

Sectoral level NRA

Andorra money laundering and terrorist financing
national risk assessment (ML/TF NRA)

December 2016



Govern
d'Andorra

The Sectoral level NRA of the Principality of Andorra has been conducted as a self-assessment by the Principality of Andorra. This Principality used the National Money Laundering and Terrorist Financing (ML/TF) Risk Assessment Tool that has been developed and provided by the World Bank. The World Bank team's role was limited to: 1) delivery of the tool; 2) providing guidance on the technical aspects of the tool; 3) review of draft NRA documents and providing feedback to assist in the accurate use of the tool. The data, statistics, and other information populated into the National ML/TF Risk Assessment Tool templates, as well as the findings, interpretations, and judgments under the scope of the National Risk Assessment process, belong to the Principality of Andorra and do not reflect the views of the World Bank.

Methodology

The methodology followed by the government of Andorra in regards to this National Risk Assessment considers the model developed by the World Bank, as well as FATF recommendations and guidelines, and the opinion and information provided by all private and public stakeholders of those sectors consulted.

The assessment followed three phases:

- **Sector-level data collection:** during this first phase, all public and private stakeholders involved in the fight against ML&TF were consulted through bilateral meetings in order to gather the necessary qualitative and quantitative information for the risk assessment of each sector included in the report. Main stakeholders include private entities, sectoral associations, supervisory authorities, law enforcement agencies, and government representatives.
- **Consultation and sharing of main findings in sectoral workshops:** during this phase, those members consulted for each sector (i.e., working groups) were gathered in a series of workshops, where a sector-by-sector agreement was reached for the final risk assessment for each of the variables identified in the World Bank's methodology. This phase involved the consolidation and analysis of all data collected during the previous phase.
- **Risk assessment and consolidation:** the final phase of the National Risk Assessment included the consolidation of all those conclusions obtained for each sector and the final rating of their ML&TF risks. Following the scoring of vulnerabilities and threats, the World Bank's methodology produces a matrix that ranks the overall ML&TF risk of each sector in high, medium-high, medium, medium-low, and low.

Executive summary

ANDORRA'S ECONOMIC EXPANSION AND THE FINANCIAL CRISIS

Andorra had a period of economic expansion between 2000 and 2005 – with an average annual GDP growth of approximately 7.6% – supported by a competitive commerce and a strong tourism, both reinforcing each other and highly dependent on Spanish and French visitors, as well as a solid banking industry.

After the 2008 financial crisis, Andorra's main trading partners (i.e., Spain and France) entered into recession, which combined with the relatively low level of internationalisation of its main economic sectors triggered the stagnation period that followed thereafter.

THE TRANSFORMATION PROCESS STARTED IN 2009

In response to the deceleration of Andorra's economy, the Principality initiated an ambitious transformation process in 2009 with the objective of opening Andorra to the world through diversified growth; ensuring its competitiveness in the global economy; and reaffirming a full, proactive commitment to international standards. In particular, this program involves:

- Internationalisation and diversification of the economy through public support to small and medium enterprises (SMEs), generation of industry-specific clusters, and the attraction of foreign investment.
- Revitalization of traditional sectors, namely tourism and commerce.
- Signing and implementation of international treaties, together with the comprehensive reform of Andorra's regulatory and institutional framework to adapt to international standards.

In particular, Andorra has proactively committed to the international community through a series of concrete agreements and regulatory reforms, with the ultimate objective of becoming a financial center of international relevance and prestige. This has shaped Andorra's transformational path over the last decade, and includes the following:

- 2005: Cooperation agreement with the EU to consolidate and extend the existing close relations between the European Community and the Principality of Andorra.
- 2009: Paris Declaration. This landmark agreement, provided for the exchange of tax information with 17 EU members upon request, sets the starting point of Andorra's transformation and openness, and facilitates the convergence with OECD regarding tax models.
- 2011: Monetary agreement with the EU. This agreement formalized reciprocal collaboration, assistance and exchange of information with regulatory and supervisory authorities around the world. It sets a series of concrete deadlines for Andorra in what regards to money laundering regulatory adaptation, rules on euro

banknotes and coins, banking and financial legislation, and collection on statistical information.

- 2013: Andorra's INAF joined the International Organization of Securities Commissions (IOSCO) and signed its Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU), formalizing reciprocal cooperation and exchange of information in what regards to regulation and supervision of the securities markets.
- 2014: Opening negotiations for the Association Agreement between the EU and the Principality of Andorra, the Principality of Monaco, and the Republic of San Marino, with the objective of entering into EU's single market, cooperating in other policy areas, and eliminating obstacles to trade and the free movement of persons.
- 2014: Adoption of the OECD declaration on automatic exchange of information, ratifying Andorra's full commitment with transparency and openness.
- 2015: Signing of OECD's Common Reporting Standards (CRS) MCAA, which obliges Andorra to implement the single global standard on automatic exchange of information.

THE COMPREHENSIVE REFORM OF ANDORRA'S REGULATORY FRAMEWORK AND ITS ROLE IN 'BANCA PRIVADA D'ANDORRA EVENT'

A major test of Andorra's commitment to the international community arose with the Banca Privada d'Andorra (BPA) event. In March 2015, the US Financial Crimes Enforcement Network (FinCEN) classified BPA as a "financial institution of primary money laundering concern". As a direct consequence of the uncertainties generated by the BPA affair, Andorra's credit rating was downgraded from BBB+ to BBB-.

In response, there was a rapid and coordinated action by all key stakeholders in Andorra that had the objective of minimising the negative consequences on BPA's deposit holders and employees. Shareholders and debt holders were the ones bearing the losses of BPA's legacy assets.

Andorra's already initiated structural reforms were accelerated by BPA's affair and were key to managing the restructuring and resolution of BPA. For instance, the law 8/2015 was passed within the framework of the event, and introduced the creation of AREB on urgent measures for the recovery and resolution of banking institutions.

SECTOR-LEVEL RISK ASSESSMENT ON MONEY LAUNDERING AND TERRORIST FINANCING

Andorra has analyzed in detail the ML&TF risk of each economic sector. Financial services, which represents 22% of Andorra's GDP, is by far the most relevant and is in turn made up of four subsectors: banking, asset management, insurance, and other (primarily postal financial services).

Additionally to the financial sector, this document also analyses the ML&TF risk of non-financial business professions. For the purpose of this analysis the following non-

financial business professions have been considered: lawyers, notaries, economists, external accountants, auditors, tax advisers, business agents, gambling establishments, real estate agents, car dealers, and dealers in precious metals and stones.

Following the methodology defined by the World Bank, Andorra has mapped the ML&TF risk of each sub-sector. This methodology considers risk along two dimensions: the intrinsic threat posed by the characteristics of each sector, and the vulnerability of the system and the sector itself to ML&TF. The threat of each sector was analysed in the corresponding module (please refer to “Threat analysis” for more detail), whereas this part of the report details the vulnerability assessment to ML&TF:

- The intrinsic features of Andorra’s **banking sector**, especially its high volume (approximately €22bn of domestic AuM), internationalisation (38% of its domestic AuM belong to Andorran non-residents) and client profile, increase its vulnerability to ML&TF. That said, considerable progress has been made both in the financial system and the banking sector itself to reduce vulnerability to ML&TF. In particular, the banking regulatory framework has undergone a profound adaptation to international standards, and the banking sector has enhanced its AML&CTF capabilities through new technologies for transaction monitoring, better resourced Compliance areas, and higher levels of training of employees. However, it needs to take several further steps, extending ongoing Know Your Customer (KYC) processes to all clients at a higher frequency, fine-tuning the automatic assignation of risk to client profiles, extending the risk culture to all employees, and developing more customized training programs.
- The **insurance sector** has a significantly lower volume than banking (€23m in total life insurance premia issued in 2015) which reduces its relative vulnerability to ML&TF. However, its focus on investment products (i.e., unit-linked), together with the increasing importance of the sector albeit the Principality’s diversification efforts, partly motivates the profound regulatory reform that the government is undergoing. Additionally, although bank-owned insurance companies are the main life-insurance players, local companies also sell some life-insurance premia. Due to their lower size, they do not have access to the tools and resources that banking groups do, which increases the need for reinforced supervision looking forward.
- The **asset management sector** is composed by 2 types of players, Bank-owned Asset Managers, with ~94% market share on AuM, and local Asset Managers, with ~6% market share. The sector is smaller than banking, although still very relevant (approximately €14bn AuM), and with a relatively high internationalisation (42% of total business volume is international), which provide it with certain vulnerability to ML&TF.

It is necessary to note that every single client of an asset management company in Andorra must open a bank account in one of the domestic banks. In consequence, the business volume considered for the asset management sector (€14bn AuM) is already included within the banking sector’s.

On the one hand, Asset Managers owned by banks leverage their parent companies’ AML&CTF capabilities in terms of organization, resources, systems, and processes. However, due to their scale local Asset Managers present a lower degree of

sophistication in their processes and resources, which is compensated by the highly personalized client relationship and rigorousness of their internal policies.

Nonetheless, all clients have a bank account, which implies that their onboarding and transactionality will always be monitored by a banking entity additionally to the asset management company, thus reducing the relative risk to ML&TF.

- The **postal sector** has a limited vulnerability to ML&TF owing to its marginal volume of transferred funds (some €15m annually) and average client profile. The sector is supervised in Andorra in AML matters. And although there is no prudential regulation or supervision in Andorra for the postal sector, both players belong to foreign postal operators (both public companies), and therefore their holding companies are supervised by Spain and France from a prudential and AML stand point. Additionally, limits on transferred funds are relatively strict (average transaction below €300) before enhanced due diligence procedures are applied.
- As aforementioned, the **non-financial professions** considered for the analysis are lawyers, notaries, economists, external accountants, auditors, tax advisers, business agents, gambling establishments, real estate agents, car dealers, and dealers in precious metals and stones. Although in general these activities pose a relatively lower risk of ML&TF than the financial sector, lawyers present a medium to high ML&TF risk.

ANDORRA'S ACTION PLAN TO REDUCE ML&TF RISK

Based on the Sectoral level NRA set out above, the Government of Andorra has developed a detailed action plan together with the private sector and all public institutions to build on the progress of recent years and further reduce the risk of ML&TF. The action plan includes cross-sectoral initiatives, as well as sector-specific initiatives.

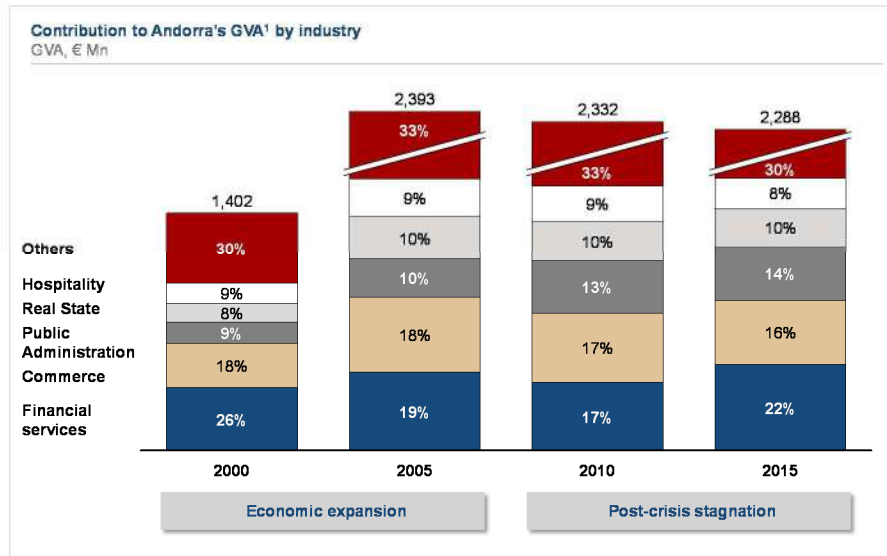
Cross-sectoral initiatives include the implementation of all necessary regulatory amendments to fully comply with FATF' 40 recommendations before next Mutual Evaluation by Moneyval (2017), and an enhanced cooperation model between the different stakeholders regarding AML risk assessment data collection.

At sector level, different initiatives have been identified to reinforce the compliance function, culture, monitoring, and reporting of the supervised entities in AML&CTF matters.

As a consequence of the implementation of the action plan, the ML&TF vulnerability of all financial sectors is expected to be significantly reduced in the coming years.

EXHIBIT 1

Andorra's economy has evolved in 2 differentiated phases within the last 15 years



¹ Gross Value Added
SOURCE: Departament d'Estadística d'Andorra

Andorra's economic expansion and post-crisis stagnation

Andorra's economy has evolved in two differentiated phases over the past 15 years – firstly a period of economic expansion between 2000 and the financial crisis of 2008–09, and secondly a period of post-crisis stagnation. The Principality's GDP figures provide a clear indicator of this differentiated evolution: real GDP grew sharply from some €1.6 billion in 2000 to €2.25 billion in 2005 (approximately 7.6% per annum), yet declined to just under €2 billion in 2010 and stagnated further to under €1.9 billion in 2014 (Exhibit 1).

Before 2008, Andorra was a growing economy based on a strong commercial sector and a vibrant tourism sector.

Commerce, which made up 18% of the Andorra's GDP over this period, offered innovative products that were not available in neighbouring countries.

This, together with an extensive product and brand portfolio, and the country's cost competitiveness compared to neighbouring countries – thanks to both operational efficiency and fiscal incentives – attracted significant numbers of cross-border customers from Spain and France.

The tourism sector, fuelled in part by the commerce sector and representing around 9% of the national GDP over this period, enjoyed a steady growth. International visitor numbers grew from 11 million in 2000 to 11.7 million in 2004 (with 56% of visitors in that year from Spain, and 41% from France). Andorra also saw a steady rise in the number of hotel establishments, from 883 in 2000 to 971 in 2004 (a 10% increase).

Andorra's financial industry, although the one with the highest contribution to Andorra's GDP, was mostly based at the time on domestic business, and decreased its relative relevance over total GDP from 26% in 2000 to 19% in 2005.

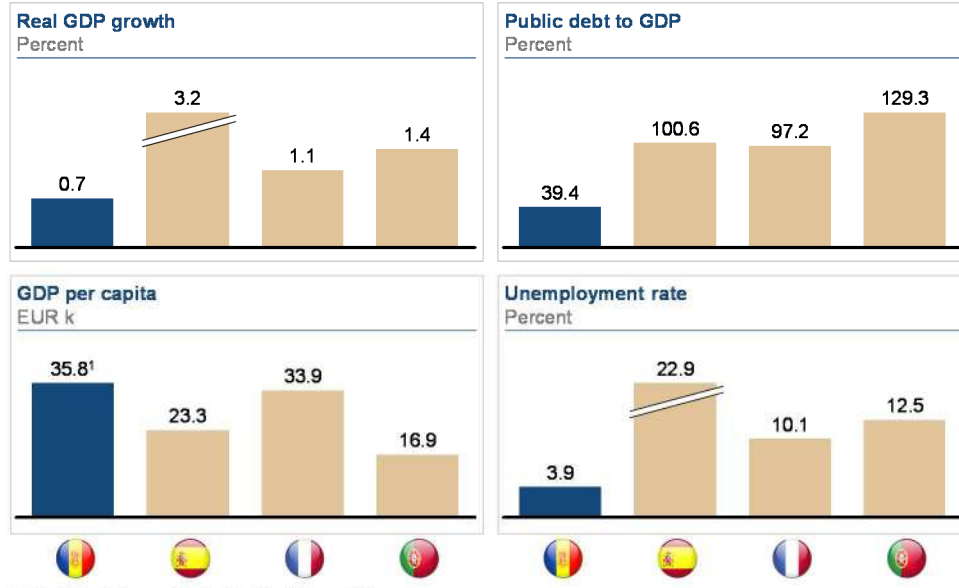
The financial crisis of 2008–09, and the ensuing economic downturn in Andorra's neighbouring countries, had a significant impact on Andorra. France's GDP growth rate fell from 2.4% in 2006 to 0.2% in 2012, while Spain's fell from 4.2% to -2.6% over the same period. Unemployment also rose in both countries over this period – from 8.8% to 9.8% in France, and from 8.5% to 24.8% in Spain.

This deceleration, together with the low internationalisation of Andorra's main economic sectors, affected the whole economy.

EXHIBIT 2

Andorra key economic indicators

2015

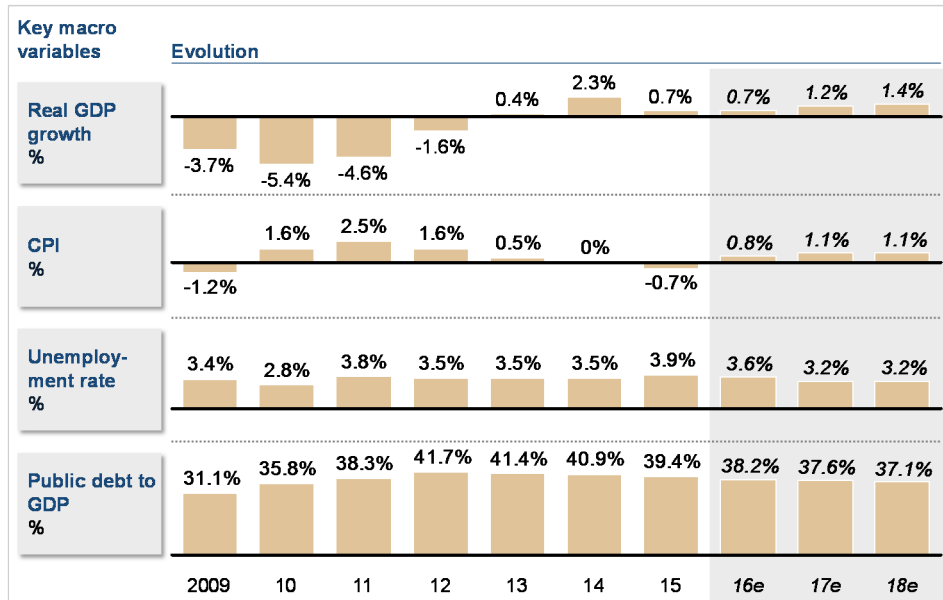


¹ Calculated with Govern d'Andorra's estimate for population
 SOURCE: Viewswire; Govern d' Andorra

EXHIBIT 3

Andorra's recovery from the financial crisis

Forecast



SOURCE: Standard & Poors, Departament d'estadística (Govern d'Andorra)

Andorra's transformation process started in 2009

Today, Andorra's economy is characterized by high per capita wealth relative to its neighbours, combined with some GDP growth, low public debt and unemployment (Exhibit 2). The Principality has already recovered from the 2008-09 financial crisis and is expected to sustain healthy growth in the coming years reinforced by the macroeconomic outlook of its main trading partners, Spain and France (Exhibit 3) and enabling profound transformation, thanks to a comprehensive reform agenda put in place by the government in 2009.

The objectives of this process are to open Andorra to the world through diversified growth of its economy; ensure Andorra's competitiveness in the global economy; and reaffirm a full, proactive commitment to international standards.

Financial services, particularly banking, have been a key example of internationalisation. Prior to 2008, Andorran banking business was mostly present in the Principality, but from 2009 onwards the banks undertook a strong internationalisation drive. As a result, the number of countries in which Andorran banks had branches grew from 6 prior to 2008 to 13 in 2015; and whereas their international presence had previously been focused on neighboring countries, by 2014 they were well represented in regions such as Latin America and the United States of America.

The key elements of the transformation process were as follows.

INTERNATIONALISATION OF ANDORRA'S ECONOMY

Andorra has consolidated its fiscal framework, making it competitive and comparable with other countries. This has been complemented by the signing of six double-taxation agreements (with Spain, France, Portugal, Luxembourg, Liechtenstein, and United Arab Emirates) to promote the exports of products and services, as part of a broader drive to reform its fiscal framework. The government is currently negotiating the signing of new double-taxation agreements with other European countries.

Additionally, in 2012 it lifted restrictions on foreign investment and provided additional support for the establishment of new businesses in Andorra, through the Actua initiative. In particular, Andorra's government has set the objective of attracting foreign investment in specific sectors where it has a potential competitive advantage, such as healthcare, education, or sports.

DIVERSIFIED ECONOMIC GROWTH

The diversification drive rests on three main pillars:

- **Creation of industry-specific clusters.** Andorra has facilitated the creation of industrial clusters to generate investment opportunities related to traditional industries such as commerce or tourism. To date the effort has focused on health and welfare, education, innovation, and sports.

- **Support for small and medium enterprises.** This effort aims to enable more agile interaction between public administration and businesses, support Andorran businesses in their journey towards internationalisation, and facilitate foreign companies' establishment in Andorra.
- **Attraction of foreign direct investment.** The focus here is to attract foreign investment in specific sectors where Andorra has a potential competitive advantage, such as healthcare, education, and sports.

Additionally, the strategy intends to facilitate the revitalization of core sectors of Andorran economy, notably tourism and commerce.

In **tourism**, the focus includes de-seasonalization of demand away from Andorra's traditional winter season: the Principality is fostering summer tourism through events such as the Tour de France, or Cirque du Soleil. It is also investing in tourism infrastructure to meet summer tourists' requirements and activities, and developing human capital in the sector.

In **commerce**, the focus includes attracting international brands to make Andorra a European shopping destination, and maintaining Andorra's competitive advantage in prices through operational efficiency and a beneficial fiscal framework.

In the **financial sector**, Andorra intends to become an international financial center of reference and prestige, diversifying into activities that are not core to the sector nowadays.

PROACTIVE COMMITMENT TO THE INTERNATIONAL COMMUNITY

To promote this objective, Andorra has pursued an active process of complying with international regulation. It has also stepped up its participation in international institutions – through the negotiation of an Association Agreement with the European Union¹ (EU), the evaluation from international organizations such as the International Monetary Fund (IMF), Moneyval and the Organization for Economic Co-operation and Development (OECD), and its declared intention to become a member of the IMF.

Andorra's profound regulatory transformation started in 2009 with the Paris Declaration. However, these efforts build on a series of measures taken between 2000 and 2008, including:

- 2000: International criminal cooperation on anti-money laundering (AML) and counter terrorist financing (CTF). This year marked Andorra's first law against international crime. The law defined strict procedures to identify clients and established robust procedures and controls to detect and report money-laundering and terrorist-finance (ML&TF) offences.
- 2001: Collaboration agreement with USA Internal Revenue Service. All financial entities in Andorra have subsequently entered into this agreement, obtaining the status of QI.

¹ Together with Monaco and San Marino

- 2005: Amendment of the Criminal Code to adapt to European and international standards.
- 2005: Cooperation agreement with the EU to consolidate and extend the existing close relations between the European Community and the Principality of Andorra. Among other things, the General Council ratified the agreement regarding taxation on savings income in the form of interest payments (Council Directive 2003/48/EC).

Building on this foundation, key milestones in Andorra's transformation since 2009 include:

- 2009: Paris Declaration. This landmark agreement, detailed below, provided for the exchange of tax information with 17 EU members upon request. Andorra now converges with international standards set by the OECD regarding tax models.
- 2011: Memorandum of Understanding (MoU) between INAF and Bank of Spain for the cooperation in banking supervision among both supervisory bodies. In 2014 INAF agreed on the exchange of information with the European Central Bank on the basis of the MoU signed with Bank of Spain.
- 2011: Monetary agreement with the EU. This agreement formalized reciprocal collaboration, assistance and exchange of information with regulatory and supervisory authorities around the world. It sets a series of concrete deadlines for Andorra in four main regulatory areas.
- 2012: Foreign Investment Law. This legislation enabled a gradual opening of the Andorran economy to foreign capital.
- 2013: Andorra's INAF joined the International Organization of Securities Commissions (IOSCO) and signed its Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMoU), formalizing reciprocal cooperation and exchange of information in what regards to regulation and supervision of the securities markets.
- 2014: Opening negotiations for the Association Agreement between the EU and the Principality of Andorra, the Principality of Monaco, and the Republic of San Marino, with the objective of entering into EU's single market, cooperating in other policy areas, and eliminating obstacles to trade and the free movement of persons.
- 2014: Adoption of the OECD declaration on automatic exchange of information.
- 2015: Signing of OECD's Common Reporting Standards (CRS) MCAA, which obliges Andorra to implement the single global standard on automatic exchange of information (detail below).
- 2015: Signing of Tax Information Agreement with the EU.

The Paris Declaration. The Paris Declaration (2009) represents the sincere commitment of Andorra to converge towards the regulatory playfield of its neighboring countries. This set Andorra's starting point to converge with international standards in fiscal matters. The

Declaration is materialized through bilateral agreements of exchange of fiscal information with 17 countries: Liechtenstein, Monaco, San Marino, Austria, France, Belgium, Argentina, Holland, Portugal, Spain, Denmark, Faeroe, Finland, Greenland, Iceland, Norway and Sweden. It allowed Andorra to be removed from OECD's "black list" of countries and facilitated alignment with international standards.

The agreement is limited to the exchange of necessary information for tax-collection purposes and carry out any related investigation. It maintains complete confidentiality of the exchanged information – information is only shared with those authorities requesting it for tax purposes.

Automatic exchange of information (FATCA/CRS). On December 3rd 2015, Andorra signed OECD's Common Reporting Standards (CRS) MCAA, becoming the 75th jurisdiction joining it, and adopting the obligation to implement the single global standard on automatic exchange of information being developed by the OECD.

During 2016 the Government (represented by the Ministry of Finance) has launched the effort to adapt the sector's IT infrastructure to CRS requirements.

Looking at Moneyval's visit programmed for 2017, Andorra is in the process of making the necessary legal developments to criminalize the tax offence – so far the only applicable tax offence was related to savings income.

Although the issue was already brought up in Moneyval's fourth assessment visit (2011), it was not considered material at the time in regards to dual criminality (*"Unlike in other countries, tax evasion is generally not an offence, but Andorra tries to be flexible so as to meet dual criminality requirements"*²)

Nonetheless, in order to complete the list of predicate offences related to money laundering (FATF recommendation R.3), Andorra needs to include tax offence in the definition of ML. This is reinforced by the fact that EU Directive 2015/849 establishes the obligation to include tax offence as a criminal activity within the deadlines established by the 2011 Monetary Agreement signed by Andorra.

² Report on 4th assessment visit of Andorra. March 8th, 2012. Moneyval

EXHIBIT 4

Evolution of Andorra's financial services regulatory framework NON-EXHAUSTIVE

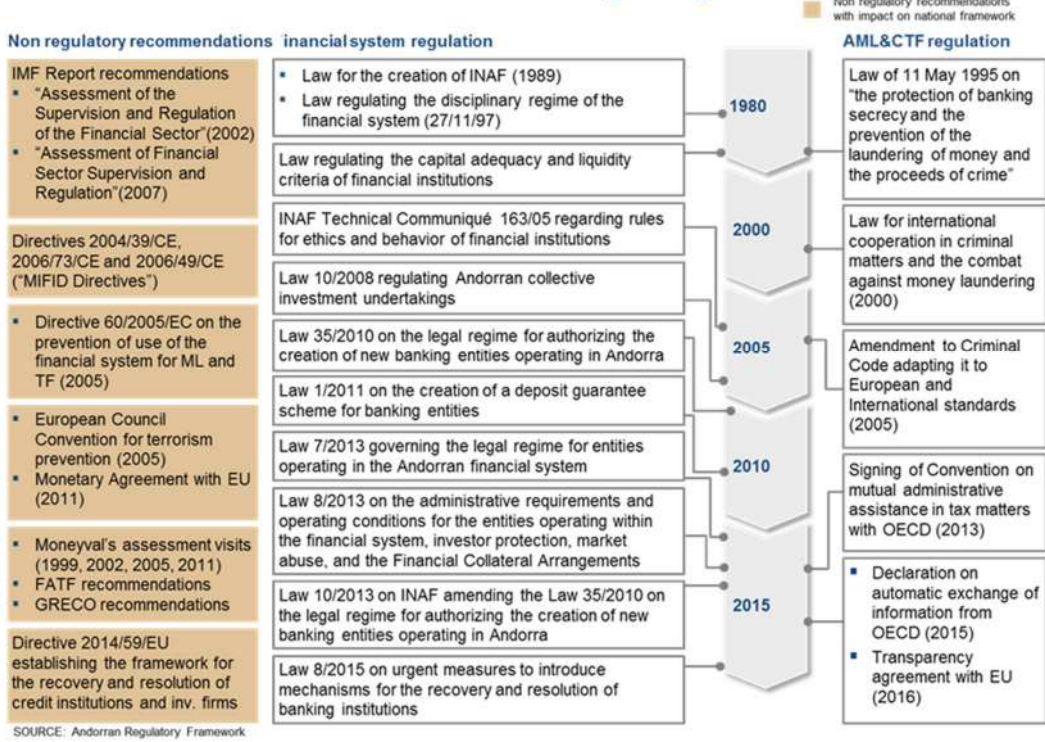
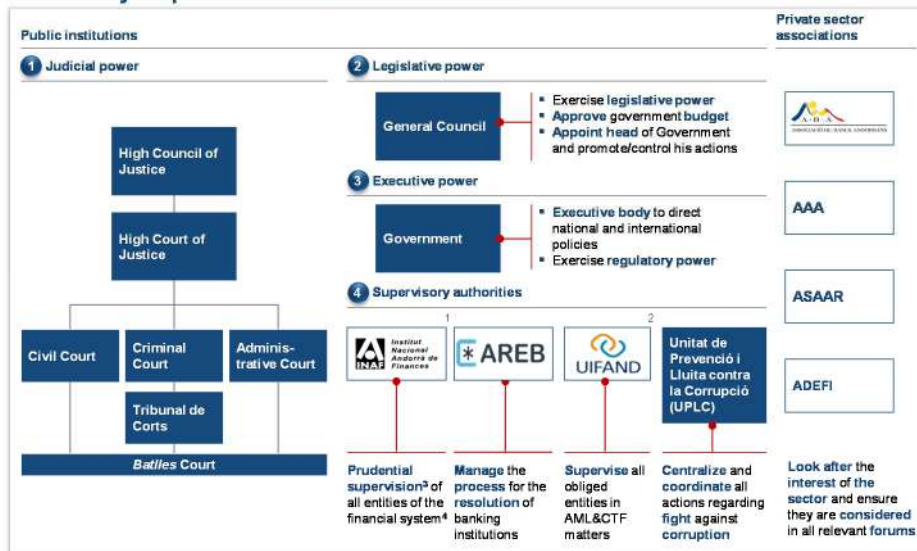


EXHIBIT 5

Andorran institutional framework has been reinforced to effectively supervise the different sectors NON-EXHAUSTIVE



COMPREHENSIVE REFORM OF ANDORRA'S FINANCIAL REGULATORY AND INSTITUTIONAL FRAMEWORK

Andorra has already undertaken significant efforts to strengthen its financial system's regulatory framework, especially in AML&CTF matters, motivated by a series of external non-regulatory recommendations (Exhibit 4).

Recent internal regulations, resulting from the intrinsic maturing process of the sector, include: Law 8/2015 on urgent measures to introduce mechanisms for the recovery and resolution of banking institutions; Law 7/2013 governing the legal regime for entities operating in the Andorran financial system, Law 8/2013 on the administrative requirements and operating conditions for the entities operating within the financial system, investor protection, market abuse, and the Financial Collateral Arrangements; Law 10/2013 on the Andorran National Institute of Finance, Law 1/2011 on the creation of a deposit guarantee scheme for banking entities; and Law 10/2008 regulating Andorran collective investment undertakings.

These regulatory adaptations are motivated by Andorra's vision and strategy to become an internationalised country with a relevant financial center and fully committed to the international community. This has been reinforced, among others, by external recommendations such as Moneyval's Mutual Evaluation assessment visits (1999, 2002, 2005, 2011), FATF recommendations, The Monetary Agreement with the EU (especially those deadlines related to the adaptation of the financial regulatory framework), and subsequent European Directives.

The necessary institutional framework necessary for the implementation of the aforementioned regulation has also been reinforced, and is currently composed of multiple stakeholders (Exhibit 5). At the apex is the General Council, which exercises legislative power, approves the Government budget and appoints the head of Government and oversees his administration. The Government itself directs national and international policies and exercises regulatory power. Additionally, there are four key regulatory institutions:

- **Unitat d'Intel·ligència Financera d'Andorra (UIFAND).** This institution is responsible for inspecting and supervising all obliged entities affected by the AML Act. It collects and analyzes declarations from supervised parties; collaborates with national and international authorities in AML&CTF matters; prepares statistics to evaluate the effectiveness of the measures taken; and imposes administrative sanctions when necessary. UIFAND also submits legislative proposals to the Government on AML&CTF matters. The Head of UIFAND is appointed jointly by the Ministers of Justice, Internal Affairs, and Finance.
- **Institut Nacional Andorrà de Finances (INAF).** This institution supervises all entities of the financial system from a prudential stand point, and is attributed the following functions by Law 10/2013, of 23 May:
 - Issuing, among others, technical communiqués, communications and/or recommendations, in order to develop the regulation and instrumental technical standards in relation with the exercise of banking activities

- Examining and resolving any application presented to INAF to obtain a license or authorisation to operate in the Andorran financial system
 - Acting as the competent authority and supervisor over all the supervised entities and over those individuals or legal entities which are or could be subject to supervision by INAF
 - Supervising on a consolidated basis the operative entities of the financial system
 - Exercising the disciplinary and sanctioning power over the supervised entities and over all those individuals and legal entities outside the financial system over which current legislation grants this competence to INAF
 - Examining and resolving applications for authorisation and/or registration of administrative acts in accordance with current legislation
 - Dealing with complaints filed to the INAF by clients of the supervised entities
 - Carrying out tasks associated with the representation of Andorra at international level, in relation with specific themes affecting the financial sector
 - Supplying State treasury services and carrying out the financial management for the issues of Principality of Andorra public debt
 - Collecting deposits and guarantees given pursuant to judicial decisions
 - Preparing, on Government request, reports and opinions on legislation relative to the financial system and on other matters in the competence of INAF and proposing, on its own initiative, measures susceptible of improving the ordering and regulation of the financial system
 - Advising the Government on themes relating to economic and financial policies
 - Preparing research and statistics relative to the financial system
- **Unitat de Prevenció i Lluita contra la Corrupció (UPLC).** This unit was created in 2008 in line with GRECO recommendations, and has the following functions regarding the coordination of public and private initiatives for the fight against corruption:
- Monitor trends and international developments in the fight against corruption and promote regulatory adaptations
 - Propose, promote and implement national anti-corruption policies
 - Encourage codes of conduct and principles of professional ethics in the public sector and monitor their implementation and adaptation
 - Ensure training and awareness of groups, provide technical advice and cooperation on issues related to corruption, with all departments of the central government and, where appropriate, with communal administrations, public entities, the para-public and private sectors who request it
 - Promote transparency of administrative procedures and communication with the general public and mediate, if necessary, in the process of obtaining information from the administration

- **Agència Estatal de Resolució d'Entitats Bancàries (AREB).** This institution is in charge of managing the process for the resolution of credit institutions and investment firms.

In addition, the following sectoral associations channel sector-level communication with public institutions and look after the interests of the sector:

- Associació de Bancs Andorrans (ABA) for the banking sector
- Associació de Societats Andorranes d'Assegurances i Reassegurances (ASAAR) for bank-owned and local insurance companies
- Associació d'Asseguradors d'Andorra (AAA) for local branches of foreign insurance companies
- Associació d'Entitats Financeres (ADEFI) for local asset managers

The response of Andorra's authorities and financial sector to the 'Banca Privada d'Andorra' money laundering event

The Banca Privada d'Andorra (BPA) event was a major test of Andorra's commitment to the international community. On March 10th 2015, the US Financial Crimes Enforcement Network (FinCEN) classified BPA as a "financial institution of primary money laundering concern" based on four cases under court investigation from 2010 until 2013. Andorra's credit rating was downgraded from BBB+ to BBB- on March 27th 2015 as a direct consequence of the uncertainties generated by the BPA event.

In response, there was rapid and coordinated action by all key stakeholders in Andorra, including the Principality's administrative authorities – the Government, the Institut Nacional Andorrà de Finances (INAF), and the Unitat d'Intel·ligència Financera d'Andorra (UIFAND) – its judicial authorities, and the banking sector itself. All these stakeholders shared the objective of protecting BPA's clients and investors, and bringing to court any money laundering and systemic risk.

KEY ELEMENTS OF ANDORRA'S RESPONSE

The Principality of Andorra had already taken a proactive approach in relation to the four cases referred by FinCEN in 2015, years before the BPA event. Led by Andorra's international commitment, UIFAND had already launched several investigations in cooperation with international authorities regarding the above mentioned cases in 2010, 2011, 2012, and 2013, some of them initiated as a consequence of a suspicious transaction report, and in other cases *motu proprio*. Investigations were disseminated to the Prosecutor's general Office, and at the moment of FinCEN's publication, Andorran Courts were already carrying judicial investigations.

In March 2015, the measures taken by Andorra's authorities in response to FinCEN's announcement had the aim of:

- Protecting BPA's investors and clients, by preserving the stability of the entity and its operations
- Managing and mitigating any risks within BPA relating to the prevention and combating of money laundering and the financing of terrorism
- Managing and mitigating any contagion risk to the rest of Andorra's banking sector

The immediate reaction of the Andorran administrative authorities (i.e., Government, INAF and UIFAND) translated into the following concrete actions (in order of occurrence):

- **Administrative sanctioning against BPA.** INAF initiated a sanctioning procedure against BPA that was undertaken in close cooperation with UIFAND. Additionally, The Board of Directors of INAF approved a preventive intervention in BPA to

restrict the field of action of the bank; and it appointed two controllers, both employees of INAF, to be placed at BPA to monitor its activity.

- **Increasing the degree of intervention in BPA.** On March 11th, 2015 INAF approved upgrading the level of intervention in BPA and adopted new precautionary measures to protect BPA's clients and investors. These included the suspension of BPA's Board of Directors, CEO and two other members of its senior management, and the appointment of three provisional administrators of the bank.
- **Strengthening of anti-money laundering and counter-terrorist financing (AML&CTF) procedures.** INAF engaged the firm PwC to conduct a comprehensive, independent review of BPA's compliance program and to make recommendations for improvement according to applicable US standards on AML compliance and global best practices.
- **Approval of special legislative measures.** The Andorran Government approved a Decree allowing the new provisional administrators of BPA to adopt the necessary measures to deal with the situation. These included the limitation of withdrawals €2,500 per week and per bank account – for checks, national and international transfers, payment methods, bills and cash withdrawals.
- **Approval of Law 8/2015 of April 2nd 2015.** This law provided for urgent measures to implement mechanisms for the restructuring and resolution of banking institutions, and created a new government agency – Agència Estatal de Resolució d'Entitats Bancàries (AREB) – in charge of the restructuring and resolution of BPA. This was in line with the European Directive 2014/59/EU.
- **New tutelage of BPA by AREB and initiation of the resolution process.** On April 27th, 2015, AREB assumed the tutelage of BPA, initiating the resolution process for the bank – which included the transfer of assets, liabilities and any other rights and obligations to a “bridge bank” and subsequent sale of the business. This decision was key, since it allowed AREB to avoid the judicial liquidation of BPA and a subsequent haircut on customer deposits.
- **Restructuring and resolution of BPA.** This process, which began on April 27th, 2015, consisted of the segregation of assets and liabilities considered legitimate to the ‘good bank’ and the non-legitimate assets to the ‘bad bank’. For this purpose, the Board of AREB approved the evaluation of BPA's client portfolio by independent experts through an extremely rigorous process, in which all clients' operations were reviewed one by one, leading to a negative valuation of €313 million for the bank. Steps taken to absorb BPA's negative valuation included the total amortization of BPA's capital, the use of hybrid instruments, and amortization of subordinated debt holders. Additionally, a capital increase of €27 million was required by Vall Banc (see below) to comply with the minimum required capital to be granted a banking license in Andorra. This was done through the issuance of new shares subscribed by AREB through the newly created fund (FAREB)
- **Creation of the new bank, Vall Banc.** BPA's legitimate assets and liabilities were transferred to the newly-created ‘good bank’, VallBanc, which was given a banking license. This was essential to enable the opening of accounts with correspondents

and custodians. The transfer process was initiated on October 29th, 2015. Eventually, some 27,000 clients, with €2.6 billion in total volume, were transferred to VallBanc. A further 923 customers, with €1.0 billion of volume, were blocked in BPA. The remaining 1,242 clients, with €0.7 billion of volume, may be transferred to VallBanc if they deliver the documentation requested by AREB.

- **Sale of VallBanc to the US investment firm J.C. Flowers & Co.** The firm was selected as the acquirer of VallBanc on April 21st, 2016, and the actual sale (for €29 million) was formalised on July 14th, 2016 after INAF's and UIFAND's approval was obtained.

In parallel to the above steps, the Andorran judicial authorities collaborated intensively on the BPA cases. In particular, the Andorran Courts, the General Prosecutor and the competent judge designated to investigate the cases accelerated the investigation process. As a result, the CEO of BPA was arrested on March 13th 2015, and his assets were frozen.

With regard to the banking sector, all of Andorra's banking institutions supported BPA's liquidity to ensure its clients' funds were unaffected; as a consequence, the deposits guarantee fund remained untouched. Additionally, soon after the event, each of the other banking institutions in Andorra launched external, independent reviews (additional to their mandatory external audits) to ensure the robustness and effectiveness of their internal policies, processes and controls. The Andorran Banking Association (ABA) has already initiated an update of the sectoral Code of Conduct and will intensify control over its implementation.

Overall, the BPA event has not had a negative impact on the Andorran banking sector's convergence process with Europe. All entities have shown a strong trajectory of strengthening their internal controls and putting in place further comprehensive AML&CTF policies. Additionally, this event has not had a major effect on the sector's business as usual, as total assets under management increased in 2015 by 2.8% year-on-year.

CONCLUSIONS AND KEY TAKEAWAYS

Andorra's institutions showed strong commitment and coordination through their collective reaction to the BPA event. This led FinCEN's to withdraw, on February 19th, 2016, "its finding and proposed rulemaking under Section 311 regarding BPA [...] as it no longer operates in a manner that poses a threat to the U.S. financial system" – just 11 months after it classified BPA as a "financial institution of primary money laundering concern". FinCEN also stated that "Authorities in Andorra assumed control of BPA management and operations, arrested the chief executive officer on money laundering charges, and are in the final stage of implementing a resolution plan that is isolating the assets, liabilities, and clients of BPA that raise money laundering concerns [...] FinCEN believes that the steps taken by the Andorran authorities sufficiently protect the U.S. financial system from the money laundering risks previously associated with BPA"

Additionally, the fact that Vall Banc was acquired by a US investment firm reinforces the conclusion that Andorra's authorities and its banking sector handled the BPA event in an effective manner.

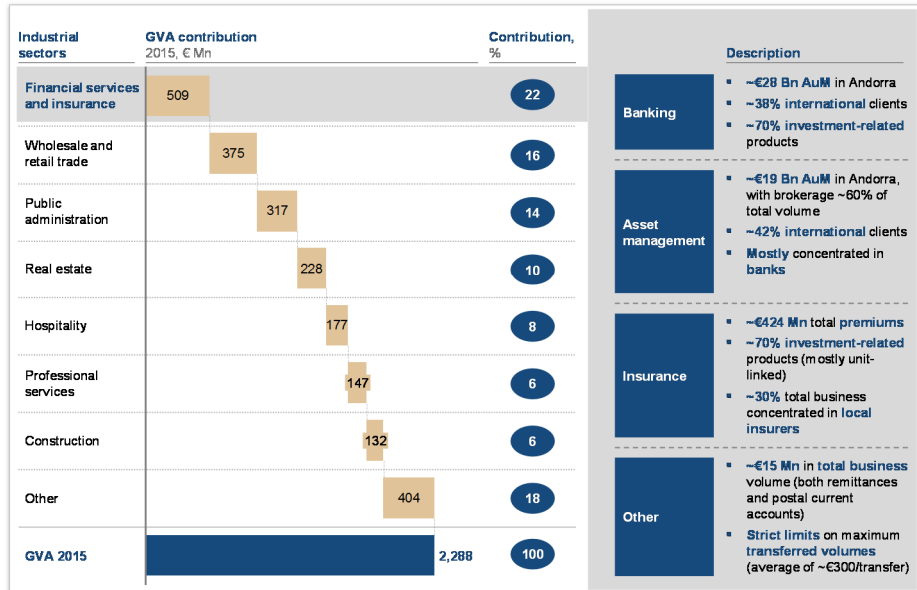
The banking sector has reacted to the BPA event by significantly increasing even more its sensitivity towards AML&CTF matters and has reinforced its own internal policies and controls.

In sum, Andorra's financial system and its authorities have significantly reinforced against the practice of money laundering.

EXHIBIT 6

Analysis of the ML&TF risk of each economic sector in Andorra

Andorra's GVA¹ breakdown by sector



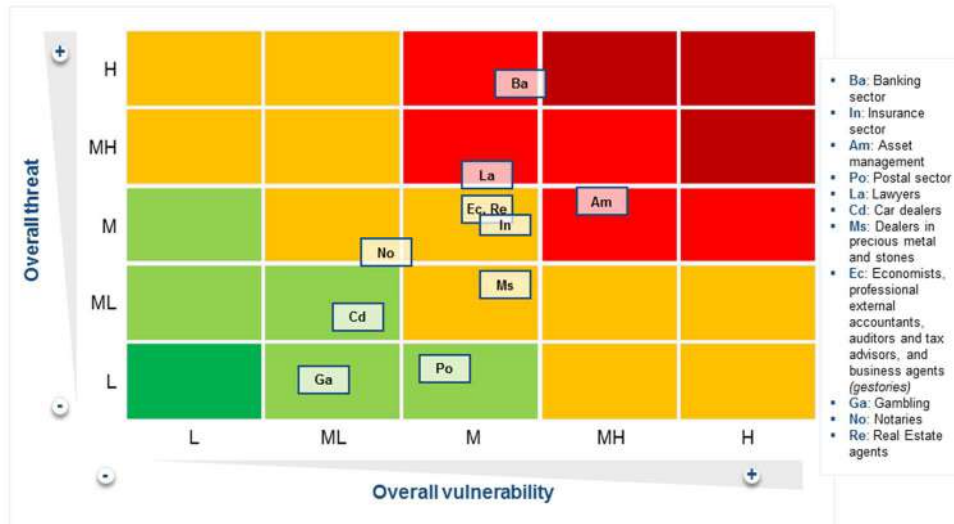
¹ Gross Value Added
SOURCE: Departament d'Estadística d'Andorra

EXHIBIT 7

ML Risk matrix in Andorra
National Risk Assessment

Risk assessment

- High
- Medium-high
- Medium
- Medium-low
- Low



- Ba: Banking sector
- In: Insurance sector
- Am: Asset management
- Po: Postal sector
- La: Lawyers
- Cd: Car dealers
- Ms: Dealers in precious metal and stones
- Ec: Economists, professional external accountants, auditors and tax advisors, and business agents (*gestories*)
- Ga: Gambling
- No: Notaries
- Re: Real Estate agents

Sector-level assessment on money laundering and terrorist financing

Andorra has analyzed in detail the ML&TF risk of those sectors subject to AML&CTF regulation. Financial services, which represent 22% of Andorra's GDP, is by far the most relevant (Exhibit 6). It is in turn made up of four subsectors: banking, asset management, insurance, and other (primarily postal financial services).

Following the methodology defined by the World Bank, Andorra has mapped the ML&TF risk of each sector (Exhibit 7). This methodology considers risk along two dimensions: the intrinsic threat posed by the characteristics of the sector, and the vulnerability of the system and the sector itself to ML&TF. As the matrix shows, the ML&TF sectors differs considerably.

Financial sector cross-sectoral risk elements: In addition to the intrinsic characteristics of each sector, there are several topics affecting the ML&TF risk of the financial system as a whole:

- **Regulatory framework.** Andorra's regulatory framework in AML&CTF has evolved significantly towards international standards as established by the Monetary Agreement deadlines and international recommendations (e.g., Moneyval, IMF) and is already considered to be relatively comprehensive. However, there are still some aspects of the current regulatory framework that should be adapted (see action plan).
- **Supervision.** UIFAND has increased its resources and capabilities in recent years (from 3 to 8 employees), strengthening its supervisory role – including a plan of yearly on-site visits and a risk-based approach – and its sanctions are considered to be sufficiently dissuasive by the financial sector. However, it should keep reinforcing itself with capabilities and resources in line with international examples in similar jurisdictions.
- **Communication between the private and public sectors.** The financial industry has several sectoral associations (ABA, ADEFI, ASAAR, AAA) which act as a link between the private and public sectors. However, an enhanced cooperation model between the different stakeholders regarding AML risk assessment should be pursued.

Banking sector: The intrinsic features of Andorra's banking sector, especially its high volume (approximately €22bn of domestic AuM), internationalisation (38% of its domestic AuM correspond to Andorran non-residents) and client profile, increase its vulnerability to ML&TF. That said, considerable progress has been made both in the financial system and the banking sector itself to reduce vulnerability to ML&TF. In particular, the banking regulatory framework has undergone profound adaptation to international standards.

Andorran banks have provided their Compliance functions with additional resources and capabilities in line with their required responsibilities, reinforcing their independence and authority in recent years. The sector also has strong onboarding KYC policies and

processes, and the banks have been adapting to new technologies and evolving their systems for transaction monitoring. The sector has increased employee training significantly in the past two years (with the resources invested in training more than doubling between 2014 and 2015), and all Andorran banks have annual AML&CTF training programs for the entire workforce. Finally, all banks have internal audit areas supervising the Compliance function in terms of AML&CTF.

Areas for improvement include the following:

- Andorran banks should ensure that the importance of the Compliance function and risk culture are fully understood across the whole organization.
- Ongoing KYC procedures for the banks' full client base should be implemented regularly at a higher frequency.
- Automatic assignment of risk to client profiles, especially for clients with low volume transactions, should be fine-tuned as new technologies are adapted.
- Training programs could be further customized to different employee groups.
- Record-keeping associated with numbered accounts still takes place in physical format in many cases, although their relative importance is to be reduced in the coming years.

Insurance sector: The insurance sector has significantly lower volume than banking (€230m in total life insurance premia issued in 2015) which reduces its relative vulnerability to ML&TF. Its focus on investment products (i.e., unit-linked), together with the increasing importance of the sector albeit the Principality's diversification efforts, partly motivates the profound regulatory reform that the government is currently undergoing.

Most part of Andorra's life-insurance business (around 87% of total premia) is concentrated in bank-owned insurance companies. These, as part of banking groups, leverage the Compliance function of the holding company, and therefore have similar policies, processes, and controls to the ones executed in Andorra's main banking groups.

Because of their lower scale, local insurers (which hold almost all the remaining market share) have a higher degree of vulnerability to ML&TF than bank-owned insurers.

Looking forward, and given Andorra's efforts towards diversification, the insurance sector is expected to keep growing, which reinforces the idea of further empowering the supervisory role and the necessary AML&CTF controls within the sector.

Asset management sector: Andorra's asset management sector amounts to €14bn in total AuM, representing x5.6 times the Principality's GDP

It is necessary to note that every single client of an asset management company in Andorra must open a bank account in one of the domestic banks. In consequence, the business volume considered for the asset management sector (€14bn AuM) is already included within the banking sector's.

The sector is composed by 2 types of players, Bank-owned Asset Managers, with ~94% market share on AuM, and Local Asset Managers, with ~6% market share. Although it is smaller than banking, its intrinsic features (i.e., mostly investment products and the international profile of its client base) provide it with certain ML&TF vulnerability. More specifically, ~40% of Andorra's AuMs derive from products/businesses with high probability of ML (e.g. brokerage and investment funds) and ~42% of total AuMs come from international clients.

Asset Managers owned by banking groups mainly focus on the brokerage and funds management business lines, and leverage their parent companies' AML&CTF capabilities in terms of organization, resources, systems, and processes, which allows them to have a relatively low vulnerability to ML&TF. Due to their relative scale, local Asset Managers present a lower degree of sophistication in their processes and resources, although the personal business relationship with customers and low volume of transactions compensate for this.

Going forward, the sector should continue working on developing, implementing and fine tuning new technologies with their associated processes to reinforce and better-calibrate current AML&CTF monitoring systems. Furthermore, overall training courses and materials can be further tailored to the securities sector by providing detailed examples related to asset management. However, the risk of the sector to ML&TF is reduced by the fact that asset management clients are at least checked by their banking institutions additionally to the corresponding asset management company (in case of local players)

Postal sector: The postal sector represents a very limited vulnerability of ML&TF owing to its marginal volume of transferred funds (some €15m annually) and the average client profile. The sector is supervised in Andorra in AML matters, and although there is no prudential regulation or supervision in Andorra for the postal sector, both players belong to foreign postal operators and therefore their holding companies are supervised by Spain and France from a prudential and AML stand point. Additionally, limits on transferred funds are relatively strict (average transaction below €300) before enhanced due diligence procedures are applied.

Non-financial business professions: Those professional sectors that have been considered for the purpose of this analysis are lawyers, notaries, economists, external accountants, auditors, tax advisers, business agents, gambling operators (bingo), real estate agents, car dealers, and dealers in precious metals and stones. Although their overall risk is relatively lower than that of the financial sector, each of them present certain specificities:

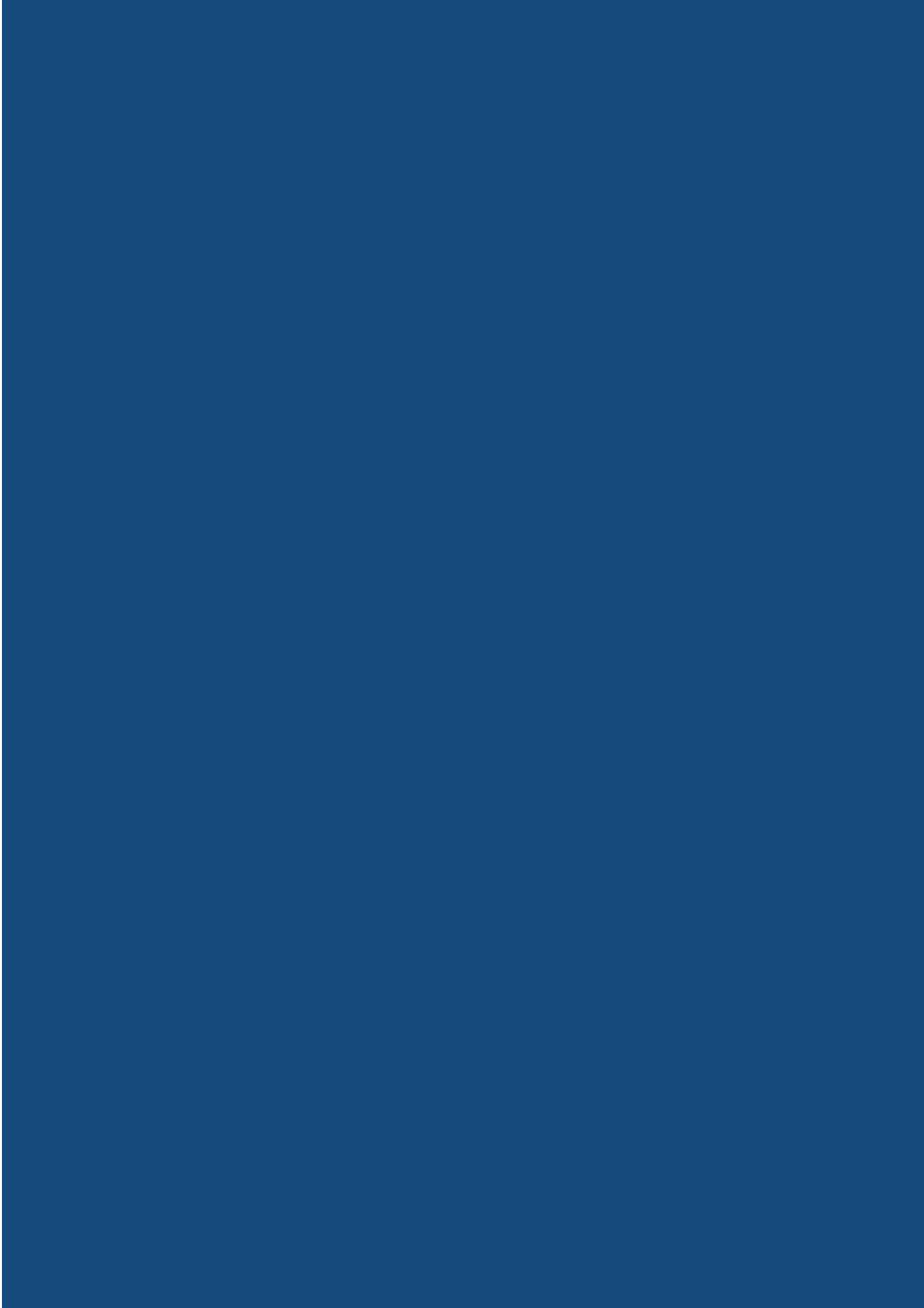
- **Car dealers:** Car dealers show a moderate of ML risk since most of them do not have internal AML/CFT procedures implemented. Nonetheless, customers who purchase a car in Andorra are normally national/residents.
- **Dealers in precious metals and stones:** this profession presents a medium ML risk. Among DNFBPs, level of cash associated to DPMS's operations is significant.

- **Economists, professional external accountants, auditors, tax advisors and business agents:** this profession is exposed to a medium ML risk, mainly due to the fact that they take part in the establishment of shell companies. Most of them apply AML/CFT procedures.
- **Gambling (Bingo):** it is exposed to a medium-low ML risk in Andorra since there is no operating casino in the country. The only relevant gambling establishments operating (i.e., bingos) are required to have an internal procedures known by the employees, which are considered to have a relatively good level of transaction monitoring.
- **Lawyers** are exposed to a medium-high ML risk, mainly due to their role as advisors to facilitate the potential establishment of complex legal structures and shell companies, especially when non-residents or foreign persons are involved.
- The strong entry controls established from the Government on the **notaries** sector (e.g., the number of notaries is determined by the Government), and the low number of professionals (i.e., 4 notaries in Andorra) implies that notaries are exposed to a medium ML risk. Their intervention in real estate transaction and in the establishment of companies has to be also considered.
- **Real estate agents** pose a medium ML risk. It has to be noted that only a part of the sector is involved in buying/selling property and, this agents had AML/CTF internal procedures. Additionally, the possibility to transfer property through private contracts has to be considered.

Common elements

Financial sector





Comprehensiveness of AML legal framework

This section applies to all reporting entities of Andorra's financial sector as indicated by Law 28/2008:

- Operative components of the financial system.
- Insurance companies authorised to operate in the life assurance sector
- Money remittance institutions

Andorra has taken important steps in recent years to reinforce the regulatory framework of its financial system and enhance the effectiveness of the supervisor.

In recent years Andorra's regulatory framework has evolved significantly towards international standards

As a consequence, Andorra's regulatory framework in AML&CTF has significantly evolved towards international standards and is already considered to be relatively comprehensive. In fact, Moneyval's latest report (3rd regular follow-up report on the 4th Mutual Evaluation, September 2015), stated that "the updated legal framework addresses many of the legal shortcomings described in the 4th Evaluation Report, particularly in relation to preventive measures in the financial sector." However, in order to be fully in line with international standards, the AML Permanent Commission is currently developing a draft of an updated regulatory framework. Authorities believe that the new framework should be approved and enforced before the next Moneyval's on-site visit (March, 2017)

To this regard, the current national regulatory framework has been compared, not only with Moneyval's latest report (3rd regular follow-up report, September 2015), but also with the most updated version of The FATF Recommendations – International Standards on combating Money Laundering and the Financing of Terrorism & Proliferation (February 2012, hereby referred to as The FATF Recommendations), in the following aspects:

Customer due diligence:

While Andorra was improving its CDD legal framework, international standards evolved too. This fact has caused that the current CDD legal framework is not fully in line with them. For instances, some moderate shortcomings, amongst others, are the following:

- Reporting entities are not expressly required by law to verify that any person purporting to act on behalf of the customer is so authorized, and identify and verify the identity of that person. Nonetheless, in practice all entities do verify their identity as required in their internal policies.

- Reporting entities are not required to ensure that documents, data or information collected under CDD process is kept up-to-date regularly; only those data referred to the identification to the client is required to be updated.
- Regarding trusts, it is only expressly required to identify and to verify the beneficiaries of the trust and the natural persons exercising its control, but similar requirements in relation to the settlor, the trustee(s), the protector (if any), etc. are not required.
- Relationship termination with customers is not required in Andorra's regulation when there are doubts about the veracity or adequacy of already obtained information (current regulation includes relationship termination only when the customer cannot be identified). However, in practice when there are doubts about the veracity of the information, entities report the incident to UIFAND.
- Telephone should be eliminated as a reliable and independent source to undertake customer verification. Nonetheless, in practice there is no institution using telephone as the sole identification source for clients.

Record keeping:

Main shortcomings include:

- Record keeping does not cover all CDD records obtained through CDD measures neither the results of analysis undertaken (some CDD information and transactions records which are not available swiftly to domestic competent authorities)

Enhanced due diligence for politically exposed persons (PEPs) and high risk customers:

Some moderate shortcomings exist:

- No specific measures need to be applied by law regarding domestic PEPs and persons who have been entrusted with a prominent function by an international organization.
- However, some entities (in particular all banks) identify national PEPs and their family members and close associates and apply enhanced CDD and controls over them.

Reliance on customer due diligence by third parties, including introduced business:

Some moderate shortcomings exist:

- There is no legal provision establishing that reporting entities are required to obtain immediately the necessary information and its relevant copies relating the purpose and the intended nature of the business relationship.

- Information regarding the level of country risk is not considered in our AML Act for the purposes of determining in which countries the third parties can be based.
- It is not required that the reporting entity must be satisfied with the measures in place of the third party regarding record-keeping requirements.

Suspicious Transaction Reporting:

Andorran STR legal framework was rated partially compliant in the last Mutual Evaluation Report of Andorra (2012). Since then, Andorra has improved its legal framework bringing this matter to a level equivalent to largely compliant. Nevertheless, some shortcomings could be mentioned:

- Tax crime, smuggling of goods and some other offences are not a predicate offence of money laundering and therefore indirectly affect suspicious transaction reporting.

Internal controls, foreign branches and subsidiaries

Existing shortcomings regarding foreign branches and subsidiaries legal framework are:

- To have regard to the ML/TF risks and size of the business in order to implement programs against ML/TF and establishes adequate internal policies, procedures and controls is not required by law.

In what regards to the insurance sector specifically, it should be mentioned that Moneyval had identified in its 4th Mutual Evaluation a deficiency concerning lack of legislative measures in the legal framework regarding fitness and integrity. To this regard, the Parliament of Andorra approved on 16 July 2015 amendments to the Law regulating the activity of insurance companies of 11 May 1989. These amendments introduce fit and proper criteria for directors, senior managers or other persons who effectively manage insurance companies, including a clean criminal record and relevant professional experience and reputation.”

Additionally, and also regarding the insurance sector, although it is out of the scope of AML&CTF, it is worth mentioning that those deficiencies in Andorra’s prudential regulatory framework and supervision (other than AML&CTF) have been detected and are being addressed. Authorities are currently working on a legal draft for the insurance law that should be approved during 2016. These deficiencies include:

- **Supervisory powers.** The supervisory powers assigned to the prudential supervisor (i.e., Ministry of Finance) were limited to controlling the solvency of insurance companies. The tools that the supervisor had to implement this control were external audits of the companies’ annual accounts, as well as possible actions in case solvency issues were detected.
- **Licensing.** All insurers are required to obtain a license to operate in the Andorran market. The requirements to obtain this license include the description of the activities of the company, financial guarantees, and “fit and proper” requirements for managers and shareholders of insurance companies. However, the law does not establish the necessity of collaboration with other institutions, such the police or

foreign authorities, in order to ensure the adequacy of the entity regarding AML&CTF.

- **Sanctioning powers.** Sanctions (other than those related to ML&TF) were limited to the powers assigned to the supervisor. Accordingly, sanctions were only issued in the case of an entity undertaking insurance activities without a license; inadequate annual accounts (falsification, omission, or delay in submission); obstructing supervisory activity; or non-payment of the required guarantees.

Regarding post offices, Moneyval's report on its 3rd regular follow-up (September 2015) pointed out as a deficiency (R.23) that Andorran "post offices propose financial services without authorisation or license"

It should be noted, however, that the impact of the activity of post offices in Andorra's financial sector is not considered to be material, since total transferred funds through them imply 0.03% of the banking sector's AuM in 2015.

Additionally, post offices operating on the territory of Andorra are only branches of the French and Spanish post offices, undertaking their activities pursuant to an agreement from the year 1930 and subject to regulation in their respective countries. One on-site inspection of post offices was undertaken by UIFAND in 2014 and no breaches of AML&CFT obligations were identified.

Finally, The Ministry of Finance together with the INAF is undergoing the necessary analysis on the conditions for the authorisation for post offices within the framework of the transposition of Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC.

Effectiveness of the supervisor

CLEAR LEGAL MANDATE TO CONDUCT AML&CTF COMPLIANCE SUPERVISION

Article 53(1) of the AML Act assigns UIFAND the competence for “promoting and coordinating the measures for the prevention of and the fight against money laundering, the financing of terrorism and the proliferation of weapons of mass destruction”. Consistently, it directs and promotes the activities for the prevention of and fight against the use of the country's entities of the financial system or those of some other nature for ML/TF, according to article 53(2) of the AML Act.

In particular, Article 53(2) of the AML Act confers both the off-site and on-site supervision in AML/CFT matters to the Andorran FIU:

“2. UIFAND exercises the following functions:

- It directs and promotes the activities for the prevention of and fight against the use of the country's entities of the financial system or those of some other nature for money laundering, the financing of terrorism or the proliferation of weapons of mass destruction. To this effect, UIFAND may issue technical communiqués in order to develop this Law and the regulations developing it, which are of compulsory compliance, and the recommendations and guidelines which it deems appropriate.
- It requests any information or documents from the parties under obligation in the exercise of its functions, and it **verifies compliance with this Law and the regulations developing it.**
- It carries out **on-site inspections to verify compliance with this Law and the regulations developing it** and, in particular, it analyses the specific dossiers and files which UIFAND may determine [...]”.

Therefore, according to the transcribed provision, the UIFAND is the supervisory authority for AML purposes. Consequently, both the competent supervisory AML authority (UIFAND) and its mandate (off-site and on-site supervision) are clearly identified in the AML Act.

UNDERSTANDING OF THE ML&TF RISK OF THE SECTOR

UIFAND’s role as an investigative body represents an important synergy in relation to the supervisory activity. In this regard, it has first-hand information about typologies and cases disseminated to LEA, which provides it with comprehensive feedback concerning the judicial procedures engaged.

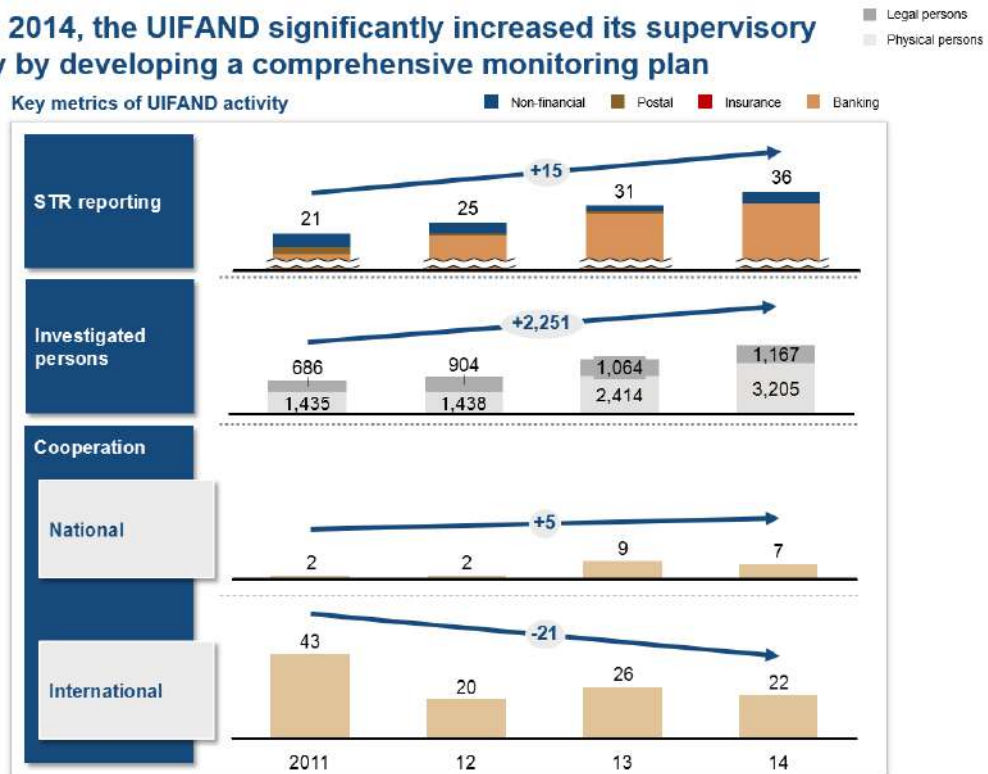
This institutional framework and the intense cooperation between national authorities gives the UIFAND a really good understanding and appreciation for the ML risk faced by those companies of the financial sector.

TABLE 1

Year	Full scope	Targeted
2011	-	-
2012	-	2 banks
2013	-	1 bank
2014	2 banks, 4 investment inst., 2 insurers, 1 post office	-
2015	1 bank	-

EXHIBIT 8

During 2014, the UIFAND significantly increased its supervisory activity by developing a comprehensive monitoring plan



SOURCE: UIFAND Activities Report 2011-2014

ADEQUACY OF HUMAN AND TECHNICAL RESOURCES

UIFAND has increased its resources from 3 to 8 people in the last years. In particular, its Supervisory Area is currently composed by two permanent members and receives the support of one member of the Operational Area and of another of the Legal Area. Nevertheless, the Supervisory Area cannot be considered as sufficient and should be increased with further resources in order to undergo the supervisory duties.

Nonetheless, the increase of staff and UIFAND's reorganisation over the last years enabled it to increase its activity (Exhibit 8) and commence undertaking more inspections and complement the practice of relying on external audit firms for the purpose of AML/CTF inspections. Moneyval (2015) assesses this as a positive development indicating, that the authorities are undertaking efforts to strengthen their supervisory actions on AML/CTF issues.

Regarding its inspection activity, UIFAND undertakes annual off-site inspections of all entities, based on their external audits. In addition to this, it conducts two types of on-site inspections, those with full scope that take place according to their annual supervisory plan, and some targeted ones – normally motivated by ad-hoc events detected in off-site inspections and normally part of a sanctioning proceeding.

Table 1 shows the number of inspections carried by UIFAND in recent years.

During 2014, and following a risk based approach, UIFAND has established a quarterly inspection plan with the objective of monitoring all institutions of the financial sector, including institutions from the four main sectors every year. In this sense, the plan intends to conduct on-site full scope visits to 1 to 2 banks per year (representing 20 to 40% of the sector), 2 to 3 Asset Management Companies per year (representing 15 to 20% of the sector, without considering those belonging to banks), and 2 to 3 Insurance Companies per year (representing 20 to 30 % of the sector, without considering those belonging to banks).

During the on-site full scope inspections, UIFAND assesses the compliance of the entities banking activity as well as their asset management and insurance activities, given that the Compliance Unit for these is the same one. UIFAND has adaptable inspection manuals for each sector and their supervisions assess the following:

- Internal Control Body (Structure, name, position of each member, effectiveness, authority and independence)
- Communication systems
- Control measures and procedures
- In addition, they conduct sample testing in different processes to assess their effectiveness.

As a result of each inspection, specific feedback and recommendations are provided to the reporting entities as well as an Action Plan.

In relation to the training of the AML supervisor, it is relatively comprehensive regarding financial matters, although it should be improved concerning non-financial institutions. In particular, since the Andorran tax legal framework is relatively new, specific trainings should be provided to UIFAND's staff in relation to tax schemes.

Finally, UIFAND's published papers are mostly operational documents containing instructions to financial entities on how to carry out the necessary reporting and inspection activities for AML&CTF. These include the GAFISUD and EGMONT document on the different typologies of money laundering, a list of typical transactions and operations involving ML&TF, a template and instructions to financial entities to develop STRs, specific reports about the typologies of ML in Andorra's financial sector, several articles and workshops related to international regulatory frameworks for AML&CTF, as well as a series of enforceable Technical Communiqués in different subjects (e.g., cash controls, classification of high risk jurisdictions, boarder controls). Foreign counterparties, such as Spain's Sepblac publish more detailed documents of a large variety of topics – from general risk indicators, to sector-specific guides setting out internal control measures to prevent ML&TF. Likewise, France's Tracfin publishes general guidelines and sector-specific recommendations for the prevention of ML&TF, as well as a 6-monthly bulletin providing updates on global AML&CTF topics.

Availability and enforcement of administrative and criminal sanctions

ADMINISTRATIVE SANCTIONS

The AML Act was amended in July 2015 in order to, amongst others, establish a new sanctioning regime applicable to AML/CFT breaches. This new sanctioning regime includes 3 main novelties:

- **Infringements:** the number of conducts considered serious and very serious infringement has been broadened.

Under the ancient sanctioning regime, serious or very serious infringements were not fully exhaustive and, thus, the great majority of the breaches were considered minor infringements. With the new sanctioning regime, there is a wide range of behaviours considered serious or very serious infringements (very serious infringements have been increased from 5 to 10, serious infringements have been increased from 6 to 15, and minor infringements continue to be a residual category).

- **Sanctions:** the new sanctioning regime adopts a two-fold approach – it distinguishes between legal persons and natural persons in order to lead to a more effective sanctioning regime.

Concerning natural persons, according to the Andorran legal framework, they have to afford their liabilities with all their present and future professional and personal assets.

In what regards to legal persons, it should be noted that sanctions have been increased: the maximum sanction applicable for AML/CFT breaches has been increased from €600,000 to €1,000,000, and it could be higher if twice the amount of the benefit derived from the breach is higher than €1,000,000 (maximum administrative fines would be in this case twice the amount of the benefit derived from the breach).

In any case, both regimes have some sanctions in common, for instance, withdrawal, restriction or suspension of the authorisation held by the legal or natural person in breach has been expressly established as a sanction for very serious breaches.

- **Sanctioning procedure:** a new and tailored sanctioning procedure has been approved instead of applying the general sanctioning procedure as before.

Nevertheless, the new sanctioning regime could be improved from a formal point of view:

- UIFAND is the investigative authority in all cases, but it only has the competence to impose the sanction in case of minor infringements.

In case of serious and very serious infringements the competent authority to impose the sanctions is the Government. However, it has to be noted that the great majority of the proposed sanctions have not been reduced by the Government.

- The sanctioning procedures are intensive time consuming procedures, and numerous formal steps must be taken in order to elaborate the final sanctioning proposal. The adoption of a case-by-case based simplified procedure should be considered by the Andorran authorities in order to be able to issue a timely resolution, which increases the effectiveness of the sanctioning regime.

UIFAND started imposing sanctions after 2013: in 2013 a total of 4 administrative sanctions were enforced (3 upon banking entities and 1 upon an insurance company) and 3 others in 2014 (all to non-financial reporting entities). The infringements that led to the sanctions involved:

- Breaches of CDD measures
- Failure to report an STR's
- Incompliance with a UIFAND's Technical Communiqués
- Inadequate performance of the Internal Control Body
- Failure to provide an external audit to the UIFAND

In general terms, banks and insurance companies consider sanctions related to very serious infringements to have a very high impact. Regarding serious infringements, sanctions are considered to have a high impact, and regarding minor infringements, sanctions are considered to have a medium effect. Therefore, at least from a technical point of view, range of sanctions applicable is dissuasive enough.

In regards to asset managers and postal offices, since no administrative sanction has been applied in the past, their dissuasiveness cannot be directly assessed. However, since bank-owned asset managers share Compliance Unit with their banks, their perception about sanctions' dissuasiveness is the same.

Furthermore, the perception of the sector is that the tolerance of UIFAND from a sanctioning point of view is low. In scale from 1 -very tolerant- to 10-not tolerant at all-, UIFAND has been rated at 9.

Therefore, the sector believes that administrative enforcement actions would be initiated in case of non-compliance with AML requirements.

Sanctions apply to all parties under obligation (both legal and natural persons), as well as to senior management. Authorities have to deal with the infringements case by case to decide upon its severity and magnitude of the sanction taking into consideration the degree of culpability of the offender, economic status of the offender, amount of the operation and/or economic benefits obtained from it, as well as losses caused to affected third parties, severity and duration of the events, lack of controls and deficiencies of the prevention mechanisms, and administrative sanctions enforced in the previous 5 years.

In addition, repetitive infringements increase the respective seriousness as follows:

- The commission of more than three serious infringements in a period of one year implies a very serious infringement
- The commission of more than three minor infringements within a period of one year implies a serious infringement

CRIMINAL SANCTIONS

As for criminal sanctions, Andorran ML crime punishes willful and serious negligent ML acts, including willful blindness conducts.

Serious negligent and willful blindness conducts would include those ML cases where the obliged entities do not observe AML Act obligations and this facilitates ML.

Furthermore, ancillary conducts of ML would include those cases where obliged entities cooperate or participate in ML Acts. In this regard, the CEO of BPA has been provisionally imprisoned. However, the lack of criminal liability of legal persons negatively affects this variable, since criminal sanctions cannot be applied against legal persons.

National identification infrastructure

ACCESS TO BENEFICIAL OWNERSHIP INFORMATION

Andorra's AML legal framework (Art. 49 of Law 28/2008 on International Criminal Cooperation and fight against the laundering of cash or securities the proceeds of international crime and against the financing of terrorism) requires the identification of beneficial ownership through reliable sources in order to establish a business relationship with any legal person. If beneficial ownership cannot be properly identified, designated entities have to consider filing a report to the UIF on the event.

In practice, all banks do identify their customers' beneficial owners and have included such requirements in their internal policies, which include:

- **Identification:** Customers are asked to provide the complete institutional file (incorporation certificate, beneficial owner documents, etc), if one of the shareholders or beneficial owners is another legal person, further identification is required regarding their ultimate beneficial owners.
- **Account opening contract:** Contracts have to include a signed statement indicating who the beneficial owners of the funds are (account holders, shareholders as stated by the registry, other individuals indicated in an attached Annex). In addition, they commit to provide updated information were there to be any changes.
- **Verification:** In case of uncertainties regarding the identity of the beneficial owner identified over the course of the business relationship, the information has to be reviewed and updated.

Additionally, the regulatory framework for the registry and functioning of Andorran corporates (Law 28/2013) has been modified 3 times in the last years, increasing its transparency, and requires all legal entities to be registered and deposit their annual accounts in it.

The Registry contains the following information about each registered Entity: activity and shareholder structure, nomination and ceasing of administrators, changes in shareholder structure, changes in legal regime, any agreement on merger, split, or transformation, and the establishment of foreign subsidiaries. However, it only contains information regarding shareholders (and not beneficial ownership) of the Entities and the powers of attorney do not appear in it.

IDENTIFICATION INFRASTRUCTURE FOR INDIVIDUALS

Andorra has a population of 78,014 inhabitants (data from National Department of Statistics, 2015), of which 45.8% has Andorran nationality and 48.1% are original from EU countries. Other nationalities include Latin American countries, USA, Australia, and Philippines.

All citizens with Andorran nationality are required to have an Andorran passport, which is issued by the Principality, and is used as the main source of identification by entities.

Although Andorra does not provide its population with a national ID, Andorra counts with second generation biometric passports as well as with the necessary IT infrastructure to handle the production, distribution and authentication of them. Additionally, the Ministry of Internal Affairs ensures that after January 2017 third generation passports with the new system SAC (Supplemental Access Control) will start being issued, which will provide Andorra with additional anti-counterfeiting measures in line with ICAO.

The immigration regulation (law 9/2012, decree of 26/03/2014, decree of 19/02/2014 and law 21/2004) is relatively restrictive and requires for those foreigners who request to reside in the Principality to present the following documentation:

- Criminal history in the country of origin and all those countries of previous residence
- Signature of an affidavit relative to the criminal history provided
- Original and photocopy of passport and/or national ID (if EU national)
- Proof of current marital status
- Proof of residence through a copy of the lease agreement, property certificate, or any other means
- Curriculum vitae, with a copy of all diplomas obtained

Moreover, the legislation regulating the Andorran nationality is also relatively restrictive and requires, for those foreigners who wish to obtain the Andorran nationality, proof of 20 years of residence in the Principality.

Additionally, approximately 90% of citizens without Andorran nationality belong to EU countries, where adequate ID infrastructure is in place.

Consequently, all Andorran citizens are registered with proper ID documents, which is considered as adequate for due diligence purposes by the financial sector. It is worth mentioning that there have historically been no cases of fraudulent Andorran passports in relation with financial sector customers.

Action Plan

Based on the vulnerability assessment set out above, the government of Andorra has developed, together with the private sector and all involved institutions a detailed action plan to build on the progress of recent years and further reduce the risk of ML&TF. The action plan includes cross-sectoral initiatives and sector-level initiatives relative to the corresponding sector.

CROSS-SECTORAL INITIATIVES

- Ensure the implementation of incremental regulatory changes programmed before the 2017 evaluation by Moneyval in order to fully comply with FATF's 40 recommendations. Namely:
 - Strengthen the criminal code by introducing criminal liability for legal persons and tax offense
 - Reporting entities are not expressly required to verify that any person purporting to act on behalf of the customer is so authorized, and identify and verify the identity of that person.
 - Reporting entities are not required by law to ensure that documents, data or information collected under CDD process is kept up-to-date; only those data referred to the identification to the client is required to be updated.
 - Regarding trusts, it is only expressly required to identify and to verify the beneficiaries of the trust and the natural persons exercising its control, but similar requirements in relation to the settlor, the trustee(s), the protector (if any), etc. are not required.
 - Relationship termination with customers is not required in Andorra's regulation when there are doubts about the veracity or adequacy of already obtained information (current regulation includes relationship termination only when the customer cannot be identified).
 - Telephone should be eliminated as a reliable and independent source to undertake customer verification.
 - Record keeping does not cover all CDD records obtained through CDD measures neither the results of analysis undertaken (some CDD information and transactions records which are not available swiftly to domestic competent authorities)
 - No specific measures are applied regarding domestic PEPs and persons who have been entrusted with a prominent function by an international organization.
 - There is no legal provision establishing that reporting entities are required to obtain immediately the necessary information and its relevant copies relating the purpose and the intended nature of the business relationship.
 - Information regarding the level of country risk is not considered in our AML Act for the purposes of determining in which countries the third parties can be based.

- It is not required that the reporting entity must be satisfied with the measures in place of the third party regarding record-keeping requirements.
- Tax crime, smuggling of goods and some other offences are not a predicate offence of money laundering.
- To have regard to the ML/TF risks and size of the business in order to implement programs against ML/TF and establishes adequate internal policies, procedures and controls is not required by law.
- Include beneficial ownership information in the National Registry of companies.
- Ensure the plan to reinforce the AML supervisory body with additional resources in order to be in line with other similar jurisdictions and satisfy increasing regulatory requirements is implemented in a timely manner.
- Create a working group integrated by the General Council, the Government, representatives from the financial sector, and independent experts that analyses, evaluates and generates proposals regarding all reforms that will need to be taken in what regards Andorra's supervisory and regulatory framework.
- For future risk assessments, main AML&CTF stakeholders may enhance their cooperation to collect statistics by defining specific data to be shared by each stakeholder, as well as workflows and owners.
- Awareness actions should be conducted by competent public authorities, especially in relation to those ML cases that, through an apparent tax-evasion scheme, disguise a not-tax related ML.

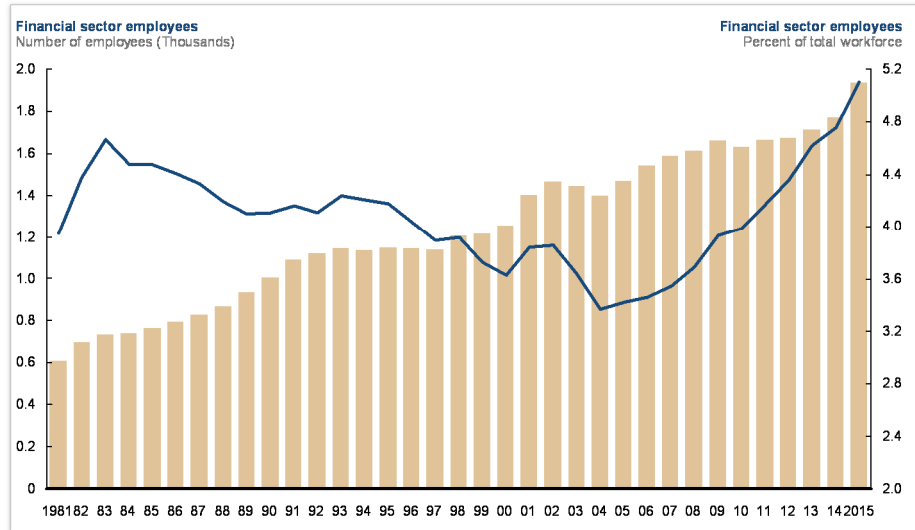
Banking sector



EXHIBIT 9

Relative strategic importance of financial services to the economy over time

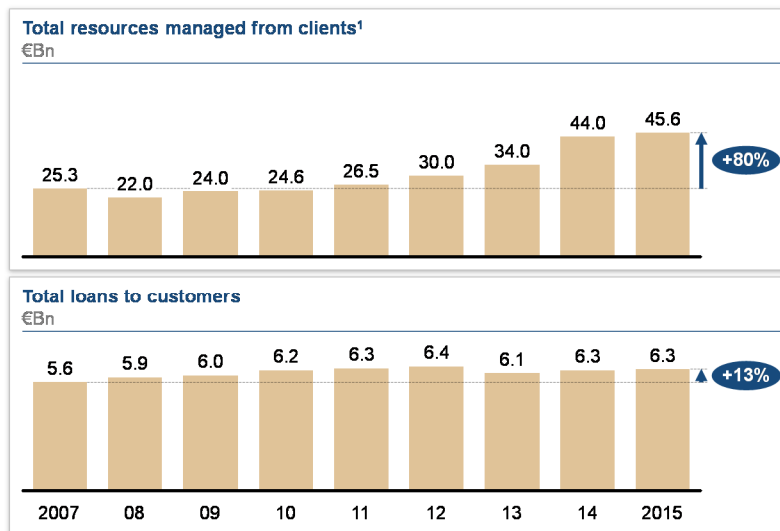
Evolution of workforce in Andorra's financial sector. 1981-2015



SOURCE: Departament d'Estadística Andorra

EXHIBIT 10

Increase in business volume of Andorran banks since 2007



Note: Figures do not include BPA
 1 Includes resources (deposits and off-balance sheet resources) held in custody by own bank and third parties

SOURCE: ABA; entities financial reports

Andorra and its banking sector

The main players in Andorra's banking sector – and the focus of this section – are Andbank, Morabanc, Crèdit Andorrà, and BancSabadell d'Andorra. They make up the lion's share of a financial services industry that contributes 23% of Andorra's direct GDP and mobilizes through credit the country's economy.

The sector has proved resilient over time, particularly as it has internationalized and diversified over the past decade. Its contribution to the country's total workforce declined during the 90's as other sectors such as construction or tourism grew, however since 2004 it has seen a steady growth both in absolute employee numbers and in proportion to Andorra's total workforce (Exhibit 9).

INTERNATIONALISATION AND VALUE ADDED SERVICES: MAIN ENGINES OF VALUE ADDED GROWTH

The evolution of Andorra's banking sector has been fueled by the offering of higher value-added services and a strong internationalisation drive, under a sustainable and profitable growth.

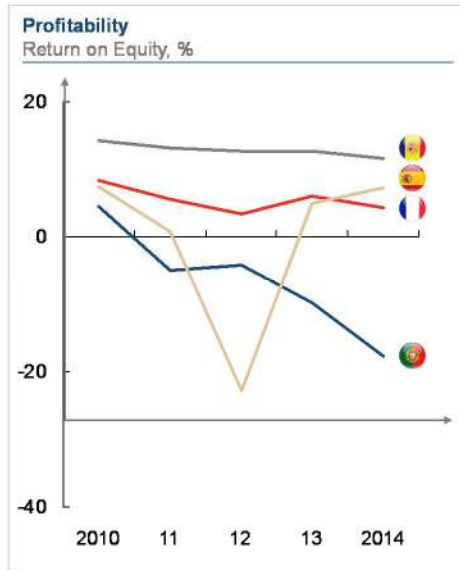
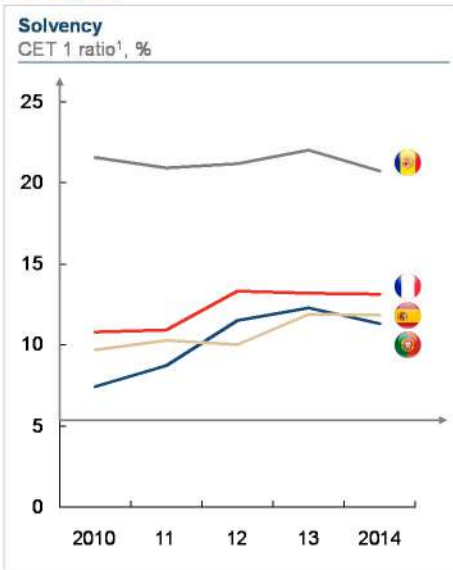
Higher value-added banking services. Although Andorran banks have been traditionally focused on domestic retail and commercial banking, their business model in recent years has evolved towards higher value added services such as financial advisory and asset management. This change has been mainly driven by the focus of Andorra's banking sector on developing a differential value proposition on wealth protection, as well as a better client service through more transparent and personalised investment services and in some cases additional digital platforms. As a result, the Andorran banking sector today manages approximately €45bn in resources from clients, both domestic and international.

Strong internationalisation. The ambitious growth strategy of Andorran banks is based on a universal banking model and strong internationalisation. The Andorran banking sector is present in Europe, North America, Latin America, and Middle East, and approximately 50% of AuM belong to international clients and/or foreign subsidiaries. Within Andorra, some 38% of AuM belong to international clients.

Sustainable and profitable growth. Andorran banks' total AuM have grown significantly in recent years, with an increase of 77% between 2007 and 2015 and rapid acceleration since 2011 (Exhibit 10).

Exhibit 11

Solvency and profitability levels of Andorran banks compared to peers in the region



Note: Figures do not include BPA.
1 Andorra follows INAF methodology for solvency calculation
SOURCE: ABA, entities financial reports

Despite this rapid growth, the banks have maintained healthy solvency ratios and profitability levels. Their capital adequacy ratios exceed 20% – well above the minimum capital adequacy level of 10% required by Andorran INAF – while their loan to deposits ratios are below 70% and their RoE exceeds 11%. This performance compares favourably to that of banks in neighboring countries (Exhibit 11).

THE EXPOSURE OF ANDORRAN BANKS TO MORE DEMANDING REGULATIONS

The internationalisation of Andorran banks has been an opportunity to get exposed to demanding regulations and build robust systems.

The internationalisation of Andorran banks has been an opportunity to get exposed to demanding regulations and build robust systems

Regulators. The internationalisation of Andorran banks has demanded all entities to reinforce their regulatory compliance framework to deal with world most demanding geographies – international regulators have special scrutiny on foreign subsidiaries. The banks are well aware that any regulatory issue in a foreign subsidiary would have a negative impact on the whole Andorran banking system, and have consequently adapted their organizations to have adequate governance and control on them.

In particular, through the law 8/2013 on the organizational requirements and the operational conditions of entities operating within the financial system, investor protection, market abuse and Financial Collateral Arrangements, emphasis is given on the importance of defining each entity's risk appetite and managing the complexity of having subsidiaries in other jurisdictions such as Spain, or Luxemburg.

Correspondent banks. Standard-setting bodies have put greater pressure on the correspondent banking network, which has a relatively high risk aversion since the crisis (especially on AML&CTF matters) and aims to reduce their operating complexity. This implies an issue to small sized countries such as Andorra due to their dependence on foreign payment systems and access to liquidity (i.e., lack of lender of last resort)

Clients. Finally, the banks' clients have shown increasing demand for a wider variety of products, services and channels, including equity management, financial advisory, remote channels. Matched with a higher volume of cross-border transactions, this puts additional pressure on the banks to comply with international standards.

EXHIBIT 12

Andorra's four banking groups

December 2015

■ Domestic AuM²
■ Subsidiaries³



1 Includes resources from customers (deposits and off-balance sheet resources) held in custody by own bank and third parties;
2 Includes deposits and off-balance sheet items managed in Andorra, from residents and non-residents
3 May include domestic subsidiaries different from the banking group

SOURCE: Interviews; annual reports; ABA

EXHIBIT 13

International presence of Andorra's banking groups

■ Countries with presence of Andorra's banks



FOUR BANKING GROUPS COMPETING IN HIGHLY REGULATED GEOGRAPHIES

Andorra's banking sector is made up of four international banking groups – Andbank, MoraBanc, Crèdit Andorrà, and BancSabadell d'Andorra (Exhibit 12). Together they have just over €45bn in consolidated AuM¹ and a high degree of internationalisation (Exhibit 13). With more than 80 years of history, these institutions' main areas of focus are wealth management, asset management, insurance, and retail banking. It is important to note that out of the €45bn, only around 50% is in Andorra (the rest is regulated by the foreign regulatory bodies, including ECB)

Andbank is Andorra's largest banking group, with a 50% market share and € 23 Bn in AuM. It has pursued an ambitious growth strategy in recent years, achieving 60% growth in AuM since 2013. The main thrusts of this strategy are internationalisation – around 70% of its total business comes from foreign subsidiaries – and personalized wealth management. Its main focus is private banking – only 44% of its total business volume comes from retail and corporate banking.

MoraBanc focuses on commercial banking, wealth management, and asset management. It has an international presence through external asset management (in Switzerland and Miami), and has continued its expansion in other locations such as Uruguay. 45% of its total business volume comes from retail and corporate banking.

Crèdit Andorrà is Andorra's leading domestic bank in total business volume. It also has a strong international position in wealth management in Europe, the USA, and Latin America; as well as a strong insurance business (contributing about 11% to total profits) in Andorra, Spain and Chile. Approximately 35% of its total business volume comes from retail and corporate banking.

BancSabadell d'Andorra is a subsidiary of the Spanish banking Group Sabadell. Its focus is on domestic retail and corporate banking (approximately 55% of its total business volume), although it also has some wealth management business.

Banca Privada d'Andorra was not included in the perimeter of the assessment, since it entered into a resolution process as of April 2015. For more detail on the BPA case please refer to section “The comprehensive reform of Andorra's regulatory framework and its role in ‘Banca Privada d'Andorra’”

Andorra's banking sector is made up of four banking groups with €45bn assets under management

¹ Consolidated figures End of Year 2015

Note: Andorran banks' expansion in Latin American countries such as Uruguay and Panama responds to a private banking model serving a segment of clients (mid-range HNWI) typically uncovered by local institutions and/or global players. Latin American clients in such countries, furthermore, have strong bonds with Miami, where Andorran banks are also present. Finally, Andorran banks provide cultural proximity and a lower price point to Latam customers.

Banking regulation and supervision

In 2009, the Principality initiated a transformation process with the objective of opening Andorra to the world through a diversified growth of its economy

As aforementioned, in 2009 the Principality initiated a transformation process with the objectives of opening Andorra to the world through a diversified growth of its economy; ensuring Andorra's competitiveness in the global economy; and reaffirming its commitment to international standards. In particular, its commitment to the international community is at the core of the country's vision, as a key enabler of the Principality's transformation and economic development. Please refer to section "Andorra's transformation process started in 2009" (sub-sections "Proactive Commitment to the International Community" and "Comprehensive Reform of Andorra's Financial Regulatory and Institutional Framework") for more detail on recent regulatory reforms.

Building on this foundation, as mentioned before, key milestones in Andorra's transformation since 2009 include:

- 2009 Paris Declaration represents the sincere commitment of Andorra to converge towards the regulatory playfield of its neighbouring countries. The Declaration is materialized through bilateral agreements of exchange of fiscal information with 17 countries: Liechtenstein, Monaco, San Marino, Austria, France, Belgium, Argentina, Holland, Portugal, Spain, Denmark, Faeroe, Finland, Greenland, Iceland, Norway, and Sweden. This made OECD's Committee on Fiscal Affairs to remove Andorra from its list of uncooperative tax heavens in May 2009, in the light of its commitments to implement OECD standards on transparency and effective exchange of information.
- 2011 Monetary Agreement with European Union. This agreement formalized reciprocal collaboration, assistance and exchange of information with regulatory and supervisory authorities around the world. It sets a series of concrete deadlines for Andorra in four main regulatory areas.

The following legal reforms regarding AML&CTF were taken in the wake of the Monetary Agreement:

- Revision and amendment of Act 28/2008 on International Penal Cooperation in the Fight against the Laundering of Money and of the Proceeds of International Delinquency and against Terrorist Financing.
- Approval of the Law 18/2013, on amendment of the Penal Code; Law 19/2013, on amendment of the Code of Criminal Procedure, and Law 20/2013, on amendment of the LCPI. The last-mentioned amendment entails the complete implementation of: (i) Directive 2005/60/EC on the prevention of the use of the financial system for money laundering and terrorism

financing, (ii) Directive 2006/70/EC of the Commission establishing the measures for application of Directive 2005/60/EC of the Parliament and of the Council, on the definition of politically exposed persons and the technical conditions for the application of simplified client control obligations, (iii) Regulation 2006/1781/EC of the European Parliament and of the Council on information on the respective originators which accompanies the transfers of funds, (iv) Regulation 2005/1889/EC of the European Parliament and of the Council on the controls of cash entering or leaving the Community; and (v) the Decision of the Council, dated 17 October 2000, on the modes of cooperation between the financial intelligence units of the Member States for the exchange of information.

- Approval of the Decree on amendment of the Regulations of the LCPI on 20 November 2013 for the purpose of developing Law 20/2013 which implements the rules of the European Union in matters of prevention of money laundering and terrorism financing in the terms required by the Monetary Agreement between the Principality of Andorra and the European Union.
 - Approval of the Law 4/2014 which establishes measures for the fight against and suppression of terrorism and its financing and for the prevention and disruption of the proliferation of weapons of mass destruction and their financing, and introduces technical adjustments with respect to the sanctioning regime.
 - Approval of law 2/2015, which deals with the legal status of the Financial Intelligence Unit, seeking to adopt parameters which will accredit even more this body's independent character and provide a greater functional autonomy of its work regime.
- Andorra signed OECD's Common Reporting Standards (CRS) Multilateral Competent Authority Agreement (MCAA), becoming the 75th jurisdiction joining it, and adopting the obligation to implement the single global standard on automatic exchange of information being developed by the OECD. During 2016 the Government (represented by the Ministry of Finance) has launched the effort to adapt the sector's IT infrastructure to CRS requirements.

THE EVOLUTION OF ANDORRA'S BANKING REGULATION TOWARDS INTERNATIONAL STANDARDS

Andorra has undergone a comprehensive reform of its financial system's regulatory framework, especially in AML&CTF matters, motivated by, among others, Moneyval's assessment visits (1999, 2002, 2005, and 2011), the Monetary Agreement with the EU (2011), and the adaptation to the European Directive (EU) 2015/849 (to be transposed into national regulation by October 2017) on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing.

Recent internal regulations, resulting from the intrinsic maturing process of the sector, include: Law 8/2015 on urgent measures to introduce mechanisms for the recovery and resolution of banking institutions; Law 7/2013 governing the legal regime for entities

operating in the Andorran financial system, Law 8/2013 on the administrative requirements and operating conditions for entities operating within the financial system; Law 10/2013 on the Andorran National Institute of Finance; and Law 1/2011 on the creation of a system guaranteeing deposits for banking entities.

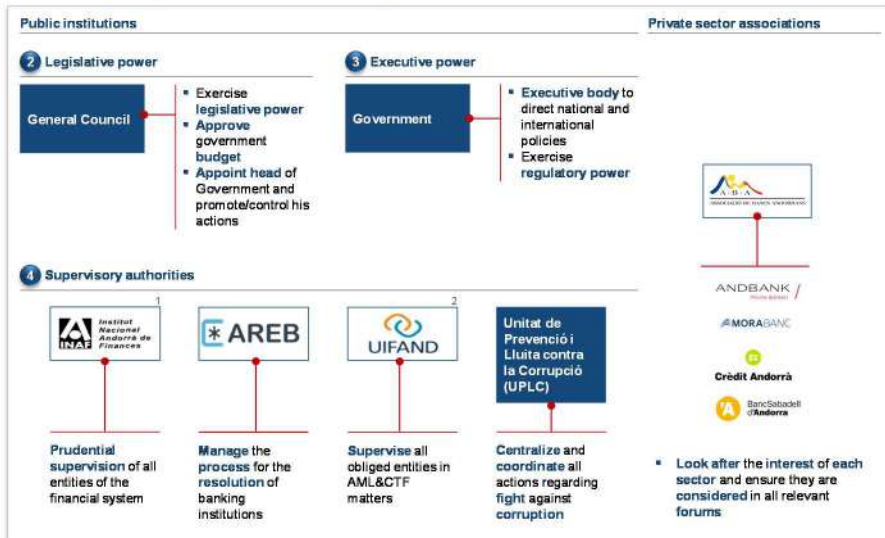
In particular, Andorra has made big progress to remedy the deficiencies identified in the mutual evaluation report on the fourth assessment visit (March 2011), both from a legal and operational stand point. The most relevant measures include:

- Andorra's Criminal Code (Art. 409) was amended in 2011, 2013 and 2015 to cover all the aspects of money laundering regulated in the Palermo and Vienna Conventions (i.e., criminalising the mere concealment, disguising, possession and use of criminal proceeds), and the list of predicate offences has been extended to cover at least all of the designated categories of offences
- The amendments to the Criminal Code of July 2015 introduced the criminalisation of self-laundering with regard to all the acts covered by the ML offence
- Additional amendments to the Criminal Code by Law 18/2012 included broadened the definition of terrorist acts as required by the TF Convention
- The LCPI was amended by the Law 4/2011, modifying the definition of beneficial owner set out in article 41(g) of the LCPI. The definition covers all the persons who own significant controlling interests and who exercise effective control over the company. In addition, beneficiaries and persons controlling trusts are also included
- Law 4/2011 also regulates the application of simplified CDD measures, merely "reducing" the CDD measures foreseen by the LCPI, but without any exemption from being applied completely
- Law 20/2013 amending the LCPI obliging entities to consider filing an STR even in cases where the relationship has not been established or transaction has not been carried out
- Law 20/2013 amending the LCPI also broadened the provision in Article 49(1)(d), concerning customer due diligence measures. This article now requires obligated entities to obtain information on the purpose and intended nature of the business relationship with clients
- On the operational side, the numbers and quality of filed STRs in the past years are increasing in stable fashion. This is related to a series of steps taken by the authorities over the last years:
 - Issuance of an Informative Note containing instructions for making suspicious transaction reports
 - Issuance of Technical Communiqué CT-1/2011 concerning the financial information to be reported to the UIFAND

- Preparation and publication of an STR template, the use of which is obligatory for the filing of an STR to the UIF
- Preparation and publication of instructions on how to file an STR
- The number of FIU staff has increased and is now composed of 8 persons, two of them being appointed to a newly established Supervisory Unit. In June 2015, a call for further two staff members was published, one of whom will be assigned to the Supervisory Unit. The increase of staff and the FIU's reorganisation enabled it to commence undertaking on-site inspections and complement the practice of relying on audit firms for the purpose of AML/CFT inspections
- Finally, Andorran authorities introduced a comprehensive framework with the view of implementing the UNSC Resolutions 1267(1999) and 1373(2001). According to Moneyval, the system put in place complies with international requirements and comprises all the necessary elements.

Andorran institutional framework has been reinforced to effectively supervise the banking sector

NON-EXHAUSTIVE



1 The government proposes presidency to General Council 2 The Head of UIFAND is named by the Ministers of Justice, Internal Affairs, and Finance

SOURCE: Andorra legislative framework

ANDORRA'S INSTITUTIONAL FRAMEWORK FOR BANKING SUPERVISION

As it was previously mentioned, the institutional framework for the supervision of the financial industry in prudential and AML&CTF matters is composed of multiple stakeholders. In particular for the banking sector (Exhibit 14). Relevant institutions include:

- **Unitat d'Intel·ligència Financera d'Andorra (UIFAND).** This institution is responsible for inspecting and supervising financial entities in AML&CTF matters. It collects and analyzes declarations from supervised parties; collaborates with national and international authorities in AML&CTF matters; prepares statistics to evaluate the effectiveness of the measures taken; and imposes administrative sanctions when necessary. UIFAND also submits legislative proposals to the Government on AML&CTF matters.
- **Institut Nacional Andorrà de Finances (INAF).** This institution supervises and controls all entities of the financial system from a prudential stand point; and participate in administrative processes such as licensing. Specific functions are assigned to INAF by Law 10/2013 (see previous sections).
- **Agència Estatal de Resolució d'Entitats Bancàries (AREB).** This institution was created on urgent matters by law 8/2015 and is in charge of managing the recovery and resolution of intervened financial institutions. It currently manages BPA's non-legitimate assets.

The ties of good understanding between INAF and UIFAND were strengthened through the signing of a Memorandum of Understanding on November 30th, 2012. This cooperation agreement covers the various areas and matters of common interest, such as on-site supervision and inspections, training, cooperation with international bodies and foreign supervisory authorities, cooperation on authorization processes for the creation or acquisition of both financial and non-financial entities, and the establishment of periodic meetings for the purpose of dealing with matters of current interest. The number of cooperation cases between INAF and UIFAND has increased from none in 2012, to 3 in 2013 and 6 in 2014. Additionally, a representative of INAF must attend the Andorran AML/CTF Permanent Committee when it comes to issues that affect the Andorran financial system.

In addition, **ABA** (Associació de Bancs Andorrans) channel sector-level communication with public institutions and look after the interests of the sector.

ANDORRA'S PROFESSIONAL COLLECTIVE REACTION TO BANCA PRIVADA D'ANDORRA EVENT

As stated above (see section "The response of Andorra's authorities and financial sector to the 'Banca Privada d'Andorra' money laundering event"), the response of Andorra's institutions to Banca Privada d'Andorra event had the objective of allowing BPA's deposit holders to keep their savings, and minimise the contagion risk over other entities and the country overall.

The already initiated reforms, which were accelerated after the ‘BPA case’, were key to the orderly resolution of the entity, and motivated the fact that on February 19th, 2016 FinCEN announced the withdrawal of “its finding and proposed rulemaking under Section 311 regarding Banca Privada d’Andorra” since the “steps taken by the Andorran authorities sufficiently protect the U.S. financial system from the money laundering risks”. More detail on the BPA case can be found in the section “The response of Andorra’s authorities and financial sector to the ‘Banca Privada d’Andorra’ money laundering event”

A COMMON CODE OF CONDUCT COMPLEMENTING ANDORRA’S BANKING REGULATORY FRAMEWORK

Complementing the country’s regulatory framework, all of Andorra’s banks are signatories to a common Code of Conduct first agreed in 1990 in process of being updated by Andorra’s Banking Association (ABA) by mid-2016. The Code’s objective is to reinforce the reputation of Andorran banks and places emphasis on the importance of AML&CTF. It includes provisions on the experience and ethics of Board Members; external audit of annual accounts; verification of client identity; onboarding requirements for documentation; and record keeping of client documentation.

All of Andorra’s banks are signatories to a common Code of Conduct first agreed in 1990 in process of being updated by Andorra’s Banking Association

Similarly to other countries’ sectoral codes of conduct (e.g., Switzerland, Luxembourg) Andorra’s Code requires that its banking groups fight ML&TF – and includes a definition of money laundering, an obligation to monitor unusual transactions and reject them if there is suspicion of money laundering and an obligation to request information that proves the legality of funds.

As stated above, since this code dates from 1990 ABA is in the process of updating it. In particular, its full text has already been agreed upon by the different institutions and is in the process of approval by the respective legal Departments. The final text will officially be approved by all banks November 25th.

In addition, ABA has been working with all the different banking institutions to establish a set of minimum AML self-evaluation standards (based on international best practices). These minimum criteria are based on OCC’s Risk Assessment System, Sepblac’s self-evaluation procedures, and other international best practices, and comprise:

- Quantity of risk (based on the stability of the client base, the existence of high risk clients, e-banking channels, foreign subsidiaries, non-resident accounts, private banking/asset management services, volume of transfers, and transactions with high risk countries according to UIFAND’s public lists)

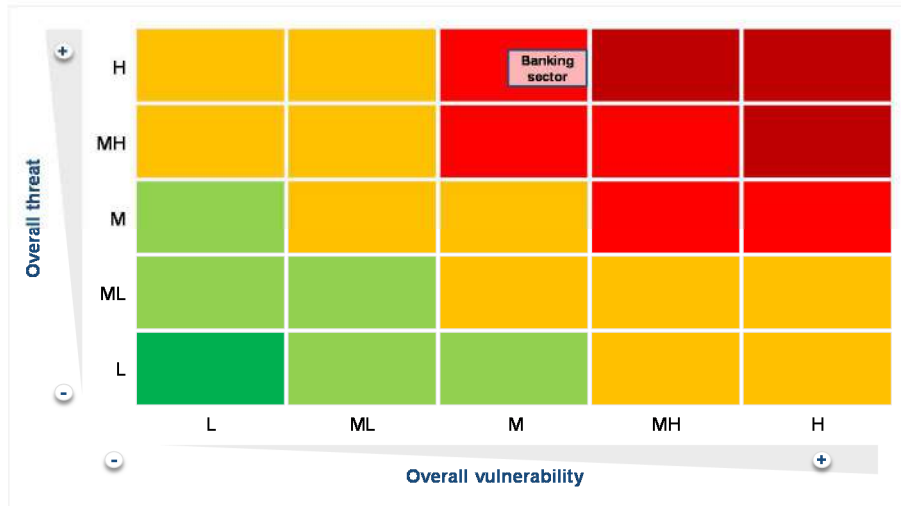
- Quality of risk management (determined by the degree of understanding and commitment to AML issues, the implementation of AML measures in all products and areas of the bank, the identification of deficiencies and existence of corrective actions associated with them, authority of the Compliance Area, independent expert review, approval of an AML program by the BoD, adequate training program covering all employees, adequate KYC and UBO identification processes, implementation of adequate controls for high risk products/services, control systems adequately identifying and reporting STRs)
- Aggregated risk
- Direction of the risk level in the next 12 months

Guided by the common Code of Conduct, each banking entity has additionally developed an individual Code of Conduct that is regularly reviewed and approved by its Board. These bank-specific codes detail the specific ethical standards and requirements for bank employees. Each employee is required to sign their bank's Code of Conduct, attesting to their understanding of it and their agreement to comply with it.

EXHIBIT 15

Money laundering risk matrix in Andorra
National Risk Assessment

Risk assessment:
■ High
■ Medium-high
■ Medium
■ Medium-low
■ Low



Money laundering and terrorist financing risk analysis

Following the methodology defined by the World Bank, the risk of Andorra's banking sector to ML&TF was considered in two dimensions (threat and vulnerability), and ranked as medium/high (Exhibit 15):

- The threat posed by the characteristics of the sector is further detailed in the corresponding module ("Threat analysis") and was rated as high
- The vulnerability of the banking sector to ML&TF constitutes the analysis of this part of the NRA report, and was rated as medium

Andorra's banking sector is considered to have a medium/high risk of ML&TF, due to its size and the intrinsic characteristics of the business

In respect of the system, as if was aforementioned, there has been a profound transformation of Andorra's AML&CTF regulatory framework towards international standards, and even though the supervisor has been empowered, having a larger scale and capabilities would help it develop its role.

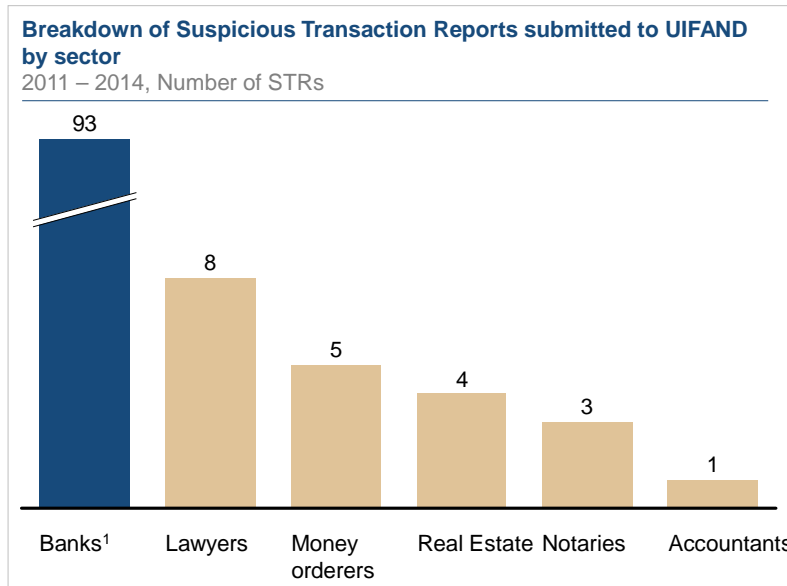
Additionally, the effectiveness of Andorra's sanctioning system and its identification structure are both considered to be sufficiently in line with international standards.

In respect of the banking entities:

- All of them have been reinforcing their respective Compliance functions with resources and capabilities, in line with additional requirements. However, it is still necessary to extend the risk culture to all employees of the organization, stressing the importance of the "first line of defense".
- All banks have made an effort in increasing training to employees (total hours per employee increased x3 in 2015 vs. 2013) but a higher degree of customization and Sector-level collaboration is still needed.
- The Sector has adopted new technologies for transactions monitoring over the last years, nonetheless it still needs to further calibrate the systems and processes that automatically assign risk to client profiles.
- Standard procedures to periodically review client information (i.e., ongoing KYC) have recently been initiated, making it necessary to adopt these processes with a higher frequency going forward.

EXHIBIT 16

STRs reported to UIFAND in Andorra since 2011



¹ Includes all their businesses (e.g., private banking, retail banking, insurance, asset management)

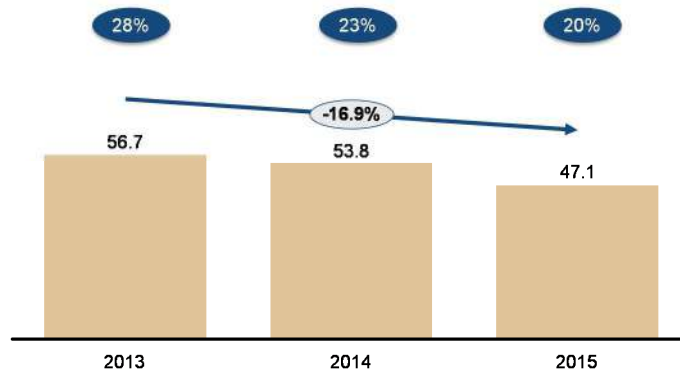
SOURCE: UIFAND Activity report 2011 - 2014

EXHIBIT 17

Relevance of numbered accounts in Andorra's banking system

of clients with numbered accounts, thousands

● % over total



SOURCE: Andorra Banking system

RELEVANCE AND INTRINSIC FEATURES OF ANDORRA'S BANKS RESULTING IN A HIGH VULNERABILITY TO ML&TF

The intrinsic features of Andorra's banking sector increase its vulnerability to ML&TF. In particular, 60% of the banking sector's business volume is related to private banking; 38% of domestic business volume belongs to international clients; and approximately 63% of banking transactions (in Euros) are from or to international destinations. This, together with the high concern that the sector has for AML&CTF translates into the fact that 82% of total suspicious transaction reports (STRs) in Andorra since 2011 were reported by banks (Exhibit 16)

The main reasons for banking entities submitting suspicious transaction reports to UIFAND are related to the following (data corresponding to historical STRs between 2013 and June-2016):

- Origin of funds not properly justified (23% STRs)
- Negative press related to the client (23% STRs)
- Operating incongruences (13% STRs)
- Inconsistencies in necessary information to start business relation (11% STRs)
- Cash movements (11% STRs)
- Client under investigation by Courts (7% STRs)
- Unjustified transactions with high risk countries (6% STRs)
- Unusual large transactions (6% STRs)

This demonstrates the strength and strictness of onboarding CDD procedures carried by Andorra's banking sector – actually in all those cases in which a STR was submitted regarding an onboarding process, the client was rejected.

Additionally, most part of submitted STRs (approximately 70%) are related to international clients, and approximately 50% of them are from clients that have a numbered account and belong to private banking, reinforcing the idea that these segments present a relatively higher vulnerability to ML&TF.

Relative size of the sector and STR reporting volume

The relative size of the sector increases its vulnerability to ML&TF because financial services and insurance constitute 23% of Andorra's GDP.

Product portfolio

Andorran banks' product portfolio is predominantly investment-related – mostly deposits, funds, fixed income, and equity – which translates into a higher inherent probability for money laundering due to the nature of the business itself.

Although numbered accounts (approximately 20% of total accounts in Andorra) are available for bank customers, they do not constitute any kind of client anonymity, and just imply an extra level of privacy towards most employees of the bank, while being fully transparent to the Compliance Areas and the supervisor. That said, client information in numbered accounts is fully disclosed in international wire transfers. Moreover, anonymous accounts are prohibited by law in Andorra (Art. 49 of Law 28/2008). Numbered account's average balance per client is similar to other types of private banking accounts, and their total volume has been significantly reduced over the last years (Exhibit 17).

Regular CDD procedures are required for them as for any other type of account as specified in Art. 49 of Law 28/2008 on International Criminal Co-operation and fight against the laundering of cash or securities the proceeds of international crime and against the financing of terrorism, and Art. 1 of Decree of 20 November 2013, amending the Regulations of the Law on international cooperation in criminal matters and the fight against money laundering and against the financing of terrorism, approved by Decree of 13 May 2009:

- “The parties under obligation must ascertain the identity of their customers and of their beneficial ownership by requiring them to present an official document when establishing any business relationship”
- “Anonymous accounts and anonymous passbooks are prohibited”
- “In the event that the customer cannot be identified in accordance with article 49, the financial parties under obligation may not establish a business relationship or carry out transactions for the customer”
- **“If there are numbered accounts, the parties under obligation shall ensure the compliance with the Law. In particular, the parties under obligation shall identify and verify the customer and the beneficial owner of these accounts and maintain that information available to the internal control bodies, the UIF and the competent authorities”**

In addition, clients holding numbered accounts must be identified to third parties when performing international transfers (Art. 49 bis of Law 28/2008 on International Criminal Co-operation and fight against the laundering of cash or securities the proceeds of international crime and against the financing of terrorism)

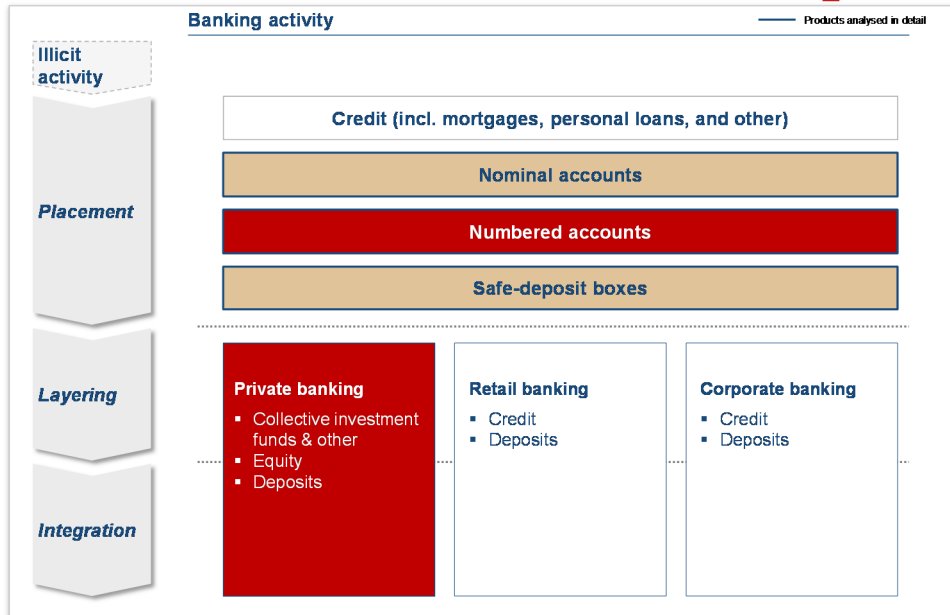
- “Cross-border transfers for amounts of more than EUR 1,000 made by the financial parties under obligation must include full details of the ordering party”

EXHIBIT 18

The vulnerability to money laundering use varies across products and businesses that are offered in Andorra

NON EXHAUSTIVE

Probability of being used for money laundering in any of its phases
 □ Low probability
 ■ Medium probability
 ■ High probability



NOTE: Inherent vulnerability and final vulnerability have been observed in order to assess the probability of being used for ML purposes
 SOURCE: FATF; UNODC

EXHIBIT 19

Andorra's banking product portfolio – skewed towards off-balance sheet products and deposits

CONSOLIDATED FIGURES

Breakdown of total banking business volume by product type in Andorra
 2015, €Bn

6.3		11.5	34.1
Personal loans (1.4)	Term deposits < 3 m (1.6)		Other (4.5)
	Other (1.6)	Term deposits > 3 m (2.5)	Equity (7.6)
Mortgages (3.2)	Current accounts/ Sight deposits (7.4)	Fixed income (9.3)	
		Collective investment funds & other vehicles (12.7)	
Credit to customers	Deposits from customers	Off-balance sheet resources from clients	

NOTE: Inherent vulnerability and final vulnerability have been observed in order to assess the probability of being used for ML purposes
 SOURCE: Banks' annual reports 2014, team analysis, interviews

In order to understand the vulnerability of money laundering across the product portfolio offered in Andorra, the risk analysis considers three stages in the laundering of proceeds of illicit activity (Exhibit 18):

- **Placement.** This stage sees the initial entry of proceeds of crime into the financial system – relieving the criminal from holding large amounts of cash, and placing the money into the legitimate financial system
- **Layering.** The layering stage is the most complex step, and often entails the international movement of the funds. The primary purpose of this stage is to separate the illicit money from its illegal source
- **Integration.** Having been placed as cash and layered through a number of financial transactions, the proceeds of illicit activity are now fully integrated into the financial system and can be used for any purpose

Andorran banks' product portfolio are predominantly investment-related

Andorra's inherent vulnerability to ML&TF has been assessed along its main businesses (i.e., private banking, retail banking and corporate banking) and for those products with a higher volume and/or considered to pose a higher risk to the system (i.e., current deposits in numbered accounts and nominal accounts, and credit to customers)

In regards to the businesses analysed:

- **Private banking**, with 10.5 €Bn business volume, presents a high vulnerability to ML&TF relative to the other businesses assessed. The main drivers of such vulnerability are its average business volume per account (477 €k), average cash transaction (21 €k), and inherently investment features, which are the highest among all Andorran businesses. Additionally, private banking is the most international business, with 52% of total volume belonging to non-residents, and concentrates most international PEPs within Andorra's banks (78%, or 98 in total), although as it was previously mentioned their risk is adequately managed by all entities.

Although they have not been assessed separately, it is worth mentioning that private banking's most prominent products are Collective Investment Funds (with total domestic AuM of 4.6 €Bn) and Equity (with total domestic AuM of 3.8 €Bn)

- **Retail banking** is the second largest business by volume (7.3 €Bn), and presents a medium to low vulnerability to ML&TF as indicated by its relatively smaller business volume per account (64 €k), average cash transaction (1.1 €k), and lower degree of investment features compared to private banking. In addition, only 24% of total business volume is related to non-resident clients, it presents no transfers with FATF countries with strategic deficiencies in combating money laundering, and the number of international PEPs is limited to 27 (most of them from Spain and with similar business volumes to the rest of the business segment)

- **Corporate banking** is the smallest segment, with 4.2 €Bn business volume. This business, although with higher average transactions and business volumes than the others (something that is explained by the nature of the business itself), presents a client profile with a relatively lower level of risk – non-residents represent only 6% of total business volume, there are no international PEPs represented, and no transactions are carried with FATF countries with strategic deficiencies in combating money laundering.

In what regards those products/services assessed:

- **Numbered current accounts** are linked to the private banking business, and as such present a relatively higher vulnerability for ML&TF than other products/services. In particular, current deposits held in numbered accounts total 2.2 €Bn and approximately 20% of total accounts in Andorra. Although average balance per account (69 €k) is relatively higher than nominal accounts (29 €k), equally to what happens with average cash transactions (24 €k vs. 14 €k), the differences can be explained by the nature of the private banking business behind numbered accounts, since the figures are very much in line with the rest of the business. In terms of their client profile, approximately 90% of clients with numbered accounts are non-residents in Andorra, and only 11% of total clients are legal persons. There are no transfers involving numbered accounts from/to FATF countries with strategic deficiencies in combating money laundering.
- **Nominal current accounts**, with 6.7 €Bn in deposits, are the largest banking product by business volume and present a medium vulnerability to ML&TF. This is due to the low average cash transaction (1.4 €k) and account balance (29 €k) compared to other products, with a low degree of internationalisation (15% of total business volume belong to non-residents)

The number of international PEPs, although higher than in other products (102 clients), are in line with its relative volume and represent 0.4% of total volume – although at a higher average volume per client, being approximately 8x the average nominal account value.

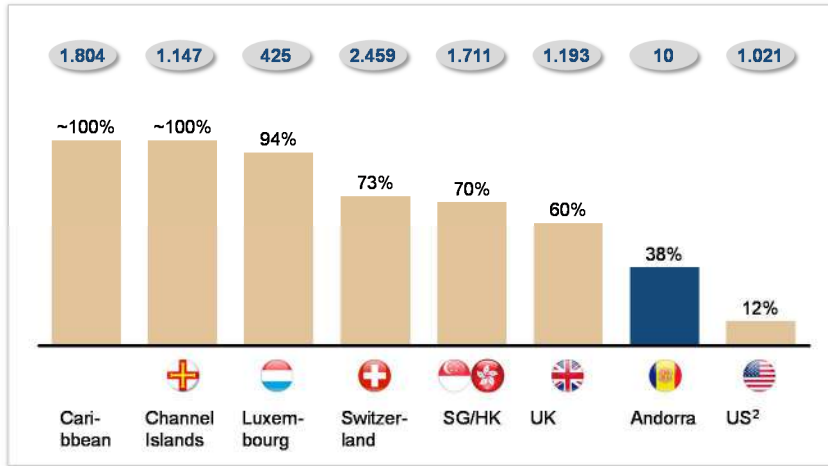
- **Credit to customers** in Andorra implies approximately 6.7 €Bn, and presents a low vulnerability to ML&TF, mainly driven by the lack of investment features of the product, together with the low risk client profile and the lack of cash activity.

EXHIBIT 20

Share of international wealth management¹

Percent of total resources managed from clients

X% Total international client resources. USD Bn³



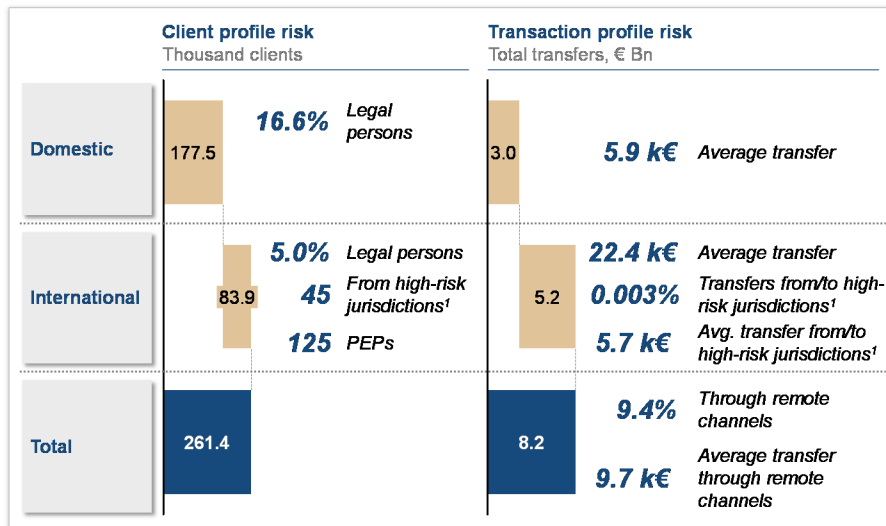
¹ Does not include foreign subsidiaries of national banks; ² Only includes Miami and NY as main offshore centers for wealth management; ³ 2014 average USD to EUR exchange rate

SOURCE: Local Central Banks and statistics departments

EXHIBIT 21

Andorran banks are characterized by a relatively high share of international clients and their associated transactionality

ONLY DOMESTIC BUSINESS



¹ According to FATF criteria
SOURCE: Consolidated data from Andorran banking sector, 2015

Volume of international business

Compared to other intrinsically internationalized markets, Andorra has a reasonable level of wealth management volume coming from non-residents, at approximately 38% of total domestic business volume (Exhibit 20). Moreover, some 63% of money transfers by Andorran banks are cross-country, of which only 0.01% is from or to countries defined as high-risk by the Financial Action Task Force (FATF/GAFI).

Client & transaction profile

Approximately 22% of clients in the Andorran system are international, with only about 45 clients coming from countries with strategic deficiencies in combating ML (as defined by FATF) and 125 international PEPs.

It is important to note that:

- None of the PEPs in Andorra's banks belong to countries with AML&CTF strategic deficiencies in combating ML as defined by FATF.
- There has been only one wire transfer with FATF high risk and non-cooperative jurisdictions (i.e., Iran and North Korea) in Andorra during 2015, amounting €525 and under very strong scrutiny

As detailed below, all these customers are considered as high risk by the banks, and consistently subject to enhanced due diligence measures by them.

In total volume, on average international transfers are four times larger than domestic transfers – with the result that nearly 63% of funds transferred by Andorran banks are international (Exhibit 21).

In what regards to foreign clients, banks are required by law to “ascertain the identity of their customers and of their beneficial ownership by requiring them to present an official document when establishing any business relationship” (Art. 49 of the Law 28/2008)

Additionally, in what regards to PEPs, due to the small size of the country Andorran regulation (Law 28/2008) does not include the need to identify and therefore apply enhanced due diligence measures to national PEPs. Nonetheless, banks have developed their own criteria to identify and monitor their transactions (additionally to international PEPs). In sum, all banks classify PEPs as high risk customers and therefore apply enhanced CDD and monitoring of transactions:

- Onboarding: enhanced CDD procedures are applied to all PEPs, which include proving the lack of negative information in public sources (press) and the check vs. international lists (public lists by UIFAND/Batllia, WorldCheck, Sanctions Screening, Dow Jones – Factiva Lists, Panama papers List –, Informa, public search). Additionally, the acceptance of national PEPs in all cases needs to be approved by the Compliance Area, and international PEPs by the designated Internal Control Body of the bank (in some entities also by the Executive Committee of the bank). It is worth to mention that in practice there are two entities not accepting further international PEPs as clients any more.

- **Monitoring:** As high risk customers, all PEPs are subject to regular monitoring of transactions by the Internal Control Body, regular automatic identity checks with international lists, and the daily automatic review of transactions.

Furthermore, as specified in Andorra's AML regulation (Art. 49 fourth of Law 28/2008), in relation to transactions or business relationships with politically exposed persons who reside abroad, the financial parties under obligation are required to:

- "Have appropriate risk-based procedures to determine whether the customer is a politically exposed person"
- "Obtain approval from management to establish business relationships with these customers"
- "Adopt adequate measures to determine the source of wealth and funds that are involved in the business relationship or transaction"
- "Conduct enhanced ongoing monitoring of the business relationship"

Finally, regarding those customers that are nationals/residents in high risk jurisdictions (although the list of high risk jurisdictions is particular for each bank, all of them include those countries with strategic deficiencies in combating ML as defined by FATF/GAFI), specific onboarding and monitoring measures are also applied:

- **Onboarding:** the acceptance of clients from high risk jurisdictions need to be approved by the designated Internal Control Body of the bank and be supported by the necessary documentation proving the lack of negative information in public sources (press) and the check vs. international lists (public lists by UIFAND/Batllia, WorldCheck, Sanctions Screening, Dow Jones – Factiva Lists, Panama Papers List –, Informa)
- **Monitoring:** clients from high risk jurisdictions are categorized as high-risk, and as such specific measures are applied to their monitoring (e.g., regular monitoring of transactions by the Internal Control Body). Additionally, transactions with high risk countries are monitored via Sanctions Screening (SWIFT) and all of them are reported to the Chief Compliance Officer. In some cases, any transaction with high risk countries and/or high risk clients needs to be approved by Compliance ex ante

In conclusion, authorities believe that even though there exists certain volume of high risk international clients in Andorra's banking sector – PEPs and clients from high risk jurisdictions –, the CDD and transaction monitoring processes carried by the entities is adequate to control their risk.

FINANCIAL SYSTEM'S REINFORCEMENT AS A KEY ELEMENT TO REDUCE VULNERABILITY TO ML&TF

As it was aforementioned (please refer to section “Common elements – financial sector”) Andorra’s financial system has reinforced itself against money laundering by:

- Implementing a comprehensive reform in its AML regulatory framework to converge with international standards
- Reinforcing the role of the supervisor (i.e., UIFAND)
- Updating its sanctioning regime to make it more comprehensive and dissuasive

Nonetheless, and as it was also detailed before, there is still some room to further adapt current regulatory and supervisory framework to international standards (see section “Common elements – financial sector”).

BANKING CAPABILITIES KEY TO DETERMINE THE SECTOR'S VULNERABILITY TO ML&TF

Overall, authorities recognise that Andorran banks have significantly increased their controls in what regards to AML&CTF over the last years by reinforcing their protection mechanisms under four pillars – namely, the effectiveness, governance and authority of the Compliance function; independent review; development of internal policies, procedures, and controls; and culture and ongoing training of employees.

In particular, they have:

- Significantly reinforced their Compliance Areas, as the ratio of employees within the compliance function to total employees has doubled between 2012 and 2015 (from 1.6% of total employees belonging to Compliance in 2012 to 3.1% in 2015)
- Provided the banks’ staff with a significant amount of AML training (total AML training hours per employee increased from 2.3 in 2013 to 7.0 in 2015) and extended it to all employees
- Invested in AML specialised training for those employees within the Compliance Areas – today a total of 4 employees belonging to the Compliance Areas of the different banks have the ACAMS (Certified Anti Money Laundering Specialist), and 25 additional employees are currently undergoing the necessary training to obtain the certificate in the next months (approximately 50% of total compliance employees). AML Compliance employees have also increased their attendance to international conferences related to AML&CTF over the last years
- Implemented a large number of additional AML-related controls over the last 2/3 years.

Governance and authority of the Compliance function; and independent review

Although there is still some room for improvement, Andorran banks have provided their Compliance functions with additional resources and capabilities in line with their required responsibilities, reinforcing their independence and authority. Moreover, in addition to independent audits required by law, the banks have hired independent external advisors to assess their AML&CTF procedures voluntarily.

Additionally, it is important to note that:

- Although Andorran regulation does not require for it, all banks have their own AML&CTF self-evaluation procedures
- ABA has been working with all the different banking institutions in order to establish a set of minimum AML self-evaluation standards (based on international best practices) to be adopted by all of them. These minimum criteria are based on OCC's Risk Assessment System, Sepblac's self-evaluation procedures, and other international best practices, and comprise:
 - Quantity of risk (based on the stability of the client base, the existence of high risk clients, e-banking channels, foreign subsidiaries, non-resident accounts, private banking/asset management services, volume of transfers, and transactions with high risk countries according to UIFAND's public lists)
 - Quality of risk management (determined by the degree of understanding and commitment to AML issues, the implementation of AML measures in all products and areas of the bank, the identification of deficiencies and existence of corrective actions associated with them, authority of the Compliance Area, independent expert review, approval of an AML program by the BoD, adequate training program covering all employees, adequate KYC and UBO identification processes, implementation of adequate controls for high risk products/services, control systems adequately identifying and reporting STRs)
 - Aggregated risk
 - Direction of the risk level in the next 12 months

The assessment of the banks' Compliance functions covered three aspects:

Independence and authority. All the banks' internal policies and programs have been adapted to the new AML&CTF regulation and approved by the banks' Boards. Moreover, the Chief Compliance Officers (CCOs) of all entities have extensive experience and knowledge in the field, direct communication lines with their respective Boards, and internal policies stressing their independence and authority. Nonetheless, more work is needed to ensure that the importance of a compliance and risk culture is fully understood across the whole organization – which constitutes the first line of defense in AML&CTF.

Internal structure of the Compliance area. All of Andorra's banks have specific teams dedicated to AML, with resources responsible for monitoring alarms, regulation, KYC,

and support. As stated above, all these teams have been provided with additional capacity and AML-specific training in line with evolving regulatory requirements.

Independent supervision. All the banks' internal audit areas independently supervise the Compliance function with specific AML audits. Additionally, UIFAND's Technical Communique 03-2015, detailing Art. 52 of Andorra's "Law for International Criminal Cooperation and fight against Money Laundering and Financing of Terrorism" establishes that all financial institutions must yearly submit to UIFAND an independent audit report containing, at least:

- Structure and functioning of the bank's Internal Control Body
- Internal communication channels with the entity's employees and current system for the communication of Suspicious Transaction Reports to the Authorities
- Control mechanisms and procedures in place (e.g., CDD procedures, policies for the admission of clients, systems in place for the monitoring of transactions, measures towards existing employees and the hiring of new employees, opinion of the external party regarding numbered accounts, the custody of their documentation, and the facility to access their documentation for investigation purposes)
- Foreign subsidiaries, governance structure and control mechanisms in place (including a copy of the external audit carried to the subsidiaries)
- Verification of documentation on a pre-defined sample of clients
- Deficiencies detected and relative importance of each of them

On top of these measures, most entities have engaged external advisors (additional to their annual independent external audits) to assess the adequateness of their AML processes.

Development of internal policies, procedures, and controls

The sector has strong onboarding KYC policies and processes, but it has only initiated ongoing KYC procedures for its full client base; going forward, these procedures should be implemented comprehensively. Likewise, over the last years Andorran banks have rapidly adapted their systems and technologies for the monitoring of clients' transactions, but still need to further calibrate the automatic assignation of risk to client profiles – especially for low volume transactions.

The assessment of the banks' internal policies, procedures, and controls covered four aspects:

KYC. Highly rigorous KYC processes and strict policies for onboarding clients are followed by all entities, which in all cases:

- Verify the identity of each client (and/or ultimate beneficial owner)
- Obtain the necessary information to understand the origin of the funds to be deposited by the client, as well as the objective of the business relation to be established

- Evaluate the risk that each individual client would pose to the entity (according to each individual AML manual), and according to this accept/deny the client, and classify it according to the corresponding risk level

Additionally, they have automatic alarms validating clients' identity with public and private lists such as those provided by Sanction Screening, Dow Jones, World-Check, Informa, UIFAND, and FATF.

However, although the banks have already initiated processes to regularly review all existing clients' information at a higher frequency, these still need to be fully adopted and embedded.

Transaction monitoring. All entities employ robust systems for the monitoring of both national and international transactions. Moreover, specific processes have been put in place to monitor high risk client types, such as omnibus accounts, PEPs, and high risk jurisdictions, which are subject to enhanced due diligence (see "Client & transaction profile" for further detail on enhanced due diligence measures).

There remains room for improvement, however: risk scoring is currently undertaken under a combination of both manual and automatic processes, although systems are still in the process of being optimized for the automatic assignation of risk, especially for clients with low-volume transactions, since in certain cases the risk scoring does not fully correspond to the client profile. In all cases, the sector supports its systems with manual processes in order to ensure the final risk scoring is undertaken correctly.

Automation. All of the entities have systems that enable the automated detection and monitoring of alarms, and most client information is kept in electronic format. However, client information for numbered accounts is generally kept in physical format, which carries certain record keeping risks.

Regulatory reporting. The sector's concern about AML&CTF is shown in its STRs to the regulator, which make up more than 80% of the total reports in the Principality. Additionally, when compared to countries such as Switzerland, Andorra's banks have a higher level of Suspicious Transaction Reporting relative to total AuM – in 2014 Andorran banks reported approximately 0.70 STRs per billion of AuM vs. 0.25 in Switzerland.

In what regards to STRs submitted by banks, authorities have found no concerns in what respects to their quality – in fact, very few are dismissed after being reviewed by UIFAND.

Most part of STRs correspond to international clients and are related to the private banking business, what stresses the higher relative vulnerability that has already been detected for these segments (see section "Relevance and intrinsic features of Andorra's banks resulting in a high vulnerability to ML&TF" for further detail on STRs by type and reason)

However, although the regulator already provides instructions on how to report suspicious transactions, the sector would appreciate further guidance in the form of examples and best practices.

The risk of anonymity is considered as low for Andorra's banking sector, since all clients are required to be adequately identified by the banks under Andorra's AML regulation (see "Product portfolio" in this same section), and in practice are identified. Authorities have found no material concerns of client anonymity when carrying on-site supervisions.

Additionally, current accounts in Andorra must be opened in person and remote channels account for slightly less than 9% of total transactions.

Ongoing training and culture

The legal framework (Law 28/2008 and Decree 20/11/2013) requires entities to adopt the necessary measures for the training of their employees in AML&CTF. All banks have annual training programs centrally managed by their Compliance units, covering information regarding legislative, political and internal regulatory changes. In recent years, AML&CTF training programs have been extended to the entire workforce and the number of training hours per employee has tripled – from 2.3 hours in 2013 to 7 hours in 2015. Nonetheless, there are still significant differences in the degree of customization amongst different entities – from a single training level with ad hoc examples for particular positions, to three training levels based on employee type.

In this sense, the sector (through ABA) has put in place a set of initiatives to foster AML training not only in the financial sector, but also in other professions in what regards to AML. In particular, they have already signed an agreement with University of Andorra to provide an AML certificate starting in February 2017. This course is addressed towards professionals working in finance, asset management, real estate, commercial sector, tax advisors, accountants, economists, and other related sectors. Its program, dates, and professors are already public at the website of University of Andorra.

Action Plan

Based on the vulnerability assessment set out above, the government of Andorra has developed, together with the private sector and all involved institutions a detailed action plan to build on the progress of recent years and further reduce the risk of ML&TF. The action plan includes cross-sectoral initiatives (referred above) and sector-level initiatives relative to the banking sector.

BANKING SECTOR INITIATIVES

- Carry an individual AML risk assessment at bank level
- Elaborate and sign an updated version of the sectoral Code of Conduct for the banking sector, whose current version dates from 1990 and lacks certain specific elements compared to those of other jurisdictions (e.g., relationship with clients and other stakeholders, employees obligations and policies in terms of honesty and competence, further development of the banks' internal processes), which may include a comprehensive set of minimum standards on AML&CTF policies, controls, and processes, based on international best practices, to be signed and adopted by all banking entities.
- Foster sector-level initiatives to share best practices on AML training and risk culture to extend the awareness and sensitivity of AML&CTF to all employees.
- Increase the accountability of employees to attend training programs in each entity's policies (i.e., detail negative consequences of not attending training programs).
- Implement measures at entity level to extend the risk culture and increase awareness of ML&TF across all employees (1st line of defense).
- Maintain current AML training intensity (which has tripled since 2013 in number of hours per employee) and increase the level of customization of training programs to the different types of employees, by providing specific examples and modules to them (e.g., front office, back office, singular roles, insurance/asset management subsidiaries).
- Continue/reinforce regular due diligence efforts for the full client base based on the risk profile.
- Keep working on the fine-tuning of automatic risk assignment to client activity, especially for those clients with low volume transactions.
- Keep working on fine-tuning rules/alerts set up towards a more efficient monitoring tool.
- Increase, whenever possible, digitalization of physically stored information to enhance record keeping procedures.
- Consider numbered accounts and private banking¹ as additional criteria for the risk scoring of clients for customer due diligence purposes.

1. Definition of private banking clients considering those limits specified in OECD's "Standard for Automatic Exchange of Financial Account Information in Tax Matters"

Insurance sector



EXHIBIT 22

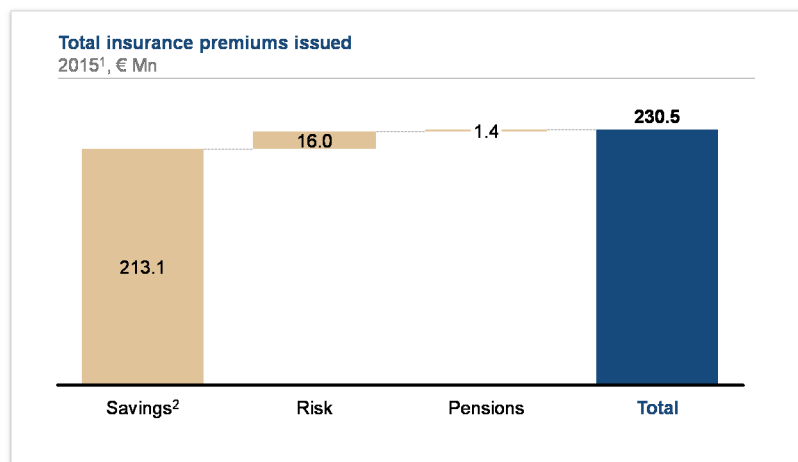
Andorra's life insurance sector



¹ Mainly pensions; ² Only in life insurance products measures as total premia issued during 2015
 SOURCE: Ministry of Finances; Interviews

EXHIBIT 23

Total premiums issued by insurance companies in Andorra



NOTE: Excluding BPA Assegurances.
¹ Latest data available from the Ministry of Finance ² Approximately 90% corresponds to unit-linked
 SOURCE: Ministry of Finance

Andorra's insurance sector

The scope of this report is limited to those insurance companies covered by Andorra's AML legislation as reporting entities. Namely, all insurance companies that are authorized to operate within the life-insurance business.

With approximately €230m in total premia issued in 2015, Andorra's life insurance sector is a relatively small part of a financial services industry that holds around €45bn assets under management.

The insurance sector is made up of three distinct types of companies: insurance companies owned by banks, local insurance companies, and branches of foreign companies

Although the sector is made up of three distinct types of companies (Exhibit 22), Andorra's banking groups hold 87% of total premia issued in the country during 2015:

Insurance companies owned by Andorra's banks. These institutions are wholly owned subsidiaries of the four main Andorran banks. These subsidiaries together command a 87% market share of issued life insurance premia in the Principality. Their focus is almost exclusively on life-savings products (especially unit-linked), which make up about 92% of their volume (Exhibit 23). Their primary distribution channel is the banking network (i.e., bancassurance), although in some cases they also sell life-risk insurance products through intermediaries (less than 5% of total business volume)

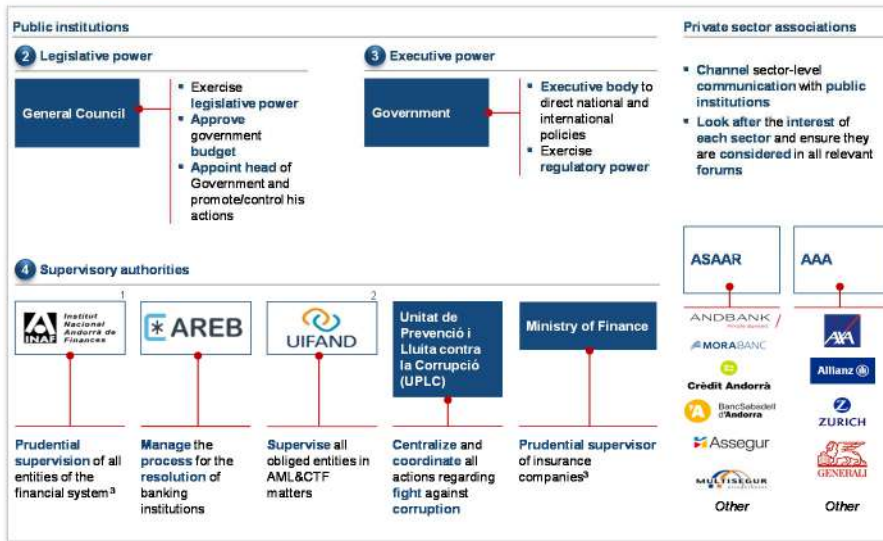
Local insurance companies. These are insurance companies headquartered in Andorra (Assegurances Ivori, Assecur, Assegurances Generals, Becier Assegurances, Companyia Andorrana d'Assegurances, Global Risc Assegurances, Multisegur Assegurances, Previsió i Futur, Financera d'Assegurances, Unió i Aliança de Previsió) and have no business outside of the Principality. With a presence in both life and non-life products, these companies together hold a market share of around 11%. Their primary focus is life-savings, although this business is concentrated in a few players.

Local branches of foreign insurance companies. These are local subsidiaries of the following foreign insurance companies: Ocaso, Vital Seguro, ARAG, Axa-Patrimoine, Allianz, Zurich, DKV, Generali, Catalana Occidente, FIATC-ASSAP, Cosalud, CAHISPA, Compañía Española de Seguros y Reaseguros de Crédito y Caución, and Plus Ultra. They are mostly present in the non-life segment, and their share within the life segment was around 2% of Andorra's total premia in 2015.

³ Latest data available from the Ministry of Finance

Andorran institutional framework has been reinforced to effectively supervise the different sectors

NON-EXHAUSTIVE



1 The government proposes presidency to General Council. 2 The Head of UIFAND is named by the Ministers of Justice, Internal Affairs, and Finance. 3 After the new regulatory framework for the insurance sector is implemented, INAF will become the prudential supervisor of all insurance companies. SOURCE: Andorran legislative framework

Comprehensiveness of Andorra's prudential regulation

✓ Included in the regulatory framework
 ✗ Not included in the regulatory framework

	International standards – elements included in regulatory framework	Old regulatory framework (1989)	New regulatory framework (2016)
Main law		Law regulating insurance companies of 11 May 1989 – its only development relates to licensing and "fit&proper", criteria issued in 2015	<ul style="list-style-type: none"> Law for the Insurance Contract Supervisor regulatory framework
Content of the law	<ol style="list-style-type: none"> General regulation of the activity¹ Licensing Sanctions 	<p>✗</p> <p>✓</p> <p>✓</p>	<p>✓</p> <p>✓</p> <p>✓</p>
Supervisory powers		Ministry of Finances 	
	<ol style="list-style-type: none"> Approve licenses for insurance companies Control the financial situation of insurers Impose sanctions Protect consumers Inspect and supervise operations and activities Centralize relations with local and international institutions Elaborate recommendations 	<p>✓</p> <p>✓</p> <p>✓</p> <p>✗</p> <p>✗</p> <p>✗</p> <p>✗</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>

1 General regulation refers to topics such as government system, co-ownership shares scheme or market behavior. SOURCE: Andorran legal framework; Spanish legal framework

Regulatory framework and supervision

MULTIPLE STAKEHOLDERS SUPERVISING THE INSURANCE SECTOR

The institutional framework for the supervision of the insurance sector is composed of multiple stakeholders that directly or indirectly supervise the insurance sector (Exhibit 24). The concrete institutions in charge the supervision are (see section “Banking sector” for more detail on the interaction model between authorities):

- **Unitat d’Intel·ligència Financera d’Andorra (UIFAND).** This institution is responsible for inspecting and supervising financial entities in ML&TF matters. It collects and analyzes declarations from supervised parties; collaborates with national and international authorities in ML&TF matters; prepares statistics to evaluate the effectiveness of the measures taken; and imposes administrative sanctions when necessary. UIFAND also submits legislative proposals to the Government on ML&TF matters.
- **Institut Nacional Andorrà de Finances (INAF).** This institution indirectly supervises bank-owned insurance companies, which are subsidiaries of the banks directly supervised by INAF. It also participates in processes such as the authorization of activities of insurance companies as bank’s subsidiaries. With the new regulatory framework, INAF will be in charge of direct prudential supervision of all Andorran insurance companies. The draft Law¹ on Insurance regulation and supervision, establishes that INAF will become the supervisory body for the insurance sector as soon as it is implemented.
- **Ministry of Finance.** So far, the Ministry has been supervising all insurance companies operating in Andorra from a prudential standpoint. Among its duties are licensing Andorran and foreign insurance companies as well as intermediaries, overseeing the solvency of insurance companies, receiving external audits, and imposing administrative sanctions when necessary. As stated above, these responsibilities will be transferred to INAF once the new regulatory framework is put into practice.

In addition, two private sector associations – Associació de Societats Andorranes d’Assegurances y Reassegurances (ASAAR) for bank-owned and local insurance companies, and Associació d’Asseguradors d’Andorra (AAA) for local branches of foreign insurance companies and intermediaries – channel sector-level communication with public institutions, and look after the interests of the sector, ensuring they are considered in all relevant forums.

1. Authorities are currently working on a first draft for the necessary regulatory changes. It is expected that this new regulation will be adopted by the Parliament before March 2017 (next Moneyval visit to Andorra)

REFORM OF INSURANCE SECTOR REGULATION AND SUPERVISION

The Government of Andorra has embarked on a far-reaching reform initiative, redesigning the regulatory and supervisory framework of the insurance sector in order to converge with international standards (Exhibit 25). This reform was already initiated with the update on licensing and fit & proper requirements introduced in 2015, and is consistent with those recommendations of the International Monetary Fund (IMF) in 2006, and Moneyval in 2012, which raised key concerns and detected deficiencies of Andorra's framework dating from 1989. The reform also follows the Solvency II Directive for European insurers introduced in January 2016.

The Government has embarked on a far-reaching reform of the insurance sector's regulatory framework in order to converge with international standards

The 1989 law governing the insurance sector covered three main topics, all in a limited way according to IMF and Moneyval. These deficiencies have all been addressed by the reform:

- **Supervisory powers.** The supervisory powers assigned to the prudential supervisor were limited to controlling the solvency of insurance companies. The tools that the supervisor had to implement this control were external audits of the companies' annual accounts, as well as possible actions in case solvency issues were detected.
- **Licensing.** The law required all insurers to obtain a license to operate in the Andorran market. The requirements to obtain this license included description of the activities of the company, financial guarantees, and "fit and proper" requirements for managers and shareholders of insurance companies. However, the law did not establish the necessity of collaboration with other institutions, such the police or foreign authorities, in order to ensure the adequacy of the entity regarding AML&CTF.
- **Sanctioning powers.** Sanctions were limited to the powers assigned to the supervisor. Accordingly, sanctions were only issued in the case of an entity undertaking insurance activities without a license; inadequate annual accounts (falsification, omission, or delay in submission); obstructing supervisory activity; or non-payment of the required guarantees.

A detailed comparison with international standards for the prudential regulation of insurance companies highlights several critical gaps of Andorra's framework from 1989—including consumer protection, inspection and supervision of insurers' operations and activities, relations with local and international institutions, and the development of recommendations.

The reform initiative, which is being led by Andorra's Ministry of Finance, has covered five main elements to bring this framework into alignment with international standards:

- Regulatory framework and powers of the supervisor
- Guarantee Fund for the liquidation of insurance companies
- Law covering the insurance contract, focusing on policyholder's rights and protection
- Law for intermediaries and reinsurers
- Law for the government of pension funds

Regarding AML regulation and supervision, Andorra's financial system has adapted to international standards over the last years, and still has some further adaptations to make before Moneyval's 2017 Mutual Evaluation.

EXHIBIT 26

Money laundering risk matrix in Andorra

National Risk Assessment

Risk assessment:

- High
- Medium-high
- Medium
- Medium-low
- Low

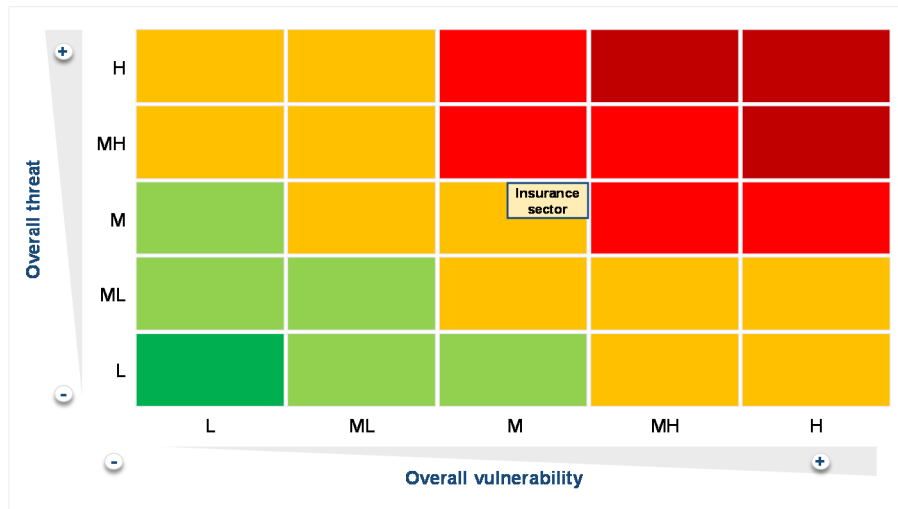


EXHIBIT 27

Relative size of Andorra's life insurance sector compared to other countries

Total insurance premiums divided by national GDP¹
2015

- Median
- Lower than median
- Higher than median

	Spain	Portugal	UK	Switzerland	Luxembourg	Liechtenstein	Andorra
Unit-linked	0.003	0.01	0.03	0.003	0.25	n.a.	0.07
Life-savings insurance	0.02	0.05	0.02	0.009	0.23	n.a.	0.02
Life-risk insurance	0.003	0.004	0.01	0.003	0.002	n.a.	0.01
Pensions	0.01	n.a.	n.a.	0.04	0.001	n.a.	0.002
Total life insurance	0.03	0.06	0.06	0.05	0.49	0.43	0.09

¹ GDP at Current Prices

SOURCE: Ministry of Finances; Spanish Insurance sector; Germany Insurance sector; Viewswire; Departament d'Estadística d'Andorra

Money laundering and terrorist financing risk analysis

Following the methodology defined by the World Bank, the risk of Andorra's insurance sector to ML&TF was considered in two dimensions (threat and vulnerability), and ranked as medium (Exhibit 26):

- The threat posed by the characteristics of the sector is further detailed in the corresponding module ("Threat analysis") and was rated as medium
- The vulnerability of the insurance sector to ML&TF constitutes the analysis of this part of the NRA report, and was rated as medium, mainly due to its relatively smaller business volume compared to other sectors such as banking (with €28bn AuM), although with a high level of investment-related products and certain internationalisation of its client base.

Although the assessment was performed for the insurance sector altogether, there are certain differences among the different players – bank-owned insurers and local insurers – that are worth to mention. Due to their low relative volume – especially in life-insurance products – local branches of foreign insurance companies were not analysed in detail from a ML&TF risk stand point.

Local insurers have a smaller scale, but their AML&CTF control processes are in many cases less sophisticated

As the matrix shows, Andorra's insurance sector is considered to have a medium/low risk of ML&TF. However, bank-owned insurers have a relatively higher larger volume, yet they bring more advanced AML&CTF controls that Andorra's Banking Groups (i.e., their holding companies) have put in place. On the other hand, local insurers have smaller scale; yet their control processes are in many cases less sophisticated, and they are not as comprehensively regulated as their bank-owned counterparts as a consequence of their scale.

INTRINSIC FEATURES OF ANDORRA'S INSURANCE SECTOR RESULTING IN A MEDIUM VULNERABILITY OF ML&TF

The intrinsic characteristics of Andorra's insurance sector – investment-related portfolio, medium/high internationalisation, although with a low relative size and low risk attributed to its client profile – determine the medium vulnerability that the sector poses to ML&TF:

Relative size of the sector. Andorra's insurance sector – and as a consequence, its vulnerability to ML&TF – is considerably smaller than its banking sector: it had €230m premia issued in 2015 vs. €45bn AuM in banking. Additionally, the total volume of life-insurance premia is around 0.09 times its GDP. This figure is considerably lower than in other service-based economies such as Luxembourg, although higher than in countries

such as Spain, France or Portugal (Exhibit 27). Given the size of Andorra's economy and its strong focus on services – with a very small industrial sector –, life-insurance products are inherently more relevant in relation to Andorra's GDP than in other countries.

The intrinsic characteristics of Andorra's insurance sector determine the medium vulnerability that the sector poses to ML&TF

Product portfolio. Approximately 90% of life insurance premia in Andorra derive from investment products, especially unit-linked, which compared to the rest of the portfolio typically imply a higher threat for ML&TF. Nonetheless, they are mostly distributed through bank-owned insurance companies (approximately three quarters of total premia were issued by banks), which have a relatively high sophistication and comprehensiveness in terms of AML&CTF internal policies and controls.

Volume of international business. Andorra's insurance sector also has a medium/high volume from international clients, with approximately 30% of life-savings business coming from non-residents, most of them from moderate-risk neighbouring countries. By contrast, both life non-saving products and non-life insurance products are typically contracted by Andorran residents and/or for Andorran goods. In particular local insurers, which have shown the fastest growth in life-savings products, have the highest share of international clients. In contrast, bank-owned insurance companies are significantly less exposed to international clients, with approximately 20% of their client base non-residents.

Client and transaction profile. Only approximately 5% of clients contracting life-saving products from bank-owned insurance companies are classified as high risk, which reduces the vulnerability of ML&TF of the sector. Within local insurance companies, among those that classify their client base according to risk, the figure is lower than 5% of total clients.

FINANCIAL SYSTEM'S REINFORCEMENT AS A KEY ELEMENT TO REDUCE VULNERABILITY TO ML&TF

As a consequence of the increasing importance of the insurance sector and the diversification efforts launched by the Principality, Andorra has taken important steps in recent years to reinforce its regulatory framework and enhance the effectiveness of its supervisory powers.

Regarding the AML&CTF regulatory framework, as it was aforementioned (please refer to section "Common elements – financial sector"), Andorra's financial system has reinforced itself against money laundering by:

- Implementing a comprehensive reform in its AML regulatory framework to converge with international standards
- Reinforcing the role of the supervisor (i.e., UIFAND)

- Updating its sanctioning regime to make it more comprehensive and dissuasive

Nonetheless, and as it was also detailed before, there is still some room to further adapt current regulatory and supervisory framework to international standards. Authorities are currently working on a first draft for the necessary regulatory changes and believe it should be enforced and implemented before March 2017 (next Moneyval visit to Andorra)

In addition, the Government of Andorra has been working on a comprehensive reform of the prudential regulation for the insurance activity. As discussed above, this reform will update the current regulation – which dates from 1989 – and close all the gaps in this regulation in order to comply with international standards, in line with recommendations from the IMF, Moneyval, and taking into consideration the European Solvency II Directive for insurance companies.

SPECIFICITIES BETWEEN BANK-OWNED INSURERS AND LOCAL INSURERS

The insurance sector's vulnerability for ML&TF was overall rated as medium. Nonetheless, as a consequence of their scale, there are certain differences in AML&CTF governance, policies, processes, and training between Andorra's local insurers and bank-owned insurance companies. In summary, the analysis identified the following differences in the sector.

As a consequence of their scale, there are certain differences between Andorra's local insurers and bank-owned insurance companies

Firstly, banking groups have reinforced their compliance functions with resources in line with required responsibilities and regulatory adaptation. Local insurers' smaller scale does not allow them to have Compliance Areas, although the Compliance role is identified within each organization and normally corresponds to a top executive of the company.

Additionally, bank-owned insurance companies leverage their holdings' policies, procedures, and systems to perform Know Your Customer (KYC) processes, monitoring of transactions, and reporting to the regulator, which are considered to be relatively robust for industry standards. Because of their scale, local companies typically employ less sophisticated (i.e., manual) processes for transaction monitoring, and follow less strict record keeping processes.

Finally, although Banking Groups have implemented mandatory annual training programs for all their employees, they are not fully customized for the insurance activity (for example, cases used in these programs refer only to banking clients). Local insurers also have training programs, but these are generally not systematic and their frequency

vary – in some cases taking place every two to three years and provided by external parties such as UIFAND.

Looking forward, if the sector keeps growing in size more strict AML&CTF governance, controls, policies, and procedures will need to be enforced through increased supervision and control of the entities.

Bank-owned insurance companies

Given the extensive initiatives already undertaken by Andorra's banks in AML&CTF, the compliance function controls and effectiveness of their insurance subsidiaries have increased overall.

Governance and authority of the Compliance function. AML&CTF monitoring and control is performed by the Compliance function of the banks, which in recent years have been provided with additional resources in order to satisfy the requirements of new financial regulation in Andorra. Chief Compliance Officers (CCOs) typically have a high degree of authority and independence, including direct communication channels with the Boards of the banks.

Independent testing review. As required by law, all insurance companies perform an external audit focused on AML&CTF. Additionally, the Internal Audit area of each Banking Group supervises the Compliance function of the insurance company in AML matters.

Given the extensive initiatives already undertaken by Andorra's banks in AML&CTF, the compliance function controls and effectiveness of their insurance subsidiaries have increased overall

Development of internal policies, procedures, and controls. Bank-owned insurance companies externalize KYC processes to their parent companies, which have strict and robust KYC processes and databases that classify all clients by risk, and trigger enhanced due diligence for all high-risk clients. Likewise, the banks ensure that all client information is stored in digital format; maintain robust policies for record keeping; and monitor and evaluate suspicious operations arising from their insurance subsidiaries. However, although Andorra's banks have increased their internal capabilities by investing in new technologies for transaction monitoring and analysis, these technologies and their associated processes still require further fine-tuning to calibrate the alerts generated to the risk profile of clients.

Ongoing training and culture. Training on AML&CTF is mandatory for all staff of Andorra's Banking Groups, including employees of their insurance company subsidiaries. Courses and materials are provided by the Compliance Area of the bank, which monitors implementation and ensures that all employees pass the required tests.

However, there is still a need to further tailor courses and materials to the insurance sector by providing detailed examples related to insurance.

Local insurance companies

Because Andorra's local insurance companies do not belong to larger financial services groups, they have less resources and capabilities than their bank-owned counterparts have to implement comprehensive AML&CTF processes. As a result, they have a relatively higher degree of vulnerability to ML&TF. Looking forward, if the sector keeps growing in size, the supervisor should be allocated sufficient resources to provide detailed oversight of these entities.

Because Andorra's local insurance companies do not belong to larger financial services groups, they have less resources and capabilities than their bank-owned counterparts

Governance and authority of the Compliance function. Due to the small size of local insurance companies, the Compliance function is generally run by one person who has other responsibilities in addition to AML&CTF. However, that person is generally a top executive of the company, which increases the authority of the function.

Independent testing review. As required by law, all insurance companies perform an external audit focused on AML&CTF. However, because of their size, local insurers do not have internal audit areas to perform AML&CTF-specific audits.

Development of internal policies, procedures, and controls. Local insurance companies' KYC procedures require the identification of the policyholder and beneficiary as part of client due diligence, and the checking on the source of funds if the policy value exceeds a certain amount.

Companies also use Namebook lists to check the identity of clients before contracting. Additionally, due to the size of the companies, many clients are personally known by the employees. However, there are several areas for improvement with regard to KYC. In some cases, clients are not classified by their risk profile, and as a consequence enhanced due diligence measures for high risk clients are not applied. Likewise, some companies still use physical record keeping, which puts future identification of client information at risk. The implementation of systems and increase in automation of transaction monitoring would improve operational efficiency and efficacy of detection and analysis of suspicious transactions.

Ongoing training and culture. All new employees of local insurers are provided with AML internal policies, as well as regular updates on these policies. Additionally, all employees attended a special course on AML&CTF run by UIFAND in 2013. Companies

should also include a corporate code of conduct for employees and more frequent trainings, including the evaluation of the employees undergoing these training programs.

Local branches of foreign insurance companies

The size of life-savings premia issued by delegations of foreign insurers in Andorra is less than 2% of total volume. Additionally, it is worth to mention that these companies leverage the AML&CTF policies, resources, and capabilities of their holding companies, which in most cases are even more comprehensive and strict than those of Andorran banking Groups. This undermines the ML&TF risk that these players imply to the system.

Action Plan

Based on the vulnerability assessment set out above, the government of Andorra has developed, together with the private sector and all involved institutions a detailed action plan to build on the progress of recent years and further reduce the risk of ML&TF. The action plan includes cross-sectoral initiatives (referred above) and sector-level initiatives relative to the insurance sector.

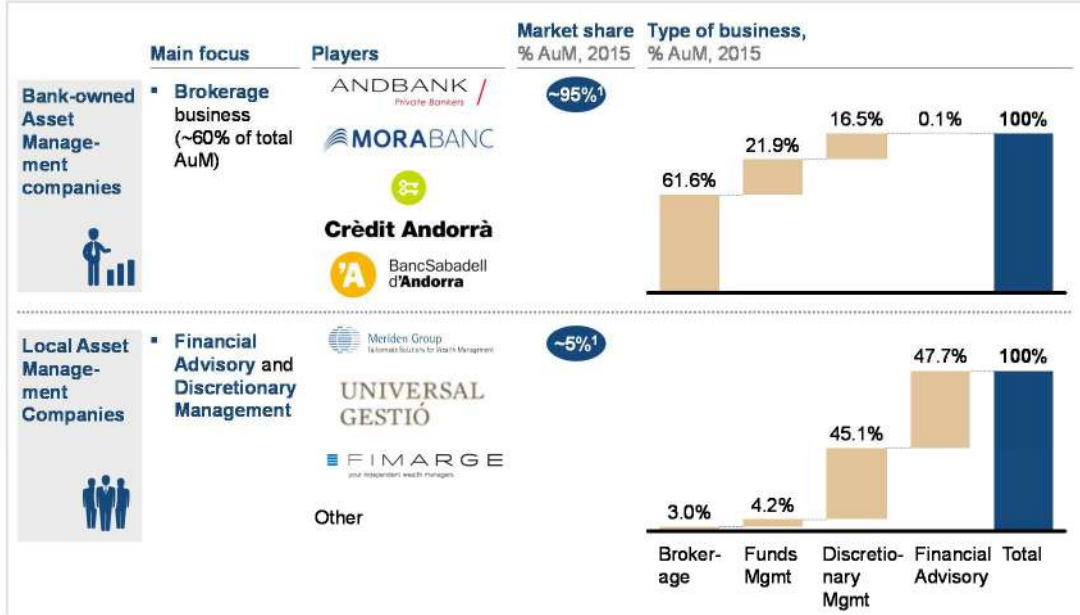
INSURANCE SECTOR INITIATIVES

- Implement a comprehensive regulatory framework for the insurance and reinsurance companies operating in Andorra to converge with international standards and transfer the prudential supervisory duty to INAF.
- Foster sectoral initiatives to share best practices on AML training and risk culture.
- Increase customization of AML training programs specifically to the insurance sector's employees and roles.
- Implement risk scoring of clients in all local insurance companies, especially in those with life insurance products.

Asset management sector



Composition of Andorra's securities sector



¹ Over total AuMs of 19.1 €Bn

SOURCE: Andorra's Securities Sector

Asset Management business in Andorra

Business	Local asset managers	Bank-owned asset managers	
Financial advisory	Without mandate	✗	▪ Private bankers provide financial advisory to banking clients – out of the scope of this module
	With mandate	✓	▪ Individual clients are advised by private bankers – although the mandate is executed by the asset mgmt. subsidiary
Execution	✗	✓	▪ Institutional clients have direct communication with the asset mgmt. subsidiary
Clearing, settlement, custody, and depositary	✗	✓	▪ Centralized execution
			▪ Relation with external brokers (counterparties) for international market access (e.g., UBS, Citigroup, Santander, Morgan Stanley)
Own product (funds' mgmt.)	✗	✓	▪ Centralized custody for most part of funds managed
			▪ Selectively work with external custodians (e.g., Euroclear, BNY Mellon, Clearstream)
			▪ Commercialize own investment vehicles for some clients

Andorra's asset management sector

The securities sector in Andorra, and the scope of this report, is limited to the Asset Management sector, since there are no other types of securities companies operating in the country.

Andorra's asset management sector has AuM amounting to €14bn, equivalent to 5.6 times the Principality's GDP (Exhibit 28). Although smaller than banking, asset management represents a significant proportion of a financial services sector that together contributes 22% of Andorra's GDP. It is composed of bank-owned asset managers and local players, with the first holding approximately 94% market share (Exhibit 29):

Asset managers owned by Andorra's four main banks: Mora Gestió d'Actius, Credi-Invest, Andorra Gestió Agrícola Reig, and Sabadell d'Andorra Inversions.

These institutions are wholly owned subsidiaries of Andorra's banking entities and altogether hold a market share of about 94% of Andorra's asset management sector.

As part of their private banking business, Andorran banks provide **financial advisory** to individual clients through their relationship managers. In this case, the client is the one making investment decisions under the private banker's advice. This business was not considered under this section (see "Banking sector"), since it falls under private banking.

If the client decides to go one step further – **discretionary management** – the banking entity acquires the mandate to operate with the client's funds, always taking into account its risk profile and desired return. In this case, private bankers are the ones that maintain the relation with the client, although the investment decisions (under the risk profile that has been jointly defined by the banker and the client) are made by the employees of the asset management company. In any case, the client needs to open a specific account in the bank and sign an agreement allowing the entity to operate with his funds.

Andorran banks perform discretionary management for both, residents and non-residents (39% of AuM belong to non-residents), and once the business relationship is established their funds are always managed centrally from Andorra. These are normally invested in:

- Bank-owned investment vehicles, which can be located in Andorra or in other countries where the bank has operating investment vehicles (e.g., Switzerland, Luxembourg)
- Other international investment products not owned by the bank (e.g., international equities, fixed income, derivatives)

It is worth to mention that discretionary management clients do not operate with their own accounts (those created specifically for this business), and therefore cross-border transactions cannot be performed directly by them.

In contrast to individual clients, institutions generally have direct contact with the banks' asset management company – although they also required to open a specific bank account and therefore become its customer.

Asset managers owned by banks are also present in the **brokerage business**, under which they carry the execution, custody, settlement, and depositary of their clients' orders.

Execution tables are present at the banks' headquarters (for those orders related to funds managed from Andorra), and although they centralize the orders' execution, they also leverage from renown counterparties (international brokers) to gain access to international markets (since Andorra does not have its own stock exchange). Typical counterparties include UBS, Santander, Morgan Stanley and Citigroup.

In what regards custody, settlement and depositary, although most clients' funds are under each bank's custodian, external parties such as BNY Mellon, Clearstream, Euroclear are occasionally employed for this purpose. In this sense, the fact that such international custodians and brokers maintain ongoing relations with Andorran banks puts additional pressure on the sector to comply with AML&CTF international standards.

Finally, Andorran banks also have their own investment products (collective investment funds) that are produced and commercialized to their own clients. This falls under the category of **funds' management**.

Local asset managers: Fimarge Societat Financera d'Inversió, Meriden IFM, Universal Gestió, Ivori SGP, Andobel, Alfa Quest Saboya Assessors, Perikles Advisory, Alkimia Capital, and AGISA.

These nine players are relatively small-sized local companies based in Andorra and with no subsidiaries abroad. They focus on financial advisory services and discretionary management, and operate through bank accounts of Andorra's banks, since cash is not used in their business. Their operations are managed from Andorra, and all of them have a close relationship with their clients – most of them Andorran, Spanish and French who need to travel to Andorra since local asset managers do not have branches abroad – which reduces the vulnerability of ML&TF. All depositaries of local asset managers are Andorran banks (no foreign depositary is used)

Although their operations are managed from Andorra, some of these players are also authorized to operate with their clients' funds between countries such as Luxembourg, France or Switzerland, where clients have other accounts opened, are looking to diversify (in terms of country risk) and where Andorran asset management companies are allowed to operate. Clients do not carry international transfer of funds directly, since investment decisions are made by the asset management company (under a discretionary management arrangement).

In some cases, local asset management companies perform omnibus transactions with their banking counterparties, which may pose certain identification risks since client information is not checked twice (namely, by the AM firm and by the bank). However, these cases are isolated and represent only 1% of Andorra's asset management AuM. Additionally, all banks classify omnibus accounts as high risk, which implies the corresponding enhanced due diligence and additional controls.

Regulatory framework and supervision

MULTIPLE STAKEHOLDERS SUPERVISING THE ASSET MANAGEMENT SECTOR

The institutional framework for the supervision of banking institutions also applies to asset management companies (see section “Common elements to the financial sector” for further detail on this framework and the interaction between authorities)

In addition, there is a private sector association – Associació d’Entitats Financeres (ADEFI) – that channels sector-level communication with public institutions and looks after the interests of the entities in the sector.

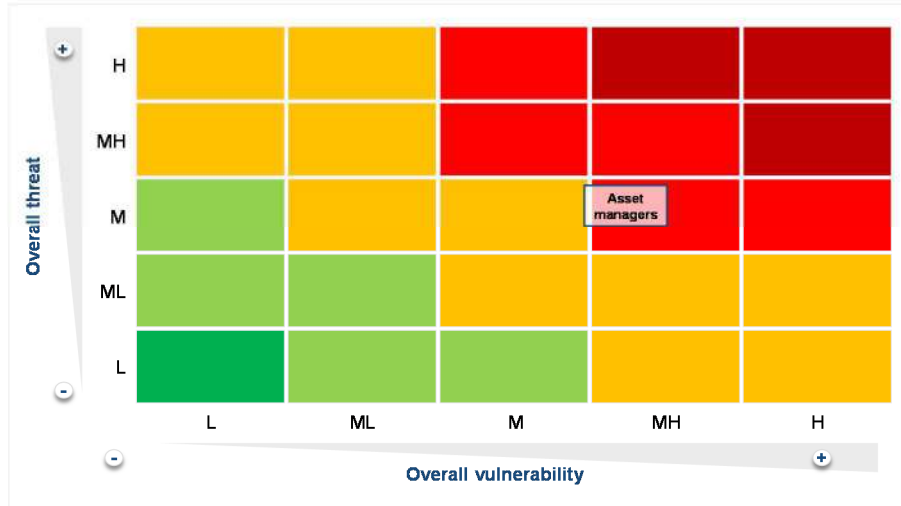
AML&CTF REGULATION FOR THE ASSET MANAGEMENT SECTOR

Equally to what happens with supervision, AML&CTF’s regulatory framework for Andorra’s banking institutions also applies to asset managers with no exception. In this respect, Andorra has been evolving its regulation to converge with international standards, although certain gaps have been identified and are required to be implemented before Moneyval’s 5th Mutual Evaluation assessment in 2017 (see section “Common elements to the financial sector” for further detail on the comprehensiveness of the AML&CTF regulatory framework)

EXHIBIT 30

Money laundering risk matrix in Andorra
National Risk Assessment

Risk assessment:
High (Dark Red)
Medium-high (Red)
Medium (Yellow)
Medium-low (Light Green)
Low (Green)



Money laundering & terrorist financing risk analysis

Following the methodology defined by the World Bank, the risk of Andorra's asset management sector to ML&TF was considered in two dimensions (threat and vulnerability), and ranked as medium (Exhibit 30):

- The threat posed by the characteristics of the sector is further detailed in the corresponding module ("Threat analysis") and was rated as medium
- The vulnerability of the asset management sector to ML&TF constitutes the analysis of this part of the NRA report, and was rated as medium high

There are two differentiated types of players within this sector: bank-owned asset managers, with approximately 94% market share in AuM and mainly focused on discretionary management and brokerage, and local asset managers, with a lower scale and providing mainly financial advisory and discretionary management.

On the one hand, bank-owned asset management companies are integrated in their banking entities, and all their clients are by definition also clients of the bank. In other words, the compliance function, onboarding CDD procedures, transaction monitoring and reporting mechanisms applied by the banks extend to their asset management subsidiaries, ending up in an equivalent level of vulnerability.

In what regards local asset management companies, they present a relatively lower scale than banking groups and therefore their compliance areas, systems for transaction monitoring, and CDD procedures are less sophisticated. However, the fact that in order to operate with their clients they need to open an account in an Andorran bank, significantly increases the AML&CTF controls performed over them. In sum, their vulnerability ends up being relatively similar to that of the banks since clients' identity, transactionality, and any other aspect relative to AML&CTF are double checked (both by local asset managers, and by banks)

In some specific cases, local asset management companies perform omnibus transactions with their banking counterparties, which may pose certain identification risks since client information is not checked twice. However, these cases are isolated and represent only 1% of Andorra's asset management AuM (€140 Mn)

THE INTRINSIC FEATURES OF ANDORRA'S ASSET MANAGEMENT SECTOR RESULT IN A MEDIUM VULNERABILITY OF ML&TF

The relative size and intrinsic features of the asset management business represent a medium vulnerability of ML&TF in Andorra.

Relative size of the sector. Andorra has significant exposure to the asset management sector, with AuM 5.6 times national GDP. Moreover, the sector is proportionally larger than those of neighbouring and comparable countries such as Spain, France, and Luxembourg, especially in brokerage and funds management.

EXHIBIT 31

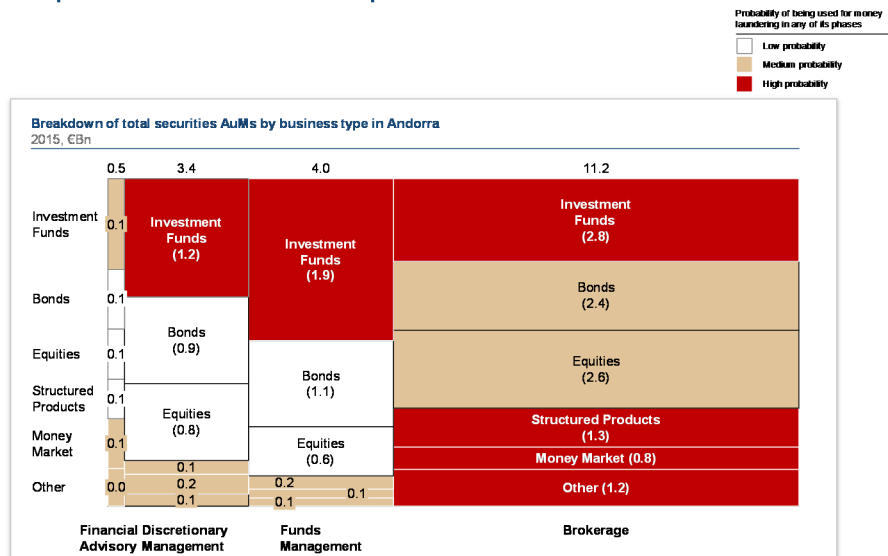
The threat of money laundering varies across those products and businesses offered in Andorra



SOURCE: FATF, UNODC

EXHIBIT 32

The high intrinsic risk of ML&TF in brokerage services, especially in the most liquid and internationalized products



SOURCE: Securities Sector of Andorra, team analysis, FATCA methodology, interviews

Product portfolio. Approximately 40% of total AuM derive from investment funds and money market instruments. These products have high liquidity, so facilitating the transfer of funds for potential money launderers (Exhibit 31)

It should be noted that typical asset management-related laundering schemes are normally found in the layering and integration of funds, and not so much in their placement in the system. Money laundering in asset management usually involve transactions that do not match the investor's profile, and/or yield low or negative return on investments.

The asset management sector's largest business segment – **brokerage** – presents a high intrinsic vulnerability to the system, mainly due to its large business volume (€7.5bn) and high internationalisation (nearly 60% of AuM are from international clients). Product diversity and complexity – according to the World Bank's methodology for the ML vulnerability assessment diverse portfolios with complex instruments increase the inherent vulnerability of the institution type – is also relatively high for this business, since it has the highest proportion of structured products, preferred stock, and derivatives (15%) of all businesses. Other products within the portfolio of Andorra's brokerage business include collective investment funds (19%), equity (24%), and fixed income (24%) (Exhibit 32).

Additionally, complex products according to MiFID imply 24% of total brokerage volume (vs. 16% sector's average)

Funds management and **discretionary management** represent the second and third largest business segments, with €3.6bn and €2.4bn AuM. These businesses have a medium-low risk of ML&TF due to the lower internationalisation level, low complexity of product portfolio (mostly based on fixed income and collective investment funds, and with less than 12% complex products according to MiFID), and liquidity (since the client cannot directly operate with its funds, the effective liquidity of the portfolio is significantly reduced, thus adding difficulties to the movement of funds within the system)

With €0.5bn AuM, **financial advisory** is the smallest business segment within the sector, which significantly reduces its risk. Although approximately 70% of AuM come from international clients, personal contact with clients is very common in the industry, which reduces the relative ML&TF risk.

Client profile. The asset management sector is characterized by a high share of international business (approximately 49% of Andorra's AuM are international), especially in brokerage (62% international AuM) and discretionary management (33% international AuM).

Additionally, 17% of total AuM belong to 2,979 international legal entities, out of which 3 ultimate beneficial owners from FATF countries with strategic deficiencies in combating money laundering have been identified with total AuM of €0.6bn.

Regarding individuals, 32% of total AuM belong to the 45,000 international clients. Out of these, there are only 6 from FATF countries with strategic deficiencies in combating money laundering (with total €0.9bn AuM), and 78 international PEPs (with average AuM of €0.12M per client and none of them from FATF countries with strategic

deficiencies in combating money laundering). All the international PEPs identified in Andorra's asset management sector belong to banking groups – none of the local asset managers have such clients.

Equally to what was mentioned in the banking sector, in what regards to foreign clients, obliged entities are required by law to “ascertain the identity of their customers and of their beneficial ownership by requiring them to present an official document when establishing any business relationship” (Art. 49 of the Law 28/2008)

Additionally, in what regards to PEPs, since all asset management clients are required to have a bank account in Andorra, the same enhanced CDD and monitoring of transactions that is applied in banks applies to asset managers:

- Onboarding: enhanced CDD procedures are applied to all PEPs, which include proving the lack of negative information in public sources (press) and the check vs. international lists (public lists by UIFAND/Batllia, WorldCheck, Sanctions Screening, Dow Jones, Informa, NameBook). Additionally, the acceptance of national PEPs in all cases needs to be approved by the Compliance Area, and international PEPs by the designated Internal Control Body of the bank (in some entities also by the Executive Committee of the bank). It is worth to mention that one entity does not currently accept international PEPs.
- Monitoring: As high risk customers, all PEPs are subject to regular monitoring of transactions by the Internal Control Body, regular automatic identity checks with international lists, and the daily automatic review of transactions.

Furthermore, as specified in Andorra's AML regulation (Art. 49 fourth of Law 28/2008), in relation to transactions or business relationships with politically exposed persons who reside abroad, the financial parties under obligation are required to:

- “Have appropriate risk-based procedures to determine whether the customer is a politically exposed person”
- “Obtain approval from management to establish business relationships with these customers”
- “Adopt adequate measures to determine the source of wealth and funds that are involved in the business relationship or transaction”
- “Conduct enhanced ongoing monitoring of the business relationship”

Finally, regarding those customers that are residents in high risk jurisdictions, equally to what happens with PEPs, specific onboarding and monitoring measures are also applied. As it was mentioned before, those policies in place for banks also apply to asset managers:

- Onboarding: the acceptance of clients from high risk jurisdictions need to be approved by the designated Internal Control Body of the bank and be supported by the necessary documentation proving the lack of negative information in public sources (press) and the check vs. international lists (public lists by UIFAND/Batllia, WorldCheck, Sanctions Screening, Dow Jones, Informa, NameBook)

- **Monitoring:** clients from high risk jurisdictions are categorized as high-risk, and as such specific measures are applied to their monitoring (e.g., regular monitoring of transactions by the Internal Control Body). Additionally, transactions with high risk countries are monitored via Sanctions Screening (SWIFT) and all of them are reported to the Chief Compliance Officer. In some cases, any transaction with high risk countries and/or high risk clients needs to be approved by Compliance ex ante

In conclusion, authorities believe that even though there exists certain volume of high risk international clients in Andorra's asset management sector – PEPs and clients from high risk jurisdictions –, since CDD and transaction monitoring processes are in all cases carried by banks, their policies and processes are adequate to control their risk.

REINFORCING THE FINANCIAL SYSTEM TO REDUCE VULNERABILITY TO ML&TF

Regarding AML&CTF, as it was aforementioned, Andorra's financial system has reinforced itself against money laundering by:

- Implementing a comprehensive reform in its AML regulatory framework to converge with international standards
- Reinforcing the role of the supervisor (i.e., UIFAND)
- Updating its sanctioning regime to make it more comprehensive and dissuasive

Since the asset management sector is subject to the same AML regulatory framework (Law 28/2008) as banks and is, by virtue of the law, subject to the same sanctioning regime than that of banks, those deficiencies detected for the banking sector are also applicable for the asset management sector (see section “Common elements of the financial sector” for more detail)

In terms of supervisory effectiveness, it is worth noting that whenever UIFAND carries an on-site inspection to a banking entity, it also supervises its asset management subsidiary. This adds a total of 6 full scope on-site inspections in 2014 (2 to banks and 4 to asset managers), and 1 in 2015 (to a bank)

SIMILAR LEVEL OF VULNERABILITY TO ML&TF AMONG THE DIFFERENT PLAYERS

As it was mentioned before, asset management clients in Andorra are required to open a bank account with one of the local banks in order to operate with their funds, independently of their residency and nationality. As a consequence, additionally to any AML&CTF action/control taken by the corresponding asset management company, all clients' asset management operations are subject to their banks':

- Customer due diligence procedures (including enhanced CDD when applicable)
- Transaction monitoring
- Internal policies

- Compliance function governance and control

In other words, the medium ML&TF vulnerability of the asset management sector is in line with that of the banking sector, and derives from those conclusions already drawn in the banking module. Namely:

- Andorran banks have provided their Compliance functions with additional resources and capabilities in line with their required responsibilities, reinforcing their independence and authority and increasing their direct communication lines with the Board of Directors. Moreover, in addition to independent audits required by law, the banks have hired external advisors to assess their AML&CTF procedures voluntarily
- The sector has strong onboarding KYC policies and processes, but it has only initiated ongoing KYC procedures for its full client base; going forward, these procedures should be implemented comprehensively. Likewise, over the last years Andorran banks have rapidly adapted their systems and technologies for the monitoring of clients' transactions, but still need to further calibrate the automatic assignation of risk to client profiles – especially for low volume transactions
- The legal framework (Law 28/2008 and Decree 20/11/2013) requires entities to adopt the necessary measures for the training of their employees in AML&CTF. All banks have annual training programs centrally managed by their Compliance units, covering information regarding legislative, political and internal regulatory changes. In recent years, AML&CTF training programs have been extended to the entire workforce and the number of training hours per employee has tripled – from 2.3 hours in 2013 to 7 hours in 2015. Nonetheless, customization towards the asset management business should be increased, especially in the practical examples that are typically provided in the courses

Bank-owned asset management companies

Bank-owned asset management companies are fully owned subsidiaries of Andorra's banking groups.

In what regards to AML matters they are fully integrated in the holding company, meaning the Chief Compliance Officer of the bank and its team carry all functions in respect to the asset management subsidiary's AML. Additionally, when UIFAND carries out on-site inspections to a banking entity, it also supervises their asset management subsidiary from an AML stand point as a whole.

Finally, regarding suspicious transactions monitoring and reporting, approximately 50% of STRs reported by banks (see section "Banking sector" for detail on banks' STRs) are related to private banking clients whose funds are managed by the bank. In other words, although banks' STRs are not directly related to a specific asset management product or activity, most of them come from clients whose funds are managed by the asset management company of the bank.

Local asset management companies

Because Andorra's local asset management companies do not belong to larger financial services groups, they have less resources and capabilities than their bank-owned counterparts. Nonetheless, any control put in place by these players – all of them classify their clients by risk, perform enhanced due diligence procedures on singular clients and transactions, and follow a thorough review of all operations – is always incremental to those already exercised by banking entities on their clients.

Governance and authority of the Compliance function.

All local asset management companies have internal policies and procedures on AML & CTF and their compliance-specific resources (1 or 2 per entity) are sufficiently empowered to make decisions and perform their duties.

Independent testing review.

As required by law, all asset management companies perform annual external audits focused on AML&CTF. These audits are thoroughly reviewed by UIFAND for the purpose of carrying its off-site inspections. In those cases in which authorities were not satisfied with the work done in these audits, they proposed to change the external auditor.

Local asset management companies do not have internal audit areas due to their scale.

Development of internal policies, procedures, and controls.

Due to their scale, local companies typically employ manual processes for transaction monitoring, but all transactions are reviewed thoroughly by the company's management in the respective quarterly committees.

Regarding ongoing customer due diligence, the small size of the client base of these entities allows them to review all client information quarterly to ensure that every data is updated. In addition, most clients are personally known by the employees, being personal contact required for business relationship.

Local asset management companies do currently employ several KYC procedures, including identification of the ultimate beneficial owner as part of client due diligence, and the checking on the source of funds.

Companies also use NameBook lists to check the identity of clients before contracting. Although entities have not declined any client during 2015, it is important to point out that they only accepted 10 clients per entity per year on average.

Nonetheless, equally to what happens in other jurisdictions, the level of Suspicious Transaction Reporting to UIFAND is low compared to other industries – asset managers had no STR in 2015.

Ongoing training and culture.

Due to their lower size, local asset management companies leverage external specialized firms for their yearly training of employees in AML&CTF matters. Additionally, all employees attended a special course on AML run by UIFAND in 2015.

Although all entities have committed to providing yearly training to all employees, they should ensure all of them attend these programs and systematize this practice looking forward – not all employees of the sector received AML training programs during 2015.

Finally, in order to ensure all employees behave under the same ethical standards, they must read and sign a company-specific Code of Conduct, which contains specific provisions on AML&CTF matters. Any integrity issue is normally considered as a reason for dismissal of the employee.

Action Plan

Based on the vulnerability assessment set out above, the government of Andorra has developed, together with the private sector and all involved institutions a detailed action plan to build on the progress of recent years and further reduce the risk of ML&TF. The action plan includes cross-sectoral initiatives (referred above) and sector-level initiatives relative to the securities sector.

SECURITIES SECTOR INITIATIVES

Since all clients to asset management companies are also clients of Andorran banks, all measures considered for the Banking Sector's action plan also need to be considered in this section. Additionally, specific measures for asset management companies are proposed:

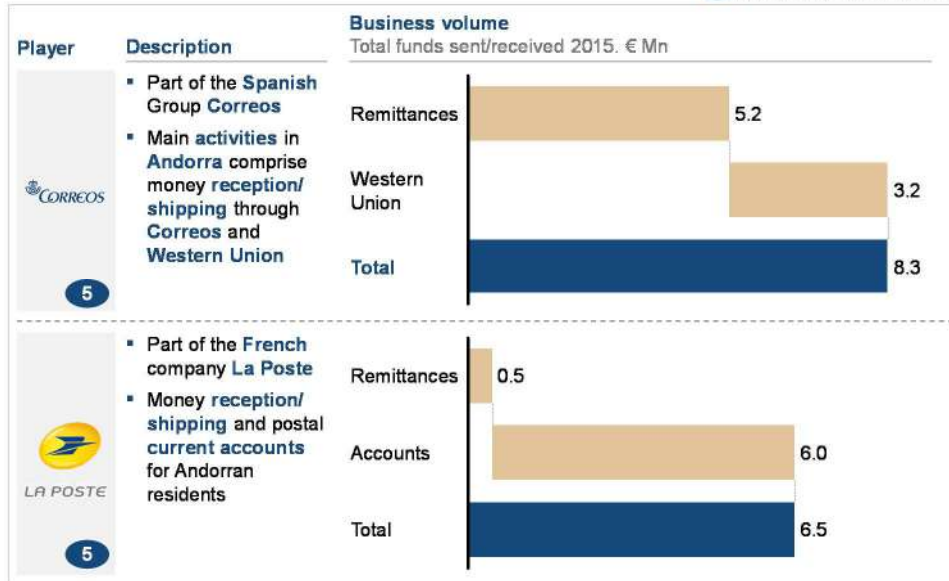
- Continue reinforcing training programs of local asset managers in order to provide all their employees with annual AML&CTF training.
- Increase the level of customization of training programs to the different types of employees, especially in banking entities, by providing specific examples and modules to those employees of the asset management subsidiary.
- Increase the digitalization of physically stored client information and its treatment, especially in local asset management companies.

Postal sector



Andorra's postal sector – composed of 2 foreign players

● Number of offices in Andorra



¹ Opening of the account must be done in France

SOURCE: Informe de Autoevaluación del Riesgo ante el Blanqueo de Capitales y la Financiación del Terrorismo (Correos); Interviews; Biannual audits

Both players are subject to Andorran regulation as well as their local legal requirements

Parent company-level regulation
 Andorran regulation



¹ Acuerdo hispanofrancés relativo a la coparticipación y ejecución del servicio, de Correos en los Valles de Andorra
 SOURCE: Government of Spain, Government of France, Government of Andorra, UIFAND, Sepblac, Tracfin

Andorra's postal sector

Financial services altogether contribute 22% to Andorra's GDP. Postal services, although part of the sector, imply a relatively small part of it (total volume implies ~0.5% of GDP)

Two entities, Correos and La Poste, offer remittance and postal account services in Andorra

Two entities, Correos and La Poste, offer remittance and postal account services in Andorra (Exhibit 33):

Correos. Part of the Spanish Group 'Correos', with total funds sent or received in 2015 amounting to €8.3m. Its main activities comprise national remittances in Andorra, international remittances to countries where Correos has collaboration agreements, and money reception/shipping under the brand of Western Union to those countries where Correos has no collaboration agreements. In this last case, all transfers through Western Union are carried in Correos' branches, under a limit of € 3,000 every three months.

La Poste. Part of the French 'La Poste', with total funds sent or received in 2015 amounting to €6.5m. Its main services are money reception and shipping to France (i.e., remittances), and postal current accounts for Andorran residents.

Regulatory framework and supervision

Andorra's postal sector is regulated by the 1930 Treaty between the Principality and the Government of Spain and France, allowing Correos and La Poste to operate their branches in the country. Although this Treaty does not specify any prudential regulation/supervision of the sector, both players are indirectly subject to their parent company's market regulatory and supervisory requirements, additionally to Andorran AML&CTF regulation and supervision (Exhibit 34).

It should be noted The Ministry of Finance together with the INAF are carrying out an analysis on the conditions for the authorisation for post offices within the framework of the transposition of Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC.

In what regards AML regulation and supervision, as obliged entities, both entities are subject to Andorra's Law 28/2008 on International Criminal Co-operation and the Fight against the Laundering of Money and Securities Deriving from International Delinquency and supervised by UIFAND in AML&CTF matters.

Additionally, the holding companies (Correos and La Poste) of Andorra's postal offices are governed by their home countries regulation and supervision, which indirectly affects their branches in Andorra:

- **Postal activity** in Spain is regulated by Law 43/2010, and in France by the French Monetary and Financial Code in France (La Poste). As part of a holding company, branches from both Correos and La Poste in Andorra are subject to their market's local regulation.
- **Specific regulation on AML&CTF** in Spain is governed by Law 10/2010 on the prevention of money laundering and terrorism financing, and in France by the French Monetary and Financial Code.
- **Prudential supervision** of the postal activity is exercised by Spain's National Commission of the Postal Market (in the case of Correos) and the Banque de France (in the case of La Poste).
- **AML&CTF supervision** is exercised by Spain's SEPBLAC (in the case of Correos) and France's "Autorité de Contrôle Prudentiel et de Résolution" (in the case of La Poste, or La Banque Postale as its banking subsidiary is named).

EXHIBIT 35

Money laundering risk matrix in Andorra
National Risk Assessment

Risk assessment:
■ High
■ Medium-high
■ Medium
■ Medium-low
■ Low

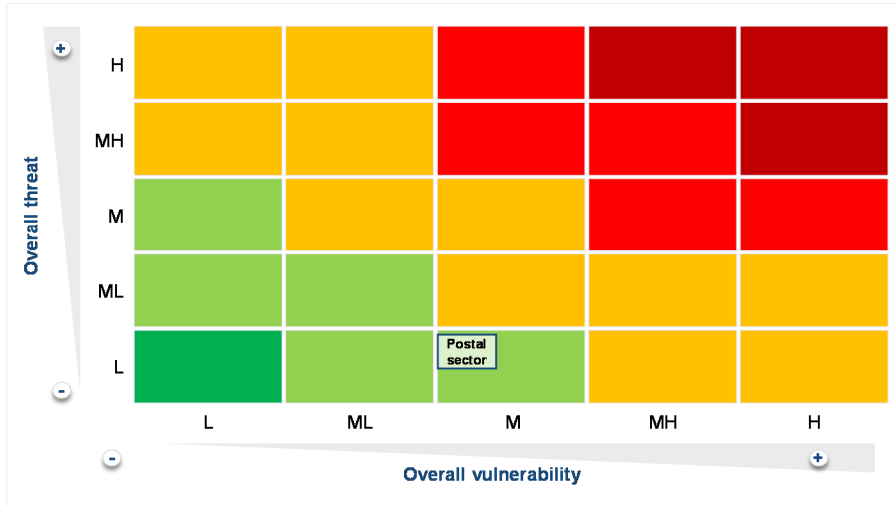
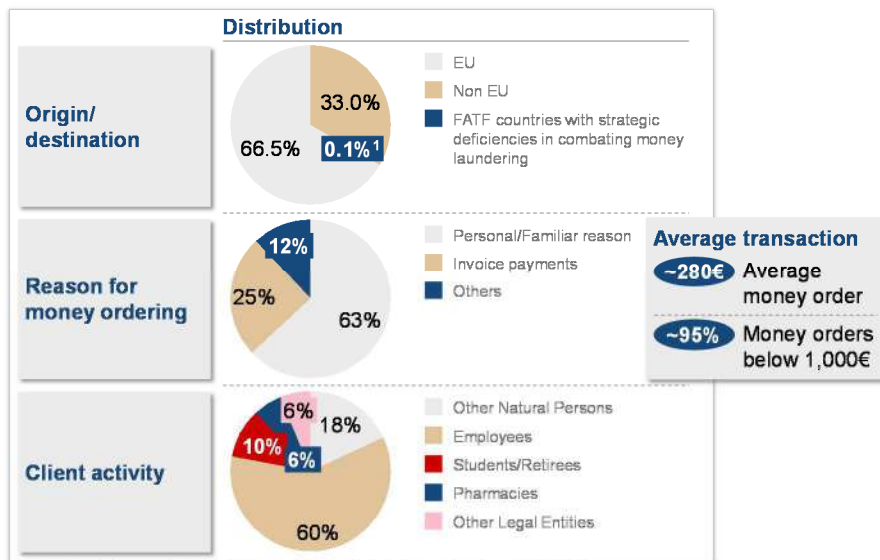


EXHIBIT 36

The intrinsic of money ordering services in Andorra – resulting in reduced the threat of ML&TF



¹ Includes 2 remittances to Bosnia & Herzegovina and 11 to Uganda for a total of €11,751
 SOURCE: Informe de Autoevaluación del Riesgo ante el Blanqueo de Capitales y la Financiación del Terrorismo (Correos); Interviews

Money laundering and terrorist financing risk analysis

Following the methodology defined by the World Bank, the risk of Andorra's postal sector to ML&TF was considered in two dimensions (threat and vulnerability), and ranked as medium/low (Exhibit 35):

- The threat posed by the characteristics of the sector is further detailed in the corresponding module ("Threat analysis") and was rated as low
- The vulnerability of the postal sector to ML&TF constitutes the analysis of this part of the NRA report, and was rated as medium

Funds transfer services in Andorra are performed by the Spanish and French post offices, which prudential supervision is carried in their own countries to their headquarters. The Treaty signed in 1930 with Spain and France didn't consider any local prudential regulation so these two entities are covered by the national regulation in Spain and France.

Since postal offices are obliged entities subject to Andorra's AML Act, they are subject to the same regulation and supervision as banking entities, asset managers, and insurance companies. In particular, Andorra's financial system has reinforced itself against money laundering by:

- Implementing a comprehensive reform in its AML regulatory framework to converge with international standards
- Reinforcing the role of the supervisor (i.e., UIFAND)
- Updating its sanctioning regime to make it more comprehensive and dissuasive

Nonetheless, there is still some room to further adapt current regulatory and supervisory framework to international standards (see section "Common elements to the financial sector" for further detail on the specific deficiencies for the postal sector)

The strict limits imposed on unitary transactions and the client profile reduces the risk significantly

The strict limits imposed on unitary transactions and the average client profile significantly reduce the risk of the sector (e.g., average money order is 280 €). However, the processes for transaction monitoring and reporting are relatively manual, and the scale of the players does not allow them to have the same resources that other financial entities do.

INTRINSIC FEATURES OF ANDORRA'S POSTAL SECTOR RESULTING IN A LOW VULNERABILITY OF ML&TF

The intrinsic features of Andorra's postal sector reduce its vulnerability to ML&TF (Exhibit 36). This, together with the high number of operations carried by the sector – in 2015 La Poste and Correos carried more than 31,000 remittances, and around 11,000 transfers through postal current accounts at an average of € 280 and € 540 respectively – translates into the high amount of suspicious transaction reports compared to its relative size (5% STRs in Andorra since 2011 were reported by the postal sector)

The average value of money orders is approximately €280, and 95% of all money orders have a value below €1,000

For money orders, these intrinsic features include:

- **Origin.** The origin and destination of most money orders are Spain, France, and Portugal – countries with a moderate risk of ML&TF.

Non-EU countries include Philippines, Peru and Chile (the countries with the largest amount of funds transferred), which had total volume of operations of € 632k, € 237k, and € 140k at an average value of €293, €225 and €280 per operation.

Countries considered to have strategic deficiencies in combating money laundering by the Financial Action Task Force (FATF) accounted for only 0.1% of total money orders, amounting to €11,751 in 2015 (this includes 2 remittances to Bosnia & Herzegovina for € 2,100 in total, and 11 to Uganda for € 9,651 in total). Enhanced CDD and control measures were applied over these operations (e.g., verification of the source of funds and family bonds with the person receiving the funds)

- **Reason for money ordering.** More than 60% of money orders are made for personal or family reasons at an average value of €280 per transaction; other reasons include payment of invoices, gifts and compensatory pensions.
- **Client activity.** Most money orders (60%) are made by employees of Andorran companies, while students and retirees are the second-largest group, accounting for around 10% of money orders. Of the legal entities receiving or sending money orders, half are pharmacies receiving payments.
- **Average transaction size.** The average value of money orders to and from Andorra is approximately €280, and 95% of all money orders have a value below €1,000. Additionally, strict limits are imposed on money orders – namely, €1,500 per month, €3,000 per quarter, and €5,000 per person – before reinforced controls and/or reporting to supervisor are executed.

Majority of clients are students, retirees and teachers, while legal entities make up only about 1% of the total

For postal current accounts, these intrinsic features include:

- **Destination.** 100% of the funds transferred are made from or to France – a total of about 11,000 transactions per year. Moreover, all clients are required to be Andorran residents, and to open the account in a French branch under due diligence procedures established by the parent company.
- **Type of clients.** In general, clients of postal current accounts have a low risk of ML. The majority of clients are students, retirees and teachers, while legal entities make up only about 1% of the total number of clients. Additionally, since 2012, associations, communities or companies subject to Andorran law have not been permitted to open postal current accounts.
- **Average transaction size.** On average about 930 operations are made each month; the average value of postal wire transfers is €520. Around half of all transfers require the presentation of proof of origin of funds (through a questionnaire and official documents such as working contract), with additional controls required for transfers over €500.

LOW VULNERABILITY TO ML&TF

Although there is no specific regulation and prudential supervision for the postal sector in Andorra in regards to funds transferring activities, Spanish and French regulation cover the two holding entities of those branches operating in Andorra, and therefore indirectly affect them. Specifically for AML&CTF, Andorra's post offices are obliged entities affected by the AML Act (Law 28/2008), which as stated before has been updated to be in line with international standards (see section "Common elements of financial sector" for more detail)

Andorra's AML&CTF regulatory framework has been complemented to make it converge with international standards

In addition to the transaction size limits outlined above, both postal entities have internal controls in place to prevent ML&TF. Controls include the following:

- **Know Your Customer (KYC).** In respect of money orders, KYC measures for regular clients generally require them to present identification. One of the players applies reinforced measures when needed, requiring approval by the manager of the

office and proof by the clients of the legal origin of funds and of their professional activity. In respect of postal current accounts, KYC measures in place require clients to present identification and to demonstrate their legal residence in Andorra.

PEPs, clients that receive/send funds over € 3,000(in one operation or accumulated in one term), and clients that send/receive funds from high risk countries as defined by the two entities are subject to enhanced CDD measures and additional controls

- **Controls and alerts.** In respect of money orders, reinforced measures are applied when accumulated money orders reach certain limits per client (depending on the player and activity, these limits are €1,500 per month, €3,000 per quarter, or €5,000 per person); when politically exposed persons (PEPs) are identified; when operations are perceived as suspicious by the personnel, and when the other country is among the high risk countries considered by the entity. In addition, both players use automatic alerts for transaction monitoring. In respect of postal current accounts, additional controls are implemented when transfers exceed €500 or cash deposits exceed €1,000.
- **Suspicious transaction reporting.** For both money orders and postal current accounts, reporting to UIFAND is generally undertaken in an ad hoc manner, based on the assessment of the ML&TF risk of each transaction by the manager of the office or the Compliance Area of the holding company. Nonetheless, the sector presents a high awareness for AML as it is shown by the large proportion of STR's sent to UIFAND (approximately 5% of total STRs in Andorra).

UIFAND perceives STRs sent by the postal offices to have an acceptable quality.

The Compliance function of both players is centralized in their parent companies

Finally, the Compliance function of both players is centralized in their parent companies. Given the scale of both players, current controls are considered appropriate, since they comply with the policies and procedures of their parent companies. Specifics of these Compliance policies include:

- **Training to employees.** Both players have training programs in place specifically designed for their Andorran offices. Although these training programs are not specific to AML&CTF, they contain special modules dedicated to the topic, and the AML&CTF supervisor reviews and validates the training given to the employees. Every employee in the offices of both entities has completed all required training.
- **Organizational structure and governance of the Compliance function.** Given the scale of both players in Andorra, they have no specific resources fully dedicated to Compliance – all employees are responsible for ML&TF controls and procedures and must report to the manager of the office. The Compliance Areas of the holding companies supervise the activities of their Andorran branches on a regular basis. In addition, both players also have centralized internal audit departments independent from Compliance.

Action Plan

Based on the vulnerability assessment set out above, the government of Andorra has developed, together with the private sector and all involved institutions a detailed action plan to build on the progress of recent years and further reduce the risk of ML&TF. The action plan includes cross-sectoral initiatives (referred above) and sector-level initiatives relative to the postal sector.

POSTAL SECTOR INITIATIVES

- Develop a regulatory framework for the postal sector that covers remittances and postal accounts. This will be implemented as part of the Monetary Agreement signed with the European Union in 2009

Non-financial business and professions



Andorra's DNFBP sector

This section of the Sectoral level NRA analyses the ML vulnerability of the Andorran non-financial sector. The scope of this section is, therefore, limited to non-financial entities and, in particular, to DNFBPs according to the FATF definition. According to article 45 of the AML Act, Andorran DNFBP sector is composed by the following natural or legal persons:

- Professional external accountants, tax advisers and auditors;
- Notaries, lawyers and members of other independent legal professions when they take part in assisting the planning or execution of transactions for their customers in the framework of the following activities:
 - Buying and selling real property or business entities.
 - Managing of customer money, securities or other assets.
 - Opening or management of bank, savings or securities accounts.
 - Organization of contributions necessary for the creation, operation or management of companies.
 - Creation, operation or management of companies, contractual fiduciary arrangements (fideicomisos) or similar structures; or when acting for their customers in financial or real estate transactions.
- Traders of high-value goods, such as precious stones or metals, when payments are made in cash for an amount of EUR 15,000 or more, or the equivalent in any other currency, irrespective of whether the transaction is executed in a single operation or in several operations that appear to be linked;
- Economists, business agents and suppliers of services to companies, other legal entities, contractual fiduciary arrangements or and any other legal structure fiduciary arrangements not referred to in any other section of this article;
- Casinos and other gambling establishments;
- Real estate agents carrying out activities related to buying and selling property;

For the purpose of this assessment the following non-financial business and professions have been considered:

- Car dealers.
- Dealers in precious metals and stones.
- Economists, professional external accountants, auditors, tax advisers and business agents (gestories).
- Gambling (it means bingo, as there is no casino currently operating in Andorra)
- Lawyers.
- Notaries.
- Real estate Agents.

1. HOW DNFBPS HAVE BEEN ASSESSED

The overall ML risk of each assessed sector is a combination of its ML threat¹ and its ML vulnerability.

The assessment of the ML vulnerability is based on the analysis of several general variables and products. The general variables are related to the strength of AML controls of each business/profession. In particular:

- *Comprehensiveness of AML Legal Framework.*
- *Effectiveness of Supervision/Oversight Activities.*
- *Availability and Enforcement of Administrative Sanctions.*
- *Availability and Enforcement of Criminal Sanctions.*
- *Availability and Effectiveness of Entry Controls.*
- *Integrity of Business/ Profession Staff.*
- *AML Knowledge of Business/ Profession Staff.*
- *Effectiveness of Compliance Function (Organization).*
- *Effectiveness of Suspicious Activity Monitoring and Reporting.*
- *Availability and Access to Beneficial Ownership information.*
- *Availability of Reliable Identification Infrastructure.*
- *Availability of Independent Information Sources.*

Product-based variables² are related to the inherent vulnerabilities of every single business/profession. In particular, these indicators are the following:

1. *Total size/volume of the business/profession.*
2. *Client-base profile of the business/profession.*
3. *Level of cash activity associated with the business/profession.*
4. *Other vulnerable factors, including.*
 - a. *Non-face-to-face engagement of services and ongoing relationship.*
 - b. *Use of agents.*
 - c. *Anonymous use of the product.*
 - d. *Difficult to trace transactions (e.g., use of pooled client trust accounts; professional secrecy laws or ethics rules; attorney/client privilege; legal/professional privilege and work [document]/product privilege).*
 - e. *ML typologies on the abuse of the business/profession.*
 - f. *Use of the business/profession in fraud or tax evasion schemes.*
 - g. *Other relevant features (specify up to three).*

These inherent vulnerability factors can be assessed for a profession-type as a whole, or as a detailed product-based assessment. Different approaches have been taken depending on the business/profession assessed. The box below shows the approach taken for each analyzed non-financial sector.

¹ ML threat of each sector is analysed in detail in the ML threat section of the National level NRA.

² See Back-up document for further information on product-based variables of each sector.

Type of DNFBP	Assessment chosen	Products analysed
Car Dealers	Sector as a whole	N/A
Dealers in precious metals and stones	Sector as a whole	N/A
Economists, professional external accountants, auditors, tax advisers and business agents - <i>gestories</i> -	Product based	<u>Product 1:</u> Establishment of companies and international tax advisory. <u>Product 2:</u> Accounting keeping and preparation of annual periodic accounts, management of domestic tax obligations and domestic tax advisory.
Gambling -Bingo-	Sector as a whole	N/A
Lawyers	Product based	<u>Product 1:</u> Establishment of companies and international tax advisory. <u>Product 2:</u> Buying and selling of real estate (legal advice), management of legal persons or arrangements, and the buying and selling of business entities, managing of client money, securities or other assets and management of bank, savings or securities accounts.
Notaries	Sector as a whole	N/A
Real Estate Agents	Sector as a whole	N/A

2. METHODOLOGY USED FOR DATA COLLECTION AND INFORMATION

Different strategies and approaches have been applied in order to gather data and information from the assessed non-financial sectors, such as questionnaires, structures interviews and other sources of information.

2.1. Questionnaires

Two online³ questionnaires were developed:

- *General questionnaire*: it was related to the quality and effectiveness of the AML controls applied by the different professionals of each non-financial sector under analysis. This questionnaire was the same for all assessed businesses/professions.
- *Product-based questionnaire*: it was related to the specific products of the different businesses/professions. The different products that were analysed though these questionnaires were previously discussed with the representatives of the different professional associations.

The response rate of each association consulted is the following:

³ These questionnaires has to be responded online, however it was allowed to deliver questionnaires filled manually if needed.

Type of DNFBP	Associations consulted	Number of members	Approximate response rate ⁴
Car Dealers	Vehicle importers association of Andorra	16	75%
Dealers in precious metals and stones	Andorran association of jewellers	17 ⁵	41% ⁶
Economists, Professional external accountants, auditors, tax adviser and business agents - <i>gestories</i> -	Andorran economists organization	97	15% ⁷
	Andorran accountants organisation	33	
	Andorran accountants association	25 ⁸	
	Andorran association of taxation technicians	109	
Lawyers	Professional Association of Andorran Lawyers	202	95%
Notaries	Chamber of notaries	4	100%
Real estate agents	Professional association of Andorran real estate agents	226	21%

2.2. Structured interviews and meetings with professional associations

Several structured interviews were held among the different DNFBPs and professional associations' representatives. The objective of these structured interviews was to analyse the aggregated data of the questionnaires and assess its consistency. In addition, these meeting were very useful to clarify some issues and assess from a qualitative perspective the data provided. The number of structured interviews held with each business/profession is showed below:

⁴ The response rate varies among the different businesses/professions consulted. It must be taken into account that only lawyers, notaries and real estate agents are required to become member of a professional association. Regarding the other businesses/professions, although there are associations grouping these professions, its membership is not mandatory.

⁵ Estimation provided by the corresponding association.

⁶ In volume, main actors of the sector have answered the questionnaires.

⁷ The response rate of this sector has to be analysed taking into account the following considerations:

- (i) not all the members of these associations are reporting entities (a significant number of economist work for companies or the financial sector as employees). According to the information provided by the Andorran economist association, only approx. 39% of its members can be considered reporting entities.
- (ii) there may be duplicities of members among the different associations as an individual could be registered in more than one associations (e.g. economist and accountants).

⁸ Estimation provided by the corresponding association.

Type of DNFBP	Nº of structured interviews/meetings/workshops
Lawyers	6
Economists, professional external accountants, auditors, tax adviser and business agents <i>-gestories-</i>	6
Dealers in precious metals and stones	6 ⁹
Gambling -Bingo-	2
Real estate agents	6
Car dealers	2
Notaries	3
Total	31

This box includes several meetings were held with the representatives of the different professional associations.

2.3. Qualitative and quantitative information provided by the Uifand

Qualitative and quantitative information was gathered through the operational and supervisory Areas of the Uifand. It was used to assess different variables such as the quality of STR received or to assess which products or businesses may represent a higher ML risk.

Moreover, the inspections conducted by the supervisory Area of the Uifand have been very useful to assess and interpret the information and data provided through the questionnaires. Information provided by this Area was also used to assess the variables related to the quality and effectiveness of the AML controls.

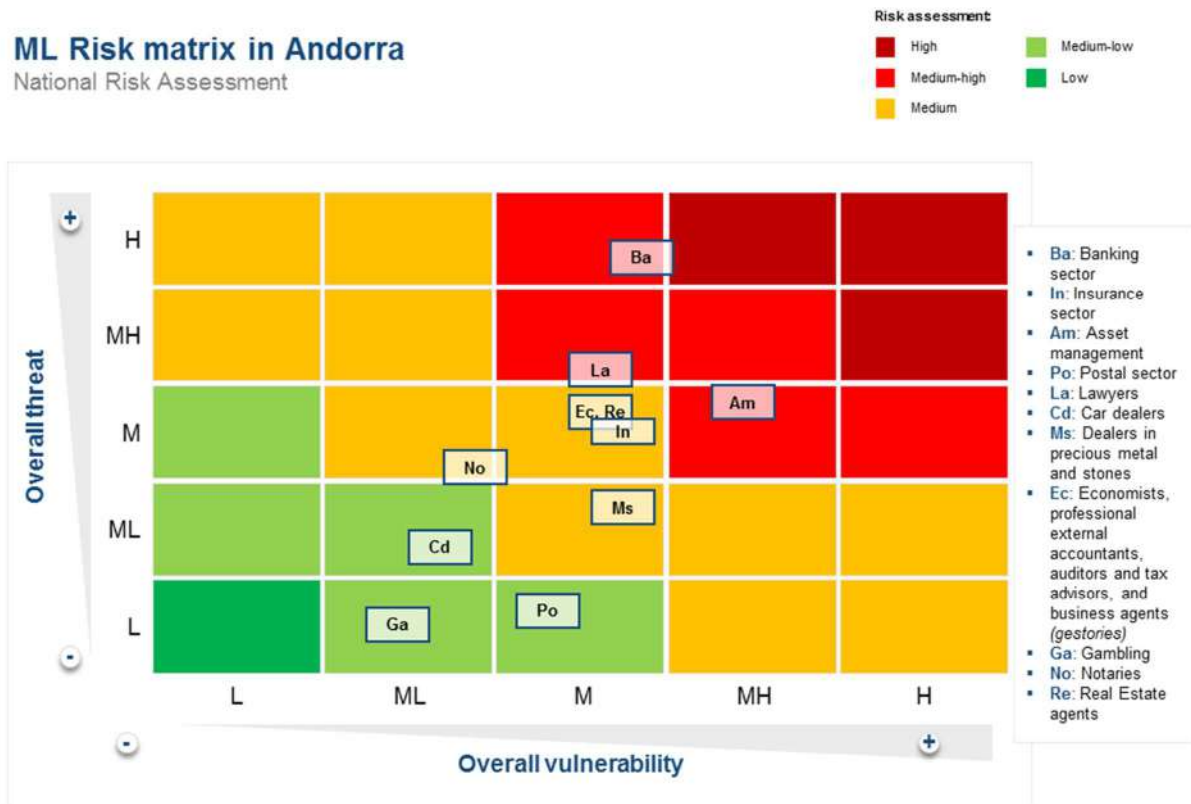
2.4. Information from the Department of Statistics

Information from the Department of Statistics was also collected, such as data and information related to the volume of the different businesses/professions in the economy or information related to the foreign investment in real estate.

⁹ Structured interviews were conducted with a gold refinery and with a second hand precious metal dealer. These entities were not members of the Andorran association of jewellers.

3. MAIN FINDINGS ON ML RISK LEVELS FOR DNFBPS

The ML risk matrix¹⁰ obtained as a result of the NRA analysis is as follows:



¹⁰ This matrix includes the financial sector.

Executive summary

1. CAR DEALERS

Car dealers are reporting entities under the AML/CFT Act if they conduct cash transactions equal to or greater than EUR 15 000 euros.

The use of cash in this profession is not high, since the general trend is to purchase vehicles through a bank loans. Nevertheless, given that there no threshold regarding cash payments in Andorra, the main risk identified is be related to cash payments.

Although it is not the general trend, qualitative information of the Uifand reveal some cases where vehicles were totally paid in cash.

The lack of entry controls¹¹ is considered another relevant risk factor. It implies that car dealers are not systematically registered and their identification of all players operating in this sector is not easy, specifically regarding luxuryvehicles dealers.

Finally, the AML knowledge of sector, especially regarding their obligations is clearly insufficient¹². Low awareness of the regulations affects aspects such as the implementation of proper CDD measures or the proper detection and reporting of STRs.

2. DEALERS IN PRECIOUS METALS AND STONES (DPMS)

DPMS sector does not represent an important share in the Andorran economy. The risk stemming from the lack of entry controls for the sector¹³ is, in part, mitigated by the reduced number of DPMS operating in Andorra.

The main ML risk associated to this sector is related to cash payments of highly valued jewellery, gold ingots and cut diamonds. Qualitative information suggests that an increase of sales of gold ingots and cut diamonds has taken place during 2015 and 2016. This new trends involving the acquisition of gold and diamonds seems to be related to the future implementation of the automatic exchange of information for tax purposes: foreign taxpayers holding assets that may be affected by this future legal framework (v.g. bank accounts) would be investing in other assets not subject to these regulations.

The inspections carried out by the Uifand show the awareness of the sector and the implementation of specific measures related to cash transactions. However, the high cash thresholds established by DPMS, jointly with the lack of STRs¹⁴, indicate that AML mechanisms of this sector should be more comprehensive.

The only refinery operating in Andorra and the companies dealing with second hand jewellery have been also assessed. According to information provided, the gold refinery has recently

¹¹ See “General variable: Availability and effectiveness of entry controls”.

¹² See “General variable: AML knowledge of business/profession staff”.

¹³ See “General variable: Availability and effectiveness of entry controls”.

¹⁴ See “General variable: Effectiveness of suspicious activity monitoring and reporting”.

acquired the capacity to refine gold and the risk of second hand jewellery entities is not high according to the values of jewels sold and the type of their clients.

3. GAMBLING -BINGO-

According to the FATF standards, only Casinos should be considered as reporting entities. Nevertheless, the AML/CFT Act considers all gambling operators as reporting entities. In this regard, the 4th Directive states that “*with the exception of casinos, and following an appropriate risk assessment, Member States may decide to exempt, in full or in part, providers of certain gambling services from national provisions transposing this Directive on the basis of the proven low risk posed by the nature and where appropriate, the scale of operations of such services*”.

This assessment covers all relevant gambling operators (i.e. bingo) in order to determine their ML risk and, if appropriate, decide whether exempt certain providers of AML/CFT provisions on the basis of their proven moderate ML risk.

As a result of the analysis, the ML risk of this sector is low, due to the low amounts played by each player along with the controls established by the two entities currently operating in Andorra.

If a casino is established in Andorra, the ML risk assessment of this sector should be reassessed.

4. ECONOMISTS, PROFESSIONAL EXTERNAL ACCOUNTANTS, AUDITORS, TAX ADVISER AND BUSINESS AGENTS -GESTORIES-

The size of this sector is considered medium. However, this is an overall estimate since currently it is not regulated which professions can offer these services.

The main activities undertaken by this sector are related to the accounting keeping and the preparation of annual and periodic accounts, domestic tax management work, domestic tax advisory, the service of establishment of companies and international tax advisory.

Some services provided by this sector are relevant in terms of risk, especially those related to the establishment of companies and international tax advisory (considering the number of shell companies detected by the Uifand). The establishment of companies in the Principality of Andorra by foreign investors, usually assisted by lawyers and other professions, is subject to the prior authorisation of the Andorran Government. In this framework the Uifand must issue its opinion regarding the ML/TF risks of the investment, which is binding if it is negative.

One of the problems faced by the Uifand is to identify all reporting entities offering this service¹⁵ given that:

- currently it is not regulated what professions can offer this service.
- some professions are not regulated.

Regarding AML trainings, it should be mentioned that only associated professionals were trained. Therefore, all other professionals and entities not registered in a professional association

¹⁵ See “General variable: Effectiveness of supervision /oversight activities.”

or those professions that do not have a professional body (e.g. *Gestories*) did not attend any AML training provided by the Uifand, which affects the overall vulnerability of this sector.

With regard to the implementation of required due diligence measures, shortcomings regarding the monitoring of the business relationship have been identified. These deficiencies may explain the insufficient number of STRs made during the analysed period¹⁶.

Finally, the Companies Register does not have specific information regarding the beneficial owner¹⁷ which hinders the application of CDD measures.

5. LAWYERS

The size of this sector is considered medium. The number of registered lawyers in the Andorran Bar Association exceeded 200 in 2015.

During the NRA process, two products have been analysed:

- Services of buying and selling of real estate (legal advisory), management of legal persons or arrangements, and the buying and selling of business entities, managing of client money, securities or other assets and management of bank, savings or securities accounts.
- Service of establishment of companies and the service of international tax advisory.

The main ML risk of this sector can be linked to the service of establishment of companies and international tax advisory considering the number of shell companies detected by the Uifand.

One of the problems faced by the Uifand is to identify all reporting entities that offer this service because, although all lawyers are identified, not all lawyers are reporting entities¹⁸.

Regarding the AML trainings, some lawyers do not consider themselves reporting entities when they are acting as tax advisors¹⁹ (this was the official position of the Bar Association²⁰). Hence, a relevant risky area of lawyers' activities would be uncovered regarding to some lawyers due to the lack of knowledge of the AML/CFT Act, fact that affects the effectiveness of monitoring and reporting since suspicious transactions might be found but not reported²¹.

6. NOTARIES

Notaries are primarily involved in the authentication and certification of signatures/documents. Therefore, they deal with customers that have already been subject to the scrutiny of other DNFBPs, such as a lawyers, real estate agents or others.

¹⁶ See "General variable: Effectiveness of suspicious activity monitoring and reporting."

¹⁷ See "General variable: Availability and access to Beneficial Ownership information".

¹⁸ See "General variable: Effectiveness of supervision /oversight activities."

¹⁹ See "General variable: AML knowledge of business/profession staff."

²⁰ An informative note was sent by the Uifand to all lawyer though the Bar Association remembering that "tax advisors" are considered reporting entities under article 45 of the AML/CFT Act.

²¹ See "General variable: Effectiveness of suspicious activity monitoring and reporting."

This sector has shown an adequate knowledge of the AML/CFT Act²² and a good quality of STRs presented to the Uifand²³. Nevertheless, notaries should remain vigilant regarding companies established through foreign investment mechanisms, due to the number of shell companies established in the last years.

Finally, notaries have a proper database in which all members have access to the Chamber of Notaries. Among other documents, this database has scanned documents of the statutes of the companies created, identification documents, etc.

7. REAL ESTATE AGENTS

The weight of this sector could be qualified as a medium, considering the number of real estate agents within the country -approximately 220 real estate agents-. Some indicators show that trading of real estate followed a decreasing trend in the last few years due to global economic crisis. Nevertheless, this sector seems to show a slight recovery.

The main activities undertaken by real estate agents are linked to the renting of flats and property management. The real estate sales and purchases where one of the parties is a foreign investor are also subject to the foreign investment process, which require the pronouncement of the Uifand regarding the ML/TF risks of the investment.

Concerning entry controls, although they are formally quite comprehensive, the professional association indicated the existence of persons acting as a real estate agents without the required authorisation²⁴.

Finally, the lack of access to some important information, such as the cadastral register or to the Companies registry, hinders the application of comprehensive CDD measures. Hence, the main risk of this sector is be linked to real estate properties acquired by legal persons due to the difficulties regarding the availability and access to beneficial ownership information of legal persons for this profession.

²² See “General variable: AML knowledge of business/profession staff.”

²³ See “General variable: Effectiveness of suspicious activity monitoring and reporting.”

²⁴ See “General variable: Availability and effectiveness of entry controls”.

Comprehensiveness of AML legal framework

1. INTRODUCTION

The benchmark for this assessment is the new international standards. It must be noted that FATF recommendations (2012) have not been totally implemented yet.

2. CUSTOMER DUE DILIGENCE (CDD)

Andorran CDD legal framework was rated as partially compliant in the last MER of Andorra (2012). Since then, Andorra has improved its legal framework bringing it to a level essentially equivalent to largely compliant.

Nevertheless, while Andorra was improving its CDD legal framework, international standards evolved too. This has caused that the current CDD legal framework is not fully in line with them. For instances, some moderate shortcomings, amongst others, are the following:

- Reporting entities are not expressly required to verify that any person purporting to act on behalf of the customer is so authorized, and identify and verify the identity of that person.
- Reporting entities are not required to ensure that documents, data or information collected under CDD process is kept up-to-date; only those data referred to the identification to the client is required to be updated.
- Regarding trusts, it is only expressly required to identify and to verify the beneficiaries of the trust and the natural persons exercising its control, but similar requirements in relation to the settlor, the trustee(s), the protector (if any), etc. are not required.
- Relationship termination with customers is not required in Andorra's regulation when there are doubts about the veracity or adequacy of already obtained information (current regulation includes relationship termination only when the customer cannot be identified)
- Corroboration by means of contacts with the undertaking by telephone, ordinary post or electronic mail can scarcely be considered to constitute a reliable, independent source, where it is the sole method utilized.

3. RECORD-KEEPING

Record-keeping legal requirements were rated as largely compliant in the last MER of Andorra (2012). Nevertheless, some minor shortcomings were noted:

- Record keeping does not cover all CDD records obtained through CDD measures neither the results of analysis undertaken.
- Therefore, there is some CDD information and transactions records which are not available swiftly to domestic competent authorities.

4. ENHANCED DUE DILIGENCE FOR POLITICALLY EXPOSED PERSONS (PEPS) AND HIGH RISK CUSTOMERS

Andorran PEPs-related legal measures were rated as largely compliant in the last MER of Andorra (2012). Nevertheless, some moderate shortcomings were noted:

- No specific measures are applied regarding domestic PEPs and persons who have been entrusted with a prominent function by an international organization.
- Therefore, no measures are applied in relation to their family members or close associates.

5. RELIANCE ON CDD BY THIRD PARTIES, INCLUDING INTRODUCED BUSINESS

Andorran reliance on third parties and introducers legal measures were rated as largely compliant in the last MER of Andorra (2012). Nevertheless, some shortcomings were noted:

- There is no legal provision establishing that reporting entities are required to obtain immediately the necessary information and its relevant copies relating the purpose and the intended nature of the business relationship.
- Information regarding the level of country risk is not considered in the AML/CFT Act for the purposes of determining in which countries the third parties can be based.
- It is not required that the reporting entity must be satisfied with the measures in place of the third party regarding record-keeping requirements.

6. SUSPICIOUS TRANSACTION REPORTING -STR-

Andorran STR legal framework was rated partially compliant in the last MER of Andorra (2012). Since then, Andorra has improved its legal framework bringing it to a level equivalent to largely compliant.

Nevertheless, some shortcomings remain outstanding:

- Tax crime, smuggling of goods and some other offences are not a predicate offence of ML.

7. INTERNAL CONTROLS, FOREIGN BRANCHES AND SUBSIDIARIES

Andorran internal controls, foreign branches and subsidiaries legal framework was rated as largely compliant in the last MER of Andorra (2012). Nevertheless, some shortcomings were noted:

- It is not required by law to have regard to the ML/TF risks and size of the business in order to implement programs against ML/TF and establish adequate internal policies, procedures and controls.

8. LICENSING AND SUPERVISION FOR AML COMPLIANCE

Regulation and supervision of DNFBPs framework was rated as partially compliant in the last MER of Andorra (2012), but it was mainly due to effectiveness shortcomings.

First of all, it has to be mentioned that not all reporting DNFBPs are subject to licensing, so that the Uifand does not have a reliable and updated list of all reporting DNFBPs sectors.

In particular, for those professions that are not subject to a licensing procedure, the Uifand has to rely on the information held by professional associations. The membership in these associations is not mandatory for all the sectors, so a lot of professionals fall out of the *radar* of the Uifand.

■ Licensing

- Car Dealers: specific authorization of the Government not required.
- Dealers in precious metals and stones: specific authorization of the Government not required.
- Economists, professional accountants, auditors and tax advisors: licensing process to become a member of the economist association requires, among others, meeting the following criteria:
 - Having a Degree recognized by the Principality of Andorra to practice the profession.
 - Government authorization to exercise the liberal profession of economist.
 - Certificate of liability insurance (only for self-employed persons).

However, in practice, a specific authorization from the Government, or being a member of a professional body, is not required in order to provide services as external accountant, tax advisor, auditor, economist or business agent (*gestoria*).

- Gambling: according to the Bingo Act, of 28 November of 1996, a specific authorization is required (article 4). This authorization is personal, non-transferable and temporary.

It is granted for a period of 5 years and can be renewed for the same periods. Among the different requirements of the Bingo Act (article 4 and 5), none of the administrators of the company or its shareholders must have a criminal record (for shareholders that are legal persons, then the criminal records of beneficial owners will be requested).

- Lawyers: licensing process to become a lawyer is rather solid. It requires meeting the following criteria:
 - Having a degree in Law.
 - Enjoying of full civil and political rights.
 - Not have been convicted of willful major crimes.
 - Not being incapacitated for the exercise of the profession.
 - Not fall into an incompatibility cause.
 - Obtain the authorization of the Government of Andorra.
 - Obtain an “*aptitude certificate*” issued by the Andorran Bar Association.
 - Obtain a positive report (or silence) from the Prosecutor Office, which analyses all applications.If such requirements are met, then the following institutions are also involved:

- The Government of Andorra is involved in the authorization process for the performance of a qualified profession.
 - The Andorran Bar Association analyses all the referred criteria and, if they are met, allows the applicant to become a member of the Association.
 - The Bar Association has to send all the relevant information to the Andorran Superior Court, who sends it to the Prosecutor Office in order to request a report about the new potential lawyer.
- Notaries: licensing process to become a notary requires meeting the following criteria:
- Having the Andorran nationality.
 - Be at least twenty-five years old.
 - Have no criminal record.
 - Having a degree in law.
 - Not fall into an incompatibility cause.
 - Have passed the tests of sufficient technical capacity and training.

If such requirements are met, then the following institutions are involved:

- The government of Andorra to organize the examination and constitute the committee that will qualify the tests. The committee will be formed by the President of the High Court of Andorra, a Superior Court judge appointed by draw and three other lawyers, appointed by the government, who do not have or have had any political or administrative responsibility in either Andorra or have practiced law or the judiciary in Andorra.
- Real estate agents: licensing process to become a real estate agent requires meeting the following criteria:

For individuals:

- Have no criminal record.
- Not being declared in payment suspension or bankruptcy unless the payment suspension or bankruptcy has been rescinded.
- Overcoming an aptitude test -called by the Government- for the profession of real estate agent.
- Subscribe and keep in force an insurance policy covering professional indemnity with a minimum guarantee of EUR 150 000.
- Being registered as a member of the professional association of Andorran real estate agents (Collegi Professional d'Agents i Gestors Immobiliaris d'Andorra or AGIA) and pay the annual fee.

For legal persons:

- Real estate agent activity must be indicated in the corporate purpose.
- In partnerships of two or more real estate agents, all partners should be authorized to exercise the activity of real estate agent and be member of the professional association of Andorran real estate agents (AGIA).
- Administrators, directors, managers or the president of the company must meet the same requirements established for individual persons to act as a real estate

agent (with the exception of the insurance policy covering professional indemnity that has to be subscribed by the legal person before the registration). All activities related to real estate agents must be addressed and signed by a person authorized to act as a real estate agent.

- Supervision: the Uifand is the authority charged with the supervision of DNFBPs for AML/CFT purposes, which is clearly defined under article 53.2 of the AML Act. Please, see the comments provided in the section “*effectiveness of supervision/oversight activities*”.

9. OVERALL CONCLUSION

The legal system in place seems to be quite broad. However, the AML/CFT Act has not been amended to implement the new FATF recommendations. For instance, the main areas of improvement are the following:

- Broaden the predicate offences of ML and the scope of STRs.
- Better regulate CDD measures.
- Broaden the measures applicable to domestic PEPs and persons who have been entrusted with a prominent function by an international organization.
- Regulate the access to some professions, such as business agents (*gestories*), professional external accountants, economists, etc.

Effectiveness of supervision/oversight activities

In order to analyze the effectiveness of supervisory activities in relation to DNFBPs, several assessment criteria were examined.

1. CLEAR LEGAL MANDATE TO CONDUCT AML COMPLIANCE SUPERVISION

First of all, it should be emphasized that article 53.1 of the AML/CFT Act entrusts the Uifand with the responsibility of “*promoting and coordinating the measures for the prevention of and the fight against money laundering, the financing of terrorism and the proliferation of weapons of mass destruction*”.

Consistently with the abovementioned role, the Uifand directs and promotes the activities for the prevention of and fight against the use of the country's entities of the financial system or those of some other nature for ML/TF, according to article 53.2 of the AML/CFT Act.

In particular, Article 53.2 of the AML/CFT Act entrusts both the off-site and on-site supervision in AML/CFT matters to the Uifand:

- “2. *Uifand exercises the following functions:*
 - *It directs and promotes the activities for the prevention of and fight against the use of the country's entities of the financial system or those of some other nature for money laundering [...].*
 - *It requests any information or documents from the parties under obligation in the exercise of its functions, and it verifies compliance with this Law and the regulations developing it.*
 - *It carries out on-site inspections to verify compliance with this Law and the regulations developing it and, in particular, it analyses the specific dossiers and files which Uifand may determine [...].*”

Therefore, according to these provisions, the Uifand is the supervisory authority for AML/CFT purposes. Consequently, both the competent supervisory AML/CFT authority (Uifand) and its mandate (off-site and on-site supervision) are clearly identified in the AML/CFT Act.

2. EFFECTIVENESS OF SUPERVISION

During 2013, the Uifand conducted an assessment regarding the AML/CFT environment of DNFBPs (i.e. real estate agents, economists, auditors, professional external accountants, lawyers, notaries and traders of high-value goods, such as precious stones or metals).

This assessment consisted of a questionnaire that was provided to DNFBPs (professional associations were previously informed) through the restricted area of the Uifand’s website. The questionnaire contained questions regarding the commercial activity of each DNFBP, their knowledge of the AML/CFT legal framework and the basic KYC measures implemented, amongst others.

The purpose of this study was three-fold:

- To obtain more detailed information about all parties operating in the non-financial sector and, specifically, determine in greater detail who are parties under obligation pursuant to article 45 of the AML/CFT Act (e.g., lawyers engaged in the incorporation of companies or real estate agencies involved in the sale and purchase of properties).
- To determine the degree of vulnerability of the sector as a whole and of each single DNFBP under obligation.
- According to a risk-based approach and to the results obtained from the questionnaires received, the Uifand made its training programs more effective and focused its on-site inspections on those parties under obligation who are more vulnerable either because of their lack of knowledge of the AML/CFT legal provisions or because of their high-risk profile as determined by the Uifand's assessment.

The information provided to the Uifand during the supervisory exercise in 2013 was very useful in the execution of the inspection activities in following years. Several lawyers, notaries, economists, real estate agents, and dealers in precious metals have been subject to the Uifand's supervisory activity during 2014 and 2015 (total of 32 on-site inspections) in execution of the annual supervisory plan to check AML/CFT obligations.

		N° of on site inspections by year		
		2014	2015	Total
Type of DNFBP	Real Estate Agents	9	1	10
	Dealers in precious metals and stones	3	0	3
	Lawyers	9	2	11
	Economists/auditors	5	2	7
	Notaries	0	1	1

As a result of the on-site inspections, two lawyers were sanctioned due to an infringement of a Uifnad's technical communiqué.

According to the supervision plan of the supervisory Area of the Uifand, after each and every on-site inspection a written report is sent to the respective parties in due time (normally it does not take more than a month). This report contains a description of the inspection, all relevant data, any deficiency identified and, where necessary, recommendations or corrective measures. In cases where the inspectors detect a higher risk, another inspection is performed after reasonable time to assess whether corrective actions were adopted.

In this regard, about the 89% of the inspected respondents have state that the onsite inspection carried out by the Uifand had an effect on their activity and positively influenced their AML/CFT systems due to the implementation of the improvements recommended by the supervisory team of the Uifand.

Furthermore, between October 2015 and September 2016, all DNFBBs have been surveyed again by the Uifand through new, very comprehensive questionnaires and interviews, with a marked risk based approach.

Following the analysis of the results of these off-site inspections, meetings were held with DNFBBs in order to delve into some activities and widen the analysis in relation to some policies and procedures applied by them.

Thus, it could be concluded that supervision is carried out in a systematic manner. Nevertheless, the follow-up carried out by the Uifand could be improved and the focus of the inspections too.

In this regard, a deeper risk based approach (RBA) is needed in order to increase the effectiveness of the supervisory activity in relation to DNFBBs. For instance, considering that one of the riskiest activities conducted by lawyers is the assistance in the establishment of Andorran companies by non-residents (especially those acting as Andorran shell companies) and tax advisory to non-residents, the supervisory activity should be focused on the lawyers offering this kind of services and on some other particular risky areas.

3. UNDERSTANDING OF THE ML RISK OF THE PROFESSION

The Uifand's role as an investigative body represents an important synergy in relation to the supervisory activity.

In this regard, the Uifand has first-hand information about typologies and cases disseminated to LEA, fact that provides the Uifand with comprehensive feedback concerning the judicial procedures engaged.

This institutional framework and the intense cooperation between national authorities and internal Areas of the Uifand (both the operation and the legal areas cooperate actively in onsite and offsite supervision), gives the Uifand a really good understanding and appreciation for the ML risk faced by DNFBBs (that will be improved through this NRA).

Furthermore, one of the goals of the supervisory activity carried out during last years was to identify and understand the risks of the different professions surveyed.

4. ADEQUACY OF HUMAN AND TECHNICAL RESOURCES OF THE AML SUPERVISORY AUTHORITY

The Uifand has increased its resources from 3 to 8 people in the last years. In particular, its Supervisory Unit is currently composed of two permanent members and receives the support of one member of the operational Area and of another of the legal Area. In particular, regarding legal professions, as lawyers and notaries, the legal Area of the Uifand cooperates intensively with the supervisory Area. Nevertheless, the staff of the Uifand charged with supervisory duties cannot be considered as sufficient and should be increased with, at least, one or two new members.

The current Uifand team has experience in AML/CFT activities in different sectors and some members of the team are part of the Moneyval assessment team for other countries, and consequently receive specific training by this organization. To this regard, in 2014 Uifand

members participated in 4 proficiency programs to enhance their training in AML/CFT, in addition to receiving external, ad-hoc courses on relevant issues on the present-day scene.

Therefore, the training of the AML/CFT supervisor is quite comprehensive regarding financial matters, but it should be improved concerning DNFBPs. In particular, since the Andorran tax legal framework is relatively new, specific trainings should be provided to the Uifand staff in relation to tax schemes.

From a technical point of view, although the study carried out in 2013 provided information to determine in greater detail who are parties under obligation pursuant to article 45 of the AML/CFT Act, supervisory authority needs additional resources or databases to detect those DNFBP's -legal or individual persons- who are reporting entities. The following table summarizes, by type of DNFBP, the main problems faced by the supervisory authority in this regard:

Sector	Professional licensing, registration or other forms of authorization to practice?	Being member of a professional association is required to practice?	Problems faced by the AML supervisory authority to identify obliged parties
Car dealers	No	No	It is not mandatory to have a sector authorization of the government or being a member of a professional association to practice. The main problem of the FIU is to detect which persons are obliged parties.
Dealers in precious metals and stones	No	No	It is not necessary to have a sector authorization from the government or being a member of a professional association to practice. Although major jeweler stores are member of the "Andorran Association of Jewelers", the FIU has no databases to detect which individual or legal persons are offering high value products.
Economists, Professional external accountants, Auditors, tax advisors and business agents - <i>gestories</i> -	No	No	It is not necessary to have a sector authorization from the government or being a member of a professional association to practice. Furthermore, the fact of being enrolled in a professional association does not mean that these legal or individual persons are reporting entities -as they may be registered for general purposes-. The main problem of the FIU is to detect obliged persons from these professions.
Gambling - Bingo-	Yes	No	-
Lawyers	Yes	Yes	The FIU has no databases to detect which practicing lawyers are obliged entities.
Notaries	Yes	Yes	-

Sector	Professional licensing, registration or other forms of authorization to practice?	Being member of a professional association is required to practice?	Problems faced by the AML supervisory authority to identify obliged parties
Real Estate Agents	Yes	Yes	Even though all real estate agents are authorized to mediate in the selling and buying of real estate properties, the FIU has no databases to identify those real estate agencies whose main income comes from activity related to the selling and buying of real estate and not to other services related to this profession such as the rental management. In this regard, the access to financial information available at the Tax Agency is necessary to reinforce the RBA approach of supervision.

Availability and enforcement of administrative sanctions

1. AML/CFT SANCTIONING REGIME

The AML/CFT Act was amended in July 2015 in order to, amongst others, establish a new sanctioning regime. It includes three main novelties:

- Regarding infringements: the types of conducts considered serious and very serious infringement has been broadened.

Under the previous sanctioning regime, serious or very serious infringements were not exhaustive at all and, thus, the great majority of the breaches had to be considered minor infringements, which made that sanctioning regime not effective, dissuasive or proportionate.

With the new sanctioning regime, there is a wide range of behaviours that are considered serious or very serious infringements (very serious infringements have been increased from 5 to 10, serious infringements have been increased from 6 to 15, and minor infringements continue to be a residual category).

- Regarding sanctions: the new sanctioning regime adopts a two-fold approach: it distinguishes between legal persons and natural persons.

Concerning natural persons, according to the Andorran legal framework, they are liable with all their present and future (professional and personal) assets, which means that a possible sanction of, for example, EUR 600 000 to a natural person would affect not only the professional activity but the personal life and the effects would not disappear until the total payment of the fine.

Therefore, taking into account that those who exercise their professions without a legal persons structure use to be small sized business or professions, it was considered that the sanctioning regime for natural persons (fines up to EUR 600 000) was excessive and not proportionate.

In fact, any very serious breach was detected (or searched) in the past and no serious sanction was imposed to natural persons due to different reasons, including probably the fact that the minimum pecuniary sanction for very serious infringement was EUR 60 001, which would not be proportionate taking into account the average purchasing power of those professionals acting as natural persons.

On the other hand, concerning legal persons, it should be noted that sanctions have been increased: the maximum sanction applicable for AML/CFT breaches has been increased from EUR 600 000 to EUR 1 000 000, and it could be higher if twice the amount of the benefit derived from the breach is higher than EUR 1 000 000 (maximum administrative fines would be in this case twice the amount of the benefit derived from the breach).

In any case, both regimes have some sanctions in common, for instance, withdrawal, restriction or suspension of the authorization held by the legal or natural person in breach has been expressly established as a sanction for very serious breaches.

- Regarding the sanctioning procedure: a new and tailored sanctioning procedure was approved instead of applying the general sanctioning procedure as before.

Nevertheless, the new sanctioning regime could be improved from a formal point of view:

- The Uifand is the investigative authority in all cases, but it only has the competence to impose the sanction in case of minor infringements.

In case of serious and very serious infringements the competent authority to impose the sanctions is the Government. Furthermore, the Uifand sanctions can be repealed before the Government.

However, it has to be noted that the great majority of the proposed sanctions have not been reduced by the Government.

- The sanctioning procedures are intensive time consuming procedures. Even when the breach is obvious and the reporting entity recognize it, lots of formal steps must be taken by the investigative member of the Uifand in order to elaborate the final sanctioning proposal.

Therefore, the adoption of a case-by-case based simplified procedure should be considered by the Andorran authorities in order to be able to issue a timely resolution, which increases the effectiveness of the sanctioning regime.

The publication of the sanctions is not legally established in any case.

2. NON-AML SECTORIAL SANCTIONING REGIME

Lawyers and real estate agents have a profession sanctioning regime. The AML/CFT sanctioning regime is more dissuasive as can be seen from the comparative table below:

	Non-AML business sanctioning regime for real estate agents (Law of 15/02/2000)	Non-AML business sanctioning regime for lawyers (Law 48/2014)	AML/CFT sanctioning regime -Legal Persons-	AML/CFT sanctioning regime -Natural Persons-
Minor infringements	<ul style="list-style-type: none"> ■ Fine up to EUR 9.000 	<ul style="list-style-type: none"> ■ Fine up to EUR 1 000; ■ Written warning. 	<ul style="list-style-type: none"> ■ Fine up to EUR 15 000. ■ Written warning. 	<ul style="list-style-type: none"> ■ Fine up to EUR 3 000 ■ Written warning

	Non-AML business sanctioning regime for real estate agents (Law of 15/02/2000)	Non-AML business sanctioning regime for lawyers (Law 48/2014)	AML/CFT sanctioning regime -Legal Persons-	AML/CFT sanctioning regime -Natural Persons-
Serious infringements	<ul style="list-style-type: none"> ■ Suspension of the Professional License 	<ul style="list-style-type: none"> ■ Fine from EUR 1 001 to EUR 50 000; ■ Suspension up to 1 year. 	<ul style="list-style-type: none"> ■ Fine up to EUR 90 000. ■ Suspension from 1 to 6 months. ■ Temporary restriction on specific types of transactions. 	<ul style="list-style-type: none"> ■ Fine up to EUR 25 000 ■ Suspension from 1 to 6 months. ■ Temporary restriction on specific types of transactions.
Very serious infringements		<ul style="list-style-type: none"> ■ Fine from EUR 5 001 to EUR 50 000; ■ Suspension up to 5 years. 	<ul style="list-style-type: none"> ■ Fine up to EUR 1 000 000. ■ Suspension of 6 months or permanent suspension. ■ Temporary or permanent restriction on specific types of transactions. ■ Withdrawal or modification of the corresponding activity authorization. 	<ul style="list-style-type: none"> ■ Fine up to EUR 300 000. ■ Suspension of 6 months or permanent suspension. ■ Temporary or permanent restriction on specific types of transactions. ■ Withdrawal or modification of the corresponding activity authorization.

In addition, it should be noted that two lawyers were sanctioned with a fine of EUR 600 under the previous sanctioning regime due to an infringement of a technical communiqué, their conduct has been modified as the technical communiqué has been correctly adopted after the sanction. The new sanctioning regime has not been applied yet and remains untested.

3. OTHER DATA AND COMMENTS

In relation to the influence that the sanctioning regime within the reporting entities, DNFBPs were surveyed with the following result:

Figure 1. Responses of the DNFBPs to the question “Which is the impact in your business of a sanction for a minor infringement, a serious infringement and a very serious infringement?”

			Infringements		
			Minor	Serious	Very serious
Car dealers	Impact	Very high	50%	86%	86%
		High	29%	0%	0%
		Medium	7%	0%	0%
		Low	7%	7%	7%
		Very Low	7%	7%	7%
Dealers in precious metals and stones	Impact	Very high	20%	80%	100%
		High	0%	20%	0%
		Medium	60%	0%	0%
		Low	20%	0%	0%
		Very Low	0%	0%	0%
Economists, professional external accountants, auditors and business agents - gestories-	Impact	Very high	34%	68%	95%
		High	34%	27%	2%
		Medium	17%	2%	0%
		Low	10%	0%	0%
		Very Low	5%	2%	2%
Lawyers	Impact	Very high	30%	67%	96%
		High	30%	27%	4%
		Medium	20%	6%	0%
		Low	17%	0%	0%
		Very Low	2%	0%	0%
Notaries	Impact	Very high	25%	50%	100%
		High	25%	25%	0%
		Medium	25%	25%	0%
		Low	25%	0%	0%
		Very Low	0%	0%	0%
Real Estate Agents	Impact	Very high	43%	77%	89%
		High	30%	19%	9%
		Medium	21%	2%	0%
		Low	6%	2%	2%
		Very Low	0%	0%	0%

In general terms, sanctions for a very serious infringement have been assessed as a very high impact measure by the sector. Regarding serious infringements, the great majority of the industry considers that it has a very high impact, but not with the same intensity as the very serious infringements. Finally, sanctions imposed due to minor infringements are deemed of a medium-high impact. Therefore, at least from a technical point of view, range of sanctions applicable is dissuasive enough.

Furthermore, the perception of the sector is that the tolerance of the Uifand from a sanctioning point of view is low. In scale from 1 -very tolerant- to 5-not tolerant at all-, the Uifand has been rated –average rating- as follows:

- Car dealers: 3.92
- Dealers in precious metals and stones: 4.4
- Economists, professional external accountants, auditors, tax advisors and business agents -gestories-: 3.70
- Lawyers: 4
- Notaries: 3.5
- Real estate: 3.59

Therefore, most persons working in this sector believe that administrative enforcement actions would be initiated in case of non-compliance with AML requirements.

From the point of view of the supervisor, the FIU considers that the tolerance they apply is medium. In this regard, after a period with a preference for recommendations and informal warnings, it is recommended to act from a sanctioning point of view if new breaches are detected.

Availability and enforcement of criminal sanctions

Andorran ML crime punishes willful and serious negligent ML acts, including willful blindness conducts, in line with Viena and Palermo Conventions.

Serious negligent and willful blindness conducts would include those ML cases where the reporting entities do not observe AML/CFT Act obligations and this facilitates ML. Furthermore, ancillary conducts of ML would include those cases where reporting entities cooperate or participate in ML acts.

Although at the time being, no criminal sanctions have been imposed to DNFBPs, it should be noted that, concerning the financial sector, there is an investigation going on against the CEO of BPA, who is currently provisionally imprisoned, and other former managers of BPA. According to the Criminal Code, if the perpetrator is acting under the framework of a banking or financial establishment, real estate company or insurance company, the penalty applicable for the concerned natural person is higher than the regular one (e.g. he/she can be removed from its position for up to ten years, and prison of 3 to 8 years must be imposed).

The Criminal Code provides incidental consequences for legal persons in the event of a conviction, and authorizes the courts to impose sanctions (including dissolution) on companies, associations or foundations, in cases of major crimes such as money laundering and financing of terrorism. However, this is not considered criminal sanctions per se as required in the International Standards and have never been applied in a ML case.

The lack of criminal liability of legal persons negatively affects this variable, since criminal sanctions cannot be applied against legal persons²⁵, but can always be applied to the natural person owners of the legal entity if they have committed the criminal conduct.

²⁵ In this regard, it has to be noted that only natural persons act as Notaries.

Availability and effectiveness of entry controls

1. CAR DEALERS

The availability and effectiveness of entry controls for this sector is considered low since the requirements for establishing a car dealer company do not differ from any other company or commercial activity.

2. DEALERS IN PRECIOUS METALS AND STONES

The availability and effectiveness of entry controls for this sector is considered low since the requirements for being a DPMS do not differ from any other company or commercial activity.

3. ECONOMISTS, PROFESSIONAL EXTERNAL ACCOUNTANTS, AUDITORS AND TAX ADVISORS

Licensing process for economists requires, among others, meeting the following criteria:

- Having a Degree recognized by the Principality of Andorra to practice the profession.
- Government authorization to exercise the liberal profession of Economist.
- Certificate of liability insurance (only for self-employed persons).

In practice, having an authorization from the government or being a member of one the four professional associations available in the country is not required in order to offer the services provided by professional external accountants, tax advisors, auditors, economists and business agents (*gestories*).

4. GAMBLING SECTOR -BINGO-

According to the Bingo Act, of 28 November of 1996, licenses are granted by Government (article 4). Additionally, these authorizations are personal, non-transferable and temporary.

The license is granted for a period of 5 years, after this period the license can be renewed for the same periods of time. Among the different requirements of the Bingo Act (article 4 and 5), none of the administrators of the company or its shareholders must have a criminal record (for shareholders that are legal persons, then the criminal records of beneficial owners will be requested).

5. LAWYERS

Law 48/2014, of 18th December, regulating the exercise of lawyers and the Andorran Barristers' Association (hereinafter, Law 48/2014) and its implementing regulations, establish the following *sine qua non* conditions to access became a lawyer (article 7):

- Having a degree in Law.
- Enjoying of full civil and political rights.
- Not have been convicted of willful major crimes.
- Not being incapacitated for the exercise of the profession.
- Not fall into an incompatibility cause.
- Obtain the authorization of the Government of Andorra.

- Obtain an “*aptitude certificate*” issued by the Andorran Bar Association.
- Obtain a positive report (or silence) from the Prosecutor Office, which analyses all applications.

In this regard, legal framework relating the access to the profession seems to be quite comprehensive. It should be noted that the referred authorization is granted to natural persons only.

From a practical point of view, between 2011 and 2015, 77 applications to join the profession have been filed and none of them have been rejected (there are 8 of them pending of a final resolution), and no revocations of the authorization have been ordered.

Furthermore, the Andorran Bar Association considers that they are sufficiently resourced in order to conduct the analysis of the authorizations and the fit and proper test.

According to the information provided by the Andorran Bar Association, nobody would be acting as a lawyer without the mandatory authorization.

Finally, it should be pointed out that the AML/CFT Act includes the revocation or amendment of the authorization of the corresponding activity in the case of serious infringements.

6. NOTARIES

Notary Act, of 28th November 1996 and its implementing regulation of 20th February of 1998 regulating the exercise of Notaries and the Chamber of Notaries, establishes the following *sine qua non* conditions to access became a Notary (article 16):

- Having the Andorran nationality.
- Having a degree in Law.
- Be at least twenty-five years old.
- Not have been convicted because of willful major crimes.
- Not fall into an incompatibility cause.
- Have passed the tests of sufficient technical capacity and training issued by the Government.

In this regard, legal framework relating the access to the profession seems to be quite comprehensive. It should be noted that the referred authorization is granted to natural persons only.

The number of notaries are determined by the government according to the country's needs (article 15), therefore the Notary Act stipulates a minimum of four Notaries and a maximum of one Notary per 10.000 inhabitants. Currently, the chamber of Notaries has four Notaries and the Government has not opened positions for this profession in the last 5 years.

According to the information provided by the Chamber of Notaries, nobody would be acting as a Notary without the mandatory authorization.

Finally, it should be pointed out that the AML/CFT Act includes the revocation or amendment of the authorization of the corresponding activity in the case of serious infringements.

7. REAL ESTATE AGENTS

Real Estate Agents Act, of 15th December 2000, and its implementing regulation, of 26 of March of 2001, regulating the exercise of Real Estate Agents, establishes different conditions for individual or legal persons to become a real estate agent (article 3). These *sine qua non* conditions are detailed below:

For individual persons:

- Have no criminal record for a criminal offense.
- Not being declared in payment suspension or bankruptcy unless the payment suspension or bankruptcy has been rehabilitated.
- Pass an aptitude test -issued by the Government- for the profession of real estate agent and manager.
- Subscribe and keep in force an insurance policy covering professional indemnity with a minimum guarantee of EUR 150 000.
- Being registered as a member of the professional association of Andorran real estate agents and pay the annual fee.

For legal persons:

- Real estate agent and manager activity must be indicated in the corporate purpose.
- In partnerships of two or more real estate agents, all partners should be allowed to act as a real estate agent and be members of the professional association of Andorran real estate agents.
- Administrators, directors, managers or the president of the company must meet the same requirements established for individual persons to act as a real estate agent (to exception of the insurance policy covering professional indemnity that has to be subscribed by the legal person before the registration). All activity related to real estate agents must be addressed and signed by a person authorized to act as a real estate agent.

In this regard, legal framework relating the access to the profession seems to be quite comprehensive.

From a practical point of view, between 2011 and 2015, 44 applications to become real estate agent have been filed and none of them have been rejected. Moreover, one revocation of the authorization has been ordered for criminal records.

According to the information provided by the professional association of Andorran real estate agents, some agents such as lawyers, banking employees, individuals who were real estate agents in the past, etc. would be acting as a real estate agent without the mandatory authorization. This information has not been used to open any sanctioning procedure by any competent authority.

Finally, it should be pointed out that the AML/CFT Act includes the revocation or amendment of the authorization of the corresponding activity in the case of serious offences.

Integrity of business/profession staff

For the purpose of this section, the availability of a professional ethical code has been analyzed. However, this is just a formalistic approach which may not be necessarily conclusive in practical terms, therefore additional information has been taken into account.

1. CAR DEALERS

Even though the Vehicle Importers Association of Andorra does not have an Ethical Code at a profession level, 78.5% of respondents state to have Ethical Code.

According to the information provided by car dealers, the respondents consider that the likelihood of the professionals to be involved in an event with a negative impact in their integrity or reputation is medium-low (1.46 points out of 5). However, about 14% of the professionals consider that the risk of any incidence due to integrity or reputational reasons is very high.

Finally, none of the respondents has taken part in a training program in relation to AML/CFT matters.

2. DEALERS IN PRECIOUS METALS AND STONES

Even though the Andorran Association of Jewelers does not have an Ethical Code at a profession level, 60% of respondents state to have Ethical Code for their company.

According to the information provided by dealers in precious metals and stones, the sector considers that the likelihood of the professionals to be involved in an event with a negative impact in their integrity or reputation is medium-low (1.7 points out of 5). Nevertheless, it cannot be ignored that almost the 20% of the professionals consider that the risk of any incidence due to integrity or reputational reasons is very high.

Additionally, the 60% of the surveyed professionals have taken part in at least one training program in relation to AML/CFT matters.

3. ECONOMISTS, PROFESSIONAL EXTERNAL ACCOUNTANTS, AUDITORS, TAX ADVISORS AND BUSINESS AGENTS

Although this sector does not have an Ethical Code at a profession level, 68% of respondents state to have Ethical Code for their company.

According to the information provided by the industry, the sector considers that the likelihood of the professionals to be involved in an event with a negative impact in their integrity or reputation is medium-low (1.67 points out of 5). Nevertheless, it cannot be ignored that almost the 17% of the professionals considers that the risk of any incidence due to integrity or reputational reasons is high or very high.

Finally, the 68% of the surveyed professionals have taken part in at least one training program in relation to AML/CFT matters.

4. GAMBLING (BINGO)

Bingos have an internal Ethical Code known by the employees.

According to data provided by sector representative, 15 employees have taken part in at least one training program in relation to AML/CFT matters which represents 23% of the total employees.

5. LAWYERS

First of all, it should be noted that the Andorran Bar Association has an Ethical Code and all the surveyed lawyers are aware of it, which is positively assessed.

According to the information provided by lawyers, the sector considers that the likelihood of the professionals to be involved in an event with a negative impact in their integrity or reputation is medium-low (1.85 points out of 5). Nevertheless, it cannot be ignored that almost the 20% of the professionals consider that the risk of any incidence due to integrity or reputational reasons is high or very high.

According to the information provided by the Andorran Bar Association, no lawyer has been sanctioned during last 5 years. However, one isolated case concerning a lawyer would be under investigation because of supposed threats and professional disloyalty regarding a ML related procedure.

Additionally, the 75% of the surveyed professionals have taken part in at least one training program in relation to AML/CFT matters.

Furthermore, according to the information obtained from different sources of information, lawyers have advised in the establishment of complex tax schemes to non-residents in order to avoid tax payments in their countries; tax fraud is not yet a crime in Andorra and it was used by lawyers to offer some services. Even some of them are anticipating the entry into force of automatic exchange of information for tax purposes regime and may be advising in the creation of legal structures pretending to avoid or delay this exchange of information between Andorra and the tax residence country of their clients.

6. NOTARIES

First of all, it should be noted that the Chamber of Notaries has an Ethical Code and all the surveyed Notaries are aware of it, which is positively assessed.

According to the information provided by notaries, the sector considers that the likelihood of the professionals to be involved in an event with a negative impact in their integrity or reputation is medium-low (1.62 points out of 5).

Additionally, all Notaries have taken part in at least one training program in relation to AML/CFT matters.

7. REAL ESTATE AGENTS

First of all, it should be noted that the professional association of Andorran real estate agents has an Ethical Code and all the surveyed real estate agents are aware of it, which must be positively assessed.

According to the information provided by real estate agents, the sector considers that the likelihood of the professionals to be involved in an event with a negative impact in their integrity or reputation is medium (2.38 points out of 5). Moreover, it cannot be ignored that almost the 32% of the professionals consider that the risk of any incidence due to integrity or reputational reasons is high or very high.

Additionally, the 70% of the surveyed professionals have taken part in at least one training program in relation to AML/CFT matters.

Finally there has been one Court sentence related to a real estate agent/business agent.

8. MECHANISMS IN PLACE TO PROTECT DNFbps

Regarding the protection of the profession, article 47.5 and 47.6 of the AML/CFT Act establish the following provisions in order to protect the staff when reporting suspicious or other relevant transactions to the Uifand:

“5. Suspicious transaction reports and any other supplementary information will not entail any liability for the reporter, even when it is made without exact knowledge of the type of crime or illegal activity that has been committed.

6. Uifand and any other judicial or administrative authority takes all appropriate measures to protect the parties under obligation against any threat or hostile action arising from their compliance with the obligations imposed by this Law. In particular, the identity of the party under obligation and of the employees who have taken part in the suspicious transaction reports and in all administrative and legal proceedings originating from or related to the declarations made, will be kept confidential.

To this purpose, Uifand assesses the suspicious transaction report and, in the event of finding or the existence of money laundering or terrorism financing, it reports to the Court of the First Instance, delivering a copy to the Public Prosecutor’s Office. Uifand’s report does not incorporate or make reference to the declarations of suspicion of the parties under obligation or to their identification or to that of the civil servants or members of Uifand intervening in the instruction [...]”.

AML knowledge of business/profession

The Uifand conducted training sessions in 2013 and 2014 addressed to the reporting entities, below are detailed the trainings made to the different types of DNFBPs by year:

	Type of DNFBP	N° of trainings conducted to this business/profession	N° of Assistants
2013	Real Estate Agents	3	93
	Gambling -bingo-	1	10
2014	Economists	2	92

AML/CFT Act imposes to reporting entities the obligation to adopt the necessary measures so that their staff has sufficient knowledge on AML/CFT. Furthermore, reporting entities must have specific ongoing training programs for their staff to help them to detect suspicious transactions.

The different businesses/professions will be analyzed taking into account the data obtained from the surveys and the point of view of the Uifand obtained and through interviews with the sector and the conclusions drawn from the inspections conducted by the Supervision Unit.

1. CAR DEALERS

Even though a significant part of the respondents (50%) stated to have knowledge of the AML/CFT framework, the different meetings held with Car Dealers association by the members of the Uifand have shown relevant deficiencies regarding AML knowledge of the business (e.g. serious lack of knowledge in relation to STRs and CDD measures).

2. DEALERS IN PRECIOUS METALS AND STONES

In 2013 three inspections of dealers in precious metals and stones were conducted. The inspected entities were aware of their AML/CFT obligations and the regulatory changes, nevertheless the fact that the last training attended was in 2009 indicates that an update of ML/TF typologies would be needed.

3. ECONOMISTS, PROFESSIONAL EXTERNAL ACCOUNTANTS, AUDITORS, TAX ADVISORS AND BUSINESS AGENTS -GESTORIES-

The inspections conducted by the supervisory Area of the Uifand shows that members of this sector know their CDD obligations. Indeed, 48% of the surveyed professionals have taken part in, at least, one AML training session organized by the Uifand during the last 5 years. Moreover, the awareness of this sector is increased due to the fact that a prior authorisation -which includes an Uifand report- is needed in order to create a company in Andorra through foreign investment.

4. GAMBLING (BINGO)

The controls established for prizes equal or bigger than EUR 15.000 along with the staff who have received AML training -15 members- evaluates as positive the knowledge of the duties and responsibilities of this business.

5. LAWYERS

The Andorran Bar Association (CADA in its acronym in Catalan) is undertaking some efforts to train their members in AML matters. For instance, during 2016, three training sessions addressed to lawyers and any members of lawyer firms have been organized (75% of the surveyed professionals have taken part in, at least, one training session during the last 5 years).

Despite the referred training efforts, the Andorran Bar Association considers that tax advisors are not subject to the AML/CFT legal framework, which is wrong and leave unattended a relevant and risky area of lawyer's business. According to the communication sent by the CADA to their associates and to the Uifand, this position was supported by CADA's Board of Directors and CADA's AML/CFT Committee.

Some meetings were held to double check CADA's statement. Professionals interviewed were confused because of the CADA's communication but rely on it and decided to not apply CDD measures in relation to their tax advisory activity. Obviously, this misunderstanding of the AML/CFT framework negatively impacts the rating of the AML knowledge of the profession.

Nevertheless, it should be noted that (i) lawyers acknowledge that tax advisors were reporting entities when explained by the Uifand and (ii) the knowledge demonstrated by the lawyers in the inspections carried out by the Uifand is adequate.

6. NOTARIES

All Notaries have taken part in, at least, one training session during the last 5 years. Moreover and according to the inspection conducted of this profession, notaries understand the risks and obligations that are required in terms of AML. It is also noteworthy that only four persons act as Notaries in Andorra and the access to the profession is subject to hard entry tests at all levels.

7. REAL ESTATE AGENTS

The main activities undertaken by real estate agents are linked to the renting of flats and property management. The real estate sales and purchases where one of the parties is a foreign investor are also subject to the foreign investment process, where the Uifand must issue a binding report regarding the ML/TF risks of the investment.

The inspections conducted to real estate agents whose main activity is related to the buying and selling of properties have an adequate knowledge of the AML laws and regulations. Indeed, 45% of the surveyed professionals have taken part in, at least, one training session during the last 5 years.

Effectiveness of suspicious activity monitoring and reporting

Between 2010 and 2015, DNFBPs sector has filed 24 STRs, as follows:

	2010	2011	2012	2013	2014	2015	Total STR
Lawyers	2	2	3	2	1	1	11
Notaries	2	1	1	-	1	1	6
Economists, Professional external accountants, Auditors, tax advisors and business agents - gestories-	-	1	-	-	-	2	3
Real Estate Agents	-	1	-	-	2	1	4
Dealers in precious metals and stones	-	-	-	-	-	-	0
Car dealers	-	-	-	-	-	-	0
Gambling ²⁶	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total STR	4	5	4	2	4	5	24

1. CAR DEALERS

The main vulnerability of this sector is related to the purchase of high end cars to launder proceeds of illicit activities. Indeed, there has been a judicial investigation in Spain regarding alleged irregular granting of subsidies where one of the arrested persons had acquired two cars registered in Andorra.

In addition, no STR was filed to the Uifand since 2010 which is below expectations given that there are no restrictions in cash transactions.

Regarding the monitoring of suspicious transactions, as the business relationship established with the customer is not typically continuous in time, monitoring or detection of suspicious activity occurs during the CDD. Therefore, the low awareness of this profession regarding its AML responsibilities -see comments on variable “*AML knowledge of business/profession*”- suggest a low effectiveness of the suspicious activity monitoring and reporting.

²⁶ Although Casinos are reporting entities, currently there are no entities operating in the country.

Finally, even though 71% of surveyed entities state that their employees do know the obligation of reporting to the Uifand any suspicious transaction related to ML/TF, only 21% have established a procedure to file an STR with the Uifand.

2. DEALERS IN PRECIOUS METALS AND STONES

Although since 2010, the sector has not file any STR with the Uifand and no ML cases are related to this sector, the high thresholds to accept cash established within the entities consulted -see variable "*level of cash activity*"- make this profession vulnerable to ML. Besides, as noted for the car dealer profession, the low level of STRs filed is below expectations given that there are no restrictions on cash transactions.

Monitoring or detection of suspicious activity occurs during the CDD, as typically the business relationship established with the customer is not continuous in time. The inspections conducted showed that the monitoring of cash transactions is made through the store owner -given the small size of the firms- who generally controls cash operations through a computer program. Besides, all surveyed entities stated that their employees are aware of the obligation of reporting to the Uifand any suspicious transaction related to ML/TF and 80% of them stated that they have an established procedure to file an STR with the Uifand.

Despite the controls established, the high threshold to accept money in cash, combined with the lack of STRs filed during the period under review do not allow to assess positively the effectiveness of suspicious activity monitoring and reporting for this sector.

3. ECONOMISTS, PROFESSIONAL EXTERNAL ACCOUNTANTS, AUDITORS, TAX ADVISORS AND BUSINESS AGENTS -GESTORIES-

These businesses/professions have filed only one STR since 2010. According to the operational Areaof the Uifand, STRs presented by this sector could be qualified as insufficient because of two main reasons. First of all, in several STRs submitted by the banking sector regarding an Andorran legal person, members of these businesses/professions appear as persons who have assisted in the creation of the company. Secondly most customer operations tend to be justified by tax issues which leads to a low level of STRs.

According to the Uifand criteria, 53.5%²⁷ of the established companies under the foreign investment framework are shell companies. The vulnerability of this profession exists since national companies could be used as a vehicle for international business transactions.

The entities of this sector that have been supervised by the Uifand have shown appropriate systems for record keeping. However, to assess this variable is not enough to keep all documentation properly but also have an effective monitoring and reporting system.

Regarding the monitoring system, even though the activity of accounting involves having a regular control of the operations -14% of the surveyed entities would have specific digital systems to monitor suspicious transactions-, the low level of STRs filed by this sector since 2010 indicates that the monitoring for preventing ML should be enhanced.

²⁷ Analysis based on the companies established under the foreign investment framework from 01/01/2015 to 26/04/2016.

4. GAMBLING (BINGO)

According to Article 8 of the Bingo Act, when a prize greater or equal to EUR 15 000 is awarded, the beneficiary of the prize must be communicated to the supervisor of the gaming sector within a period of thirty days. Therefore the effectiveness of suspicious activity monitoring and reporting can be considered as high for this sector.

5. LAWYERS

The entities of this sector that have been supervised by the Uifand have shown appropriate systems for record keeping. Besides, the members of the Andorran Bar Association can have access to an external database for screening heightened risk individuals and entities.

Although this profession has made the largest number of STRs since 2010 (10 STRs), Operational Unit of the FIU qualifies the level of STRs presented as insufficient for the same reasons stated in the group of economists, auditors, etc. which are the following:

- In several STRs submitted by the banking sector regarding an Andorran legal person, members of these businesses/professions appear as persons who have assisted in the creation of the company.
- Most customer operations tend to be justified by tax issues which lead to a low level of STRs.

Besides, even though the monitoring of the business relationship is carried out in order to ensure that customer activity is consistent, the fact that some lawyers do not consider themselves reporting entities when they are offering a tax advice service -see comments on variable *AML knowledge of the business profession staff*- affects the effectiveness of monitoring and reporting since suspicious transactions might be found and not reported to the Uifand.

Regarding the reporting system, all Lawyers consulted stated that their employees do know the obligation of reporting to the Uifand any suspicious transaction related to ML/TF and 80% stated having an established procedure to perform an STR to the Uifand.

6. NOTARIES

The volume of submitted STRs since 2010 (5 STRs) can be qualified as adequate given that Notaries are basically concerned with the authentication and certification of signatures and generally the customer comes through another DNFBP such a lawyer or real estate agent among others.

The quality of STRs filed by Notaries is qualified by the operational Area of the Uifand as medium-high since relevant cases have been initiated from STRs reported by this profession.

Besides, all Notaries stated that they have an established procedure to report STRs to the Uifand and that their employees are aware of the obligation of reporting to the Uifand any suspicious transaction related to ML/TF.

7. REAL ESTATE AGENTS

The volume of STRs submitted by real estate agents since 2010 (4 STRs) could not be assessed in terms of adequacy of the reporting to the risk by the operational Area of the Uifand since currently there is no way to know if a real estate agent has mediated in a property of a person investigated.

Regarding the reporting system, 97% of surveyed entities stated that their employees are aware of the obligation of reporting to the Uifand any suspicious transaction related to ML/TF and 64% that they have an established procedure to perform an STR to the Uifand.

Effectiveness of compliance function (organization)

The legal framework relating the compliance function distinguishes between reporting entities that are legal persons and reporting entities that are natural persons:

- Non-financial reporting entities that are legal persons must appoint an internal control and communication body in charge of organizing and monitoring compliance with AML/CFT provisions and notify this appointment to the Uifand.
- Non-financial reporting entities who are individuals will be considered to be their own internal control and communication body.

Moreover, it must be taken into account that most DNFBP are small businesses (with less than 10 employees), therefore only very few companies have a compliance department. Usually the person notified to the Uifand is the person who is responsible for overseeing the proper implementation of AML measures. DNFBPs have no obligation to perform an external audit, hence the analysis of this variable has relied primarily on the results obtained from inspections and questionnaires submitted by the reporting entities.

1. CAR DEALERS

Since the awareness of this profession regarding its AML responsibilities is low -see comments on variable “*AML knowledge of business/profession*”- the effectiveness of compliance function can also be considered low although 57% of the surveyed car dealers have a person responsible for supervising the correct application of CDD measures and 25% have internal AML/CFT procedures.

2. DEALERS IN PRECIOUS METALS AND STONES

The persons responsible for supervising AML procedures are usually the owners of the store. Hence, the owner's interest to avoid sanctions should induce in them paying a special attention to cash operations. This would explain why about 80% of the entities stated to have declined at least one business relationship in the last five years because of internal policy or AML internal procedures.

Regarding the internal Compliance programs, all the surveyed legal persons have internal AML/CFT procedures, nevertheless in most of the inspections carried out, verbal AML procedures were transmitted by the owner to employees for cash transactions. After the inspections, the members of the supervisory Area recommended to translate these verbal procedures in a written document.

3. ECONOMISTS, PROFESSIONAL EXTERNAL ACCOUNTANTS, AUDITORS, TAX ADVISORS AND BUSINESS AGENTS -GESTORIES-

The professionals of this sector whose main activity was related to the creation of companies, inspected by the Uifand, had a compliance officer working full time. However, this is not the general trend since -according to the inspections carried out by the Uifand- in most cases the

person designated for the purpose of notification to the Uifand combines his AML tasks with his daily work activities (73% of the surveyed legal persons have a person responsible for supervising the correct application of the CDD measures).

Besides, a common view shared by these professionals during the inspections is that a customer requesting services that are not consistent with the customer's profile or business relationship will not be accepted. In fact, 41% of the entities have declined at least one business relationship in the last five years because of internal policy or AML internal procedures.

Regarding the internal Compliance programs, 72% of the surveyed legal persons state that they have internal AML/CFT procedures, however from analyses of the procedures undertaken during inspections, it has emerged that they should be more comprehensive.

4. GAMBLING (BINGO)

According to Article 8 of the Bingo Act, when a prize greater or equal to 15.000 Euros is awarded, the beneficiary of the prize must be communicated to the supervisor of the gambling sector within a period of thirty days. Therefore the effectiveness of compliance function can be considered as high for this sector.

5. LAWYERS

The professionals of this sector whose main activity was related to create companies, inspected by the Uifand, had a compliance officer working full time. However, this is not the general trend since -according to the inspections carried out by the Uifand - in most cases the person designated for the purpose of notification to the Uifand performs his AML tasks together with other daily work activities. Finally, 95% of the surveyed legal persons stated that they have a person responsible for supervising the correct application of the CDD measures.

Professionals of this sector have assured that a customer requesting services that are not consistent with the customer profile or business relationship would not be accepted. In fact, 33% of the entities stated that they have declined at least one business relationship in the last five years because internal policy or AML internal procedures.

Regarding the internal Compliance programs, 95% of the surveyed legal persons have internal AML/CFT procedures. In general terms, the internal AML procedures of lawyers analyzed during inspections resulted comprehensive which increases the effectiveness of compliance function.

6. NOTARIES

The inspection conducted showed that internal AML procedures exist and are applied - all notaries have internal AML/CFT procedures-. Besides, despite the fact that the activity of the compliance function is reduced because the client comes through another DNFBP -notaries in Andorra are only certifying to certify the authenticity of documents-, 75% of notaries stated that they have a person responsible for supervising the correct application of the due diligence measures established by the AML/CFT Act.

Since all notaries are individuals, it makes them careful about business relationships they accept. In fact, 50% of notaries stated that they have declined at least one business relationship in the last five years because internal policy or AML internal procedures.

7. REAL ESTATE AGENTS

Real estate agents inspected had an applied internal procedures for preventing money laundering (regarding the real estate agents consulted for this study, 73% have internal AML/CFT procedures and 87% have a person responsible for supervising the correct application of CDD measures).

Another point revealed through inspections is the awareness of the ML risks, especially regarding cash payments. In fact, real estate agents inspected stated that only payments made through a bank transfer or a personal check from an Andorran bank are accepted for the payment of the property and their fee. The reason explained by these inspected entities was related to the confidence provided by the rigorous AML procedures established by Andorran banks in order to open an account. Moreover, around 21% of entities state having declined at least one business relationship in the last five years because internal policy or AML internal procedures.

Availability and access to beneficial ownership information

Andorra's AML legal framework (Art. 49 of the AML/CFT Act) requires the identification of beneficial ownership through reliable sources in order to establish a business relationship with any legal person. If beneficial ownership cannot be properly identified, designated entities have to consider filing a report to the Uifand.

The regulatory framework regarding the register and functioning of Andorran legal entities (law 28/2013) was modified 3 times over the last years, increasing the level of transparency, and it requires all legal entities to be registered and file their annual accounts with it.

The institution in charge of all information related to National Company Register is the "*Registre de Societats Mercantils*" (Companies Register), and has the following functions:

- Register all activities regulated by the law 28/2013 on Business Entities.
- Certify the registered activities.
- Receive, keep and publish the annual accounts of all registered entities.
- Certify the registered name of the Entities.

The Register contains the following information about each registered entity: activity and shareholder structure, nomination and ceasing of administrators, changes in shareholder structure, changes in legal regime, any agreement on merger, split, or transformation, and the establishment of foreign subsidiaries. However, despite all this information, there is a lack of data regarding the beneficial owner of the entities registered or the powers of attorney granted. This lack of data on beneficial ownership in the national company register affects negatively the assessment of this variable since it hinders the reporting entities ability to obtain and access this information in a timely manner.

Availability of reliable identification infrastructure

Andorra has a population of 78,014 inhabitants (data from National Department of Statistics, 2015), of which 45.8% has Andorran nationality and 48.1% are original from EU countries. Other nationalities include Latin American countries, USA, Australia, and Philippines.

All citizens with Andorran nationality are required to have an Andorran passport, which is issued by the Principality, and is used as the main source of identification by entities. Although Andorra does not provide its population with a national ID, Andorra counts with second generation biometric passports as well as with the necessary IT infrastructure to handle the production, distribution and authentication of them. Additionally, the Ministry of Internal Affairs ensures that after January 2017 third generation passports with the new system SAC (Supplemental Access Control) will start being issued, which will provide Andorra with additional anti-counterfeiting measures in line with ICAO.

The immigration regulation is relatively restrictive and requires for those foreigners who request to reside in the Principality to present the following documentation:

- Criminal history in the country of origin and all those countries of previous residence
- Signature of an affidavit relative to the criminal history provided
- Original and photocopy of passport and/or national ID (if EU national)
- Proof of current marital status
- Proof of residence through a copy of the lease agreement, property certificate, or any other means
- Curriculum vitae, with a copy of all diplomas obtained

Moreover, the legislation regulating the Andorran nationality is also relatively restrictive and requires, for those foreigners who wish to obtain the Andorran nationality, proof of 20 years of residence in the Principality.

Additionally, approximately 90% of citizens without Andorran nationality belong to EU countries, where adequate ID infrastructure is in place.

Consequently, all Andorran citizens are registered with proper ID documents, which is considered adequate for due diligence purposes by the DNFBP sector. It is worth mentioning that there have historically been no cases of fraudulent Andorran passports in relation with DNFBP customers.

In addition, non-residents can also open accounts, and in these cases reliable passports and ID are requested and verified.

Availability of independent sources of information

Andorran AML regulatory framework requires all entities to verify the identity of the customer and beneficial owner through reliable and independent sources. Moreover ECDD measures are required when the client is a foreign PEP.

1. LAWYERS

The Professional Association of Andorran Lawyers (CADA) has subscribed to the commercial database “*World-Check*” and therefore Lawyers can have access too.

2. NOTARIES

In general terms, Chamber of Notaries provides good databases for all notaries that allow exchange of information between them.

3. ALL OTHER DNFBP'S

Regarding the rest of DNFBPs, only a small part has subscribed to a commercial database since the costs are too high for many institutions. The information provided by the client is the main source of information used for the determination of PEPs or other clients who may pose a higher ML risk (during the ongoing process of CDD the customer's, principle occupation or employment is required). This process is complemented occasionally by open sources of information (e.g. research on Internet to verify the information provided by the customer).

