



BHUTAN 1ST FOLLOW-UP REPORT 2017

I. PURPOSE

1. In accordance with the *APG Third Round Mutual Evaluation Procedures 2016 'the third round procedures'*, this report presents for members' consideration the APG secretariat's analysis of Bhutan's first follow up report (FUR).

Key findings

This first follow up report does not contain any request for re-rating.

While Bhutan has not made substantive progress to largely compliant on Recommendations forming the technical compliance criteria for enhanced follow-up (expedited), the draft AML/CFT Bill was passed by the National Assembly (lower house) in June 2017 and will be submitted to the National Council (upper house) in late 2017. In addition, Bhutan finalised its NRA and national AML/CFT strategy and action plan, and made amendments to the Companies Act 2016 to rectify deficiencies in R.24.

Bhutan has made some ongoing progress on the 11 effectiveness outcomes rated at low and moderate – additional staff have been recruited by the supervisors and the FIU, and Bhutan has sought international cooperation with India, Malaysia and Hong Kong.

Bhutan still meets the technical compliance criteria for enhanced follow-up (expedited).

Recommendation

It is recommended that:

- Bhutan remain on enhanced follow-up (expedited);
- Bhutan provide its second FUR by 31 January 2018;
- The Co-Chairs write to relevant Minister(s) bringing their attention to the remaining deficiencies.

II. INTRODUCTION

2. Bhutan's mutual evaluation report (MER) was adopted in September 2016 with the following ratings:

Effectiveness

Enhanced follow-up (expedited) criteria: Low or moderate level of effectiveness for nine or more of the 11 effectiveness outcomes (MER – 11 low/moderate)

IOs 1,3, 4, 5, 6, 7, 8, 10 and 11 - **Rated low**

IOs 2 and 9 - **Rated moderate**

Technical Compliance

Enhanced follow-up (expedited) criteria: 10 or more NC/PC of the following 13 Recommendations (MER - 11 NC/PC)
<p>Core:</p> <p>R.10, R.11 – Rated C</p> <p>R.3, R.20 – Rated PC</p> <p>R.5 – Rated NC</p> <p>Other 8:</p> <p>R.4, R.26, R.36, R.40 - Rated PC</p> <p>R.1, R.6, R.29, R.37, – Rated NC</p>
Other 27 Recommendations (15 NC/PC)
<p>R.12, R.13, R.15, R.22, R.27, - Rated C</p> <p>R.9, R.16, R.17, R.18, R.19, R.25, R.39 – Rated LC</p> <p>R.2, R.8, R.14, R.23, R.24, R.30, R.31, R.32, R.33, R.34, R.35 – Rated PC</p> <p>R.7, R.21, R.28, R.38 - Rated NC</p>

3. In September 2016, the APG plenary (i) placed Bhutan on enhanced follow-up (expedited) because it met the criteria for that category of follow-up, as specified in paragraphs 132 (a) and (b) and of the third round ME procedures, and (ii) that Bhutan be required to provide a detailed progress (1st FUR) report by 31 January 2017.

4. Bhutan submitted its follow-up report and requested no re-rating for technical compliance, which resulted in this review being conducted by the APG Secretariat as per paragraph 137 of the third round ME procedures. The third round procedures state that where there is no re-rating of technical compliance, the secretariat will prepare the analysis report.

5. Under paragraph 137 of the third round procedures, the analysis report should examine the following issues (although other issues may also be examined):

- Re-ratings for technical compliance [to Largely Compliant or Compliant]: Re - ratings on any one or more of the 40 FATF Recommendations will be possible upon request by the assessed member or if deemed appropriate under the circumstances. It is not expected that there will be any re - rating if the member has not addressed underlying key deficiencies, e.g., new laws or regulations not issued and/or in effect, new procedures or other measures not implemented, etc. The general expectation is for members to have addressed most if not all of the technical compliance deficiencies by the end of the third year.
- Significant progress in the member leading to an increase in technical compliance or effectiveness.
- Significant changes in the member leading to a decline in technical compliance or effectiveness.
- Insufficient progress made by the member against the priority actions in its MER.
- Sufficient or insufficient progress made against actions agreed by members in more serious cases.
- For members under enhanced follow-up (expedited), progress in technical compliance against any one or more of the 13 Recommendations rated NC/PC.
- The analysis report involves re-rating [to Largely Compliant or Compliant] for any one or more of the FATF 40 Recommendations (Review Team only).

6. Since Bhutan has not asked for any re-rating, this secretariat analysis has focused on any progress made to increase technical compliance. A review of progress to increase effectiveness was also undertaken.

III. OVERVIEW OF PROGRESS MADE BY EVALUATED MEMBER

(a) Overview of progress

Technical compliance

7. Bhutan has not made substantive progress to largely compliant on the remaining eleven of the 13 Recommendations forming the technical compliance criteria for enhanced follow-up (expedited), or any other Recommendations rated NC/PC in the MER¹.

8. Since the adoption of its MER in September 2016, Bhutan has initiated steps to address the ratings requiring action. Bhutan has completed its NRA, which was sent to all FIs and NBFIs AML/CFT compliance officers and CEOs in Bhutan on 27 March 2017, and Bhutan approved its national AML/CFT strategy and action plan.

9. In addition, Bhutan's draft AML/CFT Bill was passed by the National Assembly (lower house) in June 2017 and will be submitted to the National Council (upper house) in late 2017. This bill aims to address deficiencies identified in R.3, R.20, R.5, and R.4, R.26 and R.6. This bill also aims to address deficiencies identified in R.14, R.21, R.23, R.28, R.30, R.31, R.32, R.33, R.34 and R.35.

10. With regard to R.36, the Government of Bhutan has requested that the Office of Attorney General (OAG) review the Convention on Transnational Organised Crime ahead of ratification.

11. With regard to R.40, the FIU and Royal Monetary Authority (RMA) have commenced the process for signing MOUs with the FIU India, FIU Sri Lanka, FIU Cambodia and FIU Myanmar. In addition, on 13 April 2017, an MoU was signed between Financial Regulation and Supervision Department (FRSD) RMA and the Reserve Bank of India on cross border supervision. Further, a MoU was signed on 14 June 2017 between the Anti-Corruption Commission, Bhutan and the Anti-Corruption Commission, Bangladesh to develop and enhance the institutional capacity to prevent and combat corruption in the region.

12. With regard to R.29, the RMA Executive Committee on 26 April 2017 approved FIU SOPs for its key functions.

13. With regard to R.37 (and R.38), in January 2016 the Government of Bhutan directed the OAG to commence drafting MLA legislation. In addition, the Anti Corruption Commission (ACC) has been designated as the Central Authority for MLA on corruption matters and the focal point for asset recovery on corruption matters.

14. For Recommendations that do not form part enhanced follow-up (expedited) criteria and are not mentioned above:

- a) R.2, Bhutan approved its national AML/CFT strategy and action plan. The FIU and Customs signed an MOU in November 2016; the FIU is in the process of signing an MOU with the police and Bhutan Narcotic Control Authority.
- b) R.8, the national coordination committee and technical working group have meet with the Civil Society Organisation Authority to discussion actions required to meet the deficiencies in R.8.
- c) R.24, Bhutan made amendments to the Companies Act 2016 to rectify deficiencies in legal persons.

Effectiveness

¹ *prima facie* amendments to the Companies Act 2016 rectify deficiencies in R.24

15. While Bhutan's response to the MER has primarily focused on technical compliance deficiencies, Bhutan has;

- a) Sought international cooperation with India, Malaysia and Hong Kong on an email hacking case;
- b) Recruited three new staff for FI supervisors and three new staff for MVTS supervisors;
- c) Recruited three additional FIU staff, who have undertaken the UNODC online ML training;
- d) Under Asian Development Bank technical assistance, Supervisors and FIs attended a training workshop on AML/CFT approaches, methodologies and controls.
- e) Conducted two workshops on the new requirements of the Companies Act, 2016. These workshops were attended by chief executive officers, Board of Directors and Company Secretaries. A third workshop is planned for July 2017.

IV. DOCUMENTS

16. Bhutan's first FUR, including annexes, is available at the APG's website under mutual evaluation/third-round follow-up.

V. CONCLUSION

17. Bhutan has made no substantive progress in technical compliance to largely compliant on Recommendations forming the technical compliance criteria for enhanced follow-up (expedited). Preparatory activities have been undertaken to implement the MER recommendations including passing of the AML/CFT bill by the National Assembly. Should the AML/CFT bill be passed by the National Council (upper house) in late 2017, Bhutan should request re-ratings in 2018 of technical compliance in the MER.

VI. RECOMMENDATION TO MEMBERS

18. It is recommended that Bhutan:

- Bhutan remain on enhanced follow-up (expedited);
- Bhutan provide its second FUR by 31 January 2018;
- The Co-Chairs write to relevant Minister(s) bringing their attention to the remaining deficiencies.

APG Secretariat

30 June 2017