



17th St. & Constitution Avenue N.W.  
Washington, D.C. 20006  
United States of America

**INTER-AMERICAN DRUG ABUSE  
CONTROL COMMISSION**

**CICAD**

**Organization of American States**

P. 202.458.3000  
[www.oas.org](http://www.oas.org)

**Secretariat for Multidimensional Security**

**XXXVI GROUP OF EXPERTS FOR THE CONTROL OF MONEY LAUNDERING**

**OEA/Ser.L/XIV. 4.37**

**MEETING OF THE WORKING SUBGROUPS**

**CICAD/LAVEX/doc.4/13**

**September 17-18, 2013**

**9 September 2013**

**Brasilia, Brazil**

**Original: Spanish**

**RECOMMENDATIONS FOR THE IDENTIFICATION AND ANALYSIS OF RISK FACTORS ASSOCIATED WITH  
MONEY LAUNDERING AND TERRORISM FINANCING AT THE HEMISPHERIC LEVEL**

## Recommendations for the Identification and Analysis of Risk Factors Associated with Money Laundering and Terrorism Financing at the Hemispheric Level

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Group of Experts for the Control of Money Laundering CICAD/OAS.

### Background

The international community supports and encourages all countries to establish effective anti-money laundering and counter terrorism financing systems (AML/CFT systems), in order to succeed in preventing, detecting and prosecuting money laundering (ML) and terrorism financing (TF), with the aim of preventing negative consequences of activities that threaten economic stability, the integrity of the financial system, and social development in the region.

Money laundering allows criminal organizations to ensure their economic capacity, enabling criminals to promote their actions and facilitate corruption. This creates difficulties in detection, prosecution and punishment of predicate offenses, such as money laundering. Acts of terrorism financing also pose a threat to the territorial integrity and security of States, as well as of the international community.

It is necessary for countries in the region to improve their understanding of risks as a starting point to raise awareness for resource allocation and decision-making in the implementation of preventive or suppressive measures of such risks. In this context, countries should pay special attention to jurisdictions that are lagging behind or present institutional deficiencies or vulnerabilities that are serious and dysfunctional.

Therefore, it is necessary to encourage the development of risk assessment at the national level by using criteria to look for information and its analysis. This risk assessment on a national level is the basis for identifying and understanding the risks and threats to security on a hemispheric level.

For a hemispheric assessment of the ML/TF risks, it is necessary for national processes having common points that generate a consistent basis of the work done by the authorities.

As a starting point for the development of an AML/CFT risk assessment, it is necessary to know the vulnerabilities of the AML/CFT regimes in the region. It is also important to clear those elements to identify and understand the threats to the economy, to the integrity of the financial system and to the society as a whole, as a result of acts of money laundering and terrorism financing.

The key concepts and terms in the risk assessment of ML/FT have been taken from the FATF Guidance National Money Laundering and Terrorism Financing Risk Assessment<sup>1</sup>.

### Threats

The concept of a threat can be defined as a person or groups of people, object, or activity with the potential to cause harm to the State, society, financial system, or the economy, etc.

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<sup>1</sup> [http://www.fatf-gafi.org/media/fatf/content/images/National\\_ML\\_TF\\_Risk\\_Assessment.pdf](http://www.fatf-gafi.org/media/fatf/content/images/National_ML_TF_Risk_Assessment.pdf)

In the ML/TF context, this includes criminals, terrorist groups and their facilitators, funds or assets, as well as past, present, and future acts of ML/TF. The threat has been previously described as one of the factors related to risk, and in general serves as an essential starting point in the process of knowing and understanding ML/TF risks. For this reason, as a prior step to evaluating the ML/TF risk, it is important to understand the environment in which predicated offenses are committed (basis). Also, it is necessary to understand how illicit assets are generated, and determine their nature (and if possible their quantity or volume). The threat assessment is useful as a precursor to develop ML/TF risk assessments.

These “recommendations” are intended to facilitate and promote the process of identifying new ML/TF risks in the region. In general, the current and potential new risks to which the countries of the region are exposed to, can be mainly shared. In other cases, the ML/TF activities are already present in a country and may harbor new risks to other countries in the region.

## Vulnerabilities

Vulnerability can be understood as a variable or situation that can be exploited by the threat of ML/TF, that facilitates these activities or that can support them.

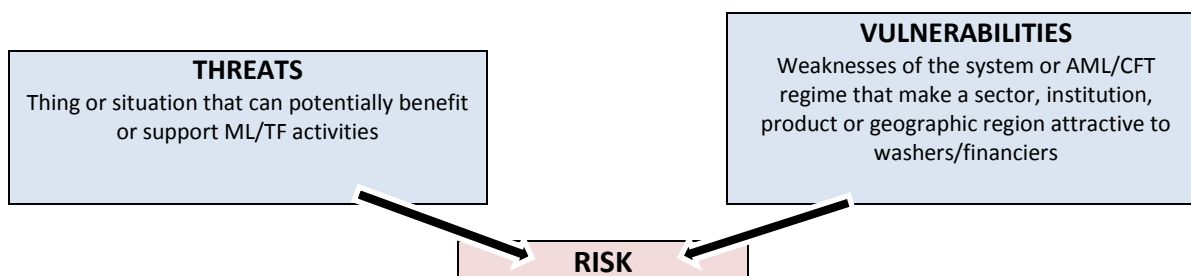
One parameter that serves as an indicator of vulnerability/strengths of AML/CFT systems of the countries in the region are the Mutual Evaluation Reports (MER) developed by FATF/GAFI; CFATF/GAFIC or GAFISUD.


Based on the ratings for Recommendation, and taking into account the monitoring reports to consider the changes that have been overcome or the weaknesses or vulnerabilities identified in the MER, it is possible to elaborate, as a starting point, a report indicating gaps in the national systems in order to make comparisons among countries and recognize commonalities. This first step should be confirmed and/or supplemented by the operators of the different mechanisms of prevention, detection, and prosecution/punishment nationwide.

## Risk Evaluation

The identification of items recognized as threats and vulnerabilities will be the basis for further development of ML/TF risk assessment present in a country or sector. The risk will be determined by the Threat/Vulnerability/Impact and its valuation.

In this regard, the following scheme clearly shows the relationship between these elements:





## CONSEQUENCES

- Instability of the financial sector
- Threat to territorial integrity and security of the States
- Distortion in the allocation of resources between licit and illicit economy; in prices; in consumption; in the external sector; in the investments; and in the economic development;
- Unfair competition
- Corruption
- Imposition of costs to society are higher than the benefit of the AML regime
- Failure in the aim of preventing criminal organizations to obtain profits, and reducing the crime by decreasing their economic capacity and associated crime;
- Failure in the aim of depriving terrorist organizations of resources used to achieve their terrorist goals.

The input of national key authorities is crucial to the development of this evaluation, once the information that will constitute the basis of this analysis, strategies should be brought from different sectors, such as **prevention** (including regulatory authorities, enforcement and punishment of AML/CFT of different economic areas), **detection** (including financial intelligence units, security and intelligence offices, the tax inspection activities, and customs and immigration authorities) and **prosecution/punishment** (including persecutors, policy and judiciary). It is also possible to include representatives of financial institutions and DNFBPs (trade associations).

It is important to encourage countries to take appropriate measures to identify and evaluate their ML/TF risks nationally. This will help to understand ML/TF risks in the regional context, facilitating measures that:

- Promote certain changes to AML/CFT regimes in the countries, including legal and regulatory changes, as well as other rules; and
- Assure a more efficient allocation of resources for technical assistance in AML/CFT.

### Relevant information to be considered in the procedure

#### Source, location and concentration of criminal activity

Determination within the range of “Predicated Offenses” (basis) of ML, based on the following statistics:

- Number of investigations (for each predicated offense);
- Number of prosecutions (for each predicated offense);
- Number of guilty and acquittal judgments (for each predicated offense);
- Amount of assets seized, frozen, and/or forfeited (for each predicated offense).

The objective is to identify the criminal activities that generate more illicit assets in each country and to have an estimate of the flow of the patrimony. It is recommended to identify the geographic distribution of this data in order to identify the areas that potentially have more incidences of LA acts.

## Source, location and concentration of Money Laundering activities and terrorism financing

The statistical analysis is only a partial view, as it is necessary to evaluate these statistics in conjunction with the operation of the area of ML prevention. To achieve this, it is necessary to determine:

- Sectors required to report (have as reference the Glossary of the FATF 40R) differentiating the finances of non-financial activities and business;
- Number of entities required to report suspicious transactions by economic sectors;
- Number of ROS in the period, classified by economic sector and geographic location;
- Number of entities required to report audited and number of sanctions for non-compliance of the administrative regime (distinguish by type of offense and geographic location);
- Number of intelligence reports submitted to the prosecuting authority and number of STRs used in those reports;
- Interference of the intelligence reports on the ML/TF causes (prosecutions/guilty judgments);
- Number of ML investigations (distinguish the amounts involved and geographic location);
- Number of ML prosecutions (distinguish the amounts involved and the geographic location); and
- Number of ML guilty judgments (distinguish the amounts involved and the geographic location).

## Other factors, features and/or relevant information to assess

- The economic structure of the country;
- Characteristics of the Financial Sector;
- Characteristics of the Tax Haven or Offshore Backing;
- Conflict or high risk area;
- Level of corruption;
- Levels of informal economy;
- Levels of financial inclusion; and
- Amounts of stock volume of undeclared foreign currency.

As reference, other specialized reports on the subject developed by international organizations can be used.

## ML/TF Reports

As for the reports related to the area of prevention/detection it is necessary to have information about the amount depending on the type of existing reports in each system: suspicious transactions, unusual transactions, cash transactions, electronic transfers, etc. This should be more related to the amounts involved in the reports and to economic sectors involved, as well as their geographic location (this information should be gathered for each type of existing report).

- Quantity of STR:

- Amount involved;
- Distinguish the sectors involved; and
- Geographical location of operation.
- Quantity of UTR:
  - Amount involved;
  - Distinguish the sectors involved; and
  - Geographical location of operation.
- Quantity of CTR:
  - Amount involved;
  - Distinguish the sectors involved; and
  - Geographical location of operation.
- Quantity of other Reports (for example of electronic transactions):
  - Amount involved;
  - Distinguish the sector involved; and
  - Geographical location of operation.

#### Border transportation of assets and other bearer negotiable instruments

- Amounts declared at the entrance (distinguish currencies involved and the geographical point of control);
- Amounts declared at the exit (distinguish currencies involved and the geographical point of control);
- Amounts not declared detected at the entrance and exit (distinguish currencies involved and the geographical point of control);
- Amount of sanctions;
- Evaluate other records related to the statements made: source of funds; destination of funds; its link to certain economic activities; country of origin; country of destination; etc.