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DE LAS MADERAS TROPICALES**

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TRIGÉSIMO PERÍODO DE SESIONES  
Del 16 al 21 de noviembre de 2015  
Kuala Lumpur, Malasia

**Proyecto de política contra el lavado de dinero  
y el financiamiento del terrorismo (CLD/CFT)**

[Punto 12 del programa provisional]

## **Contexto**

La OIMT desea obtener la acreditación del Fondo Verde para el Clima (GCF) con el fin de promover medidas de adaptación al cambio climático y su mitigación en base a los bosques. Con el propósito de satisfacer los requisitos de acreditación del GCF y, de ese modo, poder recibir financiación de dicho fondo, la OIMT necesita cumplir con la condición obligatoria de contar con una política contra el lavado de dinero y el financiamiento del terrorismo (CLD/CFT). A fin de elaborar su política y programa CLD/CFT, la Organización solicitó la ayuda del Programa Mundial contra el Lavado de Dinero, los Réditos del Delito y el Financiamiento del Terrorismo (GPML) de la Oficina de las Naciones Unidas contra la Droga y el Delito (UNODC). El GPML es uno de los proveedores mundiales de capacitación y asesoramiento técnico con mayor experiencia en materia de CLD/CFT y las Naciones Unidas le ha conferido el mandato de prestar asesoramiento técnico a sus Estados miembros con el fin de fortalecer sus capacidades para combatir el lavado de dinero y el financiamiento del terrorismo de conformidad con los instrumentos de las NN.UU. y las normas internacionales existentes en la materia. Un consultor de la UNODC visitó la sede de la OIMT, en Yokohama, del 8 al 12 de septiembre de 2015 a fin de mantener consultas con el personal de la Organización y proporcionarle capacitación.

La política y el programa propuestos para la OIMT en materia de CLD/CFT incorporan las normas internacionales establecidas por el Grupo de Acción Financiera (FATF), reconocido como la principal entidad normativa internacional en relación con las iniciativas de CLD/CFT. La política propuesta para la OIMT en materia de CLD/CFT se ajusta a las normas más estrictas contra el lavado de dinero y el financiamiento del terrorismo y se puede considerar que cumple con las mejores prácticas internacionales en este ámbito. El programa CLD/CFT propuesto está dirigido a ayudar al personal de la OIMT, los organismos ejecutores y sus aliados a impedir el lavado de dinero y la financiación del terrorismo y a proponer medidas para reducir los riesgos.

La política de la OIMT en materia de CLD/CFT (anexo A) y el programa CLD/CFT (anexo B) se presentan en su versión preliminar al Comité de Finanzas y Administración para su examen y consideración.

**Anexo A**

**Política contra el lavado de dinero y el financiamiento del terrorismo**

*(Texto preliminar)*

**DRAFT ANTI-MONEY LAUNDERING AND COUNTER TERRORISM FINANCING POLICY**

Date as of \_\_\_\_, 2015  
Meeting of the International Tropical Timber Council as of\_\_  
Place: Kuala Lumpur, Malaysia  
Agenda item \_\_

**Recommended action by the International Tropical Timber Council**

It is recommended that the International Tropical Timber Council:

- a) Considers the attached Anti-Money Laundering and Counter Terrorism Financing Policy of International Tropical Timber Organization; and
- b) Adopts the draft decision presented in Annex I to this document.

## **DRAFT ANTI-MONEY LAUNDERING AND COUNTER TERRORISM FINANCING POLICY**

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### **I. Introduction**

The maintenance of sustainable forest management is based on a good regulatory framework. Today the global efforts to prevent money laundering and to counter terrorism financing are essential to protect the sustainable management and the integrity of financial system.

International Tropical Timber Organization (ITTO) is committed to the highest standards of anti-money laundering and counter terrorism financing (AML/CFT). ITTO requires its management and staff, and the executive agencies to adhere to these standards to protect ITTO and its reputation from being misused for money laundering and/or terrorism financing or other illegal purposes.

ITTO incorporates in its activity the international standards that are established by the Financial Action Task Force (FATF), which is recognized as the international standard setter for AML/CFT efforts. The objectives of the FATF are to set global standards and promote effective implementation of legal, regulatory and operational measures for preventing money laundering and terrorism financing, and other related threats to the integrity of the international financial system.

ITTO examines its strategies, goals and objectives on an ongoing basis and maintains an effective program for the forest management, which reflects the best AML/CFT practices. ITTO recognizes that increasing the transparency of its projects can also help to reduce illegal timber activities.

### **II. High-level AML/CFT declaration and linkages with other documents**

AML/CFT standards, developed by FATF, are integrated into the whole financial system as well as into the private sector activities. In June 2015 FATF stressed and raised the understanding of the importance and purpose of FATF standards being integrated with private sector including emerging economies and low income countries.

ITTO AML/CFT program undertakes to supplement a good forest governance clearly understanding the money laundering and terrorism financing risks, and adapting its system to the nature of these risks.

ITTO incorporates AML/CFT policy and program in operational activities bringing risks assessment and mitigation measures in compliance with the FATF Recommendations. AML/CFT is being understood as the prevention of money laundering and terrorism financing or other relevant crimes.

The AML/CFT Program assists ITTO professional staff, the executive agencies and partners to prevent money laundering and terrorism financing and to propose ways to mitigate the risks.

The procedures of adequate AML/CFT control in the operational activity of ITTO are being understood as the set of established appropriate AML/CFT basic concepts and procedures, and due diligence measures according to the FATF standards.

An integration of new AML/CFT measures with the existing ITTO due diligence controls incorporates such actions as adequate and strict identification and verification requirements (“Know Your Customer”, KYC), record keeping of on-going transactions and relations, screening and monitoring procedures, risk assessment and risk-based approach, simplified and enhanced due diligence measures, and regular review of all existing business relationships.

ITTO designs the procedure for applying actions in case of suspicious activity detection. ITTO undertakes to conduct training of its staff for AML/CFT and to incorporate an audit of AML/CFT function into ITTO audit procedures.

The ITTO AML/CFT program should be implemented globally and throughout all business operations. The ITTO AML/CFT program protects the integrity and stability of ITTO by establishing the preventive component as the first barrier against the commission of acts of money laundering and the financing of terrorism.

This document has linkages with the following main documents:

- a) *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation - the FATF Recommendations – 16 February 2012;*
- b) *Improving Global AML/CFT Compliance: on-going process – 26 June 2015;*
- c) *FATF Guidance: Politically Exposed Persons (Recommendations 12 and 22);*
- d) *Guidance on Transparency and Beneficial Ownership;*
- e) *National money laundering and terrorist financing risk assessment;*
- f) *Best Practices Paper: The Use of the FATF Recommendations to Combat Corruption;*
- g) *FATF Guidance on Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion and its update;*
- h) *FATF Guidance: The Implementation of Financial Provisions of United Nations Security Council Resolutions to Counter the Proliferation of Weapons of Mass Destruction;*
- i) *FATF Report: Risk of Terrorist Abuse in Non-Profit Organizations;*
- j) *FATF response to the public consultation on the revision of the FATF Recommendation.*

### **III. High-level decisions to setup AML/CFT system and strategic objectives**

With the purpose of making a significant contribution to the global efforts towards preventing money laundering and terrorism financing and of minimizing the reputation risks of unwilling association with money laundering and terrorist financing, the International Tropical Timber Council (ITTC) approves the

ITTO AML/CFT Policy.

The requirements of FATF should be integrated into the ITTO AML/CFT day-to-day activities.

By adopting a risk-based approach, ITTO ensures that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified. Based on risk assessment, ITTO will allocate its own resources in the most effective way to prevent money laundering and terrorism financing.

According to its AML/CFT Program, ITTO incorporates the mechanism to identify, assess, monitor, manage and mitigate money laundering and terrorist financing risks. ITTO takes enhanced measures to manage and mitigate the higher risks and in case of lower risks, simplified measures may be permitted.

The Program reflects the nature of ITTO business, its relations with executive agencies and other partners, existing AML/CFT capacities and requirements for the AML/CFT system. The AML/CFT Program shall be approved by the Executive Director of ITTO and reviewed annually. The AML/CFT report will be an integral part of ITTO annual report. The ITTO staff is required to act in compliance with the AML/CFT Program.

The Executive Director has a vital position in ensuring that AML/CFT controls work effectively in ITTO and has authority to deny new relations with partner or to terminate the existing ones in case of any non-compliance with AML/CFT requirements.

The Executive Director designates a Compliance Officer to be responsible for AML/CFT function, namely providing advice, drafting policies and monitoring assurance/oversight including a postponement of suspicious transactions. The Compliance Officer exercises such other functions as may be appropriate to fulfil the objectives of the ITTO. The Compliance Officer undertakes to report to the Executive Director, in case of necessity, directly, and to the ITTC annually.

The Compliance Officer is responsible for ITTO's adherence to applicable AML/CFT standards and assists the executive agencies and partners to follow such policies. In addition, the Compliance Officer is responsible for establishing and maintaining ITTO AML/CFT training of its staff and supporting robust country coordination with regard to the identification, assessing, monitoring and managing risks related to money laundering, terrorist financing and predicate offences.

The Compliance Officer acts as a focal point for ITTO AML/CFT activities and cooperates, in case of necessity, with relevant national authorities through the country focal points. The Compliance Officer has a level of authority and independence within the ITTO and access to resources and information sufficient to carry out AML/CFT duties.

#### **IV. Content of AML/CFT Program**

The content of AML/CFT Program shall include the following:

1. *AML/CFT Basic Concepts*
2. *Money laundering and terrorism financing risks applicable to ITTO and their mitigation*
3. *AML/CFT Procedures*
4. *Due Diligence Measures*
5. *Actions in Case of Suspicious Activity Detection*
6. *ITTO Training for AML/CFT*
7. *Audit of AML/CFT Function*

*Annexes*

**V. Next Steps**

Proposed ITTC immediate decision is listed in Annex I.

Based on the results of the ITTO operations and gained experience in the implementation of the AML/CFT Standards after one year, the AML/CFT Policy can be adjusted, including activities with the executive agencies and partners, to ensure that AML/CFT standards are integrated according to the objectives of ITTO sustainable forest management.

**Annex I**

**Draft decision of the International Tropical Timber Council**

The International Tropical Timber Council, having considered document AML/CFT policy, and subject to comments and amendments made at the meeting:

Adopts the ITTO AML/CFT Policy.

**Anexo B**

**Programa contra el lavado de dinero y el financiamiento del terrorismo**

***(Texto preliminar)***

**DRAFT ANTI-MONEY LAUNDERING  
AND COUNTER TERRORISM  
FINANCING PROGRAM  
ITTO**

## **DRAFT ANTI-MONEY LAUNDERING AND COUNTER TERRORISM FINANCING (AML/CFT) PROGRAM**

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## Introduction

International Tropical Timber Organization (ITTO) is committed to the highest standards of anti-money laundering and counter terrorism financing (AML/CFT). The ITTO staff is required to adhere to these standards to protect ITTO and its reputation from being misused for money laundering and/or terrorist financing or other illegal purposes.

ITTO establishes appropriate AML/CFT Program based on the international standard requirements. The AML/CFT Program assists ITTO professional staff, the executive agencies and partners to prevent money laundering and terrorism financing and propose ways to mitigate the risks.

The ITTO staff is required to act in compliance with the AML/CFT Program.

## 1. Basic Concepts

The ITTO staff is aware of the following basic AML/CFT concepts

### 1.1. Money laundering offence

“Money laundering offence” is the offence referred to primary offence specified by the UN Vienna Convention<sup>1</sup> and Palermo Convention<sup>2</sup> that is applied to all serious offence(s) (*predicate offence(s)* – designated categories of offences).

Generally, money laundering is the introduction (disguise) of assets derived from illegal and criminal activities (*predicate offences*) into the legal financial and business cycle so they appear to come from legitimate sources and activities. Predicate offences are for example environmental crime (illegal logging and trade) as well as fraud, corruption, organized crime, or terrorist financing etc. Predicate offences for money laundering are defined by local law of each country according to FATF definition<sup>3</sup>.

Money laundering has several forms and normally occurs in three stages (*placement, layering and integration*), which are explained as follows.

*Placement*: the introduction of illegally obtained money or other valuables into financial or non-financial institutions (financial system) anywhere in the world.

*Layering*: separating the proceeds of criminal activity from their source using layers of complex financial transactions. These layers are designed to hamper the audit trail, disguise the origin of funds and provide anonymity in order to make it more difficult to identify the initial source of funds.

*Integration*: placing the laundered proceeds back into the economy in such a way that they re-enter the financial system as apparently legitimate funds being disbursed back to a money launderer.

These *stages* are not static and overlap broadly, which may be misused at any point in the money laundering process.

### 1.2. Terrorism financing offence

Terrorism financing is the financing of terrorist acts, and of terrorists and terrorist

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<sup>1</sup> [UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances](#), December 19, 1988;

<sup>2</sup> Palermo Convention: [UN Convention Against Transnational Organized Crime](#), November 15, 2001;

<sup>3</sup> <http://www.fatf-gafi.org/pages/glossary/d-i/>

organizations. According to the Financial Action Task Force (FATF) definition the term *terrorist* refers to any natural person who: (i) commits, or attempts to commit, terrorist acts by any means, directly or indirectly, unlawfully and wilfully; (ii) participates as an accomplice in terrorist acts ; (iii) organizes or directs others to commit terrorist acts ; or (iv) contributes to the commission of terrorist acts by a group of persons acting with a common purpose where the contribution is made intentionally and with the aim of furthering the terrorist act or with the knowledge of the intention of the group to commit a terrorist act.

Financing of terrorism is providing funds directly or indirectly, intending or knowing that the funds could be used to support the activity, acts of terrorist organization or an individual terrorist.

The funds raised may be from legitimate sources (donations, charity) or criminal ones (illegal trade, smuggling, fraud, extortion for illegal activities).

The stages of terrorist financing are the same as money laundering, however, the funds could derive from legitimate and illegal activities in the placement phase. The methods of layering to disguise the source of funds are the same. The funds are disbursed to the terrorist or terrorist organization in the integration phase, directly or indirectly through a third party to obscure the beneficiary and with ultimate objectives of supporting a terrorist act.

According to FATF definition the term *funds* refers to assets of every kind, whether corporeal or incorporeal, tangible or intangible, movable or immovable, however acquired, and legal documents or instruments in any form, including electronic or digital, evidencing title to, or interest in, such assets.

Terrorist financing often involves very small volumes of funds.

### **1.3. Beneficiary Owners**

According to the FATF definition, “beneficial owner” refers to the natural person(s) who ultimately owns or controls a customer and/or the *natural* person on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate effective control over a legal person or arrangement.

Reference to “ultimately owns or controls” and “ultimate effective control” refer to situations in which ownership/control is exercised through a chain of ownership or by means of control other than direct control.

### **1.4. Politically Exposed Persons (PEPs)**

FATF designated PEPS as follows:

*Foreign PEPs* are individuals who are or have been entrusted with prominent public functions by a foreign country, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials.

*Domestic PEPs* are individuals who are or have been entrusted domestically with prominent public functions, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials.

*Persons who are or have been entrusted with a prominent function by an international organization* refers to members of senior management, i.e. directors, deputy directors and members of the board or equivalent functions.

The definition of PEPs is not intended to cover middle ranking or more junior individuals in the foregoing categories.

### **1.5. Sanction regimes**

There are various international AML/CFT sanctions regimes. UN Security Council Resolutions provide the lists of organizations, companies and persons, who are involved in money laundering and/or terrorist financing. Any financial transactions with these listed entities is prohibited and their assets shall be frozen. Other countries and organizations may have their own sanctions and lists of entities involved in ML/TF. Especially important for ITTO can be the sanction regimes of donors – e.g. Office of Foreign Assets Control lists of the USA, sanctions lists of European Union etc. Sanctions are also applied by the correspondent banks, which service the international money transfers.

The sanctions regimes, applied by ITTO in the AML/CFT screening, are based on the Consolidated United Nations Security Council Sanctions List<sup>4</sup>. This List can be updated when the new sanctions regimes emerge or the existing ones are modified.

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<sup>4</sup> <http://www.un.org/sc/committees/consolidated.htm>

## 2. Main ML/TF risks applicable to ITTO and their mitigation

ITTO assesses its money laundering and terrorist financing risks and develops risk-based AML/CFT measures based on its findings.

ITTO main projects are conducted through the implementing partners. The number of partners is limited and business relations with partners commence only after thorough checks.

Taking into account specifics of ITTO operations, the main money laundering and terrorism financing risks are:

- 2.1. **Internationally sanctioned partner.** Partner or one of its beneficiary owners, or subsidiaries is known to be involved in money laundering or terrorist financing activities, or is a subject of international AML/CFT sanctions.
- 2.2. **Mingling of legal and illegal money.** When executing the project, partner mingles ITTO funds with other money, which originate from crime. All project proceeds are claimed to be *clean* because of ITTO funding.
- 2.3. **Diversion of funds.** Partner diverts some of ITTO funding to the terrorist organizations or individual terrorists.
- 2.4. **Dealing with financial institutions from the risky jurisdictions.** Partner operates through the bank from jurisdiction that is internationally listed as a jurisdiction with a high ML/TF risk.

Reputational risks are strong motivators for increased private sector engagement with forest sustainability and with due diligence procedure for the partners. In order to mitigate the risks, ITTO will use the following procedures:

- Screening of partners and their beneficiary owners, key managers against international lists of AML/CFT designated targets subject to sanctions and high-risk customer types (like Politically Exposed Persons);
- Understanding sources of projects funding and obtaining the proof of their legal origin;
- Collecting information about implementing partners and their beneficial owners;
- Applying customer due diligence measures (Know Your Customer procedures);
- Encourage our partners to have in place AML/CFT controls;
- Maintaining records;
- Reporting to the relevant competent national authorities through the country focal points, in case of necessity, about suspicious activity;
- Refraining from business with the financial institutions from risky jurisdictions. If such relations cannot be avoided – applying enhanced due diligence measures;
- Disclosing fraud or any other illegal activity;
- Efficient information sharing;
- Collaborating effectively within institutions, across industry.

### **3. AML/CFT Procedures**

#### **3.1. Compliance Officer**

##### **3.1.1. *Appointment of Compliance Officer and Designation of the Officer-in-Charge***

The Executive Director appoints an AML/CFT Compliance Officer and designates an Officer-in-Charge who conducts the AML/CFT functions during the absence of the Compliance Officer.

##### **3.1.2. *Functions of Compliance Officer***

###### **3.1.2.1. Implementation of AML/CFT Program**

Compliance Officer designs AML/CFT Program and submits it to the ITTO Executive Director for approval. The Compliance Officer initiates amendments to AML/CFT Program.

Compliance Officer is responsible for implementation of the AML/CFT Program.

###### **3.1.2.2. Customer Due Diligence**

Compliance Officer is responsible for the Customer Due Diligence (CDD) checks and actions. Certain CDD actions (e.g. – collection of the identification information) can be delegated to the other ITTO staff. Nevertheless, all decisions related to AML/CFT are being taken by the Compliance Officer or proposed by the Compliance Officer to ITTO senior management.

###### **3.1.2.3. Actions in case of suspicious activity detection**

In case of suspicious activity detection, the Compliance Officer is authorized to issue orders on application of the urgent measures, listed in the Article 5 of the present Program.

Compliance Officer prepares without delay (hereinafter without delay means, ideally, within a matter of hours) the documents for the ITTO senior management in order to take action in case of the suspicious activity.

###### **3.1.2.4. AML/CFT training and clarifications**

Compliance Officer organizes AML/CFT Training of the ITTO Staff and updates his/her AML/CFT knowledge as indicated in Article 6 of the present Program. The Compliance Officer is authorized to provide comments and clarifications on the content and implementation of the AML/CFT Program.

###### **3.1.2.5. Independence**

Compliance Officer is independent in his/her AML/CFT activities and decisions and cannot accept instructions and orders from other ITTO staff on AML/CFT matters.

In case of undue interference in the AML/CFT activities, the Compliance Officer immediately informs the ITTC.

###### **3.1.2.6. Reporting**

Compliance Officer reports regarding discharge of AML/CFT functions to the

ITTO Executive Director.

Compliance Officer submits an annual report with the summary of AML/CFT activities to the ITTO Executive Director.

Compliance Officer prepares an AML/CFT Annual Report, which is a part of ITTO Annual Report.

**3.1.3. Access to information**

Compliance Officer is authorized to have access to all information on the ITTO partners, donors and vendors, as well as their transactions and business correspondence with them, and to any other information necessary to conduct the AML/CFT activities.

All ITTO staff is required to provide necessary information to the Compliance Officer without delay upon his/her request.

**3.2. AML/CFT Duties of Other ITTO Staff**

All ITTO staff is familiarized with AML/CFT Program and applies the indicated AML/CFT measures.

All ITTO staff provides information to the Compliance Officer on his request according to the paragraph 3.1.3 of the current Program.

All ITTO staff suspends suspicious transactions and apply the urgent AML/CFT measures upon the order of the Compliance Officer issued according to the paragraph 3.1.2.3 of the current Program.

All ITTO staff is obliged to report immediately to the Compliance Officer in written or by e-mail with regard to any suspicious activity, which may be related to the money laundering, terrorism financing or be a subject to the international sanctions regimes.

All ITTO staff is obliged to report immediately to the Compliance Officer in written or by e-mail on any cases of non-compliance with the AML/CFT Program.

#### **4. Due Diligence Measures**

##### **4.1. Categories of “partners”**

ITTO does not deal with the physical persons (except the small service providers for Secretariat, who are not subject to the AML/CFT measures).

The following categories are referred to as “partners”:

##### **4.1.1. Executive agencies**

Partners are the implementing partners and other entities that receive funding from ITTO to conduct the activities according to the ITTO’s objectives.

Partners are the main subjects of the ITTO AML/CFT measures.

##### **4.1.2. Donors**

Donors are the governments, international organizations and other entities, which provide funds to ITTO.

Usually donors are subject to the simplified due diligence. Private donors usually are subject to a regular AML/CFT measures at the level similar to the partners.

##### **4.1.3. Vendors and Suppliers**

Vendors and suppliers provide services and goods, necessary for the functioning of the ITTO Secretariat.

Usually vendors and suppliers are subject to the simplified due diligence.

##### **4.2. Record keeping**

ITTO keeps, for at least five years, all necessary records on transactions, both domestic and international. Such records must be sufficient to permit reconstruction of individual transactions, to provide, if necessary, evidence for prosecution of criminal activity.

ITTO keeps, all records obtained through Customer Due Diligence (CDD) measures (e.g. copies or records of official identification documents), account files and business correspondence, including the results of any analysis undertaken (e.g. inquiries to establish the background and purpose of complex, unusual large transactions), is being kept for at least five years after the business relationship has ended, or after the date of the occasional transaction.

ITTO maintains records on transactions and information obtained through the CDD measures. The CDD information and the transaction records are available to the competent authorities upon appropriate authority.

According to the ITTO senior management decision or request of ITTC the term for keeping the records on the certain transactions and/or partners can be extended.

#### **4.3. Identification and Verification, “Know Your Customer” (KYC)**

ITTO undertakes to obtain identification data on the partners before entering the business relations with partners according to the list of issues indicated in the Annex 1. The list of issues indicated in the Annex 1 is not exhaustive.

##### **4.3.1. Basic Information**

Basic identification information includes the following categories: name, date and place of establishment, articles of association/charter/statute/other documents on establishment, legal and actual address, emails, phone numbers, and bank account details.

To verify these data, ITTO requests the copies of the relevant documents.

##### **4.3.2. Nature of Business, Source of Funds**

ITTO obtains information on the nature of business and source of funds of the partner, which is related to the cooperation with ITTO. This information may be obtained from the reliable public sources (e.g. official web-site of international organization) and also requested directly from the partner. This information includes data on the main business partners of the partner.

In case of suspicions and for the high-risk partners ITTO may request documentary proofs of the source of funds and the nature of business.

Information on the source of funds is extremely important to mitigate the risks of mingling legal and illegal funds in the cases of private donors and for the partners, who implement the projects with ITTO contribution and other co-financing sources.

##### **4.3.3. Beneficiary Owners, Key Management**

FATF has established standards on transparency, so as to deter and prevent the misuse of companies for Money Laundering (ML) and Terrorism Financing (TF). The FATF Recommendations require to ensure that adequate, accurate and timely information on the beneficial ownership of partners is available.

ITTO obtains information with regard to the beneficiary owners and the senior management and the persons, authorized to act on behalf of the partners. The identification data includes the following categories: name, family name, date and place of birth, nationality.

For the low-risk partners this information can be obtained from the reliable public sources or requested from the partner. For the high-risk partners ITTO may request the copies of IDs/passports of the mentioned persons.

Information on these persons is necessary to be checked with regard if the persons are subjects to the sanctions regimes, politically exposed persons, persons involved in illegal activities, as well as to detect the linked entities and to prevent fraud attempts.

##### **4.3.4. Required AML/CFT Procedures on the Partner Side**

For the partners, especially for the partners that subcontract other entities to implement the project, or disburse funds in other way, ITTO obtains information on their AML/CFT procedure to comply with AML/CFT standards.

Such procedure of the partners includes, at least, requirements:

- Identification and verification of the subcontractors and other partners and recipients of funds;
- Keeping records on partners and transactions for at least five years;

- Conducting screening of the partners and other recipients of funds to detect persons subject to the sanctions regime, politically exposed persons, and persons related to illegal activities;
- Having procedures to detect suspicious activities and reporting them to the relevant government law enforcement and/or anti-money laundering agencies.

Partners are obliged to provide on ITTO's request any information regarding the persons and transactions related to the use of ITTO's funds, including the register of partners and transactions for the given period.

#### **4.3.5. Existing partners**

Within three months, ITTO reviews the files of existing partners and request the missing identification and other data.

For the existing partners within six months ITTO reviews the active agreements to include the obligations to provide AML/CFT information on request of ITTO and encourage our partners to establish the AML/CFT procedures.

For the existing partners and partners, who do not provide the requested information and/or establish their AML/CFT procedures, ITTO:

- Terminates existing business relations; or
- If termination of the business relations is not possible due to the existing legal obligations – suspends, if possible, transactions with these partners, designates them as a high-risk partners and applies the enhanced due diligence measures.

#### **4.3.6. Update of the identification data**

The ITTO requests partners to provide updated identification information in case of changes.

ITTO requests an updated identification data (or confirmation of no changes) periodically from the partner, based on their risk level:

- Low risk: every five years
- Middle risk: every three years
- High risk: every year

#### **4.3.7. Database of partners**

ITTO establishes an electronic database with the identification data of the partners, their beneficiary owners and authorized persons. The database allows the search and comparison with the lists of sanctioned and other high-risk categories of the entities.

Such database (even in a simple Excel format) is essential for the quick check of all partners in case new entities are added to the sanctions regimes. It is also useful for the periodic checks of the partners in the high-risk jurisdictions.

### **4.4. Screening and Monitoring**

#### **4.4.1. Sanctions Regimes**

ITTO screens its partners and their beneficiary owners and authorized persons against the lists of the sanctioned entities in cases of:

- Screening all potential new partners before entering into business relations;

- Updating sanctions regimes;
- Updating partner's identification data;
- Screening on a regular basis at least once per quarter for the high-risk partners, at least annually – for the rest of the partners.

Match of the partner data with the sanctions lists does not necessary imply that the partner is a sanctioned entity, there is a possibility of a 'false positive' or a partial match (e.g. – just the same first names). ITTO conducts immediately a detailed review and checks, if the partner is a sanctioned person/legal entity. Further actions follow in case reasonable doubts remain, that a partner is on a sanctions list.

#### **4.4.2. PEPs**

ITTO screens all partners to check, whether their beneficiary owners are PEPs or partners are linked to the PEPs. It is necessary to mitigate the risks of business relations with PEPs, who are engaged in corruption activities.

Screening for PEPs is conducted in case of:

- Screening all potential new partners before entering in business relations with them;
- Update of partner' identification data;
- On a regular basis at least once per quarter for the high-risk partners, at least annually – for the rest of the partners.

The most important cases are the private companies, which may be associated to, or controlled by PEPs. Nevertheless, ITTO is also aware of PEPs, who manage the state-owned companies and NGOs, especially in the high-risk countries.

#### **4.4.3. High-Risk Jurisdictions**

ITTO pays a special attention to the partner from the high-risk jurisdictions and to the bank accounts, opened in the financial institutions from the high-risk jurisdictions.

The List of High-Risk Jurisdictions is indicated in the Annex 2 to the current Program. It is based on the FATF and FATF-style regional bodies' recommendations, as well as on other reliable sources and takes into account the money laundering/terrorism financing risks, risks of corruption, organized crime and military conflicts.

ITTO reviews the list on a regular basis. The list indicated in the Annex 2 is not exhaustive and ITTO, in case of necessity, incorporates additional High-Risk Jurisdictions based on ITTO internal indicators.

#### **4.4.4. Sources of Funds**

ITTO takes all reasonable possible actions to be assured of a legal origin of funds:

- Provided by the donors, especially private ones;
- Used by the partners to co-finance the ITTO projects;

For the high-risk partners ITTO may decide to conduct screening of every new funding.

#### **4.4.5. Partner "profile" and use of funds**

Based on the information on the partner, its typical business, pattern of the monthly activities etc., ITTO detects and pays attention to any unusual behavior.

#### **4.4.6. Screening of wire transfers and other transactions. Designated threshold**

The designated threshold for the screening purposes is set up at the amount of USD4'000.

Compliance Officer undertakes to screen the following categories of transactions:

- All transactions with the executive agencies, donors and vendors above the designated threshold;
- All transactions deemed suspicious, regardless of the threshold. Suspicion may be raised by the Compliance Officer, other ITTO staff, or reported by the partners;
- All transactions of the partners, information on which has been provided by the high-risk and other partners on the request of ITTO in line with Article 4.3.4 of the present Program;
- Any other transactions, which meet the criteria of high-risk ones (e.g. with the certain countries, transactions of the high-risk partners etc.).

#### **4.5. Risks Assessment and Risk-Based Approach**

ITTO screens relationship with the partners according to the risk assessment indicators. ITTO specifies the AML/CFT indicators related to a country, partner, transaction, activity for each category based on the list of issues specified in the Annex 3. The list of indicators provided in the Annex 3 is not exhaustive.

##### **4.5.1. Categories of AML/CFT risks**

ITTO assesses AML/CFT related indicators to determine the following categories of AML/CFT risks:

- High;
- Medium;
- Low.

ITTO screens the partners according to the list of issues provided in the Annex 1 focusing on Medium and High Risks Executive Agencies and Partners. Low risks Executive Agencies and Partners shall be automatically exempted after ITTO internal screening process.

##### **4.5.2. Risk-Based Approach**

ITTO will use a risk-based approach (e.g. in relation to public administrations or enterprises, partners resident in a lower risk geographical areas etc.): more resources dedicated to the high-risk areas, while low-risk partners and transactions will be processed with the less scrutiny.

ITTO reviews its AML/CFT risks in case of:

- Substantial change of the operating environment;
- Engagement with a new category of partners;
- Engagement in a new geographical area;
- On a regular basis – at least annually;
- Recommendations of the Council and/or auditors.

#### **4.6. Simplified and Enhanced Due Diligence Measures**

##### **4.6.1. Simplified Due Diligence**

Simplified Due Diligence measures shall be applied to low-risk partners and may include:

- Reduced requirements to the verification of identification data;
- Reduced screening of the transactions.

**4.6.2. *Enhanced Due Diligence***

Enhanced Due Diligence measures shall be applied to high-risk partners and transactions, and in any situation, where it is deemed proper by Compliance Officer or by ITTO senior management. Such measures may include:

- Mandatory request of documents to verify the identification data, beneficiary owners, source of funds etc.;
- More detailed screening of the transactions;
- Request to the partner to provide the list of subcontractors/beneficiaries and list of transactions, related to ITTO activities, on a regular basis.

## **5. Actions in case of Suspicious Activity Detection**

### **5.1. Results of Internal Review**

The internal review of transactions and other partner's activity is conducted to provide the evidence that there are reasonable grounds to believe that activity relates to money laundering or terrorism financing, or is subject to sanctions regime, or funds originate from crime.

A result can be:

- No reasons to suspect illegal activity. Review terminates at this conclusion. ITTO may decide to lower the risk level;
- There are reasonable grounds to suspect illegal activity. This leads to the actions, described in the further parts of the present Article;
- Certain doubts remain. In this case ITTO may decide to raise the risk level and apply the enhanced due diligence measures to the partner(s), and to report situation to the ITTO Senior Management for their approval.

### **5.2. Top Management Approval of Further Actions**

Senior management is informed about the situation, and further actions are approved by the senior management in cases of:

- Entering into the business relationships with the entities related to PEPs, high-risk partners
- Conducting transactions through the financial institutions from the high-risk jurisdictions.
- Conducting the high-risk transactions.

### **5.3. Denial of New Relations / Termination of Existing Relations**

If the partner does not comply with the due diligence requirements, provides false information, is involved in money laundering, terrorism financing activities or is a subject to the sanctions regimes, ITTO does not enter into the new business relations, and start the procedure to terminate the existing relations.

For the high-risk partners ITTO, upon the decision of the Executive Director, may choose to start the procedure to terminate the existing relations.

### **5.4. Request to Postpone Transactions/Return Funds to ITTO. Report to the Competent Authorities about the suspicious activities**

If transaction is determined suspicious (i.e. there are reasonable grounds to believe that activity relates to money laundering or terrorism financing, or is subject to sanctions regime, or funds were originated from crime). The Compliance Officer in collaboration with the Project Manager shall immediately request to postpone the transaction (if it is not completed yet), or requests the partner to stop further transactions and return funds to ITTO.

In such case, ITTO follows its procedure to inform the relevant competent national authorities of the country through focal points (and, in case of necessity, the law enforcement authority and/or designated bank of the country focal points) about the suspicious activities. If the partner has already conducted suspicious transaction, the Compliance Officer in collaboration with the Project Manager shall also request the relevant competent national authorities of the country through the Country focal points to stop further transactions and return funds to ITTO.

## **6. ITTO training for AML/CFT**

### **6.1. Content of Training**

AML/CFT training includes the following topics:

- Basic concepts of money laundering, terrorism financing;
- Overview of the sanctions regimes;
- ML/TF risks;
- ML/TF schemes and typologies;
- ML/TF risks and risk-based approach;
- PEPs, high-risk jurisdictions, other areas of special attention;
- Identification of the partners;
- Verification of the partners' identity;
- Screening of the partners and their transactions;
- Open sources of information, and their use;
- ITTO AML/CFT infrastructure, AML/CFT rights, duties and obligations of the ITTO staff;
- Review of suspicious transactions and partners;
- Actions in case of detection of suspicious activity.

### **6.2. ITTO Staff Training**

AML/CFT training is given to relevant professional staff of ITTO. Initial training is conducted for all new staff upon their arrival. Training for all ITTO staff is conducted upon the integration of the ITTO AML/CFT Program.

ITTO staff annually gets AML/CFT training update.

Additional AML/CFT training is conducted upon the amendment of the AML/CFT Program and based on the discovered AML/CFT deficiencies, and when new ML/TF risks arise, or when sufficient changes in AML/CFT environment occur.

### **6.3. Training of the Compliance Officer**

The Compliance Officer obtains detailed AML/CFT training at least once per year. The purpose of such training is to update his/her knowledge of the current money laundering and terrorism financing trends, new threats and challenges and tools for their mitigation, as well as about the changes in the international standards.

### **6.4. Training for the Executive Agencies and other Partners**

If necessary, Compliance Officer can provide brief trainings for the executive agencies and partners on the AML/CFT requirements.

## **7. Audit of AML/CFT Function**

Audit of AML/CFT function is a part of ITTO audit (either external or internal). Report of the AML/CFT audit is communicated to the ITTO Executive Director and to the Compliance Officer. Results of the audit may lead to the review and update of the AML/CFT Program.

### **Final Provisions**

AML/CFT Program is approved by the ITTO Executive Director and ITTO staff is informed immediately on the approval of the AML/CFT Program and any amendments. The text of AML/CFT Program is available to all ITTO staff.

The Compliance Officer is responsible for AML/CFT Program update and to propose appropriate amendments to the ITTO Executive Director.

The AML/CFT Program that is an integral part of the AML/CFT Policy, is amended annually and whenever sufficient changes in AML/CFT environment occur or AML/CFT risks are changed and the proposed amendments shall be submitted by the Compliance Officer to the ITTO Executive Director.

**Approved by:**

**Effective Date:**

**Contact:**

**Annexes**

**Annex 1. AML/CFT QUESTIONNAIRE for the Executive Agencies and other Partners** (in case of necessity AML/CFT Questionnaire could be integrated as the part of the general questionnaire or as a separate AML/CFT questionnaire)

No.	Category	Information regarding the Executive Agencies and Partners
<b>1.</b>	<b>General information</b>	
1.1.	Name	
1.2.	Date of establishment	
1.3.	Place of establishment	
1.4.	Articles of association/charter/statute/other documents on establishment	
1.5.	Legal and actual address	
1.6.	Email	
1.7.	Phone number	
1.8.	Bank account details	
<b>2.</b>	<b>Nature of Business</b>	
<b>3.</b>	<b>Source of Funds</b>	
<b>4.</b>	<b>Beneficiary Owners (please list all of them)</b>	
4.1.	Name	
4.2.	Family name	
4.3.	Date of birth	
4.4.	Place of birth	
4.5.	Nationality	
4.6.	Copies of IDs/passports (for high-risk partner)	
<b>5.</b>	<b>Key managers and persons authorized to represent the partner</b>	
<b>6.</b>	<b>Ownership structure (please describe and/or provide a scheme)</b>	
<b>7.</b>	<b>AML/CFT Policy and Procedures (please describe)</b>	

7.1.	Identification of the subcontractors and other partners and recipients of funds	
7.2.	Recordkeeping on partners and transactions for at least five years	
7.3.	Sanctions and PEPs screening procedures	
7.4.	Suspicious activities detection and reporting	
8.	<b>Data on subcontractors and other partners and recipients of funds on request of ITTO</b>	
9.	<b>List of transactions conducted with the ITTO funds or related to the ITTO-financed activities (provided to ITTO)</b>	

**Annex 2. List of High-Risk Non-Cooperative Jurisdictions (as of 26 June, 2015)**

<i>Jurisdictions subject to a FATF call on its members and other jurisdictions to apply counter-measures to protect the international financial system from the on-going and substantial money laundering and terrorist financing (ML/FT) risks emanating from the jurisdictions.</i>
<p><u><b>Iran</b></u>  <u><b>Democratic People's Republic of Korea (DPRK)</b></u></p>
<i>Jurisdictions with strategic AML/CFT deficiencies that have not made sufficient progress in addressing the deficiencies or have not committed to an action plan developed with the FATF to address the deficiencies. The FATF calls on its members to consider the risks arising from the deficiencies associated with each jurisdiction, as described below.</i>
<p><u><b>Algeria</b></u>  <u><b>Myanmar</b></u></p>
<b>B. Improving Global AML/CFT Compliance: on-going process</b>
<i>The FATF calls on these jurisdictions to complete the implementation of action plans expeditiously and within the proposed timeframes. The FATF will closely monitor the implementation of these action plans and encourages its members to consider the information presented below.</i>
<p><u><b>Afghanistan</b></u>  <u><b>Angola</b></u>  <u><b>Bosnia and Herzegovina</b></u>  <u><b>Ecuador</b></u>  <u><b>Guyana</b></u>  <u><b>Lao PDR</b></u>  <u><b>Panama</b></u>  <u><b>Papua New Guinea</b></u>  <u><b>Sudan</b></u>  <u><b>Syria</b></u>  <u><b>Uganda</b></u>  <u><b>Yemen</b></u></p>
<i>Jurisdiction not making sufficient progress</i>
<p><u><b>Iraq</b></u></p>

**Annex 3. ITTO risk assessment indicators** (it needs to be updated by ITTO)

The appropriate indicators are needed in order to address forest-related crimes, and specifically to detect money laundering associated with illegality in the forest sector.

The list of possible indicators are the following:

- Trade transactions to finance timber business (extraction, shipping, milling etc.) to a high-risk country – i.e. where no legal forestry concessions are in operation.
- False or questionable statements on bank loans, letters of credit, customs and shipping documents associated with the timber trade.
- Involvement with politically exposed persons or military, police, or other law enforcement by:
  - i. timber brokers,
  - ii. forestry officials,
  - iii. licensed concession-holders outside contract,
  - iv. wood processing companies, shippers, exporters, customs officials, and
  - v. financial institutions;
  
- A complex business ownership structures which can make it easier to conceal underlying beneficiaries, where there is no legitimate commercial rationale;
- An individual holds a public position which carries a higher exposure to the possibility of corruption (i.e. a PEP);
- A partner based in, or conducts business in or through, a high-risk jurisdiction. (e.g. a jurisdiction with known higher levels of corruption or organized crime, or drug production/distribution);
- A partner is engaged in a business which involves significant amounts of cash;
- No commercial rationale for the purchase of the product by a partner;
- Requests for undue levels of secrecy is associated with a transaction or balance;
- An origin of wealth and/or source of funds cannot be easily verified or where the audit trail has been deliberately broken and/or unnecessarily layered,
- Unwillingness of a partner to provide the requested information;
- A sudden transfer of a large amount to the newly established subcontractor;
- An engagement with a company that has no experience in particular type of activities etc.

The list of provided indicators is not exhaustive.