



Anti-money laundering and counter-terrorist financing measures

Andorra

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

November 2021



The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism -

MONEYVAL is a permanent monitoring body of the Council of Europe entrusted with the task of assessing compliance with the principal international standards to counter money laundering and the financing of terrorism and the effectiveness of their implementation, as well as with the task of making recommendations to national authorities in respect of necessary improvements to their systems. Through a dynamic process of mutual evaluations, peer review and regular follow-up of its reports, MONEYVAL aims to improve the capacities of national authorities to fight money laundering and the financing of terrorism more effectively.

The 3rd Enhanced Follow-up Report and Compliance rating on Andorra was adopted by the MONEYVAL Committee at its 4th Intersessional Consultation (Strasbourg, 8 October - 15 November 2021).

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Andorra: Third Enhanced Follow-up Report

1. INTRODUCTION

1. The fifth-round mutual evaluation report (MER) of Andorra was adopted in September 2017, its 1st Enhanced Follow-up Report (FUR) was adopted in December 2018 and its 2nd Enhanced FUR was adopted in December 2019. The report analyses the progress of Andorra in addressing the technical compliance (TC) deficiencies identified in its MER and in the 2nd Enhanced FUR. Re-ratings are given where sufficient progress has been made. This report also analyses progress made in implementing new requirements relating to FATF Recommendations which have changed since the adoption of the last report: R.15. Overall, the expectation is that countries will have addressed most if not all TC deficiencies by the end of the third year from the adoption of their MER.

2. FINDINGS OF THE MUTUAL EVALUATION REPORT AND SUBSEQUENT FURs

2. The MER and applicable subsequent FURs rated Andorra as follows for technical compliance:

– **Table 1. Technical compliance ratings, December 2019**

R 1	R 2	R 3	R 4	R 5	R 6	R 7	R 8	R 9	R 10
LC	C	LC	C	LC	LC	C	PC	LC	LC
R 11	R 12	R 13	R 14	R 15	R 16	R 17	R 18	R 19	R 20
C	LC	LC	LC	C	LC	LC	LC	C	C
R 21	R 22	R 23	R 24	R 25	R 26	R 27	R 28	R 29	R 30
C	LC	LC	LC	LC	LC	LC	LC	LC	C
R 31	R 32	R 33	R 34	R 35	R 36	R 37	R 38	R 39	R 40
PC	C	LC	LC	LC	PC	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:* [The Andorra Mutual Evaluation Report](#) (September 2017), [Andorra's 1st Enhanced Follow-up Report](#) (December 2018), [Andorra's 2nd Enhanced FUR](#) (December 2019).

3. Given the results of the MER, Andorra was placed in enhanced follow-up¹. The first Enhanced FUR submitted by Andorra was discussed at the 57th Plenary meeting in December 2018. It analysed Andorra's progress in addressing technical deficiencies identified in its MER as well as the implementation of new requirements relating to the FATF Recommendations which have changed since the adoption of the Andorran MER (R.7, R.8 and R.21). Re-ratings were given where sufficient progress had been made, namely on Recommendations 2, 3, 7, 11, 12, 15, 16, 18, 20-23, 32 and 34. The second enhanced FUR of Andorra was discussed at the 59th Plenary meeting in December 2019. The Plenary invited Andorra to submit its 3rd Enhanced FUR for the second Plenary meeting in 2021.

4. The assessment of Andorra's request for technical compliance re-ratings and the preparation of this report were undertaken by the following rapporteur teams (together with the MONEYVAL Secretariat):

- Slovenia
- Romania

¹ Regular follow-up is the default monitoring mechanism for all countries. Enhanced follow-up involves a more intensive process of follow-up.

5. Section III of this report summarises Andorra's progress made in improving technical compliance. Section IV sets out the conclusion and a table showing which FATF Recommendations have been re-rated.

3. OVERVIEW OF PROGRESS TO IMPROVE TECHNICAL COMPLIANCE

6. This section summarises the progress made by Andorra to improve its technical compliance by:

- a) Addressing the technical compliance deficiencies identified in the MER and in the 2nd Enhanced FUR for which the authorities have requested a rating (R.8), and
- b) Implementing new requirements where the FATF Recommendations have changed since the adoption of the 2nd Enhanced FUR of Andorra (R.15).

7. For the rest of the Recommendations rated as PC (R.31 and 36), Andorra did not request a re-rating.

8. This report takes into consideration only relevant laws, regulations or other AML/CFT measures that are in force and effect at the time that Andorra submitted its country update report – at least six months before the FUR is due to be considered by MONEYVAL².

3.1. Progress to address technical compliance deficiencies identified in the MER and applicable subsequent FURs

9. Andorra has made sufficient progress to address the technical compliance deficiencies identified in the MER and applicable subsequent FURs. As a result, Andorra has been re-rated on Recommendation 8.

Recommendation 8 (Originally rated PC – re-rated as LC)

10. In its 5th Round MER, Andorra was rated PC with R.8, based on a number of deficiencies: (i) failure to use relevant sources in identifying the subset of NPOs which may be vulnerable to TF abuse (c.8.1); (ii) lack of clear policies promoting integrity and public confidence (c.8.2.(a)); (iii) limited outreach and lack of specific educational programmes (8.2(b)); (iv) lack of best practices developed with the NPO sector to address TF risks (c.8.2(c)); (v) lack of measures to encourage the use of regulated financial channels (c.8.2(d)); (vi) failure to supervise/monitor NPOs on a risk-sensitive basis (c.8.3); (vii) lack of monitoring of NPOs on the risk-based measures being applied to NPOs at risk of TF (c.8.4(a)).

11. The lack of a comprehensive risk assessment based on relevant sources was identified as a deficiency relating to c.8.1. Consequently, in its absence, it was impossible to assess each sub-criteria of c.8.1.

12. To address the deficiency identified in the 2nd Enhanced FUR for **c.8.1 (a)**, in 2020, Andorra has completed, as part of its National Risk Assessment (NRA), a specific TF risk assessment of the NPO sector. The Andorran authorities have collected information on all non-profit entities (738). The Andorran non-profit sector is mainly represented by associations and sports entities, while there are 32 foundations. The main source of information considered for this assessment was information directly supplied by the NPO sector (through responses to a questionnaire). The

² This rule may be relaxed in the exceptional case where legislation is not yet in force at the six-month deadline, but the text will not change and will be in force by the time that written comments are due. In other words, the legislation has been enacted, but it is awaiting the expiry of an implementation or transitional period before it is enforceable, in all other cases the procedural deadlines should be strictly followed to ensure that experts have sufficient time to do their analysis.

information received from the NPO sector was also corroborated by the analysis of information contained in the Registers of Associations and Foundations (although the quality of this information could be enhanced), the analysis of data held by the FIU (inspection reports, information on internal controls), the analysis of financial statements and the analysis of financial flows to and from higher risk jurisdictions.

13. The identified subset of NPOs falling within the FATF definition³ amounts to 102 entities. There are 26 NPOs identified as likely to be at TF risk, which have at least one of the following features: operating in high-risk areas (conflict zones or jurisdictions with significant political instability), operating with large amounts of cash, having significant available funds or assets, international ties, overly broad or generic name and purpose, and mainly providing service activities.

14. Overall, although there are still some extensive references made to FATF recommendations, detailed provisions within the Andorran legislation, general explanations of the TF risk, and there could be more detail on specific implications for NPOs in Andorra, the analytical value of the NPO sectorial risk assessment conducted in 2020 has improved, as it is based on relevant sources. This shortcoming can be considered as mostly addressed.

15. To address the deficiency identified in the 2nd Enhanced FUR for **c.8.1 (b)**, some general threats posed by terrorist entities to the NPOs at risk were identified and considered to be low. However, the listed threats could benefit from more context. There have been no identified cases of terrorist financing involving directly or indirectly an NPO. The risk assessment concludes to a medium-low overall TF risk for the NPO sector. This deficiency can be considered as mostly addressed.

16. To address the deficiency identified in the 2nd Enhanced FUR for **c.8.1 (c)**, the adequacy of measures, including laws and regulations, was reviewed in the NPO risk assessment conducted in 2020. The several shortcomings identified do not relate in particular to the identified subset of NPOs at risk. Specific mitigating measures have been identified in an Action Plan, which will be implemented in the following years. This deficiency is partly addressed.

17. To address the deficiency identified in the 2nd Enhanced FUR for **c.8.1 (d)**, the entire non-profit sector was assessed as part of the NRA 2020. There is a general obligation to conduct periodically an AML/CFT risk assessment (Article 4 of the AML/CFT Act). In practice, this is complemented by the fact that a sectorial analysis of NPOs is conducted every 3-4 years. This deficiency can be considered as largely addressed. Overall, c.8.1 is mostly met.

18. The deficiency identified in the 2nd Enhanced FUR for **c.8.2 (a)** was mostly addressed. A technical communiqué (CT-02/2020) was issued in February 2020 with the aim to promote integrity and public confidence in the administration and management of NPOs through several measures, such as the registration process of foundations and associations and public access to the respective registers, the implementation of fit & proper like tests in relation to the management of foundations and associations, record keeping of their funding and use of funding, and filing financial statements (which are publicly available for most NPOs). Moreover, CT-02/2020 has been amended in October 2021 to be fully in line with the outcomes of the 2020 TF risk assessment of the NPO sector; however, this change intervened too late for it to be taken into account in this FUR and fully address this deficiency.

19. The deficiency identified in the 2nd Enhanced FUR for **c.8.2 (b)** was mostly addressed. A training aimed exclusively at NPOs in relation to CFT was provided in October 2019, and 16 NPOs

³ For the purposes of this Recommendation, NPO refers to a legal person or arrangement or organization that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of "good works".

attended. In addition, the Action Plan has a specific mitigating measure aimed at enhancing training for NPOs at risk of TF abuse that is already being implemented. However, no outreach or educational programmes to donors have been conducted.

20. Andorra has addressed to some extent the deficiency identified in the 2nd Enhanced FUR for **c.8.2 (c)**. Although there were still no examples of best practices or references provided, the NPO sector was involved, for the first time, in the NRA 2020. The Action Plan contains measures aiming at the development of good practices by NPOs in a unified manner. The implementation of this measure has already started, as two best practice documents on TF risks for NPOs have been published on the website of Ministry of Justice in October 2021. However, this change intervened too late for it to be taken into account in this FUR and address this deficiency.

21. The deficiency identified in the 2nd FUR for **c.8.2 (d)** is addressed. The 2020 NPO risk assessment concluded that transactions related to NPO activities are mainly channeled through the banking system, including for international transfers. Overall, c.8.2 is mostly met.

22. The deficiency identified in the MER for **c.8.3** has been mostly addressed, since there have been some steps taken by Andorra to promote effective supervision and monitoring of NPOs at risk of TF abuse. The subset of NPOs at risk was identified, which constitutes the first step in the application of risk-based supervision. The amended AML/CFT Act, in force since January 2020, allows for a more risk-based approach in the supervision of the NPO sector (Art. 2(2)(g)) and the FATF definition of an NPO was adopted (Art. 3.19). Moreover, the UIFAND's internal procedure on supervision has been revised in November 2020. It provides a risk-based approach which translates to the determination of the risk profile of each obliged entity through the development of a risk scoring system, structured in five phases (risk identification, risk analysis, elaborating the risk profile, risk management and risk monitoring/reassessment). In addition, the Action Plan contains additional mitigating measures related to risk-based measures applicable to NPOs at risk, which are yet to be implemented. Therefore, c.8.3 is mostly met.

23. The deficiency identified in the 2nd Enhanced FUR for **c.8.4 (a)** has been mostly addressed. According to Article 55 of the AML/CFT Act, the UIFAND monitors/supervises the NPO sector for AML/CFT purposes. It has powers to compel production of information, conduct onsite inspections and issue guidelines (technical communiqués published on its website). The inspection plan is also informed by the risk profile of NPOs (see c.8.3).

24. Overall, Andorra has determined the subset of NPOs that are vulnerable to TF misuse and their features. Few minor deficiencies remain in relation to the adequacy of measures (c.8.1(c)), the lack of specific outreach to the donor community (c.8.2(b)) and best practices to be developed with the NPO sector to address TF risks (c.8.2(c)). Consequently, **R.8 should be upgraded to LC**.

3.2. Progress on Recommendations which have changed since the 2nd Enhanced follow-up

25. Since the adoption of Andorra's 2nd Enhanced FUR, the FATF has amended R.15. This section considers Andorra's compliance with the new requirements.

Recommendation 15 (Originally rated C – re-rated as PC)

26. In the 5th round MER, Andorra was rated PC with R.15, based on: (i) the absence of a general requirement for FIs to assess the ML/TF risks that arise in relation to the development of new products and new business practices, including new delivery mechanisms (c.15.1); and (ii) the lack of a requirement to undertake risk assessments prior to the launch of new products, practices and technologies, or to take appropriate measures to manage and mitigate risks identified.

27. In the 1st Enhanced Follow-Up Report (December 2018), Andorra was rated C with R.15, after having addressed the aforementioned deficiencies through Art. 9(6) of the 2017 AML/CFT Act which requires reporting entities to assess the ML/FT risks that arise in relation to the development of new products and new business practices, including new delivery mechanisms (c.15.1), and to conduct a risk assessment prior to the launching or use of such products, practices and technologies and to take appropriate measures to manage and mitigate the risks (c.15.2).

28. In October 2018, the FATF revised its Recommendation 15 to introduce new requirements for “virtual assets” (VAs) and “virtual asset service providers” (VASPs, including new definitions). In June 2019, the FATF adopted the Interpretative Note to Recommendation 15 that sets out the application of the Standards to VAs and VASPs. The FATF Methodology for assessing R.15 was amended in October 2019 to reflect amendments to the FATF Standards incorporating VA and VASP. Consequently, new criteria 15.3-15.11 were added.

29. The NRA conducted in 2020 considers the risks associated with the provision of services related to VAs. The risk assessment is a document, which demonstrates a general understanding of ML/TF risks associated with VASPs, however it lacks concrete information gathered on the VASP sector and key threats and vulnerabilities associated with VASP products and operations. Given these shortcomings, **c.15.3(a)** is partly met.

30. In the MER, Andorra was rated LC regarding R.37 to R.40. Therefore, it can be concluded that there is international cooperation in relation to money laundering, predicate offences, and terrorist financing relating to virtual assets, although, at the moment, VASPs are not supervised in Andorra. **C.15.11** is partly met.

31. Andorra has initiated amendments to the AML/CFT Law aimed at regulating VA and VASPs. Although all the relevant decisions have been made, the two legislative acts have not yet been adopted (the bill amending Law 14/2017 and the bill regulating VA and VASPs activities). According to the Rules of Procedure (*Rule 21, para 7, a*), this FUR takes into consideration only relevant laws, regulations or other AML/CFT measures that are in force and effect at the time that Andorra submitted its country update report – at least six months before comments are due on the Summary Report under the written procedure⁴. Therefore, it is too late for the aforementioned legislative acts to be taken into account. The deficiencies in relation to c.15.3 (b) to 15.10 remain until the process is concluded.

32. **Overall**, criteria 15.1 and 15.2 remain met. A specific risk assessment in relation to VAs and the VASPs sector was conducted as part of the NRA 2020 (c.15.3 (a)). For the time being, there is no definition of VASPs, which are outside the scope of the AML/CFT Act. Consequently, criteria 15.3 (b) to 15.10 are not met, whereas criterion 15.11 is being partly met. However, all the relevant decisions have been made, except for the Parliamentary decision for the bill regulating VA and VASPs activities and the draft bill amending Law 14/2017. Considering these aspects, **the revised R.15 should be rated as PC**.

– **4. CONCLUSION**

33. Overall, Andorra has made sufficient progress in addressing some of the TC deficiencies identified in its MER and applicable subsequent FURs in relation to Recommendation 8. Recommendation 15 previously rated as C is downgraded to PC.

34. Further steps have been taken to improve compliance with R.15 that has been revised by the FATF since the second enhanced FUR. However, for the time being, the amendments made

⁴ This rule may be relaxed in the exceptional case where legislation is not yet in force at the six-month deadline, but the text will not change and will be in force by the time that written comments are due. In other words, the legislation has been enacted, but it is awaiting the expiry of an implementation or transitional period before it is enforceable, in all other cases the procedural deadlines should be strictly followed to ensure that experts have sufficient time to do their analysis.

to the AML/CFT Act with regards to VASPs and VAs have not yet been adopted and cannot therefore be considered. Andorra is encouraged to continue its efforts to address the remaining deficiencies.

35. Overall, in light of the progress made by Andorra since its MER and applicable subsequent FURs, its technical compliance with the FATF Recommendations has been re-rated as follows:

– **Table 2. Technical compliance with re-ratings, December 2021**

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

36. Andorra will remain in enhanced follow-up and will continue to report back to MONEYVAL on progress to strengthen its implementation of AML/CFT measures. Andorra is expected to report back in one year's time.

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November 2021

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Andorra

3rd Enhanced Follow-up Report

This report analyses Andorra's progress in addressing the technical compliance deficiencies identified in the FSRB assessment of their measures to combat money laundering and terrorist financing of September 2017.

The report also looks at whether Andorra has implemented new measures to meet the requirements of FATF Recommendations that changed since the 2017 assessment.