

1st Enhanced Follow-Up Report for the Kingdom of Morocco

With TC Re- Rating Request

Anti-Money Laundering and
Combating the Financing of Terrorism

November 2020

The kingdom of Morocco

This document contains the 1st Enhanced FUR for the kingdom of Morocco, which includes a TC re rating request for (13) recommendations. This report reflects Morocco's efforts, since the adoption of the MER in April 2019. The 31st MENAFATF plenary has adopted this report provided that the kingdom of Morocco remains in the Enhanced FU process and submits its 2nd Enhanced FUR to the 33rd plenary meeting in November 2021.

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1st Enhanced Follow-up Report for the Kingdom of Morocco (with TC Re-rating request for some Recommendations)

First: Introduction:

1. The Kingdom of Morocco was evaluated by MENAFATF’s Second Round according to the FATF’s 40 Recommendations and 11 Immediate Outcomes adopted by the FATF in 2012, and the adopted Methodology in 2013. The Report was adopted in the 29th MENAFATF Plenary Meeting in Amman, the Capital City of the Hashimate Kingdom of Jordan in April 2019. Based on the ratings, and as per the MER process, the 29th Plenary Meeting concluded that the Kingdom of Morocco will be subject to Enhanced Follow-Up.
2. As a reminder, the MENAFATF members are currently passing through exceptional situations due to the COVID-19 virus and the resulting imposing of emergency situations in most countries and the curfew and obstruction of the work of many relevant government agencies, these conditions have led to affecting the ability of MENAFATF and the secretariat to carry out and continue the follow-up processes. In view of the impact of follow-up processes on these conditions, the plenary meeting adopted, by written process, a number of decisions, among them the FUR of Morocco, where it was agreed to continue the process of TC re-rating by taking the comments of the global network and reflecting them on the matrix and report, and circulate such report and matrix later on the global network again to request any additional comments. In the absence of any comments, the report will be considered approved, and the secretariat will then publish it on the MENAFATF’s website. In the event of new comments, the relevant report will be deferred until the next plenary meeting for discussion and appropriate decision. Due to comments received from the Global Network, the report was discussed and adopted at the MEWG / Plenary Meeting.
3. The repost analyzes the Recommendations requested be re-rated by the Kingdom of Morocco, which are (13) Recommendations (1, 2, 8, 10 ,12 ,13 ,17 ,18 ,19 ,20 ,26 ,33 & 34)

Second: Findings of the MER:

4. In accordance with the MER Report that included the analysis for the level of Technical Compliance with the 40 Recommendations, the Kingdom of Morocco has obtained a rating of (Compliant) in two Recommendations; a rating of (Largly Compliant) in 10 Recommendations; a rating of (Partially Compliant) in 24 Recommendations and a rating of (Non Compliant) in 4 Recommendations, as follow:

Table (1): Technical Compliance Ratings as per the MER

R.1	R.2	R.3	R.4	R.5	R.6	R.7	R.8	R.9	R.10
PC	PC	LC	PC	LC	PC	NC	NC	C	PC
R.11	R.12	R.13	R.14	R.15	R.16	R.17	R.18	R.19	R.20
LC	PC	PC	LC	PC	LC	PC	PC	PC	PC
R.21	R.22	R.23	R.24	R.25	R.26	R.27	R.28	R.29	R.30
C	PC	PC	PC	NC	PC	LC	PC	LC	PC
R.31	R.32	R.33	R.34	R.35	R.36	R.37	R.38	R.39	R.40
PC	NC	PC	PC	PC	LC	LC	PC	LC	PC

*Note: There are four potential levels to Technical Compliance (Compliant; Largly Compliant; Partially Compliant and Non-Compliant)
Reference: <http://www.menafatf.org/information-center/menafatf-publications/anti-money-laundering-and-counter-terrorist-financing>

5. In coordination with the Secretariat , each, Mr. Omar Modad - as an expert for the Special Investigation Commission “SIC”, Lebanon, and Mrs. Saieda Salmani - as an expert for the Tunasian Financial

Analysis Commission “CTAF” - Republic of Tunisia, have conducted an analysis for the compliance of the Kingdom of Morocco with the Recommendations that are requested to be Re-rated.

Third: Overview on the achieved progress in implementing the Recommendations requested for re-rating:

6. This section of the Report will review the measures taken by the Moroccan side to comply with the Recommendations requested for re-rating, which are as follow:
 - A. The Recommendations of which the country has obtained a rating of (Non-Compliant or Partially Compliant).
 - B. The Recommendations of which FATF has amended post the on-site visit (Recommendation 2 and Recommendation 15).

A. The Recommendations of which the country has obtained a rating of (NC/PC).
7. Morocco requested to re-rate 13 Recommendations that were rated as “PC” or “NC”, which are (R.1, 2, 8, 10, 12, 13, 17, 18, 19, 20, 26, 33 & 34). The following is a breakdown of 12 of these Recommendations, each recommendation separately analyzed as follows, noting that Recommendation 2 will be analyzed in part “B” related to the recommendations that were modified by the FATF following the on-site visit :
 - **Recommendation 1 (Risk Assessment and implementing Risk Based Approach “RBA”) (PC):**
8. As per the MER, the National Risk Assessment “NRA” is not officially approved which impedes the identification of a national policy and strategy regarding AML/CFT. The Mechanisms that allow the provision of appropriate information to the various sectors about the results of the NRA are not clearly identified. Moreover, the approach based on mitigating risk is not a result to AML/CFT NRA. Also, the simplified and EDD procedures, as per the priority or weakness of identified risk, did not include all FIs and DNFBPs. The legal instruments did not include all FIs and DNFBs (for example; Exchange Companies Sector) to help analyze and assess overall ML/TF risks in order to tackle threats and vulnerabilities facing the Moroccan regime in a manner that allows strengthening or reducing CDD procedures.
9. To address the shortcomings mentioned in the MER, the NRA report was approved officially in June 2019. The NRA report, before its approval, witnessed various amendments to make it more reasonable and comprehensive to include all related parties, information, data, threats ,and vulnerabilities based on the World Bank’s methodology in NRA. After the onsite visit, the Moroccan authorities have established a national committee entrusted with preparing, tracking, and updating the NRA; the Kingdom tends to update the NRA every two years to keep it up to date. Also, the FIU relied on its members (law enforcement, supervisory and administrative authorities) in circulating the findings of the NRA which was shared with supervisory authorities, self-regulatory organizations, FIs, and DNFBPs. Each member agency adopted a different mechanism for disseminating the findings, that ranged, for instance, between meetings with stakeholders, workshops, issuing circulars, and sending guidance notes to the private sector. Also, the FIU has published the executive summary of the NRA report on its website.
10. The Moroccan authorities have intensified their efforts to implement a risk-based approach to allocating resources and implementing preventive measures, and the Central Bank of Morocco (BKAM), the Supervisory Authority of Insurance and Social Welfare (ACAPS) , the Capital Markets Authority (AMMC), the Exchange Office (OC) and the FIU (UTRF) requested subjected entities to apply/implement intensive procedures when there are high risks, and rely on the NRA findings while analyzing and evaluating ML/TF risks. All relevant authorities (law enforcement,

supervisory authorities, and other administrative authorities) have issued circulars related to the risk-based approach to ensure that AML/CFT measures are consistent with the risks identified in the NRA. For example, law enforcement authorities have focused on crimes that have resulted in high or medium risk. This was also evidenced in directing training sessions, awareness-raising, parallel financial investigations and allocating resources based on the NRA results.

11. At the regulatory level, the majority of Moroccan authorities allowed to implement simplified CDD measures in the area of identifying and verifying customers in case of low risk and if there are no suspicious cases in ML/TF, but it is not clear whether the instructions issued by the Ministry of Justice allowed the subjected entities to apply simplified CDD measures. on the other hand, according to the Circulars of the supervisory authorities, the subject entities were not allowed to not implement some of the FATF recommendations.
12. The supervisory authorities of the financial sector have the ability to carry out onsite and offsite processes for the purpose of AML/CFT. The Exchange Office has conducted inspection sessions to ensure the extent of which exchange houses implement relevant obligations, but it has not been found to what extent the Ministry of Justice and the Unit ensure that DNFBPs actually apply their specific obligations.
13. Most financial institutions operating in Morocco are required, according to the regulations, to put in place policies, controls and procedures approved by management for managing and mitigating risks, documenting risk assessment processes and taking into account all relevant risk factors, updating evaluation processes and setting up appropriate mechanisms to report results to supervisory authorities, However, people subject to the FIU's supervision are not required to have appropriate mechanisms to communicate/deliver risk assessment information to the competent authorities and self-regulatory bodies, and it is not clear if there are any instructions issued in this regard by the Ministry of Justice.
14. **Conclusion** It appears from the analysis above that Morocco has taken many measures to fulfill the shortcomings mentioned in the MER regarding Recommendation 1 by completing the NRA using world bank methodology and ensuring a common understanding of ML/TF risks among concerned authorities and private sector, however, it is not clear how the Ministry of Justice has taken measures to allocate resources and apply RBA based on the understanding of risks (1.5), and it remains for Morocco to address the shortcomings referred to in the analysis, due to the failure to require lawyers, notaries, and notary officers to take appropriate measures in order to manage and mitigate risk, also to include the information drawn from the NRA process in their self-assessment processes (Criterion 1-7 and 1-8), failure to ensure that the work under the supervision of the FIU and the Ministry of Justice is actually implementing its [morocco] obligations (Criterion 1-9), lastly, failure to request the entities subject to the supervision of the FIU to put in place appropriate mechanisms to communicate risk assessment information with the competent authorities and self-regulatory bodies and not having issued instructions from the Ministry of Justice to meet the requirements of the criteria (10-1, 1-11 and 1-12).
15. According to the above and since the remaining shortcomings are minor, the rating of compliance is "**Largely Compliant**".
 - **Recommendation 8 (NPOs) (NC):**
16. According to the MER, the monitoring and supervision mechanism applied to the NPOs sector did not adopt the Risk-Based Approach, and the authorities did not specify the Sub-category of Organizations according to FATF's definition, nor did they define its characteristics, types, and threats posed on them by Terrorist Groups, moreover, not all procedures, including laws, are reviewed to address the risks of exploiting this sector by Terrorists or Terrorist Groups, also, the risks of this sector have not been assessed to determine its vulnerabilities. Also, the integrity-

enhancing policies for managing these Organizations, awareness-raising programs on risks of Terrorist Financing to Organizations and donors, working to develop best practices, and encouraging them [Organizations] to use organized channels in their financial dealings are absent. The sector is not controlled/monitored and supervised, from TF-risk point of view, and there are no legal texts to impose sanctions on violators. There are also no cooperation mechanisms among relevant authorities that have information about NPOs, expertise and investigative capabilities about these Organizations, and there is no mechanism related to the immediate exchange of information. The Moroccan authorities have also not identified the contact points/focal points responsible for receiving international requests about Organizations when there is a suspicion of their relationship to Terrorist Financing.

17. To address the shortcomings, the Ministry of Interior prepared a study on the risks of exploiting NPOs for TF operations in September 2019. The study noted that the NPOs concerned with the study are "every legal person aiming to collect and dispose funds for charitable, religious, social, cultural and educational purposes by any mean". The study covered the endowment (Waqf) and concluded that it does not represent risks due to the existence of comprehensive controls and regulatory arrangements, and that state institutions are the ones that ensure the management of endowments, so there is no room to be exploited for TF purposes, NPOs were classified into three categories: High, Medium and Low risks, taking into account many characteristics such as sources and destination of funds, size of the sector (number of organizations / area of their movements: National, regional, or local), and the geographical location of the activities (according to each area or region or according to its activity). According to this study, which is the second of its kind, a number of threats that terrorist entities may pose to NPOs at risk were identified according to a methodology that relied on the experience of the relevant authorities in this field in light of the sector being not previously exploited by terrorists. According to the study, Organizations with high and medium risks do not have external/international activities, which means that they are free/away from any potential threats. Also, according to the study, a comprehensive review was conducted about the appropriateness of procedures, including the sector's governing legislative and regulatory framework as well as the provisions concerned with monitoring Organizations' financings/funding. Therefore, the government approved fundraising Law and referred it to the Parliament.
18. All Organizations are subject to specific provisions upon their establishment, by providing all documents related to NPOs, also all information about the persons who form the association's executive office, to ensure the integrity of these people. NPOs must also declare any change in management. The guide issued by the Ministry of Interior in October 2019 aims also at enhancing transparency and accountability, by requesting NPOs to adopt measures related to financing their activities, managing their budgets, maintaining information related to the purpose of their activities and making it publicly available, publishing annual financial reports, and maintain identification documents of their donors.
19. The guide also aims to protect NPOs from TF abuse, by alerting their directors to the risk of directing their funds towards TF, and the risks of being exploited by terrorist organizations for the same purpose, and to warn their members as well as all donors and volunteers of any act or behavior that might cause them to be subject to legal requirements, while assisting them to strengthen prevention and internal control procedures. Despite the positive steps taken, the authorities did not work with the NPOs to develop this guide that serve as best practice, and it's not clear if there are dedicated programs to increase awareness and education among all non-profit organizations and the donor community in this regard.

20. The Country stated that the Ministry of Interior officially contacts the Organizations on a daily basis and collects their information, including their financial information, and that the Organizations are subject to tracking the movement of funds in their accounts through CDD procedures conducted by the FIU, the Central Bank and all financial institutions subject to its supervision. The Ministry in coordination with other bodies adopted a program to strengthen onsite inspections whenever the financial amounts received by an organization rises, or based on information received from agencies, such as a STR, or intelligence information, or other information. 224 oversight missions were conducted out of 1005 active associations representing 22% of the total number of non-profit active and high-risk organizations and about 1% of the total number of non-profit organizations in Morocco.
21. The Ministry of Interior (as the Supervisory Authority over the sector), has legal powers to ensure adequate offsite and onsite inspections of NPOs, taking into account the identified risks in the NRA process. The administrative employee (who represents the local authority) has the legal right to be present at the headquarters and offices of NPOs, according to an official mandate. This mechanism allows the authorities daily effective and continuous supervision, and allows practically to be present, spontaneously, and follow all activities of NPOs in all regions of Morocco. and administrative units perform unexpected inspections whenever information is available on specific risks, in cooperation with various authorities, especially Law enforcement authorities, FIU and the Central Bank.
22. The FIU maintains a list of the high-risk NPOs that have been included in its information system (goAML) to follow and monitor any suspicious financial transactions. Moreover, the Ministry of Interior has a detailed database that includes data and full input on NPOs, and is updated on on-going basis. There is close coordination between the Ministry and its various administrative departments, and there is coordination between the stakeholders involved, led by the UTRF. There is, also, coordination between the FIU, which includes in its composition, as members, a number of law enforcement, administrative, and financial sectors, which provides a platform for regular exchange of information. The FIU (The Head and Members) meets routinely and regularly to study the practical ML/TF cases including any cases related to the exploitation of the high-risk NPOs.
23. With regard to international cooperation, the Ministry of Interior is a member of the FIU, and, therefore, coordinates with the FIU at the operational level regularly and in accordance with the requirements of the AML/TF Law. In addition to international cooperation through the FIU, the remaining authorities in Morocco have a legal basis that allows them to cooperate with counterparts in their fields of competence, including the NPOs sector.
24. **Conclusion:** It is evident from the above analysis that Morocco has addressed most of the deficiencies mentioned in the MER regarding Recommendation 8, but it remains for Morocco to amend the definition of NPOs to match that of the FATF (8.1a), and to continue the awareness-raising and education programs Moroccan authorities initiated in order to develop understanding of the sector, and work with NPOs to develop and refine best practices to address TF risk and protect the sector from TF abuse (sub-criteria 8.2 b-c). As well as increasing the number of the supervisory tasks and enhancing the supervisory measures applied to high risk NPOs (8.3 and 8.4 a), on the other hand, the recency of the NRA process did not enable us to assess the expertise in the field of investigation to inspect the NPOs suspected of being exploited by terrorist activity or terrorist organizations. (8.5b).
25. According to the above and since the remaining shortcomings are minor, the rating of compliance is "**Largely Compliant**".

– **Recommendation 10 (Customers Due Diligence) (PC):**

26. According to what was stated in the Mutual Evaluation Report, it is clear that due diligence procedures do not include cases when performing casual/occasional transactions exceeding the limit of (15000) US dollars and conducting casual/occasional transactions in the form of wire transfers or even when there are doubts about the extent or adequacy of information previously obtained regarding determining the identity of customers and not handling the publications of the supervisory authorities for that except for the Bank of Morocco's publication, also, the absence of the text that obliges/compels Financial Institutions to verify the identity of the beneficiary owners by relying on a reliable source, and not requiring each of the Insurance sector, Capital Markets and Exchange Houses to take Due Diligence procedures on an ongoing basis, The lack of the periodicity/documents from the Capital Markets Authority stating the understanding of ownership structure of legal persons, and the absence of a legal obligation for the Exchange sector and the Insurance sector indicating the necessity of understanding the customer's work and the ownership structure and control over it. the lack of periodicity/documents requirements from the Capital Markets Authority, the Insurance Supervision Authority, and the exchange houses for the purpose verifying the identity of customers in relation to legal persons or legal arrangements.
27. The absence of a legal text that addresses the obligations of identifying the relevant natural person who occupies the position of a high administrative official at any of the Capital Markets Authority or the exchange houses, and the absence of a legal obligation to each of the insurance sector, The Capital Market and Exchange Market with regard to procedures for verifying beneficial owners in cases of customers from legal or similar arrangements, and the absence of a legal obligation for the insurance sector indicating the necessity of obtaining sufficient information about the named beneficiary, or through other means that help to verify the identity of the beneficiary when compensation is paid, and the lack of legal requirements in the laws or the publications issued by the overseeing and supervisory authorities, with the exception of the Bank of Morocco's publication, to having Financial Institutions apply Due Diligence procedures to existing customers, and the legal texts issued by the supervisory authorities of each sectors; Insurance and Capital Markets, and exchange houses does not include the requirements under article 10.20.
28. In order to address the shortcomings, in 2019, the Central Bank of Morocco's Circular No. 5/w/2017 and the Exchange Houses Circular No. 2/2019 were amended which stipulated the necessity for the subject person to collect information elements to identify and verify the identity of each person/individual wishing to enter into a relationship with it. The Circular of the Central Bank of Morocco obliges the subjected entities to the necessity of checking the elements of information that enable the identification of each person requesting their services, especially when carrying out any transaction, even if it is of an occasional nature, such as transfer of funds. Also, the Capital Markets Authority's Circular No. 18/01 requires that the subjected institution to put in place and apply CDD to occasional customers and when there is a suspicion of ML/TF. The Insurance Supervision Authority Circular requires the subjected person to prepare an information card in the name of the customer before performing a transaction, even if it is occasional customer. Although the subject entities are obligated to apply CDD procedures to all customers, it has not been shown that they are required to apply these procedures (except for the identification of the customer) when performing occasional transactions and wire transfers, also, it was not found that the entities subject to the supervision of the Capital Markets Authority are required to take CDD procedures when there are doubts about the accuracy or sufficiency of the data obtained.
29. Article 8 of the Anti-Money Laundering Law requires the subjected persons to conduct special study for each transaction that takes place in unusual circumstances and does not seem to have economic justification, and it [the Law] obliges those subject to investigate the customer's source

and purpose of funds and the identity of beneficial owner(s), and the institution, when there are doubts about the accuracy or the sufficiency of previously obtained data regarding the identification of the business relationship or the beneficial owner, to take appropriate Due Diligence measures in relation to this business relationship. Financial institutions have been required to verify the identity of the permanent and occasional customers, whether they are natural, legal persons or legal arrangements, and to cross-check through the data mentioned in the official ID issued by the competent Moroccan authority or by a foreign authority.

30. Each; Central Bank, the Capital Market Authority and the Insurance Supervision Authority have required the subject person to verify the identity of the beneficial owner through every reliable and independent means, excluding Exchange houses subject to Exchange Office's inspection. The insurance sector, capital markets and exchange offices are required to ensure that the transactions performed by its customers are fully commensurate with their knowledge about the customers and their activities as well as the type of risk they represent/pose, and to ensure that the documents, data or information obtained under the Due Diligence procedures are constantly and appropriately updated, in particular for categories of high-risk customers. The Insurance Supervision Authority and the Capital Markets Authority required the subjected entities to put an information card before entering into a relationship with a legal person in which to write information about the subject and nature of the business relationship to be established, and to take all necessary measures to understand the ownership system and the structure of control within the legal person.
31. The Capital Markets Authority, the Insurance Supervision Authority and Bank of Morocco have specified requirements for identifying and verifying the identity of legal persons, including various legal entities, which include the name and legal form, and according to the Memorandum of Association “MoA” and identity of members of the boards of directors, the management of the legal person, and the persons in charge of disposition or managing the legal entities and those authorized to operate the account for the organizations, and verify the headquarters’ address(es).
32. Both the Capital Markets Authority and the Insurance Supervisory Authority have required the subjected entities to take reasonable measures to verify the identity of the beneficial owners. In addition to the Capital Markets Authority and the Insurance Supervisory Authority, Bank of Morocco required that the subjected entities must provide identification documents about the persons who created the legal entity, or who are responsible for managing or disposition thereof and like so of beneficial owners.
33. The Supervisory Authority of Insurance and Social Welfare (ACAPS), has required the subjected person to collect the elements of information that enable to identify each person who wishes to subscribe to an insurance contract or benefit from the amounts due under this contract, and to apply enhanced due diligence to customers who represent high risks, including high-risk beneficiaries of insurance documents/policies. Bank Morocco and the Capital Markets Authority have stressed that it is necessary to verify that documents, data and information obtained in the context of implementing the CDD obligation are updated, taking into consideration the importance and sufficiency of those data, taking into care, the types of risks related to the business relationships. The regulations issued by the Bank of Morocco, the Capital Markets Authority and the Exchange Office obligate the subjected entities that “in the event that the subjected person suspects in a transaction or a group of related transactions and if the implementation of the due diligence raises the customer’s attention (tips him off) due to the suspicion regarding this transaction(s), then, It is permissible for him not to fulfill the obligation of the aforementioned due diligence.
34. **Conclusion:** It appears from the above analysis that Morocco has taken many measures to cover most of the shortcomings referred to in the MER regarding Recommendation 10, but it remains for Morocco to address shortcomings by not requiring those subject to the application of CDD

procedures (except for identifying the customer's identity) when performing an occasional wire transfers in the cases covered in R.16 and its Interpretive Note, (sub-Criterion 10.2 (c)), and not require entities subject to the supervision of the Capital Markets Authority to take CDD when doubts are raised about the the accuracy and sufficiency of the data obtained (criterion 10-2 (e)), and not requiring currency exchange houses to verify the identity of the beneficial owners using information or data from a reliable source (criterion 10-5) and by taking due diligence measures toward business relationships on timely manners and time It has been taken, and the sufficiency of the data obtained, including those subject to the supervision of the ACAPS (Standard 10-16).

35. According to the above and since the remaining shortcomings are minor, the rating of compliance is "**Largely Compliant**".

– **Recommendation 12 (Politically exposed persons “PEPs”) (Partially Compliant):**

36. According to what is stated in the MER, the definition of PEPs for all regulatory bodies - except for Bank of Morocco - is inconsistent with the definition of the FATF. In addition, the definition of the exchange sector for these persons did not include family members and relatives. In addition, the obligations of the capital market sector do not include setting up systems to determine whether the customer or the beneficial owner is a PEP. The insurance and banking sector is also not explicitly bound to verify that the beneficial owner is a PEP.

37. To address the shortcomings, Bank of Morocco, ACAPS, the Capital Markets Authority and the exchange office have defined “PEPs” in line with the definition of FATF. Financial institutions were required to implement procedures that enable determining whether the customer or the beneficial owner is a PEP, as well as the application of EDD measures towards these people, which is to obtain permission from the managers before entering into or continuing the business relationship. These obligations apply to local and foreign PEPs, including their family members and relatives/close people, however, the definition of PEPs in each of the Bank of Morocco publication, the circulars of the ACAPs, the Capital Markets Authority and the Exchange Office includes political persons of Moroccan nationality or foreigners Both family members and people close to them/relatives.

38. The circular of ACAPS obliges the subjected person to have an adequate information system that enables it to detect customers and beneficiaries who may represent high risks, including PEPs, according to the provisions of Article 7 of the ACAPS circular, read in conjunction with Article 26 thereof, . It is not clear that the subject person is required at the time of the payout to any beneficiary to consider making a suspicious process when higher risks are identified.

39. **Conclusion:** It is clear from the above analysis that Morocco has taken many measures to meet the shortcomings referred to in the MER regarding Recommendation 12, but it remains for Morocco to address the shortcoming represented by requiring FIs, where higher risks are identified, to conduct enhanced scrutiny on the whole business relationship with the policyholder, and to consider making a suspicious transaction report.

40. According to the above and since the remaining shortcomings are minor, the rating of compliance is "**Largely Compliant**".

– **Recommendation 13 (Correspondent Banking) (Partially Compliant):**

41. According to what was stated in the Mutual Evaluation Report, legal texts related to credit institutions provide for a number of requirements of recommendation 13, but the requirements did not require credit institutions to know whether the respondent institution was subject to an investigation regarding Money Laundering or Terrorist Financing or a supervisory procedure, in addition to not having a requirement/obligation to verify all the requirements of Criterion (13.1A)

through publicly available information, and the shortcomings are also highlighted by the absence of legal texts related to correspondent banking relationships in the Capital Market sector.

42. To address the shortcomings, the institution(s) is/are required, according to Central Bank of Morocco Circular No. 5/w/2017, to collect, before opening an account for a foreign correspondent banker, sufficient information about the person to accurately understand the nature of its activities, knowledge of his reputation and the quality of supervision subject to and whether it was subjected to an investigation on Money laundering, Terrorist Financing, or supervisory procedure, as well as understanding its responsibility in this regard, checking that it can provide, upon request, useful information regarding CDD procedures towards customers who have direct access to user accounts.
43. The Capital Markets Authority required by virtue of Circular No. 18/01 that holders of accounts and stock exchange companies, before opening an account, to collect sufficient information about the persons and entities mentioned, to accurately understand the nature of their activities, know their reputation and the quality of supervision they are subject to, and ensure that they are subject to AMLCFT regime/system, and to verify that their CDD system is subject to regular monitoring by its supervisory authority, and that they can provide the holder of accounts, upon request, with useful information regarding CDD measures towards customers who have the direct access to user accounts. "
44. **Conclusion:** It appears from the above analysis that Morocco addressed the shortcomings referred to in the Mutual Evaluation Report regarding Recommendation 13, according to Bank of Morocco Circular No. 5/w/2017 and under the Capital Markets Authority Circular No. 18/01.
45. According to the above and since a shortcoming are addressed, the rating of compliance is "**Compliant**".

- **Recommendation 17 (Reliance on Third Parties) (Partially Compliant):**

46. According to what is stated in the Mutual Evaluation Report, and with the exception of credit institutions, all texts provided by the Country do not cover compliance by third parties with the rules for record and document keeping (the Capital Markets Authority and ACAPS), and have also dealt sectorally (credit institutions) with obligations that fall on The third party in one of the countries that does not comply with FATF recommendations. In addition, the Evaluation process has not yet reached a clear legal basis for the obligations that fall on the financial institution if it seeks assistance from third party from among the financial group itself.
47. To address the shortcomings, Bank of Morocco and the Capital Markets Authority demanded the ACAPS that when a person subject to its supervision resorts to a third party (to perform Due Diligence measures) must ensure the immediate obtainment of information related to the verification of the business relationship, occasional customers, beneficial owners and the nature of business to be established. The subject person has also been required to take into account available information on the level of risk associated with the countries in which the third party is present, and that the group (to which the third party belongs) meets the requirements of Due Diligence and internal controls as stipulated for in the regulations issued by the aforementioned authorities or the requirements At least similar thereto, and to ensure that the third party is subject to the legislation and regulation related AMLCFT and that it has adequate policies and procedures in this area, and to verify that it respects the obligation of CDD when identifying and retaining documents (record keeping) And that the CDD measures to be applied on the level of the group may reduce/mitigate any high risk realted to countries in an adequate way, throughout the groups' policies regarding AMLCFT.

48. **Conclusion:** It appears from the above analysis that Morocco has addressed the shortcomings referred to in the Mutual Evaluation Report regarding recommendation 17, according with the circulars of ACAPS and the Capital Markets Authority.

49. According to the above and since aa shortcomings are addressed, the rating of compliance is "**Compliant**".

– **Recommendation 18 (Internal Controls, Foreign Branches and Subsidiaries) (PC):**

50. According to what was stated in the Mutual Evaluation Report, the basic shortcoming is apparent in the absence of a compulsory obligation that imposes the application of the AMLCFT program on the Group as a whole with insurance institutions, capital markets and the exchange sector, in addition to the absence of any legal text at the exchange sector that addresses the obligation to ensure that foreign branches implement more stringent measures.

51. To address the shortcomings, Central Bank of Morocco, the Capital Markets Authority, the ACAPS and the Exchange Office have required the subject entities to include policies, procedures and controls to check procedures to ensure that there are sufficient high standards when appointing/joining relevant employees, and that they set up an internal supervision system, and verify that their foreign branches and subsidiaries (except for currency exchange companies to which this criterion does not apply as the law regulating them do not permit the establishment of subsidiaries or affiliated companies abroad) comply with the requirements of the local regulations regarding the appointment of MLRO/AMLCFT officer at the Group level, the creation of an independent unit dedicated to internal control, and putting information related to customers, accounts and transactions at the disposal of the units in charge of auditing, Anti-Money Laundering and Terrorist Financing functions at the group level, provided that this information includes reports and analysis of transactions or activities that seem unusual, provided that the institution provides its branches and subsidiaries. When necessary and as commensurate to the risk management requirements.

52. According to the Central Bank of Morocco Circular and the ACAPS', subject entities are required to verify that their subsidiaries or foreign branches adhere to obligations in accordance with Moroccan legislation, without prejudice to the other country's legislations. In this case, it must (each within their jurisdiction) apply additional procedures and notify the UTRF, Bank of Morocco and "IACAPS", these obligations apply to entities subject to the Capital Markets Authority, without requiring them to apply additional appropriate measures to manage the risks of money laundering and terrorist financing In case the host country does not allow the proper implementation of the measures.

53. **Conclusion:** It appears from the above analysis that Morocco has addressed most of the shortcomings mentioned in the Mutual Evaluation Report regarding Recommendation 18, and it remains for Morocco to address the shortcomings regarding not requesting entities subject to the supervision of the Capital Markets Authority to apply additional measures appropriate to ML/TF risks in the event that the host country does not allow the appropriate implementation of the measures. In addition, the requirements of C.18.1.b requires the application of these standards on all customers, not only those involved in AML/CFT.

54. According to the above and since the shortcomings are minor, the rating of compliance in recommendation 18 is "**Largely Compliant**".

– **Recommendation 19 (High-Risk Countries) (Partially Compliant):**

55. The Exchange Office Circular stipulates for the necessity to take CDD measures towards the countries called upon by FATF. The possibility of applying appropriate countermeasures against other

countries in the event that it continues not to adequately implement the FATF recommendations is not provided for in legislation and laws.

56. To address the deficiencies, the exchange office updated its circular in 2019 to require currency exchange companies to take CDD measures towards the countries that FATF calls for. Where financial institutions were asked to apply a Risk-Based Approach and implement measures to prevent or mitigate those risks, based on an understanding of the risks to which they are exposed, and that the institution conduct at least every year an analysis and assessment of ML/TF risk associated with (... Countries, jurisdictions...) This is in accordance with the Capital Markets Authority, the Exchange houses, ACAPS, and the Bank of Morocco circulars.
57. According to the Circular of the Central Bank of Morocco and the circulars of ACAPS and the Capital Markets Authority, it represents high risks "natural and legal persons in the countries that FATF calls for CDD measures against, as well as the operations carried out by or for the benefit of people residing in countries that represent a high degree of risk in the field of ML/TF, and the same obligations apply to the entities subject to the supervision of the Exchange Office. The authorities clarified that the legislation enables them to take countermeasures commensurate with the degree of risk when FATF calls for such implementation and independently of any call by FATF. To demonstrate this, the FIU publishes continuously FATF public statements on countries that are not compliant to implementing recommendations related to AML/CFT. All these efforts remain incomplete in the absence of any clear text stating that the country is able to take countermeasures proportionate to the risks: (a) when called upon to do so by the FATF; and (b) independently of any call by the FATF to do so
58. **Conclusion:** It appears from the above analysis that Morocco has addressed most of the shortcomings mentioned in the MER regarding Recommendation 19, However, despite that supervisory authorities rely on their laws and circulars to take any countermeasures, and the efforts of the FIU, there is absence of any dedicated text stating that the country is able to take countermeasures proportionate to the risks: (a) when called upon to do so by the FATF; and (b) independently of any call by the FATF.
59. According to the above and since the remaining shortcomings are minor, the rating of compliance is "**Largely Compliant**".
- **Recommendation 20 (Reporting of Suspicious Transactions) (PC)**
60. According to what was stated in the Mutual Evaluation Report, laws and legislations did not provide for immediate reporting by the authorities subject to the reasonable grounds for suspicion that funds were generated from a criminal activity, or linked to the TF.
61. To address the shortcomings, the requirements for immediate reporting were included in the FIU's circular No. 8/2019, which obligated all subject entities to submit declaration of suspicion immediately to the FIU, according to the cases stipulated in Law No. 43-05 which include predicate crimes, money laundering and terrorist financing crimes. However, there is no text on prompt reporting in a law.
62. **Conclusion:** It appears from the above analysis that Morocco has fulfilled most of the requirements of Recommendation 20. However, there is no text on prompt reporting in a law.
63. And since there are minor shortcomings, the rating for compliance is "**Largely Compliant**".
- **Recommendation 26 (Regulation and Supervision of Financial Institutions) (PC):**
64. According to the Mutual Evaluation Report, there is a legislative framework that guarantees entry to the market through texts that require obtaining licenses and examinations for fit and proper, but there is an absence of such texts at the Exchange Office level. There are many activities subject to the supervision of the Moroccan Capital Market Authority, such as trading in securities and

organizing subscriptions and investment portfolios that were not subject to control based on the basic principles and principles of the International Organization of Securities Commissions (IOSCO), and the NRA results on ML/TF have not been circulated to the relevant authorities in Morocco to be relied upon in one way or another in a Risk-Based Approach and in specifying the periodicity and intensity of offsite and onsite inspections. Also, Bank of Morocco, the ACAPS and the Exchange Office did not provide any texts indicating that they regularly review the risk structure based on any significant changes or significant events that occur on the Financial Institutions subject to their supervision.

65. To address the shortcomings, Morocco has provided legal texts and information to support its compliance to the requirements of this recommendation, as the banking law included that existing credit institutions may not establish their social headquarters in Morocco except in the form of a Joint Stock Company (JSC) with fixed or in the form of cooperatives with variable capital except for the institutions for which the law specifies a special system, and that when creating/establishing any institution to practice its activity as a Credit Institution in the form of a bank or financing company, or as a performance institution that obliges Central Bank Morocco to direct accreditation requests to it and to verify the conditions of incorporation in order to prevent the establishment of Shell Banks, knowing that the on-site and off-site desk monitoring carried out by Central Bank Morocco aims to ensure that the approved activities are practiced and the license is withdrawn if it is not practiced within one year of providing it, adding that banks are required to have a physical presence, open accounts at the CBM, are subject to external auditing and submit reports in different periods, these requirements altogether prevent the establishment of shell banks or the continuation of their operation. on the other hand, the Central Bank of Morocco prevents banks from establishing a correspondent relationship with shell banks.
66. In 2019, Bank Al-Maghrib updated the “licensing application procedures” to stipulate the necessity of providing, when submitting a license application, the BOs information of the institution and information that enables it to ensure the integrity and reputation of the holders of large or controlling shares in the institution or the BO thereof. The Banking Law requires that Bank Al Maghrib be regularly notified of any change in the shareholders or management structure or voting rights. According to the AMMC Law and ACAPS circular, no person may be the founder of a Stock Exchange Company or enter into an insurance and reinsurance contract or to dispose or manage its affairs or management . If there was a court order issued against that person due to a felony, misdemeanor or breach. With regards to the Exchange Office, the beneficial owner and the controlling shares are identified before licensing/approving the practice of the exchange activity and during studying the company’s legal status as well as when performing onsite inspection conducted by the Exchange Office.
67. According to Law No. 103-12, Central Bank of Morocco is entrusted with the supervision and follow-up with Credit Institutions, including the application of consolidated supervision, and to ensure that the bodies subject to its supervision adhere to the provisions of the legislative texts applicable to AMLCFT and the texts taken in implementation thereof. Law No. 12-43 empowers the Capital Markets Authority to ensure that the persons and entities subject to its control to consider the legislative and regulatory provisions related to combatting ML; it is mandated to carry out consolidated supervision at the group level, including foreign branches, however, there is no explicit text that the Capital Market Authority is authorized to carry out supervision for CFT purposes and it is not clear whether the consolidated supervision of ACAPS has been related to AML/CFT, since ACAPS code explicitly indicates that the scope of the monitoring cannot extend beyond verifying the actual financial position of the insurance and reinsurance company that was

monitored, as well as respecting the obligations it entered into towards the insured or the beneficiaries of the insurance contracts.

68. On the other hand, ACAPS and the Exchange Office have relied periodically and heavily on its supervision on ML/TF risks present in the country, and the diversity of institutions and their characteristics. The Central Bank of Morocco, the Capital Markets Authority and ACAPS have internal texts regarding the rating of the subject institutions that necessitate a review of the risk structure following any significant changes or significant events that occur on the financial institution subject to its supervision. As for the Exchange Office, it has a risk matrix of all the subjected companies, which is updated periodically, according to the importance of the volume of transactions recorded in relation to the sector and geographical presence but not including any major developments in the management of the company.
69. **Conclusion:** It appears from the above analysis that Morocco addressed most of the shortcomings mentioned in the Mutual Evaluation Report regarding Recommendation 26, and it remains for Morocco to address the shortcomings represented by the absence of evidence that AMMC is empowered to carry out supervision for CFT purposes and absence of evidence that the aggregated supervision and supervisory work carried out by ACAPS is related to AML/CFT (Criterion 26.4 (a)), and the Exchange Office does not have any texts on rating currency exchange companies, which require a periodical review of the risk profile based on any fundamental changes or significant incidents affecting companies subject to its supervision (26.6). The Exchange Office does not have any texts on rating currency exchange companies
70. According to the above and since the remaining shortcomings are minor, the rating of compliance is "**Largely Compliant**".
- **Recommendation 33 (Statistics) (PC):**
71. According to what was stated in the Mutual Evaluation Report, the requirements of the recommendation were not met/fulfilled with regard to maintaining statistics related to the frozen and seized funds as well as with respect to requests for inbound and outbound Mutual Legal Assistance "MLA".
72. To address the shortcomings, the Kingdom of Morocco provided a table showing the classification of the number of Money Laundering follow-ups according to the predicate crime with regard to the property seized without reference to the timeline for it. There is no tables related to the frozen and confiscated property. On the other hand, the Country provided statistics related to letters rogatory/letter of requests sent and received by the Moroccan judicial authorities in ML/TF cases, and also provided statistics with requests for extradition received by the judicial authorities without clearly separating ML/TF offences.
73. **Conclusion:** It appears from the above analysis that Morocco has addressed most of the shortcomings mentioned in the Mutual Evaluation Report regarding Recommendation 33, and it remains for Morocco to address the remaining shortcomings by including a classification of property seized in connection with the TF in the tables.
74. According to the above and since the remaining shortcomings are minor, the rating of compliance for Recommendation 20 is "**Largely Compliant**".
- **Recommendation 34 (Guidelines and Feedback) (PC)**
75. According to the MER, the competent authorities, supervisory authorities and self-regulatory bodies (with the exception of the UTRF) have not issued any Guidelines or Feedback that would assist specific FIs and DNFBPs in implementing national measures to AMLCFT, nor In particular, detection and reporting suspicious transactions.

76. To address the shortcomings, Bank of Morocco has developed several Guidelines that define the measures to be followed by institutions subject to the implementation of the requirements for AMLCFT. However, of those guidelines, Bank of Morocco issued guidelines related to the implementation of RBA and others related to identification of occasional customers, business relationships and the beneficial owners, and in the context of the feedback, Bank of Morocco focuses on communicating with the institutions subject to either offsite or onsite supervision or through bilateral meetings mainly focusing on the implementation of the recommendations of the inspection sessions/cycles. Therefore, Bank of Morocco regularly organizes training courses for the benefit/interest of the subject institutions.
77. The Capital Markets Authority, ACAPS and the Exchange Office issued guidelines dealing with the responsibilities of Customers Due Diligence. UTRF issued guidelines containing suspicious indicators to assist subjected persons in identifying suspicion as it occurs. In the context of Feedback, a number of measures were taken and were represented in organizing several training courses for the benefit/interest of the subject entities. And there is an absence of any guidelines or directed feedback from the Ministry of Justice to the bodies subject to its supervision.
78. **Conclusion:** It appears from the above analysis that Morocco has addressed most of the shortcomings mentioned in the Mutual Evaluation Report regarding Recommendation 34, and it remains for Morocco to address the shortcomings represented in the absence of guidelines or feedback from the Ministry of Justice to the authorities subject to its supervision.
79. According to the above and since the remaining shortcomings are minor, the rating of compliance for Recommendation 34 is "**Largely Compliant**".

B. Recommendations amended by FATF post the onsite visit:

- **Recommendation 2 (National Cooperation and Coordination) (PC):**
80. According to the MER, no national AMLCFT policies have been developed/explained that take into account the risks identified, nor has it been clear whether the UTRF is legally responsible for CFT policies at the national level, moreover, concerning national cooperation and coordination, on one hand, it was limited to signing some MoUs with number of relevant national authorities, and on the other hand, to the formation or composition of UTRF without understanding the impact of this on the existing cooperation or on the headlines/broad lines of the mechanisms taken, including ensuring the development and implementation of policies and activities to AML and its application at the level of policy development and at the operational level, and in general, the cooperation and coordination mechanisms have not covered the area related to CPF.
81. The Kingdom of Morocco approved the National Risk Assessment report in June 2019 and submitted a national action plan to mitigate ML/TF risks, and various sectors have developed action plans that take into account the outcomes of the National Risk Assessment in an ongoing basis, but it is not clear whether the Exchange sector has reviewed the plans on ongoing basis. According to the internal law of UTRF, it is found that it falls within its [UTRF] competencies to define the general and strategic directions related to AMLCFT within the framework of the policy adopted by the public authorities and to take all necessary measures for coordination, cooperation and consultation between the competent public authorities to AMLCFT, which was stressed on by the UTRF's decision/circular, which is considered a regulatory text binding on all relevant parties.
82. The UTRF consists of different entities, which enables it to set policies, exchange information and implement policies and activities to combat money laundering and terrorism financing at the level of policy development and at the operational level, moreover, the Moroccan authorities have put in place mechanisms (Memoranda of Understanding) to coordinate and exchange information between the competent authorities, for example, Bank of Morocco entered into a Memorandum of Understanding with the General Directorate of National Security, and mutual focal points have

been designated between the National Brigade of the Judicial Police “BNP” and all supervisory and control authorities to coordinate and exchange operational information permanently. According to Decision 09/2019, the UTRF must take all necessary measures for coordination, cooperation and consultation between the public authorities concerned with AML/CFT and unify all strategies in this respect.

83. With regard to ports, airports and land borders cooperation, the Customs and Excises Administration coordinates with the police, the Royal Gendarmerie Command and the Royal Armed Forces. The list of dual-use goods and related services is currently being discussed; it is not clear if the relevant authorities have coordination mechanisms to combat proliferation. Cooperation and coordination were established between the UTRF and the The National Control Commission for the Protection of Personal Data to ensure that the requirements of AMLCFT comply with the rules of data protection and privacy. This coordination included entities with the largest weight.
84. **Conclusion:** Morocco adopted the NRA Report in June 2019 and submitted an action plan to mitigate the risks of ML/TF. Various sectors have developed sectoral action plans, but for the exchange sector it is not clear that plans are constantly being reviewed. On the other hand, the country named the FIU to put in place a coordination mechanism on the issue of combating ML/TF, and a mechanism is put in place that enables all relevant agencies to coordinate and exchange information locally with each other and that the mechanisms are applied at the operational level side by side at the level of policy development, also, it has provided what is necessary in terms of cooperation and coordination between the relevant authorities with regard to combating ML and TF with data protection and privacy rules.
85. Since shortcomings are minor, the level of compliance in Recommendation 2 is “ **Largely Compliant**”.
- **Recommendation 15 (New Technologies) (PC)**
86. The criteria of Recommendation (15) were modified and approved by FATF at the end of October 2019, while the Country submitted a request for re rating before that. Consequently, the requirements of the new criteria will be reassessed in Recommendation 15 within the request to reassess the ratings of the second Technical Compliance which expected to be submitted by Morocco and discussed during the 33rd Plenary meeting in November 2021.

Fourth: Conclusion

87. The reviewing experts (Reviewers), after analyzing the information submitted by the Moroccan authorities attached to their re-rating request of 13 recommendations that were assessed in the Mutual Evaluation Report, concluded that “Partially Compliant” and “Non-Compliant” were achieved in the following:
- **Recommendations which are subject of the re-rating request :**
 - To upgrade the rating of (2) Recommendations (R.13, 17) from “**Partially Compliant**” to “**Compliant**”
 - To upgrade the rating of (9) Recommendations (R.1, 10, 12, 18,19,20, 26, 33 and 34) from “**Partially Compliant**” to “**Largely Compliant**”
 - To upgrade the rating of (R.8) from “**Non-Compliant**” to “**Largely Compliant**”.
 - **Recommendations which changed after the onsite.**
 - To upgrade the rating of (R.2) from “**Partially Compliant**” to “**Largely Compliant**”.
88. Compliance ratings after re-rating can be summarized as follow:

Table (2): Re-Rating of the Technical Compliance ratings

First Enhanced FUR of the Kingdom of Morocco (wth Re-rating request)

R.1	R.2	R.3	R.4	R.5	R.6	R.7	R.8	R.9	R.10
LC	LC	LC	PC	LC	PC	NC	LC	C	LC
R.11	R.12	R.13	R.14	R.15	R.16	R.17	R.18	R.19	R.20
LC	LC	C	LC	PC	LC	C	LC	LC	LC
R.21	R.22	R.23	R.24	R.25	R.26	R.27	R.28	R.29	R.30
C	PC	PC	PC	NC	LC	LC	PC	LC	PC
R.31	R.32	R.33	R.34	R.35	R.36	R.37	R.38	R.39	R.40
PC	NC	LC	LC	PC	LC	LC	PC	LC	PC

* Note: There are four potential levels to Technical Compliance (Compliant; Largly Compliant; Partialy Compliant and Non-Compliant)

89. Kingdom of Morocco achieved “Compliant” in 4 Recommendations; “Largely Compliant” in 21 Recommendations; “Partially Compliant” in 12 Recommendations and “Non-Compliant” in 3 Recommendations. As a result of the analysis of the 1st TC re-rating request, and in accordance with MENAFATF's procedures, Morocco remains in the Enhanced Follow-Up process, and shall submit its 2nd Enhanced FUR report to the 33rd MENAFATF Plenary meeting in November 2021.
