



**ANNUAL REPORT 2020**

**FINANCIAL INTELLIGENCE DEPARTMENT  
ROYAL MONETARY AUTHORITY**

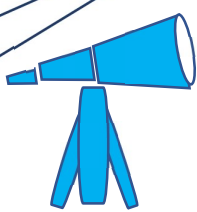
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## Acronyms

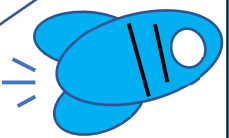
|                  |                                                                               |
|------------------|-------------------------------------------------------------------------------|
| <b>NCC</b>       | <b>National Coordination Committee</b>                                        |
| <b>FID</b>       | <b>Financial Intelligence Department (FIU or Financial Intelligence Unit)</b> |
| <b>AML / CFT</b> | <b>Anti-Money Laundering and Countering of Financing of Terrorism</b>         |
| <b>ML</b>        | <b>Money Laundering</b>                                                       |
| <b>TF</b>        | <b>Terrorist Financing</b>                                                    |
| <b>PF</b>        | <b>Proliferation Financing</b>                                                |
| <b>FATF</b>      | <b>Financial Action Task Force</b>                                            |
| <b>FSRB</b>      | <b>FATF Styled Regional Bodies</b>                                            |
| <b>STR</b>       | <b>Suspicious Transaction Report</b>                                          |
| <b>CTR</b>       | <b>Cash Transaction Report</b>                                                |
| <b>WTR</b>       | <b>Wire Transfer Report</b>                                                   |
| <b>OTR</b>       | <b>Other Transaction Report</b>                                               |
| <b>REs</b>       | <b>Reporting Entities</b>                                                     |
| <b>LEA</b>       | <b>Law Enforcement Agency</b>                                                 |
| <b>CDD</b>       | <b>Customer Due Diligence</b>                                                 |
| <b>NRA</b>       | <b>National Risk Assessment</b>                                               |
| <b>MER</b>       | <b>Mutual Evaluation Report</b>                                               |
| <b>FUR</b>       | <b>Follow-up Report</b>                                                       |

**VISION**



To be premier esteemed agency, fully committed to protect Bhutan's financial systems being used by grounding effective anti-money laundering and countering financing of terrorism framework

**MISSION**



To disseminate quality financial intelligence to facilitate detection, investigation and prosecution of money laundering and financing of terrorism.

**VALUES**

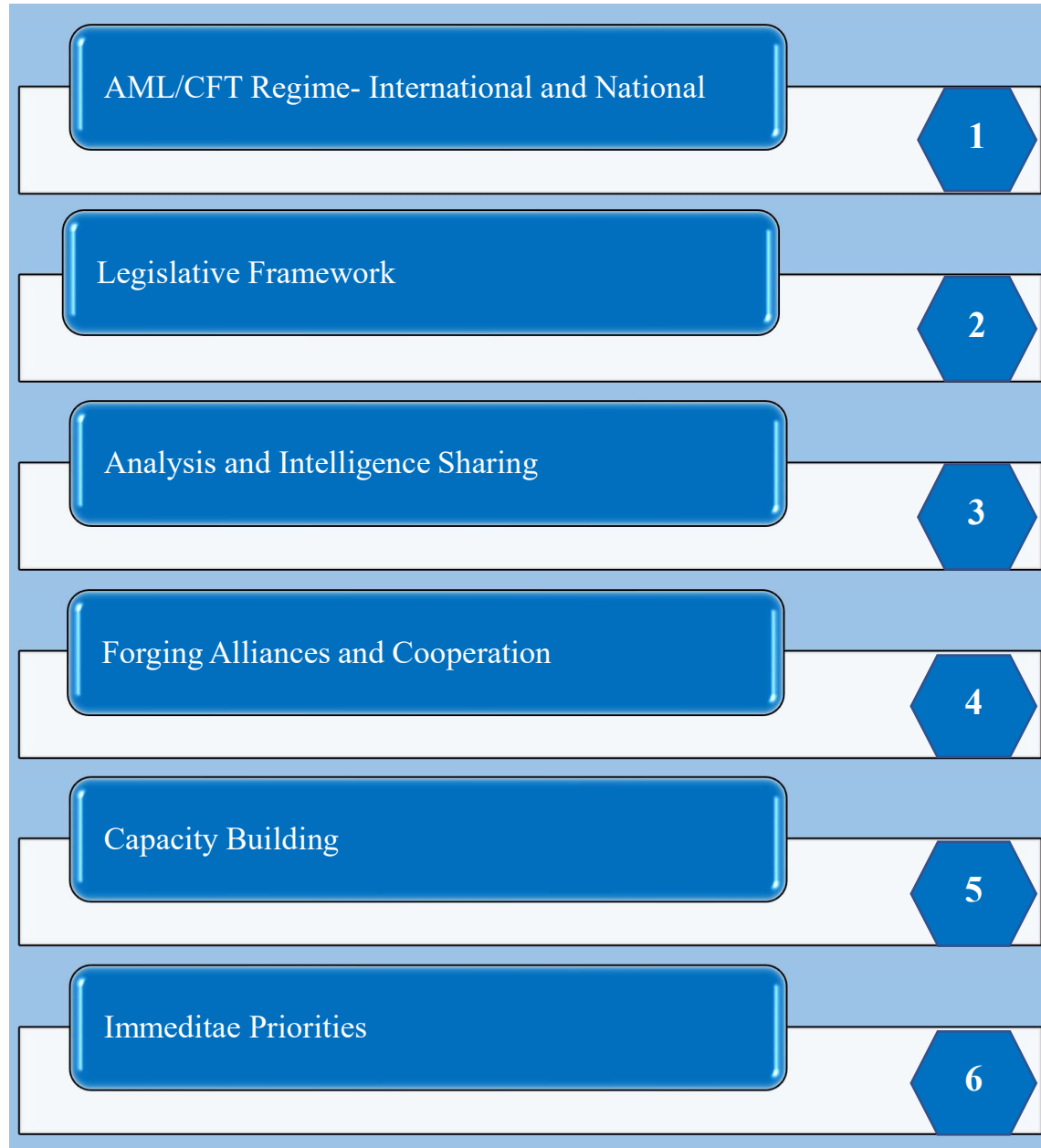


TRICEP:  
T- Team Work;  
R- Respect;  
I- Innovation;  
C- Confidentiality;  
E-Excellence; and  
P- Partnership

## INTRODUCTION

The Annual Report (AR) 2020 is the third AR published by the FID as per Section 37 (10) of the AML/CFT Act of Bhutan 2018, “*The Financial Intelligence Department shall publish an annual report on its activities, including any trends that have been observed in money laundering or terrorist financing threats to the financial system of Bhutan*”. The AR 2020 covers performance for the calendar year 2020.

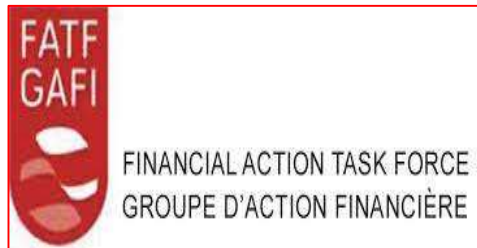
The AR 2020 has six sections:



## SECTION I: AML/CFT REGIME- INTERNATIONAL AND NATIONAL

This section presents the international anti-money laundering and countering financing of terrorism (AML/CFT) standards and bodies vis-à-vis its impact on Bhutan. Bhutan is a member of the Asia/Pacific Group on Money Laundering (APG), one of the nine FATF- Styled Regional Body (FSRB), to achieve the effective implementation of, and compliance with the 40 financial action task force (FATF) Recommendations.

### Financial Action Task Force (FATF)



The FATF also known by its French name *Groupe d'action financière* (GAFI), is an inter-governmental organization established in 1989 at the G-7 Summit in Paris to generate political will to combat money laundering (ML). In 2001, it extended its mandate to include terrorism financing (TF).

As of 2020, the FATF consists of 37 countries and 2 regional organisations. Bhutan is not a member of the FATF. There are nine FSRB which constitute a global network to combat ML, TF and proliferation financing (PF) of weapons of mass destruction (WMD).

The mandate of the FATF is to set standards and to promote effective implementation of legal, regulatory and operational measures for combating ML, TF and PF, and other related threats to the integrity of the international financial system. In collaboration with other international stakeholders, the FATF also works to identify national-level vulnerabilities with the aim of protecting the international financial system from misuse.

### FATF's 40 Recommendations

| Number                                                        | Old Number <sup>1</sup> |                                                                           |                                                                                                  |            |                                                                     |
|---------------------------------------------------------------|-------------------------|---------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|------------|---------------------------------------------------------------------|
| <b>A – AML/CFT POLICIES AND COORDINATION</b>                  |                         |                                                                           |                                                                                                  |            |                                                                     |
| 1                                                             | -                       | Assessing risks & applying a risk-based approach *                        |                                                                                                  |            |                                                                     |
| 2                                                             | R.31                    | National cooperation and coordination                                     |                                                                                                  |            |                                                                     |
| <b>B – MONEY LAUNDERING AND CONFISCATION</b>                  |                         |                                                                           |                                                                                                  |            |                                                                     |
| 3                                                             | R.1 & R.2               | Money laundering offence *                                                |                                                                                                  |            |                                                                     |
| 4                                                             | R.3                     | Confiscation and provisional measures *                                   |                                                                                                  |            |                                                                     |
| <b>C – TERRORIST FINANCING AND FINANCING OF PROLIFERATION</b> |                         |                                                                           |                                                                                                  |            |                                                                     |
| 5                                                             | SRII                    | Terrorist financing offence *                                             |                                                                                                  |            |                                                                     |
| 6                                                             | SRIII                   | Targeted financial sanctions related to terrorism & terrorist financing * |                                                                                                  |            |                                                                     |
| 7                                                             |                         | Targeted financial sanctions related to proliferation *                   |                                                                                                  |            |                                                                     |
| 8                                                             | SRVIII                  | Non-profit organisations *                                                |                                                                                                  |            |                                                                     |
| <b>D – PREVENTIVE MEASURES</b>                                |                         |                                                                           |                                                                                                  |            |                                                                     |
| 9                                                             | R.4                     | Financial institution secrecy laws                                        |                                                                                                  |            |                                                                     |
|                                                               |                         | <i>Customer due diligence and record keeping</i>                          |                                                                                                  |            |                                                                     |
| 10                                                            | R.5                     | Customer due diligence *                                                  |                                                                                                  |            |                                                                     |
| 11                                                            | R.10                    | Record keeping                                                            |                                                                                                  |            |                                                                     |
|                                                               |                         | <i>Additional measures for specific customers and activities</i>          |                                                                                                  |            |                                                                     |
| 12                                                            | R.6                     | Politically exposed persons *                                             |                                                                                                  |            |                                                                     |
| 13                                                            | R.7                     | Correspondent banking *                                                   |                                                                                                  |            |                                                                     |
| 14                                                            | SRVII                   | Money or value transfer services *                                        |                                                                                                  |            |                                                                     |
| 15                                                            | R.8                     | New technologies                                                          |                                                                                                  |            |                                                                     |
| 16                                                            | SRVII                   | Wire transfers *                                                          |                                                                                                  |            |                                                                     |
|                                                               |                         | <i>Reliance, Controls and Financial Groups</i>                            |                                                                                                  |            |                                                                     |
| 17                                                            | R.9                     | Reliance on third parties *                                               |                                                                                                  |            |                                                                     |
| 18                                                            | R.15 & R.22             | Internal controls and foreign branches and subsidiaries *                 |                                                                                                  |            |                                                                     |
| 19                                                            | R.21                    | Higher-risk countries *                                                   |                                                                                                  |            |                                                                     |
|                                                               |                         | <i>Reporting of suspicious transactions</i>                               |                                                                                                  |            |                                                                     |
| 20                                                            | R.13 & SRIV             | Reporting of suspicious transactions *                                    |                                                                                                  |            |                                                                     |
| 21                                                            | R.14                    | Tip-off and confidentiality                                               |                                                                                                  |            |                                                                     |
|                                                               |                         | <i>Designated non-financial Businesses and Professions (DNFBPs)</i>       |                                                                                                  |            |                                                                     |
| 22                                                            | R.12                    | DNFBPs: Customer due diligence *                                          |                                                                                                  |            |                                                                     |
| 23                                                            | R.16                    | DNFBPs: Other measures *                                                  |                                                                                                  |            |                                                                     |
|                                                               |                         |                                                                           | <b>E – TRANSPARENCY AND BENEFICIAL OWNERSHIP OF LEGAL PERSONS AND ARRANGEMENTS</b>               |            |                                                                     |
|                                                               |                         |                                                                           | 24                                                                                               | R.33       | Transparency and beneficial ownership of legal persons *            |
|                                                               |                         |                                                                           | 25                                                                                               | R.34       | Transparency and beneficial ownership of legal arrangements *       |
|                                                               |                         |                                                                           | <b>F – POWERS AND RESPONSIBILITIES OF COMPETENT AUTHORITIES AND OTHER INSTITUTIONAL MEASURES</b> |            |                                                                     |
|                                                               |                         |                                                                           |                                                                                                  |            | <i>Regulation and Supervision</i>                                   |
|                                                               |                         |                                                                           | 26                                                                                               | R.23       | Regulation and supervision of financial institutions *              |
|                                                               |                         |                                                                           | 27                                                                                               | R.29       | Powers of supervisors                                               |
|                                                               |                         |                                                                           | 28                                                                                               | R.24       | Regulation and supervision of DNFBPs                                |
|                                                               |                         |                                                                           |                                                                                                  |            | <i>Operational and Law Enforcement</i>                              |
|                                                               |                         |                                                                           | 29                                                                                               | R.26       | Financial intelligence units *                                      |
|                                                               |                         |                                                                           | 30                                                                                               | R.27       | Responsibilities of law enforcement and investigative authorities * |
|                                                               |                         |                                                                           | 31                                                                                               | R.28       | Powers of law enforcement and investigative authorities             |
|                                                               |                         |                                                                           | 32                                                                                               | SRIX       | Cash couriers *                                                     |
|                                                               |                         |                                                                           |                                                                                                  |            | <i>General Requirements</i>                                         |
|                                                               |                         |                                                                           | 33                                                                                               | R.32       | Statistics                                                          |
|                                                               |                         |                                                                           | 34                                                                                               | R.25       | Guidance and feedback                                               |
|                                                               |                         |                                                                           |                                                                                                  |            | <i>Sanctions</i>                                                    |
|                                                               |                         |                                                                           | 35                                                                                               | R.17       | Sanctions                                                           |
|                                                               |                         |                                                                           | <b>G – INTERNATIONAL COOPERATION</b>                                                             |            |                                                                     |
|                                                               |                         |                                                                           | 36                                                                                               | R.35 & SRI | International instruments                                           |
|                                                               |                         |                                                                           | 37                                                                                               | R.36 & SRV | Mutual legal assistance                                             |
|                                                               |                         |                                                                           | 38                                                                                               | R.38       | Mutual legal assistance: freezing and confiscation *                |
|                                                               |                         |                                                                           | 39                                                                                               | R.39       | Extradition                                                         |
|                                                               |                         |                                                                           | 40                                                                                               | R.40       | Other forms of international cooperation *                          |

1. The 'old number' column refers to the corresponding 2003 FATF Recommendation.  
\* Recommendations marked with an asterisk have interpretive notes, which should be read in conjunction with the Recommendation.

The FATF reviews its member's progress in implementing the FATF's Recommendations through a peer review mechanism by a process called *mutual evaluation*.

#### **Asia/Pacific Group on Money Laundering (APG)**



The Asia/Pacific Group on Money Laundering (APG) is one of the nine FSRBs. In February 1997 in Bangkok, Thailand; the Asia/Pacific Group on Money Laundering (APG) was founded by 13 countries. Bhutan became a member of the APG in July 2011 and APG's current members strength is 41.

The APG reviews its members through a process called mutual evaluation and it is a peer review. The mutual evaluation of its members is conducted to determine whether they comply, or to what extent they comply, with their obligations in terms of implantation of the global AML and CFT standards.

#### **Egmont Group**



The Egmont Group, founded in 1995, consists of 165 FIUs. The Egmont Group is a non-political international entity of FIUs to unite efforts to improve effective exchange of information to combat ML and TF. It provides a secured platform to exchange information on experiences in order to

promote the development of effective FIUs and to foster implementation of domestic programs in this field. Bhutan became a member of Egmont Group on 17 July 2020.

Three officials comprising of the Deputy Governor I, Executive Director and Specialist of the FID participated in the Egmont Committee Working Group Meeting in January 2020 in Mauritius to present Bhutan's case and to vouch for the membership.

#### **Mutual Evaluation**

Mutual evaluation is an in-depth country report analyzing the implementation and effectiveness of measures to combat ML and TF. It is a peer review wherein members from other countries assess another country. Mutual evaluation consists of two ratings:

1. Technical Compliance (TC); and
2. Effective Compliance (EC).

The technical compliance evaluation addresses the specific requirements of the FATF Recommendations, principally as they relate to the relevant legal and institutional framework

of the country, and the powers and procedures of the competent authorities. These represent the fundamental building blocks of an AML /CFT system. The technical compliance evaluation is rated based on the FATF 40 Recommendations. The five ratings of technical compliance evaluation are:

|   |                     |    |                                  |
|---|---------------------|----|----------------------------------|
| 1 | Compliant           | C  | There are no shortcomings.       |
| 2 | Largely Compliant   | LC | There are minor shortcomings.    |
| 3 | Partially Compliant | PC | There are moderate shortcomings. |
| 4 | Non-Compliant       | NC | There are major shortcomings.    |

The effective compliance evaluation seeks to assess the adequacy of the implementation of the FATF Recommendations, and identifies the extent to which a country achieves a defined set of outcomes that are central to a robust AML/CFT system. The focus of the effectiveness assessment is therefore on the extent to which the legal and institutional framework is producing the expected result. The effective compliance evaluation is rated based on the 11 Immediate Outcomes (IOs). The four ratings of effectiveness compliance evaluation are:

|   |                                    |                                                                                                |
|---|------------------------------------|------------------------------------------------------------------------------------------------|
| 1 | High level of effectiveness        | The IO is achieved to a very large extent.<br>Minor improvements needed.                       |
| 2 | Substantial level of effectiveness | The IO is achieved to a large extent.<br>Moderate improvements needed.                         |
| 3 | Moderate level of effectiveness    | The IO is achieved to some extent.<br>Major improvements needed.                               |
| 4 | Low level of effectiveness         | The IO is not achieved or achieved to a negligible extent.<br>Fundamental improvements needed. |

The Mutual Evaluation Report (MER) provides the ratings on TC and EC, based on which a jurisdiction is placed under the follow-up process as follows:

1. Regular Follow-up, and
2. Enhanced Follow-up

Enhanced Follow-Up is further divided into:

- a) Enhanced Follow-up; and
- b) Enhanced Follow-up (Expedited).



|                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|--------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Regular Follow-up              | Default monitoring system and biennial reporting to APG.                                                                                                                                                                                                                                                                                                                                                                                                             |
| Enhanced Follow-up             | A jurisdiction is placed in this category if: <ul style="list-style-type: none"> <li>a) it has eight or more NC/PC ratings for technical compliance; or</li> <li>b) it is rated NC/PC on any one or more of 3, 5, 10, 11 and 20; or</li> <li>c) it has a low or moderate level of effectiveness for seven or more of the 11 effectiveness outcomes; or</li> <li>d) it has a low level of effectiveness for five or more of the 11 effectiveness outcomes.</li> </ul> |
| Enhanced Follow-up (Expedited) | A jurisdiction is placed in this category if; <ul style="list-style-type: none"> <li>a) it has 10 or more of the following 13 Recommendations rated NC/PC for technical compliance (40 R): 3, 5, 10, 11, 20; and 1, 4, 6, 26, 29, 36, 37, 40; or</li> <li>b) it has a low or moderate level of effectiveness for nine or more of the 11 effective outcomes (11 IOs).</li> </ul>                                                                                      |

## Bhutan's Mutual Evaluation Report

### Technical Compliance Ratings

Bhutan's first Mutual Evaluation Report (MER) was discussed and rated at the APG plenary in 2016. Bhutan's technical compliance ratings in MER 2016 and Follow-up Report 2020 on FATF Recommendations are:

| R.1<br>Assessing risks & applying a risk-based approach                          |      | R.2<br>National cooperation and coordination                 |      | R.3<br>Money laundering offence |      | R.4<br>Confiscation and provisional measures |      | R.5<br>Terrorist financing offence |      |
|----------------------------------------------------------------------------------|------|--------------------------------------------------------------|------|---------------------------------|------|----------------------------------------------|------|------------------------------------|------|
| 2016                                                                             | 2020 | 2016                                                         | 2020 | 2016                            | 2020 | 2016                                         | 2020 | 2016                               | 2020 |
| NC                                                                               | LC   | PC                                                           | LC   | PC                              | LC   | PC                                           | PC   | NC                                 | LC   |
| R.6<br>Targeted financial sanctions related to terrorism and terrorist financing |      | R.7<br>Targeted financial sanctions related to proliferation |      | R.8<br>Non-profit organizations |      | R.9<br>Financial institution secrecy laws    |      | R.10<br>Customer due diligence     |      |
| 2016                                                                             | 2020 | 2016                                                         | 2020 | 2016                            | 2020 | 2016                                         | 2020 | 2016                               | 2020 |
| NC                                                                               | LC   | NC                                                           | PC   | PC                              | PC   | LC                                           | C    | C                                  | C    |
| R.11<br>Record keeping                                                           |      | R.12<br>Politically exposed persons                          |      | R.13<br>Correspondent banking   |      | R.14<br>Money or value transfer services     |      | R.15<br>New technologies           |      |
| 2016                                                                             | 2020 | 2016                                                         | 2020 | 2016                            | 2020 | 2016                                         | 2020 | 2016                               | 2020 |
| C                                                                                | C    | C                                                            | C    | C                               | C    | PC                                           | LC   | C                                  | NC   |

|                                                                        |      |                                               |      |                                                                        |      |                                                                       |      |                                                                                  |      |
|------------------------------------------------------------------------|------|-----------------------------------------------|------|------------------------------------------------------------------------|------|-----------------------------------------------------------------------|------|----------------------------------------------------------------------------------|------|
| <b>R.16</b><br>Wire transfers                                          |      | <b>R.17</b><br>Reliance on third parties      |      | <b>R.18</b><br>Internal controls and foreign branches and subsidiaries |      | <b>R.19</b><br>Higher-risk countries                                  |      | <b>R.20</b><br>Reporting of suspicious transactions                              |      |
| 2016                                                                   | 2020 | 2016                                          | 2020 | 2016                                                                   | 2020 | 2016                                                                  | 2020 | 2016                                                                             | 2020 |
| LC                                                                     | LC   | LC                                            | LC   | LC                                                                     | LC   | LC                                                                    | LC   | PC                                                                               | LC   |
| <b>R.21</b><br>Tipping-off and confidentiality                         |      | <b>R.22</b><br>DNFBPs: Customer due diligence |      | <b>R.23</b><br>DNFBPs: Other measures                                  |      | <b>R.24</b><br>Transparency and beneficial ownership of legal persons |      | <b>R.25</b><br>Transparency and beneficial ownership of legal arrangements       |      |
| 2016                                                                   | 2020 | 2016                                          | 2020 | 2016                                                                   | 2020 | 2016                                                                  | 2020 | 2016                                                                             | 2020 |
| NC                                                                     | LC   | C                                             | C    | PC                                                                     | LC   | PC                                                                    | PC   | LC                                                                               | LC   |
| <b>R.26</b><br>Regulation and supervision of financial institutions    |      | <b>R.27</b><br>Powers of supervisors          |      | <b>R.28</b><br>Regulation and supervision of DNFBPs                    |      | <b>R.29</b><br>Financial intelligence units                           |      | <b>R.30</b><br>Responsibilities of law enforcement and investigative authorities |      |
| 2016                                                                   | 2020 | 2016                                          | 2020 | 2016                                                                   | 2020 | 2016                                                                  | 2020 | 2016                                                                             | 2020 |
| PC                                                                     | LC   | C                                             | C    | NC                                                                     | PC   | NC                                                                    | LC   | PC                                                                               | LC   |
| <b>R.31</b><br>Powers of law enforcement and investigative authorities |      | <b>R.32</b><br>Cash couriers                  |      | <b>R.33</b><br>Statistics                                              |      | <b>R.34</b><br>Guidance and feedback                                  |      | <b>R.35</b><br>Sanctions                                                         |      |
| 2016                                                                   | 2020 | 2016                                          | 2020 | 2016                                                                   | 2020 | 2016                                                                  | 2020 | 2016                                                                             | 2020 |
| PC                                                                     | PC   | PC                                            | LC   | PC                                                                     | LC   | PC                                                                    | PC   | PC                                                                               | LC   |
| <b>R.36</b><br>International instruments                               |      | <b>R.37</b><br>Mutual legal assistance        |      | <b>R.38</b><br>Mutual legal assistance: freezing and confiscation      |      | <b>R.39</b><br>Extradition                                            |      | <b>R.40</b><br>Other forms of international cooperation                          |      |
| 2016                                                                   | 2020 | 2016                                          | 2020 | 2016                                                                   | 2020 | 2016                                                                  | 2020 | 2016                                                                             | 2020 |
| PC                                                                     | PC   | NC                                            | NC   | NC                                                                     | LC   | LC                                                                    | LC   | PC                                                                               | PC   |

In 2016, Bhutan was rated Compliant on 7 Recommendations, Largely Compliant on 7 Recommendations, Partially Compliant on 17 Recommendations, and Non-Compliant on 9 Recommendations. For request on re-ratings of the technical compliance ratings, a country is required to submit evidence relating to progress it has made on relevant legal and institutional framework and the powers and procedures of the competent authorities specific to FATF Recommendations.

Since then, Bhutan has made progress on compliance to FATF Recommendations and has taken steps in improving its technical compliance primarily through enactment of the AML/CFT Act 2018 and AML/CFT Rules and Regulations 2018. In light of the progress made by Bhutan since its adoption of the MER, Bhutan exited enhanced (expedited) follow up and is placed under Enhanced Follow-up category in 2018.

In 2020, Bhutan has made progress and was re-rated Compliant on 7 Recommendations, Largely Compliant on 23 Recommendations, Partially Compliant on 9 Recommendations, and

Non-Compliant on 2 Recommendations ie Rec. 37 on Mutual Legal Assistance and Rec.15 on New Technologies.

The Financial Action Task Force (FATF), has updated the recommendation 15 (New Technologies) in October 2018 to add requirements for virtual assets (VA) and virtual asset service providers (VASPs). Considering that Bhutan has no clear policy direction and also no laws or regulations in place to mitigate the ML/TF risk posed by virtual assets and VASPs, Bhutan was downgraded from compliant to non-complaint for recommendation 15 in the 4th Follow Up Report (FUR) in October 2020.

### Effectiveness Compliance Ratings

The effectiveness compliance is rated against 11 immediate outcomes (IOs). Bhutan's effectiveness compliance ratings on 11 IOs are as follows:

| Particulars | Description                                                                                                                                                                                                    | Ratings  |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| IO 1        | Money laundering and terrorist financing risks are understood and, where appropriate, actions coordinated domestically to combat money laundering and the financing of terrorism and proliferation.            | Low      |
| IO 2        | International cooperation delivers appropriate information, financial intelligence, and evidence, and facilitates action against criminals and their assets.                                                   | Moderate |
| IO 3        | Supervisors appropriately supervise, monitor and regulate financial institutions and DNFBPs for compliance with AML/CFT requirements commensurate with their risks.                                            | Low      |
| IO 4        | Financial institutions and DNFBPs adequately apply AML/CFT preventive measures commensurate with their risks, and report suspicious transactions.                                                              | Low      |
| IO 5        | Legal persons and arrangements are prevented from misuse for money laundering or terrorist financing, and information on their beneficial ownership is available to competent authorities without impediments. | Low      |
| IO 6        | Financial intelligence and all other relevant information are appropriately used by competent authorities for money laundering and terrorist financing investigations.                                         | Low      |
| IO 7        | Money laundering offences and activities are investigated and offenders are prosecuted and subject to effective, proportionate and dissuasive sanctions.                                                       | Low      |
| IO 8        | Proceeds and instrumentalities of crime are confiscated.                                                                                                                                                       | Low      |
| IO 9        | Terrorist financing offences and activities are investigated and persons who finance terrorism are prosecuted and subject to effective, proportionate and dissuasive sanctions.                                | Moderate |
| IO 10       | Terrorists, terrorist organisations and terrorist financiers are prevented from raising, moving and using funds, and from abusing the NPO sector.                                                              | Low      |
| IO 11       | Persons and entities involved in the proliferation of weapons of mass destruction are prevented from raising, moving and using funds, consistent with the relevant UNSCRs.                                     | Low      |

Unlike technical compliance ratings, a member cannot request for re-ratings on 11 IOs. Bhutan's ratings on 11 IOs can only be changed when it undergoes a mutual evaluation process, which is tentatively scheduled in 2025.

### **Financial Intelligence Unit (FIU)**

The Financial Intelligence Units (FIUs) are national centralized agencies to receive, request, analyze and disseminate financial intelligence concerning suspected proceeds of crime pertaining to money laundering and financing of terrorism. The Financial Action Task Force (FATF) sets the international standards (Recommendation 29), which the national FIUs have to confirm.



## **Recommendation 29**

Countries should establish a financial intelligence unit (FIU) that serves as a national center for the receipt and analysis of:

- a. suspicious transaction reports; and
- b. other information relevant to money laundering, associated predicate offences and terrorist financing, and for the dissemination of the results of that analysis.

The FIU should be able to obtain additional information from reporting entities, and should have access on a timely basis to the financial, administrative and law enforcement information that it requires to undertake its functions properly.

There are four FIU models: judicial, law enforcement, administrative, and hybrid.

- The **Judicial Model** is when an FIU is established within the judicial branch of government. In this model "disclosures" of suspicious financial activity are received by a country's investigative agencies from its financial sector so the judiciary powers can react (e.g., seizing funds, freezing accounts, conducting interrogations, detaining people, conducting searches, etc.).
- The **Law Enforcement Model** implements anti-money laundering measures alongside existing law enforcement systems, supporting the efforts of multiple law enforcement or judicial authorities with concurrent, or sometimes competing, jurisdictional authority to investigate money laundering.
- The **Administrative Model** is a centralized, independent, administrative authority, that receives and processes financial sector information and transmits disclosures to judicial or law enforcement authorities for prosecution. It functions as a "buffer" between the financial and law enforcement communities.
- The **Hybrid Model** serves as a disclosure intermediary and a link to both judicial and law enforcement authorities. It combines elements of at least two FIU models.

Source: <https://egmontgroup.org/about/financial-intelligence-units/>

### Financial Intelligence Department (FID)

The Financial Intelligence Department (FID) is established under Section 19 of the AML/CFT Act of Bhutan 2018 to comply with FATF’s Recommendation 29. Section 20 of the AML/CFT Act of Bhutan 2018 states, “*The Financial Intelligence Department shall be the competent authority responsible for receiving, requesting, analyzing, and disseminating information concerning suspected proceeds of crime and terrorist property, under this Act*”. The FID is an independent and autonomous department established within the Royal Monetary Authority (RMA), and is an administrative model FIU.

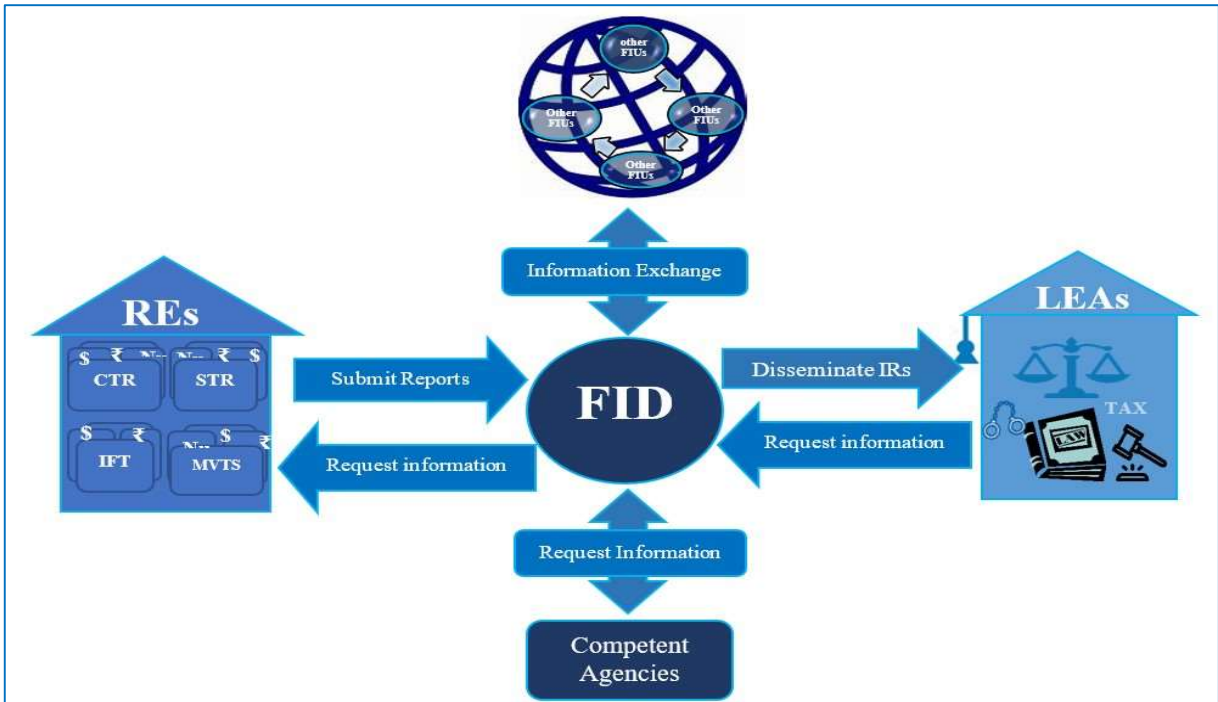
This table shows the timeline of evolution of FID in Bhutan.

| July 2011                                                                                                                                                                                                                                | June 2013                                                                                                                                                                                                       | July 2018                                                                                                                                                                                  |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"><li>• FIU established as a small unit within the erstwhile Financial Regulation Supervision Department (FRSD) in pursuant to Section 141 of the Financial Services Act (FSA) of Bhutan 2011.</li></ul> | <ul style="list-style-type: none"><li>• FIU accorded independent unit status within the framework and administrative control of the Royal Monetary Authority (RMA) in line with FATF Recommendations.</li></ul> | <ul style="list-style-type: none"><li>• With the enactment of the AML and CFT Act of Bhutan 2018, the FIU was upgraded to a full-fledged department from 1 July 2018 as the FID.</li></ul> |

The FID shall consist of a Head and other staff [*Refer Appendix A*] either assigned from RMA or seconded from other agencies under Sections 27 and 28 of the AML and CFT Act of Bhutan 2018. The FID Head shall be responsible for the *day-to-day operations and management of the department and discharge functions and duties* provided under Section 26 of the AML/CFT Act of Bhutan 2018. The FID Head shall report to the Governor or the Deputy Governor relating to *policy or resources matters for the operation of the department*.

## FID Ecosystem

The FID ecosystem comprises of REs and law enforcement agencies (LEAs), and the FID is the interface between the REs and the LEAs.



As per Section 50 of the AML and CFT Act of Bhutan 2018, reporting entities are financial institutions or designated non-financial business and profession, and any other agency identified by the RMA. In the reporting period in 2020, the list of REs identified are:

| Sl. No. | Particulars                | Number of institutions | Details                                                                                            |
|---------|----------------------------|------------------------|----------------------------------------------------------------------------------------------------|
| 1       | Financial Institutions     | 5                      | BOBL, BNBL, BDBL, DPNBL, TBank                                                                     |
| 2       | Non-Financial Institutions | 2                      | RICBL, BIL                                                                                         |
| 3       | DNFBPs                     | 0                      |                                                                                                    |
| 4       | MVTS                       | 5                      | Western Union, Money Gram, RIA, International Money Express, Prabhu                                |
| 5       | Securities Broker          | 7                      | RICBL, BNBL, BOBL, BDBL, Drukyul Securities, Lekpay Dolma Securities, Sershing Securities Pvt. Ltd |

As per Section 187 (14) of the AML/CFT Act 2018 the law enforcement agencies are Anti-Corruption Commission (ACC), the Department of Law and Order (DLO), Bhutan Narcotics Control Authority (BNCA), Department of Revenue and Customs (DRC), Office of the Attorney General (OAG), Royal Bhutan Police (RBP), and any other agency or authority prescribed in the rules and regulations. The AML/CFT Act 2018 under Section 187 (18) has defined predicate offence as any offence as a result of which proceeds have been generated that may become the subject of an offence of ML.

### National Coordination Committee

FATF Recommendation 2 requires countries to have national AML/CFT policies, informed by the risks identified, which should be regularly reviewed, and should designate an authority or have a coordination or other mechanism that is responsible for such policies. In line with it, Section 7 of the AML/CFT Act 2018 states, “*There shall be a National Coordination Committee (NCC) constituted for preventing ML and combating TF*”. The NCC is the apex body responsible for coordinating the implementation of the national AML and CFT strategy, undertaking of the AML and CFT National Risk Assessment (NRA) or to update such assessment, and advise the government on AML and CFT issues. The NCC’s Chairman is the Governor of the RMA and the NCC shall meet at least twice a year. The FID serves as the Secretariat for the NCC.



During the reporting period, only one meeting was convened i.e the 19<sup>th</sup> NCC meeting which was convened on 12 October 2020.

### Technical Committee

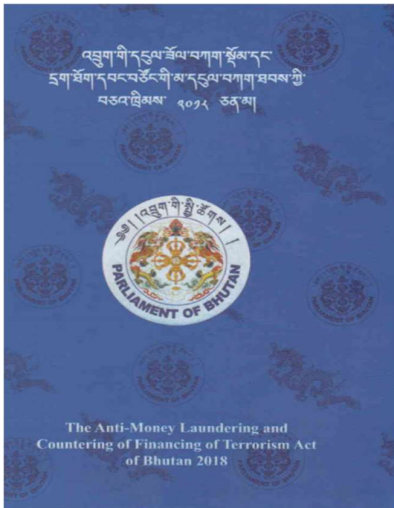
Section 17 of the AML/CFT Act 2018 states, “*The National Coordination Committee shall, on the recommendation of the Financial Intelligence Department, constitute a technical committee (TC) to provide advice on technical and other relevant matters*”. The TC’s Chairman is Deputy Governor I of the RMA. The TC members are representatives from the law enforcement agencies and relevant agencies and ministries [*Refer Appendix B*] as provided under Section 5 of the AML/CFT Rules and Regulations 2018.

During the reporting period, the 20<sup>th</sup> TC meeting was convened on 21 September 2020.



## SECTION II: LEGISLATIVE FRAMEWORK

### Anti-Money Laundering and Countering of Financing of Terrorism Act of Bhutan 2018



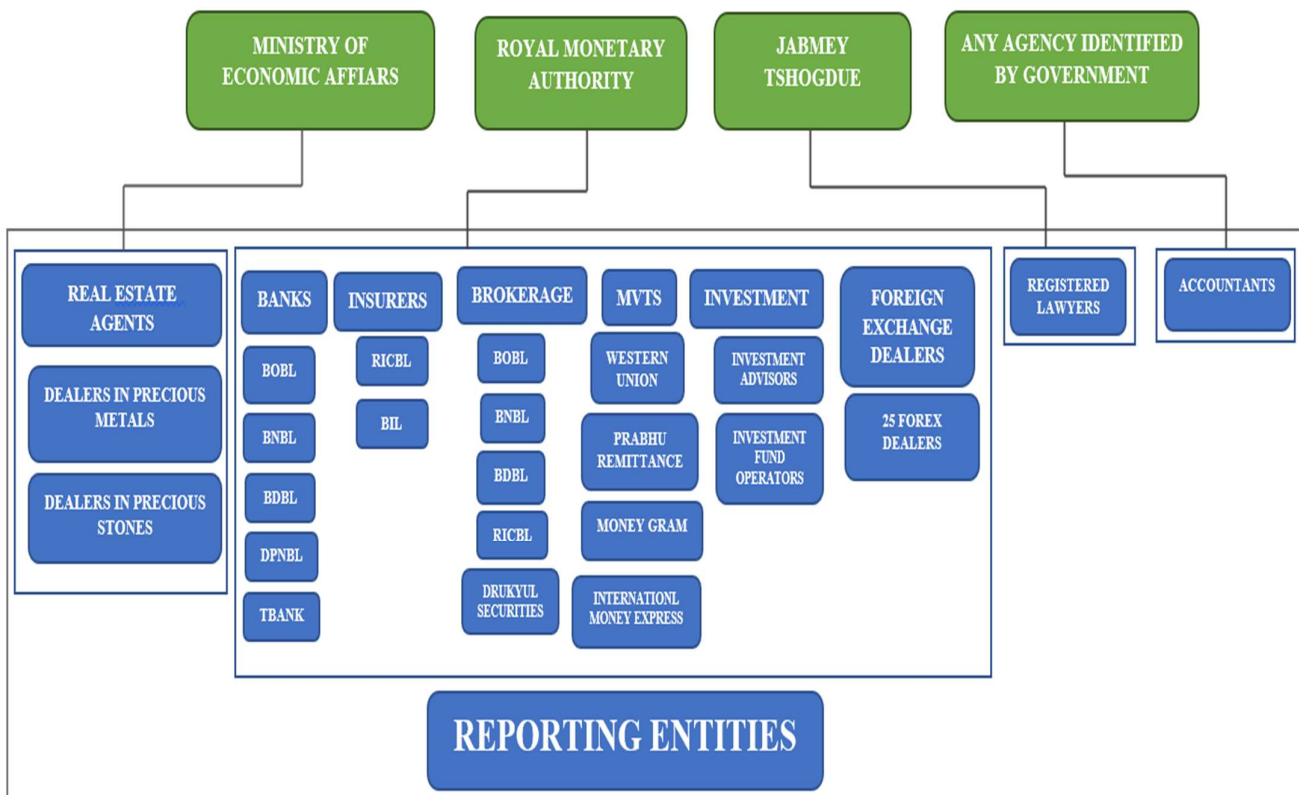
The AML/CFT Act of Bhutan 2018 is the legislation for combating money laundering and countering terrorism financing in Bhutan. The Act was enacted in 2018 and brought into force from 8 January 2018. The Act criminalizes money laundering and financing of terrorism.

The Act defines ML and TF and has designated the Anti-Corruption Commission (ACC) and the Royal Bhutan Police (RBP) as the competent and relevant investigating authority.

Predicate offences have been explicitly elaborated in section 160 and 161 of the AML/CFT Act of Butan 2018

### AML and CFT Act of Bhutan 2018 and the FID

Section 50 of the AML/CFT Act of Bhutan 2018 provides designation of RE by the FID. The designated RE shall submit suspicious transaction (STR), cash transaction report (CTR), wire transfer report (WTR) and any other transaction report (OTR) as mandated by the Act to the





FID within prescribed timeframe. The REs and its supervisors are categorized as follows pursuant to the Act:

#### **AML and CFT Rules and Regulations 2018**

In July 2020 the AML/CFT Rules and Regulations 2018 was revised with exercise of power conferred by the AML/CFT Act of Bhutan 2018. The regulation was revised with an objective to address the deficiencies highlighted in the Mutual Evaluation Report and subsequent Follow-up Reports. The Rules and Regulations has been revised in consultation with Mr. Clive Scott, IMF Legal Expert under the technical assistance from IMF To rectify the deficiencies, the following have been inserted in the revised Rules and Regulations:

1. Section 61- provision for carrying out simplified due diligence;
2. Section 153- reducing CTR threshold to Nu. 300,000 from Nu. 500,000;
3. Section 282 freezing of property without delay in relation to TFS; and
4. Part XIX (Sections 313 to 332) Investigations and Enquiries under Part VII of the Act.

#### **Issue of Guidelines**

During the reporting period, the FID issued Guideline on AML/CFT for Insurance Companies in pursuant to Section 45 of the AML/CFT Act of Bhutan 2018. The guideline was issued with the objective to help the insurance companies in terms of complying with AML/CFT requirements stipulated in AML/CFT Act and AML/CFT rules and regulations.

### SECTION III: ANALYSIS AND INTELLIGENCE

#### Receipt of STR, CTR and OTR

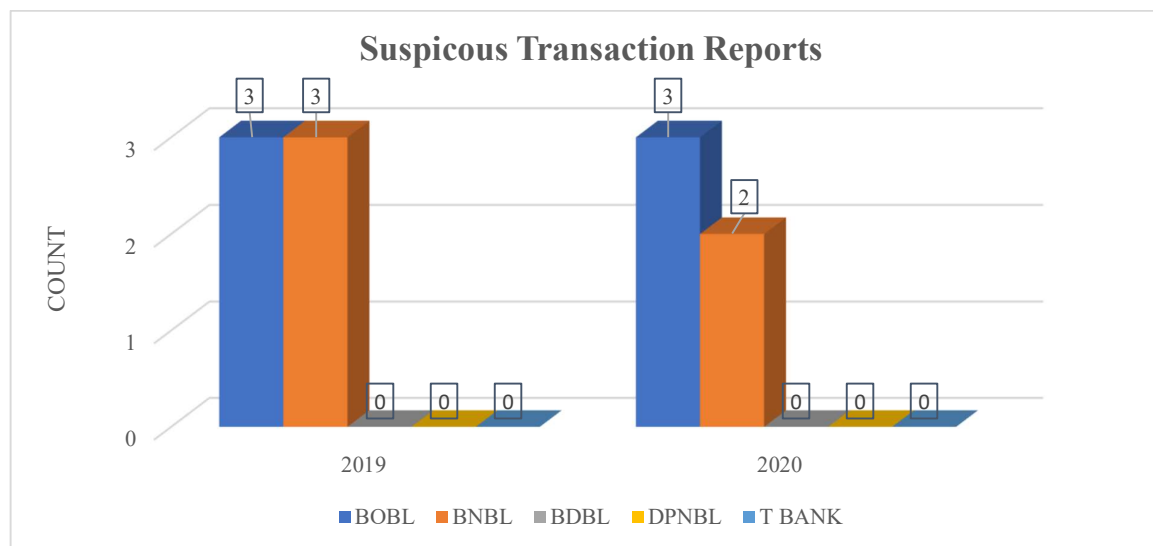
The AML/CFT Act of Bhutan 2018 mandates FID as a competent authority to receive suspicious transaction report (STR), cash transaction report (CTR), and other transaction report (OTR) from REs.

#### Suspicious Transaction Reports

Suspicious Transaction Reports (STRs) are those transaction reports that the RE is mandated to submit to the FID under Sections 69 to 73 of the AML/CFT Act of Bhutan 2018. This report is lodged if the RE has a reasonable ground to suspect that any property, the subject of transaction with which it is involved is proceeds of crime from some criminal activity related, linked to, or is to be used for, terrorist acts or by a terrorist or a terrorist organization or by a person who finances terrorist acts.

The following table shows the details of STRs submitted by the REs to the FID in 2020, and is compared against 2019 figures.

| REs    | 2019 (Count) | 2020 (Count) |
|--------|--------------|--------------|
| BOBL   | 3            | 3            |
| BNBL   | 3            | 2            |
| BDBL   | -            | -            |
| DPNBL  | -            | -            |
| T BANK | -            | -            |



In this reporting period in 2020, the FID received 5 STRs from the REs, and all STRs were submitted by the commercial banks. Compared to the previous reporting period of 2019, the FID has seen a decrease of 1 STR submitted.

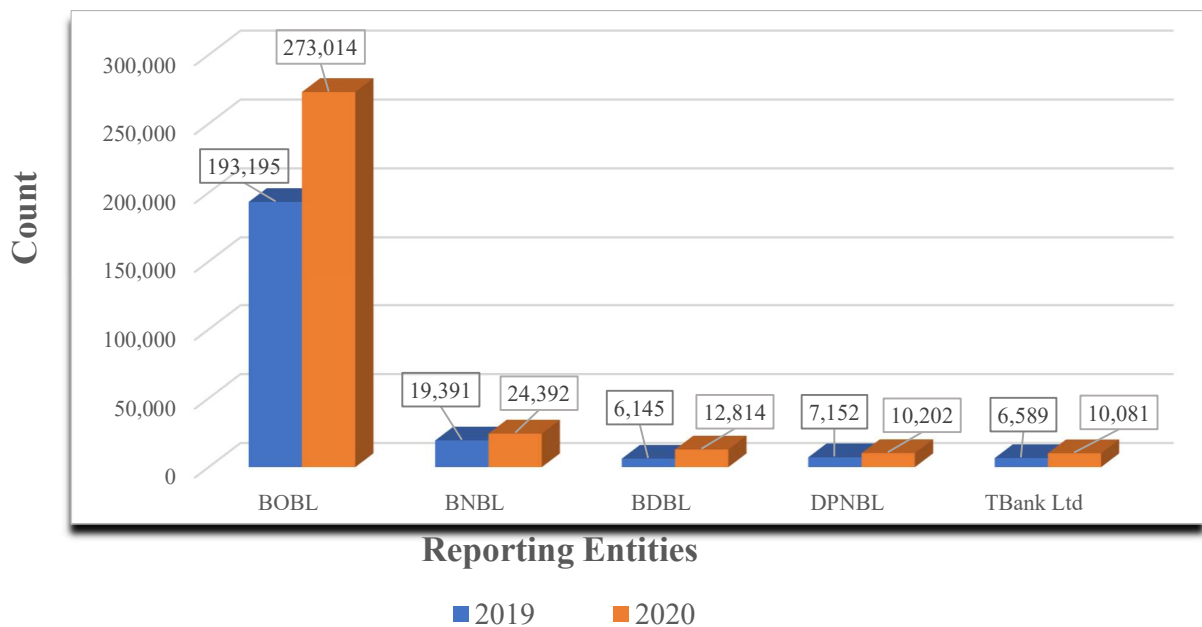
### Cash Transaction Reports (CTRs)

CTRs are those transaction reports that the REs are mandated to submit to the FID under Section 74 of the AML/CFT Act of Bhutan 2018 and it includes cash transactions of the value which equals to or exceeds the Nu.300,000 which is prescribed in the AML/CFT rules and regulations.

The following table shows the details of CTRs submitted by the banks in 2020, and a trend on CTRs submission.

| REs          | 2019(Count)    | 2020(Count)    | Change (%)   |
|--------------|----------------|----------------|--------------|
| BOBL         | 193,195        | 273,014        | 41.32        |
| BNBL         | 19,391         | 24,392         | 25.79        |
| BDBL         | 6,145          | 12,814         | 108.53       |
| DPNBL        | 7,152          | 10,202         | 42.65        |
| T BANK       | 6,589          | 10,081         | 53.00        |
| <b>TOTAL</b> | <b>232,472</b> | <b>330,503</b> | <b>42.17</b> |

### Cash Transaction Reports

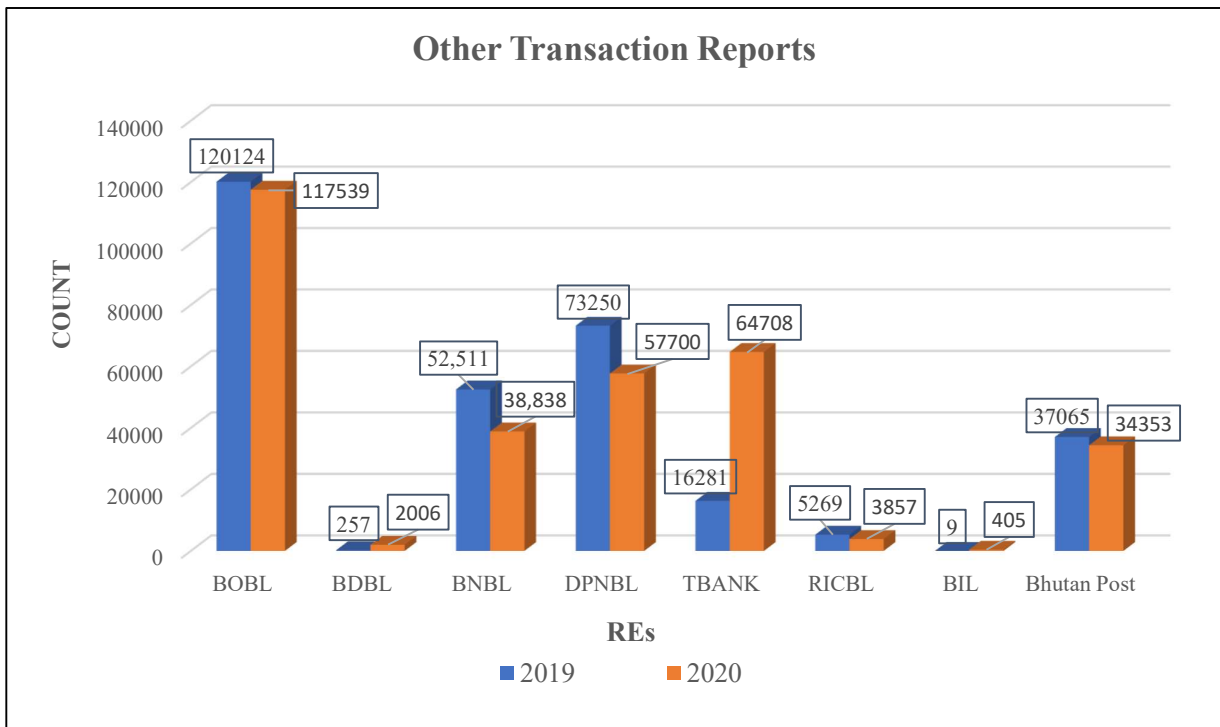


In this reporting period in 2020, the FID received 330,503 CTRs from the banks. As compared to previous reporting period of 2019, the FID has seen an increase of 98,031 CTRs submitted, which shows an increase of 42.17%. This can be attributed with the revision of CTR threshold to Nu. 300,000 from Nu. 500,000 in July 2020.

### Other Transaction Reports (OTRs)

The table below indicates the details on OTRs submitted by the REs to FID during the reporting period compared to year 2019. OTR includes report of Money Value Transfer Service (MVTS), International Fund Transfer (IFT), Insurance (INS), Securities Broker (SB).

| RE Name     | 2019   | 2020   |
|-------------|--------|--------|
| BOBL        | 120124 | 117539 |
| BDBL        | 257    | 2006   |
| BNBL        | 52,511 | 38,838 |
| DPNBL       | 73250  | 57700  |
| TBANK       | 16281  | 64708  |
| RICBL       | 5269   | 3857   |
| BIL         | 9      | 405    |
| Bhutan Post | 37065  | 34353  |



### Dissemination of Intelligence Reports

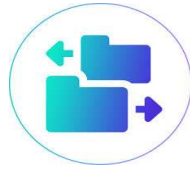
The IRs are those reports that the FID has shared, either on their own or upon request by any LEA where there is a suspicion that ML, TF, or other predicate offence has taken or is about to take place.

In the reporting period, the FID has shared only one IR to the Department of Revenue and Customs (DRC).

The following shows the number of STRs received, analyzed and disseminated to relevant LEAs



**5 STRs Received**



**5 Analyzed**



**1 IR Disseminated**

### **Requests from and to Relevant LEAs**

The FID receives numerous requests from relevant domestic LEAs and is also empowered to receive requests from foreign FIUs. Similarly, the FID is also empowered to request for an information from foreign FIUs and domestic LEAs.

The following table shows the details of requests sent by the LEAs to the FID in 2020.

| <b>Year</b>                | <b>2019</b> | <b>2020</b> |
|----------------------------|-------------|-------------|
| Requests from LEAs         | 48          | 50          |
| Requests Responded by FID  | 48          | 50          |
| Requests to LEAs           | 27          | -           |
| Requests Responded by LEAs | 27          | -           |

### **Requests from and to Foreign FIUs**

The FID did not receive any request from foreign FIUs for information exchange. During the reporting period 2020, the FID sent a request to FIU India requesting for information to facilitate in analysing the STR.

| <b>Year</b>                | <b>2019</b> | <b>2020</b> |
|----------------------------|-------------|-------------|
| Requests from Foreign FIUs | 1           | -           |
| Requests to Foreign FIUs   | 2           | 1           |

## SECTION IV: FORGING ALLIANCES AND COOPERATION

### MoUs Signed: International

The FID is able to exchange information and intelligence with Egmont Group FIUs for ML, TF, and predicate offences investigation. The FID is also authorized to exchange information with foreign FIUs freely without necessity of having MoU or formal arrangements.

In line with Section 37 (9) of the AML/CFT Act of Bhutan 2018 and as advocated under Recommendation 40 of the FATF, the FID in order to rapidly, constructively and effectively provide the widest range of international cooperation in relation to money laundering, associated predicate offences and terrorist financing, signs memorandum of understanding (MoU) with foreign FIUs. During the reporting period, the FID has signed MoU with FIU of Nepal, and the total number of MoUs signed with foreign FIUs as of 2020 stands at nine.





The table below shows the year of signing the MoUs with foreign FIUs.



#### MoUs Signed with Domestic Agencies

During the reporting period, the FID has signed MoUs with two agencies, namely, Department of Civil Registration and Census, MoHCA and Road Safety and Transport Authority for collection of information to facilitate its intelligence development. As of 2020, the FID has signed MoUs with nine different domestic agencies

The table below shows the year of signing the MoUs with different agencies for information sharing.



## SECTION V: CAPACITY BUILDING

During the reporting period, the FID conducted four different trainings (including virtual trainings) which were attended by 73 participants. Building capacity and raising awareness of all relevant players in the FIU ecosystem is considered vital for successful detection and prevention of ML/TF offences, and associated predicate offences.

Not only has the FID provided trainings; various Guidelines, advisories, and notifications have been issued to the REs to ensure that regulatory regime on AML/CFT is effectively implemented with adequate preventative measures in place.

The table below shows the list of various trainings provided and attended to:

| Sl. No. | Workshops/Trainings etc.                                 | Date         | Target Participant (No.)                             | Organizer |
|---------|----------------------------------------------------------|--------------|------------------------------------------------------|-----------|
| 1       | BFIAS User Acceptance Test for Officials of the REs      | 27 Jul 2020  | REs (26)                                             | FID       |
| 2       | BFIAS User Acceptance Test for Officials of the LEAs     | 16 Oct 2020  | LEAs (7)                                             | FID       |
| 3       | Introduction to AML/CFT and Emphasis on Recommendation 8 | 27 Feb 2020  | Officials and representatives from CSOA and CSO (20) | FID       |
| 4       | APG/UNODC Financial Investigation Training               | 2-6 Mar 2020 | Officials from the LEAs (20)                         | FID       |

Awareness session for officials of the civil society organisations authority (CSOA).



The FID conducted awareness session for officials of the civil society organisations authority (CSOA) and representatives from the civil society organisations (CSO) on 27 February 2020. The session included educating on FATF Recommendation 8 which is related to non-profit organisations (NPOs) and the role they are expected to play in national AML/CFT regime.



## **SECTION VI: IMMEDIATE PRIORITIES**

### **Immediate Priorities**

The immediate priority for Bhutan should be to enact a law on mutual legal assistance (MLA). Ever since the adoption of MER in 2016 till the reporting period, Bhutan is consistently rated as Non-Compliant on FATF's Recommendation 37.

All agencies should take responsibility to improve the ratings for those FATF recommendations which are rated NC and PC ratings. Bhutan could be placed under international cooperation review group (ICRG) if measures are not taken in a timely manner to improve the ratings.

**APPENDIX A**

| <b>Sl. No.</b> | <b>Name</b>      | <b>Designation</b> | <b>Status</b>                 |
|----------------|------------------|--------------------|-------------------------------|
| 1              | Namgay Tshering  | Executive Director | Resigned on 10th April 2020   |
| 2              | Dophu Dorji      | Director           | Appointed on 12 October 2020  |
| 3              | Tshering Penjor  | Expert             | Regular                       |
| 4              | Dema             | Senior Analyst     | Transferred in on 1 Jul 2020  |
| 5              | Thinley Cheki    | Senior Analyst     | Regular                       |
| 6              | Yeshey Nidup     | Analyst            | Regular                       |
| 7              | Tshering Tobzang | Analyst            | Regular                       |
| 8              | Kinzang Dema     | Assistant Analyst  | Transferred out on 1 Jul 2020 |
| 9              | Namgay Tshering  | Assistant Analyst  | Transferred out on 1 Jul 2020 |
| 10             | Dorji Norbu      | Assistant Analyst  | Appointed on 1 Jan 2020       |

During the reporting period, the Executive Director left FID to assume the post of Chief Executive Officer, Credit Information Bureau. Two more officials from the FID were transferred to other departments in the RMA, and received two officers (one from transfer and one from new appointment).

## APPENDIX B

| <b>Technical Committee Members</b> |                                   |                                                      |                                     |
|------------------------------------|-----------------------------------|------------------------------------------------------|-------------------------------------|
| <b>Sl. No.</b>                     | <b>Name</b>                       | <b>Designation</b>                                   | <b>Agency</b>                       |
| 1                                  | Mr. Phajo Dorjee<br>(Chairperson) | Deputy Governor                                      | Royal Monetary Authority            |
| 2                                  | Lt. Colonel Lobzang Dorji         | Superintendent of Police                             | Royal Bhutan Police                 |
| 3                                  | Mr. Ugyen Tshering                | Chief Program Officer                                | Bhutan Narcotic Control Authority   |
| 4                                  | Mr. Jigme Tenzin                  | Chief Immigration Officer                            | Department of Immigration           |
| 5                                  | Mr. Chencho Tshering              | Chief Planning Officer                               | Ministry of Foreign Affairs         |
| 6                                  | Mr. Damche Tenzin                 | Chief General Counsel                                | Royal Monetary Authority            |
| 7                                  | Ms. Tshoki Choden                 | Chief, Political and International Security Division | Ministry of Foreign Affairs         |
| 8                                  | Mr. Karma Lhatu                   | Collector                                            | Department of Revenue and Customs   |
| 9                                  | Mr. Karma Yeshey                  | Company Registrar                                    | Ministry of Economic Affairs        |
| 10                                 | Mr. Karma Dorji                   | Sr. Program Officer                                  | Department of Law and Order (MoHCA) |
| 11                                 | Mr. Sherab Tharchen               | Sr. Legal Officer                                    | Anti-Corruption Commission          |
| 12                                 | Mr. Namgay Rinchen                | Sr. Attorney                                         | Office of Attorney General          |