



BANK OF PAPUA NEW GUINEA

2018

ANNUAL REPORT

FINANCIAL ANALYSIS AND SUPERVISION UNIT

THE BANK OF PAPUA NEW GUINEA

PAPUA NEW GUINEA'S
FINANCIAL INTELLIGENCE UNIT (FIU)

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2018 ANNUAL REPORT

Financial Analysis and Supervision Unit (FASU),
Bank of Papua New Guinea

Papua New Guinea's
Financial Intelligence Unit (FIU)

TRANSMISSION LETTER FROM
THE DIRECTOR
FINANCIAL ANALYSIS AND SUPERVISION UNIT



BANK OF PAPUA NEW GUINEA

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28 March 2019

The Board of the Bank of Papua New Guinea

Dear Governor,

For the purposes of Section 75 of the *Anti-Money Laundering and Counter Terrorist Financing Act 2015*, I am pleased to submit the annual report on the operations of the Financial Analysis and Supervision Unit for the year ended 31 December 2018.

Yours sincerely

Benny B M Popoitai, MBE

Director

Financial Analysis and Supervision Unit

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List of Acronyms

AGD	Attorney General Department of Australia
AML/CTF	Anti-Money Laundering and Counter-Terrorism Financing
AML/CTF Act	Anti-Money Laundering and Counter Terrorist Financing Act 2015
AMLAT	Anti-Money Laundering Assistance Team
APEC	Asia Pacific Economic Co-operation
APG	Asia/Pacific Group on Money Laundering
AUSTRAC	Australian Transaction Reports and Analysis Centre (Australia's FIU)
BPNG	Bank of Papua New Guinea or Central Bank or Bank of PNG
BSD	Banking Supervision Department, Bank of PNG (Prudential Regulator)
CDD	Customer Due Diligence
DJAG	Department of Justice and Attorney General
DNFBP	Designated Non-Financial Businesses or Professions
Egmont	The Egmont Group (an affiliation of FIUs)
FASU	Financial Analysis and Supervision Unit (Papua New Guinea's FIU)
FATF	Financial Action Task Force
FinTech	Financial Technology
FI	Financial Institution
FIU	Financial Intelligence Unit
JASCO	Joint Agency Spot Check Operation
IEFTR	International Electronic Funds Transfer Report
IFTI	International Funds Transfer Instruction
INTERPOL	International Criminal Police Organization
IPA	Investment Promotion Authority
KYC	Know Your Customer
LEA	Law Enforcement Agencies
LFI	Licensed Financial Institutions
MER	Mutual Evaluation Report
ML/TF	Money Laundering/Terrorism Financing
MOU	Memorandum of Understanding
MVTS	Money Value Transfer Systems
NBFI	Non-Bank Financial Institutions
NCB	National Central Bureau
NCC	National Co-ordinating Committee on AML/CTF
NEC	National Executive Council
NPO	Non-Profit Organizations
NRA	National Risk Assessment on ML and TF
PNG	Papua New Guinea
PPATK	The Indonesian Financial Transaction Reports and Analysis Centre or INTRAC or PPATK
RPNGC	Royal Papua New Guinea Constabulary
SMR	Suspicious Matter Report (S. 41 of the AML/CTF Act)
TTR	Threshold Transaction Report (S. 39 of the AML/CTF Act)
UNDP	United Nations Development Program
UN-PRAC	United Nations – Pacific Region Anti-Corruption Project

NATIONAL CO-ORDINATING COMMITTEE CO-CHAIR'S MESSAGE



Loi M. Bakani, CMG

Governor

Bank of PNG

Co-Chair, National Co-ordinating
Committee on AML/CTF

Money laundering and counter financing of terrorism globally presents not only a problem for criminal justice systems but also a macro-economic problem because it has the capacity to destabilize financial institutions and financial systems. These global threats have led financial systems regulators and financial institutions to strengthen their vigilance in support of the efforts of governments to easily detect attempts to launder money and finance terrorism and to minimize the possibility that their jurisdictions or institutions becoming involved.

Effective enforcement of regulations and policies to deter money laundering and the financing of terrorism should, inter alia, enhance the integrity of the financial system and reduce incentives for the commission of crime with a jurisdiction.

PNG as a member of the Asia Pacific Group on Money Laundering (APG), a Financial Action Task Force (FATF) styled regional body, is required to uphold international standards and best practise as well as be subjected to scrutiny by member countries. In 2010, PNG's AML/CTF regime was assessed against the then 40+9 FATF Recommendations through the APG's mutual evaluation process. Significant deficiencies were identified in PNG's Mutual Evaluation Report which was adopted at the 2011 APG plenary.

The National Executive Council (NEC) deliberated on the MER in a meeting on 13th December 2012 and endorsed the formation of a National Co-ordinating Committee (NCC) on AML/CTF by virtue of the NEC Decision No.150/2012. The NCC is co-chaired by the Governor, Bank of PNG and the Secretary for the Department of Justice and Attorney General. It currently comprises of 18 government agencies from policy, regulatory and law enforcement. The NCC is charged with the responsibility of implementing a whole-of-government approach that involves driving PNG's National AML/CTF Strategic Plan with the objective to continue to meet its international obligations, the FATF standards.

In October 2013, the FATF through a desktop review on PNG found that there was not much progress made with regard to addressing the AML/CTF issues and referred PNG to FATF's International Co-operation Review Group's (ICRG's) regional review group (RRG) process. In February 2014, PNG was "grey-listed" and the ICRG/RRG made several recommendations, including the need to improve its AML/CTF regulatory and supervision system. These recommendations were identified as priorities in the PNG AML/CTF Strategic Implementation Plan.

On behalf of the Government of PNG, Prime Minister the Hon. Peter O'Neill, made the undertaking to FATF that the reforms that were required by the action plan and in

accordance with the domestic anti-corruption and anti-money laundering strategies were to be actively pursued by PNG through the NCC on AML/CTF. In June 2016, PNG was removed from the grey-list after it was found to have undertaken the required reforms agreed to with the ICRG/RRG.

I acknowledge the various capacity building programs for FASU and the various law enforcement and regulatory state agencies in PNG by the various donor partners in reforming and sustaining the capacity of PNG's AML/CTF regime. These include the Australian Government through the Australian Transaction Reports and Analysis Centre (AUSTRAC) and Australia's Attorney General's Department (AGD) for playing a crucial role in building capacity and providing technical assistance to assist PNG in reforming AML/CTF regime, through the Australian Government's Aid program to PNG; INTERPOL with funding from the German Government, the Asian Development Bank (ADB), APG, UNDP and UNODC.

On this inaugural publication of FASU's annual report 2018, I would like to on behalf of the Bank of PNG's Board and management, express my sincere gratitude to all who have been supporting FASU and the Bank of PNG in driving and implementing PNG's AML/CTF agendas.

I encourage you all to maintain your continuous co-operation, co-ordination and collaborative efforts in protecting the integrity of PNG's financial system.

DIRECTOR'S MESSAGE



Benny B M Popoitai, MBE
 Director
 Financial Analysis and
 Supervision Unit

I am pleased to present the inaugural 2018 Annual Report for Financial Analysis and Supervision Unit (FASU). It is a snapshot of the activities of FASU.

Our journey began with the enactment of the Anti-Money Laundering and Counter Terrorist Financing Act 2015 (the AML/CTF Act) which established the FASU within the Bank of Papua New Guinea (BPNG). FASU is now PNG's Financial Intelligence Unit (FIU) and replaces the previous FIU which was housed within the Royal PNG Constabulary under the Proceeds of Crime Act 2005.

The AML/CTF Act became effective on 4 February 2016 with FASU coming into operation in September 2016 with my appointment as Director of FASU. Prior to my appointment, FASU initially started off as a FATF project office within the BPNG with 5 staff towards the end of 2014. Since then, FASU with the support and commitment from the Board of BPNG established its

office, recruited staff and ensured training and capacity building initiatives were carried out. By October 2017, FASU had 21 staff fully engaged with carrying out the work of the FIU which includes intelligence, supervision & compliance and policy.

The year 2018 saw the end of FASU's first full year of operations and a change from the 'establishment' phase into the 'operational' phase in our activities. FASU became fully functional as an FIU in 2018.

FASU's stakeholders will undoubtedly have noticed that we intend to fulfil our functions and mandate. Specific AML/CTF onsite inspections led by FASU commenced including enforcing the requirement for reporting entities to register with FASU. Disseminations to law enforcement agencies significantly improved and are continuing as staff continue to apply the skills and knowledge obtained from the various training and capacity building programs undertaken via technical assistance from our donor partners – ADB, APG, AUSAID through AUSTRAC & AGD, INTERPOL, UNDP and UNODC.

The 2017 National Risk Assessment (NRA) identified that PNG faces serious challenges with corruption, fraud against government programs, tax evasion and environmental crimes, at levels that pose significant risks and/or threats to our nation.

FASU must lead this fight, if the future of our country is to be successful and is not impeded by self-dealing, nepotism, bribery and theft. The outcomes of the NRA are incorporated into the National AML/CTF Strategic Plan 2017 – 2022 where it places responsibility on each NCC member agency including FASU to achieve certain strategic objectives in maintaining a robust AML/CTF regime in PNG.

Critical to FASU's existence, is FASU's Egmont membership application and admission into the Egmont group in 2019. The Egmont Group of FIUs was created to provide FIUs around the world, a forum to exchange information confidentially to combat Money

Laundering, and the Financing of Terrorism and other predicate offences. Being a member of Egmont will give FASU added capabilities in the fight against money laundering and terrorism financing.

Further to the NRA, FASU intends to conduct targeted sectorial risk assessments as well as continue its outreach and awareness programs with all sectors and the public. FASU will also continue to be working closely with law enforcement and financial intelligence agencies both domestically and internationally.

I would like to take this opportunity to express my sincere appreciation to the members of the NCC, the Central Bank, our international counterparts, our donor partners, and in particular, the law enforcement agencies for their co-operation towards our combined fight against financially motivated crime. Further, I would also like to thank the reporting entities for their co-operation and partnership in ensuring that they prevent their institutions from being used for money laundering and terrorist financing purposes.

Given that PNG is a member of Asia Pacific Group (APG) on Money Laundering since 2008, we are subjected to oversight with respect to our compliance with the international FATF standards. As we prepare for our country's next 'mutual evaluation' by the APG in 2021, I intend to ensure that FASU demonstrates its effectiveness in complying with the FATF standards and maintain closer co-ordination and more collaborative efforts with our key partner agencies and stakeholders in pursuing a robust AML/CTF regime in PNG.

May GOD bless PNG!

VISION, MISSION AND OBJECTIVE

VISION

Creating an enabling environment for investment, trade, business development and economic stability, free from the influence of money laundering, proliferation and terrorist financing in PNG.

MISSION

To actively detect, deter and disrupt domestic and international money laundering and terrorist financing activities, thus protecting the integrity of PNG's financial system from being misused or abused for improper personal or professional gain.

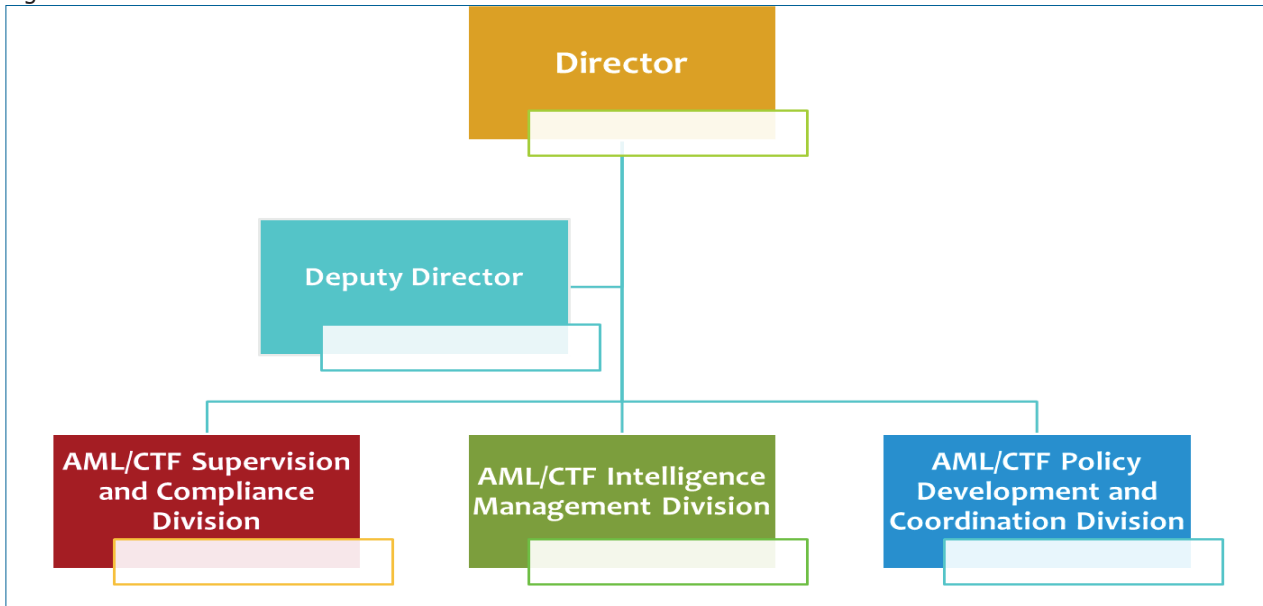
OBJECTIVE

To strengthen the AML/CTF regime in PNG to meet international standards and practises.

To enhance and strengthen co-operation and co-ordination between domestic and international partner agencies to combating ML/TF activities.

FASU STRUCTURE

Figure 1: Current FASU Structure



Source: Financial Analysis and Supervision Unit

Intelligence Management

The Intelligence Management Division (IMD) performs intelligence gathering, analysis and dissemination to relevant counterpart agencies both domestically and internationally through the various information exchange arrangements FASU establishes.

Supervision and Compliance

The Supervision and Compliance Division (SCD) performs the role as the Supervisor for AML/CTF purposes across all financial institutions (FIs) and designated non-financial business professionals (DNFBPs).

Policy Development and Co-ordination

The Policy Development and Co-ordination Division (PDCD) ensure that policies for supervision of FIs and DNFBPs are in line with the AML/CTF Act 2015 and other relevant rules, standards and regulations. This function also performs the co-ordinating role both for domestic and international counterparts and agencies.

FASU's Independence

The functions and powers of FASU are vested in the Director in accordance with Section 68 of the AML/CTF Act. In exercising the duties of the Director; the Director is responsible for implementing the functions and powers of FASU under the AML/CTF Act in accordance with Section 69 of the AML/CTF Act and is operationally independent.

FASU administratively reports to the Governor, Bank of Papua New Guinea.

FUNCTIONS AND POWERS

FASU's functions and powers are described in Section 72 of the AML/CTF Act.

They are to:

- carry out financial intelligence and analysis concerning suspected money laundering and associated predicate offences, terrorist financing and proceeds of crime; and
- monitor and enforce compliance with the AML/CTF Act;
- receive, request, collect, analyse and disseminate reports or other relevant information concerning suspected money laundering and associated predicate offences, terrorist financing and proceeds of crime;
- develop risk assessments and typology reports in relation to, and raise awareness of, money laundering and terrorist financing and obligations on financial institutions and DNFBPs under this Act; and
- co-operate with domestic agencies and regulatory authorities and foreign counterpart agencies to monitor and assess the risk of money laundering and terrorist financing; and
- ensure the effective implementation of this Act; and
- supervise financial institutions and DNFBPs for the purpose of this Act, including enforcing compliance with this Act;
- co-ordinate with other regulatory authorities for the purpose of supervising financial institutions and DNFBPs in enforcing compliance with the obligations under this Act; and
- produce AML/CTF compliance rules to assist financial institutions and DNFBPs to comply with their obligations under this Act.

FASU has a range of powers to allow it to carry out these functions.

They include:

- The power to request information and records under Sections 81 & 82 - either as a one-off request or as a continuing obligation to keep FASU informed as circumstances change.
- The power to conduct on-site inspections under Section 86 and the power to compel the production of documents and answer questions pursuant to a warrant, under Section 93 of the AML/CTF Act.
- Criminal penalties are attached to offences under sections 81, 82, 86 and 93 for individuals and corporate bodies.

Enforcement Powers

Where there are reasonable grounds to believe that a financial institution or designated non-financial businesses or professions (DNFBP) has failed to comply with the AML/CTF Act, FASU has a range of options including issuing a formal warning under Section 100; issuing infringement notices under Section 101; enforceable undertakings under Section 102; performance and restraining injunctions under Sections 104 and 105 respectively; and, published notices of non-compliance under Section 106.

To date, FASU has taken an approach of educating financial institutions and DNFBPs. FASU assesses that this education process is nearing completion and expects, in the coming year, to exercise the full range of powers to ensure compliance and a level playing field among regulated entities.

INTELLIGENCE MANAGEMENT

Dissemination of Financial Intelligence

One of the core functions of a financial intelligence unit is the dissemination of financial intelligence in line with FATF Recommendation 29. FASU currently disseminates two types of products; Intelligence Reports and SMRs. In the last 18 months to 31 December 2018, FASU disseminated a total of 32 Intelligence Reports and 3,571 SMRs to counterpart agencies.

FASU also disseminated 12 intelligence reports to foreign counterpart FIUs. There were 13 spontaneous disseminations received by FASU from other FIUs during the same period.

Request for information received by FASU over the same period includes 4 international requests and 23 domestic requests. FASU also sent international request for information to 17 different FIUs within the region with the intent to initiate communication for information exchange arrangements whereby 4 responded. In addition, FASU made 75 domestic requests for information for intelligence gathering and intelligence product development.

Table 1 below shows the domestic agencies that received FASU intelligence reports and SMRs.

Table 1: Domestic Dissemination of Intelligence Report and SMRs from 2016 – 2018

Agency	Intelligence Reports	SMRs
Royal PNG Constabulary (RPNGC)	14	3,506*
Internal Revenue Commission (IRC)	10	3,506*
PNG Customs Services	6	0
Ombudsman Commission	2	65
Total	32	3,571

Source: Financial Analysis and Supervision Unit

*NB: same SMR were submitted to both IRC and RPNGC

Table 2: Spontaneous Information Dissemination with other FIUs

	Year 2016	Year 2017	Year 2018
Dissemination to Other FIUs	Nil	Nil	12
Dissemination received by FIU	Nil	Nil	13

Source: Financial Analysis and Supervision Unit

Table 3: Information Exchange with Other FIUs 2016 – 2018

Foreign	Year 2016	Year 2017	Year 2018	Total
Number of requests made by FIU/FASU	Nil	Nil	17	17
Number of requests received by FIU/FASU	Nil	Nil	4	4

Source: Financial Analysis and Supervision Unit

Table 4: Request for Information from 2016 – 2018

	Year 2016	Year 2017	Year 2018	Total
FIU/FASU request made to Reporting Entities	Nil	19	54	73
FIU/FASU request made to Other Bodies	Nil	0	2	2
FIU/FASU receives request for information from LEA and domestic agencies	Nil	0	23	23

Source: Financial Analysis and Supervision Unit

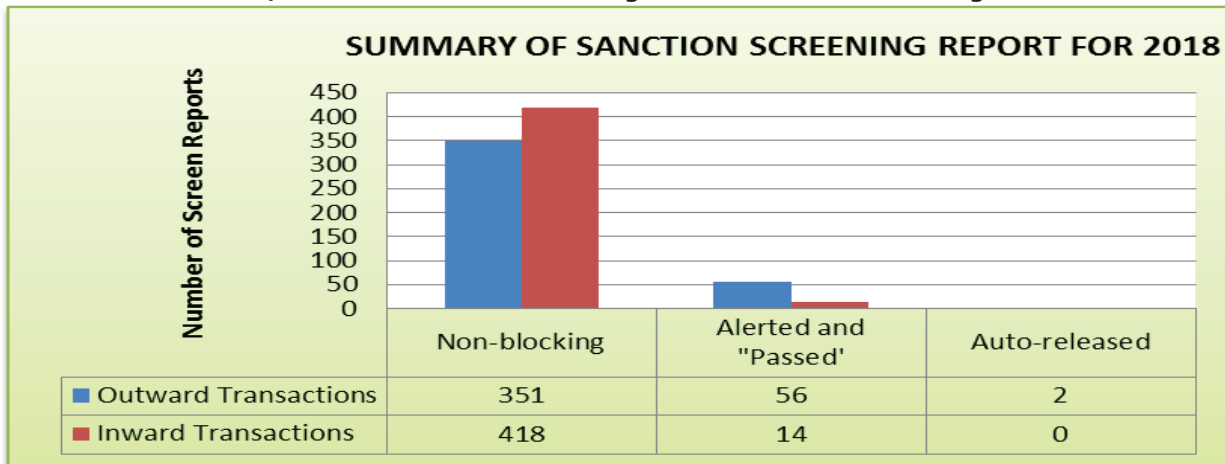
REPORTING OBLIGATIONS

Sanctions Screening Tool

FASU has visibility of the SWIFT Sanction Screening tool for all inward and outward transactions through the Bank of PNG. The screening tool portal enables FASU to monitor Real Time payments through the settlements done over the SWIFT network. This demonstrates implementation of FATF Recommendation 6 and 7 relating to targeted financial sanctions.

Table 5 shows the summary of inward and outward transactions in 2018 screened through the Sanction Screening tool.

Table 5: Total Inward/Outward Transactions through SWIFT Sanction Screening 2018



Source: Financial Analysis and Supervision Unit

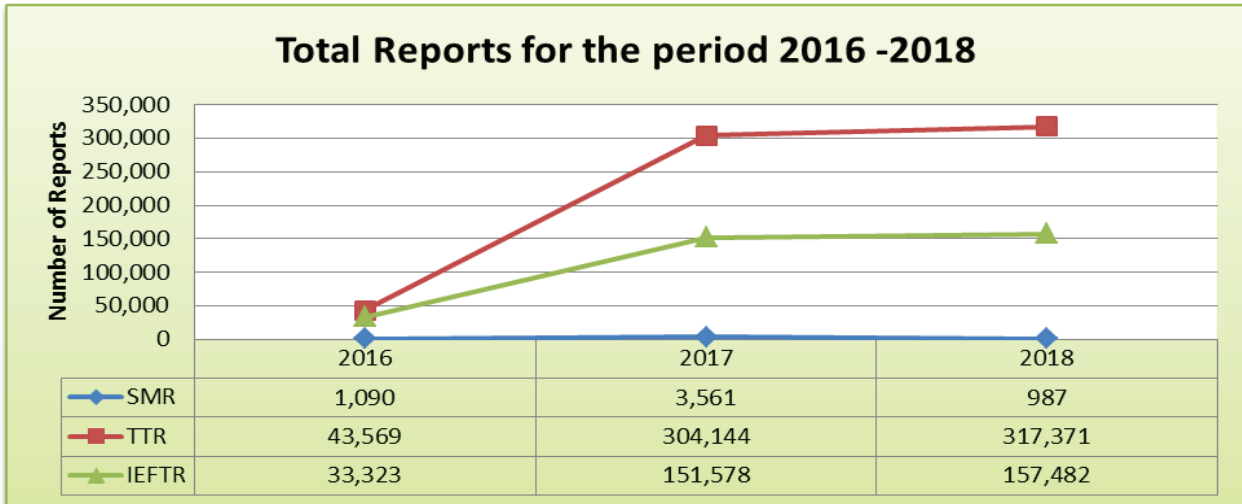
A total of 839 transactions inward and outward were screened through the sanction screening tool in 2018. A total of 769 transactions passed through on “non-blocking” mode, 70 transactions required FASU to review and “pass” while 2 outward transactions were on “Auto-release” mode which required enhanced due diligence to be conducted on the nature and beneficiaries of the transactions.

Reporting Obligations of Reporting Entities

FASU is mandated by the AML/CTF Act to receive reports from reporting entities which includes suspicious matter report (SMR), threshold transaction report (TTR) and international electronic funds transaction report (IEFTR). This function meets the FATF Recommendation 29 relating to FIUs and Recommendation 20 relating to reporting of suspicious transactions.

Most of the reports received are from the banking sector. There are few financial institutions that are also reporting as part of the reporting requirements of the AML/CTF Act.

Table 6: Below shows the summary of reports received in the last three years (2016 – 2018)



Source: Financial Analysis and Supervision Unit

The decline in SMR for 2018 as compared to 2017 was when FASU noted that financial institutions were reporting their high risk customers’ transactions as suspicious matter report. FASU had a session with the respective financial institutions which noted the change in reporting to ensure the quality of reports received is related purely to suspicious matters only.

SUPERVISION

The reporting entities that comes under FASU’s supervision for the purposes of the AML/CTF Act includes the financial institutions (FIs) and designated non-financial businesses or professions (DNFBPs). The supervision of these reporting entities meet FATF Recommendations 26 and 28 in relation to supervising FIs and DNFBPs.

Summary of FIs and DNFBPs covered under the AML/CTF Act are shown in Table 7 below.

Table 7: Reporting Entities covered by the AML/CTF Act

Financial Institutions		DNFBPs	
i.	Banks	i.	A Real Estate Agent,
ii.	Microbanks and Micro Finance Institutions	ii.	A Motor Vehicle Dealer
iii.	Savings and Loan Societies	iii.	A Dealer in Precious Metals and Stones
iv.	Foreign Subsidiaries of Banks	iv.	A Trust or Company Service Provider
v.	Credit Institutions, Insurance Companies Agents/Brokers/Underwriters	v.	A Lawyer
vi.	Investments Banks and Firms,	vi.	Notary Public or other Independent Legal Professional
vii.	Mortgage Companies	vii.	An Accountant
viii.	Superannuation Funds		

Source: Financial Analysis and Supervision Unit

On-site Inspections

A fundamental aspect of FASU's supervision processes is through the onsite inspections as mandated under Section 85 of the AML/CTF Act.

In 2018, FASU conducted five onsite inspections that covered two domestic banks using its powers under the AML/CTF Act 2015. Two of these on-sites were jointly done with the assistance of AUSTRAC through the capacity building program under the AUSAID.

Previously, on-site inspections conducted by BPNG were to ensure compliance with the Banking Prudential Standard (BPS 253) on Customer Due Diligence which was issued under the Banks and Financial Institutions Act 2000. A total of 13 onsite inspections have been conducted by BPNG that included AML/CTF as part of the scope since 2015.

Table 8: Number of Onsite Inspection FASU conducted in 2018

Month(s)	Financial Institutions	Parties Involved
March & May	Bank South Pacific Limited	FASU and AUSTRAC
March	Women's Micro Bank Limited	BSD and FASU
June	Credit Corporation Limited	BSD and FASU
July	Kina Bank Limited	FASU and AUSTRAC
October & November	ANZ Bank (PNG) Limited	FASU

Source: Financial Analysis and Supervision Unit

COMPLIANCE

Registration of Financial Institutions and DNFBPs

In 2018, FASU wrote to the identified reporting entities about the requirement to register with FASU as required under Section 57 of the AML/CTF Act. In November-December 2018, FASU also published in the daily newspapers, Post Courier and The National including Sunday Bulletin, the registration requirements, calling on reporting entities that met the criteria under the AML/CTF Act to register with FASU. As at 31 December 2018, a total of 211 reporting entities registered with FASU. The reporting entities registered with FASU are summarised in Table 9 below.

Table 9: Number of Reporting Entities Registered with FASU as at 31 December 2018

Financial Institutions	Registered	DNFBPs	Registered
Banks & Micro banks	8	Lawyers & Legal Firms	49
Finance & Credit Institutions	18	Accountants and Firms	22
Insurance & Superannuation Funds	6	Real Estate & Car Dealers	17
Others	50	Others	41
Total	82	Total	129

Source: Financial Analysis and Supervision Unit

POLICY AND DEVELOPMENT

Egmont Membership

On 25 September 2017, FASU applied to join the Egmont Group of Financial Intelligence Units, a united body of 159 Financial Intelligence Units (FIUs) that provides a platform for the secure exchange of expertise and financial intelligence to combat money laundering and terrorist financing (ML/TF).¹

Membership of Egmont is through a rigorous evaluation process conducted by sponsor countries, in PNG's case, New Zealand and Australia. The first onsite inspection was conducted from 7-8 December 2017 and a second onsite was conducted on 15 October 2018 with progressive updates provided upon request from the co-sponsors.

Being a member of Egmont would mark a significant achievement for FASU and PNG as a whole as it would improve FASU's intelligence capabilities remarkably and improve PNG's rating on FATF Recommendation 29 relating to FIUs

Issuing Guidance and Compliance Rules

With technical assistance from AUSTRAC and the AGD and legal support from PNG's Department of Justice and Attorney General's, the first draft Guidance and Compliance Rules was sent out for comments in July 2018. Feedback is currently being compiled and assessed. The guidance notes and compliance rules is expected to be issued in the second quarter of 2019.

This initiative is in line with FATF Recommendation 34 relating to guidance and feedback.

Advisory notes on Customer Due Diligence and Preventative Measures

Advisory Notes on Customer Due Diligence ('CDD') were issued to reporting entities in July 2018. The Advisory Note on Other Preventative Measures is currently being drafted to be issued in the second quarter of 2019.

These advisory notes were drafted with technical assistance provided by ADB and are aimed at assisting reporting entities, especially the smaller players in the market who would not necessarily have the resources to compile policies and procedures around AML/CTF.

This initiative takes into account the preventative measures outlined by FATF in Recommendations 9 to 23².

¹ Further information is available at: <https://egmontgroup.org/en/content/about>

² FATF Recommendations are contained in <http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202012.pdf>

NATIONAL RISK ASSESSMENT ON AML/CTF

National Risk Assessment

FATF AML/CTF standards require countries to “understand money laundering and terrorist financing risks and, where appropriate, coordinate actions domestically to combat money laundering and the financing of terrorism and proliferation”³. Most countries fulfil this requirement through the conduct of an AML/CTF National Risk Assessment (NRA).

There are four primary outcomes required of a NRA, these are:

- Identifying, assessing and understanding ML/TF risks;
- Provide a basis for the development of a national an AML/CFT regime, which includes laws, regulations, enforcement and other measures to mitigate ML/TF risks;
- Provide a basis for the prioritization and efficient allocation of resources by authorities;
- Provide useful information to financial institutions and designated non-financial businesses and professions (DNFBPs) to support the conduct of their own risk assessments.

PNG’s first NRA was conducted from 01 June 2016 to 30 September 2017 as an initiative of the NCC which was endorsed in February 2018. It was subsequently endorsed by NEC in November 2018.

The 2017 NRA concluded that the main predicate offences in PNG are:

- Corruption and Bribery
- Fraud against government programs and activities
- Illegal logging and Fishing
- Taxation and revenue fraud
- Other environmental offences
- Illicit drug importation and distribution

The sectors that are currently most vulnerable are:

- Domestic Banks;
- Company/ trust formation;
- Currency Transfer and Exchange Businesses;
- Non-profit organizations;
- Real estate agents;
- Lawyers and accountants engaged in commercial activities on behalf of clients; and
- Motor vehicle dealers.

The structural vulnerabilities in PNG were found to include:

- Porous borders;
- A cash based economy and a significant informal sector;
- Capacity and skills shortages within government agencies, non-bank financial reporting entities and in the DNFBP sector;
- Weaknesses in the regulatory and legislative framework (such as the lack of supervision of the NPO sector); and
- Lack of inter-agency co-ordination and co-operation.

³ Intermediate Outcomes 2 & 3 - <http://www.fatf-gafi.org/publications/mutualevaluations/documents/effectiveness.html>

FASU has commenced the process of operationalizing the findings of the 2017 NRA and directing resources toward the highest risk areas - being those areas where the greatest volume of illicit funds from the main predicate offences are channelled through the areas of highest vulnerability and addressing the structural challenges.

NATIONAL CO-ORDINATING COMMITTEE

National Co-ordinating Committee on AML/CTF

The PNG National Co-ordinating Committee ('NCC') on AML/CTF is the leading body, implementing a whole-of-government approach, for directing resources, sharing information and making policy decisions with respect to AML/CTF.

The NCC on AML/CTF was established in accordance with the National Executive Council (NEC) Decision No: NG 150/2012 on 13 December 2012. The Committee meets every quarter to discuss and address issues related to AML/CTF as well as working towards improving the deficiencies identified through the 2011 Mutual Evaluation Report (MER). The establishment of the NCC is in line with FATF Recommendation 2 relating to national co-operation and co-ordination.

The Governor, Bank of Papua New Guinea (BPNG) and Secretary, Department of Justice and Attorney General (DJAG) are co-chairs to the NCC on AML/CTF which comprise of 18 state agencies. FASU and DJAG provide secretariat roles for the NCC on AML/CTF.

The 18 state agencies including regulatory authorities and law enforcement agencies that form the Committee are:

- | | |
|---|---|
| 1. Bank of PNG/FASU | 11. PNG Customs Service |
| 2. Department of Justice & Attorney General | 12. Department of Foreign Affairs & Trade |
| 3. Investment Promotion Authority | 13. National Gaming & Control Board |
| 4. PNG Securities Commission | 14. Office of the Insurance Commissioner |
| 5. Department of Prime Minister & NEC | 15. National Intelligence Organisation |
| 6. Department of Finance | 16. Internal Revenue Commission |
| 7. Department of Treasury | 17. National Fisheries Authority |
| 8. Office of the Public Prosecutor | 18. PNG Forest Authority |
| 9. Royal PNG Constabulary | |
| 10. PNG Immigration and Citizenship Authority | |

The NCC meets quarterly to deliberate on matters relating to AML and CTF. During the 3 years to 31 December 2018, the NCC met on 11 occasions.

Initiatives of NCC

NCC was instrumental in ensuring that two new laws and amendments to three existing laws relating to money laundering and terrorism financing were passed by Parliament. Refer to Figure 2 which shows the summary of legislation passed.

Further, the 2014 – 2017 strategic plan became the blueprint for driving the AML/CTF reforms in PNG and was a product of the NCC. This was subsequently revised in 2017 with a new five year strategic plan covering 2017 – 2022 that took into account the outcomes of the NRA and the "effectiveness" criteria of the FATF methodology.

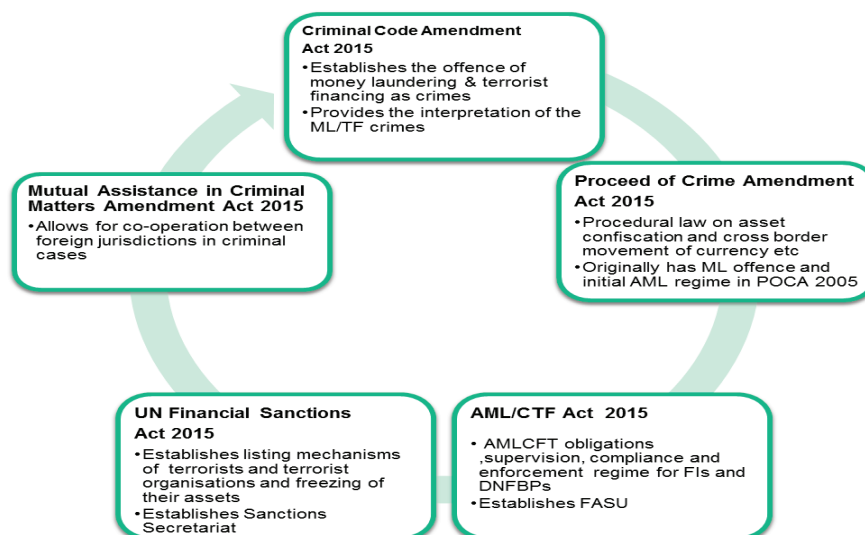
The National AML/CTF Strategic Plan 2017 – 2022 was adopted by the NCC in February 2018 and endorsed by the NEC in November 2018. It will be launched in March 2019.

COMPLIANCE WITH INTERNATIONAL STANDARDS

In 2010, PNG underwent its first Mutual Evaluation Review and was assessed against the FATF standards during which a number of significant deficiencies were identified. Refer to Appendix C on the MER results for PNG. Given that PNG did not take any action to address the deficiencies, PNG was 'grey-listed' by FATF in February 2014. Sanctions were then placed on PNG which affected correspondent banking relationships and investment & trade. As a consequence, the reforms on AML/CTF began with the passing of a new suite of AML/CTF legislation in July 2015. On 22 June 2016, PNG was removed from the FATF grey-list.

De-listing came about, in part, as a result of the five new pieces of AML/CTF legislation which became effective on 4th February 2016. A summary of the five (5) pieces of legislation that were passed by Parliament is shown in Figure 2 below.

Figure 2: Summary of Legislation passed by Parliament in July 2015



Source: Financial Analysis and Supervision Unit

Of the five pieces of legislation that were passed, two were new laws and three were legislative amendments to existing laws.

The two new pieces of legislation created were:

1. *Anti-Money Laundering and Counter Terrorist Financing Act 2015*
2. *United Nations Financial Sanctions Act 2015*

The amendments to three existing legislation included the:

3. *Proceeds of Crime (Amendment) Act 2015*
4. *Criminal Code (Money Laundering and Terrorist Financing) (Amendment) Act 2015*
5. *Mutual Assistance in Criminal Matters (Amendment) Act 2015*

Next Mutual Evaluation

FATF conducts mutual evaluations on countries every 10 years. By virtue of PNG's membership to APG in 2008 which is a FATF-style regional body, PNG is obligated to comply with the FATF standards. PNG's next Mutual Evaluation is tentatively scheduled for 2021, at which time PNG will be assessed against revised FATF standards and an updated set of criteria that now includes AML/CTF 'effectiveness'. This requires PNG to better understand the AML/CTF environment and risks and have in place tested and monitored policies and processes for detecting, disrupting, deterring and preventing money laundering and terrorist financing risks.

To avoid sanctions being placed on PNG, it is imperative that PNG complies with the FATF standards.

CO-OPERATION – DOMESTIC AND INTERNATIONAL

Domestic Stakeholder Engagements

In 2018, FASU was involved in the following;

- review of the Associations Act, a project led by the Investment Promotion Authority (IPA); and
- the consultation process of the draft Electronic Transactions Act led by the Department of Commerce, Trade and Industry.

FASU also participated in the initiatives led by PNG Extractive Industries Transparency International (EITI) on beneficial ownership and disclosure and the Joint Agency Spot Check Operations (JASCO) led by PNG Immigration and Citizenship Authority.

FASU participated in the APEC Senior Officials Meetings and related meetings during APEC 2018. More relevant to FASU were the APEC meetings on Anti-Corruption, Counter Terrorism, Illegal logging etc.

FASU also participated in the Global Forum mock onsite exercise led by Internal Revenue Commission in 2018 relating to transparency and exchange of information for tax purposes. FASU is expected to be a key agency involved in 2019 when the actual onsite by Global Forum is conducted.

From 2016 to 2018, FASU has been engaged with Transparency International Papua New Guinea (TI PNG) with its road shows in the fight against corruption in the country. TIPNG were invited to be involved in some of the initiatives driven by FASU over the years and will continue to do so in future.

In 2018, BPNG/FASU with the consent from the Governor, Bank of PNG, released and is funding one of its staff to assist the APG as financial assessor in conducting the Solomon Islands Mutual Evaluation 2018-2019.

The domestic engagements demonstrate implementation to FATF Recommendation 2 regarding national co-operation and co-ordination and Recommendation 40 relating to other forms of co-operation.

Memorandum of Understanding (MOU)

Section 97 of the AML/CTF Act enables FASU to enter into an agreement to share confidential information with foreign counterparts but subject to certain restrictions contained in Section 98 of the AML/CTF Act.

Since FASU's inception in 2016, FASU has signed MOUs with eight (8) counterpart FIUs. The MOUs were signed to ensure there is spontaneous dissemination and exchange of information. FASU continues to pursue more MOUs with other FIUs within the Asia-Pacific region.

Table 10: International MOU's Signed from 2017 -2018

	Financial Intelligence Unit	Date Signed
1	Australian Transaction Reports and Analysis Centre (AUSTRAC)	4 May 2017
2	Japan Financial Intelligence Centre (JAFIC)	18 July 2017
3	Bangladesh Financial Intelligence Unit (BFIU)	19 July 2017
4	Fiji Financial Intelligence Unit (Fiji FIU)	24 January 2018
5	The Financial Intelligence Unit of the Democratic Republic of Timor Leste	24 July 2018
6	Cook Islands Financial Intelligence Unit (CIFIU)	24 July 2018
7	Solomon Islands Financial Intelligence Unit (SIFIU)	24 July 2018
8	Samoa Financial Intelligence Unit (SFIU)	24 July 2018

Source: Financial Analysis and Supervision Unit

On the domestic front, FASU has signed seven (7) MOUs with domestic partner agencies in accordance with Section 80 (2) of the AML/CTF Act.

Table 11: Domestic MOU's Signed from 2017 - 2018

	Name of Agency	Date Signed
1	National Intelligence Organisation (NIO)	25 May 2017
2	PNG Securities Commission (SC)	11 July 2017
3	PNG Investment Promotion Authority (IPA)	11 July 2017
4	Internal Revenue Commission (IRC)	28 September 2017
5	PNG Customs Services (CS)	13 November 2017
6	PNG National Fisheries Authority (NFA)	29 August 2018
7	PNG Immigration and Citizenship Authority (ICA)	25 October 2018

Source: Financial Analysis and Supervision Unit

These MOUs are for information sharing and collaboration to enhance domestic and international co-ordination and co-operation in line with FATF Recommendation 2.

Joint Agency Spot Check Operation (JASCO)

JASCO is an initiative led by PNG's Immigration and Citizenship Authority (ICA). FASU has participated for the last three (3) years as part of inter-agency co-operation, co-ordination and collaboration.

Agencies that formed JASCO and participated in the operations include Royal PNG Constabulary, Investment Promotion Authority, PNG Customs Services, and Internal Revenue Commission among others. Table 12 summarises the activities undertaken in various provinces, the number of different agencies that participated including penalties and fines imposed through this initiative.

Table 12: JASCO Initiatives undertaken from 2016 - 2018

Year	2016	2017	2018
Provinces	1. Oro	1. National Capital District	1. Eastern Highlands 2. Simbus
Number of Agencies Participated	8	9	8
Number of Businesses Inspected	37	61	73 (EHP – 61 & Simbu – 12)
Summary of Penalties and/or Fines imposed			

Source: Financial Analysis and Supervision Unit

CAPACITY BUILDING INITIATIVES

AUSTRAC and AGD/AMLAT

FASU has been engaged with AUSTRAC and Anti-Money Laundering Assistance Team (AMLAT) from AGD with the support from Australian Government in providing technical assistance under the Supporting Papua New Guinea's Effective AML/CTF Reform (SPEAR) Programme. The technical assistance extends to Analyst Exchange Program (AEP) in 2018 between AUSTRAC, developing FASU financial intelligence database as well as building capacity with supervision and compliance.

FASU with technical and legal assistance from AUSTRAC and AGD as well as PNG's DJAG developed Guidance Notes and Compliance Rules for reporting entities.

Table 13 below summarises the engagement with AUSTRAC and AGD through the Australian Government's Aid program to PNG.

Table 13: Engagement with AUSTRAC and AGD in 2018

Date	Area of work covered	Attendees
19 – 23 March 2018	AMLAT assisted in the review and provided feedback on (1) the draft Guidance for DNFBPs on the AML/CTF Act and (2) the Compliance Rule and (3) the development of the Notes to the Compliance Rule.	AMLAT AUSTRAC DJAG FASU
	AUSTRAC assisted with BSP onsite	
28 May – 1 June 2018	AMLAT Started work on development of CDD Checklist	AMLAT AUSTRAC DJAG FASU
	AUSTRAC analyst seconded to FASU to do intelligence analysis	
12 – 15 June 2018	FASU analyst seconded to AUSTRAC Melbourne Office to do intelligence analysis	FASU AUSTRAC
10 – 14 September 2018	AUSTRAC Team were in country to provide Operational Analysis Training to FASU intelligence analysts	FASU AUSTRAC
1 – 5 October 2018	AMLAT assisted DJAG to progress the development of its legislative regime to counter the proliferation of weapons of mass destruction and its financing	IPA DJAG FASU
	AMLAT assisted FASU with support from IPA to develop guidance around conducting standard customer due diligence	

Source: Financial Analysis and Supervision Unit

In 2016, FASU sought technical assistance from the Asian Development Bank (ADB) and the support of the NCC agencies. FASU was able to deliver the first NRA on ML and TF for Papua New Guinea (2016-2017).

ADB's further assistance to FASU was on the assistance in delivering two sets of Advisory Notes related to: (1) Risk Based CDD and (2) Other Preventative Measures other than CDD for the reporting entities. These advisory notes are aimed at assisting reporting entities especially the smaller players in the market who would not necessarily have the resources to compile policies and procedures and to develop specific AML/CFT programs suited for the difference sectors the reporting entities are in.

Table 14 below covered the engagement with ADB relating to the scope of visit and the attendees from reporting entities and peer regulators that participated in this initiative.

Table 14: Engagement with ADB in 2017/2018

Date	Area of work covered	Attendees
11 – 15 December 2017	ADB Scoping visit to review the overall enabling environment in PNG, the general and specific internal and external challenges and opportunities faced by domestic banks, LFIs, NBFIs and DNFBPs. The peer regulators were also involved in the initial engagement process.	BSD SLISD FASU IPA Insurance Commission FIs DNFBPs DJAG
19 – 23 March 2018	The second visit involved consultation between peer regulators and different sectors of REs (banks, LFIs/ NBFIs and DNFBPS).	BSD SLISD FASU IPA Insurance Commission FIs DNFBPs
20 – 24 August 2018	The third visit involved consultation between peer regulators and different sectors of REs (banks, LFIs/ NBFIs and DNFBPs)	BSD SLISD FASU IPA Insurance Commission FIs DNFBPs PNG Law Society Real Estate Industry Association

Source: Financial Analysis and Supervision Unit

Secondment Arrangements

Between 2015 and 2017, under the United Nations Development Program (UNDP) as part of the capacity building development through the support of UN Pacific Region Anti-Corruption (UN-PRAC) Project, FASU was able to send two of its analysts to the Fiji FIU on a one week secondment program.

On 28 May 2018, FASU and AUSTRAC signed an agreement for Analyst Exchange Program (AEP) between the two counterparts which saw one AUSTRAC analyst attached to FASU from 28 May to 01 June 2018 with a subsequent exchange from 12 – 15 June 2018, in which a FASU analyst was seconded to AUSTRAC's Melbourne office. This exchange program is to foster and to build capacity through the mutual financial intelligence interests between PNG and Australia.

International Training and Development

In 2018, there were various forums and technical assistance trainings attended by FASU officers to strengthen and to build its capacity. The various trainings, workshops and conferences attended in 2018 were funded by the Bank of PNG as well as various donor partners.

Table 15 below gives a summary of the trainings that FASU and other government agencies, law enforcement agencies including the private sector, mostly reporting entities that attended.

Table 15: International Trainings/Workshops/Conference Attended in 2018

No.	Date	Title	Organizer	Participants
1	21 -28 January 2018	Regional Workshop on National Risk Assessments: Sydney, Australia	ADB Funded	3 x FASU 1 x Bank of PNG 1 x Kina Bank 2 x Bank South Pacific 1 x Internal Revenue Commission 1 x PNG Customs Services

2	9 -18 February 2018	Regional Pre-Mutual Evaluation Training Workshop Asia-Pacific Group on Money Laundering in Brunei, Darussalam	APG	2 x FASU
3	23 February - 5 March 2018	SEACEN Course on Money Laundering and Combating the Financing of Terrorism in Kuala Lumpur, Malaysia	SEACEN	2 x FASU 3 x BPNG
4	10 -19 March 2018	Asia Pacific Regional Operational Planning Meeting in Bangkok, Thailand	INTERPOL Funded	2 x FASU 1 x Police
5	8 - 15 April 2018	3rd National Training on Illegal Logging, Land Use, Related Crimes and Financial Investigations in Surabaya, Indonesia	INTERPOL Funded	2 x FASU
6	17 - 22 April 2018	24th Joint Border Committee Meeting in Bali, Indonesia.	Govt. Of PNG & Indonesia	2 x FASU Including 13 other state agencies
7	6 -12 May 2018	INTERPOL LED Criminal Networks Training Session in Fiji hosted by INTERPOL	INTERPOL Funded	2 x FASU 2 x Police 1 x PNG Forest Authority
8	18- 22 June 2018	AUSTRAC/FASU Analyst Exchange Program, Melbourne, Australia	AUSTRAC Funded	1 x FASU
9	18 -19 July 2018	13th International Chamber of Commerce International Financial Crimes Forum in Kuala Lumpur, Malaysia.	ICC IFC	2 x FASU

10	19 July - 3 August 2018	21st APG Annual Meeting and Technical Assistance Forum, Kathmandu, Nepal	APG	2 x FASU
				1 x DJAG
11	29 July - 3 August 2018	Association of Certified Anti-Money Laundering Specialist (ACAMS) Examination in Makati, Philippines.	ACAMS	1 x FASU
12	27 - 30 August 2018	Assist with the APG 2018/19 Mutual Evaluation of Solomon Islands	APG	1 x FASU
13	30 August - 9 September 2018	Global Forestry Crime Conference and Training in Lyon, France	INTERPOL Funded	2 x FASU
				1 x Forestry
				2 x Police
				1 x Customs
14	3 - 5 September 2018	APG Regional Workshop on Pre-Mutual Evaluation Training in Seoul, Korea	APG	2 x FASU
15	23 - 28 September 2018	EGMONT Plenary Meeting and Technical Assistance and Training Working Group (TATWG) Meetings in Sydney, Australia.	EGMONT GROUP	3 x FASU
16	1 - 4 October 2018	APEC Financial regulators Training Initiative (FRTI) Regional Seminar on AML/CTF Supervision, Rarotonga, Cook Islands	APEC FRTI	2 x FASU
17	19 October - 5 November 2018	APG Assessment Solomon Islands, Onsite visit of the Face-to-Face Mutual Evaluation	APG	1 x FASU

18	6 – 8 November 2018	4 th Annual Counter Terrorism Summit in Bangkok, Thailand	AMLO, Thailand, AUSTRAC & PPATK	3 x FASU 1 x ANZ PNG
19	19 - 21 November 2018	Extractive Industries Transparency Initiative (EITI) Peer Learning Session on Beneficial Ownership in Jakarta, Indonesia.	EITI	1 x FASU Dept. of Treasury Mineral Resource Authority Dept. of Petroleum and Energy IPA
20	10 - 14 December 2018	23rd INTERPOL Global Programme on Anti-Corruption, Financial Crimes and Asset Recovery in Jakarta, Indonesia.	INTERPOL Funded	1 x FASU 2 x Police

Source: Financial Analysis and Supervision Unit

Development and Implementation of the Taipan/Kibana Database

Under the SPEAR program, AUSTRAC with funding from the Australian Government was able to assist FASU develop a new database in order to enhance the Viper database inherited from the RPNGC. The new database is an elastic search tool known as the Kibana. It is now called the Taipan database.

Taipan went into 'production' mode on 21 December 2018 and is capable of providing a range of analytical functions that were previously unavailable in Viper. This has greatly improved FASU's financial intelligence analysis capabilities.

Taipan enables FASU to perform its function of storing, collecting, analysing and disseminating financial intelligence in line with FATF Recommendation 29 on FIUs.

Interpol Financial Crimes Engagement

FASU has been engaged with INTERPOL to provide capacity building and support in financial crime related to forestry sector. The INTERPOL engagement to assist the country will be for three years (2017 – 2019) under the project FIRFS (Financial Investigations Related to Forestry Sector). This was a NCC sanctioned initiative.

Throughout 2018, FASU has been the lead agency engaged with INTERPOL on a combined training and operational project on environmental crime related to the forestry sector.

FASU and the National Central Bureau (NCB), KONE DOBU – INTERPOL PNG with the support from the NCC on AML/CTF has delivered three national trainings on "Financial Investigations and Prosecutions Related to Forestry Crime, Land Use and Related Crimes"

in April 2018, October 2018 and February 2019 respectively.

More than 35 participants attended the various trainings. The first training involved Non-Government Organisations (NGO) and Civil Societies along with law enforcement agencies and other relevant state agencies. The second and third trainings were focused on law enforcement and state agencies.

Table 16 shows the various agencies that participated in the trainings.

Table 16: INTERPOL Technical Assistance and Training, Port Moresby, PNG

State Agencies	International Partners	NGO/Civil Societies
1. Royal PNG Constabulary	1. INTERPOL	1. Partners with Melanesia
2. PNG Forest Authority	2. AUSTRAC	2. Transparency International (PNG)
3. Department of Lands and Physical Planning	3. Food and Agriculture Organisation	3. Act Now PNG
4. Department of Justice and Attorney General	4. UNDP	4. Global Witness
5. Office of the Public Prosecutor	5. PPATK	
6. Internal Revenue Commission	6. Malaysian Anti-Corruption Commission (MACC)	
7. Investment Promotion Authority	7. JICA	
8. PNG Immigration and Citizenship Authority		
9. PNG Customs Service		
10. Magisterial Services		
11. Bank of PNG/ Financial Analysis and Supervision Unit		

Source: Financial Analysis and Supervision Unit

AWARENESS AND EDUCATION

Outreach and Awareness Activities

A total of 13 awareness sessions were conducted in 2018 that covered nine (9) provinces. The range of awareness activities conducted included presentations to reporting entities, law enforcement agencies, technical working group (TWG) members who are

representatives from the state agencies, public awareness and radio talks among others. Refer to Table 17 below.

Table 17: Summary of Awareness and Outreach Conducted in 2018

Location	Date	Attendees	Type of Activity
Kimbe	22 – 23 Feb 2018	FIs, DNFBPs, LEA, NCC Agencies	AML/CTF Reforms, Reporting Obligation & FASU Roles and Functions
Goroka	19 – 23 March 2018	General Public, Goroka Chamber of Commerce, FIs, DNFBPs, LEAs, Provincial Government	AML/CTF Reforms, Reporting Obligation & FASU Roles and Functions
Kokopo	21 – 22 June 2018	College, Fraud Investigators Training (LEA)	AML/CTF Reforms, Reporting Obligation & FASU Roles and Functions
Wewak	6 – 10 August 2018	General Public, secondary schools, radio, FIs, DNFBPs, LEAs, NCC Agencies	AML/CTF Reforms, Reporting Obligation & FASU Roles and Functions
Lae	16 – 17 August 2018	Certified Practising Accountants PNG	AML/CTF Reforms, Reporting Obligation & FASU Roles and Functions
Kavieng	18 – 21 September 2018	General Public, radio, FIs, DNFBPs, LEAs, NCC Agencies	AML/CTF Reforms, Reporting Obligation & FASU Roles and Functions
Lae	18 September 2018	Regional Momase Police investigators Training (LEA)	FASU Roles and Functions
Madang	18 – 19 October 2018	Extractive Industries Transparency International (EITI)	FASU Roles and Functions, Beneficial Owner

Port Moresby	24 October 2018	NCC Member Agencies	National AML/CTF Strategic Plan 2017 – 2022 and National Risk Assessment summary
Lae	27 – 28 October 2018	General Public	AML/CTF Reforms, Reporting Obligation & FASU Roles and Functions
Vanimo	21 – 22 November 2018	FIs, DNFBPs, LEAs, NCC Agencies	AML/CTF Reforms, Reporting Obligation & FASU Roles and Functions
Port Moresby	28 – 29 November 2018	DNFBPs	AML/CTF Reforms, Reporting Obligation & FASU Roles and Functions, Guidance & Compliance Rules and National Risk Assessment summary
Port Moresby	30 November 2018	Savings and Loan Societies industry	AML/CTF Reforms, Reporting Obligation & FASU Roles and Functions and National Risk Assessment summary

Source: Financial Analysis and Supervision Unit

ANALYSIS OF CURRENT MONEY LAUNDERING AND TERRORIST FINANCING TRENDS

Domestic Money Laundering Trends

The 2017 AML/CTF National Risk Assessment provided PNG with a baseline of money laundering activities and trends as at 31 December 2017. The 2017 NRA identified that the major proceeds-generating crimes continue to be proceeds of corruption and bribery and fraud against government programs and activities. The NRA identified that the first stage of laundering of these offences is mainly through local banks using relatively unsophisticated techniques.

Trends seen since 2017 appear to show a resurgence of the involvement of facilitators – mainly lawyers and accountants but also shell companies and NPOs – recently opened and used to receive a government payment - being involved in the laundering process.

Another method that appears to be increasingly used is the routing of illicit payments out of government accounts through more established companies.

Work undertaken with INTERPOL appears to show considerable sums being generated by illegal logging and other extractive industries. However, it appears that the proceeds from these offences are laundered initially through banks overseas with little, if any, of the money being returned to PNG.

International Money Laundering Trends

The Asia Pacific Group on Money Laundering (APG) conducts an annual 'typologies' review. The typologies identified represent the most up-to-date analysis of international trends in the methods of ML & TF seen in the region⁴. Below is a brief summary of those that appear most relevant to PNG.

Electronic funds money mules

Local bank account holders also known as "money mules" knowingly or unknowingly, at the request of the criminal syndicate, agree to receive remitted money in their account and thereafter transfer the funds elsewhere, usually to bank accounts overseas. The "money mules" usually receive a commission for their role in the transfer of the funds.

Matched deposits – peer-to-peer smurfing

Organised crime groups in certain ethnic communities identify posts on social media from people looking to receive money from the ethnic community's home jurisdiction to the one they are living in. The organised crime groups are seeking to move cash from jurisdiction B to jurisdiction A. Innocent parties in jurisdiction B are seeking to receive money from jurisdiction A.

The organised crime group contacts the individual and arranges to give them cash equivalent to an amount deposited by the 'sender' in the home jurisdiction.

A deposit is made into a bank account (controlled by the organised crime group) in jurisdiction A by the sending party, into an account. At the same time, an equivalent cash amount is handed by the organised crime group to the recipient in jurisdiction B.

Bitcoin and other crypto-currencies

Bitcoin appears to remain a low-level method of ML & TF, possibly due to difficulties transferring them into fiat currency or purchase assets and their volatility.

Use of offshore banks, international business companies and offshore trusts

Tax-haven banks, companies, trusts and legal entities continue to be seen as effective methods of laundering in the APG region and feature significantly among the typologies reported to APG in 2018. Some of the tax-haven ML methods are combined with the activities such as withdrawals in cash followed by remittance to another jurisdiction to break the chain.

⁴ <http://www.apgml.org/methods-and-trends/page.aspx?p=8d052c1c-b9b8-45e5-9380-29d5aa129f45>

Red flags include: transactions with tax-haven jurisdictions or tax haven-registered legal entities holding bank accounts in other jurisdictions. For example, a Panamanian company with a bank account in Switzerland.

Trade-Based Money laundering

Trade-based money laundering in various forms continues to feature widely in money laundering typologies in 2018. The use of fraudulent invoices being key to some of the methods used to launder funds.

Other red flags include: Irregularities in relation to the value of International Funds Transfer Instructions (IFTIs) and export values declared to border authorities indicate; trade finance is being used for the payments/transactions without any corresponding IFTIs or records showing the product was received; physical export value declared to border authorities is less than the export sales value declared to corresponding tax/customs authorities

Money Value Transfer Systems (MVTs)-Hawala/Hundi

MVTs do not feature highly in the typologies reported to APG in 2018, though unregistered remittance businesses do appear and continue to pose a risk.

Bulk Cash Smuggling & Cash Courier

Bulk Cash Smuggling (movement of cash in containers, shipping etc) and Cash Courier (cash physically carried by a passenger) continue to feature prominently among the typologies reported in 2018.

Red flags include: passenger movements and goods shipments inconsistent with stated business and personal profile.

Use of Cash-Intensive Business to Launder Funds

The laundering of cash through 'front' businesses appears to remain a key method of laundering in the APG region.

Red flags include: accounting anomalies indicative of excessive income to expenses ratio and capacity to service debt beyond projected income.

Storage and use of cash to purchase real estate, motor vehicles and luxury items

Storage of cash outside the formal financial system and subsequent use to purchase real estate and high-value/luxury items appears to remain a favoured ML method.

Red flags include: lifestyle and assets in excess of declared income.

International funds transfers to purchase foreign real estate

The movement of proceeds across international borders also appears to continue to pose a risk.

Red flags include: activity such as cash deposits followed by immediate transfers to foreign jurisdictions for things such as real estate and luxury goods.

Use of Shell Companies and Nominees

The use of shell companies and nominees appear to continue to pose a high risk of money laundering.

Red flags include: companies with no evidence of payments to employees, suppliers or for tax. The use of nominees is indicated by directors/shareholders appearing on the records of multiple companies with no apparent actual involvement/physically distant/lawyer or accountant.

Smuggling of high-value goods

The movement of high value goods such as gold has been seen recently in places such as Afghanistan and may be an indicator of TF (in certain circumstances) though it is more likely to be money laundering.

Structuring of deposits (smurfing)

Smurfing remains one of the most effective forms of money laundering in jurisdictions that allow third party deposits without requiring identification of the depositor.

Indicators include: cash carried in shopping bags or similar; third-party deposits; often conducted by students; multiple cash transactions into a single account from different locations around the country/city.

Structuring of currency exchange transactions

Structuring of currency exchange transactions appears to be a renewed form of laundering which may be seen in 2019.

Red flags include: repeated exchange transactions that occur within a short space of time.

Purchase of Valuable Assets (art works, antiquities, racehorses, etc.)

Purchase of valuable assets for cash has been flagged among the ML typologies seen in the APG region. This method has been seen coupled with the use of nominees, trusts, family members or third parties and the use of shell companies/corporations to purchase valuable assets (art works, antiquities, race horses, vehicles, etc.)

Use of nominee bank accounts (children, relatives etc.)

The use of children as nominees has seen some popularity in APG jurisdictions in 2018.

Mule Account-holders

Using third party accounts including mule account holders, to receive and transfer illegal proceeds of criminal activities was also flagged in 2018.

Red flags include: transaction behaviour inconsistent with know-your-customer (KYC) data.

Pre-laundering Activities

Opening of fake-name bank accounts with the assistance of bank employees and the creation and sale of fake-name bank accounts has been a feature of 'pre-laundering' activities seen in 2018.

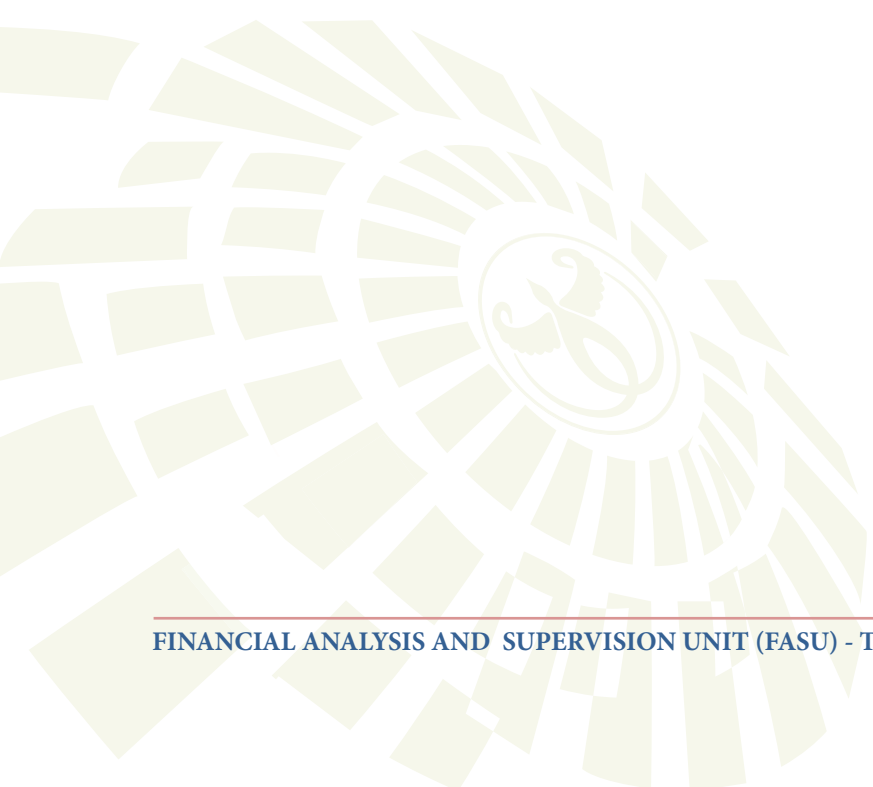
Domestic Terrorist Financing Trends

PNG has seen little in the way of terrorist financing, however some transactions that have come to light include behaviours that may be suspicious. These include the accumulation of funds from multiple depositors/accounts prior to a remittance being made to a high-risk jurisdiction/location. Instances have also been observed of citizens from high risk jurisdictions, residing in PNG, receiving funds from Jurisdiction A and sending out to Jurisdiction B & C to the same beneficiary.

International Terrorist Financing Trends

Countries like Syria, Lebanon, Turkey, the United Arab Emirates and Jordan, have been used as conduits to route money destined for terrorist groups in Syria for the cross-border movement of cash. Other methods include the use of stored value cards; online payments; formal banking and remittance sectors.

Red Flags include: Customers conducting funds transfers to multiple beneficiaries located in the same high-risk jurisdictions; structured cash deposits and withdrawals followed shortly thereafter by international funds transfers to high-risk jurisdictions/locations.



APPENDICES

APPENDIX A: Section 75 of the AML/CTF Act 2015

FASU to produce Annual Report

- (1) FASU must produce and submit an annual report by 30 March of each year to the Board of the Bank of Papua New Guinea.
- (2) An annual report must include:
 - (a) a summary of the activities of FASU;
 - (b) a summary of reports received by FASU; and
 - (c) an analysis of current money laundering and terrorist financing trends.
- (3) FASU must, as soon as is reasonably practicable after the Board of the Bank of Papua New Guinea has considered the annual report:
 - (a) provide a copy of the report to the Departmental Head of the department responsible for national justice administration; and
 - (b) make a copy of the report publicly available.
- (4) The publically available report under paragraph (3)(b) must not contain information that refers to or otherwise enables the identification of any particular person.

APPENDIX B: Summary of FATF 40 Recommendations

SUMMARY OF FATF 40 RECOMMENDATIONS					
<p>1. Assessing risks and applying a risk-based approach</p> <p>Identify, assess, and mitigate the ML & TF risks At national, supervisory and industry level.</p>	<p>2. National co-operation and co-ordination</p> <p>Enable domestic co-operation: policy, FIU, law enforcement and supervisors.</p>	<p>3. ML offence</p> <p>Apply to all serious offences and widest range of predicate offences.</p> <p style="text-align: center;">Core</p>	<p>4. Confiscations and provisional measures</p> <p>Adequate powers for LEA to confiscate proceeds of crime. Include property used, or intended to be used.</p> <p style="text-align: center;">Key</p>	<p>5. Terrorist financing offence</p> <p>Include terror acts, financing and organisations.</p> <p style="text-align: center;">Core</p>	<p>10. Customer due diligence</p> <p>KYC on account opening, on large occasional transactions; suspect transactions or ID; Identify beneficial owner; on-going due diligence.</p> <p style="text-align: center;">Core</p>
<p>6. Targeted financial sanctions related to terrorism and terrorist financing (UN sanctions and autonomous sanctions)</p> <p>Provide guidance for FIs & DNFBPs.</p> <p style="text-align: center;">Key</p>	<p>7. Targeted financial sanctions related to proliferation</p> <p>Provide guidance for FIs & DNFBPs.</p>	<p>8. Non-profit organisations</p> <p>Monitor to prevent misuse by terrorist financing.</p>	<p>9. Financial institution secrecy laws</p> <p>Require to disclose relevant information to LEA.</p> <p style="text-align: center;">Key</p>		

<p>11. Record keeping</p> <p>Customer identification. Should enable reconstruction of transactions. Keep after account is closed.</p> <p style="text-align: center;">Core</p>	<p>12. Politically exposed persons</p> <p>System to ID PEPs; senior management approve new accounts; establish source of wealth and funds; on-going monitoring.</p>	<p>13. Correspondent banking</p> <p>Assess institution reputation, supervision and AML/CFT controls; senior management approval; CDD for 'payable through accounts'.</p>	<p>14. AML requirements for money/value transfer services</p> <p>Register or licence MVTs and regulate.</p>	<p>15. New technologies</p> <p>E.g. Technology that might favour anonymity – include CDD measures for non face-to-face business.</p>
<p>16. Wire transfers</p> <p>Originator name, address & account number; Beneficiaries name, address etc.</p>	<p>17. Reliance on third parties</p> <p>Must obtain copy of CDD info immediately. 3rd party must be supervised and regulated.</p>	<p>18. Internal controls and foreign branches and subsidiaries</p> <p>Implement AML/CFT programs & apply to foreign branches and subsidiaries.</p>	<p>19. Higher-risk countries</p> <p>Special attention to transactions from countries not applying FATF 40 Recommendations. Can apply FATF countermeasures.</p>	<p>20. Reporting of suspicious transactions</p> <p>Report if reasonable grounds to suspect funds are proceeds of crime.</p> <p style="text-align: center;">Core</p>
<p>21. Tipping-off and confidentiality</p> <p>Banks and staff protected from criminal and civil action if report in good faith. Don't tip off STR.</p>	<p>22. DNFBPs: CDD</p> <p>Casinos, real estate, precious metals, lawyers & accountants.</p> <p>Rules set out in guidelines and legislation.</p>	<p>23. DNFBPs: other measures</p> <p>Apply Recommendations 18-21. Report STR when managing assets for client. Professional privilege exempt.</p>	<p>24. Transparency and beneficial ownership of legal persons</p> <p>LEA and FI access to registry to check control of legal persons.</p>	<p>25. Transparency and beneficial ownership of Legal arrangements</p> <p>FI's and LEA able to check settler, trustee and beneficiary info on central registry.</p>

<p>26. Regulation, and supervision of financial institutions</p> <p>Prevent criminals from controlling FIs, and FIs to be licensed and regulated.</p> <p style="text-align: center;">Key</p>	<p>27. Powers of supervisors</p> <p>Supervisors to have power to monitor, ensure compliance and issue penalties to FIs.</p>	<p>28. Regulation and supervision of DNFBPs</p> <p>Casinos and licensed & prevent criminals controlling or management interest. Other DNFBP supervised by a competent authority.</p>	<p>29. Financial intelligence units</p> <p>Established, role to collect STRs, analyse and disseminate to LEA.</p> <p style="text-align: center;">Key</p>	<p>30. Responsibilities of law enforcement and investigative authorities</p> <p>Assign responsibility for AML/CFT & develop special investigation techniques (e.g. undercover).</p>
<p>31. Powers of law enforcement and investigative authorities</p> <p>Investigators to have power to obtain documents & search persons & premises.</p>	<p>32. Cash couriers</p> <p>Develop declaration system and power to restrain currency.</p>	<p>33. Statistics</p> <p>Collect and analyse statistics to measure AML/CFT efficiency and effectiveness.</p>	<p>34. Guidance and feedback</p> <p>Established guidelines and provide feedback to FIs for AML/CFT – especially STR reporting.</p>	<p>35. Sanctions</p> <p>Effective penalties required for natural and legal persons.</p>
<p>36. International instruments</p> <p>Implement the Vienna, Palermo conventions, UNCAC and UNCSTF.</p> <p style="text-align: center;">Key</p>	<p>37. Mutual legal assistance</p> <p>Widest range possible to other countries requests.</p> <p style="text-align: center;">Key</p>	<p>38. Mutual legal assistance: freezing and confiscation</p> <p>Procedures for co-ordination. Freeze without delay.</p>	<p>39. Extradition</p> <p>ML & TF to be extraditable offence.</p>	<p>40. Other forms of co-operation</p> <p>Widest range possible, including between AML/CTF supervisors and FIUs.</p> <p style="text-align: center;">Key</p>

APPENDIX C: Summary of 2010 MER results for PNG

- Results were against the 40 + 9 Special Recommendations and were:
 - Largely Compliant (LC)-6
 - Compliant-2
 - Partially Compliant (PC)-19
 - Non-compliant (NC)- 22

2010 MER - 40 Recommendations

Legal systems	Rating	C
1. ML of offense	PC	NC
2. ML of offense—mental element and corporate liability	PC	NC
3. Confiscation and provisional measures	PC	NC
Preventive measures		
4. Secrecy laws consistent with the Recommendations	LC	PC
5. Customer due diligence	NC	
6. Politically exposed persons	NC	NC
7. Correspondent banking	NC	PC
8. New technologies & non face-to-face business	NC	PC
9. Third parties and introducers	NC	NC
10. Record-keeping	PC	NC
11. Unusual transactions	NC	PC
12. DNFBP-R 5, 6, & 11	NC	NC
13. Suspicious transaction reporting	PC	PC
14. Protection & no tipping-off	LC	PC
International Cooperation		
15. Internal controls, compliance & audit	PC	PC
16. DNFBP-R 13-15 & 21	NC	PC
17. Sanctions	NC	LC
18. Shell banks	NC	LC
19. Other forms of reporting	C	LC

2010 MER - 9 Special Recommendations

9 Special Recommendations	Rating
SR.I	NC
SR.II	PC
SR.III	NC
SR.IV	PC
SR.V	PC
SR.VI	PC
SR.VII	PC
SR.VIII	NC
SR.IX	NC



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