

FATF



Anti-money laundering and counter-terrorist financing measures

Iceland

September 2021

3rd Enhanced Follow-up Report &
Technical Compliance Re-Rating

Follow-up report





The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF Recommendations are recognised as the global anti-money laundering (AML) and counter-terrorist financing (CTF) standard.

For more information about the FATF, please visit the website: www.fatf-gafi.org

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Iceland's 3rd Enhanced Follow-Up Report

1. Introduction

The FATF Plenary adopted the mutual evaluation report (MER) of Iceland in February 2018¹. This FUR analyses Iceland's progress in addressing the technical compliance deficiencies identified in its MER, relating to R. 28.

Iceland previously provided to Plenary two FUR with re-rating requests (June 2019² and October 2020³). Overall, the expectation is that countries will have addressed most if not all technical compliance deficiencies by the end of the third year from the adoption of their MER. This report does not address Iceland's progress to improve its effectiveness.

2. Findings of the MER, 1st and 2nd Enhanced Follow-Up Reports

The MER and Iceland's 1st and 2nd enhanced follow-up reports rated Iceland's technical compliance as follows:

Table 1. Technical compliance ratings, October 2020

R 1	R 2	R 3	R 4	R 5	R 6	R 7	R 8	R 9	R 10
C	C	C	LC	LC	C	C	LC	C	C
R 11	R 12	R 13	R 14	R 15	R 16	R 17	R 18	R 19	R 20
C	C	PC	LC	PC	C	C	LC	C	C
R 21	R 22	R 23	R 24	R 25	R 26	R 27	R 28	R 29	R 30
C	C	LC	LC	C	LC	C	PC	LC	C
R 31	R 32	R 33	R 34	R 35	R 36	R 37	R 38	R 39	R 40
C	C	LC	C	LC	LC	LC	LC	LC	LC

Note: There are four possible levels of technical compliance: compliant (C), largely compliant (LC), partially compliant (PC), and non-compliant (NC). Source: Iceland Mutual Evaluation Report, November 2017: <https://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-Iceland-2018.pdf>

Mr. Tiago João Santos e Sousa Lambin, Senior Inspector, Instituto dos Mercados Públicos do Imobiliário, from Portugal, conducted the analysis of this re-rating request.

¹ www.fatf-gafi.org/publications/mutualevaluations/documents/mer-iceland-2018.html

² www.fatf-gafi.org/media/fatf/documents/reports/mer4/FUR-Iceland-2019.pdf

³ www.fatf-gafi.org/media/fatf/documents/reports/fur/Follow-Up-Report-Iceland-2020.pdf

Section 3 of this report summarises the progress Iceland has made in improving technical compliance. Section 4 sets out the conclusion and a table showing R.28 re-rated.

3. Overview of progress to improve technical compliance

This section summarises Iceland's progress to improve its technical compliance by addressing the minor technical compliance deficiencies identified in the MER.

3.1 Progress to address technical compliance deficiencies identified in the MER

Iceland has made progress to address the technical compliance deficiencies identified in the MER in relation to R.28 and R.28 is re-rated because of this progress.

Recommendation 28 (originally rated NC; re-rated and maintained PC in 1st & 2nd FUR)

In its 4th MER, Iceland was rated NC with R.28 because of a lack of a system in place for monitoring DNFBPs' compliance with AML/CFT requirements in practice; inadequate range of enforcement or supervisory powers by supervisors and very limited risk-based outreach to the DNFBP sub-sectors.

Iceland took actions since its 1st FUR to monitor all DNFBPs following a risk-based approach. The Directorate of Inland Revenue (DIR) is in charge of supervising all DNFBPs since January 2019 and uses a RBA methodology which includes on-line questionnaires sent annually to all DNFBP's, adapted to the specificities of each DNFBP sector.

Entities are assessed using data such as annual turnover, beneficial ownership information, annual accounts, tax returns, SWIFT payments received, and other financial information available to the DIR at any given time. External information is also used when carrying out risk assessments.

The DIR risk-based approach methodology is used to determine the frequency and intensity of AML/CFT supervision of DNFBPs, considering the levels of understanding of ML/TF risks, sectors' s dimensions and diversity as well as the ML/TF risk profile produced under DIR's methodology.

In addition, the DIR has also provided guidance to all DFNBPs, particularly dealers in precious metals and stones (DPMS), lawyers and the limited lotteries and gambling activities, which were previously flagged as needing further work in Iceland's 2nd Enhanced FUR. For example, Iceland provided guidance material to the association of Dealers in Precious Metals and Stones (DPMS), e.g. Money Laundering – red flags in the cash intensive business, Money Laundering – red flags for jewellers and gold sellers and conducted presentations where DPMS were among attendees, e.g. a presentation for the Federation of Trade and Services and a presentation on targeted financial sanctions and freezing obligations. Separately, the

DIR carried out meetings with SRBs e.g. Icelandic Bar association, concerning DIR's supervisory practice regarding legal professionals and to provide feedback to the sector.

Iceland has addressed all the deficiencies identified in its MER. **On this basis, R.28 is re-rated compliant.**

3.2 Progress on Recommendations which have changed since adoption of the MER and where progress has been made

Since the adoption of Iceland's MER, 1st and 2nd FUR, no other FATF Recommendations have been amended which were not previously assessed during Iceland's follow-up process.

4. Conclusion

Overall, Iceland has made progress in addressing most of the technical compliance deficiencies identified in its MER and has been upgraded on R. 28.

Considering the progress made by Iceland since the adoption of its MER, its technical compliance with the FATF Recommendations has been re-evaluated in the following manner:

Table 2. Technical compliance ratings, October 2021

R 1	R 2	R 3	R 4	R 5	R 6	R 7	R 8	R 9	R 10
C	C	C	LC	LC	C	C	LC	C	C
R 11	R 12	R 13	R 14	R 15	R 16	R 17	R 18	R 19	R 20
C	C	PC	LC	PC	C	C	LC	C	C
R 21	R 22	R 23	R 24	R 25	R 26	R 27	R 28	R 29	R 30
C	C	LC	LC	C	LC	C	C	LC	C
R 31	R 32	R 33	R 34	R 35	R 36	R 37	R 38	R 39	R 40
C	C	LC	C	LC	LC	LC	LC	LC	LC

Note: There are four possible levels of technical compliance: compliant (C), largely compliant (LC), partially compliant (PC), and non-compliant (NC).

Iceland will remain in enhanced follow-up and will continue to inform the FATF of progress achieved on improving the implementation of its AML/CFT measures.

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3rd Enhanced Follow-up Report & Technical Compliance Re-Rating

As a result of Iceland's progress in strengthening their measures to fight money laundering and terrorist financing since the assessment of the country's framework, the FATF has re-rated the country on 1 of the 40 Recommendations.

The report also looks at whether Iceland's measures meet the requirements of FATF Recommendations that have changed since their Mutual Evaluation in 2018.

Follow-up report