



# Mutual Evaluation Report Executive Summary

Anti-Money Laundering and Combating the  
Financing of Terrorism

## Kingdom of Saudi Arabia

25 June 2010

The Kingdom of Saudi Arabia is a member of the Middle East & North Africa Financial Action Task Force (MENAFATF). It is also a member of the Gulf Co-operation Council, which is a member of the Financial Action Task Force (FATF). This joint MENAFATF-FATF evaluation was adopted as follows:

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## EXECUTIVE SUMMARY

### 1. Background Information

1. Saudi Arabia is a significant regional economic player with a high GDP. It is the biggest oil producer and exporter in the world. In addition, it has embarked during the past decade on a plan to become a regional economic center and to diversify from almost exclusively petroleum based output to other economic sectors and products. The Saudi economy has been opened up in the previous years, including the establishment of the capital market and investment sectors. Saudi Arabia's legal system is a unique one, where the *Holy Qur'an* and *Sunnah* (Prophet Muhammad's teachings and traditions) represent the core of the legal and ruling systems. Islamic Law (or *Shari'ah*) and jurisprudence have a general law standing in many cases, where the statutory laws are silent on some issues.

2. Saudi Arabia's anti-money laundering (AML) and counter terrorist financing (CFT) regime is in creation since 2003. The anti-money laundering statute (AMLS) was issued in 2003, but money laundering (ML) cases were prosecuted and brought to courts already before the law came into effect. The said law and its Implementing Regulations (2005) provide basic requirements that are complemented by rules, instructions and circulars issued by supervisory authorities. In its efforts to combat (ML) and terrorist financing (TF), Saudi Arabia has established a number of permanent national committees to coordinate policy efforts, though such committees' role should be maximized. The CFT framework in Saudi Arabia suffers from shortcomings that need to be addressed and corrected explicitly and adequately, even though terrorism (and therefore TF) is punishable in KSA under *Shari'ah*, which has already led to convictions.

3. On the other hand, the implementation of the different aspects of the AML/CFT system in Saudi Arabia is still gaining momentum, given the novelty of many sectors conducting business, such as the insurance, securities and financing sectors, and the novelty of the AML/CFT instructions for such sectors. This overarching factor has a negative impact on the effectiveness of the whole regime. In addition, some relevant supervisory authorities are young and are in the first stages of acquiring much needed knowledge and experience. The generally below-expectation level of compliance and implementation varies between financial institutions (especially banking financial institutions) and non-financial institutions and among different sectors within each category. The level of awareness of AML/CFT risks and vulnerabilities among the different sectors needs to be raised and better communicated. Investigation and law enforcement authorities, supervisory authorities and the private sectors should pay greater attention to training and awareness-raising.

### 2. Legal System and Related Institutional Framework

4. Saudi Arabia criminalized ML since 2003 by virtue of the AMLS . This is in addition to *Shari'ah*, which law provided legal authority to prosecute and sanction ML offenders prior to the issuance of the law. The AMLS does not clearly cover self-laundering and does not clearly extend to predicate offences committed abroad. Effectiveness of ML criminalization cannot be fully measured.

5. The definition in the AMLS of ML includes TF, terrorist acts and terrorist organizations. However, no stand alone statutory TF offence with the features and elements as required by the United Nations (UN) TF Convention exists in the Saudi legal system. The criminalization of terrorism in *Shari'ah*, while producing convictions, does not allow TF as a stand-alone offence from terrorism. TF as a ML offence does not extend to all legal entities or to all funds as required by the UN TF Convention. TF as a ML offence does not cover acts by terrorist organisations of less than 3 persons, nor does it cover attempt. TF as a ML offence requires funds to be linked with a specific terrorist act. TF as a ML offence is not effective (no cases). Effectiveness of TF criminalization cannot be fully measured.

6. As to confiscation, under *Shari'ah*, it is not relevant who owns criminal property (criminal or a third party). The law permits the confiscation of properties related to the offence regardless of whom it is held by. This includes any proceeds of crime, psychotropic substances, and instrumentalities used for the commission of an offence. The AMLS contains specific provisions for confiscation in AML/CFT proceedings. Confiscation is a mandatory sanction in AMLS cases. The confiscation provisions cover proceeds, instrumentalities used and instrumentalities intended to be used for terrorism. On the other hand, the AMLS does not allow law enforcement agencies other than the financial intelligence unit (FIU) to request to the Prosecution Authority for provisional seizure measures, but other competent authorities may request the FIU to make the request for them. In addition, protection of bona fide third parties is insufficient. Overall, the effectiveness of the system cannot be established.

7. As to freezing terrorist related funds and assets, the backbone of the Saudi freezing regime is Royal Order S/2496 of 19 March 2003. It should be noted that the Royal Order targets ministries, not any financial institution, Designated Non-Financial Business and Profession (DNFBP) or other person. However, after the on-site mission a mechanism was set by virtue of a Royal Decree to deal with United Nations Security Council Resolution (UNSCR) 1267 matters, and the authorities were able to provide statistics regarding the implementation of UNSCR 1267 even before the issuing of the Royal Decree. UNSCR 1373 has not been implemented. On the implementation side, there are no clear monitoring and sanctioning procedures to verify implementation of freezing requests. The lack of a regime to deal with UNSCR 1373 presents a major shortcoming.

8. With respect to the Saudi FIU, the Saudi Arabia Financial Investigation Unit (SAFIU) was established on 7 July 2003 as an autonomous authority under the General Security Department of the Ministry of Interior. SAFIU consists of 7 divisions: Reports Division; Information Collection and Analysis Division; Information Exchange and Follow-up Division; Information and Studies Division; Training Division; Financial and Administrative Affairs Division; and IT Division. SAFIU is well resourced. The current total number of staff is 111, with 20 vacancies. The annual budget is Saudi Riyal (SAR) 100 million. However, SAFIU's independence is not fully secured. SAFIU effectively has access to a number of databases. It provides reporting entities with insufficient information on typologies and trends of ML and especially TF. The number of STRs processed by SAFIU is insufficient against the number of staff (effectiveness). STRs disseminated by SAFIU do not seem to match the need of some receiving agencies.

9. Law enforcement powers have been stipulated in the Criminal Procedure Statute. It authorizes the Prosecution Authority with the power to initiate and follow-up criminal action before the competent courts and stipulates that proceedings relating to criminal investigations and other powers (such as information gathering) are to be conducted by members of the Prosecution Authority and certain officials within the police as well as within those entities that have the general power to investigate and arrest. In addition,

public security generals, public research officers, passports officers, intelligence officers, civil defense officers, directors and officers of prisons, border guard officers, special security forces officers, national guards generals, and armed forces officers and members of the religious police (each within their own jurisdiction) also have investigation powers. Captains of Saudi vessels and airplanes and certain natural and legal persons due to special regulations have similar powers.

10. The main investigation and law enforcement bodies concerned with the fight against ML and TF are in the Ministry of Interior. Other bodies, such as the Saudi Arabian Monetary Agency (SAMA) and Saudi Customs, have investigation powers as well.

11. The Kingdom has implemented a declaration system for the detection and prevention of illicit cross-border transportation of cash since June 2007. The system is fairly new and still in a late implementation stage. The law covers cash, bearer negotiable instruments and precious metals valued over SAR 60 000 (or an equivalent amount in foreign currency), to be declared when entering or leaving the Kingdom. Only travelers with cash, bearer negotiable instruments or precious metals exceeding the declaration threshold need to submit a completed form, other travelers do not need to declare. There are no effective, proportionate and dissuasive sanctions. The effectiveness of the system is arguable because of a lack of clear and comprehensive statistics.

### **3. Preventive Measures – Financial Institutions**

12. All financial activities conducted by financial institutions as identified by the FATF standards and definitions are present in Saudi Arabia. Some sectors though are fairly new, such as the insurance, securities, and financing businesses. This is also the case for supervisors of such institutions and businesses. This situation is reflected to some extent on the level of compliance of financial institutions as well as the effectiveness of the supervisory role.

13. Saudi Arabia has a legal and regulatory framework that governs the financial sector obligations vis-à-vis AML/CFT. However, some of the requirements that should be set by a primary or secondary legislation are instead present in instruments that could be categorized as other enforceable means. In addition, with the extensive expansion of the financial sector and the introduction of new domains of financial activities, such as capital market, insurance and financing, many of the regulatory instructions needed for such businesses and activities are new.

14. With regard to customer due diligence (CDD) measures, the current sets of rules, in addition to the AMLS and implementing regulations, detail the requirements to be observed by financial institutions. However, numbered accounts are not addressed by law or regulation. If financial institutions are to be permitted to open them, they should be clearly required to maintain numbered accounts in such a way that full compliance with the FATF Recommendations can be achieved. In addition, the ongoing due diligence requirement should be provided for explicitly by primary or secondary legislation. Insurance companies should be explicitly prohibited from commencing business relations or performing transactions with a client where required CDD measures could not be satisfactorily completed. In such instances, insurance companies, banks and money exchangers should be required to consider making a suspicious transaction report.

15. Insurance companies should be explicitly required to terminate business relationships and consider making a suspicious transaction report in case required CDD measures could not be applied to

existing customers and to cases where the institution has doubts about the veracity or adequacy of previously obtained customer identification data. Banks, money exchangers, insurance companies and authorized persons (security sector) should be explicitly required to apply CDD requirements to existing customers on the basis of materiality and risk and to conduct due diligence on such existing relationships at appropriate times.

16. In addition to the above-mentioned regulatory aspects, the varying levels of implementation of the applicable CDD obligations by financial institutions are/represent also a cause of concern. Many financial institutions heavily rely on automated systems in undertaking their role, sometimes in a way not commensurate with their human resources that need to receive the output of such systems and act accordingly. Furthermore, in many (primarily non-bank) financial institutions, low levels of awareness of AML/CFT risks and requirements as well as of relevant expertise are widespread, mostly due to the novelty of businesses.

17. As to politically exposed persons (PEPs), there exists a general framework to deal with such persons; however, financing companies should be explicitly required, in addition to performing the CDD measures, to put in place appropriate risk management systems to determine whether a potential customer, a customer or the beneficial owner is a PEP. Insurance companies, securities companies and financing companies should be explicitly required to seek senior management approval for continuing the relationship in cases where a customer has been accepted and the customer or beneficial owner is subsequently found to be, or subsequently becomes a PEP. Banks and money exchangers should be required to determine the source of funds and source of wealth for beneficial owners identified as PEPs. Insurance companies should be required to determine the source of wealth and source of funds for beneficial owners identified as PEPs, as well as the source of wealth for customers identified as PEPs. Financing companies should be required to determine the source of wealth and source of funds for clients or beneficial owners identified as PEPs.

18. The AMLS, regulations, and rules cover to a generally satisfactory degree the issues of correspondent banking and protection against misuse of new technologies and non-face-to-face relationships for ML and TF. Adequate recordkeeping safeguards are also in place. Wire transfer-related provisions cover most of the requirements of the FATF standards. However, the AML/CFT Rules should be addressing diligence to be implemented for batched wire transfers. Beneficiary financial institutions should be required to adopt effective risk-based procedures for identifying and handling wire transfers that are not accompanied by full originator information.

19. As to transaction monitoring, there is a lack of clear understanding among (primarily non-bank) financial institutions regarding the distinction between requirements to monitor transactions and to report transactions that are identified as suspicious. More fundamentally, entities are often unsure of what are the appropriate parameters and considerations to apply to the monitoring of transactions. These issues could be conquered over a reasonable amount of time through a combination of further clarification of the rules and regulations, training, and effective AML/CFT supervision. Such actions would be reflected on the adequacy of suspicious transaction reporting, in terms of both quantity and quality.

20. Moreover, there are insufficient measures in place to ensure that financial institutions are advised of the AML/CFT weaknesses in other countries. The competent authorities should provide better guidance to institutions to assist in the identification of countries that do not sufficiently apply the FATF recommendations. For banks, money exchangers, and insurance companies, where SAMA does distribute

by circular FATF statements identifying countries of concern (to date they have done this for banks and money exchange businesses only), it should more explicitly note institutions' obligations with respect to the use of this information. Across all sectors, where it appears in rules and regulations governing the AML/CFT practices, reference to the non-cooperative countries and territories list (which no longer exists) should be replaced with more comprehensive and up-to-date guidance.

21. With respect to suspicious transaction reporting (STR), an upward trend in STR filings with the SAFIU over the 2004-2008 period is a positive sign. However, the low overall number of STR filings relative to the size of the economy and characteristics of the financial sector point to a lack of effectiveness. Also, the low number of TF-related STR filings by financial institutions suggests significant deficiencies in addressing TF threats. Further improvements can be made in relation to the quantity and quality of STR reporting by more clearly explaining the distinction between the monitoring of transactions for unusual activity and the identification and reporting of suspicious activity. Efforts to increase awareness – through training, provision of typologies and case studies, etc. – of the potential for TF abuse is also recommended.

22. Internal controls and policies are required from financial institutions by virtue of the law, regulations and rules. The same applies to the requirement of setting up internal and independent audit and control systems to ensure that AML/CFT requirements are met, which is provided in the AMLS, regulations and rules. The AMLS sets out the requirement that all covered entities must establish continuing training programs for employees to keep them updated on ML developments and help them fulfill their AML/CFT duties. However, inadequate AML/CFT-related training of staff in some institutions was noted.

23. More can be done to both expand training opportunities across all sectors and broaden the scope of training. The focus of most training is on understanding the rules and regulations in place. More training to enhance the understanding of how various systems, sectors, and individual entities can be exploited for the purposes of ML and TF is required. With observations in the insurance and financing sectors noted, the authorities should work closely and ardently with insurance companies to effectively implement the robust provisions regarding internal controls and policies that are laid out in the recently issued AML/CFT Rules for Insurance Companies.

24. As to supervision and regulation of financial institutions for AML/CFT purposes, supervisory powers are defined in the AMLS. Supervisory authorities (SAMA and the Capital Market Authority, CMA) have adequate powers to conduct inspections of financial institutions, including onsite inspections. In addition, supervisory authorities have the power to impose limited sanctions against financial institutions. However, some supervisory authorities lack adequate staffing, training, and experience in this field. Concerns exist regarding the adequacy of the supervisory role played in general and in the AML/CFT arena in particular.

25. The same also applies to the adequacy of corrective measures taken by SAMA toward institutions subject to its supervision. The relatively limited number of AML/CFT-related sanctions imposed so far is a reason to reach this conclusion. In addition, no complete cycles of AML/CFT inspections have been conducted for many financial sectors, either as result of the newness of the relevant sector, supervisor, or regulations.

26. AML/CFT guidelines are embedded in the current set of rules that were issued by SAMA and CMA. Both provide basic background information in their AML/CFT Rules, which need to be further developed for banks and money exchangers, insurance companies, leasing companies and securities companies to include a description of ML and FT techniques and methods and additional measures that these institutions could take to ensure that their AML/CFT measures are effective.

#### **4. Preventive Measures – Designated Non-Financial Businesses and Professions**

27. Most of the FATF's Designated Non-Financial Businesses and Professions (DNFBPs) exist in KSA: real estate agents, dealers in precious metals, dealers in precious stones, lawyers and legal advisers, and accountants. Trust (*waqfs*) and company services are partly provided by lawyers (forming companies). *Waqfs* are a similar concept to trusts. The remaining two categories of DNFBPs as defined by the FATF do not operate in the Kingdom, as casinos are prohibited, and notaries are civil servants who do not practice or prepare any financial transactions or dealing for clients.

28. The provisions of the AMLS Implementing Regulations, and in particular those dealing with the preventive measures and the monitoring of their implementation, apply equally to financial institutions and to the DNFBPs. The AML/CFT provisions designed for financial institutions, notably on CDD and reporting, are to be applied by DNFBPs to all their clients/ activities/ dealings, although these rules for financial institutions may be resource consuming and not useful to deter ML/TF in the DNFBP sector. The Ministry of Commerce and Industry and the Ministry of Justice (MOJ) both issued additional circulars on AML/CFT procedures that request DNFBPs to identify their clients, verify transactions, keep records, and establish internal monitoring and training programs. These regulations mirror the requirements made in the financial sector.

29. The deficiencies identified under the financial section above are the same for the DNFBPs-sector. A general observation in this sector is that the awareness of AML/CFT risks is lacking. As to implementation and effectiveness, it appeared that for real estate agents and dealers in precious metals and dealers in precious stones, there was no adequate compliance with AML/CFT requirements. As for lawyers and legal advisers, accountants and auditors, there was no compliance with AML/CFT requirements.

30. The supervisory authorities of DNFBPs operating in KSA are the Ministry of Commerce and Industry, the Ministry of Justice, and Saudi Organization for Certified Public Accountants. However, no effective system is in place to supervise and examine the compliance of DNFBPs with the AMLS and its Implementing Regulations. Supervisors need to increase their human and technical resources as well as the awareness and expertise necessary to conduct such examination. The said supervisors have not provided adequate guidelines either, nor has SAFIU provided feedback to reporting entities.

#### **5. Legal Persons and Arrangements & Non-Profit Organizations**

31. Ownership details have to be submitted and verified against identity documents at the time of registration, and the Company Registration Law requires that any modifications or changes to the information previously recorded have to be updated within 30 days from occurrence.

32. In principle, commercial register information is available to all competent authorities including the public, however accessing such information might require time as the information is only available



within the 40 branches of Commercial Register Office. The team encourages the authorities to introduce direct and spontaneous access to the information by the competent authorities.

33. Overall, KSA has created a system for controlling legal arrangements that outperforms systems in other countries. The authorities should, however, require beneficial ownership (in addition to the beneficiary) to be disclosed in the trust deed.

34. With many charities and *waqfs* with multiple transactions, it is essential that the Ministry of Labor and Social Affairs and the Ministry of Islamic Affairs review the NPO system as a whole, with emphasis on the process of reporting and the level of awareness of AML/CFT. This should be done in close cooperation with SAFIU.

## **6. National and International Cooperation**

35. While operational coordination is sound, on the policy level the Kingdom has set up a framework that is not as effective as it should be. The authorities should better coordinate and streamline the mandates and work of the main coordinating bodies. The authorities should also ensure that there is sufficient coordination between those persons that have access to MENAFATF and FATF meetings, and those that are responsible for implementing the FATF Standards domestically.

36. As regards the UN Vienna Convention, the team was able to confirm that its provisions were implemented. However, this is only partially the case for the UN Palermo Convention. The UN TF Convention is not implemented.

37. It is recommended that KSA implements the UN Palermo and TF Conventions, as well as the UNSCRs to correct the deficiencies noted in relation to the implementation of the relevant international conventions and UNSCRs as soon as possible.

38. There is a need to establish clear procedures for the execution of requests for mutual legal assistance which allow, in particular, for the follow-up of the execution and response to the request by the local authorities involved. In this respect, there should be a central body with responsibility for the coordination of the follow-up of such requests. The Permanent Committee for Mutual Legal Assistance would seem to fit this role, regardless of the subject matter of the request, even though it currently does not appear to implement the coordination aspect that such a role requires and is not aware of its functions under articles 23 and 24 of the AMLS.

39. There is a need to implement international agreements at domestic level in order to establish a clear basis that permits the prosecution of those citizens whose extradition has been refused. In addition to this, these provisions should also establish a framework for cooperation with foreign authorities, in particular at the level of the collection and admissibility of evidence, for the effective prosecution of those individuals. Additionally the Kingdom should conclude extradition agreements with more countries and do not narrow the scope of extradition requests in view of the reciprocity principle.

40. International cooperation by the SAFIU is sound on paper, but was not effectively implemented at the time of the on-site visit<sup>1</sup>. Information regarding supervisory entities was scarcely available to the assessment team, but only regarding the general principles for cooperation, not regarding the legal basis for cooperation. SAMA, as a matter of policy, does not conclude Memorandums of Understanding, and no statistics or practical examples of cooperation could be given. Law enforcement cooperation is sound on paper and in practice, thanks to the case flow through INTERPOL Riyadh.

## **7. Other Issues**

41. Saudi Arabia has set up conduits that could well help improve the national AML/CFT system, such as the permanent committees and abundant financial resources. Nonetheless, AML/CFT-related statistics in Saudi Arabia are in many cases inexistent, incomplete or unreliable. There should be a global statistic generation, gathering, analyzing, and utilization mechanism in place in order for the relevant authorities to be able to review the effectiveness of the AML/CFT systems on a regular basis. In addition, while some authorities are well (or over) staffed, some supervisory authorities need to increase their human and technical resources. All supervisors should pay particular attention to training provision and staff experience enriching.

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<sup>1</sup> After the on-site visit, SAFIU was granted membership of the Egmont Group and has sent 60 requests for MOUs to other FIUs. This should have a positive effect on cooperation issues; however if this is the case, this improvement would be achieved outside the time frame of this assessment.

**TABLE 1: RATINGS OF COMPLIANCE WITH FATF RECOMMENDATIONS**

The rating of compliance vis-à-vis the FATF Recommendations should be made according to the four levels of compliance mentioned in the 2004 Methodology (Compliant (C), Largely Compliant (LC), Partially Compliant (PC), Non-Compliant (NC)), or could, in exceptional cases, be marked as not applicable (na).

Forty Recommendations	Rating	Summary of factors underlying rating <sup>2</sup>
<b>Legal system</b>		
1. ML offence	<b>LC</b>	<ul style="list-style-type: none"> <li>The AMLS / jurisprudence do not clearly cover self-laundering and do not clearly extend to predicate offences - that would traditionally be regarded as predicate offences - committed abroad.</li> <li>Effectiveness of ML provisions could not be fully confirmed (definition of ML and TF).</li> <li>Shortcoming in of criminalisation of terrorist financing possibly limits the number of designated predicate offences to 19.</li> </ul>
2. ML offence – mental element and corporate liability	<b>LC</b>	<ul style="list-style-type: none"> <li>Criminal liability does not extend to (all) legal entities and the extent to which administrative or civil sanctions apply is unclear.</li> <li>Effectiveness of ML provisions could not be assessed (penalties)</li> </ul>
3. Confiscation and provisional measures	<b>PC</b>	<ul style="list-style-type: none"> <li>Insufficient protection of bona fide third parties</li> <li>Effectiveness of the CPC is not established: <ul style="list-style-type: none"> <li>due to the lack of implementation (insignificant number and amounts)</li> <li>due to lack of experience with the CPC provisions</li> </ul> </li> <li>Effectiveness of the AMLS system is limited because: <ul style="list-style-type: none"> <li>the confiscation provisions are not implemented as widely as their mandatory nature suggests</li> </ul> </li> <li>The framework to request for provisional measures does not clearly cover predicate offences</li> <li>Interaction between AMLS and CPC unclear.</li> </ul>
<b>Preventive measures</b>		
4. Secrecy laws consistent with the Recommendations	<b>LC</b>	<ul style="list-style-type: none"> <li>Limitations on the sharing of information between domestic and foreign banks in the implementation of R.7 and SR.VII</li> <li>Exceptions to confidentiality provisions in the sharing of information between entities and institutions, foreign and domestic, not explicit</li> </ul>
5. Customer due diligence	<b>PC</b>	<ul style="list-style-type: none"> <li>CDD requirements for insurance companies and authorized persons were recently circulated (at the time of the Onsite visit) which suggests that the effectiveness could not be properly addressed.</li> <li>No primary or secondary legislation guaranteeing numbered</li> </ul>

<sup>2</sup> These factors are only required to be set out when the rating is less than Compliant.

Forty Recommendations	Rating	Summary of factors underlying rating <sup>2</sup>
		<p>accounts are maintained in such a way that full compliance with the FATF Recommendations can be fully achieved.</p> <ul style="list-style-type: none"> <li>• Ongoing due diligence requirement was not provided explicitly by primary or secondary legislation.</li> <li>• Insurance companies are not explicitly required to terminate the business relationship and consider making a suspicious transaction report in case required CDD measures could not be applied to existing customers and to cases whereby the institution has doubts about the veracity or adequacy of previously obtained customer identification data.</li> <li>• Banks, money exchange businesses, insurance companies and authorized persons are not explicitly required to apply CDD requirements to existing customers on the basis of materiality and risk.</li> </ul> <p><u>Effectiveness</u></p> <ul style="list-style-type: none"> <li>• Performing CDD measures based on doubts about the veracity of previously obtained information is possibly not being implemented at most financial institutions.</li> <li>• The identification and verification process is insufficiently implemented at some financial institutions. With money exchange businesses, it appeared possible to conduct business transactions simply against submitting a copy of identity.</li> <li>• Many financial institutions do not obtain information concerning the directors of legal entities. There was evidence that proofs of incorporation of these entities have not been retained in several instances. Financial institutions demonstrated a flawed understanding of the requirement to obtain and verify beneficial ownership. Some institutions did not seem to inquire the client about it. When some financial institution proved to be verifying ownership, it stated to perform it “up to the third level”, and in other instances “up to first level”; as for understanding the control structure of legal entities, it seemed that institutions knew little about it. It was frequently noted that adopted KYC forms do not contain fields by which such information can be retained; institutions appeared to be satisfied with reliance on received copies of official documents (mainly commercial registration and Articles of Association) to collect the information required above (which does not make it possible for shareholders of bearer shares companies).</li> <li>• The scrutiny of transactions for consistency with due diligence data is likely not being conducted by non-bank financial institutions. The reported reliance of many banks on specialized transactions monitoring software for such scrutiny does not include matching with KYC data.</li> <li>• For banks and money exchangers, the transactions monitoring threshold parameter of SAR 60,000 means that most customer relationships may stay below the radar, which would exclude the requirement to undertake CDD measures when there is a suspicion of money laundering or terrorist financing below this threshold. The quality and frequency of updating of CDD data appeared to be questionable concerning many financial institutions.</li> <li>• Due diligence measures are not satisfactorily applied by many financial institutions (limited perception of who could be a high-risk customer, no classification of customers according</li> </ul>

Forty Recommendations	Rating	Summary of factors underlying rating <sup>2</sup>
		<p>to risk). Enhanced diligence is not satisfactorily applied in some sectors.</p> <ul style="list-style-type: none"> <li>At some financial institutions, some customer files do not contain key documents pertaining to the identification process: It is not clear whether this situation reflects a failure in performing timely identification and/or a failure in satisfying the requirement to refuse or terminate relationship and report accordingly.</li> <li>The extent (mainly for official documents) and quality of updating was not proper at some financial institutions. The updating process has often not been completed. CDD information for existing business relationships at many non-bank financial institutions is not up-to-date.</li> </ul>
6. Politically exposed persons	<b>PC</b>	<ul style="list-style-type: none"> <li>Definition of PEPs only covers current and recent PEPs, with no definition of “recent”.</li> <li>Financing companies are not explicitly required, in addition to performing the CDD measures, to put in place appropriate risk management systems to determine whether a potential customer, a customer or the beneficial owner is a politically exposed person.</li> <li>Insurance companies, authorized persons and financing companies are not explicitly required to seek senior management approval for continuing the relationship in cases where a beneficial owner is subsequently found to be, or subsequently becomes a PEP.</li> <li>Insurance companies are not required to determine the source of wealth and source of funds for beneficial owners identified as PEPs, as well as source of wealth for customers identified as PEPs.</li> <li>Financing companies are not explicitly required to determine source of wealth and source of funds for clients or beneficial owners identified as PEPs.</li> <li>Inadequate implementation of several components of the due diligence requirements towards PEPs, notably with respect to the risk management systems in place to spot PEPs at insurance companies and money exchange businesses, senior management approval for continuation of business relationship, verification of source of wealth and enhanced ongoing monitoring.</li> </ul>
7. Correspondent banking	<b>LC</b>	<ul style="list-style-type: none"> <li>Some banks did not seem to be implementing adequate due diligence towards correspondent relationships, notably the ones already established.</li> </ul>
8. New technologies & non face-to-face business	<b>LC</b>	<ul style="list-style-type: none"> <li>Measures undertaken by financial institutions to prevent the misuse of new technologies and non face-to-face business relationships for ML and TF purposes are not effectively implemented.</li> </ul>
9. Third parties and introducers	<b>LC</b>	<p><u>Regulatory</u></p> <ul style="list-style-type: none"> <li>The rules do not bind financial institutions by a time frame in order to obtain immediately necessary CDD information from third parties.</li> <li>Banks are not required to satisfy themselves that the third parties are regulated and supervised.</li> </ul> <p><u>Effectiveness</u></p> <ul style="list-style-type: none"> <li>Non-bank financial institutions (mainly insurance companies)</li> </ul>

Forty Recommendations	Rating	Summary of factors underlying rating <sup>2</sup>
		did not seem to apply adequate diligence towards relied on third parties.
10. Record keeping	<b>C</b>	This recommendation is fully observed.
11. Unusual transactions	<b>PC</b>	<ul style="list-style-type: none"> <li>• Legal framework establishes monitoring for unusual transactions as a means for crime detection.</li> <li>• Monitoring obligation is not explicit for all sectors.</li> <li>• Effectiveness issues: <ul style="list-style-type: none"> <li>○ Lack of distinction and awareness of the difference between monitoring unusual transactions and STR reporting requirements negatively impacts monitoring process.</li> <li>○ Deficiencies related to supervision and enforcement hinders effectiveness</li> <li>○ Monitoring threshold parameters for banking and insurance</li> </ul> </li> </ul>
12. DNFBP – R.5, 6, 8-11	<b>NC</b>	<ul style="list-style-type: none"> <li>• DNFBPs are not required to understand the ownership and control structure of a customer that is a legal person or legal arrangement.</li> <li>• DNFBPs are not required to obtain information on the purpose and intended nature of the business relationship.</li> <li>• Ongoing due diligence requirement is not provided explicitly by primary or secondary legislation.</li> <li>• DNFBPs are not required to scrutiny transactions undertaken throughout the course of the relationship to ensure that the transactions being conducted are consistent with the entity's knowledge of the customer, their business and risk profile, and where necessary, the source of funds.</li> <li>• DNFBPs are not required to consider making a suspicious transaction report whereas required CDD measures could not be applied.</li> <li>• DNFBPs are not required to terminate the business relationship and consider making a suspicious transaction report in case required CDD measures could not be applied to existing customers and to cases whereby the institution has doubts about the veracity or adequacy of previously obtained customer identification data. In such instances, it is also not required to consider making a suspicious transaction report.</li> <li>• DNFBPs are not required to apply CDD requirements to existing customers on the basis of materiality and risk and to conduct due diligence on such existing relationships at appropriate times.</li> <li>• There are no enforceable obligations with regard to Politically Exposed Persons.</li> <li>• DNFBPs are not required to include specific and effective CDD procedures in their measures for managing the risks related to non-face to face customers.</li> <li>• There are no enforceable obligations with regard to introduced business.</li> <li>• Lawyers and TCSPs are not required to pay special attention to unusual patterns of transactions that have no apparent or visible economic or lawful purpose and to examine as far as possible the background and purpose of these.</li> </ul>

Forty Recommendations	Rating	Summary of factors underlying rating <sup>2</sup>
		<ul style="list-style-type: none"> <li>• DNFBPs are not required to set forth in writing the examination of the background and purpose of complex, unusual large transactions or unusual patterns of transactions that have no apparent or visible economic or lawful purpose; DNFBPs are also not required to keep such findings available for competent authorities and auditors for at least five years.</li> <li>• Inadequate implementation, reporting and supervision.</li> </ul>
13. Suspicious transaction reporting	<b>LC</b>	<ul style="list-style-type: none"> <li>• Shortcomings in the criminalization of terrorist financing limit the reporting obligation.</li> <li>• <i>Effectiveness issues:</i> <ul style="list-style-type: none"> <li>○ Effectiveness is inconsistent across and within sectors</li> <li>○ Lack of clear distinction between unusual and suspicious activity hinders effectiveness of STR reporting</li> <li>○ Low reporting levels raise concerns about the effectiveness of the system</li> <li>○ Monitoring threshold parameter for banks and insurance companies promotes a de facto reporting threshold</li> </ul> </li> </ul>
14. Protection & no tipping-off	<b>C</b>	This recommendation is fully observed.
15. Internal controls, compliance & audit	<b>LC</b>	<ul style="list-style-type: none"> <li>• Independence and adequate resourcing of the audit function not explicitly provided for in case of insurance and securities companies. Deficiencies related to supervision and enforcement hinders effectiveness, particularly in insurance and securities sectors.</li> </ul>
16. DNFBP – R.13-15 & 21	<b>NC</b>	<p><i>Application of R.13</i></p> <ul style="list-style-type: none"> <li>• Low number of STR filing from dealers in precious metals and stones and accountants indicates low effectiveness.</li> <li>• Absence of STR filing from lawyers and real estate agents indicates no effectiveness.</li> <li>• Insufficient awareness among entities regarding ML/TF risks and identification thereof.</li> </ul> <p><i>Application of R.15</i></p> <ul style="list-style-type: none"> <li>• No specific regulations or guidance issued for lawyers and legal advisors.</li> <li>• Lack of supervision and enforcement renders low effectiveness.</li> <li>• Insufficient awareness among entities regarding ML/TF risks and identification thereof.</li> </ul> <p><i>Application of R.21</i></p> <ul style="list-style-type: none"> <li>• No requirement applying to lawyers and legal advisors.</li> <li>• MOCI does not provide appropriate guidance for all covered DNFBPs and requirements are not enforced.</li> </ul>
17. Sanctions	<b>LC</b>	<ul style="list-style-type: none"> <li>• Low levels of corrective measures applied by both SAMA and CMA.</li> </ul>
18. Shell banks	<b>LC</b>	<ul style="list-style-type: none"> <li>• Effectiveness deficiencies relating to Recommendation 7 have a negative impact on the ability to fully comply with Recommendation 18.</li> </ul>
19. Other forms of reporting	<b>C</b>	This recommendation is fully observed.

Forty Recommendations	Rating	Summary of factors underlying rating <sup>2</sup>
20. Other NFBP & secure transaction techniques	<b>C</b>	This recommendation is fully observed.
21. Special attention for higher risk countries	<b>PC</b>	<ul style="list-style-type: none"> <li>Absence of counter-measures</li> <li>Insufficient guidance regarding what is required of institutions with respect to identifying those countries that do not sufficiently apply the FATF Recommendations</li> <li>Overreliance on FATF statements and uneven adherence across sectors and entities hinders effectiveness.</li> </ul>
22. Foreign branches & subsidiaries	<b>LC</b>	<ul style="list-style-type: none"> <li>Deficiencies related to Recommendation 21 have a negative impact on the ability to fully comply with Recommendation 22.</li> <li>Deficiencies related to supervision and enforcement hinders effectiveness, particularly in insurance and securities sectors.</li> </ul>
23. Regulation, supervision and monitoring	<b>LC</b>	<ul style="list-style-type: none"> <li>Fit and proper procedures have not been tested against real case scenarios for existing financial institutions (in relation to ownership) and with regards to non-Saudi nationals.</li> <li>Low number of human resources available for insurance and authorized persons supervision.</li> <li>Lack of adequate training for CMA's AML unit staff.</li> <li>Low number of AML/CFT related examination on authorized persons.</li> </ul>
24. DNFBP - regulation, supervision and monitoring	<b>NC</b>	<ul style="list-style-type: none"> <li>No effective system in place to supervise and examine the compliance of DNFBs with AMLS and its implementing regulations.</li> <li>Lack of expertise of ML/FT risks within competent authorities and DNFBs.</li> </ul>
25. Guidelines & Feedback	<b>PC</b>	<ul style="list-style-type: none"> <li>Feedback is inconsistently applied and not adequately used as a tool to further the effectiveness of AML/CFT provisions</li> <li>Insufficient guidance regarding ML and TF methods and typologies</li> <li>Guidance issued by supervisory authorities is not comprehensive and not industry specific.</li> <li>No specific guidelines have been issued to assist all DNFBs</li> <li>No feedback has been provided by SAFIU</li> </ul>
<b>Institutional and other measures</b>		
26. The FIU	<b>LC</b>	<ul style="list-style-type: none"> <li>Effectiveness is under pressure by the insufficient number of processed STRs.</li> <li>Annual reports lack most of the required information.</li> </ul>
27. Law enforcement authorities	<b>LC</b>	<ul style="list-style-type: none"> <li>Unclear if all investigation authorities other than the PA have sufficient awareness and knowledge to properly investigate ML/FT.</li> <li>Operational effectiveness could not fully be established as statistics are not specific and MOUs were not submitted.</li> </ul>
28. Powers of competent authorities	<b>LC</b>	<ul style="list-style-type: none"> <li>The effective use of powers for purposes of fighting ML and the effectiveness of operational law enforcement cooperation could not be established.</li> </ul>
29. Supervisors	<b>LC</b>	<ul style="list-style-type: none"> <li>No adequate number of staff or expertise to carry out examination within Insurance Control Unit in SAMA or CMA</li> <li>Low number of AML/CFT related examination tasks</li> </ul>



Forty Recommendations	Rating	Summary of factors underlying rating <sup>2</sup>
		performed by SAMA and CMA.
30. Resources, integrity and training	<b>LC</b>	<ul style="list-style-type: none"> <li>Some supervisory authorities (for both FIs and DNFBP) need more human and technical resources and training to carry out their respective roles effectively.</li> <li>Insufficient operational independence of supervisors</li> </ul>
31. National cooperation	<b>LC</b>	<ul style="list-style-type: none"> <li>Coordination on the policy level is insufficiently effective.</li> </ul>
32. Statistics	<b>PC</b>	<p>Lack of complete or reliable statistics concerning:</p> <ul style="list-style-type: none"> <li>overall statistics on penalties upon convictions are not available</li> <li>some statistical uncertainty about the difference between ML and TF</li> <li>no separate statistics available on the use of seizure provisions</li> <li>fragmented statistics relating to the numbers of (AML/CFT) staff and budgets of LEAs</li> <li>Customs statistics are not very clear and hamper the ability to draw workable (AML/CFT) conclusions</li> <li>Lack of lawyers-related STR</li> <li>No specific statistics are generated or kept in relation to the results FI supervisory inspections</li> <li>statistics to prove the effectiveness (R.38)</li> </ul>
33. Legal persons – beneficial owners	<b>LC</b>	<ul style="list-style-type: none"> <li>Lack of direct and spontaneous access to the Commercial register information by competent authorities.</li> </ul>
34. Legal arrangements – beneficial owners	<b>LC</b>	<ul style="list-style-type: none"> <li>The assessment team was unable to confirm that beneficial ownership is available</li> </ul>
<b>International Cooperation</b>		
35. Conventions	<b>PC</b>	<ul style="list-style-type: none"> <li>Palermo Convention not fully implemented.</li> <li>TF Convention not implemented</li> </ul>
36. Mutual legal assistance (MLA)	<b>LC</b>	<ul style="list-style-type: none"> <li>The PCMLA should improve its coordination role in order to ensure the effective follow up of the implementation of foreign MLA requests.</li> <li>No legal framework or effective mechanism for dealing with conflicts of jurisdiction which causes uncertainty about the willingness to retain jurisdiction over every investigation in these conflicts of jurisdiction cases.</li> <li>The deficiencies in the TF criminalization may impact on the ability to provide MLA</li> </ul>
37. Dual criminality	<b>LC</b>	<ul style="list-style-type: none"> <li>Not established that there are no practical impediments for dealing with dual criminality in extradition cases</li> </ul>
38. MLA on confiscation and freezing	<b>PC</b>	<ul style="list-style-type: none"> <li>There is no specific provision regarding the confiscation or seizure of property of corresponding value and international cooperation</li> <li>Effectiveness cannot be assessed as a result of lack of implementation.</li> <li>No legal framework for dealing with non-MLA confiscation cases.</li> <li>The deficiencies in the TF criminalization may impact on the</li> </ul>

<b>Forty Recommendations</b>	<b>Rating</b>	<b>Summary of factors underlying rating<sup>2</sup></b>
		ability to provide MLA
39. Extradition	<b>LC</b>	<ul style="list-style-type: none"> <li>Unclear if and how KSA authorities submit the case to its competent authorities for the prosecution of the offences where extradition has been refused</li> <li>Extradition on the basis of reciprocity not effective</li> <li>Overall effectiveness of the system could not fully be confirmed</li> </ul>
40. Other forms of cooperation	<b>PC</b>	<ul style="list-style-type: none"> <li>International cooperation by supervisors (SAMA and CMA) FIU (SAFIU) and Customs is insufficient.</li> <li>There is an unclear legal basis for some forms of international cooperation by some law enforcement bodies</li> <li>Lack of statistics to confirm effectiveness for most forms of international cooperation, especially by supervisory bodies and the FIU.</li> </ul>
<b>Nine Special Recommendations</b>	<b>Rating</b>	<b>Summary of factors underlying rating</b>
SR.I Implement UN instruments	<b>NC</b>	<ul style="list-style-type: none"> <li>TF Convention not implemented</li> <li>The failings related to UNSCRs 1267, 1373 and successor resolutions have a negative impact on this Special Recommendation.</li> </ul>
SR.II Criminalize terrorist financing	<b>PC</b>	<ul style="list-style-type: none"> <li>No stand alone statutory TF offence</li> <li>TF not criminalized in line with the TF Convention</li> <li>TF as a ML offence does not extend to all legal entities</li> <li>Insufficient definition of funds as required by TF Convention</li> <li>TF as a ML offence does not cover acts by terrorist organisations of less than 3 persons</li> <li>Unclear if funds have to be used for a specific terrorist act or linked to a specific terrorist act.</li> <li>The term “financing” does not clearly cover the collection of funds.</li> <li>The term “terrorism or terrorist act” does not clearly cover the acts contemplated by Article 2(1)(b) of the FT Convention.</li> <li>The financing of terrorist acts contemplated by Article 2(b) of the FT Convention in relation to conventions not yet ratified by the KSA are not covered.</li> <li>Financing a terrorist organisation or individual terrorist for any purpose (i.e. not related to a terrorist act) is not covered.</li> <li></li> </ul>
SR.III Freeze and confiscate terrorist assets	<b>PC</b>	<p>Regarding UNSCR 1373:</p> <ul style="list-style-type: none"> <li>UNSCR 1373 is not implemented (no legal basis, no procedure)</li> </ul> <p>Regarding UNSCR 1267:</p> <ul style="list-style-type: none"> <li>Freezing actions do not apply to a sufficiently broad range of funds or other assets.</li> <li>No communication mechanisms for non-bank FIs and DNFBPs.</li> <li>No guidance for non-bank FIs and DNFBPs.</li> <li>Protection does not extend to a sufficiently broad range of</li> </ul>

Nine Special Recommendations	Rating	Summary of factors underlying rating
		bona fide third parties <ul style="list-style-type: none"> <li>Lack of clear monitoring and sanctioning procedures to verify implementation of freezing requests</li> </ul>
SR.IV Suspicious transaction reporting	<b>LC</b>	<ul style="list-style-type: none"> <li>Shortcomings in the criminalization of terrorist financing limit the reporting obligation.</li> <li><i>Effectiveness issues:</i> <ul style="list-style-type: none"> <li>Effectiveness is inconsistent across and within sectors</li> <li>Lack of clear distinction between unusual and suspicious activity hinders effectiveness of STR reporting</li> <li>Low reporting levels raise concerns about the effectiveness of the system</li> <li>Monitoring threshold parameter for banks and insurance companies promotes a de facto reporting threshold.</li> </ul> </li> </ul>
SR.V International cooperation	<b>PC</b>	<ul style="list-style-type: none"> <li>The deficiencies related to Recommendations 36 to 40 have a negative effect on the rating of this Recommendation.</li> </ul>
SR.VI AML requirements for money/value transfer services	<b>LC</b>	<ul style="list-style-type: none"> <li>Deficiencies identified and ineffective implementation in relation to obligations required under other Recommendations (5, 6, 7, 8, 9, 11, 13, 15, 17, 21 and 23) affect the rating of compliance with SR.VI.</li> </ul>
SR.VII Wire transfer rules	<b>PC</b>	<p><u>Regulatory</u></p> <ul style="list-style-type: none"> <li>Beneficiary financial institutions are not required to adopt effective risk-based procedures for identifying and handling wired transfers that are not accompanied by complete originator information.</li> </ul> <p><u>Effectiveness</u></p> <ul style="list-style-type: none"> <li>Customer address is not included on the wire transfer.</li> <li>In relation to the rules that have been enacted to replace risk based procedures: Banking relationships are not likely to be terminated based on receiving wire transfers lacking originator information from a remitting bank. Reporting accordingly is not likely to be performed either.</li> <li>The shortcomings identified under Recommendations 17 (sanctions) and 23 (monitoring and supervision) have a negative impact on this Special Recommendation.</li> </ul>
SR.VIII Non-profit organisations	<b>LC</b>	<ul style="list-style-type: none"> <li>No review of the adequacy of domestic laws and regulations that relate to NPOs, no domestic reviews for the purpose of identifying the elements and types of NPOs that are at risk of being misused for TF by virtue of their activities or characteristics; and no periodic reassessments by reviewing new information on the sector's potential vulnerabilities to terrorist activities</li> <li>Record keeping requirements unclear (terms and legal basis).</li> </ul>
SR.IX Cross Border Declaration & Disclosure	<b>PC</b>	<ul style="list-style-type: none"> <li>There is no effective, proportionate and dissuasive sanctions regime in place.</li> <li>The overall effectiveness of the system could not be established due to a lack of comprehensive statistics that inform and support the AML/CFT regime.</li> <li>Statistics to include a comprehensive overview of cases under investigation/law enforcement and sanctions.</li> <li>The failings of Recommendation 3 and Special</li> </ul>

<b>Nine Special Recommendations</b>	<b>Rating</b>	<b>Summary of factors underlying rating</b>
		Recommendation III have a negative impact on the rating of this Recommendation.