



Mutual Evaluation Executive Summary

Anti-Money Laundering and Combating the
Financing of Terrorism

Sultanate of Oman

24 June 2011

The Sultanate of Oman is a member of the Middle East & North Africa Financial Action Task Force (MENAFATF). It is also a member of the Gulf Co-operation Council, which is a member of the Financial Action Task Force (FATF). This joint MENAFATF-FATF evaluation was adopted as follows:

MENAFATF Plenary 4 May 2011

FATF Plenary 24 June 2011

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MUTUAL EVALUATION OF THE SULTANATE OF OMAN: EXECUTIVE SUMMARY

Background information

1. Oman is a relatively large country, located on the Arabian Peninsula, sharing land borders with the United Arab Emirates, Saudi Arabia and Yemen, and sharing the strategically Strait of Hormuz with Iran. Even though Oman's history as a Sultanate dates back more than a millennium, in its modern form Oman was created after the accession to the throne of the current Sultan H.M. Qaboos bin Said al Said on 23 June 1970.
2. Oman's population of only 2.87 million persons consists of 70% Omani citizens and 30% expat workers. Oman is not a major financial center and has limited oil and gas reserves. Oman has differentiated and modernized itself economically based on a series of 5 year plans since 1976. Important assets in the modernization process are Oman's history as maritime and trading nation, its adherence to free market economic principles, its low general levels of crime and its clean and unique nature that makes it a popular (eco) tourism destination.
3. Oman's legal system is based on a 1996 *Basic Law of the State*, and on the direct incorporation of international treaties and conventions into its domestic legal system. The Omani legal system was to a large extent codified in written statutes since 1970. Laws are generally comprehensive, and in the context of AML/CFT, often follow the international standard to a great detail. A first Anti-Money Laundering Law (AML Law) was issued in 2002, replaced by the 2010 Anti-Money Laundering and Combating Terrorism Financing Law (AML/CFT Law). The AML/CFT Law covers most of the areas in line with the FATF Recommendations. The 2002 AML Law was accompanied by an Executive Regulation (outgoing ER), and pending the drafting of new Executive Regulations for the AML/CFT Law (incoming ER), the outgoing ER is still in force. This pending legal update causes some of the gaps in the legal framework for preventive measures. Oman should expeditiously finalize the drafting of the incoming ER and enact it to address the shortcomings in the preventive area. Notwithstanding the remaining shortcomings, the overall legal compliance with the FATF Recommendations is high.
4. Oman has not used the possibilities of its legal system to its full potential, and the overall effectiveness of the AML/CFT system regarding the legal system and the related institutional law enforcement framework is generally lacking (the effectiveness of the preventive area is relatively higher). For example, while Oman is to be commended for its near-perfect criminalization of ML, only a handful of ML convictions has been obtained over the past 8 years. One reason for this may be the generally low levels of crime. In addition, within the law enforcement community, financial investigations and fighting ML are considered to be primarily the task of the Financial Intelligence Unit (FIU). The main reason seems to be the overall lack of awareness and eagerness to prosecute ML cases, confiscate assets and promote financial investigations. Finally, financing of terrorism is considered part of the wider external terrorism threat, and dealt with as security and intelligence topic. No terrorist financing investigations, prosecutions or convictions have been obtained. On the longer term, Oman should considerably enhance the effectiveness of its legal system and generate more cases.

Legal system and related institutional framework

5. Oman has criminalized money laundering (ML), to a large extent in line with the requirements under the Vienna and Palermo Conventions. However, the ML offense does not cover “the concealment or disguise of the disposition of property” and criminal liability for ML does not extend to all legal persons, but only to financial institutions (FIs), designated non-financial business and professions (DNFBPs) and non-profit organisations (NPOs) within the limits of the AML/CFT Law. The AML/CFT Law covers all predicate offenses designated by FATF, extends to any type of property as defined by the FATF and applies to persons who commit the predicate offense. Appropriate ancillary offenses are also provided for.

6. Although the ML criminalisation is largely in line with the FATF requirements, the assessment team questions the effective implementation due to the extremely low number of convictions for ML in comparison with the number of investigations and convictions for the predicate offenses that generate illicit proceeds, particularly drug-related offenses. For full compliance with FATF requirements, Oman needs to considerably raise the number of ML convictions.

7. Omani legislation provides for most of the elements needed to criminalize terrorist financing (TF). However, the TF offence does not cover the financing of an individual terrorist, and the definition of terrorism (a terrorist act *per se* is not defined in the Omani law) does not cover the situation where the purpose behind the terrorist acts is to compel a government or an international organization to do or to abstain from doing any act. Appropriate ancillary offenses are provided for and the offence of TF is a predicate offence for ML. Omani legislation provides for dissuasive and proportionate sanctions, however, as there are no investigations, prosecutions or convictions relating to TF, the effectiveness cannot be established.

8. Oman has in place a robust legal framework that provides for a wide range of confiscation, seizure and provisional measures with regard to property laundered, proceeds from and instrumentalities used in and intended for use in ML and TF or predicate offenses, and property of corresponding value. However, the low number of confiscations and amounts confiscated indicates that the effectiveness of the framework is still at an insufficient level.

9. As for the freezing of terrorist assets in relation to the implementation of the relevant United Nations Security Council Resolution (UNSCR) 1267 and its successor resolutions, although names of persons designated by the UN are after some time circulated to concerned parties, there are major gaps in the Omani legal framework for freezing and no procedures are in place to implement the majority of the requirements under the resolutions. Moreover, Oman has no laws and procedures in place to implement UNSCR 1373. Oman has neither designated any terrorist or terrorist organization, nor has it frozen assets in accordance with UNSCR 1373.

10. The FIU has made clear progress in functioning as a financial intelligence unit since 2009, and further progress is foreseen under the new AML/CFT Law. Under the AML/CFT Law, the FIU is established as an independent unit within the Royal Oman Police (ROP). The FIU and its predecessors, which were dependent ROP units, have been in place since 2002. Since 2009, more attention has been paid to investigations of suspicious transaction reports (STRs) and training for staff and Oman has made notable efforts in enhancing the functioning and capacity of the FIU. Yet, the FIU should further enhance its capacity and experience in analyzing STRs in order to expedite the time between reporting and dissemination.

11. The FIU has sufficient powers and access to information to perform its tasks. The FIU is tasked to receive STRs and other information from financial institutions (FIs), designated non-financial businesses and professions (DNFBPs), non-profit organizations (NPOs) and other competent entities regarding

transactions suspected to involve the proceeds of crime or to be related to terrorism, terrorist crimes, or terrorist organizations or ML, or TF and the attempts to execute such transactions. The FIU is empowered to conduct analytic and investigative work regarding STRs and other information, for which it has access to a plethora of databases and can demand and review any necessary information from reporting entities as well as other competent regulatory authorities. The FIU disseminates reports to the Public Prosecution Office (PPO) when there are strong leads of ML, TF, or any other crime. The PPO considers the report of the FIU as circumstantial evidence and will use it as the basis for its own investigation.

12. The FIU should ensure that staff receives (external) training to ensure a broad insight and exposure to ways of financial analysis. Since 2002, the FIU received 231 STRs of which approximately 98% were reported by banks. The number of STRs has been increasing since 2009. Of the 28 STRs that were disseminated in total, the first STR filed in 2005 was only disseminated to the PPO in August 2007, and the majority (20) of the STRs filed in 2007-2009 has been disseminated in 2010. Some investigations have taken a long time, in some cases up to several months or even years. The length of the investigation causes a lack of effectiveness of the system.

13. There are two law enforcement authorities empowered to conduct investigations of ML and TF: the ROP and the PPO. Both are sufficiently resourced to perform their tasks and the legal requirements for professional standards are high. The investigations of these authorities are thorough in the sense that they collect ample information and evidence. However, there have been only 29 ML investigations -of which 28 originated from an STR and one from a police case- by the PPO and no TF investigations. The ROP has done very few specific ML investigations. Overall, there is insufficient attention by the ROP for ML or TF investigations since they rely on the FIU to do those investigations. Even though the FIU is part of the ROP, this should not discharge the ROP from investigating ML/TF. The PPO and ROP should also endeavor to investigate more ML or TF crimes that do not originate from an STR.

14. The PPO can choose to postpone the arrest of a suspect or the seizure of money. The PPO and the ROP have sufficient powers to compel production of, search person and premises for, and seize and obtain all the records and data they would need for their investigation, whether that data is held by FIs or any other business or person.

15. Under the new AML/CFT Law, Oman has introduced a declaration system for currency, bearer negotiable financial instruments, precious metals and precious stones. The declaration threshold is OMR 6 000 (approx. EUR 12 000/USD 15 600) or the equivalent in foreign currencies. Even though the AML/CFT Law came only into force shortly before the onsite visit (July 2010), Customs had already taken steps to implement the new tasks, including placing signs in the airport and arranging a workshop in cooperation with the FIU. Customs does not yet have experience in, or technical facilities for, detecting cross-border transportation of currency, etc and they should take further measures to ensure that SRIX is effectively and fully implemented.

16. The legal requirements for cross-border movements of cash and other financial instruments are generally sufficient, with a few issues that should be amended or clarified. The AML/CFT Law seems to apply to travellers and carriers, but mail and containerized cargo are not explicitly referred to. The pecuniary sanction for natural persons does not seem dissuasive, principally because the fine of OMR 5 000 is even lower than the declaration threshold of OMR 6 000. The authorities pointed out that confiscation is also possible and is regarded as a sanction. However, according to the AML/CFT Law confiscation may be ordered by the court if the violation has been committed in the name or on behalf of a legal person. Since no sanctions have been issued yet and the law is relatively new, the effectiveness of the measures has not been established.

Preventive measures – Financial institutions

17. The Omani financial system comprises a banking sector with two types of banks (commercial banks and specialized banks) and a non-banking financial sector that includes financing companies (conducting financial leasing and hire purchase activities), exchange companies, companies operating in securities, and insurance companies. All these entities are covered by the FATF definition of financial institution. The Central Bank of Oman (CBO) is the prudential supervisor for all banks, financing companies and exchange companies. The Capital Market Authority (CMA) supervises securities and insurance companies.

18. To complement the AML/CFT Law and its outgoing ER that apply to all financial institutions, CBO and CMA have issued specific sets of regulations and guidelines for each of the sectors under their supervision. However, CMA and CBO had different approaches regarding these regulations and guidelines. CMA issued two very comprehensive circulars for its two sectors, with direct and detailed obligations addressing various AML/CFT issues. These two circulars can be considered as other enforceable means (as defined by the FATF). CBO issued a number of circulars for the sectors under their supervision. Some of these circulars contain clear enforceable obligations. Other circulars, however, only attach copies of international standards and guidance papers (accompanied by an instruction to implement these international standards) and these cannot be regarded as enforceable means, as they are considered supervisory guidance. As a result, great variations in implementation were cited among CBO-supervised entities. The major driver for those FIs that applied more comprehensive systems was either the experience of the compliance officers in charge, or the FI's internal policies in the cases where the FI is an Omani branch or subsidiary of a large international financial group (or both).

19. Although the AML/CFT Law and the outgoing ER include basic provisions related to customer due diligence (CDD), most of these provisions are insufficient to meet the FATF Recommendations. Furthermore, the definition of politically exposed persons (PEPs) in the AML/CFT law needs to be revised in order to be fully in line with the FATF definition. Insurance companies should be obliged to take reasonable measures to establish the source of wealth and the source of funds of beneficial owners identified as PEPs. Effective compliance with PEP requirements was lacking, especially for non-bank FIs. In addition, banks, finance companies and exchange companies should be obliged to apply Recommendations related to PEPs, correspondent banking, non face-to-face business, new payment methods, and third parties.

20. The newly issued AML/CFT Law permits the exchange of information between FIs, regulatory authorities, the FIU and other competent authorities. However, until recently, the flow of information between some of these entities was likely affected by restrictions of the old AML Law, which required that information requested by the PPO should be submitted through the CBO or other competent supervisory authorities. In addition, the outgoing ER still requires that if the competent authority deems it necessary to obtain any additional information relating to the suspicious transaction, it shall submit an application to that effect to the PPO specifying the nature of the information and the justifications for its obtainment; however, these provisions were updated the AML/CFT Law which provides the FIU with a direct flow of information. With regard to the exchange of information between financial institutions where this is required by the FATF Recommendations, there was no requirement to overrule secrecy provisions currently in effect.

21. There are few gaps in the legal system for records keeping, such as the fact that there is no requirement to maintain records for longer than standard periods on request by a competent authority. FIs should also be required to provide all customer and transaction records and information *on a timely basis* to domestic competent authorities. Despite these legal gaps, all FIs that the assessment team met with confirmed keeping records of the identification data, account files and business correspondence for

10 years, or more if requested by competent authorities. The assessment team did not come across any indication that customer and transaction records and information were not provided on a timely basis to competent authorities whenever requested.

22. The requirement for transaction monitoring is explicitly noted in Oman's outgoing ER. FIs are required to establish electronic data systems for the purposes of tracking and reporting unusual transactions. While examples of unusual transactions are provided in the outgoing ER, there is a clear lack of understanding by FIs on the difference between monitoring of unusual transactions and the identification of suspicious financial transaction involving criminal activity for the purpose of reporting. More importantly, FIs are uncertain of the appropriate criteria that would capture transactions judged to be unusual for the purpose of monitoring.

23. Oman's AML/CFT system does not include a formal mechanism by which the supervisory authorities alert their FIs of countries that do not apply the FATF Recommendations. While the outgoing ER states that financial transaction with high risk jurisdictions should be monitored, there is no evidence that FIs adequately apply this obligation. Moreover, Oman has not established a mechanism for applying counter-measures with respect to jurisdictions that do not adequately apply the FATF Recommendations. The authorities were unaware of previous FATF public statement calling for countermeasures to be applied in certain cases. The lack of awareness of FATF's call for action and the authorities' failure to advise its FIs of the risks emerging from the weak AML/CFT systems of other countries presents a gap in Oman's ability to take responsive action and protect its financial system.

24. As for the suspicious transactions reporting in Oman, the statistics show a steady increase in the number of STR filings since 2002 with a significant spike in 2009 where the number of STRs doubled from the previous year of 29 to 60 STRs. However, the level of reporting is still very low in Oman. To date, no STRs have been filed by insurance, investment or finance companies and of the total STRs filed so far, all relate to suspicious transactions concerning proceeds of crime and none have been linked to terrorism or terrorist financing. The limited understanding of the potential ML/TF threat of the financial sector raises significant deficiencies in the effectiveness of Oman's STR system. To address the issue of effectiveness, Oman authorities should take greater efforts to increase awareness among the private sector on the potential ML/TF threats and supervisory authorities should provide clear guidance on what constitutes suspicious transactions.

25. The AML/CFT Law empowers the competent regulatory entities to verify the compliance of all FIs, non-financial businesses and professions, and non-profit associations and bodies under their supervision or control. The CBO is the supervisory authority for licensed FIs covering banks, finance and leasing companies, and money exchange business while the CMA supervises the securities and insurance sector. Both supervisory authorities have the power to conduct onsite inspections and are generally thorough in covering the prudential health of the FI as well as their AML/CFT procedures and policies in place. While authorities have sufficient powers to monitor FIs under their supervision, there is a lack of effectiveness in ensuring compliance of AML/CFT requirements. Authorities should utilize their full sanctioning powers for violation of AML/CFT requirements. While Oman's supervisory authorities have a broad list administrative sanctioning powers, they have not proved to be effective or dissuasive. With only one instance of administrative penalties imposed so far for an AML violation, the number is too low and ineffective.

Preventive measures – Designated non-financial businesses and professions

26. Not all DNFBPs exist in Oman. The existing sectors in Oman that are relevant for this assessment are: *i)* real estate agents, *ii)* dealers in precious metals and stones and *iii)* lawyers and legal advisers and accountants. Trust and Company Services could be partially conducted by lawyers and

accountants at the formation stage of legal persons, however, the legal basis supporting their engagement in such services could not be established. In addition to dealers in precious metals and stones who are subject to the supervision of the Ministry of Commerce and Industry (MOCI), a number of exchange companies in Oman are licensed to deal in gold bullion. Just like all other services conducted by exchange companies, dealing in bullions by exchange companies is also under the licensing requirements and supervision of the CBO. Casinos in all its forms are not permitted in Oman. They can be neither licensed nor registered as per the Omani authorities. Although covered under the new AML/CFT Law, notaries (notary public) are civil servants subject to the Directorate General of Courts in the Ministry of Justice.

27. All obligations applicable to FIs under the AML/CFT Law are also applicable to DNFBPs. Besides being subject to obligations under the AML/CFT Law, real estate brokers, dealers in precious metals and stones and accountants are subject to a decision by the MOCI, which partially covers the requirements of identification of clients, record keeping, reporting suspicious transactions, the use of modern technologies, training and other requirements. Exchange companies dealing in bullion are subject to a set of regulations taking the form of circulars issued by the CBO. Lawyers were not subject to any obligations other than those set in the AML/CFT law and the outgoing ER. The deficiencies identified for FIs' are the same for the DNFBPs-sector. The effectiveness of the framework for DNFBPs is generally rather limited, mainly due to the recent enactment of the AML/CFT Law, and low ML/TF risk perception by the businesses that are covered.

Legal persons and arrangements & non-profit organisations

28. Legal persons are obliged to register at the Commercial Register. The registered information in the register covers ample data on companies including the owners of the shares, but it does not sufficiently cover the beneficial ownership and control of legal persons. Also, in case a partner is a foreign company, the beneficial owner(s) of this foreign company is not registered. The public has a right to access the information recorded in the Commercial Register. Authorities, such as the ROP and FIU, have online access to the complete files.

29. Oman has a legal arrangement known as *waqf* (plural: *awqaf*). The Minister of Awqaf and Religious Affairs has the right of general supervision over all *awqaf*. The *waqf* deed may contain information on the beneficiaries, but does not contain information on the beneficial owner. All *awqaf* are registered, and supervised by a judge. Overall, this system for controlling *awqaf* outperforms the systems for controlling legal arrangements of other countries. The only remaining issue is the lack of a requirement to disclose information on beneficial ownership (in addition to the beneficiary) on the *waqf* deed.

30. The authorities have taken a comprehensive approach towards NPOs already since 2000 and there is a high level of awareness and knowledge of the risk of NPOs to be misused for illegal purposes. The Ministry of Social Development (MSD) collects and registers ample information on the activities, size and other features of the NPOs, and the MSD inspectors will visit NPOs regularly. NPOs are a category of reporting entities and the complete legal framework of the AML/CFT Law applies to all NPOs. In addition, the AML/CFT Law obliges competent regulatory entities to establish the necessary measures to determine the criteria governing the ownership, management and operation of non-profit associations and bodies. Despite the lack of a formal (written) review of the laws and regulations for NPOs, from the interviews with the authorities, the recent update of the requirements with the enactment of the AML/CFT Law, and the current drafting of the Civil Association Law, it is inherent that Oman has in fact reviewed its laws and regulations.

National and international co-operation

31. Oman has accessed to the Vienna and Palermo Conventions, and enacted legislation that covers their key AML requirements. Oman has criminalized the participation in a criminal organization but only when the purpose of the organization is committing a transnational organized crime, or when it is a terrorist organization. On the other hand, and although Oman has not signed nor ratified the TF Convention, most of its provisions are implemented in the Sultanate. TF has been criminalized but lacks the level of detail required to fully comply with the requirements set out in the TF Convention.

32. With regard to ML and TF, Oman can provide mutual legal assistance (MLA), covering the tracing or seizure of any property, proceeds, or instrumentalities, in case there is a signed agreement or on the basis of reciprocity. As for predicate offences, it appears that Oman cannot provide MLA on the basis of reciprocity. In these cases, MLA relations are primarily governed by the existing bilateral and multi-lateral treaties. MLA statistics provided by the authorities reflect that Oman has approved all the MLA requests it received. However, such assistance was not provided in a timely manner, and only few requests have been received.

33. The authorities did not provide any information on cases where MLA has been granted in the fight against terrorism and TF. Given the lack of statistics and further information, the assessment team was not able to assess whether and to what extent Oman is able to provide mutual legal assistance in a timely and effective manner, nor that the overall MLA framework regarding TF is implemented in an effective way. It should be however noted that the deficiencies in the TF offense described under SRII may impact on Oman's ability to provide MLA where dual criminality is a precondition. Such impact may likely be limited given the exceptional circumstances where dual criminality is required and the lack of unduly restrictive requirements.

34. Both ML and TF offences are extraditable offences. However, in the absence of comprehensive statistics, the assessment team was unable to confirm the effectiveness of the extradition system in Oman.

Other issues

35. Oman has set up two coordination committees to deal with general ML/TF issues, and a specific committee that deals with terrorism issues. Outside this formal framework, the assessment team noted a high degree of effective informal cooperation and coordination between most agencies, with the exception of PPO and the Ministry of Foreign Affairs (MOFA). MOFA and the AML/CFT community need to connect more effectively to enhance compliance with the requirements to freeze terrorist assets. Also, the PPO should become more engaged in AML/CFT issues, and foster AML/CFT awareness within its organisation.

36. Statistics gathering is generally sufficient, and in the case of the ROP excellent. However, more needs to be done to ensure proper recording of ML cases, as the assessment team witnessed that the statistics of ML cases reported to the assessment team varied from time to time during the assessment process. Oman has just enacted its new AML/CFT Law, and in preparation, the authorities have used the above-mentioned coordination committees to review the previous AML system first.

37. Omani government organs have limited, but generally well trained, number of staff at the national (policy) level. This enables the authorities to cooperate effectively and the assessment team did not notice any agencies that have a significant shortage of (trained) staff.

38. The assessment team extends its heartfelt gratitude and thanks to H.H. Sayyid Marwan bin Turki bin Mahmud Al-Sa'id, Director General of Economic Affairs, Ministry of National Economy, and Head of

the Technical Committee for Combating ML/TF, his aides, and all relevant Omani authorities and private sector bodies for their genuine help and assistance that enabled the team to carry out its mission in such a fruitful, transparent and constructive manner.

TABLE 1: RATINGS OF COMPLIANCE WITH FATF RECOMMENDATIONS.

The rating of compliance vis-à-vis the FATF Recommendations should be made according to the four levels of compliance mentioned in the 2004 Methodology (Compliant (C), Largely Compliant (LC), Partially Compliant (PC) Non-Compliant (NC)), or could, in exceptional cases, be marked as not applicable (na).

Forty Recommendations	Rating	Summary of factors underlying rating ¹
Legal system		
1. ML offence	LC	• Low number of convictions for ML compared to the number of criminal investigations for predicate offenses that generate proceeds. • ML offence does not cover “the concealment or disguise of the disposition of property”.
2. ML offence – mental element and corporate liability	LC	• Criminal liability for ML does not extend to all legal persons. • Low number of convictions for ML compared to the number of criminal investigations for predicate offenses that generate proceeds.
3. Confiscation and provisional measures	LC	• Lack of effectiveness in ML and predicate cases due to lack of use of legal provisions.
Preventive measures		
4. Secrecy laws consistent with the Recommendations	LC	• No requirement to overrule the current secrecy laws with regard to permitting the sharing of information between financial institutions (where required by Rec. 7, 9 and SR VII) • Timeliness of information requested by the Public Prosecution and the competent authority is likely affected due to legal restrictions under the old AML legal framework².
5. Customer due diligence	NC	• Incomplete requirement regarding prohibiting FIs from keeping anonymous accounts and accounts in fictitious names. • There is no specific guarantee in a primary or secondary legislation that, in case numbered accounts do exist, financial institutions are required to maintain them in such a way that full compliance can be achieved with the FATF Recommendations • FIs are not required by a primary or secondary legislation to apply CDD when:

¹ These factors are only required to be set out when the rating is less than Compliant.

Forty Recommendations	Rating	Summary of factors underlying rating ¹
		○ Establishing business relations. ○ Carrying out occasional transactions above the applicable designated threshold (USD/€15,000). This also includes situations where the transaction is carried out in a single operation or in several operations that appear to be linked; ○ Carrying out occasional transactions that are wire transfers in the circumstances covered by the Interpretative Note to SR VII; ○ There is a suspicion of ML or TF, regardless of any exemptions or thresholds that are referred to elsewhere under the FATF Recommendations; or Methodology for Assessing Compliance with the FATF 40 Recommendations and the FATF 9 Special Recommendations ○ The financial institution has doubts about the veracity or adequacy of previously obtained customer identification data. • Neither the AML/CFT Law nor the ER requires that FIs should verify customer's identity using reliable, independent source documents, data or information and also neither of them requires that identification procedures apply for both permanent and occasional customers whether natural or legal persons or legal arrangements. • FIs are not required by a law or regulation to verify that any person purporting to act on behalf of the customer (who is a legal person or a legal arrangement) is so authorized, and identify and verify the identity of that person. • Incomplete definition regarding the beneficial owner. • FIs are not required by a primary or secondary legislation to determine whether the customer is acting on behalf of another person, and then take reasonable steps to obtain sufficient identification data to verify the identity of that other person. • Effectiveness regarding the beneficial owner. • There are no requirements for banks, finance companies and exchange companies to obtain information on the purpose and intended nature of business relationship. • Most FIs do not have systems in place to acquire information on the purpose and intended nature of the business relationship. • Effectiveness regarding the monitoring and updating CDD information. • Only partial requirements exist for banks, finance companies and exchange companies with regard to applying enhanced due diligence for higher risk categories of customer, business relationship or transaction • No guidance was given to companies operating in securities, banks, finance companies and exchange companies on enhanced due diligence procedures to be applied in cases of high risk customers. • Effectiveness regarding the applying enhanced due diligence to high risk customers. • Exception for insurance companies cannot be recognized as being in line with c.5.11 which states that "Simplified CDD measures are not acceptable whenever there is suspicion of ML or TF or specific higher risk scenarios apply". Also Life insurance policies where

Forty Recommendations	Rating	Summary of factors underlying rating ¹
		annual premium is no more than RO 500 (approximately equivalent to \$1300 which is considered higher than the FATF threshold), or, a single premium of no more than RO 1000 (approximately equivalent to \$2600 which is also slightly higher than the FATF threshold) • Securities and insurance companies are permitted to conduct identification after the business relationship with the customer has commenced. • Banks, finance companies and money exchange companies are not prohibited to open the account, commence business relations or perform the transaction and they are not required either to consider making a suspicious transaction report whenever they fail to apply CDD. • Banks, finance companies and money exchange companies are not under an obligation that where they have already commenced the business relationship, and they are unable to apply CDD, they should terminate the business relationship and consider making a suspicious transaction report. • Lack of effectiveness regarding the requirement to consider making a suspicious transaction report whenever they fail to apply CDD. • Financial institutions are not fully required to apply CDD requirements to existing customers on the basis of materiality and risk and to conduct due diligence on such existing relationships at appropriate times. • Lack of effectiveness regarding applying CDD on existing customers.
6. Politically exposed persons	NC	• Non complete definition of politically exposed persons in the AML/CFT law. • Banks, finance companies, exchange companies and insurance companies are not required to put in place appropriate risk management systems to determine whether a potential customer, a customer or the beneficial owner is a politically exposed person. • Banks, finance companies, exchange companies are not required to obtain senior management approval for establishing business relationships with a PEP. • There are no requirements for any FI in Oman to obtain senior management approval to continue the business relationship, where a customer has been accepted and the customer or beneficial owner is subsequently found to be, or subsequently becomes a PEP. • Banks, finance companies and exchange companies are not under any obligation to take reasonable measures to establish the source of wealth of customers identified as politically exposed persons and the source of wealth and funds of beneficial owners identified as politically exposed persons. • Insurance companies are not under any obligation to take reasonable measures to establish the source of wealth and the source of funds of beneficial owners identified as PEPs. • Banks, finance companies and exchange companies are not subject to any requirements to conduct enhanced ongoing monitoring on the business relationship with PEPs.

Forty Recommendations	Rating	Summary of factors underlying rating ¹
		• Lack of effectiveness in applying requirements under R.6 especially in nonbank financial institutions.
7. Correspondent banking	NC	• Financial institutions in Oman are not required to gather sufficient information about a respondent institution to understand fully the nature of the respondent's business and to determine from publicly available information, the reputation of the institution and the quality of supervision, including whether it has been subject to a ML or TF investigation or regulatory action. • Financial institutions in Oman are not required – by a law or regulation or any other enforceable means - to assess the respondent institution's AML/CFT controls, and ascertain that they are adequate and effective. • Financial institutions in Oman are not required – by a law or regulation or any other enforceable means - to obtain approval from senior management before establishing new correspondent relationships. • Financial institutions in Oman are not required - by a law or regulation or any other enforceable means - to document the respective AML/CFT responsibilities of each institution in a correspondent relationship. • Where a correspondent relationship involves the maintenance of payable-through accounts, FIs in Oman are not required by a law or regulation or any other enforceable means to be satisfied that their customer (the respondent financial institution) has performed all the normal CDD obligations set out in R.5 on those of its customers that have direct access to the accounts of the correspondent financial institution; and the respondent financial institution is able to provide relevant customer identification data upon request to the correspondent financial institution. • Lack of effectiveness with regard to applying requirements under R.7 especially for exchange companies and securities companies.
8. New technologies & non face-to-face business	PC	• No requirement for banks, finance companies, and exchange companies to have policies in place or take such measures as may be needed to prevent the misuse of technological developments in ML or TF schemes. Only limited requirements in this respect exist for insurance companies. • Banks, finance companies and exchange companies are not required to have policies and procedures in place to address any specific risks associated with non-face to face business relationships or transactions whether when establishing customer relationships or when conducting ongoing due diligence. • Banks, finance companies and exchange companies are not required to have measures for managing non-face to face business relationships or transactions risks including specific and effective CDD procedures that apply to non-face to face customers. • Lack of adequate policies and procedures in place to address specific risks associated with non-face to face business relationships or transactions when conducting ongoing due diligence.

Forty Recommendations	Rating	Summary of factors underlying rating ¹
9. Third parties and introducers	PC	• Banks, finance companies and exchange companies are not under any obligation for applying requirements under R.9. • Insurance companies are not bound by a time frame in order to immediately obtain necessary CDD information from third parties. • In determining in which countries the third party that meets the conditions can be based, companies operating in securities are not required to take into account information available on whether those countries adequately apply the FATF Recommendations. • Insurance companies are not required to satisfy themselves that the third party has measures in place to comply with the CDD requirements set out in R.5 and R.10. • FIs did not seem to be collecting enough information on whether the introducer has measures in place to comply with, the CDD requirements set out in R.5 and R.10. • Authorities did not actively assist FIs in determining what countries do not sufficiently apply the FATF Recommendations, or what factors should be taken into account to determine what countries do not sufficiently apply the FATF Recommendations.
10. Record keeping	LC	• Financial institutions are not required by a primary or secondary legislation to maintain all necessary records on transactions, both domestic and international, for longer periods if requested by a competent authority in specific cases and upon proper authority. • Financial institutions are not required by a primary or secondary legislation to maintain records of the identification data, account files and business correspondence, for longer periods if requested by a competent authority in specific cases and upon proper authority. • There is no requirement in a primary or secondary legislation on the timeliness of providing all customer and transaction records and information to domestic competent authorities upon appropriate authority.
11. Unusual transactions	PC	• Lack of clarity on what constitutes unusual transactions as a separate from the reporting of suspicious transactions • Limited supervision and enforcement action against financial institutions pertaining to monitoring obligations • Lack of guidance by authorities to financial institutions on what raising awareness on monitoring unusual transactions
12. DNFBP – R.5, 6, 8-11	NC	• The deficiencies in CDD obligations identified for financial institutions (Recommendation 5) also apply to DNFBPs. • The deficiencies in obligations under R.6, R.8, R.10 and R.11 identified for financial institutions also apply to DNFBPs. • DNFBPs are not under any obligation for applying requirements under R.9. • Lack of effectiveness for exchange companies dealing in bullion, real estate brokers and accounting offices in identifying the beneficial owner, obtaining information on the purpose and intended nature of business relationship, ongoing monitoring, applying enhanced CDD

Forty Recommendations	Rating	Summary of factors underlying rating ¹
		on high risk customers, lack of effectiveness regarding the requirement to consider making a suspicious transaction report whenever they fail to apply CDD and applying CDD on existing customers. • Lack of effectiveness for dealers in precious metals in applying most of requirements under R.5 • Lack of effectiveness for all DNFBPs in applying requirements under R.6, R.8, R.9 and R.11. • Lack of effectiveness for lawyers in applying requirements under R.12.
13. Suspicious transaction reporting	LC	• Low level of reporting raise questions of effectiveness • Reporting of STRs is heavily concentrated by a single financial sector
14. Protection & no tipping-off	C	The Recommendation is fully observed.
15. Internal controls, compliance & audit	LC	• No enforceable obligations were given to banks and other entities supervised by the CBO with regard to the establishment of an audit function or the responsibilities such a function has to take. • Employee screening required by the CBO was only limited to senior management and compliance officers in banks and no employee screening requirements were available for exchange and finance companies. • Effectiveness issues with regard to: (i) Quality of FIs' internal policies, (ii) Qualifications of the compliance officer, (iii) Internal audit function in nonbank FIs, (iv) Quality of training provided to employees in most FIs, (v) Employees screening through external sources.
16. DNFBP – R.13-15 & 21	PC	<i>Application of R13</i> • Lack of understanding of the ML/TF risk and requirements of the AML/CFT law • Absence of filings from DNFBPs indicates a lack of effectiveness in the STR regime. <i>Application of R15</i> • Existing regulations for the DNFBP sector does not address the requirement to provide a designated staff responsible for AML/CFT compliance should also have access to customer information on a timely basis • Entities are not required to establish policies and procedures. • Training requirement does not include the provision of training on AML/CFT obligations. • Lawyers are not required to implement internal controls. • There is no requirement to establish an audit function or a screening procedure for employees.

Forty Recommendations	Rating	Summary of factors underlying rating ¹
		<i>Application of R21</i> • There are no provisions covering the possibility of DNFBPs to apply special attention to transactions from countries that have weak AML/CFT system. • There is no mechanism in place to advise DNFBPs about weaknesses in the AML/CFT system of other countries. • There are no mechanisms to apply counter measures to countries who continue not to apply or insufficiently apply FATF recommendations.
17. Sanctions	PC	• Administrative fines applied are low and nonmonetary sanctions are not dissuasive • Unsatisfactory level of effectiveness of the sanctioning regime
18. Shell banks	LC	• Financial institutions are not sufficiently required to satisfy themselves that their foreign correspondent does not permit its accounts to be used by shell banks.
19. Other forms of reporting	NC	• There is no evidence that Oman has considered implementing a system for reporting currency transaction for regulated sectors
20. Other NFBP & secure transaction techniques	C	The Recommendation is fully observed.
21. Special attention for higher risk countries	PC	• No mechanism for applying counter-measures • No process in place for informing financial institutions to jurisdiction that pose a ML/TF vulnerability • Lack of guidance from authorities regarding what financial institutions should do to identify countries with significant weakness in AML controls
22. Foreign branches & subsidiaries	NC	• Only principles covered by CBO Circular BM610 were partially subject to requirements under R.22 for banks, finance companies and exchange companies. • Insurance companies are not covered by any of the requirements under R.22. • Foreign subsidiaries of securities companies are not under any obligation regarding requirements under R.22. • Most FIs showed insufficient knowledge of requirements under R.22.
23. Regulation, supervision and monitoring	LC	• The risk of unregulated informal money transfers should be addressed • Fit and Proper criteria is not applied to all sectors • There is a lack of staff to effectively monitor all financial institutions

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24. DNFBP - regulation, supervision and monitoring	NC	• No effective system in place for the oversight and supervision of compliance with AML/CFT obligations for the DNFBP sector • Supervisory authorities do not have the ability to apply effective, proportionate and dissuasive criminal, civil or administrative sanctions.
25. Guidelines & Feedback	PC	• Guidance provided insufficient for identifying TF and ML techniques and methods • Explicit feedback to reporting entities will generate better quality STRs • Guidance issued by supervisory authorities should include helpful examples citing methods and techniques. • No guidance has been issued to the DNFBPs on their obligations.
Institutional and other measures		
26. The FIU	LC	• Although significant and positive changes in the functioning of the FIU started in 2009, the FIU had not been operating in an effective manner before that, and there are some concerns that the progress will be maintained since the 56 STRs reported between 1 January and 1 July 2010, only one had been disseminated at the time of the onsite visit. • The analysis of STRs takes longer than necessary. • The guidance by the FIU to reporting entities on STR reporting consists of issuing reporting forms, but should also give more insight into detecting suspicious transactions. • There are no publicly released periodic reports that include typologies and trends in Oman and information regarding the FIU's activities • Insufficient training on ML/TF provided to FIU staff
27. Law enforcement authorities	PC	• There has been a lack of ML or TF investigations undertaken by the ROP. • The PPO has focused its ML investigations on those coming from STRs and investigated only a few ML cases that were not related to an STR.
28. Powers of competent authorities	LC	• Up to July 2010, the indirect access to banking records to enforce judicial orders by the PPO impeded and inhibited the process of compelling information from banks.
29. Supervisors	LC	• The inspections of some sectors by supervisory authorities are under-resourced. • There is a range of sanctions available for failure to comply with the AML/CFT requirements but the sanctions imposed have been limited to date.

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30. Resources, integrity and training	LC	Some supervisory authorities (for both FIs and DNFBP) need more human and technical resources and training to carry out their respective roles effectively.
31. National cooperation	LC	Operational cooperation between the CBO, CMA, FIU, PPO and ROP is not fully effective and needs to be enhanced.
32. Statistics	LC	Statistics related to multiple sectors and authorities are not readily available.
33. Legal persons – beneficial owners	LC	The registration system, though elaborate, does not contain information on beneficial ownership of legal entities, but the authorities do have the powers to obtain that information.
34. Legal arrangements – beneficial owners	LC	The assessment team was unable to confirm that beneficial ownership is available.
International Cooperation		
35. Conventions	LC	- There are minor shortcomings in the implementation of the Vienna and Palermo Conventions. - The TF Convention is not ratified, and there are minor shortcomings in the implementation.
36. Mutual legal assistance (MLA)	LC	- There are no clear and efficient processes for the execution of mutual legal assistance requests in a timely way and without undue delays. - Effectiveness could not be fully assessed due to limited statistics and information on practical cases being available. - Effectiveness is low in cases where statistics and case examples are available to the assessment team, especially regarding the fact that assistance was not provided in a timely manner.
37. Dual criminality	LC	- Effectiveness could not be fully assessed due to limited statistics and information on practical cases being available. - Effectiveness is low in cases where statistics and case examples are available to the assessment team, especially regarding the fact that assistance was not provided in a timely manner.
38. MLA on confiscation and freezing	PC	- Lack of implementation / effectiveness - Oman has no legal basis to respond to a confiscation related MLA request. - Oman has no legal basis to coordinate confiscation actions with other countries. - Oman has not considered setting up an asset forfeiture fund.
39. Extradition	LC	Effectiveness could not be fully assessed due to limited statistics and information on practical cases being available.

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40. Other forms of cooperation	LC	There is the legal authority to exchange information with foreign counterparts but while the FIU and the ROP have made use of this, the financial supervisors have not made use of this authority.

Nine Special Recommendations	Rating	Summary of factors underlying rating
SR.I Implement UN instruments	PC	- The TF Convention is not ratified, and there are minor shortcomings in the implementation. - Limited implementation of UNSCR 1267. - Lack of implementation of UNSCR 1373.
SR.II Criminalize terrorist financing	LC	- TF definition does not cover the financing of an individual terrorist. - Terrorist act's definition is not fully consistent with Article 2, Paragraph 1(b) of the UN TFC. - Effectiveness cannot be established.
SR.III Freeze and confiscate terrorist assets	NC	- No laws and procedures in place to implement UNSCR 1373 - Although names of designated persons are circulated to concerned parties in order to freeze any related funds, there are gaps in the legal framework and no procedures are in place to implement most of UNSCR 1267 and successor resolutions.
SR.IV Suspicious transaction reporting	LC	Lack of STRs on TF adds to inability to determine effectiveness of the regime.
SR.V International cooperation	LC	Shortcomings relating to R36/37/38/39/40 have a negative impact on this Rec.
SR VI AML requirements for money/value transfer services	PC	- Deficiencies identified in relation to the effective implementation of requirements under Recommendations (4-11, 13-15, 17, 21-23 and SRI-IX) affect the rating of compliance with SR.VI. - MVT service operators are not required to maintain a current list of their agents which must be made available to the designated competent authority. - Effectiveness of sanctions imposed on MVT services operators could not be established while shortcomings have been identified. - Weaknesses in supervisory framework to detect informal money transfer services.
SR VII Wire transfer rules	PC	- Where credit or debit cards are used as a payment system to effect a money transfer, they are not covered by requirements related to SRVII. - Financial institutions conducting transfers are not required to include the originator's account number (or a unique reference number if no

Nine Special Recommendations	Rating	Summary of factors underlying rating
		account number exists) in the transfer message. • Intermediary financial institutions in the payment chain are not required to ensure that all originator information that accompanies a wire transfer is transmitted with the transfer. • Financial institutions conducting transfers are not required to keep a record for five years of all the information received from the ordering financial institution where technical limitations prevent the full originator information accompanying a cross-border wire transfer from being transmitted with a related domestic wire transfer. • Beneficiary FIs in Oman are not required to adopt effective risk-based procedures for identifying and handling wire transfers that are not accompanied by complete originator information. • There is also no requirement that the lack of complete originator information may be considered as a factor in assessing whether a wire transfer or related transactions are suspicious and, as appropriate, whether they are thus required to be reported to the financial intelligence unit or other competent authorities. • There is no requirement as well for the beneficiary financial institution to consider restricting or even terminating its business relationship with financial institutions that fail to meet SR.VII standards. • Insufficient monitoring regarding transfers lacking full originator information. • Effectiveness regarding sanctions applied in case of failures to comply with requirements under SR.VII could not be established.
SR.VIII Non-profit organisations	C	The Recommendation is fully observed.
SR.IX Cross Border Declaration & Disclosure	NC	• Since the AML/CFT Law came only into force very recently, effective implementation cannot be established. • The pecuniary fine is not effective, proportionate and dissuasive and the effectiveness of the sanctions has not yet been tested. • The AML/CFT Law is unclear if confiscation is a measure that the Court can order for natural persons in cases of false declarations or failures to declare. • At the time of the onsite visit, sufficient mechanisms to detect false declarations or failure to declare had not yet been developed. • There is insufficient authority in the AML/CFT Law to request and obtain further information from the carrier. • The AML/CFT Law is unclear if Customs is able to restrain the currency or other financial instruments for a reasonable time to ascertain whether evidence of ML/TF may be found. • The information on all declarations is not sufficiently securely safeguarded. • There are no red flags for detecting cross-border movements of currency and other financial instruments. • There has been one workshop for 60 Customs officers, which is

Nine Special Recommendations	Rating	Summary of factors underlying rating
		insufficient training on SRIX. • The declaration requirement does not explicitly cover shipment of currency and other financial instruments through mail and containerized cargo.