

Industry Conference – 11th March 2025

**After MONEYVAL: an update on the evaluation
and what it means for supervision**

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Good morning

I am delighted to be finally speaking about the outcome of MONEYVAL's evaluation of Guernsey's measures to combat money laundering ("ML"), terrorist financing ("TF") and proliferation financing ("PF") after several years of hard slog to secure a good outcome by all Bailiwick stakeholders including the private sector.

Slide: Agenda

The 364-page report is 100 pages longer than the equivalent reports for the UK and US and the deeper more detailed analysis of our measures is surely testimony to Guernsey's global status as the leading international finance centre ("IFC") – it's even longer than Jersey's.

No doubt a must read since its publication a month ago, I don't today propose a page turner. Instead, I will take you through the results and recommendations as they relate to the Commission's activities.

Slide: Effectiveness ratings

Despite some social media comments to the contrary, the outcome from this evaluation very convincingly places Guernsey in regular follow-up and well clear of any risk of being grey listed by the Financial Action Taskforce ("FATF"). That threat of grey listing may seem rather distant now the evaluation is over, but it was a very real threat at the time considering that 10 out of MONEYVAL's 34 members entered the grey listing process in this round – four of which were IFCs.

We are delighted that the work put in by a collective team Guernsey resulted in the Bailiwick passing all 40 of the FATF's Recommendations on the technical assessment of Guernsey anti-money laundering and counter terrorist financing ("AMLCFT") legislation and framework and passing six of the 11 effectiveness outcomes covering Immediate Outcomes ("IOs") 1, 2, 5, 10 and 11 regarding risk understanding and policy, international cooperation, beneficial ownership, TF investigation and TF and PF sanctions.

The report clearly shows how well team Guernsey worked together to achieve such a good result from work on national risk assessments, establishment of national strategies for combatting financial crime, legislative developments to align with the FATF standards, through to cooperation and coordination of the operational activities of supervisors, Financial Intelligence Unit (“FIU”), law enforcement, revenue services, registries and the sanctions authority which ranged from sharing financial intelligence to ensuring effective implementation of international sanctions.

Guernsey did not pass the immediate outcomes on supervision or private sector application of AMLCFT preventive measures, but these are the hardest outcomes to pass. The Holy See is the only MONEYVAL member to pass both IOs, and only Albania, Armenia and Poland are the other MONEYVAL members to pass IO4 on private sector application of preventive measures.

Now it may sound strange to say this, but we are not that disappointed that Guernsey failed these two IOs. Like the vast majority of jurisdictions including Jersey, we have moderate ratings which puts us on a par with our competitors and clearly shows that we have not been gold-plating the regime.

We were pleased though that the report recognised the significant contribution our supervisory activities make to deter financial crime through robust market entry checks, good quality onsite inspections, thematic reviews on topics well-aligned with Guernsey’s main risks, popular industry workshops right through to our effective stance on enforcement against firms and their senior officers.

Slide: Highlights

There are a number of highlights to flag which confirm Guernsey’s status as a well-regulated and responsible IFC. Guernsey is in the top 5 of MONEYVAL jurisdictions for effectiveness. Transfer those results across to the FATF community - where the US, UK, Ireland, Luxembourg and Switzerland are assessed, and we are within the top 10.

Two of Guernsey’s six passes on effectiveness were “high” ratings which are the highest marks to get, which less than 10 of these jurisdictions have achieved. And the US and UK are the only other jurisdictions alongside Guernsey, to be rated highly effective in the implementation of TF and PF sanctions, where the Commission’s sanctions supervision was singled out as particularly commendable.

Overall Jersey is slightly ahead with seven passes for effectiveness, but it has only one high rating whereas we have two. If we adopt Olympic scoring where it is the golds which count, we would sneak ahead, but what is more important is that both islands did well which makes the Channel Island brand stronger.

The marks for technical compliance are very positive. They show that the Commission working with Policy and Resources and the Law Officers, got it about right when the AMLCFT obligations firms are under were updated in 2019 to the current FATF standards. The marks also show that we did enough to address deficiencies highlighted in previous evaluations when we had no requirements for an independent audit of AMLCFT controls, or for enhanced measures to be applied to certain types of higher risk relationships such as those involving private banking services or non-resident customers.

We are particularly pleased that the director registration regime introduced in 2023 for individuals who use the exemption from fiduciary licensing for up to 6 directorships was good enough to pass as this exemption had been raised as a significant deficiency in our last two evaluations and because we saw how the Cayman Islands and the Isle of Man had been marked down for their exemptions.

Slide: Some private sector highlights

Although Guernsey did not pass the IOs 3 and 4 on supervision and the private sectors' application of AMLCFT measures, neither of us let the side down. It is very clear from the report that where Guernsey passed, input from both of us significantly contributed to those good marks, particularly on strategically important IOs Guernsey had to pass relating to transparency of BO of trusts and companies and the implementation of TF and PF sanctions.

Such good marks for these IOs are extremely important for dispelling any external view that Guernsey is a good place to hide criminal proceeds or evade sanctions. If the private sector's understanding of its BO obligations or application of sanctions controls were found to be poor, I can assure you Guernsey would have been marked down.

Yes, MONEYVAL has identified improvements to make, but it is very clear that it thought there was a good compliance culture within firms which it largely attributed to the Commission's activities.

This slide list some of those highlights. It is clear from the write up of IO4 that the private sector performed well – but as has frequently been said passing IOs 3 and 4 is hard as the pass mark isn't 50% - it's more like 70.

The IO4 assessment included interviews with 28 firms selected mostly from our shortlist of 60. We want to thank those interviewed and those selected for interview for their willingness to take part. Only one person said oh God I am going to be sick when we asked to put them forward for interview- and they did agree to be shortlisted! The positive write up in IO4 clearly shows that those firms did their homework.

Slide: Recommendations

Let's turn to the recommendations. These are as important as the ratings as they are intended to deal with the deficiencies which were identified so the congratulatory element of my presentation is now over.

We fought very hard right up to the MONEYVAL plenary in December to get the nature and number of recommendations down to what we felt was manageable before the report was finally approved.

I said at the start we are in regular follow-up requiring reporting back to MONEYVAL in 2 ½ years' time on our progress. This means we cannot ignore these recommendations – not least because how we have acted will be considered in our next evaluation – but we will try to limit the burden as much as we can in the way in which we address them.

I am only going to deal with the recommendations which are relevant to the Commission. The good news is there are a relatively small number compared to jurisdictions with similar ratings.

Although we did well on technical compliance not all 40 passes were 100%. Minor gaps were still identified which we are expected to close, and which relate mostly to the Handbook.

Some of these should have minimal impact as the change we are required to make reflect what already occurs in practice. For example, we have a gap with the standards because there is no requirement to confirm that a customer which is a company has not been wound up or struck off the register. We know that firms check companies' registries to confirm other aspects about a company's identity and would notice if it was marked for strike-off. Therefore, adding a requirement for the company's status to be checked should not be onerous.

A small number of recommendations will require a bit more thought though including two gaps in the due diligence obligations for trusts which will require careful consideration on what an appropriate and proportionate response should be. I can assure you that the proposals we consult on will be informed by practice elsewhere and by input from key expert parties. I also promise less gold-plate than this central bank's governor's residence on this slide.

We have 11 technical recommendations which relate to the Handbook which we anticipate commencing consultation on later this year. For context Jersey nearer to 25 recommendations affecting its Handbook equivalent.

There are 12 recommendations for the Commission to address under effectiveness – again the number is relatively small compared to other similar jurisdictions. Most of these are operational and can be dealt with sensibly and pragmatically through our business as usual activities such as thematic reviews and outreach events. I will leave one about enforcement to Simon to talk to a little later.

Two of these recommendations are more material.

We have a recommendation to intensify efforts to improve the number and quality of suspicious activity reports (“SARs”) and a recommendation to enhance our risk-based AMLCFT supervision.

Slide: Suspicious Activity Reports (SARs)

The SARS recommendation is one of the priority actions to address because of the value SARs have as a source of intelligence for ML investigations.

MONEYVAL was concerned that the number of SARs was too low, of incidents of delayed reporting and of the quality of the reports because they were reactive triggered by adverse media, periodic reviews, reluctance by customers to provide customer due diligence or from enquiries by the authorities. MONEYVAL also noted that some suspicions might not have been reported.

Whilst there had been some administrative sanctioning by the Commission for poor reporting practices, which is the limit of our powers, no criminal sanctions had been imposed for failing to report.

Both the Commission and FIU have been tasked by MONEYVAL to increase their efforts to address underreporting and improve SAR quality, through guidance and awareness raising initiatives, having recognised the good quality work both our authorities were doing in this area.

I want to assure you all that our work to improve SARs will be led by guidance, outreach and supervision. It will not be an exercise to drive up the number of SARs at the expense of their quality, nor will it be led by enforcement.

Our approach to enforcement remains unchanged - we seek to sanction only where there is serious wrongdoing taking into account all relevant circumstances.

Slide: Enhance risk-based AML/CFT supervision

The second recommendation is on risk-based supervision. We proactively supervise about 15% of the regulated community which are rated medium low, medium high or high financial crime risk under our model. MONEYVAL could not understand why there were relatively few high and medium high-risk fiduciaries and investment firms when the National Risk Assessment identified these material sectors as higher risk.

MONEYVAL also regarded the cycle of inspecting medium high-risk firms at least once every four years as “somewhat too long” and questioned the effectiveness of the size of our sample of client files to uncover systemic issues in the largest, higher risk firms.

We can cope these recommendations within our existing planned staff increases as we do not think it necessary to substantially increase our onsite work. As we already proactively supervise a relatively large number of firms, mostly rated medium low risk, we will address these recommendations by redefining our risk categories to make a small increase to the number of firms rated high or medium high risk, and we will slightly increase the frequency of inspections to medium high risk firms. In terms of file sampling, we will slightly increase the number of files we review at our largest higher risk firms whilst exploring solutions which maximise efficiencies for both of us.

Slide: Effectiveness recommendations – BAU opportunities

This slide shows the deficiencies MONEYVAL identified in the private sector's application of AMLCFT requirements. We think each of these areas are ideal topics for thematic supervision, so this slide is a heads up on the topics we are likely to run as thematics over the next few years.

One has in fact started which is a thematic review of the investment sector's application of simplified customer due diligence to intermediaries acting on behalf of their own clients. MONEYVAL was concerned that some firms were not properly assessing the risk these intermediaries posed. We are currently working through onsites to 30 investment firms, and aim to issue a good, and poor practices report on the topic later this year with a corresponding workshop.

I am telling you this as it is a good example which shows how we intend to fold many of these recommendations into our business as usual using our normal supervisory tools such as thematics to upskill where MONEYVAL identified deficiencies.

I have a given a high-level overview of how we intend to deal with MONEYVAL's recommendations pragmatically and proportionality. We do intend to discuss in more detail the report's findings and recommendations with each sector during the course of this year utilising the training facilities we are developing within our office – so to that end please look out for these invitations towards the end quarter two.

Slide: Postscript

Before I close there is a postscript. If we want to pass comfortably next time we are evaluated, our actions must also be influenced by developments in the FATF standards and by the results in the next round of evaluations which have begun.

As an example of changes to the standard, the FATF intends to shortly consult on changes to the information requirements on wire transfers which is covered by one of its recommendations. If these changes go through, we will have to make changes to the Handbook.

We must also have regard to the expectations of the international community in this new round – so to that end we will keep a watching brief over the evaluation of our peers to see how demanding those expectations on effectiveness become.

But today is about celebrating results which Guernsey can be proud of and will help build a strong economic future – so until the next time – thank you.