Executive Summary

1. This report summarises the AML/CFT measures in place in the Republic of Turkey as at the date of the on-site visit (05-21 March 2019). It analyses the level of compliance with the FATF 40 Recommendations and the level of effectiveness of Turkey's AML/CFT system, and provides recommendations on how the system could be strengthened.

Key Findings

a) Turkey finalised a combined ML/TF risk assessment in 2018 The NRA was a significant step in enhancing Turkey's understanding of ML/TF risk. Relevant authorities contributed to the process, with positive input from the private sector. Turkish authorities have a general understanding of ML. This understanding is greater than that represented in the NRA. TF risk is understood well by key agencies such as TNP and MASAK. This understanding of ML/TF would benefit from overarching, formal strategies and policies to combat ML/TF. Authorities have commenced work in these areas.

b) There are demonstrable mechanisms for co-ordination in place, although their effectiveness for AML/CFT purposes is mitigated to some extent, as AML/CFT co-ordination has not been brought together under a single whole-of-government policy approach, which is both risk-based and demonstrably co-ordinates measures taken.

c) Turkey has demonstrated the use of MASAK's financial intelligence products to support ongoing investigations and prosecution of predicate, ML and TF offences. MASAK's work has increased many fold since the attempted coup in 2016 with an exponential rise in judicial requests from public prosecution and courts, which has caused strains on the capacity of AML/CFT authorities. The extent to which financial intelligence is used routinely in existing ML cases or developing evidence across all the law enforcement agencies is not demonstrated.

d) Turkey's law enforcement agencies have trained and dedicated investigators. However, identifying ML activity for investigation through their analysis of STRs and other reports submitted to MASAK, or through investigation of offences generating proceeds of crime is not commensurate with the risk profile in Turkey. While Turkey does not have detailed statistics on ML investigations by predicate offence, they provided statistics for the four highest risk predicate offence supported with a sampling of cases, which

suggests that ML offences and activities are investigated to some extent.

e) Turkey has an adequate legal framework that should enable the authorities to confiscate the proceeds of crime through a number of measures, but limited statistical figures or other evidence were provided by Turkey to fully demonstrate the good use of these tools. However, after the attempted coup in 2016, Turkey enacted temporary measures, which were effectively implemented against FETÖ/PDY. Although Turkey has demonstrated the existence of high-level commitment to deprive criminals from their proceeds of crime, its practical impact to ensure that criminals are permanently deprived of their illicit gains is less evident.

f) Turkey undertakes a large number of terrorism investigations; however, TF investigations within these cases are largely directed towards identifying the assets held rather than the identification of the collection, movement and use of funds or other assets. Outside of FETÖ/PDY investigations, there is limited evidence that public prosecutors have used MASAK analysis to extend their investigation to include the bigger networks.

g) Turkey does not implement terrorism related TFS without delay under the relevant UNSCRs. Turkey's legal framework allows for UNSCR 1267 designations to be transposed, however the transposition process leads to long delays. In general, there is collaboration and co-operation on TF issues between supervisory, regulatory and operational authorities, co-ordinated by MASAK. However, Turkey has never independently proposed a 1267 designation or enacted a domestic designation, nor identified assets linked to a designation target. Turkey does not use 1373 processes effectively, which is not consistent with its risk profile.

h) As part of its 2018 NRA, Turkey has conducted a sectorial risk assessment to identify the FATF-defined subset of NPOs that are at risk of TF abuse. However, Turkey's supervision of the NPO sector is mainly focused on fraud and mismanagement, instead of TF and Turkey's outreach and oversight efforts remain lacking.

i) As with TF-related TFS, Turkey's transposition of UNSCR 1718 designations into law is not without delay, and no assets subject to UNSCR 1718 sanctions have ever been identified in Turkey. Turkey lacks a legal basis to implement UNSCR 2231 and its successor resolutions, and no penalties or oversight exist for contravention of these PF sanctions by obliged entities in Turkey, as 2231 designations are not legally valid.

j) Understanding of ML/TF risks across FIs and DNFBPs varies. While banks have a good understanding of ML risks, and by some way the best understanding among the reporting entities, the understanding of TF risk is relatively weaker than that for ML. The level of understanding of ML/TF risks across DNFBPs is limited. Across all reporting entities, the understanding is less developed among real estate agents, DPMS and exchange offices, which is a cause of concern in light of their risk profiles.

k) The supervisory measures, including fit and proper tests applied by BRSA, CMB and MoTF for the licensing of banks and other FIs, were found to be generally well developed for the purpose of preventing criminals and their associates from entering the financial system. Supervision and monitoring to address and mitigate ML/TF risks in the financial sector and other relevant sectors has led to remedial actions; however, sanctions applied are not always effective, proportionate and dissuasive.

l) Turkey has put in place most elements of a legal framework to identify basic and beneficial ownership information of legal persons. The concept of trusts does not exist in Turkish law. Authorities have a moderate understanding of the ML/TF risks posed by legal persons, and are yet to conduct a comprehensive assessment of ML/TF risks and vulnerabilities of legal persons created in Turkey.

m) Turkey has a sound legal basis to provide and seek the widest possible range of MLA, including extradition in relation to ML, associated predicate offences and TF. Turkey does not have any legal impediments to seeking and responding to a variety of requests for international co-operation both formal and informal.

Risks and General Situation

2. Turkey has a diverse economy comprising industry (automotive, petrochemical, and electronics), agriculture and a growing service sector. Located at an inter-continental junction, Turkey faces significant money laundering (ML) and terrorist financing (TF) risks. This includes serious threats from illegal activities of criminal organisations, terrorist organisations and foreign terrorist fighters (FTFs) seeking to exploit domestic and cross-border vulnerabilities, given Turkey's geographic location.

3. The key threats generating significant proceeds of crime are illegal drug trafficking, migrant smuggling, human trafficking and fuel smuggling. In 2016, 68% of all smuggling offences for which a conviction was secured were directly related to drug smuggling. The business activities posing the highest ML/TF risks are related to activities involving banking, money and value transfer services, including illegal money exchangers, real estate and dealers in precious metals and stones (DPMS).

4. Turkey also faces severe threats from terrorism and has suffered from a significant number of terrorist attacks. Turkey is one of the transit routes for FTFs and a destination of returning FTFs of Turkish origin from neighbouring conflict zones.

5. The 2018 NRA was a significant step for Turkish competent authorities in enhancing their ML/TF risk understanding as it enabled the authorities to articulate existing views in one report. Relevant authorities contributed to the NRA process with positive input from the private sector as well. Overall, the assessment of threat levels is based on various information sources, such as statistics, trend analysis, surveys, reports and the ML/TF risk perception of authorities.

Overall Level of Compliance and Effectiveness

6. Turkey has made significant progress in strengthening its AML/CFT framework since the last evaluation. Law No. 6415 (Prevention of the Financing of Terrorism) came into force in 2013. A number of Regulations were introduced or further amended to strengthen the preventive measures. MASAK also issued General Communiqués to set out principles and procedures on issues including STRs, CDD measures and freezing of assets. However, shortcomings are still noted, in particular in areas such as politically exposed persons, CDD and supervisory measures applicable to DNFBPs and sanction regime for failure to comply with the preventive

measures. In addition, there are still technical deficiencies affecting in particular, the regime applicable to NPOs at risk of TF abuse, targeted financial sanctions related to terrorism and proliferation.

7. Turkey achieves a substantial level of effectiveness in the assessment of ML/TF risks and domestic co-ordination, as well as international co-operation. Turkey demonstrates a moderate level of effectiveness in the collection and use of financial intelligence and other information, ML and TF investigations and prosecutions, confiscation, supervision, implementation of preventive measures and preventing the misuse of legal structures. Fundamental improvements are needed in the implementation of targeted financial sanctions related to terrorism and proliferation.

Assessment of Risk, Co-ordination and Policy Setting (Chapter 2; IO.1, R.1, 2, 33 & 34)

8. The 2018 National Risk Assessment (NRA) was a significant step for Turkish competent authorities in enhancing their ML/TF risk understanding as it enabled the authorities to articulate existing views in one report. Relevant authorities contributed to the NRA process with positive input from the private sector. Overall, there is a general understanding of ML risks. This understanding is greater than that represented in the NRA. There is also a good understanding of TF risk within MASAK and Turkish National Police, though there is scope for a more in-depth assessment, including in relation to NPOs.

9. National AML/CFT policies and activities have been implemented through a series of strategies, action plans, committees, working groups and other similar mechanisms. The limited period of time since the NRA was completed means that policies do not yet constitute a comprehensive, national approach. Work is ongoing to implement such an approach.

10. Co-ordination on AML/CFT issues is of a good standard. Turkey demonstrated that bilateral and multi-lateral co-operation and information exchange is positive, with examples of very good liaison and information exchange being provided.

Financial Intelligence, ML Investigations, Prosecutions and Confiscation (Chapter 3; IO.6, 7, 8; R.1, 3, 4, 29–32)

11. MASAK has electronic access to a wide variety of government and private sector databases, which enables it to generate comprehensive financial intelligence products. MASAK uses a variety of IT tools and techniques to carry out operational and strategic analysis.

12. Turkey has demonstrated the use of MASAK's financial intelligence products to support ongoing investigation and prosecution of predicate, ML and TF offences. The extent to which financial intelligence is used routinely in existing ML cases or developing evidence across all the law enforcement agencies is not demonstrated.

13. Given the volume of proceeds generating predicate offences investigated each year in Turkey, the number and ratio of disseminations made by MASAK to support ongoing predicate offence investigations and related ML investigations is not fully consistent with Turkey's NRA.

14. There has been an exponential rise in the number of judicial requests to MASAK (from Public Prosecution offices and courts), since the attempted coup in 2016, leading to a manifold increase in MASAK's workload in recent years, putting severe constraints on the resources and capacity of MASAK, considering its overarching role in Turkey's AML/CFT framework.

15. Law enforcement authorities have trained and dedicated ML investigators; however, Turkey is not effectively identifying ML activity for investigation through their analysis of STRs and other reports submitted to MASAK, nor through investigation of offences generating proceeds of crime. While there are some documents in relation to anti-drug and organised crimes strategies which reference ML, in addition to high level circulars, Turkey lacks policy objectives with specific goals considering ML investigations as a strategy to combat the profitability of crime.

16. While Turkey was unable to produce statistics to support a finding that ML offences and activities are appropriately investigated, they were able to provide assessors with a sampling of cases which suggest that ML offences and activities are being investigated to some extent.

17. Turkey has an adequate legal framework that enables the authorities to confiscate the proceeds of crime through a number of measures, however limited statistical figures were provided by Turkey to support the good use of these tools. Turkey enacted Presidential Decrees (PD) after the attempted coup in 2016 as an emergency measure that was lifted in 2018. The implementation of the PD was very effective in confiscating assets of EUR 10 billion relating mostly to FETÖ/PDY.

18. While statistics provided demonstrate that LEAs are seizing assets and using measures to secure assets related to predicate crime, and substantial sums were confiscated through the Presidential decree (for terrorism related cases); there was limited evidence to demonstrate the overall effectiveness of the confiscation system in Turkey.

Terrorist and Proliferation Financing (Chapter 4; IO.9, 10, 11; R. 1, 4, 5–8, 30, 31 & 39.)

19. Turkey undertakes a large number of terrorism investigations; TF investigation within these cases are largely directed towards identifying the assets held by terrorism suspects rather than the identification of the collection, movement, and use of funds or other assets.

20. Each of Turkey's four LEAs have trained TF investigators and communication is open across the LEAs and MASAK. MASAK provides the LEA with a good level of details regarding the financial and asset data in relation to a suspect, however there is limited evidence that public prosecutor have used MASAK analysis to extend their investigation to include the bigger networks or for identification of the financiers.

21. There is no overarching strategy or action plan to detail how the investigation of TF investigation is used to support national CT strategies and investigations. TF cases may attract a maximum of 10 years imprisonment, the average sentence for TF cases to date being 5 years. There is no clear strategy for the prioritisation of TF investigative techniques to identify the collection, movement and use of TF within investigations.

22. Turkey does not implement TFS related to terrorism without delay under the relevant UNSCRs. Turkey's legal framework allows for UNSCR 1267 designations to be transposed. However, at a domestic level, the average transposition delay for UNSCR 1267 designations is 33 days. Turkey's outgoing 1373 requests to other jurisdictions are rarely accepted by other jurisdictions. Turkey does not consistently respond to incoming UNSCR 1373 requests and has never independently proposed a 1267 designation. No assets related to a 1267 designee have ever been identified. Turkey has also never done a domestic designation of its own accord. This is inconsistent with Turkey's risk profile.

23. There is an uneven understanding and implementation of TFS requirements amongst financial institutions, particularly between large, globally oriented FIs and smaller, domestic banks. Some multi-national banks and money or value transfer services (MVTS) providers implement TFS related to UNSCR 1267 designations as soon as the UN adopts them, before the government decides whether to transpose these designations at a domestic level.

24. Turkey has conducted a sectorial risk assessment to identify what it believes to be the FATF-defined subset of NPOs at greatest risk of TF abuse. However, Turkey's supervision of the NPO sector is mainly focused on fraud and mismanagement, instead of TF and Turkey's outreach and oversight efforts remain lacking.

25. As with TF-related TFS, Turkey's transposition of UNSCR 1718 designations into law is not without delay, and no assets subject to UNSCR 1718 sanctions have ever been identified in Turkey. Turkey lacks a legal basis to implement UNSCR 2231 and its successor resolutions, and no penalties or supervision exist for contravention of these PF sanctions by obliged entities in Turkey.

26. FIs and DNFBPs vary widely in their awareness of and procedures for, observing proliferation-related TFS. DNFBPs and exchange offices, in particular, often do not do checks against relevant PF sanctions lists and lack established procedures or a general understanding of their risks in this regard.

Preventive Measures (Chapter 5; IO.4; R.9–23)

27. Turkey has a diverse financial sector with banks as the key players. Understanding of ML/TF risks across FIs and DNFBPs varies depending on the nature of the sector. Banks have a good understanding of ML risks, although understanding of TF risk is relatively weaker than that for ML. Overall, in other financial sectors, risk understanding is less comprehensive than banks. The level of understanding of ML/TF risks across DNFBPs is limited. Across all obliged entities, the assessment team has a particular concern about real estate agents, DPMS and exchange offices in light of their risk profiles.

28. Banks have relatively good AML measures consistent with risks with other FIs overall having less robust measures. Generally, banks and other FIs have systems for ongoing monitoring. Nevertheless, the quality of measures at banks is mitigated to some extent as identification of unregistered MVTS activity appears lacking, verification of beneficial ownership is not always comprehensive (with some over reliance on the trade registry and attention on the ownership element rather than the control element), and monitoring not always being consistent with risk. DNFBPs have much less robust measures to mitigate risks.

Supervision (Chapter 6; IO.3; R.14, 26–28, 34, 35)

29. MASAK is the key supervisory authority in Turkey and it co-ordinates amongst other relevant supervisory authorities to assign supervisory tasks. The supervisory measures applied by BRSA, CMB and MoTF for the licensing of banks and other FIs was found to be generally well developed for the purpose of preventing criminals and their associates from entering the market. A number of controls exist and there is good co-ordination between MASAK and other supervisors. Given the risk of unregistered MVTS/exchange offices, supervisory authorities and FIs are not taking adequate steps to identify and stop this activity and apply sufficient sanctions.

30. In general, there is good effort to foster public-private sector dialogue with financial institutions, which contributes to supervisors' risk identification and understanding.

31. Supervision and monitoring to address and mitigate ML/TF risks in the financial and other relevant sectors has led to remedial actions; however, sanctions applied are not always effective, proportionate and dissuasive across the financial and DNFBP sector. Further, within the DNFBP sectors, the compliance supervision was observed to be at much lesser degree in the form of little or no on-site supervision conducted or violations examined by MASAK and/or sectorial supervisors.

32. MASAK uses different tools, workshops, guidance and other instruments to promote a clear understanding of AML/CFT obligations and ML/TF risks in Turkey. Other supervisors have issued guidance and used training to raise awareness to some extent and this may further be improved through more extensive efforts.

Transparency and Beneficial Ownership (Chapter 7; IO.5; R.24, 25)

33. Risks of legal persons are understood to some degree. The legal framework has been assessed, together with the cases in which Turkish legal persons were misused (the most important predicate crime and ML threat deriving from fuel smuggling). Turkey is yet to conduct a comprehensive assessment of the ML/TF risks posed by all types of legal persons created in the country and also the risks of foreign legal persons and lawyers (including their involvement with legal persons).

34. Turkey has made significant efforts to streamline the company formation process. Public registries are used to centralise information in electronic format, and the use of protocols and MoUs between agencies and private sector entities, such as banks, has helped to facilitate access to this information for AML/CFT purposes.

35. Sanctions are applied to some extent against legal persons that fail to meet AML/CFT requirements relating to the reporting of basic and beneficial ownership information. However, concerns exist that the limited range of pecuniary fines may not always allow for effective, proportionate and dissuasive sanctions in deserving cases.

International Co-operation (Chapter 8; IO.2; R.36–40)

36. Turkey has no legal impediments to seeking and responding to a variety of requests for international co-operation related to ML and TF offences, including MLA, extradition and intelligence exchanges through Egmont Secure Web as well as through informal police-to-police channels. Supervisors have shared relevant

information with their international counterparts both on request and spontaneously, in particular on supervision and 'fit and proper' issues.

37. The Ministry of Justice uses a National Judiciary Informatics System (UYAP) to track and execute their work. The system is capable of filtering various files based on a coding system, which would allow for the effective prioritisation of files.

Priority Actions

a) Turkey should prioritise the use of financial intelligence related to ML, consistent with the risks identified in their NRA and develop a national strategy for investigating and prosecuting different types of ML offences.

b) Turkey should develop a national strategy for confiscating the proceeds and instrumentalities of crime, outlining clear priorities as well as the roles and responsibilities for prosecutor, LEAs and MASAK.

c) Turkey should address the gaps in its legal framework to fully meet its obligations concerning targeted financial sanctions related to terrorism. In particular, transposition of UN designations should be done in a timely manner that is not contingent upon a decision at national level. Turkey should ensure it is employing its resources to independently identify and propose appropriate targets for 1267 designation and respond to 1373 requests.

d) Turkey should address deficiencies in its timely transposition of UNSCR 1718 and immediately establish a legal basis to implement UNSCR 2231 and its successor resolutions, including the establishment of effective, proportionate and dissuasive sanctions and requirements for corresponding supervision and preventive measures in the financial sector.

e) Turkey should implement focused and proportionate measures to NPOs identified as at risk of TF abuse. A targeted risk-based approach and outreach on how to identify, prevent and report TF, with a focus on those NPOs assessed as higher risk for potential TF abuse would help avoid restricting and disrupting legitimate NPO activities.

f) Turkey should increase the number of parallel financial investigations in terrorism cases with the objective of identifying terrorist financiers, TF trends and methods, and financing networks.

g) The supervisory approach of the authorities to DNFBP sectors, in particular, for precious metals and stones and real estate sectors should be developed and these sectors should be subject to AML/CFT compliance proportionate to their risk profiling as per the NRA. Sanctions for non-compliance by financial institutions and DNFBPs should be effective, proportionate and dissuasive.

Effectiveness & Technical Compliance Ratings

Effectiveness Ratings[1]

IO.1 - Risk, policy and coordination	IO.2 International cooperation	IO.3 - Supervision	IO.4 - Preventive measures	IO.5 - Legal persons and arrangements	IO.6 - Financial intelligence
Substantial	Substantial	Moderate	Moderate	Moderate	Moderate
IO.7 - ML investigation & prosecution	**IO.8 - Confiscation**	**IO.9 - TF investigation & prosecution**	**IO.10 - TF preventive measures & financial sanctions**	**IO.11 - PF financial sanctions**	
Moderate	Moderate	Moderate	Low	Low	

Technical Compliance Ratings[2]

R.1 - assessing risk & applying risk-based approach	**R.2** - national cooperation and coordination	**R.3** - money laundering offence	**R.4** - confiscation & provisional measures	**R.5** - terrorist financing offence	**R.6** - targeted financial sanctions – terrorism & terrorist financing
LC	LC	LC	C	LC	PC
R.7- targeted financial sanctions - proliferation	**R.8** -non-profit organisations	**R.9** – financial institution secrecy laws	**R.10** – Customer due diligence	**R.11** – Record keeping	**R.12** – Politically exposed persons
NC	PC	C	LC	C	NC
R.13 – Correspondent banking	**R.14** – Money or value transfer services	**R.15** –New technologies	**R.16** –Wire transfers	**R.17** – Reliance on third parties	**R.18** – Internal controls and foreign branches and subsidiaries
LC	LC	LC	LC	C	PC
R.19 – Higher-risk countries	**R.20** – Reporting of suspicious transactions	**R.21** – Tipping-off and confidentiality	**R.22** - DNFBPs: Customer due diligence	**R.23** – DNFBPs: Other measures	**R.24** – Transparency & BO of legal persons
LC	C	C	PC	PC	PC
R.25 - Transparency & BO of legal arrangements	**R.26** – Regulation and supervision of financial institutions	**R.27** – Powers of supervision	**R.28** – Regulation and supervision of DNFBPs	**R.29** – Financial intelligence units	**R.30** – Responsibilities of law enforcement and investigative authorities
PC	PC	LC	PC	C	C
R.31 – Powers of law enforcement and investigative authorities	**R.32** – Cash couriers	**R.33** – Statistics	**R.34** – Guidance and feedback	**R.35** – Sanctions	**R.36** – International instruments
LC	LC	LC	LC	PC	LC
R.37 – Mutual legal assistance	**R.38** – Mutual legal assistance: freezing and confiscation	**R.39** – Extradition	**R.40** – Other forms of international cooperation		
C	C	C	LC		

1 Effectiveness ratings can be either a High- HE, Substantial- SE, Moderate- ME, or Low – LE, level of effectiveness.

2 Technical compliance ratings can be either a C – compliant, LC – largely compliant, PC – partially compliant or NC – non compliant.