



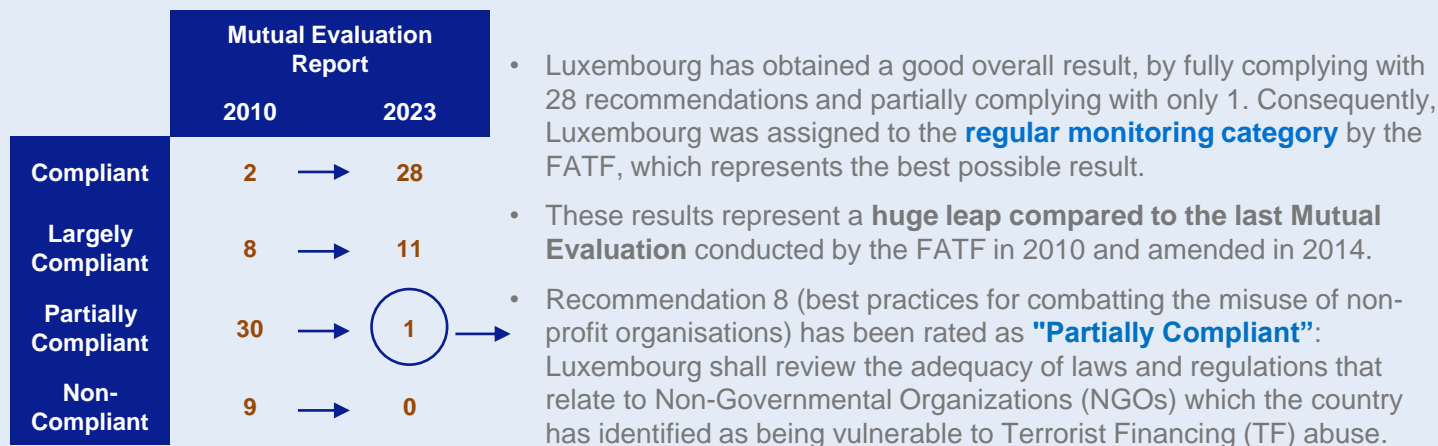
Overview of the 2023 FATF Mutual Evaluation Report – Luxembourg

On 27 September 2023, the Financial Action Task Force (FATF) released its second Mutual Evaluation Report on Luxembourg's adherence to Anti-Money Laundering and Countering Terrorism Financing (AML/CTF) measures, as well as their effectiveness. Since the release of the first FATF Mutual Evaluation Report in 2010, Luxembourgish authorities have made consistent and effective progress on numerous matters.

Mazars in Luxembourg aims to provide an overview on the observations raised by the FATF by summarising the details about the comprehensive assessment of Luxembourg's financial system across 8 distinct chapters. Ultimately, the Report offers an evaluation of Luxembourg's level of compliance with the FATF 40+9 recommendations, an appraisal of the effectiveness of the country's AML/CTF system, and a set of recommendations designed to fortify the system.

Overall Level of Compliance and Effectiveness

- As per the 2023 FATF report, Luxembourg boasts a **solid AML/CTF framework**, demonstrating a profound grasp of its money laundering and terrorist financing risks, and has garnered recognition for its high level of technical compliance. Luxembourg is in a state of **continuous improvement** showing promising signs, but still has room for enhancement.



Main ML / TF Risks

- Luxembourg's primary money laundering threat is foreign predicate offenses, including fraud, tax crimes, corruption, and drug trafficking.
- Vulnerable sectors for money laundering and terrorist financing (ML/TF) include banks (especially private banking), investment, private investors, electronic money institutions, trust and company service providers, real estate, commercial companies, and legal arrangements.
- Terrorism and TF threats are assessed as **moderate to low**, as Luxembourg has not experienced terrorist attacks, but TF remains a potential concern due to Luxembourg's status.

Luxembourg Strengths

- Luxembourg financial system's primary advantages are rooted in its **strong domestic coordination** and **international cooperation concerning AML/CTF** matters, spanning from policy formulation to operational implementation.
- The supervisors of the financial sector, the Commission de Surveillance du Secteur Financier (**CSSF**) and the Commissariat aux

Aux Assurances (**CAA**), have been acknowledged for having an adequate understanding of the ML/TF risks that Luxembourg faces.

- The Financial Intelligence Unit (**FIU**) plays a vital role in producing **high-quality financial intelligence products** and contributes greatly to AML/CTF efforts.

Overall Level of Compliance and Effectiveness

- Changes aimed at improving effectiveness have been initiated in the years leading up to the on-site visit. As these changes become fully effective (such as Designated Non-Financial Business or Profession (**DNFBP**) supervision and asset management reform), Luxembourg is anticipated to further enhance its compliance efforts.
- Earlier changes, like the introduction of goAML by -FIU in 2017, have led to a significant increase in effectiveness.
- The most common **recurring issues** that have been identified in the report are:
 - The **inadequate staffing level** observed in most of the supervisory authorities;
 - The **lack of communication** of Luxembourg's global status as a major financial hub to the private and public stakeholders.

Key Findings

AML/CTF Regime and National Risk Assessment

- The 2018 National Risk Assessment led to crucial changes in Luxembourg's AML/CTF framework, addressing deficiencies pointed out in the earlier evaluation report. Among these changes are the improvement of the legal framework, establishment of new agencies, and investment in automated tools.

FIU and Investigation-Prosecution Capabilities

- The FIU plays a vital role in producing high-quality financial intelligence products. However, the staffing level and tasks' growing complexity raise concerns about the FIU's viability in the future.

Transparency, Asset Freezing, and Confiscation

- There is a solid effort to render the information on Beneficial Ownership more transparent by establishing registries to which authorities have unlimited access. However, the limited array of sanctions limits effectiveness.
- Luxembourg's capacity to safeguard and manage the value of seized or confiscated assets is primarily limited to cash and account balances, prompting authorities to prioritize liquid assets. A centralised Asset Management Office (**AMO**) was set up under new legislation, but it will not be fully operational until after the on-site visit.

Supervisory Regime and International Cooperation

- Luxembourg showed improvements in its supervisory framework, with the financial sector supervisors showing the best performance.
- Luxembourg promptly complies with Mutual Legal Assistance requests, showcasing strong international cooperation. However, when these requests involve coercive measures, processing times significantly increase.

Terrorism Financing and Targeted Financial Sanctions

- Luxembourg proactively identifies and investigates TF activity alongside terrorism related investigations. TFS regime's improvement measures need more development as Luxembourg has not frozen assets related to TF or PF TFS.

NGOs and Sectoral Understanding and Reporting

- The Ministry of Foreign Affairs does not apply a risk-based approach in its supervision of the NGOs which engage in development and humanitarian projects abroad that are likely to be at risk of TF abuse. TF risk's understanding by the sector is very low.
- Financial Institutions strongly understand ML risks and AML/CTF obligations. Virtual Asset Providers' understanding is considered as good, while it is mixed for designated non-financial businesses and professions. Solely real estate agents and dealers in precious metals and stones demonstrate a weak understanding. There is a general need to improve the understanding of TF risks and TFS obligations. The quality and relevancy of TF reporting by some obliged entities is extremely low. Overall, this reduces the reporting levels related to ML/TF suspicion and does not reflect Luxembourg's risk profile as an international financial center.

Priority Actions

On the basis of the observations made, Luxembourg is advised to take action to reinforce certain areas where weaknesses have been identified:

- > Strengthen Parallel ML Investigations;
- > Enhance Asset Recovery and Management Capacities;
- > Develop TF Understanding;
- > Apply Risk-Based Approach to NGO Oversight;
- > Strengthen DNFBP Supervision – adoption of a risk-based approach;
- > Ensure Proportionate Penalties and Remedial Measures;
- > Reduce Delays in Mutual Legal Assistance Requests Execution.

How can Mazars help you in practice?

As Luxembourg continues to establish itself as a leading global financial hub with a strategic geographical location and a strong financial sector, the professionals subject to the AML/CTF laws and regulations face an ever-increasing need for effective AML/CFT services and solutions. The increase of AML/CFT requirements are primarily driven by international standards set by organizations like the Financial Action Task Force (FATF) and by legislation adopted by the European Union, for which transposition into local legislation is ensured by the European Commission.

In this regard, Luxembourg has established supervisory authorities that are designated in the Article 1, point 16 of the Luxembourg AML Law of 12 November 2004 as amended, for their respective areas of supervision:

- > The Commission de Surveillance du Secteur Financier (the "CSSF");
- > The Commissariat aux Assurances (the "CAA");
- > The Administration de l'Enregistrement, des Domaines et de la TVA (the "AED").

In light of the recent changes made to the AML/CTF regulatory framework in Luxembourg, as well as the evolving market practices in the country, Mazars can serve as your partner by leveraging our extensive knowledge, expertise, and competences in supporting key players in the Luxembourg market to:

- > Design or review your ML/TF Risk Appetite Statement and/or ML/TF Risk Assessment (in light of Luxembourg national, vertical and sub-sectoral risk assessments);
- > Design or review the Customers' ML/TF Risk Scoring and/or Risk Assessment methodology (e.g., in light of the CSSF Circular 23/842 about not-for-profit organisations (NPOs), and of Luxembourg national, vertical and sub-sectoral risk assessments);
- > Design or review of AML/CTF risk-based approach for your customers / investors / investments (including, among others, investments in virtual assets);
- > Design or review your AML / CTF Policies & Procedures (in accordance with the all the changes triggered by Luxembourg's first national risk assessment completed in 2018);
- > Review the internal framework of AML / CTF roles, responsibilities and related controls;
- > Design or review the monitoring activities performed by your Compliance Officer / MLRO;
- > Provide assistance to the RR / RC (e.g., design or review of regular reporting);
- > Design or review of Transactions Monitoring / Name screening activities (to ensure efficient and timely detection, accurate assessment, and prompt internal (e.g., escalation process) and external (e.g., reporting to relevant authorities in Luxembourg) ;
- > Perform AML/KYC/KYT file review (including remediation activities);
- > Provide annual AML/CTF training and awareness sessions;
- > Design or review of AML/CTF Due Diligence activities on service providers (including Virtual Asset Service Provider ("VASP") / delegates / business relationships (including KPIs and oversight dashboard);
- > Provide your Compliance Officer with constant on-demand support ("Hotline").

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