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Qatar: Report on the Observance of Standards and Codes—FATF Recommendations for Anti-Money Laundering and Combating the Financing of Terrorism

This Report on the Observance of Standards and Codes on the FATF Recommendations for Anti-Money Laundering and Combating the Financing of Terrorism for Qatar was prepared by a staff team from the International Monetary Fund, using the assessment methodology adopted by the FATF in February 2004 and endorsed by the Executive Board of the IMF in March 2004. It is based on the information available at the time it was completed on September 12, 2008. The views expressed in this document, as well as in the full assessment report, are those of the staff team and do not necessarily reflect the views of the government of Qatar or the Executive Board of the IMF.

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QATAR

Report on Observance of Standards and Codes (ROSC)—FATF Recommendations for Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)

Prepared by the Legal Department

Approved by Sean Hagan

September 12, 2008

Contents | Page

ACRONYMS

AML/CFT	-	Anti-Money Laundering and Combating the Financing of Terrorism
CDD	-	Customer Due Diligence
CT	-	Combating Terrorism
DNFBP	-	Designated Non-Financial Businesses and Professions
DSM	-	Doha Securities Market Committee
FATF	-	Financial Action Task Force
FI	-	Financial Institution
FIU	-	Financial Intelligence Unit
FT	-	Financing of Terrorism
ICSFT	-	International Convention for the Suppression of Terrorist Financing
KYC	-	Know Your Customer/Client
MEC	-	Ministry of Economy and Commerce
ML	-	Money Laundering
NCT	-	National Committee for Fighting Terrorism
PEP	-	Politically-Exposed Person
QCB	-	Qatar Central Bank
QFC	-	Qatar Financial Center
QFCA	-	Qatar Financial Center Authority
QFCRA	-	Qatar Financial Center Regulatory Authority
STR	-	Suspicious Transaction Report
UNSCR	-	United Nations Security Council Resolution

A. Introduction

1. **This Report on the Observance of Standards and Codes (ROSC) for the FATF 40 Recommendations for Anti-Money Laundering (AML) and 9 Special Recommendations on Combating the Financing of Terrorism (CFT) was prepared by the IMF.**[1] It provides a summary of the AML/CFT measures in place in Qatar as well as of the level of compliance with the FATF 40+9 Recommendations, and contains recommendations on how the AML/CFT system could be strengthened. The Detailed Assessment Report (DAR) on which this document is based was prepared using the 2004 Assessment Methodology and the information available at the time of the mission from February 4, 2007 to February 20, 2007 or shortly thereafter. The DAR was adopted by the Middle East and North Africa Financial Action Task Force (MENAFATF) plenary on April 8, 2008 and by the FATF plenary on June 19, 2008. The views expressed here, as well as in the DAR, are those of the assessment team and do not necessarily reflect the views of the Government of Qatar or the Executive Board of the IMF.

B. Key Findings

2. **A basic AML/CFT framework is in place but requires strengthening in a number of respects.** The scope of the ML offense should be extended with respect to the FATF list of predicate offenses. The FT offense needs revising to include all the material elements called for under the standard.

3. **The current legal framework establishing the Financial Intelligence Unit (FIU) requires further clarification and the powers of the FIU should be enhanced, in particular with regard to the analysis of suspicious transaction reports (STR)**. A coherent system needs to be established for the declaration/disclosure of the physical cross-border transportation of currency and bearer negotiable instruments.

4. **The two sectors that compose the financial system, the domestic sector and the Qatar Financial Center (QFC), are subject to different sets of preventive measures, which vary in depth and comprehensiveness.** A number of amendments are required to bring the preventive measures applicable to the domestic sector in line with the standard, in particular with respect to customer due diligence (CDD). Preventive measures in the QFC are wide-ranging and detailed, but their implementation and effectiveness could not be tested at the time of the mission due to their novelty.

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[1] The assessment team consisted of: Nadim Kyriakos-Saad (LEG, team leader), Nadine Schwarz, Francisco Figueroa, Emmanuel Mathias (all LEG); and Chady El Khoury (Special Investigation Commission, Lebanon, joined LEG in September 2007).

5. **The AML/CFT framework does not adequately cover designated nonfinancial businesses and professions (DNFBPs).** Both preventive measures and AML/CFT supervision are highly deficient.

6. **Overall, the allocation of resources to AML/CFT appears to be uneven, particularly in view of the rapid development and diversification of the economy.** There is a lack of specialist skills training in relevant authorities, including prosecution agencies, the FIU, supervisors and other authorities involved in combating ML/FT. The competent authorities have yet to develop comprehensive statistics.

C. Legal Systems and Related Institutional Measures

7. **Money laundering is criminalized under Article 2 of Law No. (28) of 2002 (the AML Law).**[2] The offense covers many of the elements set out in the standard but does not extend to acts aimed at concealing or disguising the location, disposition, movement, or ownership of funds. Furthermore, the list of predicate crimes lacks a number of categories of offenses designated in the standard. At the time of the assessment, the AML framework had not been tested before the courts.

8. **Terrorist financing is criminalized, albeit in a limited way, under Article 4 of the Law No. (3) of 2004 on Combating Terrorism (CT Law).** It applies to all "terrorist crimes" but does not extend to the collection of material or financial assistance for and their provision to individual terrorist or for a terrorist act. Action has been taken to investigate terrorist acts in Qatar but not to investigate their funding.

9. **Qatar adopted a comprehensive confiscation, freezing, and seizing framework under the AML Law which enables the authorities to remove all assets linked with a ML offense or its predicate.** Provisional measures have been taken in some instances, but no confiscation has been ordered so far. Similarly broad confiscation measures have been adopted under the CT Law. No procedure has been adopted in application of Special Recommendation III.

10. **The FIU is an administrative unit which became operational on October 16, 2004 and was recognized as an Egmont Group member in July 2005.** While it appears effective in practice, it does not have the power to request additional information from DNFBPs and has not issued sufficient guidance to reporting entities on filing STRs. The quality of STR analysis needs improving. The FIU does not adequately protect the information received nor does it conduct a periodic review of its overall effectiveness.

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[2] As amended through Decree Law No. (21) of 2003.

11. **Authorities in charge of AML/CFT investigations have adequate powers to obtain documents and information for use in investigations, prosecutions, and related actions.** However, the various agencies do not appear to be sufficiently structured, funded, trained, and resourced to effectively carry out their functions.

12. **A declaration system was adopted in 2005 for physical cross-border transportation of currency and other bearer negotiable instruments and was replaced in 2006 by a disclosure system.** The current system is neither implemented nor effective.

D. Preventive Measures—Financial Institutions

13. **The Qatari financial system can be described as a "dual on-shore financial sector" comprised of two sectors:** Domestic which includes the financial institutions (FIs) under the responsibility of the QCB, the MEC and the DSM; and the QFC established in 2005 which includes international financial services firms.

14. **All financial and non-financial institutions within the financial system are subject to the obligations imposed by the AML and CT Laws.** However, these laws do not deal with CDD measures or other basic obligations that should be set out in primary or secondary legislation.

15. **Domestic Sector: The preventive measures for FIs are insufficient.** There are major shortcomings with respect to: customer identification and due diligence; maintaining records; obtaining documentation for wire transfers; performing enhanced CDD for higher-risk categories; addressing politically-exposed persons (PEP); establishing correspondent relationships; addressing risks associated with new or developing technologies; relying on intermediaries or third parties to perform CDD; paying special attention to complex, unusual large transactions and patterns of transactions; and establishing business relationships and transactions with persons from countries which do not follow or insufficiently apply the standard. The obligation to report suspicious transactions does not deal with transactions linked to terrorism or attempted transactions. In practice, no reports have been filed by the insurance and securities sectors. Finally, measures dealing with internal programs and controls, as well as with branches and subsidiaries lack the necessary level of detail.

16. **AML/CFT inspections are inadequate and no sanctions have been imposed on FIs for non-compliance with AML/CFT requirements**. The insurance sector supervisor has not been given adequate authority and powers to supervise and ensure compliance with existing AML/CFT obligations. Informal money transfer systems appear to be operating in Qatar without adequate supervision and monitoring.

17. **QFC Sector: The AML/CFT framework appears in most cases to be in line with the standard, but given the recent establishment of the QFC and the limited number of firms operating at the time of the visit, it was not possible to assess its effectiveness.**

Nevertheless, some shortcomings have been noted, such as: i) the broad exemption from conducting CDD measures when the potential customer is from a FATF country; ii) the absence of obligation to file an STR when FIs are not able to complete the CDD process; iii) the absence of requirement to obtain senior management approval to continue a business relationship where a customer has been accepted and found to be or subsequently becomes a PEP; and iv) the lack of requirements to establish the source of funds of customers and beneficial owners identified as PEPs. Moreover, there are no requirements dealing with correspondent banking, introducer or third parties and paying attention to unusual transactions. Finally, the QFC does not have the power to apply counter-measures.

E. Preventive Measures—Designated Non-Financial Businesses and Professions

18. **All DNFBPs are present in the country, except casinos and independent notaries, but a legal framework setting out AML/CFT obligations and supervision still needs to be established.** This is particularly important with respect to the precious stones, precious metals and real estate sectors which are growing rapidly and may create ML or FT opportunities.

19. **The activities performed by lawyers, accountants, and trust and company service providers are the only ones permitted to be conducted in the QFC.** They are subject to the same AML/CFT regulations as the FIs. Although DNFBPs have been informed of the AML/CFT requirements by the QFCRA, there is no evidence of an effective implementation of the AML/CFT regulations.

F. Legal Persons and Arrangements & Non-Profit Organizations

20. **Relevant information on the ownership and control of legal entities is collected and maintained by the register of commerce, and is accessible by all relevant authorities.** To operate in or from the QFC, a firm must be registered by the QFC Companies Registration Office and, in case of regulated activities, authorized by the QFCRA. The register provides details relating to ownership, management and registered office on its website.

21. **Trusts and similar legal arrangements may be created under QFC laws but transparency is not ensured.** There are no measures that enable the competent authorities to access information on express trusts, including on the settlor, trustee, and beneficiaries.

22. **The measures that have been adopted to prevent the abuse of the non-profit organization sector go beyond the requirements of the standard.** The Qatari Authority for Charitable Organizations appears to ensure effective implementation of the framework. Within the QFC, however, charitable trusts are not required to be registered and are not subject to supervision.

G. National and International Co-operation

23. **The National Anti-Money Laundering Committee and the National Committee for Fighting Terrorism enable effective cooperation and coordination amongst most of the relevant authorities.** Coordination and cooperation could nevertheless be enhanced further by including other authorities, in particular the QFC, DSM, in both committees.

24. **A broad range of measures may be taken upon request of another country, including freezing, seizing, and confiscation of property linked with ML/FT offenses.** The mutual legal assistance framework nevertheless falls short of the standard, mainly because: (i) the authorities make a strict application of the dual criminality requirement, even for non-coercive measures, (ii) the ML offense only applies to a limited number of predicate offenses, and (iii) the scope of the FT offense is too narrow. Both ML and FT are extraditable offences but it is unclear whether the authorities would prosecute and sentence nationals in lieu of the requesting State. In one instance, the Qatari government refused to extradite a person designated in application of UNSCR 1267 and to cooperate with the requesting State. Qatar needs to ratify and fully implement the Palermo Convention and the 1999 International Convention for the Suppression of Terrorist Financing.

Summary Table of Observance and Key Recommendations

FATF 40+9 Recommendations[3]	Key Assessor Recommendations
1. Legal System and Related Institutional Measures	
Criminalization of money laundering R.1 –PC R. 2 – LC	• **Extend the scope of the ML offense and the list of predicate offences in line with the standard and ensure that predicate offenses extend to conduct that occurred abroad when there is dual criminality.**
Criminalization of terrorist financing SR.II – PC	• **Ensure that all acts covered by the standard are criminalized, including when committed by an individual terrorist .** • **Ensure that investigations into/prosecutions for terrorism cover FT.**
Confiscation, freezing, and seizing of proceeds of crime R.3 – LC	• **Reconsider the role of the Governor of the QCB in the application of provisional measures under the AML Law.**
Freezing of funds used for terrorist financing SR.III – NC	• **Set up effective, publicly known mechanisms for implementation and monitoring of obligations under UNSCR 1267 and 1373 and other freezing mechanisms in line with SR III.**
The Financial Intelligence Unit and its functions R.26 – LC	• **Improve the legal basis establishing the FIU.** • **Provide guidance on reporting.** • **Enhance quality of STR analysis.** • **Enable the FIU to request additional information from DNFBPs.** • **Publish periodic reports on ML/FT cases, trends and typologies.**
Law enforcement, prosecution and other competent authorities R.27 – PC & R. 28 – C	• **Take a more proactive approach to investigating and prosecuting ML/FT.**
Cross border declaration or disclosure SR IX– NC	• **Issue consistent regulation in line with SR IX.** • **Enhance exchange of information between the customs and the FIU.** • **Create SR IX database.**
2. Preventive Measures: Financial Institutions	
Customer due diligence, including enhanced or reduced measures R.5 – NC R.6 – NC R.7 – NC R.8 – PC	<u>Domestic sector:</u> • **Establish, through law or regulation, clear requirements for financial institutions (FI) to identify and undertake CDD measures on the customer; any person purporting to act on behalf of the customer; and the beneficial owner.** • **Require FIs to: conduct adequate and enhanced CDD measures on relationships; adopt risk management systems for PEPs; establish measures for correspondent relationships; and address risk arising from new technologies and non face-to-face relationships.** <u>QFC:</u> **Require relevant persons to: implement risk sensitive assessment processes for all customers; file an STR when unable to complete CDD; deal with PEPs in line with R.6; and understand the reputation and**

[3] **Compliant (C)**: the Recommendation is fully observed with respect to all essential criteria. **Largely compliant (LC)**: there are only minor shortcomings, with a large majority of the essential criteria being fully met. **Partially compliant (PC)**: the country has taken some substantive action and complies with some of the essential criteria. **Non-compliant (NC)**: there are major shortcomings, with a large majority of the essential criteria not being met. **Not applicable (NA)**: a requirement or part of a requirement does not apply, due to the structural, legal or institutional features of a country.

	quality of supervision of FIs and its respective responsibilities when establishing correspondent relationships.
Third parties and introduced business R.9 – NC	Domestic Sector: **Issue guidance in line with R.9.** QFC: **Require FIs to ascertain that the third party is regulated and supervised and is based in countries that adequately apply the FATF Recommendations.** • **Abolish the broad customer identification exemption granted.**
Financial institution secrecy or confidentiality R.4 – LC	• **Establish measures for the competent authorities to share information in line with recommendations R.7, R. 9, and SR VII.**
Record keeping and wire transfer rules R.10 – PC SR.VII – NC	Domestic Sector: • **Establish a legal obligation for record keeping for FIs under the DSM and MEC.** • **Issue guidance to FIs in line with SR.VII and monitor compliance.** QFC: • **Ensure that non-routine transactions are not batched.** • **Establish effective risk-based procedures for identifying and handling transfers that lack complete originator information.**
Monitoring of transactions and relationships R.11 – PC R.21 – NC	Domestic Sector: • **Require FIs under the DSM and MEC to comply with R.11.** • **Require FIs under the QCB and DSM to comply with the R. 21.** Both sectors: • **Require FIs under the QCB and QFC to make the findings of complex and unusual transactions available to auditors.** • **Enable supervisory authorities to apply counter-measures.**
Suspicious transaction reports and other reporting R.13 – PC R.14 – LC R.19 – C R.25 – PC SR.IV – NC	Domestic sector: • **Establish a legal obligation for FIs to report to the FIU suspicious transactions, including attempted transactions.** • **Establish legal protection of FIs under the DSM and MEC for filing STRs and prohibit "tipping off" in the insurance sector.** • **Provide guidance to FIs to improve their AML/CFT procedures.** • **Establish communication standards and a feedback mechanism.**
Internal controls, compliance, audit and foreign branches R.15 – PC R. 22 – PC	Domestic sector: • **Require FIs to establish and maintain internal procedures, policies, and controls in line with R.15; and to apply the higher AML/CFT standard, as permitted by local laws in line with R.22.**
Shell banks R.18 – PC	• Domestic Sector: **Clearly prohibit the establishment of shell banks in Qatar and the entering into or continuing correspondent relationships with shell banks.**
Supervisory and oversight system–competent authorities and Self-Regulatory Organizations Role, functions, duties and powers (including sanctions) R. 17 – NC & R.23 – PC R.25 – PC & R.29 – PC	• **Provide MEC with the legal authority to supervise FIs on AML/CFT matters.** • **Strengthen the QCB, DSM and MEC overall AML/CFT supervision and develop formal examination procedures for AML/CFT matters.** • **Re-evaluate the adequacy of penalties, particularly the criminal sanctions for tipping-off and provide domestic supervisory authorities with an adequate range of sanctions.**
Money value transfer services SR.VI – PC	• **Investigate and monitor the informal MVT systems and address shortcomings identified in Rec. 4-11, 13-15, and 21-23.**
3.Preventive Measures: Non-Financial Businesses and Professions	
Customer due diligence and record keeping	• **Set out the basic obligations for CDD and record keeping in legislation for all DNFBPs, including measures re. PEPs, payment**

R.12 – NC	**technologies, introduced business and unusual transactions.**
Suspicious transaction reporting R.16 – NC	• **Set out STR obligations in legislation for all DNFBPs.** • **Implement comprehensive provisions on tipping-off, internal controls and countries that insufficiently apply the FATF Recs.**
Regulation, supervision, monitoring, and sanctions R.24 – PC & R.25 – PC	• **Re-evaluate the adequacy of the penalties regime.** • **Issue guidelines and provide specific feedback to DNFBPs.**
Other designated non-financial businesses and professions R.20 – PC	• **Conduct a risk assessment of the other businesses and professions in the domestic sector.** • **Take steps in order to reduce the reliance on cash.**
4. Legal Persons and Arrangements & Nonprofit Organizations	
Legal Persons–Access to beneficial ownership and control information R.33 – LC	• **Enhance the timeliness of the FIU's and DSM's access to relevant information by providing both authorities with an electronic link to the register of commerce's database.**
Legal Arrangements–Access to beneficial ownership and control information R.34 – PC	• QFC: **Review the CDD requirements with respect to trusts to ensure that they are in conformity with the new trust regulations.** • **Enable competent authorities to access information on trusts, including with regard to the settlor, trustee and beneficiaries.**
Nonprofit organizations SR.VIII – LC	• Domestic**: Remove option of exempting charities from supervision.** • QFC**: Bring the charitable trust regime in compliance with SR VIII.**
5. National and International Cooperation	
National cooperation and coordination R.31 – LC	• **Formalize the cooperation with the QFC, the DSM.** • **Enhance cooperation in the implementation of UNSCRs 1267 and 1373 (and their successors).**
The Conventions and UN Special Resolutions R.35 – PC SR.I – NC	• **Fully implement the Vienna Convention.** • **Sign, become party to and fully implement the Palermo Convention and the ICSFT.** • **Fully implement UNSCRs 1267 and 1373 (and their successors).**
Mutual Legal Assistance (MLA) R.36 – LC R.37 – PC R.38 – PC SR.V – NC	• **Specify the types of assistance that may be granted.** • **Fully implement the UNSCRs 1267 and 1373.** • **Enhance MLA on non-intrusive measures.** • **Ensure that MLA requests are dealt with in a timely manner.** • **Enhance prosecution and confiscation mechanisms when other countries are involved.**
Extradition R.39 – LC R.37 – PC SR.V – NC	• **Ensure timely prosecution in Qatar when extradition is denied.** • **Specify the procedure including duration by which extradition is possible in line with SR V.** • **Fully implement the relevant UNSCRs.**
Other Forms of Cooperation R. 40 – PC SR.V – PC	• **Law enforcement agencies and the FIU should be more proactive in requesting information on ML/FT from their counterparts.** • **Allow the QCB and DSM to provide the widest range of cooperation to their foreign counterparts.**
6. Other Issues	
Resources & Statistics R.30 – PC R.32 – NC	• **Develop professional standards, including confidentiality standards.** • **Allocate additional resources to competent authorities.** • **Provide AML/CFT training to authorities involved in AML/CFT.** • **Maintain comprehensive statistics.**

H. Authorities' Response

1. The Qatari authorities acknowledge and appreciate the important contribution the Financial Action Task Force continues to make in the international fight against ML/TF and would also like to express their gratitude to the International Monetary Fund's assessor team for its commitment and valuable contribution to Qatar's ongoing AML/CFT efforts.

2. The government of Qatar is pleased that the Assessment report highlights the fact that there is currently no evidence of significant money laundering in Qatar, that the level of predicate offences is low compared to other countries and that Qatar ranks among the less corrupt countries in the region. The government also welcomes the acknowledgement in the Assessment report that the Qatari authorities are very conscious of the risks posed by money laundering and the financing of terrorism.

3. The Qatari authorities are acutely aware of the risks attendant on a rapidly growing financial sector and are committed to the continued development of a robust AML/CFT framework including the development of a legal and regulatory regime that will ensure ongoing high level compliance with the FATF 40 + 9 Recommendations.

4. Qatar places the highest importance on AML/CFT and has worked hard over the last few years to address ML/TF risks. The Qatari authorities are pleased that the Assessment demonstrates that the main deficiencies identified in Qatar's 2002 Mutual Assessment Report have been addressed and that the country is continuing to make positive progress in the fight against ML/TF.

5. As part of this commitment, the Qatar government has decided to merge Qatar's two financial services legal and regulatory regimes and to introduce a single financial services regulator that will oversee all financial institutions (with the Qatar Central Bank retaining a focus on core central bank functions including monetary policy and the operation of the payment systems). The decision to create a new single regulator will mean that all financial institutions in Qatar will be subject to the measures (including on AML/CFT) currently upheld by the QFC.

6. The Qatari authorities recognize the crucial role that the National Anti Money Laundering & Counter Terrorist Financing Committee and the FIU play in the fight against ML/TF and are continuing to implement new strategies to enhance their effectiveness, including establishing a strong legal foundation for the FIU, and strengthening cooperation between all Qatari authorities involved in AML/CFT.

7. A number of initiatives have already been undertaken or are under way to enhance Qatar's AML/CFT framework, including:

- Drafting a new Anti Money Laundering & Counter Terrorist Financing Law to extend the scope of the ML and the TF offences and to ensure full compliance with the FATF 40+9 Recommendations, relevant international conventions and UNSC resolutions;

- Implementing AML/CFT measures by each of the supervisory authorities, including amendments to regulations and rulebooks, to enhance the preventive measures for all financial institutions and DNFBPs;
- Taking steps to accede to the Palermo Convention and the International Convention for the Suppression of the Financing of Terrorism (ICSFT);

- Creating a Central Committee on Training to implement a comprehensive AML/CFT training program for all financial institutions and authorities with AML/CFT responsibility; and

- Establishing measures to ensure that law enforcement agencies, financial institutions, DNFBPs and other competent authorities involved in combating ML/TF prepare and maintain qualitative and comprehensive statistics related to combating ML/TF.

8. Qatar is genuinely pleased with the timing of this Assessment and sees it as complementing the development of its AML/CFT strategy. The Assessment has helped to clarify Qatar's AML/CFT vision and each authority is committed to implementing measures to address the recommendations made by the assessors and ensuring ongoing compliance with the FATF 40+9 Recommendations and international standards.