Communiqué

Jersey Financial Crime Strategy Group

National Risk Assessment of Money Laundering and Terrorist Financing

1   Overview

1.1   The Jersey Financial Crime Strategy Group has today (3 October 2017) made a statement concerning the intention of Jersey to conduct a National Risk Assessment of Money Laundering and Terrorist Financing.

1.2   A framework designed to prevent money laundering ("**ML**") and combat terrorist financing ("**TF**") is most effective when it targets resources where they will have most effect. This can be done only through a sound and robust analysis and understanding of the ML/TF risks that a country faces.

1.3   Recognising this, the Financial Action Task Force ("**FATF**"), the global standard setter on countering ML and TF, now requires all countries to identify, assess and understand ML and TF risks, and take action and apply resources aimed at ensuring risks are mitigated effectively. In order to assess risk, it is necessary to identify threats and vulnerabilities. "Threats" refer to the scale and characteristics of proceeds of criminal activities or financing of terrorism in a country and "vulnerabilities" refer to the weaknesses or gaps in defences against ML/TF.

1.4   Many countries have responded to the international standard by undertaking a national risk assessment ("**NRA**") and publishing action plans. Some have developed their own methodology to undertake such an assessment; others have taken advantage of methodologies developed by the International Monetary Fund ("**IMF**") and World Bank. Like many other jurisdictions in Europe, Jersey has opted to use the World Bank national risk assessment tool ("**NRA tool**") as the basis for its NRA.

1.5   The objectives of the NRA tool are:

1.5.1   To guide countries in assessing ML/TF risks in order to design a more effective, risk-based regime to prevent ML and combat TF.

1.5.2   To contribute to capacity building, not only for ML/TF risks but also improving a country's data and information collection framework and practices.

1.5.3   To raise awareness, trigger interaction and cooperation amongst stakeholders from government and the private sector.

1.6   Much of the focus of the NRA tool is on risks presented in the financial sector and by designated non-financial businesses and professions ("**DNFBPs**"), such as lawyers, accountants and estate agents. The NRA may also identify vulnerabilities in other sectors of the economy, and these will be appropriately considered separately.

1.7   This will not be the first time that ML/TF risk has been considered in Jersey. In the past, the authorities have published an Island strategy to counter ML and TF, which has considered risk factors. However, the exercise that is now being embarked upon to consider and understand the ML/TF risk that Jersey faces will be the most significant exercise conducted to date – and

therefore the information and data required to conduct the risk assessment will be more substantial in nature.

1.8   The Isle of Man has already published its first NRA – using the World Bank NRA tool - and has started to "refresh" its work. The Bailiwick of Guernsey has also embarked on its assessment of ML/TF risk using the IMF methodology.

1.9   Jersey expects to complete its NRA in May/June 2019. Its NRA report and action plan will be published at that time.

2   Governance and management

2.1   The NRA tool requires the broad participation of public and private sector stakeholders. Accordingly, the NRA will involve all domestic agencies involved in the fight against ML/TF, including the Government of Jersey ("**Government**"), Jersey Financial Services Commission ("**JFSC**"), Joint Financial Crimes Unit and Law Officers' Department.

2.2   The detailed work required to complete the NRA will be undertaken by an NRA working group. The composition of the group will be determined by: (i) the structure of the NRA tool (which is composed of a number of separate modules); and (ii) the largely analytical work that the exercise will involve. Membership for the NRA working group will be drawn from relevant domestic agencies.

2.3   Underneath the NRA working group will sit a number of separate multi-disciplinary teams, which will each handle a separate module of the NRA tool. Teams will have an appointed leader and note-taker and will be made up of representatives of agencies and the private sector, depending on the complexity of the module and size and complexity of the sector. Team leaders are expected to lead team work throughout the entire NRA process.

2.4   The Government of Jersey will lead the NRA working group. An AML/CFT NRA leader has been appointed to: (i) liaise with the World Bank team and act as a contact point for Industry and Island agencies; (ii) co-ordinate data collection, processing and risk-ratings; (iii) review team output; and (iv) draft the NRA report and action plan (in cooperation with team leaders). The AML/CFT NRA lead will be Andrew Le Brun who has been seconded by the JFSC to the Chief Minister's Department.

3   Data collection

3.1   As mentioned above, the ability to conduct a sound and robust analysis and develop a thorough understanding of the ML/TF risks that Jersey faces will heavily rely on the collection and analysis of an extensive amount of data.

3.2   Between January and April 2018, the JFSC will use its statutory powers to collect quantitative data from all persons that it supervises under the Proceeds of Crime (Supervisory Bodies) (Jersey) Law 2008 ("**supervised persons**"). This data will be collected as part of the provision of more general data to support risk-based supervision. Mutually beneficial interactions and synergies have been identified between NRA data requirements and data to support risk-based supervision.

3.3   Data will be collected using a series of questionnaires, the content of which is currently being discussed between the Government and the JFSC. This process will include consultation with

industry in the final quarter of 2017, which is intended to highlight data that is: (i) currently not kept; and (ii) kept but may not be readily available before April 2018. The collection of such data will be delayed until later in 2018.

3.4 The precise format in which this data will be collected has still to be agreed. However, it is most likely that supervised persons will be requested to fill in an excel spreadsheet and upload that spreadsheet to the JFSC using existing portals. The tool will take account of supervised persons holding more than one licence.

3.5 Only the JFSC will have access to the raw data that is collected. However, it will share aggregated data (and its analysis thereof) with the NRA working group and various teams constituted under that working group, using statutory information sharing gateways. The sharing of that aggregated data will allow the working groups to reach evidence-based conclusions on risk.

3.6 In line with the NRA tool, it will be necessary to also collect additional quantitative data on products and services offered in and from Jersey that are inherently more vulnerable to ML, such as: (i) total size/value; (ii) average transaction size; (iii) client base; and (iv) frequency of international transactions. In order to collect such data, it will be necessary to first identify which products and services to assess. It has not yet been agreed whether this data will be collected from all, or just a representative sample of, supervised persons in a particular sector. Again, this process will include consultation with industry.

3.7 Other data will be collected directly by the Government in 2018. Domestic agencies will complete self-assessment questionnaires, based on the NRA tool, and qualitative data will be collected from supervised persons, neighbouring countries and non-governmental organisations through surveys, workshops and interviews. Whilst supervised persons will not be compelled to take part in these surveys, they will be strongly encouraged to do so.

3.8 Use will be made also of information held by the Government's Statistics Unit.

3.9 Data is needed by the NRA working group in time for the start of a workshop with the World Bank in April/May 2018.

4 Assessment process

4.1 The NRA tool is split into a number of different modules:

4.1.1 ML threat.

4.1.2 National ML vulnerability.

4.1.3 ML vulnerability of banking sector.

4.1.4 ML vulnerability of securities sector.

4.1.5 ML vulnerability of other financial institutions, e.g. lenders and bureaux de change.

4.1.6 ML vulnerability of trust and company service providers.

4.1.7 ML vulnerability of DNFBPs, e.g. lawyers, accountants and estate agents.

4.1.8 TF risk.

4.2 The ML threat assessment takes account of: (i) the main predicate offences underlying ML, e.g. corruption and tax evasion; (ii) origins and flows of criminal proceeds; and (iii) ML techniques and trends.

4.3 The assessment of national ML vulnerability is based on an analysis of: (i) national combatting ability; and (ii) vulnerability of various sectors to ML. Assessments use an intricate system of pre-determined "input variables" - factors found in a system, or in a product or service, that make it more, or less, vulnerable. For each variable, the NRA tool sets out the criteria that are to be used to assess vulnerability and suggests possible sources of data, including those outlined in section 3 above. A key element in the assessment is discussion, and teams will meet regularly to discuss issues, rate vulnerabilities, and draft sections to be incorporated into the NRA report. The role of the private sector is particularly important here since it will have first-hand experience of the ML/TF system and products and services, and will bring specialist knowledge and experience to discussions. Several trade associations and industry bodies have already been approached and invited to actively contribute to the process by either leading or participating in relevant sectoral assessments.

4.4 A number of factors will determine the vulnerability of each sector (4.1.3 to 4.1.7), in particular: (i) assessment ratings for variables (agreed by teams); (ii) the relative weight of variables; and (iii) the underlying relationships between each of the variables. The NRA tool also makes use of built-in formulae, which can be changed only by the World Bank. In order to assess national ML vulnerability, it will be necessary to weight each sector (4.1.3 to 4.1.7), based on their importance to the economy.

4.5 The TF risk assessment takes account of: (i) the terrorist threat in Jersey; (ii) direction of financial flows and sources and channels that may be used; and (iii) strength of TF controls within Jersey's context.

4.6 The assessment process will start immediately after an initial three-day workshop in April/May 2018, which will include a full introduction to the NRA tool and assessment methodology.

5 NRA report

5.1 The output of the NRA – the NRA report and action plan – will allow Jersey to: (i) demonstrate that it understands its ML/TF risks based on factual evidence; and (ii) put additional controls and/or resources in place to address vulnerabilities that have been identified.

5.2 Publication of the report and action plan is planned for May/June 2019.

5.3 The report will also provide a basis for considering whether any supervised activities might be exempted from some ML/TF requirements in strictly limited and justified circumstances – where there is a proven low risk of ML.

5.4 Where higher risks are identified, it will be necessary to ensure that the AML/CFT regime addresses such risk, including through requiring supervised persons to: (i) take enhanced measures to manage and mitigate the risks; or (ii) ensure that this information is incorporated into their risk assessments. Conversely, it may be possible to allow simplified measures to be applied where this is consistent with the NRA report.

5.5 The NRA report will be the most scrutinised document during Jersey's next MONEYVAL assessment – expected in 2021 or 2022.

5.6 The FATF requires countries to keep risk assessments up to date. After publication, it is quite possible that further work will be needed in some areas, and it will be necessary to agree how often the NRA is to be "refreshed".

The members of the Jersey Financial Crime Strategy Group are:

- › Chief Minister's Department
- › Ministry of External Relations
- › Comptroller of Income Tax
- › Community and Constitutional Affairs Department
- › Law Officers' Department
- › Jersey Financial Services Commission
- › States of Jersey Police
- › States of Jersey Customs and Immigration Service
- › Joint Financial Crimes Unit
- › Jersey Gambling Commission
- › Law Draftsman's Office