

EXECUTIVE SUMMARY

The National Risk Assessment (NRA) on Money Laundering (ML) and Terrorist Financing (TF) of the Philippines is a government-wide assessment of the overall exposure of the country to money laundering and its related predicate offenses, terrorism and terrorist financing. It is a comprehensive process of identifying and analyzing the money laundering and terrorist financing (ML/TF) risks within the realm of the supervised sectors, financial institutions, and covered persons and entities under the AMLA, as amended.

Recommendation 1 of the Financial Action Task Force (FATF) Forty Recommendations requires countries to identify, assess and understand the ML/TF risks, and take actions in mitigating the risks effectively. Further, the country should apply a risk-based approach (RBA) to ensure that the mechanisms and measures to prevent ML/TF risks are commensurate to the risks and context identified.

In 2016, the Philippines concluded its First NRA covering the period 2011 - 2014. The identified ML threats are predominantly from the proceeds-generating predicate offenses such as drug trafficking, investment scam, and corruption, among others. The banks, securities, remittance agencies and foreign exchange dealers are the main sectors used by criminals to channel the illegal proceeds. Recognizing this threat, the banking, securities and remittance agencies/foreign exchange dealers have imposed stricter measures and enhanced coordination with covered persons under the supervision of BSP and SEC.

The Philippines, in its effort to further strengthen its anti-money laundering and combating the financing of terrorism (AML/CFT) regime, conducted its Second National Risk Assessment. The Anti-Money Laundering Council (AMLC), the Philippines' Financial Intelligence Unit (FIU), as the lead agency, and stakeholders from the government agencies, law enforcement agencies and private sector institutions, participated in this NRA process.

METHODOLOGY AND WORLD BANK TOOL

Major components of the assessment are the national ML threat and national ML vulnerability. The *national ML threat*¹ module focuses on understanding the proceeds of crimes in the country. This module also analyzes the generation, flows, and patterns of proceeds of crimes from different sector perspectives. The *national ML vulnerability*² module assesses the defense mechanisms available for combating money laundering and terrorist financing.

¹ Threats refer to the scale and characteristics of the proceeds of criminal activities or financing of terrorism in the jurisdiction

² Vulnerabilities refer to weaknesses or gaps in a jurisdiction's defenses against ML and TF (World Bank Group, Finance & Markets. "Introduction to the National Assessment Tool." June 2015)

National ML vulnerability is determined by the overall sectoral money laundering (OSML) vulnerability and the national ML combating ability.

In the 2nd NRA, the NRA working sectoral groups use the modified WB modules/tools (2015 WB tools). The 2015 WB tools assess the overall threat and effectiveness of the AML mechanisms in place. The tools also intend to identify the gaps within the existing AML systems of the sectors under assessment. The new WB tool uses two (2) approaches in assessing the impact of a certain sector to the overall sectoral money laundering (OSML) vulnerability. The new module also assesses the ability of the sectors to address cross-border threats. Under the new module, OFIs and DNFBPs sectors are now required to use the new WB tools to assess specific AML controls similar to that of the banking, securities and insurance sectors.

The National Vulnerability assesses the availability, quality, and the effectiveness of overall AML controls. The threat assessment and TF risk and vulnerability assessment shall employ the same design of modules used in the 1st NRA with the inclusion of cross-border threat analysis.

The Sectoral ML Risk is computed using a correlation matrix combination of the ML threat and vulnerability of the sector under assessment. The overall ML risk is determined as a function of the overall ML risk and weighted sectoral vulnerability. The national ML risk consists of eight (8) modules on vulnerability, including terrorist financing threat and vulnerability assessment, and one (1) module on threat risk assessment.

Quantitative and qualitative research methods are used in the NRA. The quantitative data and statistics used in the NRA are derived from periodical reports and submissions of LEAs and government agencies. Private entities, associations and covered persons have also been tapped by the sectors to provide data and information to support the NRAWG's assessments. Electronic mails and request letters sent to several institutions, face-to-face and phone interviews were also conducted to verify the information and clarify issues. Qualitative method using survey research was used as an additional support to the descriptive assessment of the variables. The survey employed the purposive sampling³ technique in which the samples/respondents are selected on the basis of knowledge, connection and judgment in relation to ML/TF assessment.

The assessment, however, faced a number of limitations, as follows:

1. Data and statistics available with some agencies are not updated. Some agencies are still in the process of compiling and verifying 2016 data.
2. Dissemination of data and information sharing. Some government institutions require official clearances before the data is released.
3. DNFBPs, particularly jewelry dealers in precious stones and precious metals and company service providers are hesitant to share information regarding their business.

³ A form of non-probability sampling in which decisions concerning the individuals to be included in the sample, are based on a variety of criteria which may include specialist knowledge of the research issue, or capacity and willingness to participate in the research.

4. Proceeds generated from predicate crimes, terrorism and terrorist financing are usually not captured. Proceeds are not collected for some predicate offenses, such as kidnapping for ransom (KFR), and therefore difficult for the NRAWG to assess the impact and extent of these crimes. In such cases, the NRAWG relies on qualitative data such as survey results, research studies made by competent authorities, and best estimates by the LEAs and government agencies.

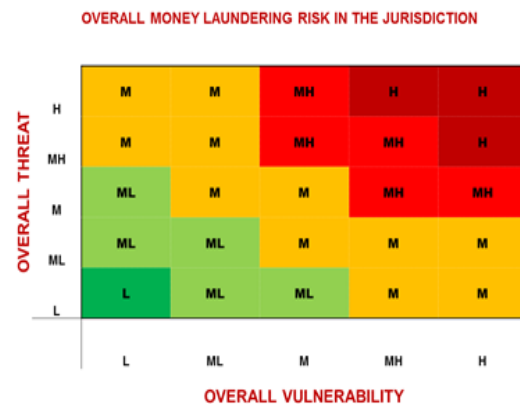
While the quantitative data collected⁴, are not sufficient or not collected, or even not being updated by the agencies, the NRA groups use the survey results and interviews, and rely on related studies to come up with a rational and realistic qualitative estimate of the threats and vulnerability risk ratings.

KEY FINDINGS

After considering the proceeds generated by select predicate crimes, money laundering trends and techniques, the prevalence of sectoral threats and external threats, the national money laundering threat is assessed to be **HIGH**.

After considering the ratings for National Combating Ability and Sectoral Vulnerabilities⁵, the national vulnerability for money laundering is assessed to be **Medium**.

Following the risk map of the assessment tool, the Money Laundering Risk at National Level is rated as **Medium-High**.



⁴ The sectors/institutions are not collecting the data necessary in the assessment, i.e. cross-border transactions, value and volume of cash inflows/outflows, grants and donation.

⁵ Quality of AML Controls and Products of the Banking Sector, Securities Sector, Insurance Sector, Other Financial Institutions, and DNFBNs.

I. OVERALL MONEY LAUNDERING THREAT - HIGH

A. THREATS ARISING FROM THE PREDICATE CRIMES

1. Tax Crimes - HIGH

The FATF strongly recommends the inclusion of tax crimes as predicate offense to money laundering, as it is one of the designated categories of offenses. However, tax evasion is not yet a predicate offense to money laundering under the AMLA, as amended. The AMLC thus cannot conduct parallel money laundering investigation on tax crimes under investigation by the Bureau of Internal Revenue (BIR).

In 2015, the BIR's Run After Tax Evaders (RATE) program netted 94 cases with estimated tax liabilities amounting to Php9.71 Billion, while the "Oplan Kandado" Program collected Php323.95 Million and closed 259 establishments. Cases filed by the BIR with the DOJ do not necessarily result in the filing of cases before the courts. Based on the data of BIR, it appears that there are only 5 cases of convictions and 6 persons convicted despite the number of tax cases filed and pending with the courts.

Given that tax crimes are not predicate offenses to money laundering and the low convictions and recovery of proceeds despite the efforts of the BIR, the threat posed by tax evasion to money laundering is **HIGH**.

2. Smuggling - HIGH

In 2014, dirty money likely contributed to at least one-fifth of trade inflows in the Philippines based on the Global Financial Integrity (GFI) study on illicit financial flows. The GFI report states that the said inflows of inflows of illegal wealth likely made up between 18-31% of the country's external trade that year.

Smuggling has consistently been resorted to as a means to undertake illicit drug operations. Transnational organized drugs syndicate smuggle drugs into the Philippines through mislabelled shipments and set up laboratories in coordination with local drug groups. In 2016 alone, at least Php1.6 billion worth of illegal drugs were intercepted in airports and Philippine Post Office. On top of this, another drug smuggling activity involving Php6.4 billion worth of shabu is under investigation after the cargo passed through the BOC's express lane on 23 May 2017 without having been inspected by the customs officials.

The previous NRA rated the money laundering threat arising from smuggling as HIGH risk based on data covering the 2011-2013 assessment periods. Additional data covering 2014-2015 gathered, do not suggest any justifiable change in the rating specially so that there is substantial deviation from the trends in smuggling activities. The number of cases filed in court continues to increase as well as the inflow of funds involved in smuggling activities. Furthermore, the very low

conviction rate confirms inefficiency in the enforcement and prosecution mechanism. The threat rating, considering the above factors remains to be HIGH.

3. Copyright Infringement/Intellectual Property (IP) Law Violations - HIGH

Data shows that there is an increasing trend in the number of cases filed for IP violations covering the period 2011 to 2016. In addition, an increase by 31% was noted on cases filed from 2015 to 2016. This is attributed to a heightened law enforcement campaign against IP violators. Moreover, there is an increase in the number of resolved cases involving IP violations from 37 to 183 cases from 2011 to 2016, although it was likewise observed that there is a decrease by 19% on filed cases in the subsequent period from 2015 to 2016. Although there was an increase in cases filed in violation of IP Law, no money laundering investigation predicated on IPR violation has been initiated. Thus, the threat posed by IP Violations is rated **HIGH**.

4. Illegal Manufacture and Possession of Firearms, Ammunition and Explosives - HIGH

The NBI investigated 60 and 62 cases of illegal possession of firearms in 2015 and 2016, respectively. No available data as to the amount of the proceeds in illegal possession cases.

Illegal/unlawful possession, manufacture, dealing in, acquisition or disposition of firearms, ammunition or explosives was only included as as predicate crimes to money laundering only in February 2013. Appropriate government agencies have not gathered information on the value of proceeds generated by these predicate crimes. Although an increase in the number of cases filed in courts was noted in 2015, a corresponding increase in the number of cases pending by end-of-year was likewise monitored. This translates to a low number of decided cases in 2015. Percentage of disposed cases vis-à-vis pending cases in 2016 remained low. There was no illegal/unlawful possession of firearms – related case referred to the AMLC for investigation as of 2016. Thus, the threat rating for these crimes is **HIGH**.

5. Environmental Crimes - HIGH

The estimated value of forest products apprehended by the Department of Environment and Natural Resources (DENR) as of February 2017 aggregated to Php59.4 Million with 21% of said value coming from Region 8; 19% in Region 13; 12% in Region 7; and 10% in Region 4B. The estimated amount of proceeds from violations of the Philippine Mining Act from 2015 to 2016 totaled to Php212.72 Million in 2016. The National Bureau of Investigation (NBI) investigated 15 cases related to environmental crimes (violations of Republic Act Nos. 9147 and 8550) from 2015 to 2016 while the Philippine National Police (PNP) investigated a total of 963 illegal fishing cases.

As of 2016, there is no money laundering investigation predicated on violation of environmental laws. To strengthen cooperation for the possible development of cases, the AMLC and the DENR are already in the process of executing a Memorandum of Agreement to facilitate cooperation in investigating and prosecuting money laundering offenses predicated in violations of environmental laws.

The number of cases, the amount of criminal proceeds aggregating to about Php396 Million, and the absence of parallel money laundering investigation warrant the **HIGH** rating for the threat posed by environmental crimes.

6. Investment Fraud and Estafa - HIGH

Perpetrators of investment fraud⁶ may face prosecution for the crime of estafa or violation of the Securities Regulations Code (SRC) (R.A. No. 8799). The 2009 Philippine MER noted “networking” or “pseudo-deposit-taking activities” or “high yield investment programs” as the prevalent illegal investment scheme in the country. The scheme generally consists of misrepresentation that the solicitation of investments was authorized by the SEC. From 2015 to 2016, data from SEC showed 350 cases being investigated for violations of the SRC. In 2016, the estimated proceeds of SRC cases investigated involved approximately to Php900 Million.

For the period 2011 to 2016, sixteen (16) money laundering cases investigated were predicated on SRC violations and estafa. The AMLC also filed fourteen (14) petitions for the Issuance of Freeze Orders, ten (10) petitions for Civil Forfeiture and two (2) money laundering cases for the same period. Six (6) cases investigated from 2015 to 2016 involved criminal proceeds amounting to Php231 Million.

The number of cases on estafa and SRC violations remains significantly high. In addition, the number of money laundering cases predicated on the two (2) crimes remains minimal. The amount of criminal proceeds involved in the six (6) money laundering investigations in 2015 and 2016 translates to only 3% of the total amount of criminal proceeds in said crimes. The foregoing justify the retention of **HIGH** rating for the threat posed by fraud.

7. Violation of the Dangerous Drugs Law - HIGH

Production, trade and consumption of illegal drugs continue to be a major concern in the Philippines. Law enforcement efforts challenge the international and local distribution of illegal drugs through anti-drug operations conducted. In 2016, the Philippine Drug Enforcement Agency (PDEA) and other law enforcement agencies (LEAs) conducted 34,077 anti-drug operations nationwide, resulting in the arrest of 18,056 drug personalities and the seizure of PHP18 billion worth of drugs⁷. Data shows that 50,567 drug operations were conducted from 2011 to 2014. In 2015, a remarkable 47.83% increase in drug operations was recorded from 16,939 operations in 2014 to 25,041 operations. An increase in drug operations was also observed in 2016 registering a record high 34,077 operations for the 6-year period.

⁶ There are two (2) major well-known forms of investment fraud: Ponzi and Pyramid schemes. *Pyramid schemes work in a top-down manner, involving multiple levels of investors. Ponzi schemes, on the other hand, have a more circular structure centered around the perpetrator of the scam, with all investors on equal, illegitimate footing.*

⁷ *Ibid.*

PDEA, other relevant government agencies and the AMLC closely collaborated in tracing the proceeds of drug-related crimes. This resulted in the filing of criminal charges for violations of the Dangerous Drugs Act and for violations of the AMLA, as amended, and the freezing, asset preservation and forfeiture of the proceeds of the crime. In 2015, there were five (5) civil forfeiture cases pending in courts involving Php57 Million worth of various assets while in 2016, there were two (2) civil forfeiture cases filed involving Php6.18 Million worth of various assets. Moreover, in 2016, the court granted the petition by the AMLC to forfeit in favor of the government various properties totaling to Php10.27 Million (RP v. Li Lan Yan, et. al).

The AMLC has filed one (1) money-laundering case in 2015 and one (1) in 2016, both predicated on Violation of the Comprehensive Drugs Act of 2001.

The fight against the drug problem in the grassroots was strengthened due to increased law enforcement capacity as can be seen by the significant increase in the number of operations, number of drug cases filed and the value of seizures and confiscations beginning 2015. Due to this, there is a significant increase in the number of pending drug cases in the courts. Further, the money laundering investigations predicated on illegal drug cases, though increased in terms of the number cases filed in 2015 and 2016, the same is only about 0.01% of the drug-related cases filed in court for the same period. Thus, the threat posed by the cases of violations of the Comprehensive Dangerous Drugs Act is rated **HIGH**.

8. Plunder and Violations of the Anti-Graft and Corrupt Practices Act - HIGH

It is estimated that 20% of the Philippines' yearly national budget is lost to corruption.⁸ Following the same pattern and based on the 2015 (Php2.6 Trillion) and 2016 (Php3.0 Trillion) national budgets, about Php520 to Php600 Billion were lost to corruption in 2015 and 2016.

From 2015 to 2016, the NBI conducted 222 corruption-related investigations. For the same period, the Ombudsman convicted 299 individuals for cases of bribery, malversation of public funds and violation of RA No. 3019. Filed before the Sandiganbayan were 2,207 corruption-related cases from 2011 to 2016; 1,019 of these cases were filed from 2015 to 2016.

The AMLC conducted 15 ML investigations predicated on corruption-related cases from 2015 to 2016. Ten (10) cases and two (2) cases being investigated by the AMLC and its Secretariat in 2015 and 2016, respectively, are related to the alleged unlawful appropriation and use of the Priority Development Funds (PDAF) funds of subject lawmakers. All the 15 money laundering cases under AMLC investigation from 2015 to 2016 involve corruption proceeds approximately amounting to Php750 Million. For the same period, corruption proceeds subject of civil forfeiture amounted to Php223 Million in funds and properties. The amount constitutes 22.3% of the estimated Php1 Billion in funds and properties subject of civil forfeiture corruption-related cases as of 31 December 2016.

⁸Developing a Corruption-intolerant Society (www.ph.undp.org).

The foregoing data on the corruption-related cases investigated and prosecuted for the period 2011 to 2016 show no increasing trend, but the figures remain significantly high. As to the amount of corruption proceeds, about Php689.7 Million and Php750 Million are involved in the cases for forfeiture of illicit funds pending before the Sandiganbayan and money laundering investigations of the AMLC, respectively. Moreover, insofar as the 15 money laundering cases are concerned, only 30% of the proceeds of these cases are subject of civil forfeiture. The foregoing considerations provide reasonable bases to retain the **HIGH** rating of the threat posed by plunder and other corruption-related cases.

9. Web-related Crimes - MEDIUM

Web-related crimes are not assessed in the previous NRA.

The Electronic Commerce Act of 2000 (R.A. No. 8792) was made a predicate offense to money laundering in 2013, while cybercrimes under the Cybercrime Prevention Act of 2012 (R.A. No. 10175) have not yet been designated as predicate offenses to money laundering.

For the period 2015 -2016, the NBI investigated fifteen (15) cases on violations of the E-Commerce Act, 3,128 cybercrime complaints (R.A. No. 10175). The NBI also recommended prosecution of four (4) cases relating to violations of the E-Commerce Act and 146 cases on cybercrime for the same period. The Anti-Cybercrime Group of the PNP likewise received 3,035 cybercrime complaints from 2015 to 2016.

The AMLC investigated two cases predicated on violation of R.A. No. 8792, including one of the biggest money laundering case investigated by the AMLC - the Bangladesh Bank heist. Specifics of the development of case are as follows:

- On 1 March 2016, upon petition of the AMLC, the Court of Appeals issued a freeze order on the known bank accounts of the recipients of the stolen fund.
- In April 2016, the AMLC filed a Petition for Civil Forfeiture before the Regional Trial Court for the recovery of the stolen funds which included the US\$15 Million that was voluntarily returned. An Order of Partial Judgment was issued by the Court in July 2016. The funds were released in favor of the Bangladesh government on 10 November 2016.
- From 11 March 2017 to 27 April 2017, the AMLC filed criminal complaints for money laundering, predicated on the violation of the e-commerce law, i.e. hacking, against the bank official, several John Does and the owners of the money remittance company. An additional Complaint for money laundering was filed against the senior officials of the bank who received the stolen funds in November 2016.

Despite the difficulties in investigation, the case also highlighted the readiness and capacity of law enforcement authorities to act promptly and appropriately, as well as the coordination efforts of domestic and foreign agencies. All taken together, a **MEDIUM** rating for the threat posed by web-related crimes is justified.

10. Trafficking in Persons - MEDIUM

Statistics sourced from PNP and NBI indicate that there were at least 859 trafficking cases filed from 2010 to 2015. It can be gleaned from both the PNP and NBI data that there was a downward trend of trafficking cases from 2011 to 2014. Moreover, 2015 likewise recorded a lower number of TIP cases.

For the period 2015-2016, the AMLC was able to file a petition for civil forfeiture of illicit funds arising from trafficking in persons amounting to approximately Php11.4 Million. The filing of the civil forfeiture and other ML-related cases were initiated following the cooperation and coordination between the AMLC and other LEAs concerned, as well as coordination with foreign counterpart through a request for assistance.

The downward trend in the number of TIP cases and the increase in the conviction rate, as well as the upgrade of the Philippines from Tier 2 to Tier 1 category in a review exercise conducted by the US-Department of State imply that the Philippines has fully met all the minimum standards for the elimination of trafficking plus the improvement in the ranking of the Philippines in a study conducted by the Global Slavery Index, the threat of human trafficking is downgraded to **MEDIUM** from HIGH in the previous NRA assessment.

11. Kidnapping for Ransom - MEDIUM

Kidnapping is a serious issue in the Philippines. The crime is used both as a source of income for criminal groups, and as a source of funds by threat/terrorist groups. The threat assessment on kidnapping for ransom committed by terrorist and other local threat groups is assessed separately under Chapter IX, Terrorism and Terrorist Financing Threats.

Based on the figures gathered from LEAs, there were thirty-one (31) KFR cases investigated from 2014-2016 involving a total estimated proceeds equivalent to Php26.5 Million pesos.

In July 2016, the AMLC obtained a verdict of conviction for facilitating money laundering against an accountholder whose bank account was used to deposit the ransom money from Japan. The court found that the accused facilitated the offense of money laundering by knowingly transacting the proceeds of the unlawful activity of KFR through daily withdrawals. It appeared that the funds originated from the family of the victim. The money laundering investigation led to the filing of a civil forfeiture proceedings amounting to Php2.6 Million.

The prevalence of KFR is undeniable and involves substantial amount of ransom money. But taking into consideration the good number of cases elevated for prosecution and the recent conviction for laundering the proceeds derived from KFR, this predicate offense is rated **MEDIUM**.

12. Other Unlawful Activities/Predicate Offenses - LOW

The number of investigations involving the following predicate crimes, when taken individually, is less significant. Moreover, these crimes, by their nature, do not produce significant proceeds.

- a. Violation of Migrant Workers and Overseas Filipinos Act (R.A. 8042)
- b. Qualified Theft
- c. Arson
- d. Carnapping
- e. Gambling and Betting, jueteng and masiao
- f. Frauds and Illegal Exaction
- g. Robbery and Extortion
- h. Murder
- i. Forgeries and Counterfeiting¹
- j. Violation of the Anti-Fencing Law (P.D. 1612)
- k. Violation of the Anti-Photo and Video Voyeurism Act (R.A. 9995)
- l. Violation of the Anti-Child Pornography Act (R.A. 9775)
- m. Violation of R.A. 7610 (Child Abuse)
- n. Hijacking

Of the predicate crimes rated as low, the AMLC investigated and secured a conviction for money laundering in relation to qualified theft. It was also able to freeze amounts in relation to illegal recruitment

B. SECTORAL THREATS

1. Banks - HIGH

All the 49 ML cases investigated by the AMLC from 2015 to 2016 used bank accounts in the money laundering scheme. Approximately Php5.7 billion were laundered using over 1,500 bank accounts in 21 universal and commercial banks, 4 thrift banks, and 6 rural banks. Similarly, based on 141 requests for information (RFI) from counterpart financial intelligence units (FIUs) and 12 Mutual Legal Assistance Treaty (MLAT) requests from foreign jurisdictions, over Php500 billion were allegedly coursed through bank accounts. The deposit and checking account facility, and wire transfers are among the bank products and services being exploited by criminals.

Though the criminal proceeds involved in the money laundering cases and related predicate offenses translate to a minimal percentage of the total assets of the banking industry, the cases clearly showed that continuous use of banking products and facilities and money service businesses in laundering proceeds of unlawful activities; hence, the threat rating for banks is **HIGH**.

2. Money Service Businesses - HIGH

Money Service Businesses, like remittance agencies and foreign exchange dealers have also been used in the laundering of criminal proceeds. Perpetrators of illegal drug trades, illegal sex trade, and other violations, investigated by the AMLC used remittance companies and foreign exchange dealers to facilitate movements of funds intended as payments. In 141 requests for information from FIU counterparts and 12 MLAT requests from foreign jurisdictions, over Php90 Billion Pesos were allegedly coursed through money service remittance businesses.

This shows how MSBs are used extensively to move illicit funds warranting a **HIGH** rating.

3. Designated Non-Financial Businesses and Professions (DNFBPS) - HIGH

Dealers in precious stones and metals, lawyers and accountants, although covered persons under the AMLA since 2013, remain largely unregulated for AML purposes. Thus, no compliance checking has been conducted, nor were there any covered or suspicious transactions filed by the said businesses and professions. With respect to the real estate sector, about Php55 Million worth of real estate properties are currently the subject of civil forfeiture cases, which indicates that purchase of real properties have been used by criminals to launder criminal proceeds. For the casino sector, about Php3.8 Billion stolen funds ended up with two casinos and one junket operator.

Considering the amount of criminal proceeds that were laundered through DNFBPs, particularly casinos and casino junket operators, and the absence of clear regulations on DNFBPs the threat to money laundering is rated **HIGH**.

4. Non-Profit Organization (NPO) - HIGH

In the twelve (12) money laundering cases predicated on corruption cases investigated by the AMLC from 2015 to 2016, 21 non-government organizations were used as dummies to funnel about Php420 Million government funds in favor of criminals. Further, intelligence information shows that NPOs are being used in terrorist financing activities.

There is no uniform regulation governing the operations of non-profit organizations in place. The sector also necessitates an in-depth study to determine the extent of vulnerability of the sector to money laundering and terrorist financing. Considering the foregoing, the threat for the NPO is rated **HIGH**.

5. Securities Sector - MEDIUM

As of 2016, the SEC investigated a total of 743 cases involving violations of the SRC, including pyramiding schemes. Investigation of one pyramid scheme which involved about Php200 Million, showed that 41 accounts in eight broker-dealers were used to perpetrate market price manipulation. Another case involved the use of the securities industry to hide proceeds of their

unlawful activity. The total criminal proceeds identified to have been laundered through the securities industry translate to about 0.0023% of the total assets of the security industry in 2015.

Although investment-related scams continue to proliferate, the extent the security industry and securities products used in money laundering is not widespread; hence, the threat rating for the Securities sector is **MEDIUM**.

6. Insurance Sector - MEDIUM

In three cases predicated on illegal drugs and one case predicated on estafa, insurance products offered by at least three insurance companies were used to hide the proceeds of their unlawful activity. Close to Php3 Million is currently subject of civil forfeiture proceedings. This figure is only about 0.0023% of the total asset of the insurance industry in 2015. Considering the limited use of the insurance industry and insurance products in laundering criminal proceeds, the threat rating for the insurance sector is **MEDIUM**.

C. LEVEL OF EXTERNAL THREAT

For the period 2015-2016, the AMLC received a total of 153 requests for information (RFIs) and assistance from other jurisdictions, including 12 requests for mutual legal assistance (MLA). Based on the RFIs, fictional entrepreneurship and tax evasion are the topmost sources of illicit funds in 2015, while fraud is the topmost source for 2016. Countries of origin identified for these crimes are Kazakhstan and the United States of America.

In 2015 and 2016, about 98% and 70%, respectively, of the sectors involved in the inflow of illicit funds and/or dirty money were transferred or otherwise transacted using bank accounts and other products offered by the banking industry. The estimated amount of inflow is Php608 billion. Money remittance businesses and securities trading participants were also among those mostly resorted financial sectors. The Basel AML Index-Country risk⁹ rating slightly improved in 2016 garnering 6.31 rating from 6.39 in 2014.

The AMLC investigated money laundering cases involving proceeds allegedly derived from estafa, trafficking in persons, kidnapping for ransom and violation of E-Commerce Act cases sourced from abroad. These cases involve a total amount of more than Php902 Million of illicit funds from other jurisdictions.

Considering the foregoing, the Philippines faces **HIGH** external threat as venue for money laundering.

⁹ The Basel AML Index assesses countries' adherence to AML/CTF standards, their perceived level of public corruption, financial transparency, political financing, judicial strength and other relevant indicators

D. ACTION PLAN

The result of the assessment shows the risk posed by crimes involving illegal drug trade, corruption, fraud, smuggling, IPL violations, violations of environmental laws, violations of the e-Commerce Act and cybercrimes, illegal manufacture and possession of ammunition and firearms. Hence, there is a need for a closer coordination and cooperation between the AMLC and the respective LEAs authorized to investigate and/or prosecute said unlawful activities. In addition, LEAs involved in the risk assessment must be encouraged to maintain statistics specifically needed in conducting the threat analysis to eliminate the challenge in data collection faced in the previous and current assessment. Other actions recommended are:

ACTION PLAN	PRIMARY AGENCY	SECONDARY AGENCY	TIMELINE
Obtain commitment of relevant government agencies to collect data as to proceeds of crimes involved in their respective agencies.	AMLC BIR BOC	Other NALECC members- agency	January 2018 onwards
Frequent bilateral coordination-workshop between AMLC and other relevant LEAs to accomplish the following, among others: Execute/Revisit MOA; Update on applicable laws and relevant work procedures; Appoint technical focal persons; Establish AML Desk; Strategic referral of cases to AMLC for possible money laundering investigation; Inventory, update of status and strategize the handling of cases; Synthesize the gathering of data requirements, specially the proceeds of crime; And other relevant matters. Initial coordination-workshops	IPOPIL PNP-CIDG DENR SEC PDEA OMB NBI DOJ PNP-AKG PAGCOR		September 2017: a) SEC b) OMB c) PDEA October 2017: BOC November 2017: CIDG November 2017: NBI Other agencies- January 2018 onwards
Require covered persons to conduct enhanced profiling of clients focused on: a) beneficial ownership and legal existence; b) transaction patterns in the same account and in various related accounts; and c) financial capacity and relations of parties to transactions involving huge amounts of funds.	AMLC BSP SEC IC PAGCOR CEZA APECO		First Quarter of 2018
Require covered persons to closely monitor and conduct enhanced due diligence on accounts holders whose accounts exhibit the following behavior or patterns: a) use of bank account as temporary repository of huge amounts of funds or as a pass-thru account; and b) deposit and immediate withdrawal of huge amounts of funds in cash.			

Provide a venue for covered persons and supervising authorities to share observed money laundering trends and typologies.			
Study how to facilitate sharing of client information among covered persons across the different sectors, subject to prevailing rules on confidentiality.			
Conduct an in-depth study/risk assessment to determine vulnerability of the NPO sector to money laundering and terrorist financing.	AMLC, SEC, DSWD, PCNC, CDA		December 2017

II. NATIONAL VULNERABILITY – MEDIUM

The growing threat of ML/TF has drawn importance and understanding globally. In order to effectively combat this threat, there is a need to identify the weaknesses and gaps in the country's ability to combat ML/TF and identify the vulnerability of the different sectors. This Section intends to assess our national vulnerability to ML/TF, with respect to ability of the different sectors under this assessment to combat the same. This will enable the country to prioritize actions that will improve the national combating ability by strengthening AML controls at the national level.

The assessment made on Sectoral Vulnerability and National Combating Ability resulted in the following:

National Combating Ability

Out of the twenty-two (22) AML general controls, fourteen (14) needs to be addressed and prioritized. These are: ***(1) quality of AML policy and strategy, (2 and 3) capacity and resources for financial crime investigations and prosecutions, (4) quality of FIU intelligence gathering, (5) formalization of level of the economy, (6 and 7) capacity and resources for judicial processes and integrity/independence of judges, (8) customs controls on cash, (9) tax enforcement, quality of CDD factors such as (10) reliable identification infrastructure, (11) beneficial ownership information and (12) independent information sources, (13) comprehensiveness of customs regime on cash and similar instruments, and (14) quality of border controls.***

1. Quality of AML Policy and Strategy

The ***quality of AML policy and strategy*** which is rated **MEDIUM HIGH**, assesses whether the country has or effectively implements its national AML policy and strategy based on risk assessment conducted with all relevant government agencies and private sector participants. Financial Institutions, non-financial institutions and designated non-financial businesses and persons (DNFBPS) are also required to undertake their own money laundering risk assessments and implement measures to prevent or mitigate the identified risks. Currently, the country has no AML National policy and strategy. But the AMLC and its Secretariat, along with the supervising

agencies, BSP, SEC and IC, and other relevant government agencies are committed to ensure that: (1) policy, coordination and cooperation among all stakeholders are in line with understanding and mitigating ML/TF risks, (2) the financial system shall not be used as money laundering site for the proceeds of crime, (3) proceeds of crime are detected and forfeited and shall not be used to further finance criminal activities, and (4) launderers and criminals are sanctioned and prosecuted. Further, the AMLC ensures that measures and policies are imposed to strengthen the AML/CFT regime.

2. Quality of CDD Framework

Availability and reliability of identification infrastructure, independent information sources and accessibility to beneficial ownership information are all input variables for the assessment of the **quality of CDD framework**, which is rated **MEDIUM HIGH** in this assessment.

A **reliable identification infrastructure** – still rated **MEDIUM HIGH** - must be in place to prevent the use of fake documents and fictitious identification. The Philippines has more than twenty government-issued identification documents issued which citizens use to facilitate dealings with the government and private entities, including banks and financial institutions.

The BSP, SEC and IC have issued rules and regulations on the establishment of the true and full identities of clients, including getting the prescribed minimum information and validate the same from official documents, such as government-issued IDs. Moreover, financial institutions are required to adopt a risk-based process in identifying their clients

With the absence of a national identification system, various efforts have been made by issuing agencies to facilitate validation of IDs.

ID System	Features of the ID	Means of Verification
Integrated Bar of the Philippines ID (for Lawyers)	The new IBP ID has Quick Response (QR) code embedded	QR code scanning via Mobile Application
Land Transportation Office (LTO) Driver's License	<ul style="list-style-type: none"> • Has security hologram • Contains holographic image 	SMS verification via LTO database; however, only the LTO number and date of expiration
Professional Regulation Commission	Various professional licenses	Online verification by conducting database search on the license number and/or name
Philippine Postal Corp. – Postal ID	<ul style="list-style-type: none"> • Has QR code embedded • With Security hologram • Contains holographic image • Ultraviolet ink 	QR code scanning via Mobile Application

In July 2017, the Department of Labor and Employment launched the new identification card for Overseas Filipino Workers (OFW). The OFW ID (also called iDOLE) shall be used as universal identification document by OFWs for all government transactions.

The STRs filed for fictitious identification were generally reported by commercial banks. These STRs constitute only about 0.8%-1% of the total STRs filed every year. It can then be surmised that CPs, in general, implement stringent KYC/CDD on their clients.

Availability of independent and reliable information sources, previously rated as Medium in the previous NRA, is rated **MEDIUM HIGH** in the 2nd NRA. Covered persons rely on client's financial and historical information from available sources shared by the credit bureaus and media reports. Aside from the availability of the systems such as **Bankers Association of the Philippines' Credit Bureau (BAP Credit Bureau), Credit Information System, and The CIBI Information Inc. (CIBI)**, financial institutions (FIs) diligently adhere to the regulations issued by the BSP, SEC and IC. The existing regulations mandate FIs to verify and validate the minimum information obtained from their clients as part of customer acceptance and identification process. Higher level of validation is implemented for clients that pose higher risks. FIs rely on the authenticated official documents issued by government, utility bills, accounts and credit card statement, income statement, and other government issued documents to validate the information of their clients. Other financial institutions issue membership cards with unique identifiers to facilitate verification of the identities of their clients.

Beneficial ownership information is rated **MEDIUM HIGH** primarily due to the availability of mechanisms for covered persons to obtain information on beneficial owners. Covered persons have instituted their own mechanisms to obtain beneficial ownership information prior to establishing business relationship. SAs, in turn, verify during AML examination whether said information are obtained during account opening. Covered persons, regulators and authorities also use the SEC i-View database, for any information on corporations and partnerships, the Cooperative Development Authority (CDA) for cooperatives, and Department of Trade and Industry (DTI) for sole proprietors. The existing facility however provides for limited information. Identifying the ultimate beneficial owner may require repeated queries with the relevant authority, which can possibly delay the verification process.

3. Reliability of Financial Records/Books

The **reliability of financial records/books**, which is rated **MEDIUM** in this assessment, looks at whether ML investigators can rely on the financial records/books to trace the flow of proceeds of crime in money laundering cases. This is composed of the factors, **Availability of Independent Audit, Effectiveness of Tax Enforcement, Level of Financial Integrity**. Out of these 3 AML controls, only the effectiveness of tax enforcement is given priority.

Availability of Independent Audit is rated **HIGH** despite the fact that no Philippine regulatory body is auditing the work of auditors. While such scenario poses challenges to various stakeholders

in the accountancy and auditing industry, initiatives from the Philippine Professional Regulatory Board of Accountancy (BOA) and SEC oversee the quality of the audit.

The BOA, the government regulatory body that supervises the accountancy profession, has adopted an external audit Quality Assurance Review (QAR) Program to meet its oversight duties to look into the quality of audit of financial statements. In December 2015, the BOA also passed a resolution, endorsing for approval by the PRC, the adoption of the “Revised RR for the Conduct by the BOA of Oversight into the Quality of Audits of FS and Operations of CPA Practitioners.”

The SEC currently performs regular evaluation of the audited financial statement (AFS) of listed companies and other companies or entities vested with public interest. Furthermore, as part of the accreditation process of external auditors, the SEC reviews the AFS of the auditor’s selected clients. These reviews aim to ascertain the compliance of the reporting companies with their financial reporting requirements. Administrative penalties/sanctions are also imposed on both the reporting company and its external auditors should there be any significant or material financial reporting lapses found. The SEC has also been working on the revision of its Rules on Financial Statements Reporting that include, among others, the implementation of its own QAR System of accredited External Auditors. This will enable to the SEC to review the quality of audit of the external auditors.

The eventual implementation of the BOA of its QAR Program and the final approval of the SEC of the revision of its Rules on Financial Statements Reporting are crucial tools to increase financial transparency and ensure that proper and reliable accounting records and financial statements are available.

The **effectiveness of tax enforcement**, currently rated as **MEDIUM**, assesses whether the tax laws are enforced fully, fairly, and consistently, through regulatory enforcement. It is also one of the priority variables identified in this NRA.

The Bureau of Internal Revenue (BIR) has filed 634 cases with the DOJ and 73 cases with the Court for tax evasion and other tax crimes from 2015 to 1st Quarter of 2017. Access by LEAs to tax information, particularly to the ITR, is very limited. ITRs can be opened for inspection only upon order of the President of the Philippines, subject to the rules and regulations prescribed by the Secretary of Finance, and upon recommendation of the Commissioner.¹⁰ Hence, ITRs and other tax information are confidential in nature and may not be readily available for the investigation of predicate crimes and ML and TF offenses. Further, tax evasion is not a predicate offense to money laundering. As it is one of the designated category of offenses to ML, the AMLC supported several bills (in 2010, 2012 and 2016¹¹) including Sections 254 (attempt to evade or defeat tax) and 255 (failure to file return, supply correct and accurate information, pay tax, withhold) of the NIRC among the list of predicate crimes to ML.

¹⁰ Section 71 of the NIRC.

¹¹ Senate Bill 1256, filed under the 17th Congress, is still pending before the Senate

The **level of financial integrity** focuses on the quality of business and professional ethics and tax transparency in the country. It is rated **HIGH**, one notch higher compared to the previous NRA.

Latest assessment conducted by the Asian Corporate Governance Association (ACGA), the Organization for Economic Co-operation and Development (OECD) Reform Priorities, the World Economic Forum (WEF) and 2014 ASEAN Corporate Governance Scorecard shows that the Philippines has improved in its ranking. The Philippines gained points in corporate governance (CG) rules/practices and culture as there were notable CG reforms and improvements in investors' relations of companies. The country also shows a deeper commitment to sound CG practices through the concerted effort of the regulators and publicly-listed corporations.

4. Formalization of Level of the Economy

Formalization of level of the economy assesses the degree by which the economy is formalized, and if there is a significant level of informal economic activity in the country.

The BSP continues to lead the implementation of the National Strategy for Financial Inclusion (NSFI). The Office of the President issued Executive Order (EO) No. 208 on 02 June 2016 to create the Financial Inclusion Steering Committee (FISC)¹², the governing body that: (i) provides strategic direction, guidance and oversight in the NSFI implementation which was developed through a consultative process; and (ii) serves as a pillar for public and private sector stakeholders to systematically accelerate financial inclusion in the Philippines. The EO's issuance marks another breakthrough in the effort to establish a financial system that benefits all Filipinos, specifically the unbanked and underserved, and thereby contribute to inclusive growth and development.

The BSP further enhanced the financial inclusion regulatory environment through policies¹³ that promote financial access to targeted sectors. Some of the initiatives¹⁴ of the BSP include (1) financial inclusion reporting; (2) economic and financial learning program; (3) financial learning module for the unbanked; (4) financial empowerment seminars, (5) financial education expo; (6) financial inclusion Fridays; (7) financial education through social media; and (8) establishment of a credit surety fund.

¹² The FISC consists of: (i) Bangko Sentral ng Pilipinas; (ii) Commission on Filipino Overseas; (iii) Department of Agrarian Reform; (iv) Department of Budget and Management; (v) Department of Education; (vi) Department of Finance; (vii) Department of Science and Technology; (viii) Department of Social Welfare and Development; (ix) Department of Trade and Industry; (x) Insurance Commission; (xi) National Economic Development Authority; (xii) Philippine Deposit Insurance Corporation; (xiii) Philippine Statistics Authority; and (xiv) Securities and Exchange Commission.

¹³ BSP Circular 901 (dated 29 January 2016), amending Sec. X151 of the Manual of Regulation for Banks (MORB); BSP Circular 908 (dated 14 March 2016) Agricultural Value Chain Financing (AVCF) Framework; Circular 929 (dated 28 October 2016) -Allows the conversion of micro-finance-oriented thrift or rural banks (or branches) to regular bank (or branches).

¹⁴ Details show in the 2nd NRA full report.

Formalization of the level of economy has improved to **MEDIUM** from the previous NRA, primarily due to the financial inclusion initiatives of the government that address the needs of the target sector - the unbanked and underserved.

5. Quality of Cross-Border Controls on Cash and Similar Instruments

Quality of Cross-Border Controls on Cash and Similar Instruments, which consists of **Comprehensiveness of Customs Regime**, **Effectiveness of Customs Control on Cash and Similar Instruments (Quality of Customs Controls on Cash and Similar Instruments)**, and **Quality of Border Controls** are not assessed in the previous NRA. All of these controls are rated **MEDIUM**.

While the BSP mandates¹⁵ travelers passing through international airports and seaports to make cross border declarations of local or foreign currencies brought in or out of the country beyond the identified thresholds of USD10,000 or its equivalent, or Php50,000, there are still some cases of undeclared currencies. Further, not all airports and seaports submit cross border declaration reports to the AMLC, with only NAIA regularly submitting cross border declaration forms. Noticeably, there was a decline in the trend of submission of declarations for incoming passengers from 490 in 2014 to 32 in 2016. This may indicate lack of enforcement and monitoring of cross-border declarations which could be a source of vulnerability as government may be unable to monitor cash smuggling.

On the other hand, the Office of Transportation Security (OTS) provides assistance to the BOC in the detection of undeclared currencies. OTS personnel have attended trainings and are able to detect bulk cash hidden in luggage through x-ray machines. Reminders to declare excess cash are also lacking in international airports and seaports. The BOC has coordinated with the AMLC and BSP to increase visibility of reminders to accomplish and submit cross border declarations

The **quality of border controls**, which is also rated **MEDIUM**, assesses the geographical circumstances and border control mechanisms of the country against any attempts to smuggle bulk cash, precious stones, etc. The vast maritime borders of the Philippine archipelago make it difficult for the already resource-stricken Philippine Coast Guard and BOC to monitor all possible entry and exit points of the country. This is especially true in Southern Philippines near the Malaysian and Indonesian borders, which has been exploited by smugglers (cash, goods and persons) and other criminal elements.

Chapters 1 (Threats Assessment) and 9 (TF Threat Assessment) also discussed the vulnerability of border controls. Porous borders in the Southern Philippines has been exploited by terrorist elements, as can be seen in Chapter 9. A local terrorist organization use the seas, even crossing over to international waters, to perpetuate its kidnapping activities. It is also suspected that ransom money for some kidnap victims are carried through the borders. There are also

¹⁵ Section 4 of the BSP Manual of Regulations on Foreign Exchange Transactions, as amended by Circular No. 794 dated 18 April 2013 and Circular No. 874 dated 8 April 2015; and Circular No. 922 dated 23 August 2016.

anecdotal information of terrorist and threat groups carrying out smuggling activities (drugs, rice, other goods, persons) in the Southern Philippine regions.

6. Quality of FIU Intelligence Gathering and Processing, Capacity and Resources for Financial Crime Investigations/Prosecutions, Integrity and Independence of Financial Crime Investigators/Prosecutors.

The AMLC, and its Secretariat, would be able to carry out its functions effectively when it (1) has adequate capacity and resources, and (2) has the independence and autonomy to perform its activities without fear or favor. The AMLC shall act unanimously in the discharge of its functions.

Quality of FIU intelligence gathering is rated **MEDIUM**. In the previous NRA, timely STR data analysis is one of the priorities that needs to be addressed. While the trend in collecting STR data increased, particularly from non-bank institutions, there appears to be low STR referrals to the Compliance Investigation Group (CIG)¹⁶. The number of STRs received in 2016 and 2015 are 54% and 39% higher, respectively, compared to the STRs received in 2014.

**Covered Transaction Report (CTR) and
Suspicious Transaction Report (STR) per Supervising Agency (SA)**

SA	2014		2015		2016	
	CTR	STR	CTR	STR	CTR	STR
BSP	43,804,450	94,483	35,657,724	145,861	36,187,391	129,678
IC	84,258	364	68,889	467	58,907	697
SEC	493,111	92	595,451	70	735,152	1,931
Total	44,381,819	94,939	36,322,064	146,398	36,981,450	132,306

The quality of FIU intelligence gathering does not only rely on STR analysis. It also assesses the FIU's effectiveness in triggering and supporting money laundering and asset forfeiture investigations through the collection, analysis and dissemination of STRs and CTRs (where required). The Financial Intelligence and Analysis Staff (FIAS) of the AMLCS is the primary unit tasked to conduct analysis on these transaction reports. Aside from this, the FIAS is also tasked to act on requests for information, conduct strategic analysis and data mining analysis. As of June 2017, the FIAS has referred to CIG 90,390 STRs out of the 373,643 STRs received from 2014-2016. Most of the referred STRs are related to *pyramiding and pork barrel scams and investment scams, illegal drugs, graft, terrorism and violations of the E-Commerce Act*.

The low referrals of STRs to the CIG, can be attributed to the increasing number of STRs, as well as RFIs from LEAs and foreign counterparts.

The FIAS conducted strategic analysis, pursuant to Section 7(7) of the AMLA, as amended, and FATF Recommendation 29, on cross-border investment fraud in the Philippines from 2010 to

¹⁶ Compliance and Investigation Group is the investigative arm of the AMLC Secretariat.

2014. The study used data from the AMLC database, search requests from LEAs, and Egmont Secure Web (ESW) requests for the same period. The results of the study may be used by the AMLCS, LEAs, and other state agencies to determine money laundering vulnerabilities of cross-border investment fraud, and to enhance their knowledge and understanding on the methods used to defraud their victims. It may also help establish policies and goals for AMLC, or more broadly for other entities within the AML/CFT regime.

Data mining analysis on CTRs was also conducted to determine the potential subjects of investigation for fraud, particularly those engaged in boiler room, recovery room and advance fee fraud. The data mining analysis reports are also referred to the CIG for further investigation.

Capacity and resources for (1) financial crime investigations and (2) financial crime prosecutions are both rated **MEDIUM HIGH**. These controls are assessed based on the skills, experience, training and powers of ML investigators and prosecutors to investigate and prosecute ML and associated predicate offenses. Currently the AMLCS has 19 investigators composed of lawyers, accountants, forensic accountant, and financial expert from a law enforcement agency under the CIG. The CIG is tasked to perform investigation of suspicious and covered transactions deemed suspicious, money laundering activities and other violations of the AMLA, as amended; investigate terrorist financing activities and other violations of the Terrorist Financing Suppression Act; act on request for investigation or request for information from domestic law enforcement and other agencies of the government and requests for assistance of other jurisdictions and international organizations; gather evidence for the purpose of establishing probable cause required in the filing of petitions for freeze orders, applications for bank inquiry, civil forfeiture cases and criminal complaints for money laundering; and conduct administrative investigation on violations by covered persons of the AMLA, as amended, and its RIRRs.

Another group in the AMLCS, the Legal Services Group (LSG), is tasked to evaluate investigation reports and prepare pleadings, motions, and other documents in relation to bank inquiry, freeze order, civil forfeiture, filing of money laundering cases and other related proceedings. As of 2017, the LSG has fifteen (15) lawyers, three (3) of which are ACAMS-certified.

The prosecution for money laundering is done by the AMLC through the DOJ or the OMB as the case may be. The AMLC files civil forfeiture cases, petitions for the issuance of freeze order and applications for an order allowing bank inquiry through the Office of the Solicitor General (OSG). Presently, there are at least seventeen (17) lawyers from the OSG who handle AMLA related cases, and twenty (20) to twenty-three (23) lawyers handling money laundering cases in the DOJ.

The AMLC Secretariat regularly conducts AMLC/CFT training courses for DOJ and OMB prosecutors and OSG lawyers involved in the prosecution of AML/CFT cases.

In relation to **integrity and independence of financial crime investigators and prosecutors**, no integrity breaches, whether actual or suspected, for the AMLC and its Secretariat. On the other hand, the OSG, DOJ and OMB obtained satisfactory ratings in terms of their integrity and capacity

in handling cases. Overall, the integrity and independence of financial crime investigators and prosecutors are both rated **HIGH**.

7. Effectiveness of Domestic and International Cooperation

The *effectiveness of domestic cooperation and effectiveness of international cooperation* are both rated **HIGH**.

For the period 2011-2016, the AMLC Secretariat received 732 requests for assistance from various government agencies and LEAs. These requests for assistance involved requests for information, investigation of the predicate crimes and for the possible freezing and confiscation of its proceeds, if there are any. For 2016 alone, the AMLCS received 201 requests for information from 31 different LEAs, and other government agencies. Most of these requests have been acted upon and given due course by the AMLC Secretariat. The AMLCS is also a member of various committees, sub-committees and policy coordinating group, such as the National Law Enforcement Coordinating Committee (NALECC) and Joint Terrorism Financial Investigation Group (JTFIG). As of October 2017, the AMLC has 25 MOAs with different LEAs and other relevant government agencies.

On the other hand, the AMLC, pursuant to Resolution No. 59, Series of 2006, receives and sends requests for information to other Financial Intelligence Units through the ESW. The AMLC has 40 existing MOUs with different financial intelligence units. The AMLC also acts on Mutual Legal Assistance Treaty (MLAT) requests coursed through the DOJ as the Central Authority of the Philippines.

8. Capacity and Resources for Judicial Processes and Integrity of Judges

Members of the Philippine judiciary regularly undergo trainings/seminars on new laws and jurisprudence at the Philippine Judicial Academy (PhilJA). The AMLA is a regular part of the curriculum in the said training. AMLC Secretariat personnel conduct approximately thirty (30) seminars/lectures/workshops for PhilJA on topics covering the AMLA, investigation and prosecution of money laundering cases, as well as the latest AML trends and measures.

The conduct of judges and justices of collegiate courts, is governed by the New Code of Judicial Conduct (A.M. 03-05-SC) (hereafter Code) promulgated by the Philippine Supreme Court on 27 April 2004. Violations of the Code may subject the offending judge or justice to criminal and administrative sanctions. For instance, a magistrate who accepts or asks money in exchange for a favorable ruling on a matter before him could be held liable for direct bribery punished under the Revised Penal Code. A magistrate who knowingly renders an unjust decision may also be held criminally liable therefor.

Administrative sanctions may include suspension or dismissal from the judiciary. Under the Philippine Constitution, only the Supreme Court can resolve administrative actions against judges and justices. There have been a number of judges and justices who have been meted administrative sanctions by the Supreme Court.

From 2015-2016, 17 Civil Forfeiture cases and 15 ML Criminal cases have been filed before the RTC. On the other hand, no case has been filed before the Sandiganbayan for the same period.

Based on the foregoing, the capacity and resources for judicial processes and integrity of judges, are both rated **MEDIUM HIGH**.

B. SECTORAL VULNERABILITY¹⁷ - MEDIUM HIGH

Casinos, MSBs, Banking, Pawnshops and E-Money Issuers are the top 5 priority sectors, in terms of vulnerability and thus, need to be prioritized. Meanwhile, Dealers in Precious Metals, Lawyers and Accountants, have the lowest weighted vulnerability ratings. The overall sector vulnerability is rated **Medium High**.

C. RECOMMENDED ACTION PLAN

ACTION PLAN	PRIMARY AND SECONDARY AGENCIES	TIMELINE
Develop National AML/CFT Strategy	AMLC, BSP, SEC and IC, Office of the President, Law Enforcement Agencies and Covered persons and other relevant agencies	Jan - Dec 2018
Capacity building for all financial analysts investigators, prosecutors <ul style="list-style-type: none"> • Trainings on financial investigation techniques, ML trends & typologies, and Asset Forfeiture 	AMLC, DOJ, OSG, OMB, LEAS	2017 onwards Continuing action
Effective and timely coordination/strengthen coordination with law enforcement and other agencies, as well as with the covered persons <ul style="list-style-type: none"> • Strengthen intelligence analysis system from CP reporting, to analysis, investigation and dissemination of information through trainings and workshops 	AMLC, BSP, SEC, IC, Covered Persons	3rd Quarter 2017 to 4th Quarter of 2018

¹⁷ Banking, Securities, Insurance, Other Financial Institutions and Designated Non-Financial Businesses and Professions (DNFBPS) sectors vulnerabilities are assessed in Chapters 3 , 4, 5, 6, and 7.

<p>Capacity building for all judges and justices in relation to ML/TF trends and typologies</p> <ul style="list-style-type: none"> • Increase in the capacity or number of officers handling ML cases • Trainings with regard to ML investigation, trends & typologies, and asset forfeiture. • Effective and timely coordination/strengthen coordination with law enforcement and the AMLC 	<p>AMLC, Regional Trial Courts, Sandiganbayan, Supreme Court - OCA</p>	<p>Start date: 1st Quarter 2018, continuing AML/CFT training</p>
<p>Strengthen border controls</p> <ul style="list-style-type: none"> • Effective Coordination with the BOC, OTS, Phil. Coast Guard • Acquire or develop tools, systems and other mechanisms that the agency/ies can use to detect cross-border-related offenses • Develop cooperative arrangements and/or committees to identify areas that need improvement and formulate policies to address the same. <p>Capacity building (Increase in the capacity and resources)</p> <ul style="list-style-type: none"> • Conduct trainings on AML/CFT, ML/TF cross-border typologies <p>Revisit customs laws and regulations</p>	<p>BOC, OTS, PCG AMLC, BSP, and other relevant agencies</p>	<p>3rd Quarter 2017 to 4th Quarter 2018</p>
<p>Financial inclusion as strategic objective</p> <ul style="list-style-type: none"> • Continued support to the National Strategy Financial Inclusion of the BSP and other 14 government agencies (CFO, CDA, DBM, DepEd, DOF, DSWD, DTI, IC, NEDA, PDIC, PSA, EC, DAR, DOST) • Regular educational AML/CFT campaign to financial service providers (ABROI, APPEND, RBAP, CTB, etc), stakeholders and partners, and the public. • The AMLC may look into the possibility of issuing AML/CFT- 	<p>BSP, AMLC, Government agencies mentioned, and covered persons committed to provide financial service to the underserved/ unbanked sector</p>	<p>Ongoing</p>

related policies that will encourage financial inclusion.		
Propose the inclusion of tax evasion and other tax-related crimes as one of the predicate offenses to money laundering under the AMLA, as amended, pursuant to the recommendation of the FATF.	AMLC, BIR	2nd quarter 2018
Effective and timely coordination/strengthen coordination with Bureau of Internal Revenue and the AMLC. Encourage referrals of tax-related violation cases for ML investigation		1st quarter 2018

III. BANKING SECTOR VULNERABILITY – MEDIUM

At the end of 2016, the assets (Php13.9 Trillion¹⁸) of the banking system accounted for 96%¹⁹ of the Gross Domestic Product (GDP) of the country (Php14.5 Trillion). Given the status of banks in the financial system, the products and services they offer to clients are among the means favored by money launderers to obscure the illegal sources of their funds. This vulnerability is, however, mitigated and addressed by the existence of AML/CFT legal and regulatory framework, which is generally consistent with international AML/CFT standards, including appropriate mechanisms to enforce their implementation and continually assess compliance thereon.

After assessment of the relevant variables, **Quality of AML Controls** was rated **MEDIUM-HIGH**. This vulnerability is, however, mitigated and addressed by the continuing and joint efforts of the various stakeholders, comprising of the Government, the regulatory agencies, as well as banks and financial institutions, to prevent the use of the banking sector as a channel for ML/TF. Thus, the **overall banking sector vulnerability is MEDIUM**.

The assessment of the strength of AML combating controls is anchored on 13 input variables:

General Input Variable		Rate
1	Comprehensiveness of AML Legal Framework	Close to excellent
2	Effectiveness of Supervision Procedures and Practices	Very High

¹⁸ Report on Economic and Financial Developments, Fourth Quarter 2016

¹⁹ *ibid*

3	Availability and Enforcement of Administrative Sanctions	Medium
4	Availability and Enforcement of Criminal Sanctions	Medium High
5	Availability and Effectiveness of Entry Controls	Close to excellent
6	Integrity of Banks' Staff	Medium
7	AML Knowledge of Banks' Staff	Medium
8	Effectiveness of Compliance Function	Medium
9	Effectiveness of Suspicious Activity Monitoring and Reporting	Medium Low
10	Level of Market Pressure to Meet AML Standards	High
11	Availability and access to beneficial ownership information	Medium High
12	Availability of Reliable Identification Infrastructure	Medium High
13	Availability of Independent Information Sources	High

Of the 13 input variables, the improvement of **Effectiveness of Compliance Function, AML Knowledge of Staff, Suspicious Transaction Monitoring, Availability and Enforcement of Administrative Sanctions** should be improved.

The BSP issued guidelines for an AML compliance function that supports a high level of compliance within the banking sector. The **Effectiveness of the Compliance Function**, however, faces a number of challenges which include human resources, AML monitoring system, AML/CFT capacity building and awareness. The deficiency in **AML/CFT Knowledge** and awareness has cascading effect in the conduct of customer due diligence, risk profiling, transaction monitoring and **Suspicious Transaction Monitoring and reporting**. There was a notable increase in the number of AML training hours and participants reported by banks. From 2011 to 2016. This data showed strong commitment of banks to improve the AML knowledge of their officers and employees.

The AMLA, as amended, and the BSP Charter provides sufficient legal basis for the imposition of penalties in cases of administrative violations. Based on the results of AML examinations for the past five years, total penalty of Php1.003 Billion were imposed against 19 banks/NBFIS due to noted weaknesses in their AML/CFT risk management system and non-compliance with BSP's directives. This also includes the Php1.0 billion penalty imposed on a bank in relation to the alleged hacking incident of accounts of a central bank.

Based on the rating under the 1st NRA, there is an improvement on the **Comprehensiveness of AML Legal Framework** of the sector.²⁰ Overall, the AML/CFT framework for the banking sector is generally compliant with the Financial Action Task Force (FATF) Recommendations 1, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 24, 25. To be fully compliant with the FATF Recommendations on correspondent banking, the BSP will issue rules to expressly provide the responsibilities of intermediary institutions.

The Philippine banking industry is also cognizant of the increasing **Market Pressure to meet AML Standards** coming from various parties, both international and domestic markets. Non-compliance with global AML/CFT standards by Philippine banks may lead to closure of their accounts and/or severance of banking relationships with foreign banking institutions and inclusion of the financial institution in black/grey lists, non-cooperative lists or sanction lists. These consequences increase reputational risk and largely impact not only current operations and future business viability of financial institutions, but franchise licenses of banks.

PRODUCT VULNERABILITY

For specific banking products and services, deposits and remittances were identified to be the more vulnerable products given their volume, transactional behavior and client profile.

Products/Services	Inherent Risk	Residual Risk ²¹
Private Banking	Medium High	Medium
Deposits	Medium High	Medium
Remittance	Medium High	Medium
Trust	Medium	Medium Low

Among the four products/services, deposit product has the highest risk to ML/TF. ML vulnerability of deposit products is mainly attributed to few depositors who maintain significant level of deposits. Deposit products are vulnerable to ML and financial abuse since depositors may use it as a medium to facilitate domestic and cross-border funds/wire transfer.

Remittance is the second in terms of inherent risk and residual risk. The inherent high risk of the product can be attributed to its use for outward, inward, foreign and domestic remittances, to its accessibility to all types of customers, and its utilization for different purposes.

²⁰ In the 1st NRA, a similar variable – AML Laws and Regulations (Preventive Measures and Supervision) – was rated as High.

²¹ Risk rating after taking into consideration AML/CFT controls in place. The risk is expressed on a numerical scale from 0.10 to 1.0, with 1.0 as the highest risk, which is attractive to money launderers.

RECOMMENDED ACTION PLAN

Based on the identified weaknesses and deficiencies in the sector, the following recommended action points are prioritized:

ACTION PLAN	PRIMARY AGENCY	TIMELINE
AML Knowledge of Banks' Staff		
The AMLC and the BSP shall provide a comprehensive train-the-trainers workshop/program to banks.	AMLC, BSP, Banks	Ongoing
Banks to review and conduct training needs analysis to determine topics to be included in the training modules.		
Banks to continuously review effectiveness of trainings conducted and the contents and mode of delivery of the trainings.		
Effectiveness of Compliance System		
Banks shall ensure to implement previous MB directives.	BSP, Banks	Q4 2017
Banks' management shall address the human resource challenges of compliance units.		
Banks shall ensure effective implementation of their respective MLPP across business units with particular focus on AML/CFT measures on customer due diligence including on-going monitoring, submission of CTRs and CTRs, and record keeping.		
Banks' compliance units shall proactively conduct compliance testing across various units.		
Banks shall regularly conduct internal audit validations.		
Banks shall ensure that violations are immediately rectified and bank employees who commit MLPP violations are subjected to proportionate and dissuasive sanctions.		
Effectiveness of Suspicious Activity Monitoring and Reporting		
Banks shall implement BSP's directive to improve electronic monitoring system and immediately address issues noted during the past examinations.		
BSP shall continue assessment on banks' compliance with previous directives and findings.		
Other complex banks (other than UBs and KBs) shall adopt their respective electronic monitoring system and ensure that it is compliant and effective.		
Availability and Enforcement of Administrative Sanctions		

BSP shall monitor actions taken on its referred AML ROEs to the AMLC for appropriate action.	AMLC, BSP	
AMLC shall act expeditiously on the referrals made by the BSP and impose administrative sanctions when warranted.		

IV. SECURITIES SECTOR VULNERABILITY - MEDIUM

The Securities and Exchange Commission (SEC) has continuously taken initiatives through amendments of its rules and regulations in order to improve and strengthen the capital market and align it with global and regional standards, best practices and IOSCO principles.

After assessment of the relevant variables, **Quality of AML Controls** was rated **Medium**. The **overall securities sector vulnerability rating** is **MEDIUM**, taking into account input variables, and products and services.

The assessment of the strength of AML controls is anchored on 13 input variables:

General Input Variable		Description
1	Comprehensiveness of AML Legal Framework	Medium High
2	Effectiveness of Supervision Procedures and Practices	Medium High
3	Availability and Enforcement of Administrative Sanctions	Medium
4	Availability and Enforcement of Criminal Sanctions	Medium High
5	Availability and Effectiveness of Entry Controls	Very High
6	Integrity of Securities' Staff	Medium High
7	AML Knowledge of Securities' Staff	Medium
8	Effectiveness of Compliance Function	Medium
9	Effectiveness of Suspicious Activity Monitoring and Reporting	Medium
10	Level of Market Pressure to Meet AML Standards	High
11	Availability and access to beneficial ownership information	Medium High
12	Availability of Reliable Identification Infrastructure	Medium High
13	Availability of Independent Information Sources	Medium

Based on the assessment of the sector, the variables **AML Knowledge** and **Effectiveness of Supervision Procedures and Practices**, and **Effectiveness of Compliance** should be given top priority. At present, the organizational structure of the SEC does not provide for a department or unit to check and examine compliance of its covered persons with AML/CFT regulations. It only has an ad-hoc AML/CFT desk, and it relies on self-regulatory organizations (SROs) like the Capital Markets Integrity Corporation (CMIC). Supervision over covered persons is geared towards the implementation and enforcement of sector-specific laws²² and not on the AMLA, as amended.

Another priority variable identified is the **Availability and Enforcement of Administrative Sanctions**. As SEC's supervision regime is only geared towards sector-specific laws, it only imposes administrative sanctions on the basis of said laws.

Effectiveness of Supervision Procedures and Practices and **Availability and Enforcement of Administrative Sanctions** are factors of the intermediate variable **Quality of AML Supervision**²³ which is likewise rated as **MEDIUM**

The assessment also identified **Effectiveness of Suspicious Activity Monitoring** as a variable that should be given priority by the sector. For the years 2014-2016, the AMLC observed a declining trend in the number of STRs filed by SEC-supervised covered persons. This, despite the fact that a high number of STRs filed in 2015 were related to an investment scam involving several unlicensed entities which allegedly offered or sold to the public, unregistered securities in the form investment contracts involving gold.

PRODUCT VULNERABILITY

Products and services of the sector are rated as follows:

Products/Services	Inherent Risk	Residual Risk
Securities/Equities Trading	Medium	Medium
Mutual funds	Medium	Medium
Securities Underwriting	Medium Low	Medium Low

Equities Trading and **Mutual Funds** are both rated as **MEDIUM** even with their growing popularity considering AML/CFT measures in place. In the case of equities trading, CMIC that ensures that these covered persons comply with regulatory requirements. In the case of mutual funds, most of the firms dealing in mutual funds is an affiliate of a foreign entity which have stringent AML policies used within the conglomerate. Vulnerability to AML/CFT is mitigated by

²² Securities and Regulation Code or Republic Act (R.A.) No. 8799, The Investment Houses Law or Presidential Decree No. 129, Investment Company Act or R.A. No. 2629, and the Corporation Code of the Philippines or Batas Pambansa Blg. 68.

²³ This variable assesses whether the assessed securities institution type has a comprehensive AML supervision regime supported by appropriate powers, staff, and other resources.

appropriate AML controls from strict customer acceptance to monitoring of transactions and regular training for their personnel.

Considering the ML sectoral combating ability and vulnerability of the products, the vulnerability of the Securities sector is rated Medium.

RECOMMENDED ACTION PLAN

Considering the identified gaps and deficiencies, the following are the recommended action plans.

ACTION PLAN	PRIMARY AGENCY	SECONDARY AGENCY	TIMELINE
<p>Propose amendments to SEC Memorandum Circular No. 2, Series of 2010 to reflect the changes in the AMLA, as amended and its 2016 RIRR, such as:</p> <p>i. The requirement for covered persons supervised and regulated by the SEC to register with the AMLC within ten (10) working days from receipt of its certificate of registration with the SEC;</p> <p>ii. Guidelines on customer identification for on-boarding of clients without face-to-face and customer identification reliance on third party or intermediary;</p> <p>iii. Requirement for covered persons to profile their customers into low, medium or high risk and tiered customer due diligence for each classification;</p> <p>iv. Adoption of a mechanism by covered persons on freezing of securities and complying with inquiry orders.</p>	SEC	AMLC	Ongoing
<p>Coordinate with the AMLC on the following matters: implementation of sanctions for violations of the AMLA and its RIRR; drafting of a Uniform Rules on Administrative Sanctions; providing trainings for SEC, CMIC other SROs, and covered persons; checking of covered persons if registered with the SEC and AMLC</p>	SEC	AMLC	2 nd Semester, 2017
<p>Creation of a new unit/division within the EIPD focused on the following: oversee compliance of CPs with AML/CFT rules and regulations; develop working arrangements with CMIC, AMLC and other SROs; monitor market intermediaries submit CTRs and STRs and if monitoring systems are in place; create a TWG for the drafting of Uniform Audit Program Guide and Code of Ethics; provide regular trainings for both SEC staff and market intermediaries.</p>	SEC	AMLC, CMIC, PDEX	2017 – 2018

V. INSURANCE SECTOR VULNERABILITY - MEDIUM

The Insurance Sector’s performance continues to thrive. At the end of 2015, the insurance sector has a combined asset of Php1.175 trillion²⁴, which is 9.91% higher than the Php1.059 trillion in 2014. Among industry players, life insurance companies constitute 81.12% of the total asset size of the insurance sector.

In the assessment of the sector, the premiums collected from each industry cluster were used to determine the weight of contribution of each industry vis-à-vis the entire insurance sector.

After assessment of the relevant variables, **Quality of AML Controls** was rated **Medium**. The **overall insurance sector vulnerability rating** is **MEDIUM**, taking into account input variables, and products and services.

The assessment of the strength of AML controls is anchored on 13 input variables:

General Input Variable		Description
1	Comprehensive of AML Legal Framework	High
2	Effectiveness of Supervision Procedures and Practices	Medium High
3	Availability and Enforcement of Administrative Sanctions	Medium
4	Availability and Enforcement of Criminal Sanctions	Medium High
5	Availability and Effectiveness of Entry Controls	Very High
6	Integrity of Staff in Insurance Companies	Medium High
7	AML Knowledge of Staff in Insurance Companies	Medium
8	Effectiveness of Compliance Function (Organization)	Medium
9	Effectiveness of Suspicious Activity Monitoring and Reporting	Medium
10	Level of Market Pressure to Meet AML Standards	High
11	Availability and Access to Beneficial Ownership Information	High
12	Availability of a Reliable Identification Infrastructure	Medium High
13	Availability of Independent Information Sources	Medium

Based on the assessment of the sector, the variable **AML Knowledge of Staff in Insurance Companies** should be given priority by the sector. The pre-need survey respondents admitted that

²⁴ Combined assets of Life Insurance, Non-Life Insurance and Professional Reinsurance, and Mutual Benefit Associations.

AML trainings were given mainly to their compliance officers. Nevertheless, these trainings were echoed to their employees.

Another priority variable is **Effectiveness of Supervision Procedures and Practices**. In 2015, the Insurance Commission created the Anti-Money Laundering Division, which is a dedicated unit for AML supervision of its covered persons. By start of 2017, the AMLD began its risk-based and supervisory on-site examination of covered persons. To date, there is still no consolidated AML rules and regulations dedicated specifically to determine compliance to the AML requirements.

PRODUCT VULNERABILITY

Products and services of the sector are rated as follows:

Products/Services	Inherent Risk	Residual Risk
Variable Life	Medium	Medium
Traditional Life	Medium Low	Medium Low
Non-Life/General Insurance	Medium	Medium Low
MBA's	Low	Low
Microinsurance	Low	Low
Pre-Need	Medium Low	Medium Low

Based on the assessment conducted, **Variable Life Insurance** poses the highest risk among insurance products assessed with its **Medium** residual risk rating. Its inherent vulnerability is due to the total value/size and the availability of investment type policy. There are also reported existence of ML typologies on the existence of the product. The risk however is mitigated by the availability of product specific AML controls.

RECOMMENDED ACTION PLAN

To mitigate the identified weaknesses and deficiencies in the Insurance Sector, the following are the proposed action plans:

ACTION PLAN	PRIMARY AGENCY	SECONDARY AGENCY	TIMELINE
Coordination with AMLC Secretariat for offered AML/CFT related seminars/ lectures	IC, AMLCS		ongoing
Formulation, consolidation and updating of IC AML/CFT rules and regulation with sanctions for non-compliance	IC	AMLCS, PLIA, PIRA, RIMANSI, Pre-Need	On or before March 2018
AML Capacity building and training for all IC employees	IC	Federation, AHMOPI, PAHMO	ongoing

Submission of Compliance Checking Report (CCR) on violations of AML/CFT and require covered persons with Certificate of Authority issued by IC to register with the AMLC		(All Industry Associations)	
Formulation, consolidation and updating of IC AML/CFT rules and regulation with sanctions for non-compliance		AMLCS, PLIA,	On or before March 2018

VI. OTHER FINANCIAL INSTITUTIONS (OFIs)

The OFIs is composed of six (6) sub-sectors, the (1) Non-Stock Savings and Loans Associations, (2) Stand-Alone Money Service Businesses, (3) Money Service Businesses in general (Pawnshops with corollary businesses), (4) Lending Companies,²⁵ (5) Financing Companies,²⁶ and (6) Non-Bank E-Money Issuers. The common deficiency across all OFIS is the lack of effectiveness on supervision/oversight activities.

Of all the OFIs assessed, stand-alone MSBs [stand-alone money changers (MCs) and foreign exchange (FX) dealers, and stand-alone remittance agents (RAs)] have the highest money laundering and terrorist financing (ML/TF) risk. This is due to the common use of cash, higher exposure to overseas customers, use of informal overseas networks that may not be regulated, and very low turn-out of registration with AMLC for purposes of CTRs/STRs submissions. Given that it is only recently that MSBs have taken serious attention to AML/CFT activities in their businesses, this translates to poor implementation of policies and procedures which in turn increases the industry's vulnerability to such levels.

RECOMMENDED ACTION PLAN

The lack of AML Supervision encompasses other deficiencies and weaknesses in the AML/CFT, such as AML knowledge, Suspicious activity monitoring and AML compliance. As such, the following are the recommended actions to be taken:

ACTION PLAN	TIMELINE	PRIMARY AGENCY
Require technology dependent and/or high volume NSSLAs, stand-alone MSBs, and pawnshops to adopt an AML electronic monitoring system, to improve the ability of entities to identify, monitor, and report suspicious activities and/or transactions.	12 months	

²⁵ Include only those regulated and supervised by the SEC.

²⁶ Ibid.

Set more refined red flags, including acceptable ranges for thresholds, in line with parameter setting		BSP /SEC/ AMLC
Creation of a standardized learning framework including the accreditation of external training providers.	12 months	
Strict implementation of Enforcement Actions.	On-going	
Require prudential reports (financial statements and reports on crimes and losses, among others) from stand-alone MSBs to improve oversight by the BSP.	12 months	
Amend the Examination Procedures of ISD I to heighten monitoring of activities related to Terrorist Financing.		
Recommend an amended AML Risk Rating System that is commensurate to the size, operations, and complexity of ISD I supervised entities (NSSLAs, Pawnshops, and MSBs).		
Capacity build-up of the examination unit handling MSBs/NSSLAs.		
Regular on-site and off-site examinations of lending and financing companies		
Creation of SEC a dedicated AML unit		

VII. DESIGNATED NON-FINANCIAL BUSINESSES AND PROFESSIONS

The first NRA's recommended action plan to address the identified weaknesses was to issue implementing rules and regulations specific to DNFBPs. It was also part of the plan to further amend the AMLA to bring the casino, real estate brokers, and car dealers within the Philippines' AML regime. The action plan was partially implemented on 14 July 2017, when the President signed into law Republic Act No. 10927 which designates casinos as covered persons under the AMLA. A legislation or a bill to include real estate brokers and dealers of high value items is also pending before the Senate of the Philippines. Further, the recently issued Revised Implementing Rules and Regulations of the AMLA did not include specific provisions for the DNFBPs. Thus, the identified weaknesses of the covered DNFBPs still remain. Except for the casino sector, no other significant changes were noted between the previous NRA and this NRA. Minimal improvements were noted on the real estate sector and on the dealers of precious metals and stones.

SECTOR	VULNERABILITY	
	1 st NRA	2 nd NRA
Casino	Very High	High
Dealers in Precious Metals and Stones	Medium High	Medium
Lawyers and Notaries	Medium	Medium
Accountants	Medium	Medium
Trust Companies	(Banks) Low	(Banks)
Company Service Providers	Medium	Medium
Car Dealers	Medium High	Medium
Real Estate	Medium High	Medium

The change in the casino sector's vulnerability rating from to Very High to **HIGH** does not translate to a significant decrease in its ML vulnerability.

Trust, in this NRA, is assessed by the NRA Banking sector group.

The vulnerability of the *real estate sector* has improved from its previous NRA rating of Medium High to **MEDIUM**. The latest data from the BSP show that majority of the real estate transactions are purchased through the real estate loan facilities of banks. Real estate transactions through banks are covered by their existing AML/CFT preventive programs. This somehow mitigates the ML/TF threats.

RECOMMENDED ACTION PLANS

To address the deficiencies in the AML/CFT of the DNFBPs sector, the following are proposed to be taken.

ACTION PLAN	PRIMARY AGENCY	SECONDARY AGENCY	TIMELINE
AML knowledge of business and staff <ul style="list-style-type: none"> Information drive on AML risk AML/CFT trainings for the DNFBPs sector 	AMLC		2 nd to 3 rd Quarters of 2018
Comprehensive legal framework	Congress	AMLC	During the 17 th Congress

VIII. FINANCIAL INCLUSION

Recognizing that advancing financial inclusion requires a whole-of-government approach, the BSP together with fourteen (14) other government agencies launched the National Strategy for Financial Inclusion (NSFI) in 2015. The NSFI serves as a platform for public and private sector collaboration to harmonize initiatives and foster a more efficient process to achieve the shared vision of financial inclusion.

Data on access and usage of formal financial services in the Philippines suggest that the country's financial system has become more inclusive over the years. In terms of access, the number of bank branches from 2015 to 2016 increased by 3.9% covering 64% of all cities and municipalities in the country, while automated teller machines (ATMs) grew by 10.2% over the same period.²⁷ Non-bank financial service providers including credit cooperatives, non-stock savings and loan associations, microfinance non-government organizations, pawnshops, remittance agents, money changers, foreign exchange dealers and electronic money agents remain important access points especially in those areas without physical banking presence. Their presence translates to more than 60,000 access points in addition to banks. About 72% of cities and municipalities without banking offices are being served by these providers.²⁸

In the Philippines, inclusion-friendly products include microfinance loans (microenterprise, micro-agri, housing microfinance, microfinance plus); microdeposits; microinsurance; pawning services; and low value payment services through electronic money (e-money) stored in a cash card or a mobile phone e-wallet.

Product	ML Risk	TF Risk
Microfinance Loans	Low	Low
Microdeposits	Low	Low
Microinsurance	Low	Low
Electronic Money	Low	Low
Pawning	Low	Low
Remittance thru pawnshops	Low to Medium	Low to Medium

The ML/TF risk for **Microfinance Loans** and **Micro-Insurance** are generally **LOW**, not only due to the size of the loan and the prescribed threshold amounts, but also due to clearly defined product features and existence of risk-mitigants for the product. Anonymous use of the product is not possible since they are mandated to conduct KYC procedures prior to customer on-boarding.

The ML/TF risk for **Micro-Deposit** remains to be **LOW** despite the expansion of the functionalities of the MBOs, primarily because of a low value threshold and because of the existence of risk mitigants.

The ML/TF risk for **Micro-Insurance** is generally **LOW** due to size, clearly defined product features suited to the target market, and existing risk mitigants. It is not offered to non-residents, and anonymous use of the product is not possible.

The ML risk for **e-money** is generally **LOW** because of a low value threshold and existence of risk mitigants. The BSP placed an aggregate monthly load limit on e-money instruments amounting to Php100,000. The TF risk for e-money is likewise **LOW** although the cross-border transaction

²⁷ Unless otherwise stated, all data are from Bangko Sentral ng Pilipinas (BSP).

²⁸ Or 396 out of 595 unbanked cities and municipalities.

could expose the sector to TF risks. It might be possible for terrorist groups to channel the funds for their activities using e-money transfer, although the proportion of ML/TF cases using E-money and the total E-money transaction is very negligible.

The ML and TF risks for the **Pawnshops** remain to be **LOW** because loans are secured by personal properties delivered to the pawnshops. These pawning loans are usually short-term, involving small amounts which are generally carried out by those from the low-income bracket. While non face-to-face transactions are now allowed, basic KYC is still required. Cross-border transactions are also not allowed. On the other hand, the ML/TF risks for **remittance services by pawnshops** are generally **LOW TO MEDIUM** because no cap has been placed on the amount of remittance and on the number of transactions.

RECOMMENDED ACTION PLAN

Though the ML/TF risks on the financial inclusion products are low, the following are still proposed to be taken to mitigate the risk:

ACTION PLAN	PRIMARY AGENCY	TIMELINE
Monitor the implementation of BSP Circular Nos. 938 and 942 to identify, measure and manage ML/TF risks for remittance services by pawnshops and MSBs	BSP	continuous
Strengthen data collection to determine the level of remittances coursed through pawnshops and MSBs that are being used for ML/TF		

IX. TERRORISM AND TERRORIST FINANCING THREAT ASSESSMENT – HIGH

Terrorism threat in the Philippines is rated **HIGH** given the high number of violent incidents associated with terror/threat organizations. Prosecution of cases involving said groups are at a minimal level as compared to the number of incidents and victims recorded. For the period 2014 to 2016, there are 1039 incidents committed by terrorist/threat groups²⁹. Regions XIII (CARAGA), V (Bicol Region), ARMM, XI (Davao) and X (Northern Mindanao) recorded the most number of threat incidents.

²⁹ Based on PNP data

TERRORIST FINANCING INVESTIGATION

Terrorist Financing threat is rated **HIGH** as terrorist/threat organizations in the country appear to have a systematic and established method of raising funds for their operations. Terrorist/threat organizations predominantly use illegal means to raise funds, with kidnap for ransom and extortion as the preferred means by terrorist/threat groups. While the total amount raised by these organizations remain largely unknown, the high number of threat incidents recorded by the PNP indicate that these terrorist/threat organizations are well-funded

Threat groups also resort to legitimate means to raise funds. Among the fundraising methods used are the use of non-profit organizations, family funding and legitimate business fronts. Use of funds are generally for operational purposes such as purchase of arms and vehicles. Threat groups from Southern Philippines used part of the funds raised to support the communities wherein they operate.

The Philippine legal framework on terrorist financing has been assessed as “Largely Compliant” to the FATF standards with the passage of Republic Act No. 10168. The AMLC is authorized under the law to conduct investigations on terrorist financing, and to freeze, without delay, all funds or assets related to terrorism.

For the period of 2014 – 2016, data from PNP shows the number of incidents related to terrorist/threat groups investigated by law enforcement agencies, referred to prosecutor’s office and filed in court.

	2014	2015	2016	TOTAL
FILED IN COURT	0	6	1	7
REFERRED TO PROSECUTOR'S OFFICE	6	51	47	104
UNDER INVESTIGATION	50	493	443	986

In comparison, the AMLC was able to investigate 18 cases of terrorist financing. From 2015 to 2nd Quarter of 2017, the AMLC was able to freeze cash in the aggregate amount of P52.68 Million, real estate with an estimated value of P7.2 Million and eighteen (18) motor vehicles.

Further, despite the increasing incidents associated with the terrorist and local threat groups, statistics show that not many STRs related to terrorism and terrorist financing were submitted to AMLCS. About less than 1% of the total STRs received from 2014-2016 are filed on terrorism and/or terrorist financing. Transactions involved in the STRs related to terrorism and terrorist financing were mostly submitted by banks. Transactions mostly involved withdrawals and remittances which were in amounts ranging from P500 to a high of P91.9 Million.

Close cooperation with law enforcement agencies and other government agencies is essential in order to trace, seize and forfeit funds used or to be used for terrorist financing, and hurdle impediments such as bank secrecy laws to ensure successful prosecution of the said crime. The AMLC is also a member of a Joint Terrorist Financing Investigation Group (JTFIG). The group has looked into more or less 80 individuals linked to terrorism.

RECOMMENDED ACTION PLAN

ACTION PLAN	PRIMARY AGENCY	SECONDARY AGENCY	TIMELINE
Strengthen and maximize existing coordination mechanisms and ensure participation of relevant government agencies, through the execution of a Memorandum of Agreement for information sharing among members of the JTFIG	Member agencies of JTFIG		Last quarter of 2017
Develop red flag indicators/typologies on transactions related to terrorism and terrorist financing, and disseminate to covered persons	AMLC	BSP, SEC, IC	3rd quarter of 2018
Create a mechanism for spontaneous disclosure to relevant government agencies of FINCEN Flash reports or other terrorism and terrorist financing related information from international sources	AMLC		Last quarter of 2017
Creation of an inter-agency working group composed of the AMLC, BSP, BOC, CAAP, Coast Guard, for the enforcement of cross border declarations and to combat physical smuggling of cash	AMLC, BOC, CAAP, Coast Guard		1st quarter of 2018