

Bailiwick of Jersey National Risk Assessment of Terrorist Financing

Table of Contents

Foreword	4
1 Introduction	5
FATF Recommendations	5
Risk Assessment Methodology	5
Academic involvement	5
Private sector involvement	5
Approach	6
Data and analysis period for the NRA report	7
2 Legal, Supervisory and Law Enforcement Framework	8
CFT Framework	8
Terrorist Financing Offences	8
Non-profit organizations (NPOs)	8
3 Terrorist Financing Threat	10
Funds raised in Jersey or overseas to finance domestic terrorist operations	10
Funds raised in Jersey to finance overseas terrorist operations	10
Funds raised overseas to finance overseas terrorist operations moved through, or stored in, Jersey	12
Storage and movement of funds	12
Jurisdiction of the beneficial owners and controllers of customers of financial services businesses	13
Other indicators of TF threat	14
4 Terrorist Financing Vulnerability	16
Products and services	16
Adequate measures to address TF	17
Compliance with preventative measures	19
Cross-border physical movement of cash	19
5 Summary and proposed actions	21
Summary	21
Proposed actions	21

Foreword

Jersey is committed to combatting financial crime and upholding international standards. FATF Recommendation 1 calls on jurisdictions to identify, assess and understand the money laundering and terrorist financing risks they face and to take action to effectively mitigate those risks. In September 2020, Jersey published its first National Risk Assessment of **Money Laundering** report and I am pleased to now publish Jersey's first National Risk Assessment of **Terrorist Financing** report.

As an international finance centre with a high level of cross-border business and complex transactions, Jersey is inevitably exposed to terrorist financing risk. For this report, representatives from the Government of Jersey; Jersey Financial Services Commission; Law Officers' Department; States of Jersey Police; Jersey Overseas Aid; Jersey Customs & Immigration Service; and the Office of the Jersey Charity Commissioner, considered Jersey's terrorist financing threats and vulnerabilities at a national level. The assessment confirmed the areas where Jersey has adequate systems and controls in place to mitigate risks. It also identified areas where additional focus and action is required to strengthen controls and further develop understanding if we are to counter potential risks satisfactorily. The report includes a summary of the recommended actions, each of which Jersey is committed to addressing.

The nature of terrorist financing risk is constantly evolving as financial crime becomes more sophisticated. This means that we must always be on our guard and prepared to take the action that is necessary to assess and mitigate against Jersey's terrorist financing risks.

Work in this key area never ceases, and I have full confidence in our agencies to act together to protect Jersey from this criminal activity. I thank everyone involved in the work which has led to the publication of this report, and for their ongoing commitment both to address the recommended actions identified and generally to protect our jurisdiction from this ongoing risk.



Senator Ian Gorst
Minister for External Relations

SECTION 1

Introduction

FATF Recommendations

- 1.1 In February 2012, the Financial Action Task Force (FATF) published revised international standards on combatting money laundering and the financing of terrorism and proliferation (FATF Recommendations). These set out a comprehensive and consistent framework of measures which countries should implement in order to combat money laundering (ML) and terrorist financing (TF), as well as the financing of proliferation of weapons of mass destruction.¹
- 1.2 FATF Recommendation 1 calls on countries to identify, assess and understand their ML and TF risks, and to take action to effectively mitigate those risks. Many countries have responded to this call by undertaking a national risk assessment (NRA) and publishing action plans.

Risk Assessment Methodology

- 1.3 Some countries have developed their own methodology to undertake such assessments; others have taken advantage of methodologies developed by the Council of Europe, International Monetary Fund, and World Bank. For TF, Jersey opted to use the World Bank national risk assessment tool (NRA tool) augmented by the “Monaco (MONEYVAL)” guidance referenced in the FATF July 2019 TF Risk Assessment Guidance document.²

Academic involvement

- 1.4 The Government of Jersey engaged the services of Professor Bill Gilmore, a leading academic on economic crime in the process of risk assessment analysis. Professor Gilmore’s recent research has focused on the law and practice of transnational criminal legal co-operation. His publications in this area cover such matters as money laundering, extradition, and mutual assistance in criminal investigations. Professor Gilmore is a previous Scientific Expert to MONEYVAL and in December 2017 he was awarded the Medal of Honour of the Council of Europe (Pro Merito) for his contribution to international efforts to combat money laundering and the financing of terrorism. The Government of Jersey is grateful to Professor Gilmore for his contribution.

Private sector involvement

- 1.5 In keeping with the recommendations of the NRA tool, the NRA Working Group that considered the TF risk comprised representatives from relevant competent authorities: Government of Jersey; Jersey Financial Services Commission (JFSC); Law Officers’ Department; States of Jersey Police; Jersey Overseas Aid; Jersey Customs & Immigration Service (JCIS); and the Office of the Jersey Charity Commissioner. It did not include any private sector representatives.

¹ <https://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatf-recommendations.html>

² Page 27, <http://www.fatf-gafi.org/publications/methodsandtrends/documents/terrorist-financing-risk-assessment-guidance.html>

Approach

- 1.6 Various factors typically applicable to international finance centres (IFCs) make it unlikely that acts of terrorism will have taken place within their borders. However, this does not make IFCs immune from TF risk. The FATF recognises³ that due to the high volume and cross-border nature of assets managed and transferred, international finance and trade centres may be vulnerable to misuse for the movement and management of funds or assets linked to terrorist activity. The FATF particularly acknowledges the challenge in levels of awareness of TF and trade expertise amongst both the private and public sector and the ability to detect suspicious behaviour. Jersey authorities participated in the formation of the Monaco guidance which explores the methods in which finance centres may be misused for cross-border movement of terrorist funds, including flow-through of terrorism funds; service provision; use of complex structures; abuse of philanthropy; and use of funds generated domestically by illicit activities. This was acknowledged as a global challenge for all finance centres to develop a greater understanding in this complex area.
- 1.7 TF and the risk to Jersey, can only be measured by analysing the threats posed to the jurisdiction and its vulnerabilities. In order to establish this, consideration must be given to internationally recognised typologies of TF and the international guidance provided to combat and mitigate the risk.
- 1.8 In completing the TF risk assessment Jersey has considered TF from various aspects, including:
- the level of flows to and from target jurisdictions;
 - the number of customers and beneficial owners within target jurisdictions;
 - the number of Politically Exposed Persons (PEPS); and
 - the unknown risks.
- 1.9 Target jurisdictions are those jurisdictions where:
- there are indications of individuals in, or from that, jurisdiction being at a heightened risk of being involved in financing terrorism;
 - there is active terrorism or TF threats, either because there are areas of conflict within their borders or because sections of the population are actively targeted by terrorist organisations for support and cover;
 - there are strong geographical or other links to countries that have an active terrorism or TF threat; and
 - there is a secondary terrorism or TF threat (i.e. where there may not be an active terrorism or TF threat but where there is a heightened threat of crimes whose proceeds are typically used by organised criminal groups to finance terrorism, for example: corruption, drug trafficking, hijacking or kidnapping, benefit fraud, environmental crimes such as illegal logging and ivory dealing, human trafficking and modern slavery).
- 1.10 The target jurisdictions were identified through the use of a combination of publicly available terrorism risk indices, such as the 2018 Global Terrorism Index⁴ and the AON 2018 Terrorism and Political Violence Risk⁵. This was augmented with

³ <https://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatf-recommendations.html>

⁴ Developed in consultation with the Global Peace Index Expert Panel and scores each country on a scale from 0 to 10; where 0 represents no impact from terrorism and 10 represents the highest measurable impact of terrorism (<https://reliefweb.int/sites/reliefweb.int/files/resources/Global-Terrorism-Index-2018-1.pdf>)

⁵ Draws upon empirical data on events as well as intelligence and political risk analysis which takes into account factors and assessments on political stability, conflict dynamics, activism, socio-economic factors, macroeconomic forecasts, government policy, the nature of political systems, defence spending and military activity, and other factors (<https://www.aon.com/2018-political-risk-terrorism-and-political-violence-maps>)

intelligence information and finally a weighting was applied to reflect the frequency with which a particular jurisdiction features in the analysis. This resulted in eight Tier 1 and 13 Tier 2 target jurisdictions⁶.

- 1.11 Given the rapidly changing nature of international events that may affect any given country's exposure to terrorism and TF, it is not appropriate to include a list of the target jurisdictions in this report.
- 1.12 The Island decided to conduct its first TF risk assessment at a national level and considered threats and vulnerabilities across the Island as a whole rather than sector by sector. The risk assessment should be fluid and updated regularly, to adapt to the constantly evolving TF threats.

Data and analysis period for the NRA report

- 1.13 Work on the TF risk assessment commenced in September 2017, but it has been disrupted by significant changes in Government resource and, notably, changes in the personnel leading the Island's NRA work. The impact of Covid-19 from March 2020 onwards also caused further delay to the work as priority was given to finalising and publishing the Island's ML NRA⁷.
- 1.14 Authorities have held certain data sets at authority level for some significant time, however this information was not suitably detailed in terms of TF to carry out the initial NRA. In order to try and address this, various data collection exercises were carried out to gather more comprehensive data from industry. As far as possible, the data underpinning the TF risk assessment reflects the period to the end of December 2019.
- 1.15 In a number of areas, as the analysis progressed, it became apparent that the available information still did not allow for a detailed analysis of TF risk and that further data would be required for this to be completed. A finding of, and recommended action arising from, the TF risk assessment is the need for more regular, sufficient and uniform data collection through a single mechanism to allow ongoing detailed analysis of the TF risk.

⁶ Tier 1 target jurisdictions feature 4 indicators and Tier 2 feature 3 indicators. When considering the publicly available indices those jurisdictions rated as representing a severe, very high and/or high risk were utilised.

⁷ <https://www.gov.je/Industry/Finance/Pages/NationalRiskAssessmentMoneyLaundering.aspx>

SECTION 2

Legal, Supervisory and Law Enforcement Framework

- 2.1 Details regarding the economic and geopolitical position of Jersey were set out in the ML NRA published on 30 September 2020 and have not been repeated here.

CFT framework

- 2.2 The primary legislation criminalising the financing of terrorism in Jersey is the Terrorism (Jersey) Law 2002 (Terrorism Law). UN Security Council Resolutions and autonomous UK sanctions relating to TF are implemented through the Sanctions and Asset-Freezing (Jersey) Law 2019 (Sanctions and Asset-Freezing Law) and the Sanctions and Asset-Freezing (Implementation of External Sanctions) (Jersey) Order 2021.
- 2.3 Measures to prevent TF that must be taken by financial institutions and designated non-financial businesses and professions are set out in the Money Laundering (Jersey) Order 2008 (Money Laundering Order). The Money Laundering Order applies to any person who is carrying on financial services business (a term that is defined in Schedule 2 of the Proceeds of Crime (Jersey) Law 1999 (Proceeds of Crime Law)) in or from within Jersey, and any legal person established under Jersey law carrying on financial services business (wherever in the world that activity is carried on). Note that there are references only to ML (and not also TF) in the Money Laundering Order. This is because ML is defined in Article 1(1) of the Proceeds of Crime Law (the law under which the Money Laundering Order is made) to include TF.

Terrorist financing offences

- 2.4 TF offences are provided for in Part 3 of the Terrorism Law which criminalises the use, possession and control of property for the purpose of terrorism. Additionally, offences relating to freezing funds and economic resources of designated persons and prohibitions against providing funds and economic resources to designated persons are set out in Part 3 of the Sanctions and Asset-Freezing Law.

Non-Profit Organizations (NPOs)

- 2.5 The Non-Profit Organizations (Jersey) Law 2008 (NPO Law) requires NPOs to register with the JFSC, except where administered by a trust and company services provider (TCSP) (regulated NPO). Information required for registration includes: the amount of funds to be raised in a year; the amount of funds to be disbursed; and the jurisdictions in which funds are to be raised and disbursed. In addition, it is necessary to present a brief statement of purpose, objectives, and activities.

- 2.6 Article 9 of the NPO Law requires an NPO to update the information provided to the JFSC at the time of registration, or subsequent to registration, where it changes. Article 11 of the NPO Law requires an NPO to keep financial records and to retain them for at least five years. It must also make those records available to the JFSC if required to do so to enable it to carry out its functions under the NPO Law.

SECTION 3

Terrorist Financing Threat

- 3.1 Jersey has no experience of domestic terrorist activity, however, the jurisdiction is not immune to direct domestic terrorist financing (TF) threat from its local residents; and the volume and nature of its cross-border financial activities means it remains exposed to the risk of facilitating international TF.
- 3.2 There are four distinct elements to TF: raising; moving; storing; and using funds. Of these elements Jersey is most exposed to being used for moving or storing funds but consideration has been given to the potential that non-profit organisations operating in or from Jersey may be unwittingly (or knowingly) used to raise funds to finance terrorists.
- 3.3 One of the significant challenges is the nature of TF, as, unlike ML, funds may be obtained legally, may be of low value, but are used to ultimately finance an illegal activity – financing of terrorism. However, along the way, the funds may be used to legitimately purchase regular products and services such as renting vehicles or purchasing ordinary household goods.
- 3.4 To determine the overall threat of TF involving Jersey, the working group considered data available to it specifically seeking to understand the extent of links to jurisdictions of interest from a TF perspective.
- 3.5 There are four potential directions for TF flows:
- Funds raised in Jersey to finance domestic terrorist operations
 - Funds raised overseas to finance domestic terrorist operations
 - Funds raised in Jersey to finance overseas terrorist operations
 - Funds raised overseas to finance overseas terrorist operations moved through, or stored in, Jersey

Funds raised in Jersey or overseas to finance domestic terrorist operations

- 3.6 From the analysis undertaken, there is no evidence that there are any domestic terrorist organisations or individual terrorists operating in Jersey therefore the TF threat from these fund flows is considered low.

Funds raised in Jersey to finance overseas terrorist operations

- 3.7 In terms of funds being raised in Jersey to finance overseas terrorist operations the risk assessment focussed on raising funds through Non-Profit Organizations (NPOs). Flows of funds to and from Jersey have been considered in the next section.
- 3.8 FATF Recommendation 8 focusses on NPOs and the risk that they may be used to facilitate TF. Not all NPOs carry the same level of risk and jurisdictions should undertake a domestic review of their NPO sector, or have the capacity to obtain

timely information on the activities, size and other relevant features of the sector, in order to identify the subset of NPOs that are at greater risk of being used to facilitate TF.

- 3.9 Since 2008, Jersey has required all NPOs to register with the JFSC, unless they are administered by a person registered for the provision of trust and company services. However, as at 31 December 2019, no assessment has been completed to identify those that may be at a higher risk of being used for TF.
- 3.10 On registration the JFSC collects basic information, including the NPO's intended purpose, objectives, and activities as well as an estimate of the funds expected to be raised and disbursed in Jersey and elsewhere. An NPO is required to advise the JFSC when the information provided prior to registration changes. However, there is evidence that this requirement is not being complied with.
- 3.11 As at 31 December 2019, slightly more than 1,100 NPOs were registered with the JFSC. The vast majority are based in and raise funds in Jersey to support charitable, religious, cultural, educational, social, or fraternal activities that benefit the local population. Based on information provided at the time of registration, a number of registered NPOs send funds overseas and further work is required to fully analyse the TF threat associated with these registered NPOs.
- 3.12 While it is not a requirement to register with the JFSC, the JFSC has data collection powers with respect to regulated NPOs. From the data collected (as at 31 December 2019), 176 of the 912 regulated NPOs were reported as carrying on purely philanthropic activities. The data also highlighted that, whilst no funds were raised from Tier 1 or Tier 2 target jurisdictions, funds were distributed to three Tier 2 target jurisdictions during 2019 totalling just over GBP 1.1 million, with 84% of the funds being disbursed in one jurisdiction. Further analysis is required to better understand the rationale for these payments and consequently the TF threat.
- 3.13 Following the introduction of the Charities (Jersey) Law 2014, an independent Charity Commissioner was appointed in July 2017 and a public charity register launched in May 2018. By the end of 2019, 300 NPOs had been successful in their application for charitable status and were registered with the Jersey Charity Commissioner – this process is independent of the NPO regime operated by the JFSC.
- 3.14 In considering applications, the Charity Commissioner collects detailed information which shows that most registered charities (67%) raise and disburse money within Jersey. A further 15% identified themselves as operating in both Jersey and the United Kingdom. Of the 300 approved charities, only 31 (10%), based in Jersey carried out some activity or made disbursements overseas in 2019 and only 20 (7%) operated solely overseas. Disbursements to two Tier 2 jurisdictions have been identified in 2019, totalling just over GBP 100,000. However, to date, there is no evidence to indicate that any of their activities are linked to TF – this position is monitored through the submission of an annual return. There remains a low threat of grantees inadvertently assisting or making sub-grants to terrorist organisations, potentially because they were unaware that the group was thus designated a proscribed organisation.
- 3.15 The Government of Jersey has been making overseas aid and international development grants since 1968, and now does so through a dedicated entity established in law in 2005 called the Jersey Overseas Aid Commission (JOA). JOA's annual budget is approximately GBP 10.4 million (2019) and is entirely funded by taxpayers.

JOA runs four main programmes:

- sending volunteers on placements abroad;
- supporting the overseas work of Jersey Charities;
- grants to UK and international aid agencies for humanitarian emergencies; and
- grants to UK and international aid agencies for longer-term development projects

3.16 JOA has various controls in place, such as conducting careful due diligence on grantees and partners, and completing interviews and background checks on volunteers. Additionally, it has narrowed its target countries for development work (approx. GBP 7 million per year) to six, none of which are Tier 1 or 2 target jurisdictions. Emergency grants have been made in recent years to two Tier 1 and two Tier 2 target jurisdictions, though in all cases through large international or UN organisations funded by other OECD countries. Despite the controls in place there remains a low threat of grantees inadvertently assisting or making sub-grants to terrorist organisations, potentially because they were unaware that a group was consequently designated a proscribed organisation.

Funds raised overseas to finance overseas terrorist operations moved through, or stored in, Jersey

3.17 As an IFC, Jersey's greatest TF threat is from those that either move funds through, or store funds in, Jersey. Consequently, the NRA Working Group considered data regarding the direction of fund flows and the reported residence of beneficial owners and controllers of the customers of Jersey financial services businesses.

Storage and movement of funds

3.18 As at 31 December 2019, Jersey recorded bank deposits of GBP 143 billion, of which 48.9% were from customers outside of the UK and other Crown Dependencies⁸.

3.19 Jersey does not have a central bank therefore the movement of funds has been considered by collecting wire transfer data from deposit-takers registered with the JFSC. This data highlights the strength of the connection with the UK as over 90% of the incoming and outgoing wire transfers by number were with the UK, representing 48% of the incoming funds and 37% of the outgoing. The second highest, by both number and value, was the USA, accounting for another 11% of incoming funds and 15% of outgoing payments.

3.20 Whilst some comfort may be drawn from the correlation of the greatest movement of funds and the largest source of depositors coming from the UK⁹, beneficial owners and controllers of those customers, and third parties on whose behalf those customers act, may not be UK resident or hold British citizenship. Additionally, the data does not reveal whether funds transmitted from the UK and USA originated there, or whether the UK and USA are final destinations for funds transferred there from Jersey. As IFCs, it is likely that some of these funds will originally have come from, and will be subsequently sent to, other jurisdictions. This has the potential effect of importing TF risk, as the UK and the USA host the world's two largest IFCs

⁸ Crown Dependencies being Guernsey, Isle of Man and Jersey.

⁹ The recent [FATF report on the UK](#) concludes that major improvements are needed to the way that FIs and DNFBPs apply AML/CFT preventative measures commensurate with risk and report suspicious transactions.

(London and New York respectively).

- 3.21 Given the nature of the business transacted, the jurisdictions with significant fund flows from Jersey are not surprising and include three European neighbours (Luxembourg, France, and Germany).
- 3.22 A very small proportion of the outgoing payments, in total 0.47% of payments by value (0.13% by number), were identified as transactions being undertaken with seven of the eight Tier 1 and 12 of the 13 Tier 2 target jurisdictions. The working group considered it concerning that there was not a detailed understanding of the potential reasons for the transfer or use of those funds, in the target jurisdictions. Given that TF is not always dependent on large sums of money, this was felt to be a potential threat, where greater focus needs to be placed by the industry, due to the specific TF threat that target jurisdictions pose. In total funds were reported as being received from 212 jurisdictions and payments were made to 217 jurisdictions.
- 3.23 Very limited information is available on inbound and outbound flows of foreign direct investment (which has been considered as part of the assessment of ML threat). Because data for many countries is not currently available, it is not clear where the majority of funds are subsequently invested. Accordingly, data held is of limited value and countries identified may act as entrepôts.
- 3.24 During the period of assessment, there were just two pre-paid card providers registered with the JFSC. These cards are tightly controlled as: (i) cards are only issued to Jersey residents; (ii) photographic identification must be provided at account opening; and (iii) there is ongoing customer due diligence (CDD) and account monitoring. An audit trail is available for funds that are added to the card, whether through a bank transfer online or with cash over the counter at an authorised partner (when photographic ID must again be provided).
- 3.25 The trend is for Jersey residents to use pre-paid cards issued by financial services providers in other jurisdictions, such as Revolut and Monzo, which are not regulated and supervised by the JFSC (but are regulated in their own jurisdictions). The lack of information in relation to digital banks is considered to increase the level of threat.

Jurisdiction of the beneficial owners and controllers of customers of financial services businesses

- 3.26 One of the indicators considered to assess the TF threat, was the reported residency of the beneficial owners and controllers of the customers of the financial services businesses. Customers were reported from 224 jurisdictions including all eight Tier 1 and 12 of the 13 Tier 2 target jurisdictions.
- 3.27 Consideration of the reported data again highlights the strong connection between Jersey, the UK, and the other Crown Dependencies, with approx. 64% of the customers being from one of these four jurisdictions.
- 3.28 Whilst the proportion reported for Tier 1 and Tier 2 target jurisdictions is very low (approx. 1.3% of the total number of reported beneficial owners and controllers) there was insufficient information for the working group to fully identify the rationale for the business associated with these jurisdictions.
- 3.29 The data has highlighted that foreign PEPs feature in the reported beneficial owners and controllers data of which, some are associated with the Tier 1 and Tier 2 target jurisdictions. It is known that the PEP relationships are of two types: (i) where

property of the PEP is handled in the business relationship or one-off transaction; or (ii) where no property of the PEP is handled (for example a PEP sitting on the board of a company). A full assessment of the impact of these relationships could not be undertaken based on the data available. The working group considered the presence of foreign PEPs connected to target jurisdictions to be a threat, in light of the possible link to State-sponsored terrorism.

Other indicators of TF threat

Sanctions

- 3.30 No assets linked to TF have been frozen in Jersey under targeted financial sanctions. The Government of Jersey has assisted the UK authorities in response to two requests for assistance: one in respect of the Libya sanctions regime and one in relation to the Russia sanctions regime.
- 3.31 During the period May 2016 to end of December 2019, there were six sanctions licence applications of which four were granted and two remain in place. All licences related to target jurisdictions. Additionally, 33 suspected sanctions breaches were reported, but these were not all related to targeted TF sanctions, although four were in relation to one of only two countries for which the FATF has issued a call for action¹⁰.
- 3.32 Whilst there is evidence of Jersey connections to target jurisdictions, the number of requests for assistance and licences issued is low in absolute terms and does not indicate significant links between Jersey and target jurisdictions.

Suspicious activity reports (SARs)

- 3.33 During the period 2015 to 2018, less than 1% of the suspicious activity reports submitted to the Island's financial intelligence unit (JFCU-FIU) had Terrorism Law selected as the legislation relevant to the suspicion. Of these reports, 20% were found to have no link to any terrorist-linked suspicions and had been incorrectly filed. Any TF SAR received by the FIU is given priority status and immediately reviewed by a supervisor. If any locally actionable intelligence is identified it will be immediately passed to the relevant operational department. In the period under review, there has not been any locally actionable intelligence. TF SARs with intelligence relevant to another jurisdiction are shared accordingly.
- 3.34 No ML SARs have subsequently been identified as linked to TF.
- 3.35 There have been no recorded requests for assistance from foreign law enforcement agencies which specifically relate to TF.

Import/export of goods or other trading activity

- 3.36 No data is held by the JFSC on the extent to which the import or export of goods may be financed by Jersey lenders. However, it is understood that only very limited trade-financing is offered by Jersey banks.
- 3.37 The JCIS holds some information on goods physically imported into, and exported from, Jersey. All goods imported and exported are manifested by shipping companies and freight operators through an online goods clearance system, which can identify restricted and prohibited goods. However, the process for online clearance is dependent on accurate descriptions on the manifests.
- 3.38 From the data held, including checks undertaken, there is no evidence that imported or exported goods are connected with terrorism or the financing of terrorism.

Domestic threat

3.39 Jersey has two historic examples of Island residents being charged with activities aligned with terrorism:

- In 2009, a Jersey resident was charged in the UK with conspiracy to distribute material with intent to incite racial hatred. The individual was subsequently acquitted.
- In 2015, an individual was charged and convicted of two counts of possession of information likely to be useful to a person preparing an act of terrorism¹¹. Although the individual was convicted, they were given an 18-month probation order as the Court found that the individual did not in fact hold extremist views, but rather their behaviour was a result of a medical condition. The Jersey authorities also considered whether an asset-freeze under the Terrorist Asset-Freezing (Jersey) Law was necessary. However, the assets of the individual were deemed not material to the offence and therefore it was concluded that an asset-freeze was not appropriate in the particular circumstance.

¹¹ <https://www.jerseylaw.je/judgments>

SECTION 4

Terrorist Financing Vulnerability

- 4.1 The NRA working group considered vulnerability in two parts:
- an examination of the extent to which the services or products offered by IFCs are likely to be attractive for TF purposes; and
 - the extent to which Jersey has adequate measures in place to address TF.

Products and services

- 4.2 Due to the high volume and cross-border nature of assets managed and transferred through Jersey, as an IFC it may be vulnerable to misuse of its products and services for the moving and storing of funds destined to finance terrorists. However, the Jersey transparency requirements and reporting obligations may mean its traditional products are less attractive to terrorist financiers.
- 4.3 The NRA working group were unaware of any international or regional typologies that suggest that the services or products for which IFCs are specifically recognised, i.e. private wealth structures, investment structures and complex structures, are likely to be attractive for TF purposes. In the absence of any relevant domestic case experience, the attractiveness of Jersey's products and services was considered using external sources of information such as international or regional typologies on TF and evaluation reports of other jurisdictions offering similar services, products or customer profiles.

International or regional typologies on TF

- 4.4 The Royal United Services Institute (RUSI) has highlighted that terrorism takes a number of different forms, the most relevant for Jersey being where organisations act like corporates and so may be attracted to IFCs. However, it appears that no studies have been conducted on the extent to which corporate terrorist organisations use the international financial system.
- 4.5 Europol's annual EU Terrorism Situation and Trend report provides an overview of the terrorism phenomenon in the EU in a given year. In its assessment of TF, it is stated that Hawala banking continues to be an important instrument in terrorism financing¹². The misuse of credit systems, non-profit and charity organisations, and small-scale business ventures in fundraising for terrorism also remain a matter of concern. However, there is no specific mention made of services or products offered by IFCs.
- 4.6 In its tenth update on the financing of ISIL, Al-Qaeda and affiliate groups (June 2019) the FATF noted that ISIL has seen a significant decrease in its revenues. This has led to a fundamental shift in the financial structure of ISIL and how the core group

remaining in Iraq and Syria is linked to its affiliates and branches around the world. ISIL and its affiliate groups still possess stockpiled cash and other financial resources and have made attempts to invest these illicit gains into legitimate business and other investments. For example, there is evidence that a new ISIL network in Central Africa may be attempting to establish businesses to buy gold and sell it in foreign markets. It is not clear in current typologies on ISIL and its affiliate groups that there would be immediate attraction in using an IFC like Jersey.

Evaluation reports of other jurisdictions offering similar services, products or customer profiles

- 4.7 Reviews were conducted of the mutual evaluation reports (MERs) and risk assessments of the following jurisdictions: UK, USA, Isle of Man, Ireland, Hong Kong, Switzerland and Singapore.
- 4.8 For some of the larger jurisdictions considered, whilst the financial products and services are broadly similar, the significantly increased number of customers in the banking, money remittance and charity sectors could obscure TF activity in a way that is not so easy in Jersey. In addition, Jersey has greater transparency requirements and reporting obligations, including high barriers to access, which it is thought would be extremely unattractive (and counterproductive) to any terrorist financier.
- 4.9 The NPO sector was highlighted as a potential threat area across all jurisdictions considered. Whilst no jurisdiction has evidence of TF actually occurring through NPOs, it was acknowledged that a regime for considering the risks and resources to check for compliance should be instigated.
- 4.10 To conclude, nothing in any of the MERs or risk assessments reviewed identified any risks not already under consideration by the Jersey NRA working group. There was also no evidence found indicating that Jersey was at any greater risk than any of these jurisdictions or indeed that Jersey posed any increased TF risk to them. Many of the NRAs reflected similar concerns but did not highlight any heightened risks.

Adequate measures to address TF

Regulatory framework

- 4.11 Jersey has a framework in place with respect to terrorism, TF and sanctions. However, there is a vulnerability in its regulatory framework as it is yet to implement FATF Recommendation 8 relating to NPOs and FATF Recommendation 15 relating to virtual assets and their service providers.

Understanding of TF and sufficient skills base to investigate terrorism and TF and supervise for compliance with CFT requirements

- 4.12 Jersey's Financial Crime Strategy Group acknowledged that, similar to other jurisdictions of similar size and character (IFCs), it is challenging to obtain experts with suitable levels of understanding and qualifications in TF. This applies across Government, the JFSC and law enforcement. The lack of exposure to TF cases and limited opportunities for training means that understanding and expertise in TF requires further development.
- 4.13 With the exception of the law enforcement and Governmental staff with responsibility for sanctions implementation, TF training and experience has been limited or in some cases absent. Individuals that received UK National Terrorist Financial Investigation Unit (NTFIU) training considered: (i) it to be at a high introductory level, explaining who to approach in case of need; and (ii) that it is not aligned to the types

of investigations that may be expected in an IFC. Consequently, in May 2019, JFCU and Economic Crime and Confiscation Unit (ECCU) staff attended the first NTFIU training course specifically tailored to the Crown Dependencies. The NTFIU have further committed to supporting the Crown Dependencies with training¹³.

- 4.14 Generally, the competent authorities are dependent upon the work of UK counterterrorist and security agencies. However, it is not known to what extent these UK authorities have a good understanding of TF risk in Jersey. These UK agencies have not been involved with the Jersey TF NRA.
- 4.15 In the absence of: (i) information about the extent of supervision in Jersey of the application of targeted financial sanctions; and (ii) supervision of higher risk NPOs, it is not possible to assess the extent to which the private sector and NPOs have a good understanding of TF. It was not possible to explain: (i) why banks have transferred significant funds to target jurisdictions; and (ii) why NPOs have sent funds to target jurisdictions.
- 4.16 A survey of the private sector was undertaken by the Government of Jersey in 2018. Three quarters of respondents said that there were no factors preventing their organisation from understanding how it may be used to finance terrorism. The most prominent factor to impact on understanding was an absence or lack of particular typologies (i.e. ways that terrorism may be financed) relevant to a financial centre, which was cited by 16% of respondents. Additionally, an assessment of Jersey's implementation of the standard on the regulation of TCSPs set by the Group of International Finance Centre Supervisors¹⁴ (April 2019) noted that compliance officers of TCSPs would welcome more sector specific guidance on TF risk.
- 4.17 Despite recent action that has been taken, it is recognised that more training is required to further develop the skills base across the public sector. There is also a need to identify TF experts and points of contact in all relevant agencies.

Formalised arrangements with other jurisdictions

- 4.18 Jersey, like the other Crown Dependencies, is directly linked to the UK counter-terrorist agencies who assess and monitor the risk of terrorism in the UK and CDs. In essence, Jersey and the other CDs are treated by these agencies as an integral part of the UK. It is expected that domestic investigations of terrorism and TF would be supported by UK officers with specialist skills.
- 4.19 Jersey has established a specific law enforcement department to identify and manage the threat of terrorism and domestic extremism. Any information or intelligence, including suspected TF, must be directed to this unit in the first instance. This is designed to ensure that: (i) information is properly assessed according to UK national priorities and managed accordingly; and (ii) security intelligence agencies have the best possible intelligence in order to respond to a threat. The JFCU-FIU receives, analyses, and disseminates all financial intelligence and any related TF SARs are shared with the relevant LEA's both in Jersey and in the UK as they see fit.
- 4.20 At a strategic level, it has not been demonstrated that UK security services periodically form and share their view on the risk of terrorism and/or TF occurring in Jersey. However, there are a number of weekly and/or monthly meetings held between the Director of Intelligence for the States of Jersey Police and colleagues/ counterparts in the southwest region. These included weekly meetings with colleagues working in counter terrorism and a regional task and international crime intelligence forum that includes the National Crime Agency, Border Force and all southwest police forces.

¹³ TF training has, and continues, to be a focus for the relevant agencies. This report reflects the position as at the end of 2019. Due to COVID restrictions this has been postponed temporarily.

¹⁴ <https://www.jerseyfsc.org/media/3337/20190423-gifcs-mutual-evaluation-report.pdf> paragraph 189

- 4.21 From an operational perspective, further work needs to be conducted in the following areas:
- ensuring that Jersey optimises its engagement with UK agencies to identify TF activity that may be present in Jersey (which is likely to be different to the UK);
 - ensuring that Jersey enhances its existing arrangements with the UK to highlight: (i) the extent to which Jersey residents may be travelling to conflict zones (where they travel through UK ports) and/or financing terrorist activities from their own funds or illicit activities; (ii) the use of Jersey servers to host radical content on the internet; and (iii) evidence of recruitment/radicalisation in the Island; and
 - optimising the wider skills base in relation to TF that is available in the UK, which could be of benefit to Jersey.

Compliance with preventative measures

- 4.22 Preventative measures relating to TF are established in the Money Laundering (Jersey) Order 2008 and compliance with these measures is supervised by the JFSC. However, the JFSC was not able to provide data relating to TF separately from that relating to ML. Consequently, the NRA working group were unable to form a view on the extent to which the preventative TF measures are complied with and the effectiveness of supervision.
- 4.23 Jersey has not yet conducted an assessment to consider those NPOs at greater risk of being used to facilitate TF. This is intended to be conducted in 2021.

Cross-border physical movement of cash

- 4.24 It is not possible to accurately identify how much physical currency enters and leaves Jersey, partly because Jersey operates a disclosure system on request in order to comply with FATF R.32 (cash couriers). However, data is available for: (i) cash seized and forfeited under Court Orders from people leaving the Island; and (ii) cash disclosed by individuals leaving the Island; and (iii) Jersey currency notes being repatriated to the Island from the UK. There have been no seizures of cash coming into the Island.
- 4.25 Between 2015 and 2017, there were eight separate seizures and cash totalling just over GBP 177,000 was subsequently forfeited from individuals leaving, or intending to leave, the Island. These funds were not suspected to be linked to TF. In addition, GBP 188,000 of 'tainted cash' was seized and confiscated as it was about to leave the Island following successful prosecutions for drug trafficking offences.
- 4.26 Between 2015 and 2018, approx. GBP 14.6 million in Jersey notes was repatriated to the Island from the UK. Jersey bank notes are not legal tender in the UK and have to be exchanged for UK bank notes, following which they are pooled before being returned to the Island's Treasury. No information is available about where in the UK the notes are exchanged or the typical size of exchanges.
- 4.27 Data that is available suggests that most cash taken out of Jersey is legitimate and, where illicit, is likely to be linked to drug-trafficking. However, there are gaps in information available, particularly with respect to the repatriation of Jersey notes. Without this information, cross-border cash movement represents a medium/high

vulnerability, as a result of this, proactive work is ongoing in this area.

Compliance with sanctions framework

- 4.28 Compliance with the requirements relating to systems and controls appropriate to the sanctions framework, including targeted financial sanctions, is monitored by the JFSC. All suspected sanctions breach notifications are reported to the Minister for External Relations.
- 4.29 During the period May 2016 to end of December 2019, four suspected sanctions breach notifications led to police investigations, two of which were closed without charges being brought, and the remaining two were still under active investigation.
- 4.30 Data has not been provided on the extent of JFSC oversight of implementation of targeted financial sanctions or any findings on the implementation of appropriate and consistent policies and procedures with respect to targeted financial sanctions.

Digital innovation – virtual assets and virtual asset service providers

- 4.31 There is a requirement for crypto-fiat exchanges to register with the JFSC for AML/CFT purposes, but the full requirements of FATF Recommendation 15 have not yet been implemented. Jersey is implementing a full regime in the course of 2020/21.
- 4.32 At the end of 2019, there were understood to be very few virtual asset service providers (VASPs) in Jersey, such as wallet providers or custodians. The use of virtual currencies in the Island is still low and very few crypto-fiat exchanges registered with the JFSC. However, the JFSC has responded rapidly, where appropriate, to a number of technological initiatives (such as Initial Coin Offerings).
- 4.33 While virtual assets could in theory be used to finance terrorist activity, there is a lack of evidence of this occurring and other methods of financing terrorists remain more attractive¹⁵.

Digital innovation – Fintech, Regtech, blockchain

- 4.34 Fintech and Regtech can offer opportunities for fighting financial crime if used correctly and with some innovation. For example, block chain analytics used to gather financial intelligence or regulatory data has some promise and, if deployed systemically to the extent that there is an active market to observe, might augment existing information.
- 4.35 Digital identity also offers some opportunities to improve the quality of customer due diligence and the on-boarding process, although the widespread adoption of truly transformational technologies in this area is some way off.
- 4.36 In collaboration with Jersey Finance, Digital Jersey brings together individuals from both the finance and digital sectors to foster an open dialogue about the future of financial services. Jersey promotes itself as a digital location to develop, test and launch new technology in a campus-like environment¹⁶. Outside Digital Jersey (government-funded), there is an awareness of an emerging market but only limited understanding.

¹⁵ It is recognised that this report reflects the position as at the end of December 2019 and evidence is emerging that terrorist groups and their supporters have become increasingly familiar with new technology.

¹⁶ Digital Jersey [Fintech and Regtech](#)

SECTION 5

Summary and proposed actions

Summary

- 5.1 Following consideration of the information and data available to the NRA working group, it is their view that the risk of Jersey being used as a conduit for TF is medium-low.
- 5.2 The key factors supporting the NRA working group's view include the following:
- Key FATF Recommendations have not been implemented – Recommendation 8 (non-profit organisations) and Recommendation 15 (New Technologies).
 - There were a number of areas where the NRA Working Group would have liked greater data and information to inform their assessment of TF threat and vulnerability, such as the level of compliance with TF preventative measures.
 - It is acknowledged that the TF skills base and TF capacity needs to be further developed across the public sector as well as within the private sector.
- 5.3 The Government of Jersey will work with the relevant competent authorities to address the proposed actions by the end of 2022.

Proposed actions

5.4 *FATF Recommendations not implemented*

In accordance with:

- Recommendation 8, a proper NPO risk assessment should be undertaken and a regulatory framework implemented which includes focused and proportionate measures for regulation, registration and supervision of those NPOs that are identified as being vulnerable to TF abuse.
- Recommendation 15, a risk assessment should be undertaken in relation to: new products, new business practices, the use of new or developing technologies, and a regulatory framework implemented for Virtual Asset Service Providers.

5.5 *Insufficient information and data*

The following recommendations focus on addressing information and data gaps.

I. Wire Transfers

Additional research to be conducted in relation to funds flowing to and from the

jurisdiction. Information may include the purpose of the transfers and period of time the funds remain in the jurisdiction. This is especially desirable in the case of target jurisdictions in support of a risk-based approach.

II. Investments

More information is required to assess the threat posed as insufficient information was available to the team to assess ultimately where foreign direct investment has come from or where it is going. The available data led the assessment team to suspect that it is likely that invested funds have arrived from entrepôts and are to be 'on invested'.

III. Beneficial ownership information

Beneficial ownership information on legal persons and legal arrangements administered in Jersey should be made available to a group comprising relevant competent authorities such that further work can be undertaken to fully identify and assess the prevalence of individuals from target jurisdictions who are the UBO's, or linked to the UBO's, of legal persons or legal arrangements (including NPOs) administered in Jersey.

IV. Compliance with preventative measures

The JFSC to be able to provide information and data regarding compliance with the TF preventative measures including how effectively the financial services industry monitor their relationships, with regard to the UN Security Council Resolutions relating to targeted TF.

V. Reason for cross-border Jersey cash movement

The source of the Jersey currency returned to the Island every year needs to be understood and thereafter investigative opportunities for ML or TF offences need to be explored. There are various hypothesis for this cash movement, but it is suspected that a proportion may relate to clandestine activity.

VI. Limited TF capacity and understanding

- Additional work should be undertaken to further develop TF capacity across both the public sector and the private sector. In addition, the skills base across the public sector to investigate TF and supervise compliance with TF requirements should be significantly improved.
- The NRA Working Group is of the opinion that the finance industry should have access to a more complete list of jurisdictions that are believed to present a greater risk of TF. As the list is constantly evolving, Authorities should seek to introduce a mechanism whereby industry is informed of the jurisdictions that are believed to present a greater risk of TF on a quarterly basis, or more frequently if required.
- Work should be undertaken to more fully understand how the Island interacts with the UK authorities in relation to TF. As a Crown Dependency, Jersey relies to some extent on the UK for assistance in relation to the investigation of terrorism related offences. The NRA Working Group queried whether the risk profile, and therefore the focus of the UK's TF assessment, was the same as that of Jersey. It was not clear to the NRA working group how the UK assistance is provided and to what extent.
- Greater understanding of the TF threats posed by Fintech, virtual and crypto currencies should be developed and an appropriate regulatory framework introduced.

