but can only raise funds offshore (through deposits and borrowing) for lending in Thailand or offshore. The United Nations Drug Control Program and the World Bank listed BIBFs as potentially vulnerable to money laundering activities, because they serve as transit points for funds. Thailand's 44 BIBFs are subject to the AMLA.

The Stock Exchange of Thailand (SET) requires securities dealers to have "know your customer" procedures; however, the SET does not check anti-money laundering compliance during its reviews. The Department of Insurance (DOI) is responsible for the supervision of insurance companies, which are covered under the AMLA definition of a financial institution, but there are no anti-money laundering regulations for the insurance industry. Similarly, the Cooperative Promotion Department (CPD) is responsible for supervision of credit cooperatives, which are required under the Cooperatives Act to register with the CPD. Currently, around 6,000 cooperatives are registered, with approximately 1,348 thrift and credit cooperatives engaged in financial business. Thrift and credit cooperatives are engaged in deposit taking and providing loans to the members, and are covered under the definition of a financial institution, but, as with the securities and insurance sectors, there are no anti-money laundering compliance mechanisms currently in place.

Financial institutions (such as banks, finance companies, savings cooperatives, etc.), land registration offices, and persons who act as solicitors for investors, are required to report significant cash, property, and suspicious transactions. Reporting requirements for most financial transactions (including purchases of securities and insurance) exceeding two million baht (approximately $52,000), and property transactions exceeding five million baht (approximately $130,000), have been in place since October 2000. However, AMLO has been considering a proposal to lower the threshold for reporting cash transactions to 400,000 baht (approximately $10,500). The proposal is not in effect and the likelihood of its adoption is in doubt, since (in early February 2005) the Prime Minister publicly expressed his opposition to it.

In February 2006, the AMLO Board will consider the issuance of an announcement or regulation to subject gold shops, jewelry stores, and car dealers to either mandatory transactional reporting requirements and/or suspicious transactions reporting requirements over a specified but as of yet undetermined amount. The proposal will also subject those who fail to report to a maximum fine of Bt 300,000 (approximately $78 75). The relevant ministries and regulatory authorities would then issue orders consistent with the AMLO Board pronouncement. Thailand has more than 6,000 gold shops and 1,000 gem traders that would be subject to these reporting requirements.

Thailand acknowledges the existence and use of alternative remittance systems (hawala, etc.) that attempt to circumvent financial institutions. There is a general provision in the AMLA that makes it a crime to transfer, or to receive a transfer, that represents the proceeds of a specified criminal offense

(including terrorism). Remittance and money transfer agents, including informal remittance businesses, require a license from the Ministry of Finance. Guidelines issued in August 2004 by the Ministry of Finance and the BOT prescribe that before the grant of a license, both money changers and money transfer agents are subject to onsite examination by the BOT, which also consults with AMLO on the applicant's criminal history and AML record. At present, moneychangers have to report financial transactions to the Anti-Money Laundering Office (AMLO), while remittance agents do not. Licensed agents are subject to monthly transaction reporting and a 3-year record maintenance requirement. At present, there are about 270 authorized moneychangers and five remittance agents. The Bank of Thailand limited in 2004 the annual transaction volume for agents to $60,000 for offices in the Bangkok area and $30,000 for offices located in other areas. Moneychangers frequently act as illegal remittance agents.

Pursuant to an MOU with AMLO, Royal Thai Customs shares information and evidence of smuggling and customs evasion involving goods or cash exceeding Bt 1 million (approximately $ 26,250)..

Money and property may be seized under Section 3 of the AMLA if derived from commission of a predicate offense, from aiding or abetting commission of a predicate offense, or if derived from the sale, distribution, or transfer of such money or asset. AMLO is responsible for tracing, freezing, and seizing assets. Instruments that are used to support crime such as vehicles or farms are subject to seizure under the Criminal Asset Forfeiture Act of 1991, and unlike the AMLA, require a criminal conviction as a pre-requisite to a final forfeiture. The AMLA makes no provision for substitute seizures if authorities cannot prove a relationship between the asset and the predicate offense. Overall, the banking community in Thailand provides good cooperation to AMLO's efforts to trace funds and seize/freeze bank accounts.

The Bank of Thailand (BOT) does not have any regulations that give it explicit authorization to control charitable donations, but it is working with AMLO to monitor these transactions under the Exchange Control Act of 1942. With respect to charities, there are no regulations that give the BOT explicit authorization to control charitable donations. However, the BOT is working with the Anti-Money Laundering Office to monitor these transactions under the Exchange Control Act of 1942.

In 2004, the Prime Minister's Regulations on Payment of Incentives and Rewards in Proceedings Against Assets Under the Anti-Money Laundering Act went into effect in Thailand. Under this system, investigators from AMLO and other investigative agencies receive personal commissions on the property they seize that is ultimately forfeited. The United States as well as several other countries and international organizations, including the UNODC, have criticized this system of personal rewards on the grounds that it threatens the integrity of its AML regime and creates a conflict of interest by giving law enforcement officers a direct financial stake in the outcome of forfeiture cases. The United States and others have called on the RTG to rescind the reward regulation. Despite initial promises to end the system of personal commissions to law enforcement officers, Thailand has been disappointingly slow to address and correct this discredited practice. As a consequence, the U.S. Government (USG) has ceased providing training and other assistance to AMLO while the rewards practice remains in place. In criminal cases, the forfeiture and seizure of assets is governed by the 1991 Act on Measures for the Suppression of Offenders in an Offense relating to Narcotics (Assets Forfeiture Law). The Property Examination Committee has filed 1,865 cases with assets valued at 1.64 billion baht (approximately $4 million) and 1,644 cases are on trial. Thai authorities seized the equivalent of $18.7 million in non-terrorist assets during 2005, compared to $16.52 million in 2004, and $56.3 million in 2003. The high success rate in 2003 occurred during the Prime Minister's much-criticized war on drugs that year, in which more than 2,000 extra-judicial killings occurred.

Thailand is a party to the 1988 UN Drug Convention. In September 2004, Thailand became a party to the UN International Convention for the Suppression of the Financing of Terrorism. It has signed (December 2000), but not yet ratified, the UN Convention against Transnational Organized Crime. It

has also signed (December 2003), but not yet ratified the UN Convention against Corruption. The RTG has issued instructions to all authorities to comply with UNSCR 1267, including the freezing of funds or financial resources belonging to suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list. To date, Thailand has not identified, frozen, and/or seized any assets linked to individuals or entities included on the UNSCR 1267 Sanctions Committee's consolidated list. However, AMLO has identified some suspicious transaction reports derived from financial institutions and has initiated cases that may involve terrorist activities using non-governmental or non-profit organizations as a front. Thailand has a Mutual Legal Assistance Treaty (MLAT) with a number of countries, including the United States. AMLO has memoranda of understanding on money laundering cooperation with 23 other financial intelligence units (Belgium, Brazil, Lebanon, Indonesia, Romania, UK, Finland, Republic of Korea, Australia, Portugal, Andorra, Estonia, Philippines, Poland, Mauritius, Netherlands, Georgia, Monaco, Malaysia, Bulgaria, St. Vincent and the Grenadines, Ukraine, and Myanmar). AMLO is currently pursuing FIU agreements with 15 more. It nonetheless actively exchanges information with nations with which it has not entered into an MOU, including the United States, Singapore, and Canada. Thailand cooperates with USG and other nations' law enforcement authorities on a range of money laundering and illicit narcotics related investigations. AMLO responded to 99 requests for information from foreign FIUs in 2005. Thailand became a member of the Asia/Pacific Group on Money Laundering (APG), a FATF-style regional body, in April 2001. The AMLO joined the FATF's Egmont Group of financial intelligence units in June 2001.

The Government of Thailand should continue to implement its anti-money laundering program. The money laundering law should be amended to include the minimum list of acceptable designated categories of offenses prescribed by FATF and to make the "structuring" of transactions an offense. While the AMLA already captures proceeds of crime, it should be amended to include instrumentalities of offenses. Non-bank financial institutions and businesses such as gold shops, jewelry stores and car dealers should be subject to suspicious transaction reporting requirement without regard to a threshold. The insurance and securities sectors should institute AML compliance programs. AMLO should undertake audits of financial institutions to ensure compliance with requirements of AMLA and AMLO regulations. Until the RTG provides a viable mechanism for all of its financial institutions to be examined for compliance with the AMLA, Thailand's anti-money laundering regime will not comport with international standards.

The RTG should develop and implement anti-money laundering regulations for exchange businesses and should take additional measures to address the vulnerabilities presented by its alternative remittance systems. The RTG can further strengthen its anti-money laundering regime by promulgating cross border currency control regulations that are currently pending in the Office of Secretary of the Cabinet. Thailand should ratify the UN Convention against Transnational Organized Crime. Thailand should also immediately rescind its rewards program for AMLO investigators who seize assets under the anti-money laundering laws, and for agents of other agencies that engage in such practices, as it gives the appearance of impropriety, can imperil successful prosecutions, and will eventually impede international cooperation and undermine public support for Thailand's forfeiture regime and its credibility.

Turkey

Turkey is an important regional financial center, particularly for Central Asia and the Caucasus, as well as for the Middle East and Eastern Europe. It continues to be a major transit route for Southwest Asian opiates moving to Europe. However, local narcotics trafficking organizations are reportedly responsible for only a small portion of the total funds laundered in Turkey.

A substantial percentage of money laundering that takes place in Turkey appears to involve tax evasion, and informed observers estimate that as much as 50 percent of the economy is unregistered. Since tax evasion is such a large problem, the Government of Turkey (GOT) in 2005 passed a tax administration reform law, with the goal of improving tax collection. There are 21 free trade zones operating in Turkey, but there is no evidence that they are being used in trade-based money laundering schemes or terrorist financing operations. The GOT closely controls access to the free trade zones. Turkey is not an offshore financial center.

Money laundering takes place in both banks and non-bank financial institutions. Money laundering methods in Turkey include: the cross-border smuggling of currency; bank transfers into and out of the country; and the purchase of high value items such as real estate, gold, and luxury automobiles. It is believed that Turkish-based traffickers transfer money to pay narcotics suppliers in Pakistan and Afghanistan, reportedly through alternative remittance systems. The funds are transferred to accounts in the United Arab Emirates, Pakistan, and other Middle Eastern countries. The money is then paid to the Pakistani and Afghan traffickers.

Turkey first criminalized money laundering in 1996. The law included a wide range of predicate offenses, including narcotics-related crimes, smuggling of arms and antiquities, terrorism, counterfeiting, and trafficking in human organs and in persons. Under the law, whoever commits a money laundering offense faces a sentence of two to five years in prison, and is subject to a fine of double the amount of the money laundered and asset forfeiture provisions. The Council of Ministers subsequently passed a set of regulations that require the filing of suspicious transaction reports (STRs), customer identification, and the maintenance of transaction records for five years. These regulations apply to banks and a wide range of non-bank financial institutions, including insurance firms and jewelry dealers.

In 2004, the GOT enacted additional anti-money laundering legislation, a new criminal law, and a new criminal procedures law. The new Criminal Law, which took effect in June 2005, broadly defines money laundering to include all predicate offenses punishable by one year's imprisonment. Previously, Turkey's anti-money laundering law comprised a list of specific predicate offenses. A new Criminal Procedures Law also came into effect in June 2005.

In July 2001, the Ministry of Finance issued a banking regulation circular requiring all banks, including the Central Bank, securities companies, post office banks, and Islamic financial houses, to record tax identity information for all customers opening new accounts, applying for checkbooks, or cashing checks. The circular also requires exchange offices to sign contracts with their clients. The Ministry of Finance also issued a circular mandating that a tax identity number be used in all financial transactions as of September 1, 2001. The circular applies to all Turkish banks and to branches of foreign banks operating in Turkey, as well as to other financial entities. The requirements are intended to increase the Government's ability to track suspicious financial transactions. Turkey does not have bank secrecy laws that prevent disclosure of client and ownership information to bank supervisors and law enforcement officials. According to anti-money laundering law Article 5, public institutions, individuals, and corporate bodies must submit information and documents as well as adequate supporting information upon the request of Turkey's Financial Crimes Investigation Board (MASAK) or other authorities specified in Article 3 of the law. Natural persons and corporate bodies from whom information and documents are requested may not withhold the requested items by claiming the protection provided by privacy provisions in order to avoid submitting the requested items. A new Banking Law was enacted in 2005 to strengthen bank supervision, pursuant to which the Banking Regulatory and Supervisory Agency (BRSA) conducts periodic anti-money laundering and compliance reviews under authority delegated by MASAK. The number of STRs currently being filed is quite low, even taking into consideration the fact that many commercial transactions are conducted in cash. A possible reason for this is the lack of safe harbor protection for bankers and other filers of STRs. In 2004, 289 STRs were filed; for the period January-November 2005, 266 STRs were filed.

Turkey does not have foreign exchange restrictions. With limited exceptions, banks and special finance institutions must inform authorities, within 30 days, about transfers abroad exceeding $50,000 or its equivalent in foreign currency notes (including transfers from foreign exchange deposits). Travelers may take up to $5,000 or its equivalent in foreign currency notes out of the country. Turkey does have cross-border currency reporting requirements.

MASAK was established by the 1996 anti-money laundering law as part of the Ministry of Finance. MASAK became operational in 1997, and it serves as Turkey's Financial Intelligence Unit (FIU), receiving, analyzing, and referring STRs for investigation. Under current law, MASAK has three functions: regulatory, financial intelligence, and investigative. MASAK plays a pivotal role between the financial community, on the one hand, and Turkish law enforcement, investigators, and judiciary, on the other. MASAK's most critical training and equipment needs are being addressed by a European Union accession project, which is expected to end in June 2006.

In November 2005, the GOT submitted to Parliament a new law under which MASAK would cede its investigative function to the Public Prosecutor's Office, while retaining its financial intelligence and regulatory roles. The proposed law would reorganize MASAK along functional lines, explicitly criminalize the financing of terrorism, and provide safe harbor protection to the filers of STRs. The law also expands the range of entities subject to reporting requirements, to include art dealers, pension funds, exchange houses, jewelry stores, notaries, sports clubs, and real estate companies. It also specifies sanctions for failure to comply. The law is currently under review in Parliament, and passage is expected in 2006. However, the current draft of the legislation does not expand upon Turkey's defining terrorism only in terms of attacks on Turkish nationals or the Turkish state.

According to MASAK statistics, it has pursued more than 2,100 money laundering investigations since its inception, but as of July 2005, only eight had resulted in convictions. One factor contributing to this low conviction rate is the fact that Turkey's police, prosecutors, judges, and investigators need additional training in dealing with financial crimes. In addition, there is a lack of coordination among law enforcement agencies, and between the courts that prosecute the predicate offenses and those that prosecute money laundering cases. Most of the cases involve non-narcotics criminal actions or tax evasion; roughly 30 percent are narcotics-related.

The GOT enforces existing drug-related asset seizure and forfeiture laws. MASAK, the Turkish National Police, and the Courts are the government entities responsible for tracing, seizing and freezing assets. According to Article 9 of the anti-money laundering law, the Court of Peace—a minor arbitration court for petty offenses—has the authority to issue an order to freeze funds held in banks and non-bank financial institutions as well as other assets, and to hold the assets in custody during the preliminary investigation. During the trial phase, the presiding court has freezing authority. Public Prosecutors may freeze assets in cases where it is necessary to avoid delay. The Public Prosecutors' Office notifies the Court of Peace about the decision within 24 hours. The Court of Peace has 24 hours to decide whether to approve the action. There is no time limit on freezes. There is no provision in Turkish law for the sharing of seized assets with other countries.

In February 2002, MASAK issued General Communiqué No. 3, which requires that a special type of STR be filed by financial institutions in cases of suspected terrorist financing. However, until the revised MASAK law is in place, terrorist financing is still not explicitly defined as a criminal offense under Turkish law. Various existing laws with provisions that can be used to punish the financing of terrorism include articles 220, 314, and 315 of the Turkish penal code, which prohibit assistance in any form to a criminal organization or to any organization that acts to influence public services, media, proceedings of bids, concessions, and licenses, or to gain votes, by using or threatening violence. To commit crimes by implicitly or explicitly intimidating and cowing people is illegal under the provisions of the Law No. 4422 on the Prevention of Benefit-Oriented Criminal Organizations. The

GOT distributes to interested GOT agencies and financial institutions the names of suspected terrorists and terrorist organizations on the UNSCR 1267 Sanctions Committee's consolidated list.

Another area of vulnerability in the area of terrorist financing is the GOT's loose supervision of non-profit organizations. The General Director of Foundations (GDF) issues licenses for charities and oversees them. The GDF keeps a central registry of charities, and it requires charities to verify and prove their funding sources and to have bylaws. Charities are audited by the GDF and are subject to being shut down if they act outside the bylaws. However, the GOT does not have other oversight mechanisms, such as requiring the publication of annual reports or periodic reporting to competent authorities. Alternative remittance systems are illegal in Turkey, and in theory only banks and authorized money transfer companies are permitted to transfer funds. However, there is anecdotal evidence that alternative remittance systems exist.

The Council of Ministers promulgated a decree (2483/2001) to freeze all the funds and financial assets of individuals and organizations included on the UNSCR 1267 Sanctions Committee's consolidated list, which is distributed to all relevant agencies and financial institutions. However, the tools currently available under Turkish law for locating, freezing, seizing, and confiscating terrorist assets are cumbersome, limited, and not particularly effective. For example, there is no legal mechanism to freeze the assets of terrorists not on the consolidated list. According to MASAK statistics, no assets linked to terrorist organizations or terrorist activities were frozen in 2005. Turkey has a system for identifying, tracing, freezing, and seizing assets that are not related to terrorism, although the law allows only for their criminal forfeiture and not their administrative forfeiture. Article 7 of the anti-money laundering law provides for the confiscation of all property and assets (including derived income or returns) that are the proceeds of a money laundering predicate offense (soon to be expanded to crimes punishable by one year imprisonment), once the defendant is convicted. The law allows for the confiscation of the equivalent value of direct proceeds that could not be seized. Instrumentalities of money laundering can be confiscated under the law. In addition to the anti-money laundering law, Articles 54 and 55 of the Criminal Code provide for post-conviction seizure and confiscation of the proceeds of crimes. The defendant, however, must own the property subject to forfeiture. Legitimate businesses can be seized if used to launder drug money or support terrorist activity, or are related to other criminal proceeds. Property or its value that is confiscated is transferred to the Treasury.

The GOT cooperates closely with the United States and with its neighbors in the Southeast Europe Cooperation Initiative (SECI). Turkey and the United States have a Mutual Legal Assistance Treaty (MLAT) and cooperate closely on narcotics and money laundering investigations. Turkey is a member of the Financial Action Task Force (FATF). MASAK is a member of the Egmont Group. Turkey is a party to the 1988 UN Drug Convention, the UN International Convention for Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime. Turkey has signed and ratified the COE Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds of Crime, which came into force on February 1, 2005. In December 2005, Parliament's Foreign Affairs Committee adopted a draft law ratifying the UN Convention against Corruption, a step toward final ratification. However, Turkey's implementation efforts on UN anti-financial crime conventions have been weak thus far, and Turkey is probably not currently in compliance with the FATF's Special Recommendations on Terrorist Financing. The new MASAK law will improve Turkey's level of compliance with these special recommendations.

With the passage of several new pieces of legislation, the Government of Turkey took positive steps in 2005 to strengthen its anti-money laundering and counterterrorist financing regime. It now faces the challenge of decisively implementing these laws and of securing final passage of the MASAK law that will, among other provisions, specifically criminalize terrorist financing in support of international terrorist groups. Turkey should improve its coordination among the various entities charged with responsibility in its anti-money laundering and counterterrorist financing regime, including the various courts with responsibilities for these issues, in order to increase the number of successful

investigations and prosecutions. Turkey should also regulate and investigate alternative remittance networks to thwart their potential misuse by terrorist organizations or their supporters. It should also strengthen its oversight of charities.

Turks and Caicos

The Turks and Caicos Islands (TCI) is a Caribbean overseas territory of the United Kingdom (UK). TCI is comprised of two island groups and forms the southeastern end of the Bahamas archipelago. The U.S. dollar is the currency in use. TCI has a significant offshore center, particularly with regard to insurance and international business companies (IBCs). Its location has made it a transshipment point for narcotics traffickers. The TCI is vulnerable to money laundering because of a large offshore financial services sector as well as because of bank and corporate secrecy laws and Internet gaming activities. As of 2003, the TCI's offshore sector has eight banks (five of which also deal with onshore clientele), approximately 2,500 insurance companies, 1,000 trusts, and 13,000 "exempt companies" that are IBCs, including those formed by the Enron Corporation. The Financial Services Commission (FSC) licenses and supervises banks, trusts, insurance companies, and company managers; it also licenses IBCs and acts as the Company Registry for the TCI. In 2005, the Financial Services Commission employed a staff of 22 and recently hired an experienced regulator to bolster the on-site examination process. The FSC became a statutory body under the Financial Services Commission Ordinance 2001 and became operational in March 2002, and now reports directly to the Governor.

The offshore sector offers "shelf company" IBCs, and all IBCs are permitted to issue bearer shares; however, the Companies (Amendment) Ordinance 2001 requires that bearer shares be immobilized by depositing them, along with information on the share owners, with a defined licensed custodian. This applies to all shares issued after enactment and allows for a phase-in period for existing bearer shares of two years. Trust legislation allows establishment of asset protection trusts inoculating assets from civil adjudication by foreign governments; however, the Superintendent of Trustees has investigative powers and may assist overseas regulators. Currently, the FSC is rewriting the Trust legislation.

The 1998 Proceeds of Crime Ordinance criminalizes money laundering related to all crimes and establishes extensive asset forfeiture provisions and "safe harbor" protection for good faith compliance with reporting requirements. The Law also establishes a Money Laundering Reporting Authority (MLRA), chaired by the Attorney General, to receive, analyze, and disseminate financial disclosures such as suspicious activity reports (SARs). Its members also include the following individuals or their designees: Collector of Customs, the Managing Director of the FSC and the Head of the Financial Crimes Unit (FSU). the Superintendent of the FSC, the Commissioner of Police, and the Superintendent of the Criminal Investigation Department. The MLRA is authorized to disclose information it receives to domestic law enforcement and foreign governments.

The Proceeds of Crime (Money Laundering) Regulations came into force January 14, 2000. The Money Laundering Regulations place additional requirements on the financial sector such as identification of customers, retention of records for a minimum of ten years, training staff on money laundering prevention and detection, and development of internal procedures in order to ensure proper reporting of suspicious transactions. The Money Laundering Regulations apply to banking, insurance, trustees, and mutual funds. Although the customer identification requirements only apply to accounts opened after the Regulations came into force, TCI officials have indicated that banks would be required to conduct due diligence on previously existing accounts by December 2005.

In 1999, the FSC, acting as the secretary for the MLRA, issued non-statutory Guidance Notes to the financial sector, in order to help educate the industry regarding money laundering and the TCI's anti-money laundering requirements. Additionally, it provided practical guidance on recognizing suspicious transactions. The Guidance Notes instruct institutions to send SARs to either the Royal Turks & Caicos Police Force or the FSC. Officials forward all SARS to the Financial Crimes Unit

(FCU) of the Royal Turks and Caicos Islands Police Force, which analyzes and investigates financial disclosures. The FCU also acts as TCI's Financial Intelligence Unit (FIU).

As with the other United Kingdom Caribbean overseas territories, the Turks and Caicos underwent an evaluation of its financial regulations in 2000, co-sponsored by the local and British governments. The report noted several deficiencies and the government has moved to address most of them. The report noted the need for improved supervision, which the government acknowledged. An Amendment to the Banking Ordinance was introduced in February 2002 to remedy deficiencies outlined in the report relating to notification of the changes of beneficial owners, and increased access of bank records to the FSC. However, legislation has yet been introduced to remedy the deficiencies noted in the report with respect to the Superintendent's lack of access to the client files of Company Service and Trust providers, nor is there legislation that clarifies how the Internet gaming sector is to be supervised with respect to anti-money laundering compliance.

The TCI cooperates with foreign governments-in particular, the United States and Canada-on law enforcement issues including narcotics trafficking and money laundering. The FCU also shares information with other law enforcement and regulatory authorities inside and outside of the TCI. The Overseas Regulatory Authority (Assistance) Ordinance 2001, allows the TCI to further assist foreign regulatory agencies. This assistance includes search and seizure powers and the power to compel the production of documents.

The TCI is a member of the Caribbean Financial Action Task Force, and is subject to the 1988 UN Drug Convention. The Mutual Legal Assistance Treaty between the United States and the United Kingdom concerning the Cayman Islands was extended to the TCI in November 1990.

The Government of the Turks and Caicos Islands have put in place a comprehensive system to combat money laundering with the relevant legislative framework and an established FIU. The FSC has made steady progress in developing its regulatory capability and has some experienced senior staff. Recently, a number of on-site examinations were conducted and one resulted in an enforcement action against an institution. Notwithstanding, the current regulatory structure is not fully in accordance with international standards The Turks and Caicos Islands should criminalize the financing of terrorists and terrorism, and enhance its on-site supervision program. Turks and Caicos Islands should expand efforts to cooperate with foreign law enforcement and administrative authorities. Turks and Caicos Islands should provide adequate resources and authorities to provide supervisory oversight of its offshore sector in order to further ensure criminal or terrorist organizations do not abuse the Turks and Caicos Island's financial sector.

Uganda

Uganda is not a regional financial center and is not a major hub for narcotics trafficking or terror finance. It appears that a large percentage of the money laundering in Uganda stems from domestic criminal actions, often related to smuggling counterfeit products, and other financial fraud. Large drug-trafficking organizations, organized crime groups, and terror groups have historically not played a leading role in money laundering activities in the country. However, some of Uganda's weaknesses in monitoring financial transactions, and the widespread use of cash may make it a potential target for money laundering in the future. The Government of Uganda (GOU) does not effectively monitor cross-border financial activities. A draft comprehensive anti-money laundering bill based on the Financial Action Task Force's (FATF) Forty Recommendations has yet to be adopted by Parliament. The GOU anticipates the legislation will be passed after the national elections scheduled for February or March 2006.

Annual remittances from Ugandans living abroad are estimated at over $800 million. Money laundering also occurs in the informal financial sector. Many Ugandans working abroad use alternate,

cash-based, informal remittance systems to send money back to their families. The extensive use of cash instead of other financial instruments, even for major purchases such as real estate, further hinders the ability of authorities to monitor financial transactions. Many establishments in Uganda accept U.S. dollars for cash transactions. Under legislation passed in 2004, foreign exchange bureaus are not authorized to transfer money abroad. The GOU has no effective means to prevent money launderers from accessing the many charitable and faith-based organizations that operate in Uganda. Moreover, to date, the GOU has not been able to determine whether money launderers have used these entities.

Uganda does not have an offshore banking sector. The Special Economic Zones Bill of 2002 authorized the creation of export-processing zones (EPZs) and free trade areas within Uganda, and the GOU recently received a $24 million World Bank credit to establish EPZs. However, the GOU has yet to develop either EPZs or free trade areas. In 2001, Uganda criminalized narcotics-related money laundering. In 2003, the Bank of Uganda issued "Know Your Customer" guidelines for Ugandan commercial banks. Although some banks are implementing such guidelines, the GOU has been unwilling to enforce compliance. Until the daft anti-money laundering legislation passes, the GOU maintains only limited authority and ability to investigate and prosecute money laundering related violations. Despite the weaknesses in the laws, the Directorate of Public Prosecutions (DPP) reports that it is has successfully prosecuted numerous cases relating to organized crime and money laundering.

Beginning in 2004, the Bank of Uganda circulated to financial institutions the list of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list. The Bank of Uganda (BOU) has the power to freeze the assets of specific terrorist entities designated as terrorist organizations pursuant to the Anti-Terrorism Act (ATA) of 2002. The BOU also may require a bank to freeze customer assets in response to an outside request made in accord with a legally binding international convention to which Uganda has signed and ratified. The ATA criminalizes contributing, soliciting, controlling or managing funds used to support terrorism or terror organizations. Despite the ATA, GOU authorities believe they have limited powers to freeze or seize terrorist finance-related assets. The Solicitor General has said the draft anti-money laundering bill would significantly expand this authority allowing the GOU to seize all proceeds of crime.

Uganda is a member of the East and Southern African Anti-Money Laundering Group (ESAAMLG) and served as chair from August 2003 to August 2004. Uganda is a party to the 1988 UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism, the United Nations Convention against Transnational Organized Crime. At this time, Uganda and the United States do not have formal agreements to facilitate the exchange of information and records in connection with investigations relating to narcotics, terrorism, and other crimes. Nevertheless, Ugandan authorities have cooperated with U.S. law enforcement efforts. In May 2004, at the request of the United States, the GOU detained and deported two U.S. citizens to face money laundering and wire fraud charges in the U.S.

The Government of Uganda should pass the draft legislation pending since December 2003 to provide comprehensive anti-money laundering legislation that meets international standards. The GOU should establish a Financial Intelligence Unit (FIU). The GOU and financial sector should adopt better technology for efficient monitoring of financial transactions. Finally, the GOU should provide training to bankers, police investigators and prosecutors to improve awareness of money laundering schemes and their respective duties to prevent it.

Ukraine

Despite a government crackdown on corruption, organized crime, smuggling, and tax evasion, these problems continue to plague Ukraine's economy and to provide an impetus to money laundering.

Trafficking in persons and other organized criminal activity also continue to be associated with money laundering. Among the new Government's initiatives are the reduction of import duties, new procedures for the Customs Service, and the introduction of more transparent procedures for the privatization of state enterprises. Ukraine's revised budget, passed in March 2005, eliminated the eleven Free Economic Zones (FEZs), and nine Priority Development Territories, that had operated on Ukrainian territory. Legislative loopholes had permitted companies to misuse FEZ status, and to avoid taxes and import duties. It has been nearly two years since Ukraine adopted comprehensive anti-money laundering legislation and established its anti-money laundering regime, and the Government of Ukraine has introduced numerous legislative and regulatory improvements since that time.

In September 2001, the Financial Action Task Force (FATF) placed Ukraine on the list of non-cooperating countries and territories in the fight against money laundering (NCCT). The FATF's report noted that Ukraine lacked: a complete set of anti-money laundering laws; an efficient mandatory system for reporting suspicious transactions to a financial intelligence unit; adequate customer identification requirements; and adequate resources to combat money laundering. Following the FATF action, the United States Treasury Department issued an advisory to all U.S. financial institutions instructing them to "give enhanced scrutiny" to all transactions involving Ukraine. The FATF gave Ukraine until October 2002 to enact comprehensive and effective anti-money laundering legislation or face the possibility of a call on member countries to impose countermeasures.

At its September 2002 plenary, FATF extended its original October 2002 deadline until December 15, 2002. On November 28, 2002, the President signed into law Ukrainian Law No. 249-IV, an anti-money laundering package "On Prevention and Counteraction to the Legalization (Laundering) of the Proceeds from Crime." On December 20, 2002, the FATF determined that Ukraine's AML statute did not meet international standards and recommended that FATF members impose countermeasures on Ukraine. Under Section 311 of the USA PATRIOT Act, the United States designated Ukraine as a jurisdiction of primary money laundering concern on December 20, 2002. In response to the imminent threat of countermeasures, Ukraine passed further comprehensive legislative amendments in December 2002 and February 2003. Immediately upon passage of the February amendments, the FATF withdrew its call for members to invoke countermeasures and the U.S. followed suit on April 17, 2003 by revoking Ukraine's designation under Section 311 of the USA PATRIOT Act as a jurisdiction of primary money laundering concern.

By passing comprehensive AML legislation, Ukraine was not only able to avoid the recommendation for countermeasures, but also to initiate the process of NCCT de-listing. At the FATF plenary in September 2003, Ukraine was invited to submit an implementation plan, and upon review by the FATF Europe Review Group (ERG), an on-site visit to assess Ukraine's progress in developing its anti-money laundering regime was conducted on January 19-23, 2004. The results of the on-site visit by the FATF evaluation team were reported to the FATF ERG prior to the Paris plenary on February 25, 2004. Ukraine was de-listed from the NCCT list in March 2004. Over one year after de-listing, Ukraine reported to the ERG on implementation of anti-money-laundering legislation. In December 2005, the Parliament passed legislation addressing the last of the FATF concerns regarding limitations on information exchange. If the President signs this law, the FATF's enhanced monitoring of Ukraine under the NCCT process may be near its end.

As a member of the Council of Europe, Ukraine has undergone three evaluations by that group's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL), in May 2000 and September 2003. Although Ukraine criminalized drug money laundering in 1995, the initial 2000 mutual evaluation report was highly critical of Ukraine. The 2003 evaluation presented quite a different finding, as evaluators noted that a number of the previously noted deficiencies had been remedied, especially with regard to passage of a basic anti-money laundering law in November 2002.

Two subsequent sets of amendments adopted in December 2002 and February 2003 have further helped bring Ukraine into compliance with internationally-recognized standards, as set forth by the FATF, the European Union (EU) directives on prevention of use of the financial system for money laundering purposes, and the Basel principles applicable to banks. Effective September 1, 2001, the Government of Ukraine (GOU) criminalized non-drug money laundering in the Criminal Code of Ukraine. Subsequent amendments adopted in January 2003 include willful blindness provisions and also expand the scope of predicate crimes for money laundering to include any action that is punishable under the criminal code by imprisonment of three years or more, excluding certain specified actions. Provisions in the criminal code also address drug-related money laundering offenses and provide for the confiscation of proceeds generated by criminal activities.

The GOU enacted the "Act on Banks and Banking Activities" (Act) of January 2001, which imposes anti-money laundering measures upon banking institutions. The Act prohibits banks from opening accounts for anonymous persons, requires the reporting of large transactions and suspicious transactions to state authorities, and provides for the lifting of bank secrecy pursuant to an order of a court, prosecutor, or specific state body. Further amendments in February 2003 require banks to establish and implement bank compliance programs, conduct due diligence to identify beneficial account owners prior to opening an account or conducting certain transactions, and maintain records on suspicious transactions and the people carrying them out for a period of five years. Cross-border transportation of cash sums exceeding $1,000 must be declared by travelers. The National Bank of Ukraine (NBU) drafted amendments to the Act strengthening anti-money laundering requirements for banks. In particular, it requires: banks to provide information on bank owners and managers to the NBU; banks to install someone at a management level to be responsible for anti-money laundering supervision; and forbids banks to have correspondent accounts with shell banks.

In August 2001, "The Law on Financial Services and State Regulation of the Market of Financial Services" was signed. The law establishes regulatory controls over non-bank financial institutions that manage insurance, pension accounts, financial loans, or "any other financial services involving savings and money from individuals." Specifically, the law defines financial "institutions" and "services," imposes record keeping requirements on covered entities, and identifies the responsibilities of regulatory agencies. The law created the State Commission on Regulation of Financial Services Markets, which along with the National Bank of Ukraine and the State Commission on Securities and the Stock Exchange, has responsibility for regulating financial services markets. Amendments introduced in February 2003 set forth additional requirements similar to those prescribed for banks for all non-bank financial institutions.

In November 2004, the GOU approved and sent to Parliament for review a draft law "On Amending Some Legislative Acts of Ukraine on Prevention to Legalization (Laundering) of the Proceeds from Crime and Terrorist Financing." Though the Parliament did not get enough votes to adopt a law intended to implement the revised FATF Forty Recommendations on Money Laundering, the Rada plans to vote on it again. The new law would expand the sphere of primary monitoring to include retail traders, lawyers, accountants, and traders of precious metals.

Legislation passed by the Parliament in December 2005 and expected to take effect January 1, 2006 has two major provisions. First, it orders the National Bank to develop procedures obligating banks to freeze assets for two days and immediately inform the FIU whenever a party to a transaction appears on the Cabinet of Minister's list of beneficiaries of or parties to terrorist financing. Second, as discussed above, it improves the National Bank's ability to initiate information exchange internationally on both money laundering and terrorist finance, in accordance with the FATF Recommendations.

The Parliament has not yet, however, passed legislation putting in place FATF's Forty plus Nine recommendations. Instead, the government's draft law was rejected in two votes in the Parliament in

2005. The government has redrafted the law, narrowing its scope to the FATF recommendations only, and leaving for other legislation certain new authorities and bureaucratic changes that had drawn opposition in the Parliament. The government has submitted the new draft to the Parliament, but it has not yet been scheduled for a vote.

The current AML law calls for customer identification, reporting of suspicious and unusual transactions to the State Committee for Financial Monitoring, and five years of record-keeping. It also mandates the establishment of anti-money laundering procedures in financial institutions such as banks, stock, securities, and commodity brokers, and insurance companies, among other entities. Subsequent amendments to Articles 5, 6, and 8, respectively, mandate establishment of bank compliance programs and appointment of bank compliance officers who may be subject to criminal liability for noncompliance. They also mandate that financial institutions identify beneficial owners of accounts, and that employees of entities of initial financial monitoring unconditionally report transactions suspected of relating to money laundering or terrorism financing. The AML legislation includes a "safe harbor" provision that protects reporting institutions from liability for cooperating with law enforcement agencies.

The monetary threshold beyond which transactions and operations are subject to compulsory financial monitoring was reduced in 2004 from Ukrainian hryvnias (UAH) 300,000 (approximately $57,750) for cashless payments and UAH 100,000 (approximately $19,250) for payments in cash to one single amount for both, UAH 80,000 (approximately $15,400). The compulsory transaction-reporting threshold exists only if the transaction also meets one or more suspicious activity indicators as set forth in the law. Any transaction that is suspected of being connected to terrorist activity is to be reported to the appropriate authorities immediately.

On December 10, 2001, the Ukrainian Presidential Decree "Concerning the Establishment of a Financial Monitoring Department" mandated the creation of the State Department of Financial Monitoring (subsequently renamed the State Committee for Financial Monitoring -SCFM) by January 1, 2002, to function as Ukraine's financial intelligence unit (FIU). Under the terms of this decree, the SCFM is an independent authority administratively subordinated to the Ministry of Finance and is the sole agency authorized to receive and analyze financial information from first-line financial institutions. With its law of March 18, 2004, the Rada granted the SCFM the status of a Central Executive agency, subordinating it to the Cabinet of Ministers, rather than the Finance Ministry. The change elevates the SCFM's status and came into effect on January 1, 2005.

Since January 2005, the SCFM has opened five branches in Ukraine's regions, and is in the process of establishing four more. Ultimately, the SCFM plans to have 15 such branches. Ukraine's basic AML law establishes a two-tiered system of financial monitoring and combating of criminal proceeds, including terrorist financing provisions. It also identifies the participants: entities of initial financial monitoring, or those legal entities that carry out financial transactions; and entities of state financial monitoring, or those regulating entities charged with regulation and supervision of activities of the service providers. The overall regulatory authority is vested in the SCFM, which became operational on June 12, 2003, in accordance with Article 4 of the AML law.

The SCFM is an administrative agency with no investigative or arrest authority. It is authorized to collect and analyze suspicious transactions, including those related to terrorist financing, and to transfer financial intelligence information to competent law enforcement authorities for investigation. The SCFM also has authority to conclude interagency agreements, and can exchange intelligence on financial transactions with a money laundering or terrorist financing nexus with other FIUs. As of October 2005, memoranda of understanding were concluded between the SCFM and the FIUs of Russia, Slovakia, Estonia, Spain, Belgium, the Czech Republic, Colombia, Georgia, France, Serbia, Poland, Romania, Portugal, Cyprus, Brazil, Panama, Macedonia, Bulgaria, Lithuania, Italy, Slovenia, Thailand, Mexico, Peru, and Albania.

Overall, the SCFM has demonstrated a high level of competence in processing, analyzing, and developing cases to the point, some believe, of establishing the equivalent of probable cause prior to referral to law enforcement. The SCFM has responded to foreign requests for information in a timely fashion and in exceptional detail and has become a regional leader in the volume of case information exchanged with counterpart FIUs. The SCFM acknowledges the existence and use of alternative remittance systems such as hawala in Ukraine. SCFM personnel have attended seminars and exchanged information about such systems. The SCFM and security agencies monitor charitable organizations and other nonprofit entities that might be used to finance terrorism.

In 2004, the SCFM received 725,959 suspicious transaction reports (STRs), the bulk of which have been reported by banks. Approximately eight percent of these have been identified by the FIU for "active research" and 164 separate cases have been sent to competent law enforcement agencies. From January to August 2005, the SCFM received about 422,000 STRs. Over that same period, the SCFM referred 67 cases to the General Prosecutor's Office, 79 cases to the State Tax Administration, 91 cases to the Ministry for Internal Relations, and 93 cases to the Security Service. As a result of subsequent investigation, law enforcement agencies initiated 72 criminal cases, ten of which were brought to court. During the first half of 2005, law enforcement agencies (Prosecutor General's Office, Ministry of Internal Affairs, Tax Police, State Security Service) completed investigation and transferred to court 164 criminal cases on money laundering charges. While the reporting system works as intended and the financial intelligence unit (FIU) has generated cases, law enforcement authorities and prosecutors have not shown notable success in bringing those cases to successful conclusion. Observers believe the key problem to be local prosecutors who close money laundering investigations and cases arbitrarily, likely because of corruption.

Ukraine has an asset forfeiture regime. Article 59 of the Ukrainian Criminal Code provides for the forceful seizure of all or a part of the property of a convicted person for grave and special grave offenses as set forth in the relevant part of the code. With respect to money laundering, Article 209 allows for the forfeiture of criminally obtained money and other property.

In response to earlier criticisms by the FATF regarding lack of coordination and information-sharing among agencies, the Cabinet of Ministers issued Decree No. 1896 on December 10, 2003, establishing a Unified State Informational System of Prevention and Counteraction of Money Laundering and Terrorism Financing. This is a functioning system that unites data bases of 17 ministries and agencies. In order to foster better interagency cooperation, on September 22, 2005, the Cabinet of Ministers adopted a resolution establishing a Governmental Coordination Council on Functioning of a Unified State Informational System. It unites high-level governmental officials in the Cabinet of Ministers, Ministries of Economy, Finance, Interior, Customs Office and others.

A draft resolution to give the Security Service of Ukraine authority to investigate terrorist financing based on international terrorist lists is pending before the Cabinet of Ministers. There is no explicit criminal penalty for terrorist financing. However, Article 258 of the Criminal Code envisages a criminal penalty for supporting terrorism. The GOU has cooperated with U.S. efforts to track and freeze the financial assets of terrorists and terrorist organizations. The National Bank of Ukraine (NBU), State Tax Administration, Ministry of Finance, and State Security Service (SBU) are fully aware of U.S. Executive Order (E.O.) 13224 and subsequent updates and addenda to the lists of suspected terrorists and terrorist organizations. All agencies have tracked data that was provided, and have exchanged information. The NBU has issued orders to banks to freeze accounts of suspected terrorists and terrorist organizations on the list of Specially Designated Global Terrorists designated by the U.S. pursuant to E.O. 13224. The GOU has also taken appropriate steps to implement UN Security Council resolutions relevant to fighting terrorism. The Cabinet of Ministers, on December 22, 1999, issued a resolution ordering agencies and banks to freeze Taliban funds as specified in the UN 1267 Sanctions Committee's consolidated list. The amendments to the law passed in December 2005 will further strengthen Ukraine's anti-money laundering regime.

In June 2004, the SCFM joined the Egmont Group. The SCFM received an invitation to participate in the Egmont working groups and in July was connected to the Egmont Secure Website (ESW), used for information exchange between FIUs. The U.S.-Ukraine Treaty on Mutual Legal Assistance in Criminal Matters was signed in 1998 and entered into force in February 2001. A bilateral Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital, which provides for the exchange of information in administrative, civil and criminal matters, is also in force.

Ukraine is a party to the 1988 UN Drug Convention, the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime. Ukraine is a party to the European Convention on the Suppression of Terrorism, the UN International Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime. Ukraine is also a signatory to the UN Convention against Corruption.

Ukraine has demonstrated considerable political will to combat money laundering by strengthening, clarifying, and implementing its newly adopted laws. As evidenced by the strides made by its FIU, the NBU, and other actors in the financial and legal sectors, Ukraine has clearly shown its ability to implement a comprehensive anti-money laundering regime. The most significant obstacle to effective performance of the AML regime in the country is the likely compromising of money laundering cases by corrupt prosecutors and law enforcement officials at the local level. The GOU should take action to establish oversight capabilities of local investigators, prosecutors and judges to insure that cases are vigorously pursued and prosecuted. The GOU has taken laudable steps in 2005 to enhance its legal regime for combating terrorist financing, but it should amend its criminal code to criminalize the financing of terrorists and terrorism. Law enforcement agencies should give higher priority to investigating money laundering cases. Both law enforcement officers and the judiciary need a better understanding of the theoretical and practical aspects of investigating and prosecuting money laundering cases.

United Arab Emirates

The United Arab Emirates (UAE) is an important financial center in the Persian Gulf region. The UAE is still a largely cash-based society. However, the financial sector is modern and progressive. Dubai, in particular is a major international banking center. There is also a growing offshore sector. The UAE's robust economic development, political stability, and liberal business environment have attracted a massive influx of people and capital. Because of the UAE's geographic location and its role as the primary transportation and trading hub for the Gulf States, East Africa, and South Asia, and with its expanding trade ties with the countries of the former Soviet Union, the UAE has the potential to be a major center for money laundering. The large number of resident expatriates from the above regions, many of whom are engaged in legitimate trade with their homelands, or send remittances there, exacerbates that potential. Approximately 80 percent of the UAE population is comprised of non-nationals. Given the country's close proximity to Afghanistan, where most of the world's opium is produced, narcotics traffickers are increasingly reported to be attracted to UAE's financial centers.

Following the September 11 terrorist attacks in the United States, and amid revelations that terrorists had moved funds through the UAE, the Emirates' authorities acted swiftly to address potential vulnerabilities. In close concert with the United States, the UAE imposed a freeze on the funds of groups with terrorist links, including the Al-Barakat organization, which was headquartered in Dubai. Both federal and Emirate-level officials have gone on record as recognizing the threat money laundering activities in the UAE pose to the nation's security. Since 2001, the UAE Government (UAEG) has taken steps to better monitor cash flows through the UAE financial system and to cooperate with international efforts to combat terrorist financing. The UAE has enacted two laws that serve as the foundation for the country's anti-money laundering (AML) and counterterrorist financing

(CTF) efforts: Law No. 4/2002, the anti-money laundering law, and Law No. 1/2004, the counterterrorism law.

Law No. 4 of 2002 criminalizes all forms of money laundering activities. The law calls for stringent reporting requirements for wire transfers exceeding $545 and currency imports above $10,900. The law imposes stiff criminal penalties (up to seven years in prison and a fine of up to 300,000 dirhams ($81,700), as well as seizure of assets if found guilty) for money laundering. It also provides safe harbor provisions for those who report such crimes. Although the anti-money laundering law criminalizes money laundering, it is administrative Regulation No. 24/2000 that provides guidelines for how financial institutions are to monitor for money laundering activity.

This regulation requires banks, money exchange houses, finance companies, and any other financial institutions operating in the UAE to follow strict know your customer guidelines. Additionally, financial institutions must verify the customer's identity and maintain transaction details (including name and address of originator and beneficiary) for all exchange house transactions over $545 and for all non-account holder bank transactions over $10,900. The regulation delineates the procedures to be followed for the identification of natural and juridical persons, the types of documents to be presented, and rules on what customer records must be maintained on file at the institution. Other provisions of Regulation 24/2000 call for customer records to be maintained for a minimum of five years and further require that they be periodically updated as long as the account is open.

On July 29, 2004, the UAE strengthened its legal authority to combat terrorism and terrorist financing, by passing Federal Law Number 1 of 2004 on Combating Terror Crimes (Law No. 1/2004). The law sets stiff penalties for the crimes covered, including life imprisonment and the death penalty. It also provides for asset seizure or forfeiture. Under the law, founders of terrorist organizations face up to life imprisonment. The law also penalizes the illegal manufacture, import, or transport of "non-conventional weapons" or their components, with the intent to use them in a terrorist activity.

Law No. 1/2004 specifically criminalizes the funding of terrorist activities or terrorist organizations. Article 12 provides that raising or transferring money with the "aim or with the knowledge" that some or all of this money will be used to fund terrorist acts is punishable by "life or temporary imprisonment," whether or not these acts occur. Law No. 1/2004 grants the Attorney General (or his deputies) the authority to order the review of information related to the accounts, assets, deposits, transfer, or property movements on which the Attorney General has "sufficient evidence to believe" are related to the funding or committing of a terror activity stated in the law. The law also provides for asset seizure and confiscation. Article 31 gives the Attorney General the authority to seize or freeze assets until the investigation is completed. Article 32 confirms the Central Bank's authority to freeze accounts for up to seven days if it suspects that the funds will be used to fund or commit any of the crimes listed in the law. The law also allows the right of appeal to "the competent court" of any asset freeze under the law. The court will rule on the complaint within 14 days of receiving the complaint. Through 2005, there are no reported criminal convictions for money laundering or terrorist financing under either the 2002 or the 2004 laws.

Law No. 1/2004 also sets up a "National Anti-Terror Committee" with representatives from the Ministries of Foreign Affairs, Interior, Justice, and Defense, the Central Bank, the State Security Department, and the Federal Customs Authority. The Committee serves as a UAE interagency liaison, implements UN Security Council Resolutions on terrorism, and shares information with its foreign counterparts as well as with the United Nations (UN).

The UAE's national anti-money laundering committee (NAMLC) is responsible for coordinating anti-money laundering policy. It is chaired by the Central Bank (CB) governor, with representatives from the Ministries of Interior, Justice, Finance, and Economy; the National Customs Board; the Secretary General of the Municipalities; the Federation of the Chambers of Commerce; and five major banks and money exchange houses (as observers).

The supervision of the UAE banking and financial sector (including banks, exchange houses, and investment companies) falls under the authority of the CB. The CB issues licenses to financial institutions under its supervision and can impose administrative sanctions for compliance violations. The CB issues instructions and recommendations as it deems appropriate and is permitted to take any necessary measures to ensure the integrity of the UAE's financial system. The CB has issued a number of circulars outlining the requirements for customer identification and providing for a basic suspicious transaction-reporting obligation.

Law 4/2002 provided for the establishment of the Anti-Money Laundering and Suspicious Case Unit (AMLSCU), which acts as the financial intelligence unit (FIU) and is housed within the CB. Financial institutions under the supervision of the CB are required to report suspicious transactions to the AMLSCU, which is charged with examining them and coordinating the release of information with law enforcement and judicial authorities. It has the authority to request information from foreign regulatory authorities in carrying out its preliminary investigation of suspicious transaction reports. The AMLSCU—a member of the Egmont Group since June 2002—exchanges information with foreign FIUs on a reciprocal basis, and has provided information relating to investigations carried out by the United States and other countries. Since December 2000, the CB has referred 108 cases to foreign FIUs.

From December 2000 to December 2005, the AMLSCU has received and investigated 3031 suspicious transactions reports (STRs). From December 2004 to December 2005, the AMLSCU received and investigated 772 STRs. No freeze orders were issued in 2005 based on STR submissions, but from December 2000 to December 2005, the CB has issued 27 freeze orders based on AMLSCU and law enforcement investigations. Twelve of those cases are in the process of prosecution for money laundering and confiscation of proceeds. The CB circulates to all financial institutions under its supervision the UNSCR 1267 Sanctions Committee's consolidated list of suspected terrorists and terrorist organizations. Since 2000, it has frozen $1,348,381 in 17 accounts based on the UNSCR 1267 list.

Some money laundering in the UAE occurs in the formal banking system, including the numerous money exchange houses, but it is likely more prevalent in the informal and largely undocumented hawala remittance system. The fact that hawala is an undocumented and nontransparent system, and is highly resilient despite enforcement and regulatory efforts, makes it difficult to control and an attractive mechanism for terrorist and criminal exploitation. The UAE has begun to make progress in confronting its vulnerability to the unregulated use of hawala. New regulations to improve oversight of the hawala system were implemented in 2002, when the CB required hawala brokers to register, submit the names and addresses of senders and beneficiaries, and to file suspicious transaction reports.

As of November 30 2005, 184 hawala brokers (hawaladars) have applied to register with the CB. The CB has issued hawaladar certificates to 163 of the applicants, and the remaining 21 applicants are in the process of fulfilling CB registration requirements. The central bank conducts one-on-one training sessions with each registered hawaladar to ensure the dealer understands the record-keeping and reporting obligations. There is no accurate estimate of the total number of UAE-based hawala brokers, and there is no penalty for failure of hawaladars to register.

In April 2005, the UAE hosted its third international conference on hawala, which was attended by over 400 participants from 74 countries. Delegates included government officials, executives of supervisory institutions, banking experts, and law enforcement officials from the Middle East, United States, Latin America, Asia, and Europe. The conference statement recognized the key role that hawala and other informal funds transfer systems play in facilitating remittances, particularly those of migrant workers, although such systems can be abused for illegal activities. Speakers discussed ways to ensure hawala is regulated, without driving the system further underground.

This attention to hawala may be encouraging more people in the country to use regulated exchange houses. Representatives of money exchange business noted that their sector could transfer money anywhere, even to a private residence, for a fee competitive with hawala, persuading many to use the formal, and more secure, banking network.

There are no limits on how much cash can be imported into or exported from the country. However, the UAE Central Bank requires that individuals declare cash imports above $10,900. The regulations provide customs services with the authority to seize undeclared cash; however, enforcement is still lacking, and the declaration requirements are not well publicized. The UAE is a cash-based economy, and it is not unusual for people to carry significant sums of cash around. As such, customs officials tend to not regard large cash imports as suspicious or possibly criminal.

The UAEG also has admitted the need to better regulate "near-cash" items such as gold, jewelry, and gemstones, especially in the burgeoning markets in Dubai. The UAE has participated in the Kimberley Process Certification Scheme for Rough Diamonds (KPCS) since November 2002, and began certifying rough diamonds exported from the UAE on January 1, 2003. In 2004, the UAE was the first KPCS participant country to volunteer for a "peer review visit" on internal control mechanisms.

The Dubai Metals and Commodities Center (DMCC) is the quasi-governmental organization charged with issuing Kimberly Process (KP) certificates in the UAE, and employs four individuals full-time to administer the KP program. Prior to January 1, 2003, the DMCC circulated a sample UAE certificate to all KP member states and embarked on a public relations campaign to educate the estimated 50 diamond traders operating in Dubai concerning the new KP requirements. UAE customs officials may delay or even confiscate diamonds entering the UAE from a KP member country without the proper certificate.

The Securities and Commodities Authority (SCA) supervises the country's two stock markets. In February 2004, it sent out anti-money laundering guidelines to brokers and the markets, instructing them to verify client information when opening accounts and created a reporting requirement for cash transactions above $10,900. The SCA also instructed the markets and brokers to file suspicious transaction reports for initial analysis before forwarding them to the AMLSCU for further action. The instructions also provide for a five-year record keeping requirement.

Dubai's booming property market is also susceptible to money laundering abuse. In 2002, Dubai permitted three companies to sell "freehold" properties to non-citizens. Several other emirates have announced their intention to follow suit. Abu Dhabi has passed a property law, which provides for a type of lease-hold ownership for non-citizens; although by the end of 2005 it had not yet identified any areas where expatriates can invest. The intense interest in these properties, and rumors of cash purchases, has sparked concerns about the potential for money laundering. As a result, developers have stopped accepting cash purchases, alleviating some of the concerns about money laundering activities in this sector of the economy.

The UAEG is much more sensitive since September 11 to the oversight of charities and accounting for transfers abroad. In 2002, the UAEG mandated that all licensed charities interested in transferring funds overseas must do so via one of three umbrella organizations: the Red Crescent Authority, the Zayed Charitable Foundation, or the Muhammad Bin Rashid Charitable Trust. These three quasi-governmental bodies are in a position to ensure that overseas financial transfers go to legitimate parties. As an additional step, the UAEG has contacted the governments in numerous aid receiving countries to compile a list of recognized acceptable recipients for UAE charitable assistance. The UAE Ministry of Labor and Social Affairs (MLSA) licenses and monitors registered charities in Abu Dhabi and the northern emirates. These charities are required to keep records of donations and beneficiaries and submit annual reports to the MLSA. Charities in Dubai are licensed and monitored by the Dubai Department of Islamic Affairs and Charitable Activities.

The UAE has both free trade zones (FTZs) and financial free zones (FFZs). There are a growing number of free trade zones (FTZs), with 17 already in operation and plans to establish eleven more. Every emirate except Abu Dhabi has at least one functioning FTZ. The free trade zones are monitored by emirate-level (as opposed to federal) authorities.

There are over a hundred multinational companies located in the FTZs, with thousands of individual trading companies. The FTZs permit 100 percent foreign ownership, no import duties, full repatriation of capital and profits, no taxation, and easily obtainable licenses. Companies located in the free trade zones are treated as being offshore or outside the UAE for legal purposes. However, UAE law prohibits the establishments of shell companies and trusts, and does not permit non-residents to open bank accounts in the UAE. The larger FTZs in Dubai (such as Jabal Ali free zone) are well-regulated. Although it is not impossible that some trade-based money laundering occurs in the large FTZs, there is a higher potential for it in some of the smaller FTZs in the northern emirates.

In March 2004, the UAEG passed Federal Law No. 8 Regarding the Financial Free Zones (FFZs) (Law No. 8/2004). The new law exempts FFZs and their activities from UAE federal civil and commercial laws, but subjects them and their operations to federal criminal laws including the Anti-Money Laundering Law No. 4/2002 and the Anti-Terror Law No. 1/2004. The new law and a subsequent federal decree also allowed for the establishment, in September 2004, of the UAE's first financial free zone (FFZ), known as the Dubai International Financial Center (DIFC). In September 2005, the DIFC opened its securities market—the Dubai international financial exchange (DIFX).

Law No. 8/2004 limits licenses for banking activities in the FFZs to branches of companies, joint companies, and wholly owned subsidiaries, provided that they "enjoy a strong financial position and systems and controls, and are managed by persons with expertise and knowledge of such activity." The law prohibits companies licensed in the financial free zone from dealing in UAE currency (dirham) or taking "deposits from the state's markets." It further stipulates that the licensing standards of companies "shall not be less than those applicable in the state." The law empowers the Emirates Stocks and Commodities Authority to approve the listing of any company listed on any UAE stock market in the financial free zone and the licensing of any UAE licensed broker. The law limits any insurance activity in the UAE carried out by a financial free zone company to that of reinsurance. It further gives competent authorities in the Federal Government the power to inspect financial free zones and submit their findings to the UAE cabinet. According to DFSA regulators, the DFSA due diligence process is a risk-based assessment that examines a firm's competence, financial soundness, and integrity.

DIFC regulations provide for an independent regulatory body, the Dubai Financial Services Authority (DFSA), which reports to the office of Dubai Crown Prince and an independent Commercial Court. Observers called the independence of the DFSA into question in the summer of 2004, even prior to the inauguration of the DIFC, with the high profile firing of the chief regulator and the head of the regulatory council (the supervisory authority). Subsequent to the firing, Dubai passed laws which appear to give the DFSA more regulatory independence from the DIFC, although these laws have not yet been tested. The DFSA, whose regulatory regime is generally modeled after the United Kingdom system, is the only authority responsible for licensing firms providing financial services in the DIFC.

The DFSA has licensed 21 financial institutions and 13 ancillary service providers to operate within the DIFC. The DFSA's rules prohibit offshore casinos or internet gaming sites in the UAE. The DFSA requires firms to send suspicious transaction reports to the AMLSCU (along with a copy to the DFSA). Although firms operating in the DIFC are subject to Law No. 4/2002, the DFSA has also issued its own anti-money laundering regulations and supervisory regime, creating some ambiguity as to the authority of the CB and AMLSCU within the DIFC. Discussions with the UAE central bank on a formal bilateral arrangement are ongoing. The DFSA has undertaken a campaign to reach out to other international regulatory authorities. It has signed MOUs with Turkey and the Isle of Man, and in

December 2005 the DFSA signed a regulatory protocol with the U.S. Commodity Futures Trading Commission (CFTC).

The UAE is a party to the 1988 UN Drug Convention. The UAE has signed but not yet ratified the UN Convention against Corruption and the UN Convention against Transnational Organized Crime. It has entered into a series of bilateral agreements on mutual legal assistance. The UAE is a party to all 12 UN conventions and protocols relating to the prevention and suppression of international terrorism. The UAE was very active in supporting the creation of the Middle East and North Africa Financial Action Task Force (MENAFATF) that was inaugurated in Bahrain in November 2004; the UAE was one of the original charter signatories.

The UAEG has begun constructing a far-reaching anti-money laundering program, and it is considered a regional leader in these efforts. The UAE has sought to crack down on potential vulnerabilities in the financial markets and is cooperating in the international effort to prevent money laundering, particularly by terrorists. There has been a substantial improvement on behalf of the AMLSCU in the area of information sharing with other countries.

However, there remain areas requiring further action. Law enforcement and customs officials should begin to take the initiative to recognize money laundering activity and proactively develop cases without waiting for referrals from the AMLSCU. Additionally law enforcement and customs officials should conduct more thorough inquiries into large undeclared cash imports and required the declaration of exports from the country. UAE officials should give greater scrutiny to trade-based money laundering in all of its forms. The Central Bank should continue its efforts to encourage hawala dealers to participate in the registration program. The UAE should implement a uniform system to monitor all charities active in the UAE, and it should engage in a public campaign to ensure all charities are aware of the requirements. It should ratify the UN Convention against Transnational Organized Crime.

United Kingdom

The United Kingdom (UK) plays a leading role in European and world finance and remains attractive to money launderers because of the size, sophistication, and reputation of its financial markets. Although drugs are still a major source of illegal proceeds for money laundering, the proceeds of other offenses, such as financial fraud and the smuggling of people and goods, have become increasingly important. The past few years have witnessed the movement of cash placement away from High Street banks and mainstream financial institutions. Criminals continue to use bureaux de change, cash smuggled into and out of the UK, gatekeepers (including solicitors and accountants), and the purchase of high-value assets as disguises for illegally obtained money, and credit/debit card fraud has been on the increase since 2002.

The UK has implemented many of the provisions of the European Union's two Directives on the prevention of the use of the financial system for the purpose of money laundering, and the Financial Action Task Force (FATF) Forty Plus Nine Recommendations. Narcotics-related money laundering has been a criminal offense in the UK since 1986. The laundering of proceeds from other serious crimes is criminalized by subsequent legislation. Banks and non-bank financial institutions in the UK must report suspicious transactions.

In November 2001, money laundering regulations were extended to money service bureaus (e.g., bureaux de change, money transmission companies). As of January 1, 2004, more business sectors are subject to formal suspicious transaction reporting (STR) requirements, including attorneys, solicitors, accountants, real estate agents, and dealers in high-value goods such as cars and jewelry. Sectors of the betting and gaming industry that are not currently regulated are being encouraged to establish their own codes of practice, including a requirement to disclose suspicious transactions.

The Proceeds of Crime Act 2002 was enacted on July 24, 2002, and entered into force on January 1, 2003. The final regulations took effect on March 1, 2004. The Act creates, for the regulated sector, a new criminal offense of failing to disclose suspicious transactions in respect to all crimes, not just narcotics or terrorism-related crimes, as was the case previously. Along with the Act came an expansion of investigative powers relative to large movements of cash in the UK. In light of this, Her Majesty's (HM) Customs has increased its national priorities to include investigating the movement of cash through money exchange houses and identifying unlicensed money remitters. The total value of assets recovered by all agencies under the Act (and earlier legislation) in England, Wales, and Northern Ireland was £54.5 million (approximately $96.6 million) in 2004 and £84.4 million (approximately $149.6 million) in 2005.

The UK's banking sector provides accounts to residents and nonresidents, who can open accounts through private banking activities and various intermediaries that often advertise on the Internet and also offer various offshore services. Private banking constitutes a significant portion of the British banking industry. Both resident and nonresident accounts are subject to the same reporting and record keeping requirements. Individuals typically open nonresident accounts for tax advantages or for investment purposes.

Bank supervision falls under the Financial Services Authority (FSA). The FSA's primary responsibilities relate to the safety and soundness of the institutions under its jurisdiction. The FSA also plays an important role in the fight against money laundering through its continued involvement in the authorization of banks, and investigations of money laundering activities involving banks. The FSA regulated approximately 10,500 institutions and approved of 160,000 individuals in key positions (compliance officers, etc.) during the first half of 2003. From October of 2003, the FSA increased its regulatory role to include mortgage and general insurance agencies, totaling over 30,000 institutions. The FSA administers a civil-fines regime and has prosecutorial powers. The FSA has the power to make regulatory rules with respect to money laundering, and to enforce those rules with a range of disciplinary measures (including fines) if the institutions fail to comply.

In November 2005, the FSA fined UBS Wealth Management £100,000 (approximately $177,225) for failure to accurately report certain types of equity transactions since 1999. Abbey National, the UK's sixth largest bank, was fined £2.3 million (approximately $4.37 million) in 2003 for "extremely serious failings" in its anti-money laundering procedures during the period 2001-2003.

STRs are filed with the Financial Intelligence Division (FID), formerly the Economic Crime Bureau, of the National Criminal Intelligence Service (NCIS), which serves as the UK's financial intelligence unit (FIU). The FID analyzes reports, develops intelligence, and passes information to police forces and HM Customs and Excise for investigation. The FID received approximately 32,000 STRs in 2001, 65,000 in 2002, and 100,000 in 2003. The merger of NCIS with two other law enforcement entities to form the Serious Organized Crime Agency (SOCA), announced in 2004, is designed to improve information-sharing and allow resources to be used more effectively in combating money laundering and other aspects of organized crime.

The Proceeds of Crime Act 2002 has enhanced the efficiency of the forfeiture process and increased the recovered amount of illegally obtained assets. The Act consolidates existing laws on forfeiture and money laundering into a single piece of legislation, and, perhaps most importantly, creates a civil asset forfeiture system for the proceeds of unlawful conduct. It also creates the Assets Recovery Agency (ARA), to enhance financial investigators' power to request information from any bank about whether it holds an account for a particular person. The Act provides for confiscation orders and for restraint orders to prohibit dealing with property. It also allows for the recovery of property that is, or represents, property obtained through unlawful conduct, or that is intended to be used in unlawful conduct. Furthermore, the Act shifts the burden of proof to the holder of the assets to prove that the assets were acquired through lawful means. In the absence of such proof, assets may be forfeited, even

without a criminal conviction. The Act gives standing to overseas requests and orders concerning property believed to be the proceeds of criminal conduct. The Act also provides the ARA with a national standard for training investigators, and gives greater powers of seizure at a lower standard of proof.

The Terrorism (United Nations Measures) Order 2001 makes it an offense for any individual to make any funds for financial or related services available, directly or indirectly, to or for the benefit of a person who commits, attempts to commit, facilitates, or participates in the commission of acts of terrorism. The Order also makes it an offense for a bank or building society to fail to disclose to the Treasury a suspicion that a customer or entity with whom the institution has had dealings since October 10, 2001, is attempting to participate in acts of terrorism. The Anti-Terrorism, Crime, and Security Act 2001 provides for the freezing of assets. In 2005, the UK issued 13 terrorist asset freeze orders on 28 individuals and 6 organizations.

As a direct result of the events of September 11, 2001, the FID established a separate Terrorist Finance Team (TFT) to maximize the effect of reports from the regulated sector. The TFT chairs a law enforcement group to provide outreach to the financial industry concerning requirements and typologies. The operational unit that responds to the work and intelligence development of the TFT has seen a threefold increase in staffing levels directly due to the increase in the workload. The Metropolitan Police responded to the growing emphasis on terrorist financing by expanding the focus and strength of its specialist financial unit dedicated to this area of investigations. This unit is now called the National Terrorist Financing Investigative Unit (NTFIU).

Charitable organizations and foundations are subject to supervision by the UK Charities Commission. Such entities must be licensed and are subject to reporting and record keeping requirements. The Commission has investigative and administrative sanctioning authority, up to and including the authority to remove management, appoint trustees and place organizations into receivership.

The UK cooperates with foreign law enforcement agencies investigating narcotics-related financial crimes. The UK is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. The UK has signed, but not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. The UK is a member of the FATF. The NCIS is an active member of the Egmont Group and has information sharing arrangements in place with the FIUs of the United States, Belgium, France, and Australia. The Mutual Legal Assistance Treaty (MLAT) between the UK and the United States has been in force since 1996 (the United States and UK signed a reciprocal asset sharing agreement in March 2003). The UK also has an MLAT with the Bahamas. Additionally, there is a memorandum of understanding in force between the U.S. Immigration and Customs Enforcement and HM Revenue and Customs.

The Government of the United Kingdom should provide adequate oversight of its gaming sector. It should ratify the UN Convention against Transnational Organized Crime. The United Kingdom should continue the strong enforcement of its comprehensive anti-money laundering and counterterrorist financing program and its active participation in international organizations to combat the domestic and global threat of money laundering and the support and financing of terrorists and their organizations.

Uruguay

In the past, Uruguay's strict bank secrecy laws, liberal currency exchange, capital mobility regulations and overall economic stability made it a regional financial center vulnerable to money laundering, though the extent and the nature of suspicious financial transactions have been unclear. In 2002, banking scandals and mismanagement, along with massive withdrawals of Argentine deposits, led to a

near collapse of the Uruguayan banking system, significantly weakening Uruguay's role as a regional financial center. This crisis has diminished the attractiveness of Uruguayan financial institutions for money launderers in the medium term.

Uruguay is a founding member of the Financial Action Task Force for South America (GAFISUD), created in December 2000 and based in Buenos Aires. Since early 2005, the ex-director of the Government of Uruguay's (GOU) Center for Training on Money Laundering Issues (CECPLA) has served as the GAFISUD Executive Secretary. Under the Mutual Evaluation process, GAFISUD certified in 2003 that Uruguay's anti-money laundering laws and regulations met the majority of the Financial Action Task Force (FATF) Forty Recommendations; Uruguay's compliance with the FATF Special Recommendations on Terrorist Financing was not evaluated at that time. GAFISUD has also recognized Uruguay's efforts to train public and private sector players in money laundering-related issues. While Uruguay's past role as a financial center put it at risk of becoming a money laundering center, GAFISUD did not find evidence of major money laundering activity. In 2005, the IMF concluded a thorough examination of Uruguay's money laundering regime. The results of this examination are not yet available. Under an agreement between the IMF, World Bank and GAFISUD, the assessment may also be considered as GAFISUD's mutual evaluation of Uruguay, if the report is accepted by the GAFISUD plenary.

Over the past five years, the GOU has instituted several legislative and regulatory reforms in its anti-money laundering regime. The May 2001 Law 17,343 extends the predicate offenses beyond narcotics trafficking and corruption to include: terrorism; smuggling (value over $20,000); illegal trafficking in weapons, explosives and ammunition; trafficking in human organs, tissues and medications; trafficking in human beings; extortion; kidnapping; bribery; trafficking in nuclear and toxic substances; and illegal trafficking in animals or antiques. The courts have the power to seize and confiscate property, products or financial instruments linked to money laundering activities. Money laundering is considered a crime separate from underlying crimes such as narcotics trafficking, administrative corruption, terrorism and smuggling.

In September 2004, the Uruguayan Congress approved Law 17,835, which significantly strengthens the GOU's money laundering regime. The law incorporated all of GAFISUD's recommendations that had to be legislated, while the other recommendations were met through administrative regulations. It also includes specific provisions related to the financing of terrorism and to the freezing of assets linked to terrorist organizations, as well as to undercover operations and controlled deliveries. The first arrest and prosecution for money laundering under the new legislation occurred in October 2005. The case is still pending.

Law 17,835 of 2004 expands the realm of entities required to file suspicious activities reports (SARs) and makes reporting of such activities a legal obligation. It specifically confers to Uruguay's financial intelligence unit (FIU), Financial Information and Analysis Unit (UIAF) of the Central Bank, the role of receiving and analyzing SARs, and the authority to request additional related information. Created in 2000, the UIAF receives, analyzes, and disseminates suspicious financial reports to judicial authorities. Central Bank Circular 1722, which created the UIAF, provides the authority to respond to requests for international cooperation. In November 2004, Resolution 2002-2072 of the Central Bank Board of Directors raised the UIAF to the level of a directorate reporting directly to the Board. The UIAF has received 36 SARs in the first 11 months of 2005, more SARS than were received over the previous four years. Over the first 11 months of 2005, the UIAF also received 11 action requests from the courts and 24 information requests from foreign FIUs. While the level of staffing at the UIAF is currently very low, the Central Bank is reportedly in the process of hiring additional staff.

Central Bank regulations require all banks, currency exchange houses, stockbrokers and insurance companies to implement anti-money laundering policies, such as thoroughly identifying customers, recording transactions over $10,000 in internal databases, and reporting suspicious transactions to the

UIAF. The 2004 law makes this a legal obligation, extended to all financial intermediaries, including casinos, art dealers, real estate and fiduciary companies. Additionally, the law extends the reporting requirement to all persons entering or exiting Uruguay with over $10,000 in cash or in monetary instruments. Regulations for the 2004 law have been issued by the Central Bank for all entities it supervises, and are in the process of being issued by the Ministry of Economy and Finance for all other reporting entities, such as casinos, real estate brokers and art dealers.

Three government bodies are responsible for coordinating GOU efforts to combat money laundering: the UIAF, the National Drug Council, and the Center for Training on Money Laundering (CECPLA). The President's Deputy Chief of Staff heads the National Drug Council, which is the senior authority for anti-money laundering policy. The Director of CECPLA serves as coordinator for all government entities involved and sets general policy guidelines. The Director defines and implements GOU policies, in coordination with the Finance Ministry and the UIAF. The Ministry of Economy and Finance, the Ministry of the Interior (via the police force), and the Ministry of Defense (via the Naval Prefecture) also participate in anti-money laundering efforts. The financial private sector, most of which is foreign-owned, has developed self-regulatory measures against money laundering such as the Codes of Conduct approved by the Association of Banks and the Chamber of Financial Entities (1997), the Association of Exchange Houses (2001), and the Securities Market (2002).

Despite the power of the courts to confiscate property linked to money laundering, real estate ownership is not publicly registered in the name of the titleholder, complicating efforts to track money laundering in this sector, especially in the partially foreign-owned tourist industry. The UIAF and other government agencies must obtain a judicial order to have access to the name of titleholders. The GOU is in the process of implementing a national computerized registry that will facilitate the UIAF's access to titleholders' names.

Fiduciary companies called "SAFIs" are also thought to be a convenient conduit for illegal money transactions. As of January 1, 2006, all SAFIs are required to provide the names of their directors to the Finance Ministry. In addition, the GOU has decided to completely eliminate SAFIs as part of a comprehensive tax reform law that will be presented to the legislature in March 2006. The draft legislation will also implement a personal income tax for the first time in Uruguay.

Offshore banks are subject to the same laws and regulations as local banks, with the GOU requiring them to be licensed through a formal process that includes a background investigation. There are six offshore banks and 21 representative offices of foreign banks. Offshore trusts are not allowed. Bearer shares may not be used in banks and institutions under the authority of the Central Bank, and any share transactions must be authorized by the Central Bank. There are eight free trade zones in Uruguay, all but two being little more than warehouses for regional distribution. The other two house software development firms, back-office operations, call centers, and some light manufacturing/assembly. Some of the warehouse-style free trade zones have been used as transit points for containers of counterfeit goods bound for Brazil and Paraguay.

The GOU states that safeguarding the financial sector from money laundering is a priority, and Uruguay remains active in international anti-money laundering efforts. Uruguay is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. It has signed, but not yet ratified, the UN Convention Against Corruption. On March 4, 2005, Uruguay ratified the UN Convention against Transnational Organized Crime. The GOU is a member of GAFISUD and the OAS Inter-American Drug Abuse Control Commission (CICAD) Experts Group to Control Money Laundering. The USG and the GOU are parties to extradition and mutual legal assistance treaties that entered into force in 1984 and 1994, respectively. The GOU has taken steps to bring it into compliance with the Financial Action Task Force (FATF) Special Recommendations on Terrorist Financing. Some of these recommendations, such as the

criminalization of terrorism financing and provisions for the freezing of terrorist assets, were met by the 2004 money laundering law.

The Government of Uruguay took steps in 2004 and 2005 to strengthen its anti-money laundering and counterterrorist financing regime. The passage of legislation criminalizing terrorist financing places Uruguay ahead of many other nations in the region. However, Uruguay is one of only two countries in South America that is not a member of the Egmont Group of financial intelligence units. Once the UIAF is evaluated and determined to meet Egmont standards, the GOU will have greater access to financial information that is essential to its efforts to combat money laundering and terrorist financing. UIAF's becoming a member of the Egmont group, as well as the GOU's continued implementation and enforcement of its anti-money laundering and counterterrorist financing programs, should continue to be priorities for the GOU.

Uzbekistan

Uzbekistan is not considered an important regional financial center and does not have a well-developed financial system. Legitimate business owners, ordinary citizens, and foreign residents generally attempt to avoid using the Uzbek banking system for transactions, except when absolutely required, because of the onerous nature of the Government of Uzbekistan's (GOU) financial control system, the fear of GOU seizure of one's assets, and lack of trust in the banking system as a whole. As a result, Uzbek citizens have functioning bank accounts only if they are required to do so by law. They only deposit funds they are required to deposit and often resort to subterfuge to avoid depositing currency. The Central Bank of Uzbekistan (CBU) asserts that deposits from individuals have been increasing over the past three years.

Narcotics proceeds are controlled by local and regional drug-trafficking organizations and organized crime. Foreign and domestic proceeds from criminal activity in Uzbekistan are held either in cash, high-value transferable assets, such as gold or automobiles, or in foreign bank accounts.

There is a significant black market for smuggled goods in Uzbekistan. Since the GOU imposed a very restrictive trade and import regime in the summer of 2002, smuggling of consumer goods, already a considerable problem, increased dramatically. Many Uzbek citizens continue to make a living by illegally shuttle-trading goods from neighboring countries, Iran, the Middle East, India, Korea, Europe, and the U.S. The black market for smuggled goods does not appear to be significantly funded by narcotics proceeds. It is likely, however, that drug dealers use the robust black market to clean their drug related money.

Reportedly, the unofficial, unmonitored cash-based market creates an opportunity for small-scale terrorist or drug-related laundering activity destined for internal operations. For the most part, the funds generated by smuggling and corruption are not directly laundered through the banking system, but through seemingly legitimate businesses such as restaurants and high-end retail stores. There appears to be virtually no money laundering through formal financial institutions in Uzbekistan because of the extremely high degree of supervision and control over all bank accounts in the country exercised by the CBU, the Ministry of Finance and the state-owned and controlled banks. Although Uzbek financial institutions are not known to engage in illegal transactions in U.S. currency, illegal unofficial exchange houses, where the majority of cash-only money laundering takes place, deal in local soum and U.S. dollars. Moreover, drug dealers and others can transport their criminal proceeds in cash across Uzbekistan's porous borders for deposit in the banking systems of other countries, such as Kazakhstan, Russia or the United Arab Emirates.

Money laundering from the proceeds from drug-trafficking and other criminal activities is a criminal offense. With regard to drugs, Article 41 of the Law on Narcotic Drugs and Psychotropic Substances (1999) stipulates that any institution may be closed for performing a financial transaction for the

purpose of legalizing (laundering) proceeds derived from illicit narcotics trafficking. Penalties for money laundering are from ten to fifteen years imprisonment, under Article 243 of the Criminal Code. This article defines the act of money laundering to include as punishable acts the transfer; conversion; exchange; or concealment of origin, true nature, source, location, disposition, movement and rights with respect to the assets derived from criminal activity. There has not yet been a complete assessment of the implementation and use of this legislation.

The CBU and the National Security Service (NSS) closely monitor all banking transactions to ensure that money laundering does not occur in the banking system. Banks are required to know, record, and report the identity of customers engaging in significant transactions, including the recording of large currency transactions at thresholds appropriate to Uzbekistan's economic situation. All transactions involving sums greater than $1000 in salary expenses for legal entities and $500 in salaries for individuals must be tracked and reported to the authorities. The CBU unofficially requires commercial banks to report on private transfers to foreign banks exceeding $10,000. Depending on the type and amount of the transaction, banks are required to maintain records for time deposits for a minimum of three years, possibly not sufficient time to reconstruct significant transactions. The law protects reporting individuals with respect to their cooperation with law enforcement entities. However, reportedly, the GOU has not adopted "banker negligence" laws that make individual bankers responsible if their institutions launder money.

Parliament passed a new law in August 2004 to combat money laundering and terrorist financing. This law, scheduled to take effect in January 2006, requires certain entities to report cash transactions above $26,000 (approximately), as well as suspicious transactions. In addition, this law also covers some non-banking financial institutions, such as investment foundations, depositaries and other types of investment institutions; stock exchanges; insurers; organizations which render leasing and other financial services; organizations of postal service; pawnshops; lotteries; and notary offices. It does not include intermediaries such as lawyers, accountants, or broker/dealers. Although casinos are illegal, GOU enforcement is generally lax and several exist openly in Tashkent.

The Law on Banks and Bank Activity (1996), article 38, stipulates conditions under which banking information can be released to law enforcement, investigative and tax authorities, prosecutor's office and courts. Different conditions for disclosure apply to different types of clients—individuals and institutions. In September 2003, Uzbekistan enacted a bank secrecy law that prevents the disclosure of client and ownership information for domestic and offshore financial services companies to bank supervisors and law enforcement authorities. In all cases, private bank information can be disclosed to prosecution and investigation authorities, provided there is a criminal investigation underway. The information can be provided to the courts on the basis of a written request in relation to cases currently under consideration. Protected banking information also can be disclosed to tax authorities in cases involving the taxation of a bank's client.

Existing controls on transportation of currency across borders, would, in theory, facilitate detection of the international transportation of illegal source currency. When entering/exiting the country, foreigners and Uzbek citizens are required to report all currency they are carrying. Residents and non-residents may bring the equivalent of $10,000 into the country tax-free. Amounts in excess of this limit are assessed a one-percent duty. Non-residents may take out as much currency as they brought in. However, residents are limited to the equivalent of $2,000. Residents wishing to take out higher amounts must obtain authorization to do so; amounts over $2,000 must be approved by an authorized commercial bank and amounts over $5,000 must be approved by the CBU.

International business companies are permitted to have offices in Uzbekistan and are subject to the same, if not stricter, regulations as domestic businesses. Offshore banks are not present in Uzbekistan and other forms of exempt or shell companies are not officially present.

In accordance with Uzbekistan's Code of Criminal Procedure, investigation of money laundering offenses falls under the jurisdiction of the Ministry of Internal Affairs (MVD). The Department of Investigation of Economic Crimes within the Ministry conducts investigations of all types of economic offenses. A specialized structure within the NSS and the Department on Combating Economic Crimes and Corruption in the Office of the Prosecutor General also are authorized to conduct investigations of money laundering offenses. There are no known arrests or prosecutions for money laundering or terrorist financing since January 1, 2002, except for one case following the suicide bombings of the Spring 2004. Unofficial information from numerous law enforcement officials indicates that there have been few, if any, prosecutions for money laundering under article 243 of the Criminal Code since its enactment in 2001. The GOU appears to lack a sufficient number of experienced and knowledgeable agents to investigate money laundering.

Article 155 of Uzbekistan's Criminal Code and the law "On Fighting Terrorism" criminalize terrorist financing. The latter law names the NSS, the MVD, the Committee on the Protection Of State Borders, the State Customs Committee, the Ministry of Defense, and the Ministry for Emergency Situations as responsible for implementing the counterterrorist legislation. The law names the NSS as the coordinator for government agencies fighting terrorism.

The GOU has the authority to identify, freeze, and seize terrorist assets. Uzbekistan has circulated to its financial institutions the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee's consolidated list and the names of individuals and entities included on the UN 1267 consolidated list. In addition, the GOU has circulated the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224 to the CBU, which has, in turn, forwarded these lists to banks operating in Uzbekistan. According to the CBU, no assets have been frozen.

Other than a plan to step up enforcement of currency regulations, the GOU has taken no steps to regulate or deter alternative remittance systems such as hawala, black market exchanges, trade-based money laundering, or the misuse of gold, precious metals and gems. We are not aware of any legislative initiatives under consideration. Although officially there is complete currency convertibility, in reality convertibility requests can be significantly delay or refused. In the second half of 2005, the GOU has taken steps to further restrict convertibility, leading to a slightly higher black market exchange rate for the soum.

The GOU closely monitors the activities of charitable and non-profit entities, such as NGOs, that can be used for the financing of terrorism. In February 2004, the Cabinet of Ministers issued Decree # 56 to allow the government to vet grants to local NGOs from foreign sources, ostensibly to fight money laundering and terrorist financing. Given the degree of supervision of charities and other non-profits, and the level of threat Uzbekistan itself faces from the Islamic Movement of Uzbekistan (IMU), a designated terrorist organization, it is extremely unlikely that the NSS would knowingly allow any funds to be funneled to terrorists through Uzbekistan-based charitable organizations or NGOS.

Uzbekistan has established systems for identifying, tracing, freezing, seizing, and forfeiting proceeds of both narcotics-related and money laundering-related crimes. Current laws include the ability to seize items used in the commission of crimes such as conveyances used to transport narcotics, farm facilities (except land) where illicit crops are grown or which are used to support terrorist activity, legitimate businesses if related to criminal proceeds and bank accounts. The banking community, which is entirely state-controlled and with few exceptions, state-owned, cooperates with efforts to trace funds and seize bank accounts. Uzbek law does not allow for civil asset forfeiture, but the Criminal Procedure Code provides for "civil" proceedings within the criminal case to decide forfeiture issues. As a practical matter, these proceedings are conducted as part of the criminal case. No new legislation or changes in current law are under active consideration by the GOU regarding seizure or

forfeiture of assets. The obstacles to enacting such laws are largely rooted in the widespread corruption that exists within the country.

In 2000, Uzbekistan set up a fund to direct confiscated assets to law enforcement activities. In accordance with the regulation the assets derived from the sale of confiscated proceeds and instruments of drug-related offenses were transferred to this fund to support entities of the NSS, the MVD, the State Customs Committee, and the Border Guard Committee, all of which are directly involved in combating illicit drug-trafficking. According to the GOU, a total of 115 million soum (approximately $97,000) has been deposited into this fund since its inception. Roughly $80,000 has been turned over to Uzbek law enforcement agencies. In 2004, however, the Cabinet of Ministers issued an order to close the Special Fund as of November 1, 2004. Under the new procedure, each agency manages the assets it seizes. There is also a specialized fund within the MVD set up to reward those officers who directly participate in or contribute to law enforcement efforts leading to the confiscation of property. This fund has generated 20 percent of its assets from the sale of property confiscated from persons who have committed offenses such as the organization of criminal associations, bribery and racketeering. The GOU enthusiastically enforces existing drug-related asset seizure and forfeiture laws. The GOU has not been forthcoming with information regarding the total dollar value of assets seized from crimes. Reportedly, existing legislation does not permit sharing of seized narcotics assets with other governments.

The GOU realizes the importance of international cooperation in the fight against drugs and transnational organized crime and has made efforts to integrate the country in the system of international cooperation. Uzbekistan has entered into agreements with Uzbek supervisors to facilitate the exchange of supervisory information including on-site examinations of banks and trust companies operating in the country. Uzbekistan has entered into bilateral agreements for the cooperation or exchange of information on drug related issues with the United States, Germany, Italy, Latvia, Bulgaria, Poland, China, Iran, Pakistan, the CIS, and all the countries in Central Asia. It has multilateral agreements in the framework of the CIS, under the Shanghai Cooperation Organization and under memoranda of understanding. An "Agreement on Narcotics Control and Law Enforcement Assistance" was signed with the United States on August 14, 2001, with two supplemental agreements that came into force in 2004

Uzbekistan does not have a Mutual Legal Assistance Treaty with the United States. However, Uzbekistan and the United States have reached informal agreement on mechanisms for exchanging adequate records in connection with investigations and proceedings relating to narcotics, terrorism, terrorist financing and other serious crime investigations. In the past, Uzbekistan has cooperated with appropriate law enforcement agencies of the USG and other governments investigating financial crimes and several important terrorist-related cases. Uzbekistan joined the Eurasian Group on Combating Money Laundering and the Financing of Terrorism (EAG), a FATF-style regional body, at the most recent plenary meeting of that body in December 2005.

The GOU is an active party to the relevant agreements concluded under the CIS, CAEC, ECO, Shanghai Cooperation Organization and the "Six Plus Two" Group. Uzbekistan is a party to the 1988 UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism and to the UN Convention against Transnational Organized Crime.

A lack of trained personnel, resources, and modern equipment hinder Uzbekistan's efforts to fight money laundering and terrorist financing. The GOU should continue to refine its pertinent legislation to bring it up to international standards. Uzbekistan also should expand the cross-border currency reporting rules to cover the transfer of monetary instruments, gold, gems and precious metals. Access to financial institution records should be given to appropriate regulatory and law enforcement agencies so that they can properly conduct compliance examinations and investigations. Uzbekistan should

establish a Financial Intelligence Unit to receive and analyze the suspicious transaction reports it proposed to require.

Vanuatu

Vanuatu's offshore sector is vulnerable to money laundering, as Vanuatu has historically maintained strict banking secrecy provisions that have the effect of preventing law enforcement agencies from identifying the beneficial owners of offshore entities registered in the sector. Due to allegations of money laundering, and in response to pressure from the Financial Action Task Force (FATF), a few United States-based banks announced in December 1999 that they would no longer process U.S. dollar transactions to or from Vanuatu. The Government of Vanuatu (GOV) responded to these concerns by introducing reforms designed to strengthen domestic and offshore financial regulation. The GOV passed amendments to four of its main legislations relative to money laundering and terrorist financing during its last session of Parliament in November 2005. The four pieces of legislation effected are the Mutual Assistance in Criminal Matters Act No. 31 of 2005, the Financial Transaction Reporting Act No. 28 of 2005, the Counter-Terrorism and Transnational Organised Crime Act No. 29 of 2005, and the Proceeds of Crime Act (Amendment) Act No. 30 of 2005.

Vanuatu's financial sector includes four licensed banks (that carry on domestic and offshore business) and one credit union, all of which are regulated by the Reserve Bank of Vanuatu. Since the passage of the International Banking Act of 2005, the Reserve Bank of Vanuatu regulates the offshore sector that includes seven banks and approximately 4,750 "international companies" (i.e., international business companies or IBCs), as well as offshore trusts and captive insurance companies. These institutions were once regulated by the Financial Services Commission. This change was one of many recommendations of the 2002 International Monetary Fund Module II Assessment Report (IMFR) that found Vanuatu's onshore and offshore sectors to be "non-compliant" with many international standards.

IBCs may be registered using bearer shares, shielding the identity and assets of beneficial owners of these entities. Secrecy provisions protect all information regarding IBCs and provide penal sanctions for unauthorized disclosure of information. These secrecy provisions, along with the ease and low cost of incorporation, make IBCs ideal mechanisms for money laundering and other financial crimes.

The Financial Transaction Reporting Act (FTRA) of 2000 established Vanuatu's Financial Intelligence Unit (VFIU) within the State Law Office. The FIU receives suspicious transaction reports (STRs) filed by banks and distributes them to the Public Prosecutor's Office, the Reserve Bank of Vanuatu, the Vanuatu Police Force, the Vanuatu Financial Services Commission, and law enforcement agencies or supervisory bodies outside Vanuatu. The FIU also issues guidelines to, and provides training programs for, financial institutions regarding record keeping for transactions and reporting obligations. The Act also regulates how such information can be shared with law enforcement agencies investigating financial crimes. Financial institutions within Vanuatu must establish and maintain internal procedures to combat financial crime. Every financial institution is required to keep records of all transactions. Five key pieces of information are required to be kept for every financial transaction: the nature of the transaction, the amount of the transaction, the currency in which it was denominated, the date the transaction was conducted, and the parties to the transaction.

Although the amendments have been withdrawn from Parliament twice, FTRA amendments were finally passed in November 2005. The amendments include mandatory customer identification requirements; broaden the range of covered institutions required to file STRs to include auditors, trust companies, and company service providers; and provide safe harbor for both individuals and institutions required to file STRs. In addition to STR filings, financial institutions will now be required to file currency transaction reports (CTRs), which involves any single transaction in excess of VT 1 million (approximately $9,100) or its equivalent in a foreign currency, and wire transfers into and out

of Vanuatu in excess of VT 1 million. The amendments also require financial institutions to maintain internal procedures to implement reporting requirements, appoint compliance officers, establish an audit function to test their anti-money laundering and terrorist financing procedures and systems, as well as provide the VFIU a copy of their internal procedures. Failure to do so will result in a fine or imprisonment for an individual, or a fine in the case of a corporate entity. The amendments supersede any inconsistent banking or other secrecy provisions and clarify the FIU's investigative powers.

Regulatory agencies in Vanuatu have instituted stricter procedures for issuance of offshore banking licenses under the International Banking Act No. 4 of 2002, and continue to review the status of previously issued licenses. All financial institutions, both domestic and offshore, are required to report suspicious transactions and to maintain records of all transactions for six years, including the identities of the parties involved.

The Serious Offenses (Confiscation of Proceeds) Act 1989 criminalized the laundering of proceeds from all serious crimes and provided for seizure of criminal assets and confiscation after a conviction. The Proceeds of Crime Act (2002) retains the criminalization of the laundering of proceeds from all serious crimes, criminalizes the financing of terrorism, and includes full forfeiture, and restraining, monitoring, and production powers regarding assets. A new development to the Proceeds of Crime Act No. 30 of 2005 was an insertion of Section 74A, which now cover the cross-border movement of currency. After the passing of the bill in Parliament in November 2005, all incoming and outgoing passengers to and from Vanuatu will be legally obligated to declare to the Department of Customs cash exceeding one million Vatu in possession (approximately $9,100).

Vanuatu passed the Mutual Assistance in Criminal Matters Act in December 2002 for the purpose of facilitating the provision of international assistance in criminal matters for the taking of evidence, search and seizure proceedings, forfeiture or confiscation of property, and restraints on dealings in property that may be subject to forfeiture or seizure. The Attorney General possesses the authority to grant requests for assistance, and may require government agencies to assist in the collection of information pursuant to the request. The Extradition Act of 2002 includes money laundering within the scope of extraditable offenses.

The amended International Banking Act has now placed Vanuatu's international and offshore banks under the supervision of the Reserve Bank of Vanuatu. Section 5(5) of the Act states that if existing licensees wish to carry on international banking business after December 31, 2003, the licensee should have submitted an application to the Reserve Bank of Vanuatu under Section 6 of the Act for a license to carry on international banking business. If an unregistered licensee continues to conduct international banking business after December 31, 2003, it will be in contravention of Section 4 of the Act, and, if found guilty, the licensee will be subject to a fine or imprisonment. Under Section 19 of the Act, the Reserve Bank can conduct investigations where it suspects that an unlicensed person or entity is carrying on international banking business. Since this time, three international banking businesses have had their licenses revoked.

One of the most significant requirements of the amended legislation is the banning of shell banks. As of January 1, 2004, all offshore banks registered in Vanuatu must have a physical presence in Vanuatu, and management, directors, and employees must be in residence. At the September 2003 plenary session of the Asia/Pacific Group on Money Laundering (APG), Vanuatu noted its intention to draft new legislation regarding trust companies and company service providers. The new legislation will cover disclosure of information with other regulatory authorities, capital and solvency requirements, and "fit and proper" requirements. Additionally, Vanuatu is drafting legislation to comply with standards set by the International Associations of Insurance Supervisors.

In November 2005, Vanuatu passed the Counter-Terrorism and Transnational Organized Crime Act No. 29 of 2005. The aim of the Act is to implement UN Security Council Resolutions and Conventions dealing with terrorism and transnational organized crime, to prevent terrorists from

operating in Vanuatu or receiving assistance through financial resources available to support the activities of terrorist organizations, and to criminalize human trafficking and smuggling.

The E-Business Act No. 25 of 2000 and the Interactive Gaming Act No. 16 of 2000 regulate e-commerce. Section 5 of the E-Business legislation permits the establishment of a Vanuatu-based website where business can be conducted without residency, directors, shareholders, or a registered office. Reportedly, the E-Business Act requires online operations to maintain stringent customer identification and record keeping requirements, as well as reporting suspicious transactions. The Financial Transaction Reporting Act of 2000 applies to e-commerce or businesses by defining any company listed under the Vanuatu Interactive Gaming Act 2000 as a financial institution.

In April 2002, the Organization for Economic Cooperation and Development (OECD) launched an initiative to address harmful tax practices worldwide. Vanuatu was one of seven countries listed as an "uncooperative tax haven." In January 2004, the OECD revealed that it had removed Vanuatu from its list of "uncooperative tax havens," following Vanuatu's earlier announcement that it would implement measures under the Harmful Tax Initiative. This move by OECD has made Vanuatu the first country to secure removal from the list of uncooperative tax havens.

In addition to its membership the Asia Pacific Group on Money Laundering, Vanuatu is a member of the Offshore Group of Banking Supervisors, the Commonwealth Secretariat, and the Pacific Island Forum. Its Financial Intelligence Unit became a member of the Egmont Group in June 2002. The GOV acceded to the UN Convention against Transnational Organized Crime on January 4, 2006. Vanuatu is a party to the UN International Convention for the Suppression of the Financing of Terrorism.. The VFIU has a memorandum of understanding with Australia.

The Government of Vanuatu should immobilize bearer shares and require complete identification of the beneficial ownership of international business companies (IBCs). It should implement all the provisions of its Proceeds of Crime Act and enact all additional legislation that is necessary to bring both its onshore and offshore financial sectors into compliance with international standards. Vanuatu should also become a party to the 1988 UN Drug Convention.

Venezuela

Venezuela is a major drug-transit country. Its proximity to drug producing countries, weaknesses in its anti-money laundering system, and corruption continue to make Venezuela vulnerable to money laundering. The main source of money laundering is believed to be from proceeds generated by Colombia's cocaine and heroin trafficking organizations. Trade-based money laundering, such as the Black Market Peso Exchange, through which money launderers furnish narcotics-generated dollars in the United States to commercial smugglers, travel agents, investors, and others in exchange for Colombian pesos, remains a prominent method for laundering narcotics proceeds. It is reported that many of these black market traders ship their wares through Venezuela's Margarita Island free trade zone. Reportedly, some money is also laundered through the real estate market in Margarita Island.

Venezuela is not a regional financial center, nor does it have an offshore financial sector. The relatively small but modern banking sector, which consists of 52 banks, primarily serves the domestic market. The majority of these banks, about 90 percent, belong to the Venezuelan Association of Banks. Membership is voluntary and meetings are held monthly.

Some positive steps were taken by Venezuela in 2005 to combat money laundering. In September, following three years of debate by the National Assembly, the Organic Law Against Organized Crime was passed. Prior to the passage of the new law, the 1993 Organic Drug Law provided the only legal mechanism for the investigation and prosecution of money laundering crimes. Under the 1993 law, a direct connection between illegal drugs and their proceeds had to be proven to establish a money laundering offense, and the Government of Venezuela (GOV) was only able to freeze assets of

individuals charged in international drug trade or in money laundering cases directly related to narcotics trafficking. Under the 2005 Organic Law Against Organized Crime, money laundering is now a separate offense, punishable by a sentence of eight to twelve years in prison. Moreover, those who cannot establish the legitimacy of possessed or transferred funds, or have awareness of the illegitimate origins of those funds, can be charged with money laundering, without any connection to drug-trafficking.

In addition to establishing money laundering as a separate offense, the Organic Law Against Organized Crime also broadens asset forfeiture and sharing provisions, adds conspiracy as a criminal offense, strengthens due diligence requirements, and provides law enforcement with stronger investigative powers by authorizing the use of modern investigative techniques such as the use of undercover agents. The passage of this law, along with recent amendments to the Law Against the Trafficking and Consumption of Narcotics and Psychotropic Substances, effectively brings Venezuela's Penal Code in line with the 1988 UN Drug Convention. However, given that the judicial and law enforcement sectors are rife with corruption, it is too early to know what, if any, impact these new laws will have on the growing problem of money laundering. The new law also did not adequately criminalize terrorist financing.

Since 1997, the Superintendence of Banks and Other Financial Institutions (SBIF) has implemented controls to prevent and investigate money laundering under Resolution 333-97 of 1997. These controls include strict customer identification requirements and the reporting of both currency transactions over a designated threshold and suspicious transactions. Under the Organic Law Against Organized Crime, these controls were expanded beyond their application to all banks (commercial, investment, mortgage, private), insurance and reinsurance companies, savings and loan institutions, financial rental agencies, currency exchange houses, money remitters, money market funds, capitalization companies, and frontier foreign currency dealers. They now also cover casinos, real estate agents, construction companies, car dealerships, hotels and the tourism industry, travel agents, and dealers in precious metals and stones. These entities are required to file suspicious and cash transaction reports with Venezuela's financial intelligence unit (FIU), the Unidad Nacional de Inteligencia Financiera (UNIF), which was created under the SBIF in July 1997 and began operations in June 1998. Under the original draft of the Organic Law Against Organized Crime, the UNIF would have become an autonomous entity with investigative powers, independent of the SBIF, but the relevant clauses were removed just prior to the law's passage.

The UNIF receives suspicious transaction reports (STRs) and reports of currency transactions exceeding 4.5 million bolívares (approximately $2,100) from institutions regulated by the SBIF, the Office of the Insurance Examiner, the National Securities and Exchange Commission, the Bureau of Registration and Notaries, the Central Bank of Venezuela, and the Bank Deposits and Protection Guarantee Fund, as well as the other entities now included under the Organic Law Against Organized Crime. Some institutions regulated by the SBIF, such as tax collection entities and public service payroll agencies, are exempt from the reporting requirement. The SBIF also allows certain customers of financial institutions—those who demonstrate "habituality" in the types and amounts of transactions they conduct—to be excluded from currency transaction reports filed with the UNIF. A system has been developed for electronic receipt of currency transaction reports (CTRs), but STRs must be filed in paper format. Under the new Organic Law Against Organized Crime, obligated entities are forbidden to reveal reports filed with the UNIF or suspend accounts during an investigation without official approval. Obligated entities are also subject to sanctions for failure to file reports with the UNIF.

In addition to STRs and CTRs, the UNIF also receives reports on the transfer of foreign currency exceeding $10,000, the sale and purchase of foreign currency exceeding $10,000, and summaries of cash transactions by states that exceed 4.5 million bolívares. The UNIF does not, however, receive reports on the transportation of currency or monetary instruments into or out of Venezuela. The

Venezuelan Association of Currency Exchange Houses (AVCC), which counts all but one of the country's money exchange companies among its membership, voluntarily complies with the same reporting standards as those required of banks, including the filing of CTRs and STRs and "know your customer" policies. Each currency exchange house in the country has and employs systems to electronically transmit transaction reports to the SBIF and the Public Ministry. However, inadequate foreign exchange controls established in 2003 by the GOV's Commission for Administrative Control of Currency Exchange (CADIVI) present opportunities to circumvent regulations applicable in the banking and financial institution sectors. Procedures to limit the potential for laundering funds through the stock market are also thought to be inadequate.

The UNIF analyzes STRs and other reports, and refers those deemed appropriate for further investigation to the Public Ministry (the Office of the Attorney General). Approximately 30 percent of the STRs received by the UNIF are sent to the Public Ministry for further investigation. The Public Ministry subsequently opens and oversees the criminal investigation. The Venezuelan constitution guarantees the right to bank privacy and confidentiality, but in cases under investigation by the UNIF, the SBIF or the Public Ministry, or by order of a Judge of Control, bank secrecy may be waived, making Venezuela one of the few countries in Latin America that does not have restrictive bank secrecy laws.

Prior to the passage of the 2005 Organic Law Against Organized Crime, there was no special prosecutorial unit for the prosecution of money laundering cases under the Public Ministry, which is the only entity legally capable of initiating money laundering investigations. Only the drug prosecutors received STRs from the UNIF and conducted money laundering investigations, and there were only 20 drug prosecutors for all of Venezuela, most of who lacked the technical financial experience to successfully prosecute money laundering cases. As a result, there have only been three money laundering convictions in Venezuela since 1993, and all of them were narcotics-related. Under the Organic Law Against Organized Crime, a new unit will be established, the General Directorate Against Organized Crime, with specialized technical expertise in the analysis and investigation of money laundering and other financial crimes.

The 2005 Organic Law Against Organized Crime has also expanded Venezuela's mechanisms for freezing assets tied to illicit activities. Prior to the passage of the Organic Law Against Organized Crime, the assets had to be linked to a crime such as narcotics trafficking—or money laundering directly related to narcotics trafficking—and pass through a lengthy judicial process. With the passage of the Organic Law Against Organized Crime, a prosecutor may now solicit judicial permission to freeze or block accounts in the investigation of any crime included under the Organic Law Against Organized Crime.

The 2005 Organic Law Against Organized Crime counts terrorism as a crime against public order and defines some terrorist activities. The law also establishes punishments for terrorism of up to 20 years in prison. However, the Organic Law Against Organized Crime does not establish terrorist financing as a separate crime, nor does it provide adequate mechanisms for freezing terrorist assets.

The UNIF has been a member of the Egmont Group since 1999 and has signed bilateral information exchange agreements with counterparts worldwide. Venezuela participates in the Organization of American States Inter-American Commission on Drug Abuse Control (OAS/CICAD) Money Laundering Experts Working Group and is a member of the Caribbean Financial Action Task Force (CFATF). A mutual evaluation of Venezuela was conducted by CFATF in 2004 and presented to the CFATF plenary in 2005. The GOV is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, the UN International Convention for the Suppression of the Financing of Terrorism, and the OAS Inter-American Convention Against Terrorism, and has signed, but not yet ratified, the UN Convention against Corruption. The GOV continues to share money laundering information with U.S. law enforcement authorities under the 1990 Agreement Regarding

Cooperation in the Prevention and Control of Money Laundering Arising from Illicit Trafficking in Narcotics Drugs and Psychotropic Substances, which entered into force on January 1, 1991. Venezuela also has a Mutual Legal Assistance Treaty (MLAT) with the United States, but the treaty has not entered into force.

The Government of Venezuela has taken several important steps to expand its anti-money laundering regime with the passage of the Organic Law Against Organized Crime. The passage of this bill has provided law enforcement and judicial authorities the much-needed tools for the effective investigation and prosecution of money laundering derived from all serious crimes, broadened asset forfeiture and sharing provisions, strengthened due diligence requirements, strengthened the capabilities of the Public Ministry to successfully investigate and prosecute crimes related to money laundering, and expanded the mandate of UNIF. However, the deletion of those portions of the proposed law that would have made the UNIF autonomous may undercut the effectiveness of the unit, and attention will have to be paid to make sure that does not happen.

Venezuela should also create and enact legislation to criminalize the financing of terrorism, as well as institute measures to expedite the freezing of terrorist assets. Although the passage of the Organic Law Against Organized Crime indicates an increased willingness to strengthen the GOV's abilities to fight money laundering, legislation criminalizing the financing of terrorism and allowing for the freezing of terrorist assets is necessary to bring Venezuela into full compliance with international standards for combating financial crimes.

Vietnam

Vietnam is not an important regional financial center. The Vietnamese banking sector is underdeveloped and the Government of Vietnam (GVN) controls the flow of all U.S. dollars in official channels. The nature of the banking system makes it unlikely that major money laundering or terrorist financing is currently occurring in financial institutions. However, a "drug economy" does exist in Vietnam's informal financial system. Vietnam has a large "shadow economy," in which U.S dollars and gold are the preferred currency. Due to the limited size of Vietnam's banking system and currency exchange controls, even legitimate businesses carry on transactions in this "shadow economy." In addition, Vietnamese regularly use gold shops and other informal mechanisms to remit or receive funds from overseas. Official inward remittances in 2005 were estimated to be $3.8 billion while estimates are that double that amount came through unofficial channels. Reportedly, an unknown percentage of transactions in the informal remittance systems come from narcotics proceeds.

Article 251 of the Amended Penal Code criminalizes money laundering. The Counter-Narcotics Law, which took effect June 1, 2001, makes two narrow references to money laundering in relation to drug offenses: it prohibits the "legalizing" (i.e. laundering) of monies and/or property acquired by committing drug offenses (article 3.5); and, it gives the Ministry of Public Security's (MPS) specialized counternarcotics agency the authority to require disclosure of financial and banking records when there is a suspected violation of the law. The Penal Code governs money laundering related offenses.

In June 2005, GVN issued Decree 74/2005/ND-CP on the Prevention and Combating of Money Laundering. The Decree covers acts committed by individuals or organizations to legitimize money or property acquired from criminal activities. The Decree applies to banks and non-banking financial institutions. The State Bank of Vietnam (SBV) and the MPS take primary responsibility for preventing and combating money laundering. The decree does not cover counterterrorist finance.

SBV supervises and examines financial institutions for compliance with anti-money laundering/counter terrorist financing regulations. Financial institutions are responsible for knowing and recording the identity of their customers. They are required to report cash transactions conducted

in one day with aggregate value of VND 200 million ($13,000) or more, or equivalent amount in foreign currency or gold. The threshold for savings transactions is VND 500 million ($31,000). Furthermore, financial institutions are required to report all suspicious transactions. Banks are also required to maintain records for seven years or more. Banks are responsible for keeping information on their customers secret, but they are required to provide necessary information to law enforcement agencies for investigation purposes.

Foreign currency (including notes, coins and traveler's checks) in excess of $7,000 and gold of more than 300 grams must be declared at customs upon arrival and departure. There is no limitation on either the export or import of U.S. dollars or other foreign currency provided that all currency in excess of $7,000 (or its equivalent in other foreign currencies) is declared upon arrival and departure, and supported by appropriate documentation. If excess cash is not declared, it is confiscated at the port of entry/exit and the passenger may be fined.

The 2005 Decree on Prevention and Combating Money Laundering provides for provisional measures to be applied to prevent and combat money laundering. Those measures include 1) suspending transactions; 2) blocking accounts; 3) sealing or seizing property; 4) seizing violators of the law; and, 5) taking other preventive measures allowed under the law.

The 2005 Decree also provides for the establishment of an Anti-Money Laundering Information Center within the State Bank of Vietnam (SBV). This center will function as the sole body to receive and process information. It will have the right to request concerned agencies to provide information and records for suspected transactions. Senior officials of the center will be appointed by the Governor of the SBV. The center is awaiting final approval from the Government before it can be formally established. SBV acts as the sole agency responsible for negotiating, concluding and implementing international treaties and agreements on exchange of information on transactions related to money laundering. SBV is seeking donors' assistance to strengthen its supervision capabilities in the context of Vietnam integrating into the world economy.

The MPS is responsible for investigating money laundering related offences. There is no information available on arrests and/or prosecutions for money laundering or terrorist financing since January 1, 2005. MPS is also responsible for negotiating and concluding international treaties on judicial assistance, cooperation and extradition in the prevention and combat of money laundering related offenses.

Vietnam is a party to the UN International Convention for the Suppression of the Financing of Terrorism. Vietnam plans to draft separate legislation governing counter terrorist financing, though they will not set a specific time frame for this drafting. Currently SBV circulates to its financial institutions the names of suspected terrorists and terrorist organizations listed on the UN 1267 Sanctions Committee consolidated list and the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224. To date no related assets have been identified.

Vietnam is a party to the 1988 UN Drug Convention. Under existing Vietnamese legislation, there are provisions for seizing assets linked to drug trafficking. In the course of its drug investigations, MPS has seized vehicles, property and cash, though the seizures are usually directly linked to drug crimes. Final confiscation requires a court finding. Reportedly, MPS can notify a bank that an account

is "seized" and that is sufficient to have the account frozen. However, MPS is not allowed to seize assets in order to investigate them; they must receive separate information that confirms and/or proves the money is laundered before it can be frozen. A further restriction of their investigative powers is that Vietnam authorities cannot act on information or investigative findings provided by outside agencies.

The U.S. Drug Enforcement Agency (DEA) is engaged in a number of investigations targeting significant ecstasy and marijuana trafficking organizations, composed primarily of Viet Kieu (overseas

Vietnamese), in both the United States and Canada. These drug trafficking networks are capable of laundering tens of millions of dollars per month back to Vietnam, exploiting U.S. financial institutions to wire or transfer money to Vietnamese bank and remittance accounts, as well as engaging in the smuggling of bulk amounts of U.S. currency and gold from the United States into Vietnam.

The Government of Vietnam should promulgate all necessary regulations to fully implement the 2005 degree on the Prevention and Combating of Money Laundering. Vietnam should also pass legislation governing the prevention and suppression of terrorism financing. Vietnam should ratify the UN Convention Against Transnational Crime. Vietnam should enforce cross border currency controls, including the use of gold as an alternative remittance system. Vietnam should become a member of the Asia/Pacific Group on Money Laundering (APG).

Yemen

The Yemeni financial system is not yet well-developed. Thus, the extent of money laundering is not known. Alternative remittance systems, such as hawala, are prevalent. Although hawalas are subject to limited monitoring by the Central Bank of Yemen (CBY), widespread usage of alternative remittance systems constitutes a vulnerability to money laundering. The banking sector is relatively small, with only 17 commercial banks, including four Islamic banks, one of which was recently acquired by the CBY and may be liquidated. The CBY supervises the banks. Local banks account for approximately 62 percent of the total banking activities, while foreign banks cover the other 38 percent.

Yemen's parliament passed comprehensive anti-money laundering legislation (Law 35) in April 2003. The legislation criminalizes money laundering for a wide range of crimes, including narcotics offenses, kidnapping, embezzlement, bribery, fraud, tax evasion, illegal arms trading, and monetary theft, and imposes penalties of three to five years of imprisonment. Yemen has no specific legislation relating to terrorist financing, but Cabinet Decision 247 issued in 2005 directs the CBY and the Ministry of Legal Affairs to amend Law 35 to include terrorist financing. The Ministry of Interior (MOI) also has a unit to investigate terrorist financing. According to the law, both the MOI and CBY report their findings to the Attorney General for enforcement.

Law 35 requires banks, financial institutions, and precious commodity dealers to verify the identity of persons and entities that open accounts (or in the case of the dealers, for those who execute a commercial transaction), to keep records of transactions for up to ten years, and to report suspicious transactions. In addition, the law requires that reports be submitted to an information-gathering unit within the CBY. The unit acts as the financial intelligence unit (FIU), which in turn reports to the Anti-Money Laundering Committee (AMLC).

The FIU is severely understaffed, with a total of three employees at the main office. Eighteen field inspectors for banking supervision also serve as investigators for the FIU. The FIU has no database and is not networked internally or to the rest of the CBY. The CBY provides training to other members of the government to assist in elements of anti-money laundering enforcement, but lack of capacity severely hampers any attempts by the FIU to control illicit activity.

The AMLC is composed of representatives from the Ministries of Finance, Foreign Affairs, Justice, Interior, Industry and Trade, the Central Accounting Office, the General Union of Chambers of Commerce and Industry, the CBY, and the Association of Banks. The AMLC is authorized to issue regulations and guidelines and provide training workshops related to combating money laundering efforts. In addition, Law 35 grants the AMLC the right to exchange information with foreign entities. The head of the AMLC is empowered by law to ask local judicial authorities to enforce foreign court verdicts based on reciprocity. Also, the law permits the extradition of non-Yemeni criminals in accordance with international treaties or bilateral agreements.

Prior to passage of the anti-money laundering law, the CBY issued Circular 22008 in April 2002, instructing banks and financial institutions that they must verify the legality of all proceeds deposited in or passing through the Yemeni banking system. The circular stipulates that financial institutions must positively identify the place of residence of all persons and businesses that establish relationships with them. The circular also requires that banks verify the identity of persons or entities that wish to transfer more than $10,000, when they have no accounts at the banks in question. The law also prohibits the transfer of more than $10,000 cash in or out of the country without permission from the CBY, although this is rarely enforced.

The same provision applies to beneficiaries of such transfers. Banks must also take every precaution when transactions appear suspicious, and report such activities to the CBY. The circular was distributed to the banks along with a copy of the Basel Committee's "Customer Due Diligence for Banks," concerning "know your customer" procedures and "Core Principles for Effective Banking Supervision." The CBY issued Circular No. 4 on December 9, 2003, ordering banks to set up intelligence gathering units specializing in investigating and monitoring suspicious funds and transactions in their regulatory structures. In 2005, however, no reports were filed with the FIU by commercial banks and there were no prosecutions.

Based on the UN 1267 Sanctions Committee's consolidated list of suspected terrorists and terrorist organizations, as well as the list of Specially Designated Global Terrorists issued by the U.S. pursuant to E.O. 13224, and Yemen's own Council of Ministers' directives, the CBY issued two circulars (75304 and 75305) to all banks operating in Yemen. These circulars directed the banks to freeze the accounts of 144 persons, companies, and organizations, and to report any findings to CBY. However, since the February 2004 addition of Sheikh Abul Majid Zindani to the UN 1267 Sanctions Committee's consolidated list, the Yemeni Government has made no known attempt to enforce the sanctions and freeze his assets. In such high-profile cases, information sharing is limited by a lack of political will, as well as a lack of enforcement capacity.

A law was passed in 2001 governing charitable organizations. This law entrusts the Ministry of Labor and Social Affairs with overseeing their activities. The law also imposes penalties of fines or imprisonment on any society or its members convicted of carrying out activities or spending funds for other than the stated purpose for which the society in question was established. In 2005, 21 charities were questioned as part of continuous supervision in coordination with the Ministry of Labor and Social Affairs, but there were no prosecutions. Cabinet Decision 378 granted the FIU authority to investigate gold shops, insurance companies, and real estate brokers in order to enhance procedures to combat terrorist financing. The FIU also has the legal authority to investigate transactions in the Aden free zone, but has reportedly not yet asserted that authority.

Yemen is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF). Yemen is a party to the 1988 UN Drug Convention and the Arab Convention for the Suppression of Terrorism. It has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. It is not a party to the UN International Convention for the Suppression of the Financing of Terrorism.

The Government of Yemen is making slow progress in enforcing its domestic anti-money laundering program. The passage of the 2003 anti-money laundering legislation represents a significant first step in meeting international standards. However, international cooperation with criminal investigations is still in the initial development stages. The CBY is still organizing its enforcement mechanism. The FIU staff capabilities need to be enhanced. Its effectiveness will demonstrate the government's commitment to ending money laundering. The fact that the FIU has not received any suspicious transaction reports during 2005 is a serious concern. Yemen should also examine the prevalence of alternative remittance systems such as hawala and trade-based money laundering. As a next step, Yemen should enact specific legislation with respect to terrorist financing and forfeiture of the assets

of those suspected of terrorism. It should ratify the UN Convention against Transnational Organized Crime. It should also become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Zambia

Zambia is not a major financial center. To the extent that money laundering is a concern in Zambia, reports indicate that proceeds of narcotics transactions and money derived from public corruption are the major sources of laundered money. Law enforcement officials also indicate that bulk cash smuggling is a concern.

The Prohibition and Prevention of Money Laundering Act of 2001 makes money laundering a criminal offense in Zambia, stiffens penalties for financial crimes, requires financial institutions to report suspicious transactions to regulators and retain transaction records for a period of ten years, allows seizure of assets related to money laundering, and increases the investigative and prosecutorial powers of the Drug Enforcement Commission (DEC). It also establishes an Anti-Money Laundering Authority that is chaired by the Attorney General and includes the heads of Zambia's principal law enforcement agencies, Revenue Authority, and Central Bank. The DEC has the responsibility for investigating money laundering offenses. When regulatory agencies have reason to suspect money laundering, they must report this to the DEC, which acts as the enforcement arm of the Anti-Money Laundering Authority, and make relevant records available to investigators. The law authorizes investigators to seize property when they have reasonable grounds to believe that it is derived from money laundering. Following a conviction under the anti-money laundering law, the court may order the forfeiture to the state of property seized during an investigation.

The anti-money laundering law does not contain specific provisions on the financing of terrorism; the Government of the Republic of Zambia (GRZ) does have the authority to order financial institutions to freeze assets, but this can be difficult if there is no evidence of a domestic crime. Zambia lacks comprehensive and reliable mechanisms for freezing the assets of terrorist organizations.

In 2003, the GRZ established an anti-money laundering unit under the DEC. The main purpose of the unit is to lead efforts within the GRZ to counter money laundering and enforce the Prevention of Money Laundering Act. In the same year, three officers of a commercial bank were tried and convicted for money laundering offenses. In 2004 and 2005, the DEC conducted numerous investigations of money laundering, resulting in several arrests. Trials in these cases are pending. The penalty for money laundering is imprisonment for a term not exceeding ten years and/or a fine.

In 2003, Zambia signed the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) memorandum of understanding. In 2005, Zambia's Central Bank was an active participant in ESAAMLG activities. Zambia holds the presidency of the organization for 2005 and 2006. Zambia is not a signatory to the UN International Convention for the Suppression of the Financing of Terrorism. Zambia is a party to UN Convention Against Transnational Organized Crime. Zambia is a party to the 1988 UN Drug Convention.

The Government of Zambia should establish a fully operational Financial Intelligence Unit in accordance with international standards. Zambia should become a party to the UN International Convention for the Suppression of the Financing of Terrorism. Zambia should also criminalize terrorist financing and implement counterterrorist financing regulations that comport with the FATF recommendations, including the Special Recommendations on Terrorist Financing.

Zimbabwe

Zimbabwe is not a regional financial center, but it faces a serious and growing problem with official corruption and many other common risk factors associated with money laundering. These risk factors include the following: a flourishing parallel exchange market; widespread evasion of exchange controls by legitimate businesses; company ownership through nominees; an increasingly understaffed bank supervisory authority; a lack of trained investigators or regulators for financial crime enforcement; financial institutions that are determined to bypass the regulatory framework; limited asset seizure authority; a laissez-faire attitude toward compliance with the law on the part of elements of the business community; ready acceptance of the U.S. dollar in transactions; and significant gold exports and illegal gold trading.

The Government of Zimbabwe (GOZ) criminalized narcotics-related money laundering in the "Anti-Money Laundering Act." In 2004, the GOZ passed more expansive legislation, the Anti-Money Laundering and Proceeds of Crime Act ("The Act") that extended the anti-money laundering law to all serious offenses. The Act required banks to maintain records sufficient to reconstruct individual transactions for at least six years. It mandated a prison sentence of up to five years. The Act also addressed terrorist financing and authorized the tracking and seizure of assets. Given the GOZ's history of selective use of the legal system against its opponents, the Act has raised human rights concerns, although its use to date has not been associated with any reported due process abuses or provoked any serious public opposition.

Over the past two years, the GOZ has arrested many prominent Zimbabweans for activities that it calls "financial crimes." Most of these "crimes" involved violations of currency restrictions that criminalize the externalization of foreign exchange activities conducted by many Zimbabwean businesses with substantial volumes of imports or exports (i.e. transferring assets offshore). To date, the Act has not been employed in the prosecution of individuals for such offenses.

However, despite having the legal framework in place to combat money laundering, the growing economic vulnerability of the population and the decline of judicial independence raise concerns about the continued capacity and integrity of Zimbabwean law enforcement. The GOZ prefers to prosecute financial crimes under the Criminal Procedures and Evidence Act, because it allows for those charged to be held in custody for up to 28 days. The Reserve Bank of Zimbabwe (RBZ), and not the Ministry of Anti-Corruption, is the lead agency for prosecuting money laundering offenses.

When requested, the local banking community has overtly cooperated with the GOZ in the enforcement of laws involving tracking of assets; however, increasingly burdensome GOZ regulations and a hostile business climate have led to growing circumvention of the law. The banking community and the RBZ have cooperated with the U.S. in global efforts to identify individuals and organizations associated with terrorist financing.

Zimbabwe is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. Zimbabwe has yet to sign the UN International Convention for the Suppression of the Financing of Terrorism. Zimbabwe joined the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) in August 2003 but has yet to sign the ESAAMLG Memorandum of Understanding.

Zimbabwe should become a party to both the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime. It should sign the MOU for the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) and participate actively in that body.