

Executive Summary

1. This report provides a summary of the AML/CFT measures in place in Iceland as at the date of the on-site visit from 28 June 2017 to 12 July 2017. It analyses the level of compliance with the FATF 40 Recommendations and the level of effectiveness of Iceland's AML/CFT system, and provides recommendations on how the system could be strengthened.

Key Findings

- Iceland has taken initial steps to understand its ML/TF risks, with the completion of its first national risk assessment (NRA) in January 2017. Nevertheless, this assessment appears to be based on assumptions or a theoretical understanding of general ML/TF risks rather than information on factual ML/TF vulnerabilities and threats specific to Iceland. Similarly, there is limited evidence that this national assessment was coordinated with previous targeted risk assessments conducted by the National Police Commissioner.
- Co-ordination in the context of AML/CFT is relatively recent and largely limited to preparation of the NRA. Although co-ordination has been discussed and may occur informally and on an ad hoc basis, there is not yet an overarching strategy or functioning mechanism to ensure domestic co-ordination at the ministerial level or among competent authorities. This lack of co-ordination negatively affects Iceland's entire AML/CFT regime.
- Iceland has a good legal framework for investigation and prosecution of ML and investigative and prosecutorial authorities have developed expertise in investigating financial crimes following the 2008 bank crisis. Financial investigations are conducted in many cases and multidisciplinary teams are formed to investigate more complex cases. However, ML has not been a priority for Icelandic authorities. The lack of resources allocated to identifying, investigating and prosecuting ML results in a lower level of effectiveness in pursuing ML.
- There is evidence that financial intelligence is being used to some extent to successfully develop and prosecute major cases related to tax evasion, drug smuggling, and to a lesser extent ML/TF. Feedback from prosecutors and law enforcement authorities (LEAs) also suggests that the quality of financial intelligence has improved since 2015. Nevertheless, there are several impediments to the effective use of financial intelligence more generally, including (i) limited STR filing outside of the main commercial banks and payment institutions and (ii) lack of information sharing among competent authorities in relation to cross-border movement of currency and assets,

information on NPOs and beneficial ownership information.

- There have not been any criminal investigations or prosecutions of TF in Iceland. This may be due in part to the size, culture, geographical location and other circumstances of the country. Iceland has demonstrated effective co-operation with other countries' security services, particularly the other Nordic countries. Intelligence was shared with other countries in which active investigations were initiated. Nevertheless, there appears to be a lack of consideration of the TF vulnerabilities in Iceland by LEAs. Limited financial investigative expertise allocated to TF matters within the Icelandic police may hamper Iceland's ability to put appropriate emphasis on CFT measures.
- While the large commercial banks have some understanding of the ML risk to which they are exposed (and to a lesser extent TF), other financial institutions (FIs) and DNFBPs appear not to assess the ML/TF risk to which they are exposed and have not demonstrated an understanding of any such risks. Similarly, while the commercial banks demonstrated a reasonable understanding of their AML/CFT obligations, this understanding was much lower among other FIs and DNFBPs.
- Iceland generally has a comprehensive licencing and registration framework in place to prevent criminals and their associates from holding or being the beneficial owner of a significant or controlling interest in FIs and to a lesser extent DNFBPs. While the FSA has begun to identify some areas of risk, inspections and other supervisory measures are not yet conducted using a comprehensive risk-based approach. DNFBP supervisors, including self-regulating bodies (SRBs), have limited understanding of the risks facing their sectors, are not fully aware of their responsibilities as AML/CFT supervisors. Generally, DNFBP supervisors have not begun AML/CFT supervision of their respective sectors.
- Iceland has not assessed or identified how legal persons or foreign legal arrangements can be misused. Iceland recognises that legal persons may be misused; however, it is generally assumed that the misuse is for tax evasion. Iceland has implemented some preventative measures designed to prevent the misuse of legal persons for ML and TF, including the collection of basic and legal ownership information. In practice, it is not clear that such information is accurate and kept up-to-date and the authorities face challenges in obtaining timely access to beneficial ownership information.
- Iceland has a good legal and procedural framework for international co-operation and assistance has been provided in a timely manner in both ML and TF cases. There is, in various areas and between different authorities, effective co-operation between Iceland and the other Nordic countries. LEAs actively seek informal and formal international co-operation and legal assistance in a wide range of cases when intelligence, information or evidence is needed from other countries or when assets can be seized or frozen. However, the instances when these mechanisms have been used in relation to ML/TF are limited by the low number of ML/TF investigations.

Risks and General Situation

2. Between 2008 and 2015, Iceland focused its investigative and prosecutorial resources almost exclusively on the financial crimes that contributed to the 2008 banking collapse. During that time, competent authorities demonstrated effective co-operation and co-ordination and were able to successfully prosecute many of those whose activities contributed to the crisis. Although these investigations and prosecutions were highly successful, the dedication of resources to this issue has led to a backlog of other cases. AML/CFT preventive measures were not prioritised as part of Iceland's focus on investigating and prosecuting financial crimes related to the banking crisis.

3. Iceland had strict capital controls in place between 2008 and March 2017, which largely limited the flow of money into and out of Iceland. Any permitted cross border transactions were scrutinised by the Central Bank. These controls were lifted in March 2017 and the authorities have not considered the impact which this may have on the ML/TF risk situation in the country.

4. Iceland acknowledges in the country's NRA that organised crime (including drug related offences and human trafficking offences) has been on the increase in recent years and estimates that hundreds of millions of ISK go through the hands of organised crime groups in Iceland annually. However, Iceland typically associates reports of suspicious transactions with tax fraud, including tax evasion, customs fraud and VAT fraud. Icelandic authorities believe tax offences are the largest proceeds generating crimes in Iceland. It is not clear that this is accurate, or that the current priority given to tax offences over other forms of financial crime is warranted.

5. Iceland considers the risks of TF from within Iceland to be low. Authorities base this assessment on the lack of confirmed cases, as well as information from foreign intelligence agencies and a variety of factors related to Icelandic society (e.g. low number of immigrants from conflict zones). Although there have been a small number of investigations related to terrorism, including cases of foreign terrorist fighters transiting through Iceland, there have been no TF investigations and the authorities are not aware of any Icelandic citizens travelling abroad for terrorism purposes.

Overall Level of Effectiveness and Technical Compliance

6. Iceland's AML/CFT regime has undergone important reforms since the last assessment in 2006. In particular, steps were taken to address identified technical deficiencies in Iceland's supervisory regime for money or value transfer service (MVTs) providers and amendments were made to the AML/CFT Act with respect to correspondent banking. The technical compliance framework is particularly strong regarding international co-operation and law enforcement powers, but less so regarding transparency of legal persons and arrangements, supervision of DNFBPs and outreach to non-profit organisations.

7. In terms of effectiveness, Iceland achieves substantial results in international co-operation and moderate results in terms of collection and use of financial intelligence, investigation and prosecution of ML and confiscation of assets and instrumentalities of crime. More significant improvements are needed in other areas listed below.

Assessment of Risks, co-ordination and policy setting (Chapter 2 - IO.1; R.1, R.2, R.33)

8. Iceland completed its NRA in January 2017 and identified some areas of higher risk. Nevertheless, the ML risks identified are often generic or based on assumptions, rather than based on observation through STRs, law enforcement investigations and financial supervision, comprehensive inputs from the private sector, or developed through thorough analysis. In relation to TF risks, Iceland concluded that there is a low risk of TF based primarily on the perceived low terrorism risk and the lack of evidence of TF in Iceland to date. Nevertheless, there was no evidence that authorities considered the domestic TF vulnerabilities, including the potential for Iceland's financial sector to be misused by foreign terrorist groups.

9. The National Security Unit (NSU) also conducts its own regular terrorism threat assessments and the National Police Commissioner conducts its own periodic organised crime and terrorism threat assessment. However these threat assessments are not coordinated and were not coordinated with the NRA. As a result, there is no consistent understanding of ML/TF risks among competent authorities and the private sector.

10. Icelandic authorities admit that efforts at co-ordination in the context of AML/CFT are relatively recent and largely limited to preparation of the National Money Laundering and Terrorist Financing Risk Assessment (NRA). Although a national AML/CFT steering group exists, it has not begun functioning as a national policy and co-ordination unit. There is currently no overarching strategy or mechanism to ensure domestic co-ordination at the ministerial level or among competent authorities. This lack of co-ordination negatively affects Iceland's entire AML/CFT regime.

11. The results of the NRA were not widely disseminated to the private sector and feedback from the private sector during the on-site suggests that they receive very limited guidance from authorities on the ML/TF threats, vulnerabilities and risks in Iceland.

Financial Intelligence, Money Laundering and Confiscation (Chapter 3 - IO.6-8; R.3, R.4, R.29-32)

12. Iceland has a good legal and institutional framework for investigation and prosecution of ML and investigative and prosecutorial authorities have developed expertise in investigating financial crimes following the 2008 bank crisis. Financial investigations are conducted in many cases and multidisciplinary teams are formed to investigate more complex cases. However, ML has not been a priority for Icelandic authorities. The lack of co-ordination between relevant authorities and the lack of

resources allocated to identifying, investigating and prosecuting ML results in a lower level of effectiveness in pursuing ML.

13. LEAs and FIU-ICE have access to a wide range of information for the purposes of their investigations, including information from public databases and police records. Nevertheless, access to beneficial ownership (BO) information or information in relation to non-profit organisations (NPOs) is limited. There is evidence that financial intelligence is being used to successfully develop and prosecute major cases related to tax evasion, drug smuggling, and to a lesser extent ML. Although FIU-ICE performs operational analysis, assessors noted a lack of strategic analysis products, which would assist in understanding ML trends and methods in Iceland.

14. Law enforcement authorities (LEAs) show a high level commitment to trace and seize the proceeds of crimes, both in Iceland and abroad. Iceland has provided examples of cases where proceeds and instrumentalities (e.g., money, cars, real property) have been frozen or seized and confiscated. However, Iceland does not maintain complete statistics on assets recovered and confiscated; therefore, it is difficult to assess how effective Iceland has been in this area. There seems to be no co-ordination and little awareness among authorities of the increased risk of cross border transportation or movements of currency.

Terrorist Financing and Financing Proliferation (Chapter 4 – IO.9-11; R.5-8)

15. There have been no criminal investigations or prosecutions of TF in Iceland. This may be due in part to the size, culture, geographical location and other circumstances of the country. Iceland has demonstrated effective co-operation with other countries' security services, particularly the other Nordic countries. Intelligence was shared with other countries in which active investigations were initiated. Nevertheless, there appears to be a lack of consideration of the TF vulnerabilities in Iceland by LEAs. Limited financial investigative expertise allocated to TF matters within the Icelandic police particularly the NSU, may hamper Iceland's ability to put appropriate emphasis on CFT measures.

16. Iceland amended its legal framework in 2016 to implement targeted financial sanctions pursuant to UNSCR 1267 without delay. Nevertheless, in practice it is not clear that targeted financial sanctions (TFS) are implemented without delay, as there is a lack of clarity among competent authorities on the legal framework for implementation of TFS in Iceland. Similarly, there is a lack of clarity among the private sector on when the freezing obligation enters effect in Iceland.

17. Iceland has the legal basis to implement UNSCR targeted financial sanctions regarding financing proliferation of weapons of mass destruction. The mechanism for implementing UNSCRs relating to the Democratic People's Republic of Korea (DPRK) allows for sanctions to take immediate effect upon enactment by the UN Security Council. However, the Iran UNSCRs are implemented as transposed through into the EU legal framework and as such are not implemented without delay.

18. Supervisory authorities do not monitor or ensure compliance with TFS for TF and PF, other than issuing an alert following each update to the government's targeted financial sanctions list asking whether institutions have frozen any related assets. There is a very low level of awareness among DNFBPs and certain FIs of their responsibilities related to TFS for PF, and to a lesser extent for TF.

Preventive Measures (Chapter 5 – 10.4; R.9-23)

19. The large commercial banks have some understanding of the ML risk to which they are exposed. However, their understanding is not based on a structured risk assessment, but on assumptions and information they have collected from international sources like their correspondent banks and the FATF. Further, as regards TF, their understanding of risk is much lower. Most DNFBPs and FIs (other than those referred to above) appear not to assess the ML/TF risk to which they are exposed and have not demonstrated an understanding of any such risks.

20. The requirements for CDD and record-keeping are reasonably understood by the large commercial banks, while other FIs and DNFBPs implementation of CDD requirements is rather basic due in part to the limited supervisory outreach to date. Most of the STRs are filed by the three largest commercial banks. No STRs have been filed by DNFBPs, with the exception of the state lottery. Technical deficiencies in relation to preventative measures also have an impact on effectiveness, particularly in relation to PEP and STR requirements.

Supervision (Chapter 6 – 10.3; R.26-28, R. 34-35)

21. Iceland generally has a comprehensive licencing and registration framework in place to prevent criminals and their associates from holding or being the beneficial owner of a significant or controlling interest in FIs and, to a lesser extent, in DNFBPs.

22. Although the FSA has begun to identify some areas of risk, inspections and other supervisory measures are not conducted using a comprehensive risk based approach. DNFBP supervisors, including SRBs, have limited understanding of the risks facing their sectors, are not fully aware of their responsibilities as AML/CFT supervisors and are not adequately resourced. Generally, DNFBP supervisors have not begun AML/CFT supervision of their respective sectors; and those who have initiated this work have not taken a risk based approach.

23. Supervisory actions are largely limited to requiring corrective actions and publishing notices that identify deficiencies found at specific institutions. This is partly attributed to the lack of a comprehensive range of sanctions available to supervisors for non-compliance with AML/CFT regulations.

Transparency of Legal Persons and Arrangements (Chapter 7 – 10.5; R. 24-25)

24. The authorities have not assessed or identified how legal persons or foreign legal arrangements can be misused in Iceland.

25. Basic and legal ownership information of legal persons is generally available to authorities through annual statements filed with the business registry or from the company share register. However, the information in the annual statement and company share registry may not be kept up to date and does not include beneficial ownership where the legal owner and beneficial owner are not the same. The Business Register does not actively monitor compliance with registration obligations and no sanctions have been imposed for failure to register basic information.

26. There is limited evidence that competent authorities have timely access to beneficial ownership information.

International Co-operation (Chapter 8 – 10.2; R. 36-40)

27. Iceland has a good legal and procedural framework for international co-operation and assistance has been provided in a timely manner in both ML and TF cases. There is, in various areas and between different authorities, effective co-operation between Iceland and the other Nordic countries.

28. Law enforcement authorities actively seek informal and formal international co-operation and legal assistance in a wide range of cases when intelligence, information or evidence is needed from other countries or when assets can be seized or frozen. However, the instances when these mechanisms have been used in relation to ML/TF are limited by the low number of ML/TF investigations.

29. FIU-ICE exchanges information with foreign counterparts, particularly via the Egmont Secure Web. However, information is mostly provided on request, not spontaneously. The lack of statistics on international co-operation more generally is an impediment for the country to evaluate its effectiveness in this area.

Priority Actions

- Begin as soon as possible to revise the 2017 ML/TF risk assessment in order to more accurately reflect the available quantitative and qualitative information reflecting actual and potential illicit financial activity in Iceland.
- Develop national AML/CFT operational policies and co-ordination mechanisms to ensure competent authorities share ML/TF information on an ongoing basis and work together as appropriate to pursue criminal investigations targeting illicit finance.
- Competent authorities should conduct outreach to reporting entities to ensure provision of guidance and feedback on trends, typologies and red flag indicators for ML/TF consistent with a revised NRA. Similarly, Icelandic authorities should further enhance the human and technical resources of

FIU-ICE to enable more effective operations and increase capacity for conducting strategic analysis.

- Iceland should establish clear priorities for the law enforcement agencies responsible for investigating ML and predicate offences.
- Customs, police assigned to the borders, the DTI and other law enforcement should increase co-operation and co-ordination, especially the DTI and DPO, to enable parallel financial investigations to occur.
- Based on a comprehensive risk assessment, Iceland should take steps to ensure appropriate capacity, including available resources and financial expertise, for developing TF intelligence and conducting TF investigations, in accordance with its TF risk profile.
- Iceland should establish a framework for effective implementation of targeted financial sanctions for TF and PF. The FSA and Ministry of Foreign Affairs should establish policies and procedures for monitoring FIs and DNFBPs for compliance with the TFS for TF and PF.
- Competent authorities should ensure that FIs and DNFBPs have a risk-based approach to their AML/CFT measures and should give the reporting entities more guidance on how to establish effective AML/CFT measures.
- Supervisors should take steps to deepen their understanding of the ML/TF risks within the institutions and sectors that they supervise and should implement a risk-based approach to AML/ CFT supervision on the basis of the ML/TF risks identified.
- Iceland should increase supervisory resources at the FSA and Consumer Agency to enable appropriate on-site and off-site actions commensurate with the risks within the financial and DNFBP sectors.
- Iceland should assess the ML/TF risks associated with the different legal persons and should establish appropriate mitigating measures that are commensurate with the identified risks.

Effectiveness & Technical Compliance Ratings

Effectiveness Ratings (High, Substantial, Moderate, Low)

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
Low	Substantial	Low	Low	Low	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 (C - compliant, LC - largely compliant, PC - partially compliant, NC - non compliant)

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
PC	PC	C	LC	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
PC	NC	LC	PC	C	PC
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
PC	LC	PC	PC	PC	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
PC	LC	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	NC	LC	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
C	PC	LC	PC	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		
LC	LC	LC	LC		