

|  |
| --- |
| **Guideline:****Assessing Country Risk****Guideline for reporting entities supervised by the Department of Internal Affairs** **March 2024** |

[This Photo](https://edtech4beginners.com/2017/02/25/guest-post-technology-in-schools-future-changes-in-the-classroom/) by Unknown Author is licensed under [CC BY-NC-ND](https://creativecommons.org/licenses/by-nc-nd/3.0/)

**Contents**

[**Introduction 3**](#_Toc66090994)

 [Financial Action Task Force Standards 4](#_Toc66090995)

 [Note on terms used in this guideline 5](#_Toc66090996)

[**Part 1: Risk assessment - the countries you deal with 6**](#_Toc66090997)

 [Why and when must country risk be assessed 6](#_Toc66090998)

 [How should country risk be assessed? 7](#_Toc66090999)

 [Your risk assessment process 7](#_Toc66091000)

 [Methodology example: Single composite source for country risk rating 9](#_Toc66091001)

[**Part 2: Determining whether a country has ‘insufficient’ AML/CFT systems or measures 11**](#_Toc66091003)

[**Part 3: Assessing whether another person or entity is resident in a country with ‘sufficient’ AML/CFT systems or measures and is supervised or regulated for AML/CFT purposes 13**](#_Toc66091004)

[**Part 4: Your AML/CFT programme – managing and mitigating risks from the countries you deal with 15**](#_Toc66091005)

 [Information on developing your AML/CFT Programme 15](#_Toc66091006)

 [Addressing country risk in your AML/CFT Programme 15](#_Toc66091007)

 [Examples of PPCs relating to the countries you deal with 16](#_Toc66091008)

 [**Appendix: Additional sources of information 18**](#_Toc66091009)

|  |
| --- |
| Version History |
| June 2021  | Initial Version |
| March 2024 | Paragraphs 45-46 updated following new regulation 15 (Requirements and Compliance) Regulations 2011, in which countries subject to a FATF call for action are explicitly included as countries with insufficient AML/CFT systems or measures in place.Paragraphs 3, 48, 56-58 and 73 updated following new Regulation 13C (Requirements and Compliance) Regulations 2011, prescribing a requirement to consider the level of risk associated with relying on a person or entity in another country. Some hyperlinks also updated |

## Introduction

1. The Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) Act 2009 (the Act) includes various requirements relating to the countries that you deal with.
2. These requirements apply if you have a customer in another country, or your customer has ownership structures involving another country, or if you undertake transactions or activities involving another country. The requirements also apply if you have relationships in other countries with reporting entities or institutions that assist you to deliver your products and services.
3. This guideline is designed to help you complete three categories of requirements under the Act relating to the countries you deal with:
* **Assessing the money laundering and terrorism financing (ML/TF) risks related to the countries you deal with**.
	+ This forms part of the risk assessment that you are required to undertake prior to establishing your AML/CFT programme.[[1]](#footnote-2)
* **Determining whether a country has insufficient AML/CFT systems or measures in place**.
	+ Various requirements of the Act require you to apply measures to customers or situations involving a country that has insufficient AML/CFT measures or systems in place.[[2]](#footnote-3)
* **Determining whether another person or entity is resident in a country with sufficient AML/CFT systems in place and supervised or regulated for AML/CFT purposes**.
	+ This is a requirement if you intend to form a designated business group with a member in another country, or if you intend to rely on a person or entity in another country to undertake customer due diligence (CDD) for you. For the latter, before relying on the person or entity, you must also consider the level of risk associated with relying on the person or entity in that country.[[3]](#footnote-4)
1. These three categories of requirement are covered in Parts 1, 2, and 3 of this guideline. Part 4 of the guideline considers the requirements to manage and mitigate the ML/TF risks associated with the countries you deal with in your AML/CFT programme. The Appendix contains additional sources of reference information relating to country risk.
2. Other situations, such as assessing country risk in the context of correspondent banking relationships and shell banks are not addressed in this guidance document. These situations are unlikely to be relevant to most reporting entities supervised by the Department of Internal Affairs (the Department). For guidance on these, please consult the [Countries Assessment Guideline](https://www.dia.govt.nz/pubforms.nsf/URL/AMLCFT_CAG_July2012.pdf/%24file/AMLCFT_CAG_July2012.pdf)[[4]](#footnote-5) issued by the AML/CFT supervisors.
3. This guideline has been produced specifically for those reporting entities supervised by the Department. It is predominantly intended for reporting entities who have infrequent or limited dealings with other countries. The AML/CFT system in New Zealand enables entities to take a risk-based approach, and make sure their AML/CFT measures are proportionate, and reasonable resources are targeted towards high-risk and priority areas.
4. It is important to understand that in a risk-based regime not all entities will adopt the same AML/CFT controls. The Department expects that all reporting entities adopt measures commensurate with the levels of risk they face. Reporting entities with frequent or extensive dealings with other countries will likely need to take measures beyond what is described in this guideline.
5. Reporting entities who are supervised by the other AML/CFT supervisors, the Reserve Bank of New Zealand (RBNZ) and the Financial Markets Authority (FMA) should consult guidelines issued by their relevant supervisor.
6. This guideline provides information only and cannot be relied on as evidence of complying with the requirements of the Act. It does not constitute legal advice. After reading this guideline, if you still do not understand any of your obligations you should seek legal advice or contact the Department.

### Financial Action Task Force Standards

1. One of the purposes of the Act is to maintain and enhance New Zealand’s international reputation by adopting, where appropriate in the New Zealand context, recommendations issued by the Financial Action Task Force (FATF).[[5]](#footnote-6)
2. The FATF is an inter-governmental body that sets standards for combatting money laundering, terrorism financing and financing the proliferation of weapons of mass destruction. New Zealand is a founding member of the FATF.
3. The FATF maintains a list of [high risk and other monitored](https://www.fatf-gafi.org/en/countries/black-and-grey-lists.html) jurisdictions that have strategic deficiencies in their AML/CFT systems. This is a key source of information to assist you to meet your obligations relating to countries with “insufficient” AML/CFT systems or measures in place (covered in Part 2 of this guideline).
4. That said, it is also important to understand that the ML/TF risks associated with a country you deal with are wider than whether it has insufficient AML/CFT measures in place (covered in Part 1 of this guideline). A requirement to take enhanced due diligence measures in relation to country risk (more broadly) is also part of the FATF Standards.[[6]](#footnote-7)

### Note on terms used in this guideline

1. Unless otherwise noted, all footnote references refer to the Anti-Money Laundering and Countering Financing of Terrorism Act 2009.

**“Country”** has the meaning defined in section 5 of the Act. This includes any State, territory, province, or other part of a country.

**“Jurisdiction”** has a similar meaning to country, where it is used in the Act and associated regulations.

 **“Overseas”** refers to any country, or part of a country, outside of New Zealand.

## Part 1: Risk assessment - the countries you deal with

### Why and when must country risk be assessed

1. Any reporting entity that deals with another country is exposed to the ML/TF risks associated with that jurisdiction.
2. In your risk assessment, you are required to identify the ML/TF risks that your business faces and determine the level of risk involved in relation to your AML/CFT obligations. This includes having regard to the countries you deal with.[[7]](#footnote-8) Identifying, understanding, and responding to the risks associated with the countries you deal with is an important part of your AML/CFT programme.
3. We consider the countries you deal with to include any country you have customers in, or any country that your customers have ownership structures in. We also consider this to include if you undertake transactions or activities, or if you have commercial relationships in any other way, involving another country. This includes if you have relationships with reporting entities or institutions in another country that assist you to deliver your products and services.
4. Broadly, country risk can result from:
* associations with TF conflict zones and their bordering countries
* countries being subject to sanctions, embargoes or similar measures
* countries identified as tax havens
* high levels of organised crime
* ineffective AML/CFT systems, measures, or controls
* ineffective rule of law or economic instability
* prevalence of bribery and corruption
* the production and/or transnational shipment of illicit drugs.
1. It is important to recognise the international nature of some ML/TF activities and that New Zealand’s reputation as a high-integrity, low-corruption jurisdiction makes it vulnerable to abuse.

### How should country risk be assessed?

1. Risk can be defined in many ways, and there is no one-size-fits-all assessment model to assess the ML/TF risks associated with a country you deal with.
2. Adopting the process as set out below is not mandatory. Whichever method you use, it must be adequate and effective. You should be aware that you may be required to explain and demonstrate its adequacy and effectiveness to your AML/CFT supervisor.
3. Your assessment of risk should be informed, logical and clearly recorded. For instance, if you have identified a particular country that you deal with as presenting lower ML/TF risk in relation to your business, your risk assessment should provide evidence of how you arrived at this rating. Similarly, if you have identified a particular country you deal with as presenting higher ML/TF risk in relation to your business, the reasons for this should be clearly set out.
4. It is important to remember that ML/TF risk does not occur in isolation. Rather, the key vulnerabilities and high-risk factors operate in combination, resulting in a compounding of ML/TF risk. For example, a customer that is a company with a complex ownership structure would be higher risk if the ownership structure involved legal persons incorporated in a high-risk country, when compared to a complex ownership solely involving a low-risk country.
5. For further information on assessing your ML/TF risk in your risk assessment, you may wish to consult the [Risk Assessment Guideline](https://www.dia.govt.nz/Pubforms.nsf/URL/AMLCFT-Risk-Assessment-Guideline-2018.pdf/%24file/AMLCFT-Risk-Assessment-Guideline-2018.pdf) prepared by the AML/CFT supervisors. Additionally, the [Prompts and Notes for DIA Reporting Entities](https://www.dia.govt.nz/diawebsite.nsf/Files/AMLCFT%20Risk%20Assessment%20and%20Programme%20-%20Prompts%20and%20Notes%20PDF/%24file/AMLCFT%20Risk%20Assessment%20and%20Programme%20-%20Prompts%20and%20Notes.pdf) guideline is a useful source of information.

### Your risk assessment process

1. The following steps may help you assess country risk as part of your risk assessment:

#### Identify all the countries you deal with:

1. List all the countries you deal with. Include any countries in which you have customers, or other business relationships – including beneficial owners. Additionally, you should include any countries which are involved in any activities or transactions that you undertake, or which you have any other dealings with.[[8]](#footnote-9)

#### Consider the nature of the dealings with these other countries:

1. Consider how much of your overall business activity relates to other jurisdictions. The more significant another country is to your business activities, the more countries you deal with, and the more complex your dealings with those other countries are, the greater the impact that country risk will have on your ML/TF risks.

#### Use a country risk-rating methodology:

1. A good starting point for assessing the ML/TF risks associated with a country, and the level of that risk, is to adopt a risk-rating methodology to determine whether it is a low, medium, or high-risk country. The methodology you choose should be commensurate with the level of country risk faced by your business – the more countries you deal with, and the more complex your dealings with those other countries are, the more comprehensive and in-depth your methodology should accordingly be.
2. Adopting a risk-rating methodology is particularly useful where you deal with multiple countries. This ensures a consistent and reliable comparison between them. This in turn enables you to apply increased scrutiny of the ML/TF risks emanating from the higher risk countries you deal with, when compared to the lower risk countries. This is important both for your risk assessment, and in implementing your subsequent AML/CFT programme (see Part 4 of this guideline).
3. On the next page you will find an example methodology for assessing country risk, and a table showing an example of results of the methodology. This methodology would be appropriate for a reporting entity which has infrequent or limited dealings with other countries.
4. **Please note that this example does not include explanation of why the selected methodology would be appropriate for the business that is using it.** Should you choose to utilise this methodology, you will need to explain why it is appropriate for your business.
5. **Please note that simply recording your results is not sufficient to meet your obligations under the Act.** Your risk assessment must include background information, including a description of your methodology, and why the methodology you have chosen is appropriate for your business.
6. **Please note that the use of the following example methodology does not guarantee compliance with the Act**. Reporting entities should calibrate their methodology to meet the particular risks of their own business. Reporting entities with frequent or extensive dealings with other countries will likely need to take measures beyond what is described in this example.
7. Additionally, reporting entities should be aware of the requirement to keep their risk assessment up-to-date.[[9]](#footnote-10) As new information relevant to country risk becomes available, for example, through a new FATF mutual evaluation report, reporting entities should consider how this may affect their risk assessment.

## Methodology example: Single composite source for country risk rating

### Methodology and sources

#### Basel AML Index:

1. Using data from publicly available sources, the [Basel AML Index](https://baselgovernance.org/sites/default/files/2020-07/basel_aml_index_2020_web.pdf) uses a composite methodology based on 16 indicators across five areas relevant to assessing ML/TF risk at a country level. This covers the quality of the AML/CFT framework, bribery and corruption, financial transparency and standards, public transparency and accountability, and legal and political risks.

|  |
| --- |
| Basel AML Index Score |
| 0.00-5.00 | 5.01-6.00 | 6.01-10.00 |
| Low Risk | Medium Risk | High Risk |

1. As described in the methodology, the Basel AML Index rates countries on a 0 – 10 scale, where 10 indicates the highest risk level. Current risk scores range between 8.16 and 2.36.
2. This scale has been aligned with the risk rankings according to the [Public Rankings](https://baselgovernance.org/basel-aml-index/public-ranking) available on the Basel Institute of Governance website. Note: Not all countries worldwide are available on the Basel AML Index. In these cases, an alternative source is necessary.

#### KnowYourCountry ratings table:

1. Another single source that uses a composite methodology is the KnowYourCountry [country ratings table](https://www.knowyourcountry.com/country-ratings-table). This uses data from international and government agencies, with rating indicators including FATF findings, international sanctions, corruption risk, world governance indicators, narcotics major list, human trafficking risk, the EU Tax Blacklist and offshore finance centres.

|  |
| --- |
| **KnowYourCountry Risk Ratings Score** |
| Lower | Lower - Medium | Medium | Medium - Higher | High |
| 80 - 100 | 70 - 80 | 60 - 70 | 50 - 60 | <50 |

###

### Table showing results of methodology

|  |  |  |  |
| --- | --- | --- | --- |
| Country | Risk Rating | Source | Overall Rating |
| A | 3.84 | [Basel AML Index](https://baselgovernance.org/sites/default/files/2020-07/basel_aml_index_2020_web.pdf) | Low Risk |
| B | 4.57 | [Basel AML Index](https://baselgovernance.org/sites/default/files/2020-07/basel_aml_index_2020_web.pdf) | Low Risk |
| C | 66.02 | [KnowYourCountry](https://www.knowyourcountry.com/country-ratings-table) | Medium Risk |
| D | 6.30 | [Basel AML Index](https://baselgovernance.org/sites/default/files/2020-07/basel_aml_index_2020_web.pdf) | High Risk |

#### Assessing the impact of country risk to your business and its products/services

1. While using a country risk-rating methodology is a good starting point, it only provides an initial overview of the level of ML/TF risk associated with the particular country itself. This risk may be modified by other ML/TF factors that may be present, for example, with the particular product or service being offered.
2. For a more detailed understanding of what exactly the risks in any given activity are, and how they impact on your business, you may need to undertake additional, and potentially more qualitative, analysis. This could involve looking at your products and services, and where their ML/TF vulnerabilities are, alongside the reasons that a country is identified to be of higher risk. This will enable you to fully identify the impact that the countries you deal with have on your ML/TF risks.

Reporting entities should consider the particular risks of their products and services. Examples of additional risk factors with particular international characteristics include both international wire transfers and alternative payment methods, amongst others. These risks are discussed in the National Risk Assessment[[10]](#footnote-11) produced by the NZ Police Financial Intelligence Unit and the Sector Risk Assessments (SRAs)[[11]](#footnote-12) produced by the Department.

Where countries are identified as higher risk, reporting entities should consider the factors that make that country higher risk, and how these could apply to their business. An example may be a customer from a higher risk jurisdiction known for a high degree of corruption, looking to purchase real estate in New Zealand with no intention of residing here. This may indicate an individual that is seeking a safe haven in which they can store the proceeds of crime, distancing themselves from the money, whilst retaining control, and remaining offshore themselves.

Reporting entities may wish to consider the multiple source composite risk rating methodology models that are used by the Basel AML Index and KnowYourCountry and adapt these to develop a bespoke risk assessment model particular to their business. They may decide to substitute different sources or adjust risk weightings in order to find a solution better suited to their particular business or the New Zealand context.

1. For this process, you should consult relevant guidance issued by your AML/CFT supervisor. The section on ‘Country Risk’ in the [Prompts and Notes for DIA Reporting Entities](https://www.dia.govt.nz/diawebsite.nsf/Files/AMLCFT%20Risk%20Assessment%20and%20Programme%20-%20Prompts%20and%20Notes%20PDF/%24file/AMLCFT%20Risk%20Assessment%20and%20Programme%20-%20Prompts%20and%20Notes.pdf) provides a list of prompts for thinking about various factors that may affect country risk.

## Part 2: Determining whether a country has ‘insufficient’ AML/CFT systems or measures

1. In addition to the broader obligations relating to country risk (covered in Part 1 of the guideline), there are specific enhanced measures prescribed in the Act that relate to a country with insufficient AML/CFT systems or measures.
2. These requirements are:
* You must undertake enhanced CDD if you have a non-resident customer from a country that has **insufficient** AML/CFT systems or measures in place;[[12]](#footnote-13)
* You must monitor, examine and keep written findings relating to business relationships and transactions from or in countries that have **insufficient** AML/CFT systems in place and have additional measures for dealing with, or restricting dealings with, such countries.[[13]](#footnote-14)
1. ‘Insufficient’ is not defined in the Act or the regulations. Therefore, you should use objective professional judgement to make this determination.
2. However, you should note that effective 31 July 2023, [Regulation 15](https://www.legislation.govt.nz/regulation/public/2023/0161/latest/whole.html#LMS861831) of the AML/CFT (Requirement and Compliance) Regulations 2011 states that a country that has insufficient AML/CFT systems or measures in place includes a country identified by the FATF as being a high-risk jurisdiction subject to a call for action.
	* **High-Risk Jurisdictions subject to a call for action**:[[14]](#footnote-15)
		+ This is often referred to as the FATF ‘black list’.
		+ These countries are identified to ‘have **significant** strategic deficiencies in their regimes to counter money laundering, terrorist financing, and the financing of proliferation’.
		+ As at February 2024:

there are two high-risk jurisdictions subject to a FATF call for action to apply countermeasures - the **Democratic People's Republic of Korea** (DPRK) and **Iran**. The FATF calls upon all jurisdictions, including New Zealand, to apply countermeasures to protect the international financial system from the ongoing ML, TF and proliferation financing risks emanating from the DPRK and Iran.

* there is one high-risk jurisdiction subject to a FATF call for action to apply enhanced due diligence measures proportionate to the risks arising from that jurisdiction – **Myanmar**.
1. The Department’s view is that the FATF is also a key source of information to assist in determining whether other countries have insufficient AML/CFT systems or measures. This includes [jurisdictions under increased monitoring](https://www.fatf-gafi.org/en/publications/High-risk-and-other-monitored-jurisdictions/Increased-monitoring-february-2024.html), who are also identified to have strategic deficiencies in their AML/CFT systems. ‘Strategic deficiencies in their AML/CFT systems’ is broadly similar to ‘insufficient AML/CFT systems or measures’.
	* **Jurisdictions under increased monitoring**:[[15]](#footnote-16)

This is often referred to as the FATF ‘grey list’.

These jurisdictions are ‘actively working with the FATF to address strategic deficiencies in their regimes to counter money laundering, terrorist financing, and proliferation financing’.

The FATF calls on these jurisdictions to complete their agreed action plans expeditiously and within the proposed timeframes. Presence on this list indicates that the country in question ‘has committed to resolve swiftly the identified strategic deficiencies within agreed timeframes’. [[16]](#footnote-17)

Note: While not directly related to your obligations under the Act, it is also important to understand any United Nations sanctions, embargoes or similar measures that are in place. For the DPRK, New Zealand has implemented United Nations sanctions that prohibit a wide range of dealings with the country, its citizens, and companies. For Iran, there are prohibitions on arms and certain other various materials, and technologies and training as well as asset freezes on UN designated individuals and entities and their agents.

Information on these can be found on the MFAT website: <https://www.mfat.govt.nz/en/peace-rights-and-security/un-sanctions/>

## Part 3: Assessing whether another person or entity is resident in a country with ‘sufficient’ AML/CFT systems or measures and is supervised or regulated for AML/CFT purposes

1. In addition to the requirements relating to a country with insufficient AML/CFT systems or measures, there are three situations in which you must consider whether a person or entity is in a country that has ‘sufficient’ AML/CFT systems or measures. You must also determine if that person or entity is supervised or regulated for AML/CFT purposes in that country. **Both requirements must be met**.
2. The three situations are:
* if you intend to form a designated business group, and one of the proposed members is resident in another country; [[17]](#footnote-18)
* when establishing whether an overseas body corporate is eligible for membership of a designated business group; and [[18]](#footnote-19)
* if you decide to rely on a person or entity resident in another country to conduct customer due diligence on your behalf. More broadly, before relying on that person or entity, you must also consider the level of risk associated with relying on the person or entity resident in that other country.[[19]](#footnote-20)

#### Assessing ‘sufficient’ AML/CFT systems or measures

1. ‘Sufficient’ is not defined in the Act or the associated regulations. Therefore, you should use objective professional judgement to make this determination. However, the Department’s general view is that a country that is **not** identified by FATF to have strategic deficiencies in its AML/CFT regime is able to be considered to have ‘sufficient’ AML/CFT measures or systems in place. For more information on countries that have been identified by FATF to have strategic deficiencies, see the information on FATF’s list of high-risk and other monitored jurisdictions in Part 2 above.

#### Determining whether another person or entity is supervised or regulated for AML/CFT purposes

1. In relation to whether the person or entity is supervised or regulated for AML/CFT purposes, different countries have different AML/CFT regulatory frameworks, which may or may not resemble New Zealand’s.
2. An AML/CFT supervisor or regulator may be a government agency that only undertakes this function, or it may be a government agency with multiple functions, of which AML/CFT regulation is only a small part. In some countries, the AML/CFT regulatory function of designated non-financial businesses or professions (**DNFBPs**)[[20]](#footnote-21) is undertaken by a self-regulatory body, for example a Law Society for the legal sector.
3. The method for determining whether a person or entity is regulated or supervised for AML/CFT purposes will vary depending on the country you are dealing with.
4. In New Zealand, the AML/CFT supervisors publish lists of the reporting entities they supervise, which are available online. However, this may or may not be the case for other countries you are dealing with. You may need to require the person or entity to provide you with evidence that they are a reporting entity (or equivalent) in the country in which they operate.
5. More broadly, a useful source of information to assist understand a country’s AML/CFT supervisory or regulatory framework are the mutual evaluations undertaken by FATF or FATF-style regional bodies such as the Asia/Pacific Group on Money Laundering (**APG**).
6. Note that not all countries currently impose AML/CFT obligations on DNFBPs. If the person or entity you are intending to form a designated business group with, or rely on, is a DNFBP from such a country, the requirements for forming a designated business group cannot be met, and you consequently cannot form a designated business group with this entity.[[21]](#footnote-22)

#### Considering the level of risk associated with relying on a person or entity in the other country

1. Effective 1 June 2024, a new requirement has been introduced when relying on a person or entity in another country to conduct customer due diligence on your behalf. Note this is not applicable to reliance within a designated business group. It only applies when relying on another person or entity (that is both in a country with sufficient AML/CFT systems or measures and regulated for AML/CFT purposes).
2. You **must**, before relying on the person or entity, consider the level of risk associated with relying on a person residing in that country.
3. In practice, this means you will need to apply a process similar to that set out in part 1 of this guideline. This will need to relate to the country in which the person or entity resides and the circumstances in which you are relying on them.

## Part 4: Your AML/CFT programme – managing and mitigating risks from the countries you deal with

### Information on developing your AML/CFT Programme

1. Developing your AML/CFT programme is the next step after conducting your risk assessment. This comprises the policies, procedures, and controls to manage and mitigate the ML/TF risks identified in your risk assessment.
2. This includes managing and mitigating the ML/TF risks associated with the countries you deal with. Your AML/CFT programme must also ensure you meet any specific obligations you have in relation to countries with ‘insufficient’ or ‘sufficient’ AML/CFT systems or measures (discussed in Parts 2 and 3 of this guideline).
3. Your risk assessment and AML/CFT programme should reflect a risk-based approach that allows you some flexibility in the steps you take when meeting your AML/CFT obligations. A risk-based approach does not stop you from engaging in transactions/activities or establishing business relationships with customers in higher-risk countries. Rather, it must ensure that you are effectively able to manage and mitigate the corresponding ML/TF risks.
4. The examples in this guideline are suggestions to help you meet your obligations under the Act. They are not exhaustive and should be considered illustrative in nature.
5. Your AML/CFT programme must be in writing, kept up to date, and most importantly, implemented.
6. For further information on developing your AML/CFT programme, please refer to the [AML/CFT Programme Guideline](https://www.dia.govt.nz/Pubforms.nsf/URL/AMLCFT-Programme-Guideline-2018.pdf/%24file/AMLCFT-Programme-Guideline-2018.pdf) prepared by the AML/CFT supervisors. Additionally, the [Prompts and Notes for DIA Reporting Entities](https://www.dia.govt.nz/diawebsite.nsf/Files/AMLCFT%20Risk%20Assessment%20and%20Programme%20-%20Prompts%20and%20Notes%20PDF/%24file/AMLCFT%20Risk%20Assessment%20and%20Programme%20-%20Prompts%20and%20Notes.pdf) document is a useful source of information.

### Addressing country risk in your AML/CFT Programme

1. To ensure you comply with your obligations relating to countries with insufficient (or sufficient) AML/CFT systems or measures, and country risk more broadly, you must have effective policies, procedures, and controls in your AML/CFT programme[[22]](#footnote-23).
2. A simple way to think about policies, procedures, and controls (**PPCs**) is:

A policy is ***what*** you are going to do.

A procedure is ***how*** you will do it.

A control is a ***check*** to make sure you are following your policies and procedures.

1. An example of a policy related to country risk may be requiring staff to determine whether a business relationship involves a country which has insufficient AML/CFT measures. Examples of related procedures may be having the business’ compliance officer create a list of countries identified as having insufficient AML/CFT measures, and having staff consult this at the outset of a new business relationship. An example of a control related to the policy and procedure may be undertaking quality-assurance testing on new customer files.
2. For a large business, with multiple products and services, dealing with multiple different countries, the complexity of your policies, procedures and controls in relation to country risk will be significant. For a small business, with minimal customers, activities or transactions involving other countries, the content of your AML/CFT programme in relation to country risk may be very simple.

### Examples of PPCs relating to the countries you deal with

1. The following are examples of the types of situations for which PPCs could be implemented.
2. **A customer or beneficial owner from a new country (not dealt with previously):**
* Ensure that prior to onboarding, your risk assessment is updated to reflect a new country to be dealt with and the impact this has on your ML/TF risks. This includes undertaking an assessment of whether the country is one with insufficient AML/CFT systems or measures in place.
* Staff are required to obtain information on every customer’s country of residence as part of onboarding.
* If the customer is a non-resident and from a country with insufficient AML/CFT systems or measures in place, enhanced CDD is mandatory.[[23]](#footnote-24)
* If there are wider country risks that result in high risk associated with this customer, conduct enhanced CDD before establishing the business relationship or conducting an occasional activity or transaction.[[24]](#footnote-25)
* Undertaking periodic testing of a sample of customer records and confirming whether the policies and procedures have been correctly completed for the relevant customer.[[25]](#footnote-26)
1. **Within a business relationship with a high-risk customer (due to country risk):**
* Undertake an increased level of ongoing CDD and account monitoring.[[26]](#footnote-27)
* Within that business relationship with such a customer, it may be necessary to undertake enhanced CDD with increased frequency. This includes if the customer seeks to conduct a complex, unusually large transaction, or unusual pattern of transactions that have no apparent or visible economic or lawful purpose.[[27]](#footnote-28) Importantly, this also includes any other situation where the level of risk requires it.[[28]](#footnote-29)
* If you are unable to complete enhanced CDD to the level required by the Act, you must terminate the business relationship and consider whether make a suspicious activity report (**SAR**).[[29]](#footnote-30)
1. **Additional measures for dealing with a country with insufficient AML/CFT systems**:[[30]](#footnote-31)
* Requiring senior management to provide sign-off approval for business relationships or occasional activities/transactions for a customer with links to such a country.
* Increased monitoring of activities/transactions involving such a country (once a business relationship with a customer has been established), including a register in which written findings are kept.
* For DPRK and Iran in particular, increased monitoring of customers, activities or transactions involving neighbouring countries if they could potentially be a conduit in breach of United Nations sanctions, embargoes or similar measures.[[31]](#footnote-32)
1. **Considering the level of risk associated with relying on a person or entity in other country**:[[32]](#footnote-33)
* Ensuring that prior to relying on a person or entity in another country to conduct customer due diligence on your behalf, you:
* determine the person or entity is in a country with sufficient AML/CFT measures or systems and regulated for AML/CFT purposes; and
* update your risk assessment to consider the risks associated with relying on that person or entity and the country they reside in.
* Requiring senior management to provide sign-off approval for relying on that person or entity and increased monitoring of activities/transactions involving that customer/relied on person or entity.

## Appendix: Additional sources of information

1. There is no universally agreed definition of a high-risk country or of the variables which impact on country risk. However, when developing your risk assessment methodology, you may wish to consider the following factors, which are accompanied by examples of sources:

|  |  |
| --- | --- |
| Factor | Example Source |
| Countries subject to sanctions, embargoes or similar measures | NZ Ministry of Foreign Affairs and Trade: <https://www.mfat.govt.nz/en/peace-rights-and-security/sanctions/>  |
| Countries identified by credible sources as lacking adequate AML/CFT systems/measures or controls | FATF: <http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/>  |
| Countries identified by credible sources as having supporters of terrorism or the financing of terrorism | US Department of State:<https://www.state.gov/state-sponsors-of-terrorism/> |
| Countries identified by credible sources as having significant levels of corruption | Transparency International’s corruption perception index:<https://www.transparency.org/en/cpi/2020/results>  |
| Countries identified by credible sources as being tax havens | Organisation for Economic Co-operation and Development:<http://www.oecd.org/tax/transparency/countrymonitoring/>European Union Parliamentary Research Service<https://www.europarl.europa.eu/cmsdata/147404/7%20-%2001%20EPRS-Briefing-621872-Listing-tax-havens-by-the-EU-FINAL.PDF>  |
| Countries that are materially associated with production and/or transnational-shipment of illicit drugs | United Nations Office on Drugs and CrimeWorld Drug Report - <https://wdr.unodc.org/wdr2020/index.html> US Presidential Determination on Major Drug Transit or Major Illicit Drug Producing Countries<https://www.whitehouse.gov/presidential-actions/presidential-determination-major-drug-transit-major-illicit-drug-producing-countries-fiscal-year-2021/>  |

1. Additional information available at the sites listed below may assist you to identify and understand the ML/TF risks associated with the countries you deal with:
* Financial Action Task Force - [www.fatf-gafi.org](http://www.fatf-gafi.org)
* Asia/Pacific Group on Money Laundering - [www.apgml.org](http://www.apgml.org)
* The World Bank - [www.worldbank.org](http://www.worldbank.org)
* International Monetary Fund - [www.imf.org](http://www.imf.org)
* Organisation for Economic Co-operation and Development - [www.oecd.org](http://www.oecd.org)
* Transparency International - [www.transparency.org](http://www.transparency.org)
* NZ Police - New Zealand's designated terrorist individuals and organisations <http://www.police.govt.nz/service/counterterrorism/designated-terrorists.html>
* The Ministry of Foreign Affairs and Trade - [www.mfat.govt.nz](http://www.mfat.govt.nz)
* AUSTRAC Australian Transaction Reports and Analysis Centre - [www.austrac.gov.au](http://www.austrac.gov.au)
* Association of Certified Anti-Money Laundering Specialists – [www.acams.org](http://www.acams.org)
* Basel Institute on Governance – <https://baselgovernance.org/>

Additionally, open-source media searches and the use of search engines may provide current information on the countries of interest to you.

These and other websites may include charges to access the information. Their listing does not constitute AML/CFT supervisor endorsement.

1. Section 58(2)(e) [↑](#footnote-ref-2)
2. Sections 22(1)(a) & (b) & Section 33(2)(a), and Regulation 5 of the AML/CFT (Requirements and Compliance) Regulations 2011 [↑](#footnote-ref-3)
3. Under the definition of “Designated Business Group” in Section 5. Also Regulation 13C of the AML/CFT (Requirements and Compliance) Regulations 2011 (effective 1 June 2024). [↑](#footnote-ref-4)
4. [https://www.dia.govt.nz/pubforms.nsf/URL/AMLCFT\_CAG\_July2012.pdf/$file/AMLCFT\_CAG\_July2012.pdf](https://www.dia.govt.nz/pubforms.nsf/URL/AMLCFT_CAG_July2012.pdf/%24file/AMLCFT_CAG_July2012.pdf) [↑](#footnote-ref-5)
5. Section 3(1)(b) [↑](#footnote-ref-6)
6. Refer Recommendation 19 and paragraph 15 of Interpretative Note to Recommendation 10: https://www.fatf-gafi.org/content/dam/fatf-gafi/recommendations/FATF%20Recommendations%202012.pdf.coredownload.inline.pdf [↑](#footnote-ref-7)
7. Section 58(2)(e) [↑](#footnote-ref-8)
8. In line with your obligations under section 59(1) of the Act, you must keep this list current and ensure that your risk assessment is updated if you intend to deal with another country. [↑](#footnote-ref-9)
9. Section 59(1) [↑](#footnote-ref-10)
10. <https://www.police.govt.nz/sites/default/files/publications/fiu-nra-2019.pdf> [↑](#footnote-ref-11)
11. Financial Institutions Sector Risk Assessment: [https://www.dia.govt.nz/diawebsite.nsf/Files/AML-CFT- December-2019/$file/Financial-Institutions-SRA-2019.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/AML-CFT-%20%20December-2019/%24file/Financial-Institutions-SRA-2019.pdf)

 Designated Non-Financial Businesses and Professions and Casinos Sector Risk Assessment: [https://www.dia.govt.nz/diawebsite.nsf/Files/AML-CFT-December-2019/$file/DNFBPs-and-Casinos-SRA-2019-v1.0.pdf](https://www.dia.govt.nz/diawebsite.nsf/Files/AML-CFT-December-2019/%24file/DNFBPs-and-Casinos-SRA-2019-v1.0.pdf) [↑](#footnote-ref-12)
12. Sections 22(1)(a) & (b) [↑](#footnote-ref-13)
13. Section 57(1)(h) [↑](#footnote-ref-14)
14. <https://www.fatf-gafi.org/content/fatf-gafi/en/publications/High-risk-and-other-monitored-jurisdictions/Call-for-action-february-2024.html> [↑](#footnote-ref-15)
15. <https://www.fatf-gafi.org/en/publications/High-risk-and-other-monitored-jurisdictions/Increased-monitoring-february-2024.html> [↑](#footnote-ref-16)
16. NZ Police and MoJ have issued advisory statements related to the FATF black and grey lists: <https://www.police.govt.nz/about-us/publications/financial-action-task-force> [↑](#footnote-ref-17)
17. Under the definition of “Designated Business Group” in Section 5 [↑](#footnote-ref-18)
18. Under the definition of “Designated Business Group” in Section 5 [↑](#footnote-ref-19)
19. Section 33(2)(a)(ii). Also Regulation 13C of the AML/CFT (Requirements and Compliance) Regulations 2011 (effective 1 June 2024). [↑](#footnote-ref-20)
20. Includes law firms, accounting practices, trust and company service providers and real estate agents. [↑](#footnote-ref-21)
21. Under the definition of “Designated Business Group” in Section 5(d)(i)(B) [↑](#footnote-ref-22)
22. Section 57(1) [↑](#footnote-ref-23)
23. Section 22(1)(a)(ii)/(b)(ii) [↑](#footnote-ref-24)
24. Section 22(1)(d) [↑](#footnote-ref-25)
25. Section 57(1)(l) [↑](#footnote-ref-26)
26. Section 31 [↑](#footnote-ref-27)
27. Section 22(1)(c) [↑](#footnote-ref-28)
28. Section 22(1)(d) [↑](#footnote-ref-29)
29. Section 37 [↑](#footnote-ref-30)
30. Section 57(1)(h) [↑](#footnote-ref-31)
31. Note that the circumstances in which a SAR include if there are reasonable grounds to suspect an activity or transaction may be relevant to: the investigation or prosecution of an offence for breaching regulations that implement United Nations Security Council sanctions (s39A(b)(iv) of the Act and s3(1) United Nations Act 1946). [↑](#footnote-ref-32)
32. Regulation 13C of the AML/CFT (Requirements and Compliance) Regulations 2011 (effective 1 June 2024). [↑](#footnote-ref-33)