



2023 APG FOLLOW-UP OCTOBER STREAM REPORTS WITHOUT RE-RATINGS

Purpose

1. To present 2023 October Stream Follow-Up Reports (FURs) without re-rating.

Background

2. In accordance with the APG's Mutual Evaluation Procedures, this document contains the Follow-Up Reports (FURs) of all APG members from the October Reporting Stream (see Annex 2 of the APG's Mutual Evaluation Procedures) that did not request any re-ratings including those members that are not eligible to seek re-ratings. These members are Vanuatu, Fiji, Bhutan, Macao, China, Chinese Taipei, and Tonga. Vietnam in X requested re-ratings and therefore a separate FUR is under development and will be discussed by the Evaluation Committee (MEC) as due course.

3. The FURs present the member's progress (since its last FUR or MER) in addressing the technical compliance deficiencies identified in its MER and/or previous FURs and a summary of some steps to address effectiveness. As the members did not request re-ratings, the preparation of each FUR was undertaken by the APG Secretariat and does not include an analysis of compliance with any FATF Recommendations.

MEC Consideration and Endorsement

4. The Recommendation to the MEC is:

Recommendations to the MEC:

- Note that the FURs of Vanuatu, Fiji, Bhutan, Macao, China, Chinese Taipei, and Tonga do not include re-ratings.
- Consider and endorse the FURs
- Recommend to APG members to adopt the FURs as per the APG's out-of-session process.

APG Membership Consideration and Adoption

5. Post endorsement by the MEC and in keeping with the APG's Mutual Evaluation Procedures (para. 160), the FURs will be sent to all members for consideration and adoption through an out-of-session process. The Recommendation to the APG members is:

Recommendations to APG Members:

- Adopt the FURs of Vanuatu, Fiji, Bhutan, Macao, China, Chinese Taipei, and Tonga in keeping with the APG's agreed out of session process.
- The APG Co-Chairs write to relevant Minister(s) (individually) bringing their attention to the remaining deficiencies in Vanuatu's, Fiji's, Bhutan's, Macao's, China, Chinese Taipei's, and Tonga's compliance with the FATF Recommendations.

Bhutan's Follow-up Report 2023

INTRODUCTION

1. This FUR present Bhutan's progress (since its last FUR) in addressing the technical compliance deficiencies identified in its MER and/or previous FURs and a summary of some steps to address effectiveness. In accordance with the APG's Mutual Evaluation Procedures, Bhutan is not eligible to seek re-ratings.
2. The MER of Bhutan was adopted in September 2016. At the time of its MER being adopted, Bhutan was placed in enhanced (expedited) follow-up. On the basis of progress made, in 2018 Bhutan was moved to enhanced follow-up.
3. Bhutan's current ratings for effectiveness are outlined in its MER and its current ratings for technical compliance are outlined in its 2022 FUR. Both reports are available from the APG's website.

OVERVIEW OF PROGRESS

ML/TF Risk and Context Update

Recommendation 1 rerated LC in 2018.

4. In 2022, FID, Bhutan requested for technical assistance from the IMF to reassess Bhutan's National Risk. The IMF team visited Bhutan from 6th till 16th April 2023 and during their visit, the TA team conducted a workshop on the overview of the risk, methodologies and approaches on the collection of data. The participants were technical committee (TC) members, reporting entities and other relevant stakeholders. For the revised (2nd) NRA, the additional module has been included specifically to cover data collection on the four key components areas which are: Proliferation Financing (PF), Virtual Assets (VA) and Virtual Asset Service Providers (VASP), Non-Profit Organizations (NPO) and Legal Persons and Legal Arrangements.
5. Currently, we are in the process of data collection via the survey questionnaires shared by the IMF. The recent TC meeting conducted in August 2023, has deliberated on forming a National Risk Assessment Working Group (NRAWG) and accordingly endorsed it. A draft Terms of Reference (TOR) for the NRAWG has been developed and currently waiting for the TC chairperson's endorsement. The TA's second mission for data validation will be scheduled once the data collection is complete.

Technical Compliance Update

Recommendation 2 rerated LC during FUR 2018.

6. c 2.3 As of October 2023, Financial Intelligence Department (FID) Bhutan has signed 12 memoranda of understanding (MOUs) for exchange of information with various domestic agencies, the latest ones being signed with the Department of Trade, MoEA 31st March 2022 and with Department of Land Administration and Management, NLCS 29th March 2022 (FIU Bhutan (rma.org.bt).

Recommendation 7 rerated LC during FUR 2022

7. **c 7.4 (a) and (d) Deficiency:** *Bhutan does not have publicly known procedures enabling listed persons and entities to petition a request for de-listing at the Focal Point for de-listing established pursuant to UNSCR 1730, or informing designated persons or entities to petition the Focal Point directly. Bhutan has not issued guidance in relation to TFS against proliferation of WMD.*
8. **Input:** The DLO will review the existing Guidance on the Targeted Financial Sanction (TFS) for the Financial Institutions, the Designated Non-Financial Business and Professions (DNFBP) and

Focal Agencies identified under the Guidance 2022 and incorporate these gaps and share the finalised Guidance in due course of time.

Recommendation 8 rerated PC during FUR 2022.

9. **c 8.1 Deficiency:** *Bhutan has not sufficiently assessed NPO sector risk to identify which subset of NPOs that fall within the FATF definition of NPO and then identify the features and types of NPOs which, by virtue of their activities or characteristics, are likely to be at risk of TF abuse in Bhutan.*

10. **Input:** On 22nd May 2023, FID, conducted an AML/CFT awareness workshop to NPO Supervisors as well as NPOs themselves highlighting the importance of carrying out risk assessment of NPOs in Bhutan. As one of the key component areas of Bhutan's 2nd NRA includes Non-Profit Organisations, we are expecting to make progress on assessing the NPO sector risks.

11. **c 8.6 Deficiency:** *Deficiencies remain relating to international cooperation requests for regulatory information held by the Chhoedey Lhentshog*

12. **Input:** An MoU between CRO and FID is being initiated currently to facilitate timely and unimpeded exchange of information with regards to ML/TF with identified point of contacts mentioned in the MoU.

Recommendation 15 rerated NC during FUR 2018.

13. At present, Bhutan still does not have a clear policy stance on VA and VASPs, following which a specific and proper risk assessment has not been conducted. In January 2019, Royal Monetary Authority (RMA) promulgated a regulatory sandbox framework (framework) for mining cryptocurrency to assess the viability of cryptocurrency mining as a new investment avenue for Bhutan, given the country's abundant water resource in generating low-cost electricity and suitable climatic conditions. This framework does not provide allowance for VASP.

14. In 2022, FID conducted a situational analysis of VA/VASP sector in Bhutan followed by a draft risk assessment associated with VA/VASP And also, one of the key component areas of Bhutan's 2nd NRA includes Virtual Assets and Virtual Asset Service Providers.

Recommendation 28 re rated PC during FUR 2022.

c 28.3 Deficiency: *Bhutan has not undertaken any onsite supervision of DNFbps. Bhutan supervisors undertake a limited form of offsite supervision of some DNFbps sectors through monitoring the transactions of the registered and licensed DNFbps via Bank transactions. As required by the AML/CFT Rules and Regulations 2022, the reporting entities are required to submit a month CTR and STR via an online system called BFIAS.*

15. **Input:** On 14th June 2023, Bhutan Duty Free Limited (BDFL) was identified as a reporting entity under the DNFbps category which deals in precious metals and stones under the supervision of Ministry of Industry, Commerce and Employment (MoICE). As a reporting entity, the BDFL shall be required to comply with provisions stipulated under Chapter V: Reporting entity and Preventive measures of the AML/CFT Act 2018.

16. **c 28.5 Deficiency:** *Supervision of DNFbps is not performed on a risk sensitive basis. Risk assessments on the other sectors of DNFbps are yet to be conducted in order to determine and perform the frequency and intensity of their supervisory or monitoring actions on DNFbps commensurate with their level of risks*

17. **Input:** The lack of onsite supervision and overall supervision not conducting out on a risk sensitive basis was highlighted during the 26th Technical Committee meeting to the relevant

stakeholders. To take an active supervision role for DNFBPs, FID decided to take up with the National Coordination Committee to discuss the relevant department under the MoICE for the supervisory role on DNFBPs.

Recommendation 31 rated PC during MER 2016

18. **c 31.2 Deficiency:** *The police do not have any powers, under the Police Act, to conduct undercover operations and controlled delivery in Bhutan.*

19. **Input:** Under Special Investigative Techniques Chapter X of the Narcotic Drugs, Psychotropic Substance and Substance Abuse (NDPSS) Amendment Act of Bhutan 2018 (**Annex II**),

20. **Section 101** states, **authorised agencies** upon approval shall take necessary measures to allow for the appropriate use of controlled delivery and undercover operations within Bhutan, and at the international level on the basis of the agreement or arrangements mutually consented to, with a view to identifying persons involved in the offences under the Act and gathering appropriate information and evidences to take action against them.

21. Section 102 states Control delivery and undercover operations shall be made on case-by-case basis taking into consideration, where relevant, the financial arrangement and understandings with respect to the exercise of jurisdiction by the countries concerned.

22. Section 103 states Illicit consignment, whose controlled delivery is agreed to, may with the consent of the country concerned be intercepted and or allow to continue with the controlled drugs and substances or precursor intact or removed or replaced in part.

23. **c 31.4 Deficiency:** *The only legislative provision for an LEA to request information from the FIU is under section 110 of the NDPSSAA, which allows the BNCA to direct the RMA (not the FIU) to furnish or share information on fictitious and suspicious transactions of money to facilitate investigation of suspected narcotic and ML matters. This is limited to only ML and not TF. There is an MOU between the FIU and ACC, which allows the ACC to request information from the FIU.*

24. **Input:** Section 9 of ACAB provides for ACC to work in cooperation with law enforcement agencies which includes the RMA (FID). Further, Section 94 of ACAB provides power for the commission to request information. A person who is required to provide information is required to comply with the request notwithstanding any law in contrary or oath of secrecy. Person here includes both natural persons and juristic persons.

Recommendation 36 rated PC during MER 2016

25. **c 36.1 Deficiency:** *Bhutan status against the relevant international conventions are as follows:*

- *UN Convention against Corruption – signed on 15 September 2005 Ratification of the Convention currently under process (awaiting Royal assent).*
- *UN Convention on Transnational Organized Crime (Palermo Convention) – neither ratified nor signed.*

26. **Input:** On 20 February 2023, Bhutan ratified the United Nations Convention Against Transnational Organized Crime and its Additional Protocol. The UNTOC was adopted by the General Assembly in 2000 and came into force in 2003. The Convention is the main international instrument in the fight against transnational organized crime (<https://www.mfa.gov.bt/pmbny/press-release-19/>)

27. The Parliament of Bhutan ratified the Convention with reservation on paragraph 2 of Article 66 in 2015. While depositing the instrument with the United Nations Secretary General (UNSG), the Ministry of Foreign Affairs failed to register the reservation. However, an attempt was made to register the reservation, but a few countries objected to the late reservations. The Parliament decided that the reservation was necessary therefore ordered for the denouncement of the Convention. The MFA in consultation with the Anti-Corruption Commission, Office of Attorney General and Home Ministry accordingly denounced the Convention and has already applied to re-accede.

Recommendation 37 rated NC during MER 2016

28. **c 37.1 Deficiency:** *Lack of a legal framework to rapidly provide the widest range of MLA*

29. **Input:** The MLA Bill has been drafted under the technical assistance from IMF and has been submitted to the Cabinet. The MLA Bill will be tabled for discussion in the parliament when the new government comes into place, the MLA bill will then be submitted by the Department of Law and Order being the competent authority.

Recommendation 40 re rated PC during FUR 2022.

30. **c 40.3 Deficiency:** *Since the MER Bhutan has entered into further MOUs and agreements with a wide range of foreign counterparts in keeping with the shared transnational crime risks facing Bhutan. Of particular note are the FIU to FIU MOUs across SAARC and ASEAN countries, in particular with India. These appear to have been negotiated in a timely manner since the MER. However, Bilateral agreements have not yet been arranged with the widest range of foreign counterparts.*

31. **Input:** On 17th January 2023, Bhutan signed an MoU with the Financial Intelligence Center (FIC) of the Republic of South Africa to facilitate in exchange of information concerning financial transactions suspected of being related to money laundering, associated predicate offences and terrorism financing. As of October 2023, Bhutan has signed 15 MoUs with international agencies ([FIU Bhutan \(rma.org.bt\)](http://rma.org.bt)).

Effectiveness Update

32. Without **prejudice** to Bhutan activities to enhance the effectiveness of its AML/CFT system, Bhutan's did not provide any information for inclusion in this section.

CONCLUSION

1. Bhutan will remain in enhanced follow-up and report in accordance with Section X of the APG Mutual Evaluation Procedures 2023.

