

2019

National Risk Assessment
Money Laundering and Terrorist Financing



National Commissioner of the Icelandic Police

April 2019

National Risk Assessment of Money Laundering and Terrorist Financing

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Preface

Iceland is probably not the first country coming to mind when most people discuss money laundering and terrorist financing. In an increasingly globalised world, however, Iceland is nowhere near safe against the risks that money laundering and terrorist financing entail. Nor is it exempt from a duty to take appropriate and necessary measures to prevent such from thriving in its area of influence.

In September 1991, Iceland entered into collaboration with the Financial Action Task Force (FATF), which is an international action group against money laundering and terrorist financing. FATF has issued instructions on the measures member states shall take in response to the threat stemming from money laundering and terrorist financing. FATF's instructions have become global guidelines. For example, the European Union's directives have been in accordance with these guidelines.

By joining FATF, Iceland obligated itself to coordinating its legislation with the action group's instructions. Regarding this, FATF's evaluation in 2017-2018 revealed various weaknesses in the Icelandic legislation. Iceland began responding, which, for example, entailed legalising the European Union's 4th Anti-money Laundering Directive. In accordance with the requirements following from FATF Recommendation no. 1, the above directive assumes that all member states shall carry out a risk assessment of the main threats and weaknesses stemming from money laundering and terrorist financing within the areas each member state controls. Such risk assessment is fundamental when it comes to assessing whether anti-money laundering and anti-terrorist financing measures are adequate.

The risk assessment presented here was prepared in fulfilment of the duties Iceland has in these matters, and it is the second of its kind in Iceland. The previous risk assessment was prepared under the auspices of Ministry of the Interior in January 2017. The risk assessment's purpose is to provide a comprehensive analysis of the existing risk of money laundering and terrorist financing in Iceland. Among other things, it entails an assessment of the known markets and operations that may be particularly exposed to such risk. It is anticipated that not only the Icelandic Government but also other parties with stakes in protection from money laundering and terrorist financing will be utilise the risk assessment.

The risk assessment is prepared in accordance with methodology based on FATF's recommendations regarding such assessments. In essence, the methodology entails first analysing the threats and weaknesses related to money laundering and terrorist financing before analysing the nature, magnitude and likelihood of money laundering and its possible consequences, as well as an assessment of necessary measures to reduce the risk that may exist. In presenting statistical information, we generally referred to figures from 2017 although newer figures were used where they were available.

The risk assessment shall be updated at least every two years and more often if there is reason to do so. In addition, we anticipate utilising the risk assessment in making direct reforms not only to measures combating money laundering and terrorist financing but also other activities, like the allocation and prioritisation funding, dissemination of information and general preventive measures.

The risk assessment has provided government authorities and other stakeholders with a powerful weapon against money laundering and terrorist activities. It has laid the epistemic foundation to enable us to define and understand the problem we are coping with and thus ensure that the preventive measures that are in place are as robust and efficient as possible.

Infrastructure

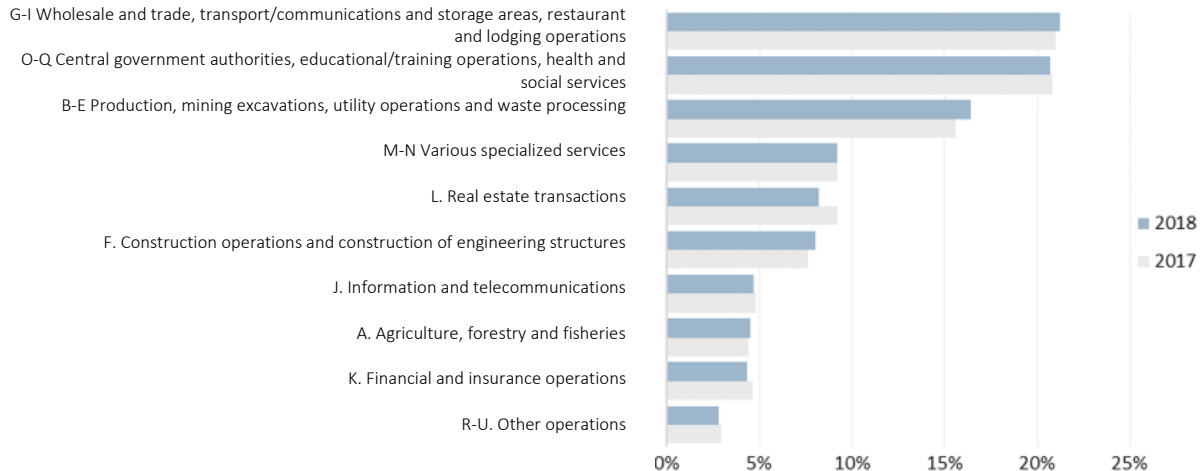
Generally

Iceland is an island in the North Atlantic. The country's area is about 103,000 km², and its coastline is 6088 km. Accordingly, Iceland is the next biggest island after Britain. Its capital is Reykjavik, which is located in the south-west corner of the country. The official language is Icelandic, and its currency is the Icelandic krona.

According to Statistics Iceland's figures, the population of Iceland on 1 January 2018 was 348,450. Immigrants account for 43,736 (12.6%) of the population. Individuals with foreign backgrounds, other than immigrants, were 6.9% of the population. The biggest group of immigrants is Poles (38.8%). After them come immigrants from Lithuania (5.5%) and the Philippines (4.0%). Most of the population lives in the Reykjavik Metropolitan Area (63.8% as of 1 January 2018).³

The Icelandic banking system's share of the national economy has been decreasing since the financial crisis in October 2008 began. Thus, the deposit institutions accounted for 130% of Iceland's gross national product in 2017. By comparison, according to figures at year-end 2016 from the European Central Bank, the assets of the banking systems of most Central European states generally accounted for 390-600% of GNP. At year-end 2018, the assets of the entire financial system were about four times the GDP, but that percentage has likewise been decreasing in recent years. According to the national accounts' production approach through 2016, interim figures in 2017, and the plan for 2018, industries' shares in Iceland's GDP in 2017 and 2018 was as follows:

INDUSTRIES' SHARES IN GROSS DOMESTIC PRODUCT



Private consumption grew 4.8% the same year, and public consumption grew 3.3%. Investments grew 2.1%. According to Statistics Iceland's National Forecast, the average increase in the Gross National Product the last five years was 4.4%. The Gross National Product is expected to grow by 1.7% this year, but it will be 2.5-2.8% next year.

The structure of government and political landscape

Iceland is a sovereign independent state, and the main aspects of its governmental structure are in its Constitution, which may be traced back to 1944, the year that Iceland got its independence from Denmark. Under the Constitution, Iceland is a republic with a parliamentary government, where Althingi and the

President of the country exercise the legislative power, the President and other government authorities the executive power, and judges/justices the judicial power. The country's governmental structure builds on tripartite state power, where society is divided between these three branches.

The Icelandic governmental structure builds on a democratic foundation and strong democratic tradition. In Althingi, the country's legislative assembly, 63 nationally elected members of parliament have seats. They are elected in a secret proportional ballot for a term of four years. Althingi is one of the oldest operating legislatures in the world, with its roots stretching back to 930 A.D. Voter participation may generally be deemed good in the country. For example, it was 81.2% in the parliamentary elections held in October 2017 and 81.5% in the parliamentary elections held in April 2013. In the last parliamentary elections, eight political parties elected representatives to Althingi. Following the elections, three political parties formed a majority Government.

There is usually very solid political stability in Iceland. For example, GlobalEconomy rated Iceland number seven in the world amongst countries, where political stability is greatest, and number four in Europe. In addition, surveys have usually rated Iceland very low on corruption. According to Transparency International, Iceland is in 14th place amongst countries where corruption is least. Likewise, Iceland measures high on other factors, like equal rights, democracy, and political and civil rights.

Status in Europe

On 7 March 1950 Iceland became a member of the Council of Europe. Its collaboration in the forum has been considerable, for example, in the fields of judicial affairs, culture and human rights. Specifically, regarding collaboration in the field of human rights, it is worth mentioning that Iceland ratified the European Social Charter in January 1976 and then legalised the European Convention on Human Rights with Act no. 62/1994.

In 1970 Iceland became a member of the European Free trade Association (EFTA). In passing Act no. 2/1993, Althingi authorised ratification of the Agreement on the European Economic Area. The main text of the agreement was likewise legalised. On the same occasion, Althingi authorised ratification of an agreement of the EFTA states on the founding of the EFTA Surveillance Authority and EFTA Court as well as an agreement on the Standing Committee of the EFTA States. The aim of the agreement was to establish a joint Single Market of the member states of the European Union and the EFTA states, primarily based on the provisions of the "Four Freedoms"—free movement of goods, people (wage earners), services, and capital.

The Agreement on the European Economic Area is based on the "principle of homogeneity". It entails that within the area the same rules should apply to the fields the agreement covers. It furthermore entails that the member states of the agreement must see to it that they legalise the rules agreed, based on the EEA collaboration. Regarding Iceland, during the period 1994-2016, the country legalised 13.4% of the European Union's (EU) legal instruments. The total number of legal instruments that Iceland legalised was therefore 9082 out of the 67,158 that the EU's institutions agreed during the period. According to the latest performance assessment of the EFTA Surveillance Authority (ESA), Iceland's legalisation deficit is 0.5% regarding legalisation of the directives and 1.1% regarding regulations.¹²

International collaboration

In addition to the European collaboration to which Iceland is a member, it is also a member of numerous international institutions. Thus, for example, Iceland is a member of the World Bank, the International Monetary Fund, and the World Trade Organisation, as well as the World Health Organisation. In addition,

the country has ratified numerous international agreements and conventions in various fields, for example, on collaboration regarding terrorism, human rights and security and defence affairs. Its collaboration with international institutions and sister institutions in other states is likewise considerable in many fields. Such collaboration is particularly plentiful with the other Nordic countries, where various special agreements between them are in force. Iceland is also a member of the Schengen Area.

Legal environment, law enforcement and surveillance

FATF

The international action group FATF was established in July 1989 at a summit meeting of the seven main industrial states of the world in Paris. The organisation was founded for the purpose of preparing actions to prevent misuse of the financial system for the purpose of getting ill-gotten money into circulation. In 2001, the organisation stepped up its battle against terrorist financing by adding to its project list.

FATF's role and purview are mainly threefold. First, to write standards for the member states' measures against money laundering and terrorist financing. Second, to assess the measures of individual states to introduce the standards, and, third, to investigate and learn to recognise the methods of those engaging in money laundering and terrorist financing. Based on this, FATF has written recommendations to its member states on anti-money laundering and anti-terrorist financing measures.

FATF conducts evaluations of each member state's legislation, rules and efficiency and publishes reports on their measures. Depending on what is relevant, the organisation's member states have agreed to pressure one another by putting individual states on a special list of "uncooperative states" if they do not fulfil the requirements the organisation makes. Such pressure can also entail setting stricter requirements for these states, or parties living there, regarding financial instruments or publishing warnings about transactions with parties in those states possibly entailing a risk of money laundering.

Legal environment

Act no. 64/2006 on anti-money laundering and anti-terrorist financing legalised the third Directive 2005/60/EC of the European Parliament and of the Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing in Iceland. Act no. 80/1993 on the same topic was previously in force. It was drafted for the purpose of adapting Icelandic legislation to the Directive of the Council of the European Union no. 91/308 91/308/EEC on anti-money laundering measures. That act was amended following review and amendment of the last-mentioned directive with Directive (European Union) no. 2001/97/EU. The European Union's fourth anti-money laundering and anti-terrorist financing directive no. 2015/849/EC was legalised in the country with Act no. 140/2018 on anti-money laundering and anti-terrorist financing that entered into force on 1 January 2019. The act also adopted selected provisions from the 5th anti-money laundering Directive (EU) no. 2018/843/EC.

Iceland now has a comprehensive and developed statutory and regulatory scheme addressing money laundering and terrorist financing. The regulatory scheme is intended to prevent money that could be obtained unlawfully from entering into circulation in the traditional financial system or being used for terrorist financing.

According to Art. 1 of Act no. 140/2018, the aim of the act is to prevent money laundering and terrorist financing by obligating parties engaging in activities that may be used for money laundering or terrorist financing to divulge their customers and their activities and notify the competent authorities if their suspicion is aroused, or they become aware of such unlawful activities. Accordingly, the act covers parties required to give notice under the act and defined as such. The act imposes duties on these parties, including instructions regarding the duty to:

- Carry out a risk assessment on operations and customers.
- Have a documented policy, controls and processes to reduce and control risk stemming from money laundering and terrorist financing.
- Investigate their customers' reliability in defined instances.

- Have an appropriate system, processes and procedures to evaluate whether a domestic or foreign customer or actual owner falls into a risk group because of political ties.
- Notify the Financial Intelligence Unit (FIU) of suspicious transactions reporting (STR).

The act also stipulates that, in instances defined in more detail, it is forbidden to:

- Offer anonymous transactions.
- Participate in or promote transactions intended to conceal actual ownership.
- Initiate or continue transactions with shell banks.

reporting of the internal procedures of parties subject to mandatory reporting and training of their employees, monitoring of defined surveillance parties under the act, as well as coercive remedies and penalties for violations of the act and regulations set under it.

Money laundering

A provision of Art. 264 of the General Penal Code no. 19/1940 defines money laundering as punishable. Under par. 1 of the provision, whoever accepts, utilises or otherwise benefits from an offence under the act, or from a criminal offence under another act, or converts such benefit, transports it, sends, stores, assists in delivering it, conceals it or information on its origin, nature, location or disposition of benefit shall be sentenced to imprisonment for up to 6 years. Under par. 2 of the provision, someone who has committed a predicate offence and also commits an offence under par. 1 of the provision shall be sentenced to the same punishment, and the rules of the act on determining punishment regarding two or more offences, as relevant, apply. If a major drugs offence is involved, the punishment can be up to 12 years' imprisonment, but fines or imprisonment of up to 6 months if a recklessness offence is involved.

The wording of the provision, as it was amended in 2009, considered Art. 6 of the United Nations' Convention against Transnational Organized Crime, approved by the General Assembly of the United Nations on 15 November 2000 and signed by the Icelandic State on 13 December that year. In addition, the provision's drafters considered FATF's comments in its report on anti-money laundering measures in Iceland in October 2006.

The definition of money laundering in Act no. 140/2018 took note of the definition of the concept in Art. 264 of the General Penal Code. According to Icelandic law, all criminal offences under the latter act, or a special criminal act, can be predicate offences for money laundering. All offences for financial gain, such as drugs offences, tax law offences, human trafficking, and theft can therefore fall under this rule. In addition, it is deemed to be money laundering when the involvement of an individual or legal person in the handling of gain fits with the basic definition of the concept.

Terrorist financing

Under Act no. 140/2018, terrorist financing is deemed to be the acquisition of money, whether directly or indirectly, for the purpose of or with knowledge that its use, in whole or in part, will be to commit offences punishable under Art. 100 (a.-c.) of the General Penal Code. In accordance with Art. 100 (a) of the act, the punishment for terrorism shall be up to life imprisonment for someone committing one or two of the offences listed in the provision, for the purpose of causing substantial public fear or unlawfully coercing the Icelandic Government or a foreign government or an international institution to do something or refrain from doing something or for the purpose of weakening or damaging the government structure or political, economic or social foundations of a state or international institution.

Art. 100 (b) of the General Penal Code also stipulates that anyone directly or indirectly supporting a

person, organisation or group that commits or has the purpose of committing terrorist acts in accordance with provision (a) of the article, by contributing money or providing other financial support, supplying or collecting money or otherwise making money available shall be sentenced to imprisonment for up to 10 years. Art. 100 (c) provides for imprisonment for up to 6 years for supporting in words or deeds or by persuasion, urging or otherwise supporting criminal activities or a mutual goal of a company or group that has committed one or more offences under Art. 100 (a) or (b), and the activities or goals entail the commission of one or more such offences.

The above legal provisions have roots in amendments to the General Penal Code in 2002. These involve necessary amendments to fulfil the Icelandic State's duties under three international anti-terrorist resolutions under the auspices of the United Nations. First, this involved an international agreement from 15 December 1997 on preventing terrorist bombings. Second, this involved an international agreement from 9 December 1999 on preventing funding of terrorist activities, and, third, this involved Resolution no. 1373 of the United Nations Security Council, from 28 September 2001. The amendments entailed that "terrorism" was defined in criminal law, and such deeds were deemed to be amongst the most serious offences in Icelandic law. In addition, financial support for terrorist activities was made an independent criminal offence.

Recovery and seizure of unlawful gain

Regarding authorisation to seize gain from money-laundering offences or terrorist financing, Art. 69 of the General Penal Code provides general authorisation for seizing gain from an offence or money corresponding to it, in whole or in part. The same applies to objects purchased with such gain or replacing it. In addition, when it is not possible to fully prove the amount of gain, the provision authorises estimating the amount. As an example, where the provision was exercised in a case involving appeal of a conviction for money laundering, the judgement of the Supreme Court of Iceland from 15 December 2016 in Case no. 829/2015 is worth mentioning.

Other bodies of law

Examples worth mentioning of other bodies of law related to the category are the Act on Criminal Procedure no. 88/2008 and International Sanctions Implementation Act no. 93/2008. In addition, there is a parliamentary bill on actual owners that is intended to ensure each time that there is correct and reliable information in place on actual owners to analyse and prevent money laundering and terrorist financing. Furthermore, there is a parliamentary bill on freezing funds and registering parties on a list of coercive measures in connection with terrorist financing and spreading of weapons of mass destruction. Their purpose is to direct the freezing of funds in accordance with specified coercive measures to hinder terrorist financing and the spreading and financing of weapons of mass destruction. At the publication of this risk assessment, Althingi has not passed either of these bills.

Police services and surveillance parties

Numerous government parties have been involved in matters related to money laundering and terrorist financing. These parties variously see to supervision, policy formulation or monitoring of implementation of the Act on Anti-money Laundering and Anti-terrorist Financing or direct the investigation and/or prosecution of such offences. Below is a review of the main parties related to the issue category, but for a more comprehensive overview, reference is made to the following organisation chart.

Ministry of Justice (MOJ): Directs supervision of the issue category and appoints a task force on anti-money laundering and anti-terrorist financing.

Task force on anti-money laundering and anti-terrorist financing measures: Sees to, for example, policy formulation and works on integrating measures regarding anti-money laundering and anti-terrorist financing.

Financial Supervisory Authority, Iceland (FSA): Monitors that the parties specified in par. 1 (a.-k.) of Art. 2 of Act no. 140/2018 conduct themselves in accordance with the act's provisions. This involves, for example, financial companies, electronic money companies and pension funds.

Directorate of Internal Revenue (DIR): Operates the Register of Companies and monitors that the parties specified in par. (l.-s.) of Art. 2 of Act no. 140/2018 adhere to provisions of the act. This involves, for example, accounting firms, law firms, and realtors.

Financial Intelligence Unit (FIU): Independent administrative unit within the District Prosecutor's Office. Receives notices of transactions suspected of involving money laundering or terrorist financing. The unit analyses received notices, gathers necessary additional information and disseminates analyses to competent parties.

Directorate of Customs: Handles customs matters as the minister's agent. Among other things, sees to levying and collecting duties, monitoring imports and exports, and risk control analysis with customs checking.

District Prosecutor's Office: Houses the FIU and exercises prosecutorial authority in cases involving offences under Art. 100 (a.-c.) of the General Penal Code and sees to investigating and prosecuting serious offences under the provisions of Art. 264 of the same act.

Law Enforcement Authorities (LEA): Investigates violations under the supervision the District Prosecutor or Chief of Police. In addition, chiefs of police open criminal cases other than those initiated by the Director of Public Prosecutions or the District Prosecutor.

Directorate of Tax Investigations (DTI): Responsible for investigations under the Income Tax Act no. 90/2003 and acts on other taxes and fees levied by the Directorate of Internal Revenue, or which the office is entrusted to implement.

National Commissioner of the Icelandic Police (NCIP): Handles police matters on behalf of the minister. Responsible for carrying out risk assessments under the Act on Anti-money Laundering and Anti-terrorist Financing and seeing to investigations related to terrorism.

Ministry for Foreign Affairs (MFA): Among other things, responsible for the execution of Act no. 93/2008 on carrying out international coercive measures. In addition, it will be responsible for freezing funds and recording parties on a list of coercive measures related to terrorist financing and distribution of weapons of mass destruction in accordance with an introduced parliamentary bill.

Ministry of Industry and Innovation (MII): Responsible for supervision. Among other things, matters of the Directorate of Internal Revenue's Registration Division fall under the ministry. It will be responsible for the Act on Actual Owners according to an introduced parliamentary bill.

Ministry of Finance and Economic Affairs (MFEA): Responsible for supervision. Among other things, the matters of the Financial Supervisory, Iceland, fall under the ministry.



Methodology

Generally

Risk assessment is the responsibility of the NCIP, which sees to its operations in broad and close consultation with the Ministry of Justice and a task force of the Minister of Justice regarding anti-money laundering and anti-terrorist financing measures. Other members of the task force are representatives of the Ministry of Industry and Innovation, the Ministry for Foreign Affairs, the Directorate of Tax Investigations, the District Prosecutor, the FIU, the Police in the Reykjavik Metropolitan Area, the Directorate of Customs, the Financial Supervisory Authority, Iceland, the Consumer Agency, the Realtors Surveillance Committee, the Accountants' Council and the Directorate of Internal Revenue. In addition, the Central Bank of Iceland, Register of Companies, and market participants were also indirectly involved in the risk assessment.

In carrying out the risk assessment, an attempt was made to consult broadly with all stakeholders. There was extensive collection of data from monitoring parties, law enforcement institutions, the FIU, and other governmental parties. The data collectors' reference was the manual of the Organisation for Security and Cooperation in Europe on data collection regarding risk assessment of money laundering and terrorist financing. Information was also collected from parties subject to mandatory reporting. This entailed sending questionnaires to a number of parties. Resources included available statistical information, as relevant. In addition, data collectors relied on the expertise of those involved in the issue category.

It is anticipated that all those having stakes in anti-money laundering and anti-terrorist financing will utilise the risk assessment, such as:

- *Governmental authorities*, for example, in policy formulation for the issue category, making an action plan to reduce identified risk, producing educational materials and setting rules.
- *Monitors*, for use with risk-based surveillance and emphases in surveillance.
- *The justice system*, during investigations and analysis of the methodology of money laundering and terrorist financing.
- *Parties subject to mandatory reporting*, in structuring a risk assessment and strengthening areas where weaknesses have been identified, e.g., with enhanced controls, due diligence, work processes and employee training.
- *Scholars*, when researching money laundering and terrorist financing.
- *The public*, to draw attention to risks of money laundering and terrorist financing.

Methodology

The risk assessment is done in accordance with FATF's methodology for doing such assessments. Preparation of the risk assessment began in 2018. Part of the preparation was a course on risk assessment structuring, sponsored by the Ministry of Justice. There were 35 attendees from all the main parties involved in the issue category. The course instructor came from the European Union's technical assistance for support implementation. The course included both lectures and workshops. The course included discussion of procedures to analyse threats and weaknesses, data collection and risk classification. In addition, the course included working with an analysis matrix and testing it.

The first step of the risk assessment was analysing the main threats and weaknesses besetting Icelandic interests regarding money laundering and terrorist financing. After finishing an analysis of them, relevant data and information were collected, analysed, and evaluated to reach a conclusion on the risk classification. In structuring the risk assessment, consideration was given to the European Union's and other states' risk assessments. The methodology can be described in greater detail as follows:

Definition entailing a definition of the existing threats and weaknesses. The activities or aspects examined each time are mapped and evaluated as to whether threats or weaknesses are present. A determination of which activities or factors are at greatest risk and necessary to map builds on, for example, *risk events*, i.e., known past examples and cases of money laundering and terrorist financing, on one hand, and, *risk factors*, on the other hand, i.e., known details leading to specified activities, or a factor deemed to be more exposed to money laundering.

Analysis entailing analysis of the nature, magnitude, and likelihood of money laundering and terrorist financing, considering all the analysed threats and weaknesses after taking mitigating factors into account. Based on the analysis, the risk is assessed and classified.

A *matrix*, partially based on the European Union's matrix, was used for the risk classification. Threat guided risk classification (on a scale of 1-4), depending on whether the identified threat was low, medium, significant or high.

Low	Medium	Significant	High
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After a threat was evaluated an assessment was made of whether the presence of mitigating factors would affect the risk classification. The categories of the mitigating factors examined were:

- Exposure to risk, e.g., how easy it is to misuse specified activities.
- Risk awareness, i.e., how aware parties are of money laundering risk.
- Regulatory schemes and controls, i.e., whether satisfactory regulations and controls are in place.
- Monitoring, i.e., whether surveillance is in place and operating.

A mitigating factor within each category had a specified weight, i.e., low, medium, significant, and high. The weight of assessment factors was further specified:

- When a mitigating factor was rated as **high**, 7.5% was subtracted.
- When a mitigating factor was rated as **significant**, 5% was subtracted.
- When a mitigating factor was rated as **medium**, 2.5% was subtracted.
- When a mitigating factor was rated **low** nothing was subtracted.

The maximum possible decrease was therefore 30% from a threat if high mitigating factors were present in all four categories examined.

Part of the methodology of the risk assessment is to assess whether taking measures to reduce an identified risk is necessary, and, if so, which measures are appropriate. Work will continue on proposals on processing risk assessment, and an action plan for meeting them will be prepared.

Consolidated conclusions

The consolidated conclusions of the risk classification made on the basis of the above methodology is as follows (but reference is otherwise made to the accompanying classification):

An identified risk is deemed to be **high** for predicate offences of tax fraud, remittances, private limited companies, actual owners, transport of money to from the country, operations engaging in cash transactions, lawyers, slot machines, and the abolition of capital controls. In addition, an identified risk was deemed **significant** regarding deposits, the issue of electronic money, payment services, registered religious and life stance associations, funds and institutions operating under a charter, other public interest associations, cash in circulation, accountants, realtors, products and services, and ID nos. for foreign persons. On the other hand, the risk was deemed **medium** regarding loans, cryptocurrencies, the operation of funds, limited-liability companies, self-governing foundations and limited partnerships, trading and services for financial instruments, betting and trading in precious metals and gems. Risks, on the other hand, were rated **low** when it came to pension funds, life insurance, other companies, ship sales, lotteries, bingo, lotto, Internet gambling, and tourists.

Risk classification summary

Assessment factor	Risk classification
Predicate offences	
Predicate offence of tax fraud	
Cash	
Cash transport to and from Iceland	
Cash transactions	
Cash in circulation, large denomination banknotes	
Companies	
Private limited companies	
Limited-liability companies, self-governing institutions, limited partnerships	
Other organisations	
Religious and life stance associations	
Funds and institutions operating under a charter	
Other public interest associations	
Actual owners	
Financial market	
Deposit operations	
Loan operations	
Remittances	
Pension funds	
Life insurance operations	
Cryptocurrencies	
Operation of funds	
Payment services	
Trading in and services for financial instruments	
Issue of electronic money	
Specialists	
Lawyers	
Accountants	
Realtors	
Ship brokers	
Gambling	
Betting	
Lotteries	
Lotto	
Collection boxes and lottery machines	
Bingo	
Internet gambling	
Trade and services	
Precious metals and gems	
Products and services	
Other	

Abolition of capital controls	Red
Increased number of tourists	Green
ID no. for foreign persons	Orange

PREDICATE OFFENCES

“Predicate offences” means offences resulting in unlawful gain that is later the object of money laundering. A general discussion of money-laundering predicate offences and the main types of them follows, but no specific risk classification of such offences is involved. On the other hand, there will also be a special discussion of tax fraud as a predicate offence, and those offences have a risk classification according to the risk assessment's methodology. The analysis was based, for example, on replies to the questionnaires, information from the LEA, the FIU and the Directorate of Tax Investigations, information and reports from other governmental units and appropriate legislation.

Predicate offences other than tax fraud

Iceland is deemed amongst the safer countries in the world regarding crimes and the frequency of offences, particularly considering serious violent offences. Despite this, each year there are a number of offences that can be predicate offences money laundering.

Predicate offences of money laundering can result in unlawful gain or other profit that perpetrators try to launder. Predicate offences of money laundering can all be offences under the General People Code or special acts. Examples of common predicate offences are theft, financial fraud, embezzlement, tax fraud, drugs offences, and corruption.

Statistics were gathered from the LEA on the most common offences. Their source is statistics from a number of cases from the NCIP that were taken from the National police system. Tax fraud as a predicate offence is exempted from the discussion in this section since there is an account of it in a separate discussion.

Theft, whether perpetrated as pilfering or a break-in, is one kind of enrichment offence and the most common kind of predicate offence to money laundering. There was a striking increase in this kind of offence committed by foreign parties in the period 2016-2017. It was traceable to "itinerant offenders" as emerges in discussions of increased numbers of tourists. These parties come to Iceland for the sole purpose of committing enrichment offences and transporting the stolen objects or gain from them out of the country. A report from the NCIP on organised crime in 2017 states: *"Itinerant groups from Eastern Europe have come to the country the last two years for the purpose of stealing. Police suspect that these groups benefit from the guidance of assistants residing in the country. We can liken these itinerant offenders to 'work groups' taking shifts, one group spelling another, perhaps with some overlap of dwelling."*¹⁶

It is deemed fraud if one person gets another to do something or not do something by illegally arousing, bolstering or utilising a wrong or unclear idea of his about

Number of offences	2013	2015	2017
Theft, pilfering	4102	4032	3822
Theft, break-in	1092	1273	1060
Fraud	404	385	463
Drugs offences	2183	1911	2185

“Document violations”	207	209	259
Total	7993	7810	7855

an incident and thus gets money from him or others. The most common fraud cases in Iceland entail utilising a specified service or purchasing a product without paying for it, e.g., by not paying for taxes or not paying for food in a restaurant. Such conduct does not entail direct unlawful gain that is later laundered. Fraud cases, where money laundering could be involved, can be insurance fraud, e.g., by staging damage, fraud where payment cards owned by others are used to fraudulently pay for products or services, and other kinds of deception where a criminal acquires unlawful gain.

Drugs offences cover the production, import, sale and distribution, custody, and handling of narcotics. Offences related to narcotics are among the most common predicate offences. Most narcotics cases are minor and pertain to the possession of narcotics— 1534 cases in 2013, 1427 cases in 2015, and 1631 cases in 2017. A report from the NCIP organised crime in 2017 regarding activities that are linked with narcotics states: *“The assessment of the police in this country is that organised groups of criminals are operating. Many of them have considerable strength and financing. As these groups grow in strength, it becomes more difficult for police to fight against their operations. It is easier for them to cover their tracks, and financial strength enables them to buy expertise and conceal profits of their activities in legal operations. Such money laundering can directly affect a market, e.g., because of better competitiveness that unlawful gain ensures. Ownership of a limited-liability company, investments, real estate transactions, and lending operations are examples of how ill-gotten gains are disposed of in order to conceal their origin.”*

Document offences are used either to fraudulently acquire money or pretend to be someone else, e.g., through forgery of personal identity papers, cf. the discussion of ID nos. for foreign persons. Document offences cover forgery, misuse of a document or wrong use of a stamp or mark. Of the above categories, most cases involve forgery (115 cases in 2013, 125 in 2015 and 153 in 2017). A number of these cases are traceable to forged identity papers, resulting from both document alteration and document creation from scratch. This mainly involves foreign parties coming to Iceland on forged identity papers or using them to obtain ID nos. for foreign persons. There were 92 cases in 2017 regarding such forgery.

In 2017, there were only 16 money laundering cases investigated. This must be deemed a low number, based on the number of predicate offences investigated the same year. The same year, four cases came before courts, all of them resulting in convictions.

Indications point to an increasing number of money laundering cases. In the period 2006-2010, courts tried 11 cases, where money laundering was involved. In 2018, the court tried eight cases involving money laundering. They all resulted in convictions, that is, six in all respects and in two cases partly.

Tax fraud as predicate offences

Generally

Tax fraud is one of the predicate offences of money laundering under Art. 264 of the General Penal Code.

Tax fraud falls into the following categories:

- *Organised crime*: Entails systematic misconduct of criminal organisations, e.g., misuse of the value-added tax system.
- *Tax fraud*: When individuals or legal persons conceal information about income/assets or, purposely or with gross negligence, incorrectly fill out tax returns to avoid paying taxes.
- *The hidden economy*: Refers to income from transactions that is not declared on tax returns. For example, people often refer to "off-the-books work".
- *Tax avoidance*: Entails circumventing the rules of the tax system for the purpose of tax avoidance, e.g., with sham contracting.

In 2016, the State's total tax income was more than ISK 667 billion, and the municipalities' taxes were more than ISK 191 billion. No precise figures are available on the magnitude of tax fraud in Iceland. A report dated 20 June 2017 on the magnitude of tax avoidance and proposed measures, from a work group of the Minister of Finance and Economic Affairs, states that the estimated taxes avoided over the last three decades was 3-7% of the gross domestic product or about 10% of the total taxes of the general governmental sector. In addition, the report states:

"If avoided taxes in 2016 are assumed to be 4% of the Gross Domestic Product, then they amounted to ISK 100 billion. Added to this amount is the damage to society because of undeclared income related to offshore companies, which is estimated to be ISK 16 billion in financial income tax in the period 2006-2009 and ISK 42 billion from lost wealth tax for the six-year period 2009-2014. In total, this makes ISK 58 billion over a nine-year period regarding offshore assets."

Figures from the Directorate of Tax Investigations show that the total number of new cases recorded at the directorate for the period 2010-2016, involving suspicion of offences under the Tax Act, were 1716, on average 245 cases per year. The source of cases was mainly from the directorate, as well as the Directorate of Internal Revenue and police chief. Of these cases, 38 ended with judgements by the Supreme Court of Iceland, 199 by district courts, 311 by rulings of fines from the State Internal Revenue Board, and 98 with fines imposed by the Directorate of Tax Investigations.

In 2015, the Directorate of Tax Investigations purchased data proving the actual ownership of assets of several hundred Icelandic parties in offshore companies. The data are of the same kind as the Panama Papers. Investigations are finished in 95 cases related to these data, and investigations in 14 cases were dropped. In addition, reconsideration is completed in 65 cases, and 60 cases were sent to the District Prosecutor. Cases were also referred to the State Internal Revenue Board for fining or concluded with fines in the Directorate of Tax Investigations; in addition, cases are still under investigation, and others await investigation. Considering the numerical conclusions of the Directorate of Tax Investigations in the cases now completed, except for under-reported tax bases of about ISK 15 billion, the estimated unreported tax bases in the 24 cases still under investigation are about ISK 3 billion.

In 2017, the Directorate of Tax Investigations examined 497 cases, but, in addition, the office received about 150 tips. At year end, 216 cases were in progress. In 162, no further actions were taken, and investigations were completed in 119 cases. The number of the cases that were sent to the Directorate of Tax Investigations for reconsideration was 19. In addition, 40 cases were referred to the District Prosecutor for continuing processing. Also, 36 cases were sent to the State Internal Revenue Board for

finances. The Directorate of Tax Investigations imposed a total of 23 fines in 2017. The tax reassessments resulting from these finished cases was about ISK 350 million.

Whether considering the number of cases or amounts involved, tax fraud is most definitely a serious problem in Iceland. There is no information on the magnitude of tax fraud as a percentage of predicate offences of money laundering. However, based on a percentage of Gross Domestic Product, it is logical to estimate that tax fraud is by far the biggest portion of predicate offences of money laundering in the country.

Weaknesses

Tax fraud is a serious problem in Iceland. General awareness of tax fraud is high, but the public's attitude toward it appears to be milder than toward other offences. The Government is aware of the magnitude of tax fraud. The number of cases is high, and the regulatory scheme is extensive. Generally, surveillance is considerable, but surveillance of money laundering has fallen short in the professional occupations most pursued for concealing money trails.

Risk classification

The magnitude of tax fraud in this country is substantial. Despite the presence of mitigating factors, like the increased emphasis of the Directorate of Tax Investigations and LEA on the gain from offences by seizure and freezing, general governmental procedures and the media's discussion of the issue category, the risk related to money laundering, where tax fraud is a predicate offence, is **high**.

CASH

There can be a risk that the fruits of unlawful conduct in the form of cash will be brought into circulation in operations or transactions where the use of cash is common. Weaknesses related to the use of cash are therefore specifically discussed here. That discussion specially emphasises the transport of cash to and from Iceland, activities where business and payments in cash are prevalent, and issues related to the use of bigger banknotes. In the analysis and the following risk classification, we referred to answers on questionnaires sent to relevant parties, information and reports from institutions and other governmental parties, information from LEA and the FIU, and appropriate legislation.

Cash transport to and from Iceland

Generally

Pursuant to Art. 27 of the Tax Act no. 88/2005, importers, exporters and, depending on circumstances, customs agents, tourists, and itinerants have a duty to specifically inform the Directorate of Customs of liquid assets in the form of cash or bearer certificates, including travellers cheques, transported into the country from other countries or from Iceland to other countries in amounts of €10,000 or more, based on the official exchange rate, as reported each time. Pursuant to Act no. 88/2005, the Directorate of Customs is responsible for customs control.

According to the Regulation on custody of and customs clearance for products no. 1100/2006, there are 23 customs ports of entry. They are at the following locations: Reykjavik, Grundartangi, Akranes, Grundarfjörður, Ísafjörður, Skagaströnd, Saudárkrókur, Siglufjörður, Akureyri, Húsavík, Vopnafjörður, Seydisfjörður, Neskaupstaður, Eskifjörður, Reydarfjörður, Egilsstaðir, Höfn í Hornafirði, Westman Islands, Thorlákshöfn, Keflavik, Keflavik Airport, Hafnarfjörður and Kópavogur.

Most tourists arriving in Iceland go through the Keflavik Airport. On the other hand, there are many ways into and out of the country. There are three international airports, in addition to Keflavik Airport, namely, Reykjavik Airport, Akureyri Airport and Egilsstaðir Airport. There are some arrivals, mainly privately owned aircraft, at other smaller airports. The main cargo ports are Reykjavik Harbour, Grundartangi, Reydarfjörður, Seydisfjörður, and Thorlákshöfn. Most cargo shipments to and from the country go through them. Part of the year, a passenger ferry comes and goes at Seydisfjörður, and a ferry carries cargo once a week to and from Thorlákshöfn. Finally, there is considerable export of fish through many ports in rural areas. In addition, it is worth mentioning that a great number of luxury liners come to Iceland each year, mostly in the summer, and their passengers number in the tens of thousands, and even well over 1000 people come ashore from them. It is known that pressure is increasing to allow luxury liners to land in more places than the recognised customs ports of entry, following new rules on electronic services for craft, and even allowing them to ferry passengers ashore at remote tourist destinations, such as the protected area in Hornstrandir and Jökulfirðir.

In past years, the number of tourists has increased, as discussed in the second section of the risk assessment. It is extremely rare for the customs authorities to be informed of a person coming to Iceland who is carrying cash exceeding the limit for mandatory notice. In the last three years, there were fewer than 30 notices. The last three years, employees of the Directorate of Customs have stopped no one upon departure carrying cash of more than €10,000. In addition, there are no examples of cash exceeding €10,000 being found without notice in a postal delivery, expedited delivery or cargo shipment.

Weaknesses

Transporting cash to and from Iceland is easy, and disclosure is limited to the duty of someone carrying

cash to inform or the customs authorities' surveillance. Very many people come to the country and leave it, and there are many ways to do so—flights, ships and automobiles (Seydisfjörður and Thorlákshöfn). There are very few notices of cash exceeding permitted limits upon arrival to the country. There are no examples of notices upon departure from the country, and few employees administer customs control, relative to its magnitude. Customs authorities are aware of this weakness and have called attention to it. Training is also lacking at the Directorate of Customs for surveillance of money laundering, and how to spot methods used when smuggling cash. No trained money sniffer dogs are available as in Norwegian Customs, for example.

Risk classification

It is easy, simple and inexpensive to transport cash across Iceland's borders, and it is possible to pack a great quantity of cash into a relatively small space, especially if big denomination banknotes are involved. Despite there being clear statutory provisions on reporting the transport of money to and from the country, there are few notices of this; surveillance at borders of the transport of cash is limited, and LEA have seized little money during investigations in past years. In light of the above, the risk in this area of assessment is deemed **high**. The above classification comes mainly from the number of weaknesses present.

Cash transactions

Generally

Generally, access to banking is good in Iceland. The Regulation on normal and healthy business practices of financial entities, paying bodies, and electronic money entities no. 1001/2018 states in part that policies, procedures and implementation of the work of a financial entity, paying body and electronic money entity shall not, among other things, limit or abnormally prevent access to general financial services. This entails having to provide all parties access to basic banking services.

The use of cash in this country is small, relative to payment cards. In 2017, more than 500,000 domestic payment cards were in use. In addition, on a global scale, the use of cash in Iceland is small. Considering states of the European Union, the use of cash for households' cash transactions is about 60% vs. 18% in Iceland. However, many things in Iceland concerning the use of cash are hidden, and no exhaustive analysis has been done. Existing information on the use of cash include:

- Iceland is one of the countries in the world using the least cash.
- Only about 10% of product sales (food, fuel, furniture) is paid in cash.
- Considering private consumption of households, we can estimate that cash pays about 10% of it.
- In addition, there are indications that quite some quantity of banknotes is not used for regular transactions. Rather, they lie nearly untouched by their owners.
- Many industries make little or no use of cash, for example, for the sale of airline tickets and households' payment for electricity and heating.

We also know that in the wake of the financial collapse in 2008, the use of cash increased considerably in this country from a little over 1% of the gross national product to more than 2%. In 2015, the use was close to 2.5% of the gross national product. At nominal par, the use of cash has increased in recent years. The growth was over 13% in 2016 and more than 9% in 2017. At year-end 2017, the cash in circulation was nearly ISK 60 billion, which corresponds to 2.4% of gross national product. At the start of 2019, the cash in circulation was about ISK 65 billion.

In parallel with the increase in cash, the number of tourists coming to the country has increased greatly, from more than 807,000 in 2013 to about 2,224,000 in 2017. Likewise, the payment card turnover of tourists has increased. In 2013, it was ISK 83 billion, compared to about ISK 216 billion in 2017. Cash withdrawals with foreign tourists' payment cards before 2017 were more than ISK 13 billion, i.e., 6-7% of their total turnover. To this, the proviso must be added that the information on the use of foreign payment cards does not distinguish between whether foreign tourists are involved, or foreign payment cards owned by parties residing in the country.

The increase in tourists and their withdrawals of cash with payment cards is a possible and likely explanation of the increase there has been in the use of cash in Iceland in recent years.

Information on the use of cash in company operations is not available. Accessibility to cash for purchasing products and services is good, and in most transactions where the purchase of products and services goes on, it is possible to pay with cash. There are exceptions to this as previously mentioned. It may also be pointed out that it is possible to use cash for other kinds of transactions that are not deemed to be purchases and sales of goods and services, such as for the purchase of real estate and auction sales. The risk assessment deals elsewhere with realtors, and we refer to that discussion.

Rather little is therefore known about individuals' and companies' actual use of cash, and there are therefore few restrictions on its use. In addition, no rules apply to the use of cash, for example, regarding

deposits and withdrawals with automatic teller machines. Finally, there is no surveillance of the use of cash, other than that the Central Bank of Iceland ensures that sufficient cash is in circulation. Analysis of the cash market therefore suggests that it is easy and simple to put cash into circulation in this country.

Weaknesses

The accessibility of cash in this country is good, and it is therefore easy to get into circulation quickly. Moreover, there are no obstacles or restrictions on the use of cash. Also, accessibility to foreign currency is good. Cash in circulation is untraceable, and for this reason, it is easy, for example, to put unlawful gain from criminal activities into circulation. In this regard, all operations engaging in cash transactions are in a risk group. Risk awareness of the use of cash is apparently not high. It has been pointed out that reducing the use of cash in circulation, for example, by discontinuing the issue of ISK 10,000 and ISK 5000 banknotes, would make "the black economy difficult to use, along with reducing money laundering and tax evasion". However, the use of cash in Iceland is small, compared to many other European countries, including countries in the European Union. Finally, there is almost no monitoring of the use of cash except for economic management. General oversight is lacking. It is mainly the tax authorities that monitor black operations and the LEA in connection with investigations of individual cases.

Risk classification

Despite the use of cash in business being one of the lesser known in European countries, it is easy and simple to get cash into circulation and engage in cash transactions in Iceland. This applies to the purchase and sale of products and services. It requires no special knowledge to get unlawful gain into circulation and conceal the trail of money in other lawful economic activity. There are examples of police cases where there are ties between organised criminal activities and the use of cash. For this reason, the risk of operations engaging in cash transactions and payments is **high**. The above classification comes mainly from the number of weaknesses present.

Cash in circulation, large denomination banknotes

Generally

The discussion of the use of large denomination banknotes intertwines with the previous discussion of cash.

Five kinds of banknotes are circulating in Iceland. That arrangement has been in place since the latter part of 2013. Then the ISK 10,000 banknote was put into circulation. The purpose of issuing the banknote was to make transferring funds in Iceland easier and more efficient, among other things, by reducing the number of banknotes in circulation.

At the start of 2019, the banknotes in circulation, except for the Central Bank of Iceland, were as follows:

The most numerous banknotes in circulation are ISK 1000 bills and the least numerous are ISK 2000 bills. About 55% of all banknotes in circulation are ISK 500 and ISK 1000 bills. About 44% are ISK 10,000 and ISK 5000 bills. About 87% of the circulating money is in the form of cash in ISK 10,000 and ISK 5000 bills.

Quantity of banknotes	Circulating outside CBI	%	Number of bills	%
ISK 10,000 bills	36,762,500,000	56.6	3,676,250	21
ISK 5000 bills	20,528,500,000	31.4	4,105,700	23
ISK 2000 bills	216,000,000	0.3	108,000	1
ISK 1000 bills	6,222,500,000	9.5	6,222,500	36
ISK 500 bills	1,687,250,000	2.6	3,374,500	19
Total	65,416,750,000	100	17,486,950	100

Regarding cash transactions with foreign currency in Iceland, the following information is available from the Central Bank of Iceland on the purchase and sale of foreign currency in 2016 and 2017:

Customers	2016	2017
Domestic individuals	22.8	27.2
Foreign individuals	3.7	4
Domestic legal persons	23.3	22
Tourists	2	2.5
Total	51.8	55.7

Amounts in billions of kronur.

Breakdown by currency*	2016	2017
EUR	23.7	28.7
USD	12.0	11.3
GBP	5.9	5.5
DKK	3.0	2.6
SEK	1.6	1.3
NOK	1.2	0.9
PLN		1.3

*Other currencies below ISK 1 billion.

Information on further use of foreign banknotes in Iceland is not available, and/or the biggest share of circulation for individual banknotes. It is public knowledge that the European Central Bank recently quit issuing €500 bills although the bills will continue to be legal tender. For the sake of example, it is worth mentioning that using large denomination banknotes makes it possible to transport considerable sums between countries. For example, one can put about €6 million in €500 bills into a regular briefcase, which is more than ISK 800 million.

Weaknesses

The biggest issued bank note in Iceland is the ISK 10,000 bill, which was put into circulation at year-end 2013. This is not a particularly high amount, compared to banknotes of other currencies. On the other hand, it is fairly easy to get high-denomination bills into circulation since it is generally easy to pay in cash, and there are few restrictions on doing so. In addition, a large part the cash in circulation, in terms of the amounts, is in the form of high-denomination bills, despite the percentage being rather low and less than the amounts in low-denomination bills. In this way, it is somewhat easy to put large sums of money into circulation despite the general use of cash being proportionally small. It is not known where the business community most uses large denomination banknotes. Information is also lacking on the use of cash, regarding both Icelandic and foreign banknotes—if it is accessible and analysable. On the other hand, not much cash has been seized during investigations of crimes in recent years.

Risk classification

Despite there being little use of cash in the country, it has increased in recent years, and, on the whole, accessibility is good. On the other hand, nothing indicates that large denomination banknotes are used more than other bills in criminal activities in Iceland. However, of the cases where LEA have been involved where money has been seized, the percentage of large denomination banknotes is not high. Despite that, the risk of use of large denomination banknotes is deemed **significant**. The above classification comes mainly from the weaknesses present. Mitigating factors are negligible.

COMPANY OPERATIONS

There are a there are a large number of companies and organisations in Iceland, and their organisational form varies. However, one may distinguish between companies having a financial and non-financial purpose. There is no comprehensive legislation on companies, but laws have been enacted regarding different organisational forms, such as limited companies, private limited companies, and partnerships. When it comes to companies with a financial purpose, they can be classified by the members' responsibility for the company's obligations, that is, depending on whether members have unlimited or limited responsibility for the company's obligations. The discussion below considers three kinds of division for companies with a financial purpose. First, there is a discussion of private limited companies; second, limited companies, limited partnerships and self-governing institutions engaging in business operations, and, third, other companies. The analysis and ensuing risk classification utilised information from the Register of Companies, LEA, and Directorate of Tax Investigations, information and reports from other governmental units and appropriate legislation.

Private limited companies

Funding, operations and winding up

Regarding private limited companies, Act no. 138/1994 applies. This is by far the most common company form. There are 38,700 private limited companies. In 2018, for example, 2300 new private limited companies were founded. Information for the same period on the winding up of such companies—bankruptcy—is not available, but in 2018 1000 companies in Iceland went bankrupt. From this we can infer that many more private limited companies are founded each year than are wound up. Information Internal Revenue's Register of Companies receives and keeps on file the registration of companies.

Founding private limited companies requires the following information and/or conditions:

- There shall be share capital of at least ISK 500,000, but there is no condition that cash be involved.
- There must be a memorandum of association (charter), reporting, for example, information on the founders. The founders can be individuals, the Icelandic State and its institutions, municipalities and their institutions, registered limited companies, registered co-operatives, other registered companies with limited liability, registered partnerships, registered partnerships limited by shares, registered organisations, pension funds and self-governing institutions that are subject to governmental monitoring. In addition, the above companies and institutions, domiciled in EEA states, member states of the EFTA Memorandum of Association or the Faeroe Islands can also be members.
- Proposed by-laws stating what the company's purpose is.
- Minutes of the inaugural meeting, where, for example, a memorandum of association shall be presented. However, notice of the company's registration shall be made within two months from the date of the memorandum of association.

The following conditions of qualification are set for founders of a private limited company:

- A founder may neither have requested nor been in a payment moratorium, nor may his estate have been in bankruptcy proceedings.
- If he is an individual, he shall have legal capacity to enter into binding contracts.

In addition, the following qualification conditions are set for spokespersons of a private limited company, i.e., members of the board of directors and managing directors:

- Legal capacity to enter into binding contracts.
- Has control over own money.

- In the last three years, in connection with business operations, may not have received a judgement for a criminal act under the General Penal Code or acts on limited companies, private limited companies, accounting, annual financial statements, bankruptcy or government fees.

There are no qualification conditions for owners of private limited companies who are not all founders or spokespersons.

It is easy to found a private limited company, and forms are accessible on the Directorate of Internal Revenue's homepage. There is no condition for a private limited company to be in operation or in business. Their operations can be diverse, but most often this involves overall management of operations of a specified economic activity. Act no. 138/1994 has various instructions on the handling of a private limited company's funds, e.g., regarding distribution of dividends and lending.

Private limited companies are obligated to pay tax and, like other companies engaging in economic activities, are required to keep accounts in accordance with Accounting Act no. 145/1994. They must, among other things, preserve accounts and ensure that it is possible to base an annual financial statement on the accounting.

Private limited companies are obligated to prepare and submit an annual financial statement in accordance with the Act on Annual Financial Statements no. 3/2006 and are required to have a chartered accountant or an examiner. After fulfilling certain conditions, however, a private limited company can be deemed a small company in accordance with the definition in Act no. 3/2006 and is thereby exempt from the duty to submit an annual financial statement with the associated review of an examiner or chartered accountant. Under Act no. 3/2006 there are penalties for not submitting an annual financial statement. The penalties are governmental fines in the amount of ISK 600,000 and a demand for improvements.

Generally, a private limited company can cease to exist in three ways, i.e., by merger, winding up or bankruptcy. Act no. 138/1994 deals with winding up of companies and their merger. The Act on bankruptcy and other things no. 21/1991 contains rules on a company's bankruptcy. Stringent rules apply to disposition of a company's assets in the lead-up to bankruptcy and after the division has begun.

Weaknesses

There is a risk that the private limited company's form will be misused in various ways. The main weaknesses are as follows:

- It is easy, inexpensive and quick to found a private limited company. Because of their number and frequency of founding, it is simple and easy to establish a network of companies that can be used for hiding ownership, e.g., across borders. It is also possible to have companies in storage that have no operations, i.e., "dummy companies", where there are no requirements for operations or activity.
- There are no legal requirements for private limited company owners. In addition, there are few requirements for founders. Finally, the remedies applicable to board members or managing directors of private limited companies inefficient, and monitoring by the Register of Companies regarding this is limited. For example, if a board member or managing director becomes unfit for their positions, they shall inform the Register of Companies of this. On the other hand, there are no known examples of the Register of Companies being informed of such loss of fitness.
- It is easy to take money out of a private limited company and make allocations from its funds with self-dealing, e.g., by expensing owners' private consumption unlawfully. Disposition of such funds can entail money laundering.

- In recent years, several judgements have come down about the inability of a private limited company's owner to align his private interests with those of the company.
- Black operations thrive in Iceland. For example, reports have been written about tax evasion that had been made public. Figures regarding this vary, but observers deem that the magnitude of hidden operations ranges between 3-7% of the gross national product. Tax fraud of various kinds fall under this heading, such as evasion of value-added tax, evasion of income tax on wages and wage-related payments, under-reported income tax on business operations because of overestimated costs or under-reported income and other unpaid taxes, including those related to income from offshore companies. The tax authority and LEA have systematically tried to address this, for information is available that, in parallel with the operation of private limited companies, there are instances of engaging in black operations.
- One sign of criminal activities within otherwise lawful activity is when there are transactions between related parties of various kinds that can, for example, stretch across borders. The private limited company form has been used for this purpose, e.g., to break the money trail. The disposition of such money can entail money laundering if unlawful gain is involved.
- In Iceland, concealment of assets and "ID number-hopping" are major problems in all company operations, i.e., when companies petitioning for bankruptcy transfer their assets to a "new ID number" while leaving the company's debts behind under "the old ID number". Thus, the company's owner can continue operating it without paying its debts because creditors can only file claims against assets registered under the old ID number. In this way, a company can avoid paying off creditors, especially other private limited companies. The same applies to other government fees and taxes. Governments have increasingly been addressing this. Preparations include introducing a parliamentary bill to amend the General Penal Code, the Limited Companies Act, the Private Limited Companies Act, and the Act on Self-Governing Institutions Engaging in Business Operations. The bill aims at curtailing misuse of the limited company form, and ID number-hopping in business operations is there the primary target. Judicial practice has numerous examples of evasion involving assets and taxes upon bankruptcy. Also familiar are examples of courts dealing with ID number-hopping, where the private limited company form has been misused.
- There is no obligation to wind up a private limited company that has ceased operations. There are instances of empty companies being misused and their bank accounts, e.g., being used to conceal a money trail.

Regarding mitigating factors, no instruction for those founding companies has existed regarding money laundering, and risk awareness therefore appears to be generally low. In other respects, however, risk awareness in this country appears to be increasing of private limited companies' operations and money laundering, as the government's determination to address ID number-hopping indicates.

Various things have been lacking in both laws and surveillance that can counteract money laundering or reduce its likelihood, such as qualifications for founders, board members, and owners of private limited companies, change in the board members of private limited companies shortly before bankruptcy, and involvement of "funeral directors", follow-up with loss of rights of board members of private limited companies, tougher penalties for failure to submit annual financial statements, and de-registration and winding up of companies when they are no longer operating. In addition, there has also been a substantial lack of surveillance for money laundering, possible misuse of the private limited company form and various things related to the operations of private limited companies, e.g., regarding analysis of numerical information from companies' annual financial statements.

Risk classification

There are major weaknesses in the framework of private limited companies as mentioned above. There are many ways to misuse this company form and numerous examples of doing so. In addition, it is easy and simple to use private limited companies to launder unlawful gain. For these reasons, the risk regarding the founding, operations and winding up of private limited companies is deemed **high**.

Limited liability companies, self-governing institutions, limited partnerships

Funding, operations and winding up

Act no. 2/1995 applies to limited companies and limited partnerships. In most ways the legal requirements for limited companies and partnerships limited by shares are comparable to those applying to private limited companies. However, no special act applies to limited partnerships. Liability in partnerships limited by shares and limited partnerships is mixed.

Act no. 33/1999 applies to self-governing institutions that engage in business operations. A self-governing institution is not a company but rather a certain form of organisation. Such an institution's chief characteristic is that it is self-owning, i.e., no single party lays claim the assets of self-governing foundations. Self-governing institutions that engage in business operations shall be dealt with like organisations with limited liability, as applicable under Act no. 33/1999. A self-governing institution does not involve shares but rather initialisation capital that shall not be less than ISK 1,000,000. No qualifications are required for founders of a self-governing institution. However, the same qualifications are required for the board members and managing director as in limited companies and private limited companies.

The combined number of limited companies, partnerships limited by shares, limited partnerships and self-governing institutions that engage in business operations is close to 3600. Thereof limited partnerships are by far the most numerous—nearly 2800.

Weaknesses

Many of the weaknesses applying to private limited companies apply to limited companies, partnerships limited by shares, limited partnerships and self-governing institutions that engage in business operations. However, there are somewhat more requirements for founding a limited company than a private limited company, such as regarding the amount of share capital contribution and the number of shareholders. On the other hand, there are many times fewer of these companies. Fewer such companies are founded per year, and the instances of their misuse is nowhere near the percentage for the private limited company form.

Risk classification

Despite weaknesses in the framework of these company forms, the number of them is small, compared to private limited companies. The instances of their misuse are few, and it is therefore more difficult to use these company forms for laundering of unlawful gain. The risk related to the founding, operation and winding up of limited companies, partnerships limited by shares, limited partnerships and self-governing institutions that engage in business operations is **medium**.

Other organisations

Funding, operations and winding up

Hereunder are company forms other than those discussed above that have a financial purpose. Most of these companies are cooperatives. They number nearly 2300. The company forms are, for example, cooperatives, European Economic interest groups and European companies. Special acts apply to all of the above company forms.

Weaknesses

Few of the weaknesses discussed above apply to the company forms involved here, such as those regarding their numbers and limited liability (cooperatives). In addition, there are no examples of misuse of these company forms.

Risk classification

For the above reasons, the risk regarding the funding, operations and winding up of companies other than those previously discussed is **low**.

PUBLIC INTEREST ASSOCIATIONS

The risk assessment examined "public interest associations". The main reason for considering such organisations is that there are examples in FATF states of public interest organisations with a non-financial purpose being misused, particularly for terrorist financing. In doing the risk assessment, FATF's definition of public interest associations was kept in mind. The task force defines such associations as follows: "A legal person or arrangement or organisation that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of 'good works'." On this basis, the discussion was limited to registered religious and life stance associations, institutions and funds operating in accordance with a confirmed charter and other public interest associations. The analysis, for example, utilised information from the Register of Companies and surveillance parties, information and reports from other governmental units and appropriate legislation.

Religious and life stance associations

Generally

Religious and life stance associations operate on the basis of Act no. 108/1999 on registered religious and life stance associations and the regulation on registration of such associations no. 106/2014. The act stipulates people's rights to found religious associations and practice their religion in accordance with each and every person's conviction. Registration entails certain statutory rights and duties for such associations, including the right to a share in levied income tax in the form of congregational fees, which in 2017 were ISK 11,040 per person per year. The act sets several general conditions for registration of such associations.

Spokespersons for registered religious and life stance associations shall not be less than 25 years old and otherwise fulfil general qualifications to work for the civil service, other than those regarding citizenship. Those requirements include not having been convicted for a criminal deed while in public service. There are no other qualifications, such as a spotless criminal record or certificate of no bankruptcy proceedings. There are no requirements for board members, and they do not have to reside in Iceland. In addition, there is no requirement for board members to be registered in the association or any requirement for confirmation that they actually are involved in its activities.

There are no rules on the disposition of the funds of religious and life stance associations, except that these associations are obligated to send the district commissioner an annual report on their activities. In addition, the monitoring of these associations' finances and accounting is limited. No qualifications are required for those seeing to the associations' finances. They can be their spokespersons or others, depending on what the by-laws of the relevant associations stipulate.

The District Commissioner of Northeast Iceland supervises the registration of religious and life stance associations and sees to monitoring them. A district commissioner's monitoring especially involves the disposition of the funds going to such associations in the form of congregational fees and the position of the directors. If the association no longer fulfils the conditions for registration or neglects its statutory duties, the district commissioner can cancel its registration after a preceding warning and setting of a reform deadline. The act otherwise has few words regarding the district commissioner's monitoring and authorisations in that regard. In addition, the act does stipulate penalty-related remedies.

Weaknesses

There are weaknesses in the framework, legislation, and monitoring of registered religious and life stance

associations. The weaknesses in particular regard the unsatisfactory provisions on the qualifications of these associations' spokespersons, accounting, and finances.

Risk classification

There is a risk that associations like these will be misused for criminal activities, including for the purpose of laundering unlawful gain, since conditions for the founding of such associations are not particularly strong, and there are few qualifications for spokespersons. In addition, there are few requirements on the general supervision of funds, and monitoring this supervision is somewhat a formality. Because of the nature of these associations, people with foreign roots or relations with other countries often have access to them and, depending on circumstances, possibilities to work across borders. Counteracting this is that there are few registered religious and life stance associations, and few cases related to them have come up with authorities. Considering the above, there is **significant** risk that the organisational form can be misused.

Funds and private institutions operating under a charter

Generally

Act no. 19/1988 and Regulation no. 140/2008 deal with funds and institutions operating under a charter. This involves funds and institutions falling under the heading of private institutions with no financial purpose and operating under a charter. Upon founding, money is put into the private institution by gifting, a will or another private legal instrument. These funds are intended to be utilised for the sake of one or more goals that can be of various kinds.

The charter shall report the initial funding, its source, what the goals of the fund or association are, and how the funds shall be spent to achieve those goals. After considering changes in the credit terms index in 2019, the initial funding of the fund may be, at minimum, ISK 1,197,000. The charter shall also report how the board of directors of the fund or association shall be appointed, and who shall be responsible for the custodianship the assets. In addition, the party responsible for the fund or association shall, not later than 30 June each year, send the State Auditing Office the fund's or association's accounts for the previous year along with a report on the disposition of funds that year. There are no qualifications for those managing such funds and associations.

The District Commissioner for Northwest Iceland is responsible for the implementation of Act no. 19/1988 and shall maintain a register of funds and associations in accordance with the act. In addition, the State Auditing Office shall keep a register of the total income, expenditures, assets and liabilities of all registered funds and associations, as well as comments on submitted accounts. If a report and accounts of the fund or association have not been received for one year, or the accounting proves to be defective, the district commissioner, after receiving recommendations from the State Accounting Office, shall entrust the chief of police to investigate the finances of the fund or association and seize documents and assets. The chief of police shall then be responsible for custodianship until the district commissioner has otherwise arranged matters.

The State Accounting Office annually publishes an abstract from the annual financial statements of associations and funds. According to published abstracts for fiscal 2017, at the end of the year, there were 703 active associations and funds operating under a charter. Also, 11 new charters were confirmed during the year, and 13 associations and funds, deemed unqualified, were closed down. At the start of 2019, 410 funds and associations submitted annual financial statements to the State Auditing Office for fiscal 2017. Altogether, 717 funds and associations were obligated to submit annual financial statements for that year, and 57% of the annual financial statements were therefore received six months after the deadline. A total of 54 funds and associations have never submitted an annual financial statement.

According to the State Auditing Office's abstract, the associations and funds operating under a confirmed charter vary greatly in size. Thus, the value of assets of 44 funds submitting an annual financial statement for 2017 were less than ISK 500,000. Of these, seven funds had no assets at the end of 2017, and a majority of those was closed down that year. Of the 410 associations and funds submitting annual financial statements, just less than half of them had income in 2017. Of the 210 funds that had no income during the year, 95 of them had no expenditures. In addition, three funds had neither income nor expenditures, nor did they have assets at year-end 2017.

Weaknesses

Act no. 19/1988 has become obsolete and requires comprehensive re-examination, keeping in mind that far too many funds and associations do not submit annual financial statements. There are no penalties for failing to submit an annual financial statement. The remedies the act prescribes are few and appear not

to be utilised, as is mandatory. Furthermore, there are no conditions in the act on the qualifications of those directing such funds and associations.

Risk classification

There is a risk that criminals or organised criminal organisations will misuse such funds and associations. Founding them is relatively simple, and they are easy to control. In addition, there are no stringent requirements for supervising funds. Statutory monitoring especially pertains to the submission of annual financial statements, but such submission is unsatisfactory. We must consider that more than 40% of more than 700 associations and funds do not submit annual financial statements or submit them too late. Offsetting this is that, according to information from authorities, no cases have come up related to such funds or associations. Considering the above, we must deem that the risk that such associations or funds will be used for laundering unlawful gain is **significant**.

Other public interest associations

Generally

This category of public interest associations belongs to general organisations that are not operated for profit. These organisations are structured, permanent organisations of two or more parties that are founded with a private legal instrument. No act stipulates the structure of general organisations, and the provisions of the articles of association therefore are very important in construing their legal status. In addition, the main rules of association law are also considered. For example, regarding general organisations, we can mention political parties, sports associations, chess associations, professional associations, occupational associations, associations of employers, human resource associations, and cultural associations. It is possible to register general associations in the Register of Companies under the Act on the Register of Companies no. 17/2003. They have no duty to register and must apply for registration.

General associations are not intended for engaging in business operations, but if they have fund-raising or trust activities, they have a duty of accounting in accordance with Act no.145/1994 and must prepare an annual financial statement. On the other hand, they have a duty to submit an annual financial statement under the Act on Annual Financial Statements no. 3/2006.

The Register of Companies supervises the registration of general associations. There one also finds information about these associations' founding data and their resolutions. However, there is no monitoring of the operations of such associations and no agency or organisation has the function of overseeing their operations. Each association's articles of association demarcate the operations. However, there are no general qualifications set for their founders, owners or spokespersons or know-how to see to finances and accounting. In addition, there is no information anywhere on how finances and accounting of general associations is arranged. Also, no rules or instructions apply to the operations of general associations except that they must have a lawful purpose. In addition, no instructions have been issued on the management practices of such associations.

The LEA have no cases where this organisation form has been misused. The Directorate of Tax Investigations has some cases where general associations have been misused. However, those associations have not been public interest associations.

At the start of 2018, there were between 15,000 and 16,000 general associations. Since then, their number has increased slightly. The Register of Companies does not classify associations according to their purpose. For this reason, there is no information on how many of the general associations registered are working for the public interest.

The risk assessment attempted to assess the number of associations that could be working for the public interest that were operating across borders of states or their neighbouring states that are deemed risky. Understandably, there is no precise number on this topic since so little information is available. There are between 400 and 500 associations working for the public interest. Of these associations, between 40 and 50 are possibly working across borders of states or their neighbouring states that are deemed risky.

No more detailed analysis of these associations has been carried out—who back them, how their finances and accounting are organised, whether and how they transport money across borders and in what measure, to which countries, and whether they carry out due diligence on those receiving the money, etc.

Weaknesses

Comprehensive oversight of public interest associations is lacking, e.g., regarding their registration, purpose, activities, who their spokespersons are, and whether they work across borders. It is possible to register these associations, but they have no obligation to register themselves. An association founded for public interest need not satisfy any conditions, other than having a lawful purpose, and its operation requires no permit. In addition, founding such an association costs almost nothing. Furthermore, there are no qualifications for founding public interest associations or their spokespersons or those overseeing their finances. If public interest associations engage in fund-raising or management of funds, they are legally required to keep accounts and must prepare an annual financial statement. On the other hand, they have no duty to submit an annual financial statement. There is no instruction on the activities of public interest associations. There are no examples of public interest associations being misused. Also, foreign police authorities have no information on the misuse of Icelandic public interest associations. No special statute applies to public interest associations, and there are no rules about their operations, e.g., on good management practices or instructions on finances and accounting. Actually, no other rules apply to the operations of such associations, other than what they set for themselves as articles of association. There is no monitoring of public interest associations, and no instruction has been provided on their operations and possible risks from them. For these reasons, there is no expertise on their operations and no organised cooperation between governments on analysing the activities of these associations, assessing their weaknesses, etc.

Risk classification

Despite there being no examples of misusing public interest associations, information is lacking on their operations. It is easy, simple and inexpensive to found these associations. There are no coordinated rules applying to their operations, and there is no monitoring of them. For these reasons, a risk exists that this organisation form will be misused to further criminal activities, including for the purpose of laundering unlawful gain. Considering the above, there is a **significant** risk that this organisation form can be misused.

Actual owner

Generally

"Actual owner" is defined in the Act on Anti-money Laundering and Anti-terrorist Financing as an individual, one or more, who actually owns operations or directs the business, a legal person or individual, in whose name a business or operations are engaged in or carried out.

In this context, we differentiate between a legal and an actual owner. A legal owner is the person registered as an owner of money, assets or companies. However, he need not necessarily be the actual owner. Parties can see concealing their ownership to be to their advantage. An example is getting other parties to act as a legal owner by founding a complex network of companies or asset-holding companies (dummy companies) or in another manner. The actual owner is always an individual and is the party who actually can make decisions on the disposition of funds, management of parties or the party benefiting from the assets involved.

How associations arrange the registration of owners varies. Thus, private limited companies and limited companies are obligated to maintain a register of shares while other organisations are obligated to maintain a register of members, cf. cooperatives. Neither social legislation nor the Act on the Register of Companies differentiates between a legal and an actual owner. Therefore, there are no specific legal requirements on the registration of an actual owner. The Act on Annual Financial Statements makes it mandatory, at the start and end up a fiscal year, for limited companies and private limited companies to submit annual financial statements stating the number of their shareholders. They are also obligated to state, at a minimum, the 10 biggest shareholders or all of them if there are fewer than 10, and the percentage of shares held by each of them at year-end. However, the above information may have the same characteristic of making no distinction between a legal owner and an actual owner.

The Money Laundering Act demands the collection of information on actual owners since parties subject to mandatory reporting are obligated to collect information on actual owners when they initiate a contractual relation or individual transactions.

Weaknesses

The weaknesses of these factors directly relate to the weaknesses related to the discussion of organisations and other legal persons. There are examples of parties trying to conceal ownership to hide unlawful gain, complicate investigations or hide their involvement in transactions. The main weaknesses are as follows:

- It is easy to conceal the actual ownership of associations.
- The number of private limited companies is high.
- Companies are not obligated to maintain a register of actual members.
- There is no obligation to notify the Register of Companies of actual owners.
- Parties subject to mandatory reporting do not always give sufficient information on actual owners.

Risk classification

The lack of requirements for information on actual owners being recorded in a central database at legal persons is deemed a serious defect, making it easier for parties to conceal ownership and hide a trail of unlawful gain. Numerous cases, where actual ownership was hidden, have landed in the government's court. In that context, the Panama Papers may be mentioned, where the tax bases in those cases that the Directorate of Tax Investigations has already concluded was about ISK 15 billion. In light of the above and the weaknesses involved here, the risk that these assessment elements is deemed **high**.

FINANCIAL MARKET

This section discusses assessment and analysis of the risk of money laundering and terrorist financing in the Icelandic financial market. The Financial Supervisory Authority, Iceland, is the monitoring party responsible for follow-up on parties in the financial market subject to mandatory reporting under the Act on Anti-money Laundering and Anti-terrorist Financing, regulations, rules, and related criterion rules. The Financial Supervisory Authority, Iceland, is authorised, if necessary, to take appropriate measures during monitoring, such as applying penalties and coercive remedies. In addition, the Financial Supervisory Authority sees to instructing parties subject to mandatory reporting in this category and evaluating their implementation under the act. The evaluation of threats and weaknesses, for example, was done on the basis of the know-how and experience of relevant government parties and law enforcement institutions in the financial market. In addition, the evaluation is based on various statistical information related to a party's operations in the financial market. There is also a general discussion of new technology regarding financial markets.

Deposit operations

Generally

“Deposit operations” means receiving repayable funds from the public in the form of deposits, in accordance with par. (a) of Art. 3 of Act no. 161/2002 on financial companies.

Four banks and four savings banks have permits to receive deposits in accordance with the Act on financial companies. The total amounts of the banks' and savings banks' deposits were as follows:

In 2016 – about ISK 1648.5 billion

In 2017 – about ISK 1697.2 billion

Weaknesses

By their nature, deposit operations entail receiving great sums of money, where the origin of the funds becomes difficult to trace, particularly where cash is concerned. This involves one of the main activities of banks and savings banks. It involves many entries regarding customers. This can result in various degrees of risk, for example, because they involve individuals in a risk group because of political ties, parties residing in areas defined as risky or parties tied to criminal activities. Accessibility to these services is high, for most people have the wherewithal to open deposit accounts in domestic banks and savings banks. In addition, it is easy to utilise these services since there is no need for much organisation or specialised knowledge for this purpose.

Although the measures resorted to by parties subject to mandatory reporting are generally deemed sufficient, there are still weaknesses, for example, in connection with monitoring entries and verifying information about actual owners. It is also important to mention that new technology can create new risks and opportunities.

Organised criminal organisations and criminals generally use deposits to launder lawful gain. The biggest threat entails the opening of numerous deposit accounts where transfers, deposits and withdrawals are frequent, often low amounts that may have the purpose of going unnoticed.

Money laundering through deposit accounts is one of the commonest methods known to LEA and the FIU. Criminals are both domestic and foreign parties and can involve organised crime or individual criminals. The magnitude of money laundering with this method is substantial. In addition, the use of cash is

considerable.

Considering good efficiency of internal monitoring, such as systems monitoring entries, deposit operations are less exposed to money laundering. In addition, one can mention that anonymous transactions are forbidden. The regulatory scheme seems sufficient, and monitoring parties' surveillance of the operations is detailed. Regarding foreign operations, deposit institutions do not have foreign branches. In addition, there are few foreign customers. Furthermore, risk awareness is excellent, as seen by the number of notices to the FIU. Nevertheless, considering the number of weaknesses, the risk of money laundering by using deposits is deemed **significant**.

Loan operations

Generally

Deposit operations entail granting loans to individuals and companies.

Altogether 11 lending institutions, deemed to be parties subject to mandatory reporting, engage in lending in Iceland. Of these, four are commercial banks that grant comprehensive loans to individuals and companies, including overdrafts, real estate loans, car loans, and general as well as specialised loans to smaller and bigger companies. Four savings banks grant loans to individuals and small companies in their work areas. There is also one specialised lending company that provides financing for automobiles and equipment, and there are two lending companies especially seeing to payment services, including collection of entries and also granting consumer loans, for example, in the form of credit card loans.

Weaknesses

The main risk of money laundering connected with lending operations entails repayment of loans with proceeds from criminal activities. The main weaknesses of these operations show through their considerable magnitude, regarding both number and amounts of loans. In addition, the access to smaller loans, e.g., overdrafts on the Internet and credit cards, is easy. Criminals having expertise in company operations can utilise this option for laundering unlawful gain.

Risk classification

The nature of lending institutions' loan operations is such that loans are not usually granted without a preceding credit rating or payment assessment of the individual or company involved. This pertains particularly to bigger loans. They are usually not on offer for individuals or companies deemed doubtful in some way and, for example, unable to put up acceptable security. Loans are only granted to named individuals and companies, following a credit assessment. Regarding foreign operations, lending institutions not having foreign branches do not engage in foreign operations. In addition, their foreign customers are also few.

The internal monitoring of lending operations is generally deemed good, and the regulatory scheme for anti-money laundering and terrorist financing covers commercial banking operations, including lending. In addition, the Act on financial companies no. 161/2002, Act on consumer loans no. 33/2013, and Act on real estate loans to consumers no. 118/2016 provide for lending institutions having acceptable internal lending rules and processes.

There are few indications that criminal organisations or criminals utilise this channel for laundering unlawful gain. Such operations generally demand great expertise regarding the operations of companies to make it possible to launder considerable sums with this method.

In light of all of the above, as well as the state of risk awareness regarding money laundering in this market being generally good, lending operations are deemed less exposed to such risk. Considering the above, the risk of money laundering related to lending operations is deemed to be **medium**.

Remittances

Generally

Money remittances are defined as *“a payment service where funds are received from a payer without opening payment accounts in the name of the payer or the recipient of the payment. This is done for the sole purpose of sending the corresponding amount to the recipient of the payment or to another payment service recipient on behalf of the recipient of the payment and/or when funds are received on behalf of the recipient of payment and delivered to him for disposition”*, cf. the Act on payment services no. 120/2011. Customers do not have to own accounts at the payment service provider in order to engage in these transactions.

No Icelandic parties engage in these operations. On the other hand, three agents of foreign payment service providers engaging in money remittances operate in the country. The total amount of money remittances in 2018 was about ISK 2.55 billion.

Weaknesses

Only agents of foreign payment service providers engage in money remittances in Iceland, and that alone entails considerable risk. This is not least because it is generally difficult for the payment service providers that the agents work for to direct and monitor the latter.

The service rendered by payment service providers and their agents engaging in money remittances build in many respects on transactions with cash, and this may enable customers to transfer cash anonymously and rapidly. The service is usually tied to risky states, and there are indications that the service in those states is used by customers that would otherwise be subject to strict systematic surveillance.

Usually, payment service providers allow transfers of funds without their passing through special accounts. There are therefore often no long-term business relations, and a number of individual transactions are involved, where limited due diligence is carried out. These characteristics of the operations, along with the possibility of forged personal identity papers being used to confirm one's identity, cf. the discussion of ID nos. for foreign persons, increase the possibility that limited information will be available on the customers and the purpose of the transfer. In addition, it should be mentioned that money laundering through these agents does not require special know-how or organisation.

The agents engaging in these operations were not subject to the surveillance of the Financial Supervisory Authority, Iceland, until the new act on 1 January 2019. The Financial Supervisory Authority, Iceland, is working on a final evaluation of the risk of these parties and deciding to what kind of surveillance they shall be subject. For that reason, information is still lacking on the operations in Iceland and the agents' risk awareness. However, in accordance with what was said before, it is established that the amount of money remittances is significant.

Risk classification

The FIU has received quite a number of STR on money laundering through money remittances. This indicates that risk awareness is average. Despite that, as well as the regulatory scheme regarding the operations being deemed acceptable, the risk of money laundering here is deemed **high**. That conclusion reflects the number of weaknesses characterising the operations and the magnitude of the money going through them.

Pension funds

Generally

Coinsurance

According to the provisions of Act no. 129/1997 on mandatory insurance rights and pension fund operations, the life insurance premium for minimum insurance coverage and additional insurance protection shall be paid monthly, and pension funds must report each year to the Directorate of Internal Revenue the premium paid to them for each right holder. The main rule is that payments from coinsurance pension funds insure right holders for lifetime payments in accordance with the rights that fund members have acquired with their premiums. This therefore does not generally involve rights that are redeemable or assignable to other parties.

Private pension savings

According to the provisions of Act no. 129/1997, commercial banks, savings banks, securities companies, life insurance companies and pension funds may accept private pension savings whether they are for minimum insurance coverage or additional insurance coverage. Payments into a private pension savings account always build on an agreement between an employer and an employee and are a certain percentage of wages. This is generally 2% from the employer and 2% or 4% from the employee. However, it is possible to negotiate a higher percentage for the employer and get a tax discount regarding the premium. Legal persons cannot pay into private pension savings funds, and individuals cannot pay into such funds independently. That is, payments into these funds are always linked to wages, and the wage payer always sees to deducting the payment from the employee's wages and submitting it along with its matching contribution to private pension savings funds.

A pension fund premium for minimum insurance coverage and additional insurance coverage into a private pension fund shall be paid monthly, and custodians, which are all subject to mandatory reporting, must report the premium to the Directorate of Internal Revenue, for the accrual of pension rights for which payments to them have been made each year for each right holder. In addition, according to Act no. 129/1997, it is forbidden to withdraw the balance until two years after the first premium payment, provided that specified conditions are fulfilled. That is, the person involved has reached the age of 60, or is a confirmed disabled person, or the death of the right holder is involved. Payments out of a private pension savings account are taxed as income upon payment.

In Iceland, 21 pension funds are operating.

Weaknesses

Regarding investments of pension funds, bonds secured by real estate can entail risk for fund members. The risk entails when a fund member takes a loan from the pension fund that he repays with cash, even with settlement payments outside regular loan instalments, since pension funds generally charge no fees for settling loans. Except for three pension funds, all pension funds grant loans to fund members although the loans are considerably limited.

Regarding payments into private pension savings accounts, the risk is that substantially high cash premiums will come in a short period regarding an individual who has acquired the right to get the balance paid out, and he even has a tax domicile abroad. Such an individual could get the balance paid out tax-free to a foreign bank before the Directorate of Internal Revenue's monitoring of the premium payments reached him. Thus, this individual could launder funds through the system without paying tax.

Risk classification

The FIU has received no STR regarding money laundering through pension funds. On the other hand, despite the substantial magnitude of funds in pension funds, the following characteristics must be kept in mind:

- Pension funds must report all premiums received for each right holder to the Directorate of Internal Revenue.
- Mutual funds do not entail rights to redemption or assignment.
- Payments into private pension savings accounts are always linked to an employee's wages.
- It is forbidden to pay lump sums into a private pension savings account.
- It is not possible to redeem rights in a private pension savings account before the age of 60 and two years after the first premium payment.
- In 99% of cases, the payments go through accounts at financial companies (no use of cash).

Risk awareness is generally acceptable. In addition, the regulatory scheme and surveillance of these parties is deemed satisfactory. It must be deemed unlikely that pension funds will be misused for laundering unlawful gain. Considering the above, the risk of money laundering in pension funds' operations is deemed **low**.

Life insurance operations

Generally

Life insurance companies and life insurance agents offer various investment products, including risk and cash value life insurance. It is possible to set up the products so that they have cash value, are indexed or with or without life insurance components (also called life insurance-related investment products) from the life insurance company. The risk can therefore lie with the insured or the life insurance company.

The brokerage of life insurance, or other risk- and cash-value life insurance, means presenting, offering or otherwise preparing agreements on such products, closing such agreements or assisting with their execution.

Four life insurance companies have operating permits for life and health insurance in accordance with Art. 21 of Act no. 100/2016 on insurance operations. In addition, eight insurance brokers are authorised to broker life and health insurance for insurance companies in accordance with Act no. 32/2005 on the brokerage of insurance, which all of them do except three. In addition, one branch of a foreign life insurance company is operating in the country.

Two out of four life insurance companies offer cash-value life insurance. The amount of these products in 2018 was about ISK 22.7 million. The total amount of premiums in 2018 regarding other life insurance (death risk) was about ISK 5.8 billion, and, of that amount, cash-value insurance was only 0.39%. In addition, it ought to be mentioned that insurance brokers and branches also broker life insurance from foreign companies. The above amounts do not include premiums paid to foreign companies. In 2017, the total amount of premiums for life insurance products paid to foreign companies was about ISK 7.4 billion.

Weaknesses

The main risk of money laundering related to life insurance entails term plus cash value life insurance, where parties use the product as an investment and can deposit money with a life insurance company and withdraw such funds as needed. It is also deemed a weakness that accessibility to this service is relatively high.

Risk classification

The risk stemming from life insurance operations is limited by the low percentage that term plus cash value life insurance is of the total amount of life insurance. Anonymous transactions are forbidden, and the annual amount paid into cash value insurance is low. In addition, there are certain basic legal requirements regarding anti-money laundering in the operations and monitoring regarding risk with these requirements. In addition, engaging in money laundering through the complex arrangement of the operations requires considerable expertise. Thus, in this regard this course has not proven feasible. The risk of money laundering through life insurance operations is deemed **low**. Supporting this conclusion is that the FIU has received no notices of suspected money laundering related to life insurance.

Cryptocurrencies

Generally

Act no. 91/2018 amended the Act on Anti-money Laundering and Anti-terrorist Financing to legalise part of the 5th money laundering directive regarding service providers for cryptocurrencies and e-wallets. The act contains the following definitions:

- *Cryptocurrencies* A kind of electronic currency that is neither electronic money in the meaning of the Act on issuing and handling of electronic money nor a currency.
- *Currency*: Banknotes, coins and other currencies that central banks and other competent authorities issue and recognise as legal tender.
- *Service provider of digital wallets*: An individual or legal person offering custodial services for identified cryptocurrencies, whether with software, systems or another kind of medium for general supervision, storage, and transport of cryptocurrencies.

It is now mandatory for service providers of transactions between cryptocurrencies, electronic money and currency, and service providers of digital wallets to register with the Financial Supervisory Authority, Iceland. The legislation covers only those providing services in connection with cryptocurrencies, e.g., a party converting cryptocurrencies into electronic money or currency (or vice versa) and converts one kind of cryptocurrency into another kind of cryptocurrency. In general, such parties can accept a number of payment media, such as cash, transfers from a bank, credit card or other kinds of cryptocurrencies. This could involve exchange sites on the Internet and Automatic Teller Machines that convert cryptocurrencies.

In Iceland, there is one service provider for transactions between cryptocurrencies, electronic money and currencies that has been registered at the Financial Supervisory Authority, Iceland. Such transactions in 2018 numbered 5317, and their value was about ISK 312.9 million.

Weaknesses

As things are today, there are no known weaknesses since these operations have hardly been tested in Iceland. It is nevertheless important to mention that new risks and opportunities may develop with new technology.

Risk classification

Services related to cryptocurrencies in this country do not entail cash. This reduces the risk of money laundering. Only one party has been registered as a service provider for cryptocurrencies in Iceland. The party involved operates an exchange market between cryptocurrencies and currencies that operates solely on the Internet. To do business on the exchange market, one must provide a valid electronic identity code and link the access to his bank account or credit card. In addition, there is no Automatic Teller Machine for cryptocurrencies in Iceland. The regulatory scheme related to the operations of service providers is deemed satisfactory and is administered by The Financial Supervisory Authority, Iceland, with risk-oriented surveillance. This channel for money laundering is generally deemed not desirable in Iceland for now—on one hand, because of the necessary technical know-how and, on the other hand, because markets with cryptocurrencies can be unstable. In addition, the FIU has received no notices of this in Iceland. On the other hand, we must assess the risk, considering new risks that can accompany development of new technology. The risk of money laundering related to service providers for cryptocurrencies is therefore rated **medium**.

Operation of funds

Generally

The operations entail the operation of funds and sale of share certificates to the public and, depending on circumstances, to institutional investors. Underlying assets of the funds can be shares, bonds, certificates and other funds and other assets, such as real estate and deposits. Investors generally buy into the funds through their commercial banks or brokers. It should be mentioned that eight of the operating companies are either subsidiaries or affiliates of commercial banks and outsource second-tier monitoring to them as well as anti-money laundering and anti-terrorist financing measures, including due diligence.

Nine operating companies of securities funds have operating permits in Iceland, in accordance with Act no. 161/2002 on finance companies. These operating companies are authorised to operate securities, investment and institutional investor funds, cf. Act no. 128/2011.

The total assets of securities, investment and institutional investor funds in 2017 were ISK 914.1 billion and have steadily grown. In 2013 they were ISK 667.1 billion.

Weaknesses

It is easy to buy some certificates in funds, and accessibility to them is good. The number of investors in funds is considerable, and parties well acquainted with the financial market can launder unlawful gain through funds.

Commercial banks that usually handle second-tier monitoring for operating companies are generally sufficiently aware of the risk of money laundering. However, the problem that commercial banks would employ general procedures when purchasing funds could develop, i.e., that they would apply the same measures regardless of the kind of financial services involved, and the measures might therefore not be sufficiently specialised with respect to purchases in funds.

Risk classification

Risk related to the operations of securities funds' operating companies mostly entails great quantities of capital passing through them. On the other hand, money laundering through operations of funds demands great expertise of customers. In addition, detailed monitoring goes on in commercial banks that provide second-tier monitoring for securities funds' operating companies. There are almost no cash transactions in this area, and there is no example of notices to the FIU related to money laundering in the operations of funds. In addition, one can mention that the operating companies do not have foreign branches, and only one of them has a subsidiary abroad. Having considered all this, the risk related to money laundering in the operations of funds is deemed **medium**.

Payment services

Generally

In accordance with Art. 4 of Act no. 120/2011 on payment services, "payment services" means the following:

- Services enabling cash contributions into a payment account, along with other necessary measures for a payment account's operations.
- Services enabling cash withdrawals from a payment account, along with other necessary measures regarding a payment account's operations.
- Execution of payments, including transfers of funds into and out of a payment account at users' payment service provider or at another payment service provider:
 - a. execution of direct payments, including individual direct payments,
 - b. execution of payments with a credit card or comparable equipment,
 - c. execution of asset transfers, including payments by credit card.
- Execution of payments if funds are insured with a line of credit for a payment services user:
 - a. execution of direct payments, including individual direct payments,
 - b. execution of payments with a credit card or comparable equipment,
 - c. execution of asset transfers, including payments by credit card.
- Issue of payment media and/or payment processing.
- Money remittances
- Execution of payments when the payer grants approval for the payment execution through some kind of telecommunications, digital equipment or information technology equipment, and the recipient of the payment is an operator of the telecommunications company, information technology system or network system that is only acting as a liaison between users of payment services and a party delivering goods and services.

Four banks, four savings banks, two other lending institutions, and one payment service provider are payment service providers in Iceland in accordance with the Act on payment services.

In connection with an analysis of the risk of money laundering, it has proved difficult to acquire comprehensive and reliable information on the magnitude of payment services in the country. Regarding information on payment services abroad, specific information is available on payments to and from foreign states, including risky states. On the other hand, the information is not sufficiently comprehensive and reliable to base a risk assessment on them. However, there are indications that payments to and from risky states are a small fraction of the total transfers of funds in the country.

Weaknesses

Generally seen, the risk regarding characteristics of payment services and the magnitude of transactions that payment service providers perform is high. Even though the operations are generally not engaged in anonymously, payment services may be connected with risky customers or states, including transfers of funds across borders. As previously mentioned, the lack in all respects of trustworthy information on payments to and from risky states is a weakness.

In addition, we must deem that accessibility to the services is great. The service is also connected to new payment channels, such as mobile phones and the Internet. This can increase the risk since such transactions do not occur face-to-face.

Risk classification

Considering good efficiency of internal monitoring, such as systems monitoring entries, payment services

are less exposed to money laundering. Payment service providers do not have branches abroad and there are indications that there are few transfers of funds to and from risky states. The regulatory scheme is satisfactory, and regulators see to detailed monitoring of the operations. The risk awareness of parties engaging in payment services is deemed excellent, and anonymous transactions are forbidden. It is also worth mentioning that Icelandic payment service providers do not provide any of their services through agents. Rather, it is generally deemed that the use of such parties entails increased risk since agents are perhaps not as familiar as payment service providers with anti-money laundering measures. Despite all of the above, one must keep in mind that accessibility to such services is good and the amount of funds going through payment services is great. The risk of money laundering is therefore deemed **significant**. A marked increase in notices regarding suspected money laundering in these operations the last two years supports that conclusion.

Trading and services for financial instruments

Generally

Operating permits are mandatory for transactions and services for financial instruments. According to the Act on securities transactions in Iceland, these transactions and services entail the following:

- Receipt and brokerage directions from customers for one or more financial instruments.
- Execution of directions on behalf of customers.
- Assets management.
- Investment advice.
- Underwriting in connection with the issue of financial instruments and/or tenders of financial instruments.
- Supervising tenders of financial instruments without underwriting and accepting securities for trading on an organised securities market.
- Operation of a marketplace for financial instruments (MFI).

Four banks and nine securities companies are authorised to engage in transactions and services for financial instruments in accordance with the Securities Services Act (hereafter called securities services). In analysing this market, the emphasis was on assets management by parties subject to mandatory reporting. All four banks offer assets management, and the operations are called either *assets management* or *private banking services*. Four of the nine securities companies engage in assets management, but two of them provide such services only to pension funds. The total assets managed at banks and securities companies in 2017, except for pension funds' assets, were about ISK 3188 billion at domestic parties and about ISK 24.7 billion at foreign parties.

Weaknesses

Risk related to customers of the securities services is relatively high since financially strong individuals and legal persons are involved that want to invest in financial instruments to increase their profit. Such customers are more risk-seeking than general customers of banks and securities companies. High amounts thus go through parties offering securities services. Accessibility to these services is also relatively good, and investment in financial instruments generally does not demand great expertise. It is unclear at this point in time whether the awareness of parties offering securities services is satisfactory regarding current risks in the operations. This pertains particularly to risks connected to fraud and tax evasion. There are indications that risk awareness regarding these operations is not sufficiently great. Despite a regulatory scheme being in place, the few notices to the FIU indicate that procedures under the scheme have not been satisfactorily initiated.

Risk classification

The operations often entail receiving considerable funds from customers, and it is unclear how much risk awareness there is amongst parties engaging in these operations. This indicates that the risk is considerable. In addition, the lack of analysis may indicate that the existing monitoring may be unsatisfactory. Nevertheless, there are certain basic legal requirements regarding anti-money laundering measures. In addition, transactions are almost exclusively engaged in here in Iceland. In addition, anonymity is not allowed, and there are almost no cash transactions. Also, regulators maintain detailed monitoring of banks providing securities services. Considering the above, transactions and services for financial instruments entail **medium** risk of money laundering.

Issue of electronic money

Generally

Act no. 17/2013 on the handling and issue of electronic money defines electronic money as: *“Monetary value in the form of a demand on the issuer that is stored in an electronic medium, including in magnetic form, issued in exchange for funds, for the purpose of executing payment in the meaning of the Act on payment services and approved as such by parties other than the issuer.”*

A key characteristic of electronic money is that it is prepaid. This means that money must be paid into an account, card or equipment for it to be deemed electronic money. Some kinds of electronic money have been recorded to the owner of the electronic money, while other kinds have been anonymous. According to information from banks, savings banks, and lending companies, they issue electronic money only to named parties. Electronic money has many different characteristics, including the possibility of reloading electronic money into an appropriate medium. In addition, cards can be connected to other electronic money, e.g., accounts on the Internet.

Here in Iceland, the three major banks, savings banks, and two lending companies issue electronic money. All these parties issue prepaid payment cards, but only the three banks and savings banks also issue "gift cards". In addition to the above, a British distributor of electronic money operates in Iceland. For relevant companies, it distributes prepaid payment cards in the country.

In 2018, electronic money in the amount of ISK 115.3 billion was issued. This amount includes issued gift cards in the amount of ISK 3.4 billion.

Weaknesses

Monitoring of the issue of electronic money has been limited in this country despite the magnitude of the services being considerable each year. The transactions are not anonymous, but the possibilities of misuse in the operations are nevertheless numerous. Contrary to gift cards, prepaid payment cards can be reloaded. In most instances, it is possible to load more than ISK 500,000 into such cards. In addition, executing payments of more than ISK 250,000 per entry is allowed. In some instances, it is possible to load cash into such cards. It is also possible to make cash withdrawals from prepaid cards. Finally, the shortage of notices to the FIU indicates that risk awareness in these operations is deficient.

Risk classification

Despite limited foreign operations, a satisfactory regulatory scheme, and automatic monitoring like with other kinds of entries, the risk of money laundering connected to the issue of electronic money is deemed **significant**.

New technology

New technology

In light of rapid technical development in recent years, it is necessary to assess how great a risk of money laundering the use of new technology poses for the financial market. This assessment regards all parties subject to mandatory reporting that are monitored by the Financial Supervisory Authority, Iceland, and can also pertain to other parties subject to mandatory reporting. To some extent, this assessment also deals with points related to new technology in the above discussion regarding cryptocurrencies, payment services, and the issue of electronic money.

Financial Technology (FinTech) has established itself in recent years. This involves a category of new technical solutions aimed at offering faster, more secure, and more efficient financial services. Falling under such technical solutions are new payment channels, savings and investments, organisation of finances, and lending. In addition, new technical solutions can be used to distribute products or services, including the use of block chains. In addition, people can use the technology to meet demands for anti-money laundering and anti-terrorist financing. The use of financial technology has increased in recent years, and the prospects are that this trend will continue.

The Financial Supervisory Authority, Iceland, monitors the development of financial technology in Iceland. This includes utilisation by one party subject to mandatory reporting of such technology to engage in their operations. Since 2017, the Financial Supervisory Authority, Iceland, has operated "FinTech Service Desk" on its website. Its aim has been to connect parties planning to offer financial services with the use of technology or offer solutions for parties subject to mandatory reporting to see to their operations. This involves advice to parties regarding which legislation applies to the operations involved. This includes the Act on Anti-money Laundering and Anti-terrorist Financing, and what one must consider regarding the operations.

A risk related to using new technology in the financial market can be that parties misuse it—e.g., new payment channels and distribution channels—in order to engage in money laundering. One characteristic of financial technology is its rapid development. The risk is that during development of new technical solutions in financial services, there will be insufficient attention to anti-money laundering and anti-terrorist financing.

Even though new payment channels may reduce the risk of money laundering connected with cash transactions, new payment channels also offer fast transfers of funds between parties since transactions increasingly happen on the Internet with decreasing face-to-face transactions. Such circumstances may increase opportunities for parties to remain anonymous in their transactions with parties subject to mandatory reporting. In addition, there is a risk that the rapid development of new payment channels and new electronic channels for doing business may attract parties engaging in money laundering. In this regard, parties may utilise the Internet without boundaries, where monitoring financial services is more difficult. Offsetting this is that the traceability of entries is often greater with instances of new technical solutions like block chain.

Regarding new distribution channels for products and services in the financial market, an analysis by the Financial Supervisory Authority, Iceland, has revealed that, in greatest measure, customers engage in business by establishing a business connection with an in-person meeting with a representative of a party subject to mandatory reporting, while later transactions are engaged in through various kinds of telecommunications equipment. The next most common distribution channel is business solely engaged in face-to-face. It therefore appears that risk related to new distribution channels, where parties never

meet face-to-face, is still not great in this country, but there is every reason to follow developments closely.

When risk of money laundering is related to the use of new technology, we ought to consider that parties subject to mandatory reporting are monitored in accordance with Act no. 140/2018 and must fulfil rich demands of measures under the act. In that regard, it is important to mention that, as of 1 June 2019, parties subject to mandatory reporting must prepare a risk assessment of their operations and transactions. Among other things, the assessment shall consider risk factors related to technology and distribution channels.

It may be clear that operations using new technology to offer financial services are defenceless against money laundering. However, one may consider that new technology may also create opportunities to increase and improve monitoring financial operations since new technical solutions for monitoring have been developed to fulfil the needs of parties subject to mandatory reporting and regulators. It is important to continue closely following the development of new technology and the use of new distribution channels in the financial market and new risks of money laundering that such technology may entail in this country.

SPECIALISTS

The following sections discuss specialists. The specialists examined specifically are lawyers, accountants, realtors, and ship brokers. In addition, we will examine whether the risk is present in this country that criminals or organised criminal organisations utilise the services of such specialists, e.g., by getting them to handle transactions on their behalf, found companies or assist with bookkeeping and accountancy, for the purpose of laundering unlawful gain or concealing the actual ownership of companies and funds resulting from unlawful operations. We consider that it may be that such specialists are either unaware that their services are being used in that way, or that they are fully aware of it and are even remunerated for them. During the analysis, we particularly drew on answers to questionnaires sent to interested parties, information from LEA and the FIU, information from the Directorate of Tax Investigations, information from quality control, as relevant, information from interested ministries and agencies, information from professional organisations as well as appropriate legislation.

Lawyers

Generally

Attorneys and other lawyers are parties subject to mandatory reporting under the Act on money laundering when they:

- See to or represent their client in any kind of financial or real estate transactions.
- Assist with organising or executing transactions on behalf of their client regarding the purchase and sale of real estate or companies.
- See to handling money, securities or other assets of clients.
- Open or supervise bank accounts, savings bank accounts or securities accounts for clients.
- Procure capital necessary to found, operate or direct companies or assist with the founding, operating or managing of funds, companies and similar parties.

By attorney is meant a party who has completed a law degree and acquired rights to conduct cases before district courts, the Landsrettur Appeal Court or the Supreme Court of Iceland. The title of lawyer is not protected by law but is used by those having completed a law degree without having acquired rights to conduct cases before courts. Only attorneys are authorised to operate and own law firms.

There are 1100 attorneys in Iceland. Part of attorneys work in private companies or in governmental administration and do not therefore see to the projects described above. The number of attorneys practising law is 726, and the number of law firms is 183. The size of law firms can vary considerably, from one attorney to large law firms where more than 40 attorneys work.

Attorneys are obligated to be members of the Icelandic Bar Association, which sets a code of ethics for its members and monitors that attorneys always fulfil the conditions for having attorney rights. These include that an attorney:

- Fulfils the law's qualifications.
- Has a separate custodial money account.
- Has valid professional liability insurance.

An attorney is obligated to provide the Icelandic Bar Association, or a chartered accountant that the association designates for that purpose, all information necessary to assess whether he fulfils the obligations directed in Art. 12 of the Act on Attorneys no. 77/1998, which deals, among other things, with a custodial money account and professional liability insurance. In addition, the Icelandic Bar Association can order investigation of attorneys' finances if there is reason to do so. Cases regarding an alleged

violation of the Attorneys Act or the association's Code of Ethics are handled by a complaints board appointed by the association. The Icelandic Bar Association has held courses on anti-money laundering and anti-terrorist financing and set instructive rules for its members. On the other hand, the Icelandic Bar Association does not monitor the issue category.

Until 1 January 2019, there was no regulator defined to monitor that attorneys were careful about recommendations in the Anti-money Laundering and Anti-terrorist Financing Act. However, at the beginning of the year, this function was put under the Directorate of Internal Revenue. Consequently, there have been no evaluations up to now of attorneys, and it is therefore uncertain how they fulfil their duties under the act. From the above, it also follows that attorneys have not gotten instruction or feedback from the regulator.

Weaknesses

Parties may misuse the services of attorneys to lend unlawful transactions or operations a lawful appearance, e.g., by getting them to attend to various transactions on their behalf or provide services falling under the Anti-money Laundering Act. There is also a risk that with the involvement of these parties, the plan is to conceal the actual ownership of companies and unlawful gain, particularly funds related to tax evasion. The tasks entailing increased risk are mainly:

- Transactions with parties having complicated ownership or organisation.
- The founding of companies and bank accounts in states where there is strong banking secrecy.
- Transactions on behalf of customers with foreign financial instruments.
- Management or representation on behalf of companies owned by customers.
- Lack of information on the sources of funds.
- Customers that are in a risk group.
- Transactions where transparency on actual ownership is lacking.
- Receipt and transfer of funds on behalf of customers.

The FIU has never received notice on suspicion of money laundering from attorneys. This is deemed to indicate lack of risk awareness within the legal profession, which can be a result of attorneys' compliance with the Money Laundering Act never being subjected to monitoring until now, and attorneys' consequently not receiving instruction or feedback from a regulator, as previously mentioned. There are indications that some attorneys do not satisfactorily carry out due diligence on customers. In addition, they do not gather information on the sources of money or purpose of transactions, which is the basis for analysing whether suspicious transactions are involved.

Risk classification

Despite the existence of mitigating factors like ample qualification requirements, the monitoring of the Icelandic Bar Associations of finances and the Code of Ethics, and risk of disbarment if attorneys lose their qualifications to practise law and thereby earning ability, the risk connected with money laundering in the work of attorneys is deemed **high**. The above classification comes mainly from the number of weaknesses present and lack of monitoring until now.

Accountants

Generally

Accounting firms, chartered accountants, tax advisers, and parties keeping books and seeing to bookkeeping services for third parties for pay are parties subject to mandatory reporting in the meaning of the Anti-money Laundering Act. The discussion below is only about chartered accountants.

According to the Chartered Accountants Act no. 79/2008, only those having obtained a permit from the Ministry of Industries and Innovation are authorised to use the words "chartered accountant" and "auditing" in their work or firm's name.

The statutory conditions for using the job title "chartered accountant" include:

- Being of legal capacity to enter into binding contracts and having had control of one's estate the last three years.
- Not having a judgement entered for a criminal act where punishment was at least four months' imprisonment without parole or SECURITY SUPERVISION (ÖRYGGISGÆSLA ???) if he had reached the age of 18 when the offence was perpetrated unless five years have passed since the punishment was fully completed.
- Having completed a Master's degree in auditing and accounting that is recognised by the Council of Chartered Accountants.
- Having passed a special examination to acquire auditing rights.
- Having worked at least three years under the tutelage of a chartered accountant with auditing annual financial statements and other accounting at an accounting firm.
- Having professional liability insurance.

The conditions for registration of an accountancy firm are that the majority of voting rights is in the hands of chartered accountants or accountancy firms that are recognised in the European Economic Area or in member states of the Memorandum of Association of the European Free Trade Association or in the Faeroe Islands, that a majority of directors are chartered accountants or representatives of accountancy firms, that the accountancy firm has a formal quality control system, and that it is assured that the names and addresses of the firm's owners are accessible to the public.

The number of chartered accountants in Iceland is 315, and there are 30 registered accountancy firms. However, chartered accountants may work independently, without connections with an accountancy firm. No information is available on how many chartered accountants have rights to audit.

According to Act no. 79/2008, chartered accountants are obligated to be members of the chartered accountants' professional association, the Association of Chartered Accountants (ACA). ACA's role is to promote professional development in auditing and related areas. According to law, ACA, in consultation with the Council of Chartered Accountants, shall set a code of ethics for chartered accountants after obtaining the minister's confirmation, regularly see to it that courses are held that meet the requirements for continuing education, maintain a record of chartered accountants' continuing education, see to implementation of quality control for chartered accountants' work, maintain a record of chartered accountants' valid professional liability insurance, and maintain a record of employees in job training.

According to the directions of Act no. 79/2008, the Council of Chartered Accountants sees to monitoring chartered accountants. The Council is an independent administrative committee. The role of the Council of Chartered Accountants is to monitor that chartered accountants and accountancy firms do their work in accordance with the provisions of Act no. 79/2008, ACA's Code of Ethics, and other rules applying to

chartered accountants' work. In particular, the Council of Chartered Accountants shall follow that chartered accountants fulfil the conditions for certification, that chartered accountants fulfil requirements for continuing education, that there is regular quality control of the work of chartered accountants and accountancy firms, and that there are a code of ethics and accountancy standards.

Until 1 January 2019, the Council of Chartered Accountants monitored whether chartered accountants were careful to follow the instructions in the Act on anti-money laundering and anti-terrorist financing. However, this function has shifted to the Directorate of Internal Revenue.

Weaknesses

Parties may misuse the services of chartered accountants to lend unlawful transactions or operations a lawful appearance, e.g., by getting chartered accountants to attend to various transactions on their behalf or provide services falling under the Anti-money Laundering Act. There is also a risk that with the involvement of these parties, the plan is to conceal the actual ownership of companies and unlawful gain, particularly funds related to tax evasion. In addition, there is always risk that a chartered accountant will be dependent on his client.

The tasks entailing increased risk are mainly:

- Business with parties in a risk group.
- Involvement in risky transactions, e.g., across borders.
- Difficulty in discerning actual ownership.
- Services with associated companies/parties.
- Assistance in the founding of a company.
- Assistance with companies' bookkeeping and tax returns.
- Clients are parties to operations engaging heavily in cash transactions.
- Assistance with increasing share capital, possibly involving high sums.
- Management of funds' funds.
- Endorsements of companies' accounts.

The FIU has received few notices of suspicions from chartered accountants, indicating lack of risk consciousness amongst chartered accountants. On the other hand, the Council of Chartered Accountants has made purposive efforts to increase monitoring of chartered accountants, and the last two years the emphasis has been on money laundering. On the whole, this monitoring indicates close compliance with the Money Laundering Act. Despite this, indications are that chartered accountants are not sufficiently cautious when endorsing accounts, that they overlook related parties and reputation when analysing whether suspicious transactions are involved.

Risk classification

Despite the existence of mitigating factors like ample qualification requirements, regular quality control, a code of ethics and the risk of losing their licences, chartered accountants' qualifications for auditing, the risk related to money laundering in chartered accounting work is regarded as **significant**. The above classification relates mainly to the number of weaknesses present.

Realtors

Generally

Being a realtor in Iceland requires a licence. Only those having a licence from a district commissioner, cf. Art. 2 of Act no. 70/2015, may represent others in purchasing, selling or exchanging real estate. An exception to this is that people are allowed to sell their own real estate without the involvement of a realtor.

There are strict conditions for granting a licence, such as that the person involved has completed a specific course, acquired work experience, has legal capacity to enter into binding contracts, and that the person involved has control over his own state, and has not been sentenced to punishment for violations of specified chapters of the General Penal Code. The license granter monitors fulfilment of the certification conditions, the granting of the permit, its surrender and reissue. The law allows closing an office if the operations entail the sale of real estate by an unlicensed party.

Until 1 January 2019, the Realtors Surveillance Committee monitored whether realtors observed the instructions in the Act on anti-money laundering and anti-terrorist financing. However, this monitoring has shifted to the Directorate of Internal Revenue. The Realtors Surveillance Committee will continue monitoring realtors work procedures.

There is an organised interest group for realtors, The Realtors Association. Being a member of this association is not mandatory, unlike what applies to attorneys and chartered accountants. The Association members number 280 of the 512 chartered accountants. The association sees to training its members, including regarding money laundering and setting a code of ethics.

At the start of 2018, there were 440 realtors and 512 at the start of 2019. In 2017, the total real estate transactions amounted to ISK 507 billion in 12,100 purchase agreements. A year later, there were 12,500 registered purchase agreements, worth ISK 550 billion.

Weaknesses

There are possibilities for laundering unlawful gain through real estate transactions, including where the cost is low, and the magnitude of real estate transactions is great regarding both the number and the amounts. It is easy to conceal assets when real estate is transferred into a company founded for the sole purpose of handling the relevant real estate. Known ways include selling an asset at a price below the market value, paying part of the purchase price in cash, even so that payment in part is nowhere stated, as well as when the same asset changes owners often. The main weaknesses are:

- The magnitude of real estate transactions is great.
- Criminals require little expertise to launder unlawful gain through real estate transactions.
- Payment of the purchase price with cash.
- Lack of risk awareness amongst realtors.
- Lack of education.
- Real estate transactions where a company is the buyer or seller.

The FIU has received one notice of suspicion from realtors, which indicates lack of awareness within the occupation. Basic monitoring of realtors' operations, including anti-money laundering and anti-terrorist financing measures, has in recent years been seen to by the Realtors Surveillance Committee. The committee has emphasised purposive efforts to employ anti-money laundering monitoring. Nevertheless, it is necessary to increase monitoring of money laundering. Indications have surfaced that some realtors do not exercise due diligence; however, a reliability survey along with information on the origin of funds

and the purpose of transactions is the basis for analysing whether suspicious transactions are involved.

Risk classification

Despite there being mitigating factors like ample qualification requirements for realtors and their operating methods being defined by law, the threats and weaknesses in connection with real estate transactions are numerous, resulting in the risk of such transactions being **significant**.

Ship brokers

Generally

The same rules applying to realtors apply to ship brokers, and reference is made to the discussion of realtors regarding certification, qualifications, permits, and monitoring.

There are less than 10 ship brokers operating in Iceland. Most of them are solo brokers. Ship brokers in Iceland are generally involved only in instances where the sale of fishing vessels is involved. There are not many instances where ship brokers see to the sale of pleasure boats that do not fish commercially even though registration is mandatory for such boats.

The sales market for ships may be divided into two parts. On one hand, there are smaller fishing boats, small motorboats and small boats, which usually all have fishing permits/catch authorisations and are located in Iceland. On the other hand, there are sales of bigger vessels in the country, which usually also have fishing permits/catch authorisation, or larger ships that are located abroad. The sale of large fishing ships mostly goes on abroad, and the involvement of Icelandic ship brokers varies for such transactions. However, this involves consultation or intermediation between a buyer and seller.

Payments regarding ship brokerage do not usually go through a ship broker's custodial account, but rather parties pay directly to each other through banking institutions. However, ship brokers may need to intervene to keep part of the purchase price secure in their custodial fund, i.e., security of 10% of the purchase price, until examination and purchase are completed. This pertains specially to selling ships between countries. This occurs with assistance from banking institutions, and payments are traceable.

The Icelandic Transport Authority publishes the Icelandic International Ship Register, which contains the registration of ships subject to mandatory registration, including initial registrations, re-registrations, de-registrations, etc. For this reason, the Icelandic Transport Authority also monitors ownership, including a legal person's purchase of a ship owned by a foreign party. In all instances, ownership ought to be traceable. The existence of foreign customers is confirmed by information from the Register of Companies and the relevant party's agent, who a district commissioner certifies as a notary public.

Weaknesses

The main weakness related to ship brokerage is lack of risk aware ship brokers.

Risk classification

There are no known examples of brokers being used to launder money. There are few parties seeing to ship brokerage, and the magnitude of transactions in terms of numbers is small. Having considered all the above, the risk related to ship brokerage is **low**.

GAMBLING

According to Art. 183 of the General Penal Code no. 19/1940, gambling is forbidden in Iceland, and someone engaging in gambling or betting as a business or getting others to participate in it can be fined or imprisoned for up to 1 year. Despite this, it is allowed to operate various activities in the country having characteristics of gambling. There the main activities are lotteries, lotto, bingo, betting and slot machines. One main characteristic of the above activities is that all profit shall go to charity. The sections below will discuss these activities with respect to assessed risk of their being misused for the purpose of laundering unlawful gain. The discussion considers the above classification. In addition, the section will discuss gambling on the Internet in the same context. In analysing the activities, reference was made to answers on questionnaires sent to relevant parties, information from LEA and the FIU, and appropriate legislation.

Betting

Generally

Iceland offers two kinds of betting—on one hand, the Strip (“Lengjan”) and, on the other hand, 1x2. Both games are related to betting since people guess the outcome of sports matches, e.g., the winner, number of goals or the last goal. The operator of both types is Íslenskar getraunir (Icelandic Sweepstakes), which was founded on the basis of the Act on sweepstakes no. 59/1972. The aim of the company's operations is to collect money to support the practice of sports organised by sports enthusiasts in Iceland in association with the Youth Association of Iceland or the Iceland Sports Federation. All proceeds go toward building up these activities.

People can buy tickets on either the Internet, on the operator's website, or at recognised sales agents, of which there are 230. To buy tickets on the Internet, requires registering for access and connecting it with a payment card. Purchase on the Internet is therefore only possible with a recognised payment card. Purchase of tickets at a sales agent is possible with either a payment card or cash. Winnings exceeding ISK 25,000 are only paid out by the operator and require the person with a winning ticket to provide information on his name, National ID, address, and bank account, for winnings are only paid into a bank account of the winning ticket holder. Consequently, the operator can monitor whether the same individual is repeatedly redeeming winnings.

Weaknesses

The weaknesses regarding betting operations are:

- The number of sales agents.
- Lack of risk aware operators.
- A high winning percentage.
- Lack of monitoring anti-money laundering measures.

Risk classification

There is considerable accessibility to betting, and it is relatively easy to adopt its rules. Betting operations in Iceland are uniform and only allowed for Icelandic Sweepstakes, cf. Act no. 59/1972 on sweepstakes. The operations of Icelandic Sweepstakes come under the Act on Anti-money Laundering and Anti-terrorist Financing. All winnings beyond a low amount are only paid out at operators, and information on a National ID and bank account is required to get payment of winnings. The result of this is that an operator can extract from his systems information on winnings paid out to a specific National ID. All actions in Icelandic Sweepstakes' systems are recorded, and if irregular movements come to light, it is easy to trace and examine them more closely. Few cases related to betting have come under examination by LEA, and there are no known cases related to fiddling of the outcomes. The risk related to betting is **medium**.

Lotteries

Generally

Lotteries are one kind of gambling where the holder of a winning ticket is selected in a random draw. Lotteries, which are discussed here, are "ticket lotteries", i.e., a participant buys a numbered series of lottery tickets, and if his number is drawn, he wins something. Ticket lotteries fall into two categories.

Ticket lotteries operating under a special act

Three lotteries fall into this category: Lotteries of the University of Iceland (UI), Lotteries of Elderly Fishermen (DAS) and Lotteries of the Federation of Icelandic Tuberculosis Patients (SÍBS). Winnings in these lotteries are money winnings. As with other gambling allowed in Iceland, the proceeds go to the operations of lotteries for charity.

The total turnover in 2017 for the three lotteries was ISK 1.7 billion; ISK 768.5 million was paid in winnings. Lottery tickets in this category are sold to parties specified by name, i.e., purchasers must provide a name and National ID when buying tickets, and tickets are generally subscription tickets.

The organisation of these lottery operators is statutorily determined, and there is precise monitoring of drawings and their finances.

Ticket lotteries operating under the Law of Lotteries

Such lotteries must apply to the District Commissioner of South Iceland for a permit. The permit may be issued to a company, association or institution domiciled in the European Economic Area and only for the purpose of raising money for the public good in Iceland as well as national, charitable, cultural, sports works or charities, as well as international humanitarian work. In 2017, 32 permits were issued.

Winnings in these lotteries are only products or services, such as automobiles, trips, household appliances or other inexpensive products. The total turnover of these lotteries in 2017 was ISK 465 million, ISK 335 million was paid in winnings. These lotteries are obligated to submit reports or accounts on their operations to the district commissioner, which sees to monitoring the Law on Lotteries.

Weaknesses

The weaknesses that have been identified regarding lotteries are:

- Lack of risk awareness.
- Lack of monitoring anti-money laundering and anti-terrorist financing measures.

Risk classification

There are no indications that lotteries discussed here have or may in future be used to launder money since no cases connected with money laundering have been examined at the FIU or LEA. Lotteries appear not to be a desirable way to launder money, because of the existing protective measures for lotteries under special acts, such as that winning is based on luck; all tickets are registered to a name, low winnings, detailed safeguards against cheating during drawings, and detailed rules on the organisation and finances of operators. Regarding other lotteries, winnings also build on luck, and winnings are products, where the highest winnings can be vehicles, but generally the value of other winnings is much lower. Considering the above, the risk regarding lotteries is **low**.

Lotto

Generally

Three kinds of lotto are operated in Iceland: Lotto, Vikingalotto and Eurojackpot. In the games, a participant chooses 5 figures (Lotto), 6 figures (Vikingalotto) or 7 figures (Eurojackpot). Participants can also buy "system tickets" where it is possible to increase the chances of winning considerably by buying additional figures. The drawings are weekly in all the lotto games, and the figures are random.

The operator of all kinds of lotto games is *Íslensk getspá*, which operates under the Act on Numbers Lotteries no. 26/1986. The National Olympic and Sports Association of Iceland owns 46.67% of *Íslensk getspá*, the Organisation of the Disabled in Iceland owns 40%, and the Youth Association of Iceland owns 13.33%. The proceeds of the operations of *Íslensk getspá* shall be earmarked for the strengthening of sports organised by sports enthusiasts in the country in associations under the umbrella of the National Olympic and Sports Association of Iceland and the Youth Association of Iceland. The proceeds are also intended to pay the initial cost of housing for disabled people under the auspices of the Organisation of the Disabled in Iceland or to support other activities of the organisation for the benefit of disabled people.

Tickets are sold in numerous sales locations throughout Iceland, such as kiosks, stores, petrol stations and other comparable locations, as well as on the Internet on the operator's homepage. Tickets can be purchased at sales locations whether with cash or payment card. Prizes of up to ISK 25,000 are paid out at sales locations against presentation of winning tickets, while higher winnings will be redeemed at the operator. The statistical probability of a first prize is low, cf. Art. 13 of Regulation no. 1170/2012, as amended. Winnings other than the first prize are generally low. The total turnover of lotto games in 2017 was ISK 3.87 billion, and the value of winnings was ISK 1.08 billion.

Weaknesses

The weaknesses that have been identified regarding lotto are the same as have been reported regarding lotteries, which are:

- Lack of risk awareness.
- Lack of monitoring anti-money laundering and anti-terrorist financing measures.

Risk classification

The FIU has received no STR regarding money laundering through lotto. LEA searches have never found winning tickets in lotto, nor has there been suspicion of misuse of lotto in connection with money laundering. Considering an overall assessment of the operations environment, the probability of winning, the winnings ratio, and weaknesses, it is not deemed likely that lotto is misused to launder money. Even though accessibility is easy, and no special knowledge is required to participate, the winnings ratio is so low and random that it is nearly impossible to launder money by participating. The regulatory scheme applying to operators substantially reduces the probability that a criminal organisation or criminals will get control or ownership of them. Detailed annual evaluation also considerably reduces the risk of misuse. Purchase of a winning ticket is nearly ruled out. Consequently, risk connected with lotto is **low**.

Collection boxes and lottery machines

Generally

The operators of collection boxes are Íslandsspil ehf. and the University of Iceland's Lottery (UIL). The operations build on statutory authorisation, cf. Act on collection boxes no. 73/1994 and Act on lotteries of the University of Iceland no. 13/1973. It is statutorily determined how to spend the proceeds from the income derived from the operation of collection boxes. No other parties are unauthorised to operate collection boxes or lotteries in Iceland.

It is only possible to play collection boxes with cash or for winning tickets. It is possible to load up to the maximum of ISK 100,000 on a single collection box. However, it is possible to repeat this as often as one wants. It is possible to print out winning tickets without having played, or if few games have been played.

Neither Iceland ehf. nor UIL have a special requirement regarding operators' reputations. There are a few instances where agreements with operators have been formally cancelled, and this was because of arrears or violations of rules, e.g., when youths have gotten to play the boxes. There are no rules on the pay-outs of winnings at gaming sites, i.e., whether payment is made with cash or digitally, but it is commonest for winnings to be paid out in cash. No due diligence is done on winners when a gaming site pays out winnings except for requiring a domestic bank account and National ID when winnings are paid digitally. There is no upper limit regarding the winnings that gaming sites may pay out, but if very high winnings are involved, and a gaming site does not have that much money, the winner must redeem the winnings from the operator, which pays about 80-90% of winnings digitally.

There are 28 gaming sites for the University of Iceland (UI) lotto machines. They are mainly in Greater Reykjavik and are either bars or special casinos. There are 493 lottery machines in use. Íslandsspil ehf. has 76 gaming locations with collection boxes. They are mainly in Greater Reykjavik and are either bars or special casinos. There are 379 collection boxes in use.

The total turnover of collection boxes in 2017 was ISK 11.74 billion. The winnings paid out that year were ISK 8.1 billion.

Weaknesses

Considerable accessibility to collection boxes, where the only payment method is cash, is a weakness. The magnitude of turnover is important since the annual turnover is more than in all other types of gambling combined. This could indicate that collection boxes are used to launder unlawful gain. Not requiring collection box sites to have a good reputation is a serious weakness because of their accessibility for purchasing lottery tickets. The main weaknesses are:

- Magnitude of risk regarding both the number and turnover of collection boxes.
- Lack of risk aware operators.
- Lack of monitoring anti-money laundering and anti-terrorist financing measures.
- Lack of education.
- No requirement for good reputation of operators and employees of gaming locations.
- Use of cash.
- Possibility of loading in cash and then printing out lottery tickets without playing or playing few games.
- Accessibility of gaming sites and other places to purchase lottery tickets.
- Players' anonymity.

Risk classification

There is considerable risk that collection boxes can be used for laundering money. Money laundering with collection boxes does not require expertise, special preparation or expense. The number of notices to the FIU has increased the last two years, and the suspicion is that this channel has been repeatedly used for laundering. According to the above, the risk connected with collection boxes is **high**.

Bingo

Generally

Bingo is a game based on luck, where a participant uses a bingo ticket (paper or digital) having 24 figures. The game has various versions. For example, the game is played on the entire card, on one or more lines horizontal or four corners. The bingo caller draws out random numbers, and the first one to get all the numbers in the game system being played each time gets bingo and the prize being played for.

Bingo is deemed to be one category of lotteries and consequently falls under the Act on lotteries no. 38/2005. Bingo winnings are generally low and are either products or gift certificates since offering money prizes in bingo is forbidden. Chance alone determines the outcome. The District Commissioner of South Iceland issued two licences for bingo lotteries in 2017. The same conditions apply to the issue of a permit for bingo as for lotteries, which operate in accordance with the Law on Lotteries.

Weaknesses

The weaknesses regarding bingo are comparable to those applying to lotteries and lotto—bingo operators have not received instruction on money laundering, and their risk awareness is therefore low.

Risk classification

Bingo is a uniform activity in the hands of the few operators and only authorised for those having a licence from the District Commissioner of South Iceland. The probability of winning is low, and according to the Law on Lotteries, there can be no cash prizes. There are no indications that this game has been used to launder unlawful gain. The above leads to the conclusion that the risk in these evaluation factors is **low**.

Internet gambling

Generally

Gambling on the Internet means all kinds of gambling possible to do on the Internet without personally meeting sellers. The gambling possible to do electronically on Icelandic web pages is lotteries, betting and lotto as the discussion of these assessment elements describes.

To participate in the above gambling, a player must identify himself specifically, cf. the following:

- Purchase of lottery tickets from UI, DAS and DIBS goes through the operator's website. Buying tickets requires opening access for a valid National ID and connecting a bank account or payment card associated with the National ID involved. Winnings are only paid out to a registered ticket order.
- It is possible to place bets and participate in lotto through an operator's website. A player needs to open a gaming account for a valid National ID (it is only possible to register the same National ID once) and link a payment card to the gaming account associated with it. Winnings are only paid out to the party having the relevant National ID.

It is possible to access all kinds of gambling on foreign web pages, whether poker, betting, lotto, or collection boxes are involved. Information on the magnitude of such participation is not available, but considering that 99% of Icelanders between the ages of 16 and 74 use the Internet (which is the most usage in European countries), one can deem it likely that some of them engage in gambling on foreign websites.

Weaknesses

Weaknesses linked to gambling on the Internet are comparable to those pertaining to lotteries, lotto and gambling, which are:

- Lack of risk-aware operators.
- Lack of monitoring anti-money laundering and anti-terrorist financing measures.
- Lack of education.

Icelanders have access to foreign websites with gambling, but parties offering these services are not subject to Icelandic law and are beyond the jurisdiction of the Icelandic government. Weaknesses related to gambling on foreign websites involve winnings that are not declared as a tax basis and are therefore directly connected with tax fraud as a predicate offence.

Risk classification

There are no indications that gambling through Icelandic websites has been used to launder money, and no cases of this nature have involved LEA. In assessing a risk, consideration is given to the low probability that participants can play anonymously, however after considering the discussion of the issue of National IDs for foreign persons. It is unlikely that gambling accounts are bought and sold since they do not entail direct value as withdrawals from them can only occur by transferring money into a bank account or payment card tied to the National ID registered to the gaming account. Considering all of the above, the risk related to gambling through Icelandic websites is deemed **low**.

TRADE AND SERVICES

The following two sections discuss the assessed risk of money laundering when it comes to trade and services. This involves a market, where using cash in great quantity may generally be anticipated. On one hand, products and services are generally examined. On the other hand, there is a separate discussion of the nature and characteristics of precious metals and gems. In the analysis, reference was made to answers on questionnaires sent to relevant parties, information from the Register of Companies, information from LEA and the FIU, and appropriate legislation and regulations.

Precious metals and gems

Generally

Here in Iceland, the retail, wholesale and design of imported precious metals and gems go on. In most instances, gems are bought from respected companies in Europe that have undergone the Kimberley Process Certification Scheme requiring a certificate of origin for diamonds. In addition, it is forbidden to import to Iceland raw diamonds from conflict areas.

Under Act no. 77/2002 on products processed from precious metals, such metals are defined as: "*[G]old containing 375 thousandths or more of pure gold, silver containing 800 thousandths or more of pure silver, platinum containing 850 thousandths or more of pure platinum and palladium containing 500 thousandths or more of pure palladium*". In addition, gems are defined as "*natural stones like diamonds, rubies, emeralds, sapphires, opals, and pearls*" on the homepage of the Consumer Agency.

Gold- and silversmithing is a statutorily protected trade, and therefore no one has a licence to ply that trade unless having a journeyman's or master's certificate in it. Products processed from precious metals must be stamped, and the Consumer Agency monitors that. The market in Iceland for the sale of precious metals and gems was about ISK 6 billion per year the last three years, and the sales include quantities on watches, designed products, etc., that are sold in jewellery stores. In terms of gross national product, the market in Iceland is relatively small, i.e., about 0.23% of GNP.

Weaknesses

Considering gross national product, the market in Iceland for precious metals and gems is small. Precious metals and gems for resale are imported and therefore processed through customs, and the import into the country is recorded. According to customs authorities, the confiscation of precious metals and gems is relatively rare, and the value of the seized items is very low. The main weaknesses lies in precious metals and gems being used to launder unlawful gain because of their characteristics. That is, they are easy to smuggle because of their smallness. In Iceland, there is no limit on the use of cash or purchase of precious metals and gems. Therefore, there may also be a risk that sellers and buyers will be conscious or unaware participants in money laundering. In addition, sellers are often one-person operations and may find it difficult to fulfil their duties under the Act on Anti-money Laundering and Anti-terrorist Financing and do not even have sufficient knowledge in that field.

Risk classification

There has been little monitoring in Iceland of operators working in the relevant market. In addition, monitoring of products has been deficient. In addition, risk awareness is deemed low. The response rate to the questionnaire sent out was low, and it is therefore not possible to make decisive inferences based on replies to it. Offsetting this is that the operations are uniform, the magnitude of operations most often rather small, and the market very small by international comparison. In addition, the FIU has received very few notices, and few cases related to this category have generally come to the attention of LEA. Finally,

replies from sellers indicate that the percentage of cash transactions is low in Iceland. In light of the above and the existing weaknesses, risk in the market of precious metals and gems is deemed **medium**.

Products and services

Generally

Coming under consideration here are both purchases and sales of products and services. A market is involved, where we can generally expect that cash will be used in great measure. Regarding the legal framework, Act no. 50/2000 on the purchase of chattels applies to the extent that no other law directs another procedure. However, laws also apply to exchanges, as relevant. The act also applies to purchase orders and international purchases, with the special rules entailed in them. Regarding purchases of services, Act no. 42/2000 on purchases of services applies. According to Art. 1 of the act, it covers any kind of agreement on the purchase of services offered to consumers for work purposes against payment, and when services are provided, they include the work and services stated in the provision.

Act no. 48/2003 governs consumer purchases. It applies to such purchases to the extent that other law does not direct another procedure. Consumer purchases mean the sale of an item to a consumer when a seller or his agent derives work from the sale, while a consumer, in the meaning of the act, is someone who buys an item in his individual capacity. Regarding trade for work purposes, the Merchants and Trade Act no. 28/1998 applies, whether the work is done on one's own account or another person's account or in one's own name or in another person's name. "Trade" means any kind of mediation regarding the transfer of a direct ownership right in chattels. However, the act does not cover special provisions of other acts setting special conditions regarding specific products or industries.

According to Statistics Iceland, the total import of goods to Iceland in 2018 was ISK 828 billion. Iceland's total trade in 2017 was more than ISK 456 billion, and it is anticipated that trade in 2018 will be 10% more, i.e., about ISK 490 billion. Private consumption in the country totalled more than ISK 1422 billion. Services are not specifically defined. In 2018, however, postal, telephone, other personal, social, and financial services amounted to nearly ISK 200 billion.

There are no restrictions in effect in Iceland for cash transactions. According to a report in 2018 from the Central Bank of Iceland on Financial Infrastructure, circulating cash in the country continues to grow despite the increase of electronic payment arrangements. A risk assessment of the EU states that some research shows that cash payments have decreased since last year, and this seems to be consistent with information on the growth of electronic payment options. Thus, it emerges in data from the European Central Bank that 87% of all transactions, where the amount is less than €20, are in cash.

In markets where transactions using cash are frequent, there is a risk that criminals will try to launder profit from illegal activities by mixing such funds into lawful activities occurring with sales of products and services. In that regard, it must be kept in mind, on one hand, the ties between such transactions and tax fraud as a predicate offence and, on the other hand, the use of cash, discussed in other sections of the risk assessment.

Weaknesses

There is a risk that criminals and parties tied to organised criminal activities will start up operations or utilise trade or service ties to launder unlawful gain or use it to purchase products or services. It is usually deemed easy for criminals to move ill-gotten money into circulation through trade and service operations. There is an additional risk that relevant sales parties and service providers, especially smaller parties, will not do a risk assessment or due diligence, or will not tend to their duties when cash exceeding €10,000 is involved.

Unavoidably, an assessment of risk in trade and service operations is linked with the use of cash, and these

factors are intertwined to a great degree since there are few restrictions on the use of cash in Iceland. Trade and service operations make it easier for criminals to book cash and anonymous entries under €10,000 since traceability of the entries is seldom required.

Classification

Until 2019, there was little monitoring of sales parties regarding anti-money laundering measures, and, as a consequence, there was probably a lack of risk awareness. Figures from the Central Bank of Iceland show that the use of cash as a percentage of the gross national product more than doubled since 2008. On the other hand, sales parties' limited responses to questionnaires sent out to them show that there was little use of cash. Despite the existence of mitigating factors like few notices to the FIU, the risk of money laundering in the field of trade in services is deemed to be **significant**.

OTHER

The sections below examine possible weaknesses linked to money laundering in three specific instances. The first instance involves discussion of the abolition of capital controls; the second scrutinises weaknesses related to the increase in the number of tourists to Iceland, and the third discusses ID numbers for foreign persons that foreign citizens can get issued regarding special interests in this country. In the analysis and the following risk classification, reference was made to answers on questionnaires sent to relevant parties, information and reports from institutions and other governmental parties, information from LEA and the FIU, and appropriate legislation.

Abolition of capital controls

Generally

The outflow of foreign currency in the wake of the banking collapse led to the imposition of financial controls late in 2008 in collaboration with the International Monetary Fund. The controls restricted accessibility of the public and companies to foreign currency. Substantial restrictions were set on the purchase and export of foreign currency, and people generally had to apply to the Central Bank for a permit regarding capital movements. However, it was still possible to trade abroad in goods and services and pay for them with an Icelandic payment card. Special restrictions were imposed on foreign currency for tourists, and it was only possible to purchase a certain amount of foreign currency by presenting a ticket.

Special monitoring of capital movements into and out of the country was established in the Central Bank. This entailed:

- The Central Bank requiring mandatory notice of the purchase and sale of foreign currency for kronur regarding both cash transactions and other transactions.
- Capital movements between countries in Icelandic kronur and foreign currency required mandatory notice to Central Bank of Iceland, which monitored them in accordance with the Act on Foreign Currency and rules set on its basis.

Despite the aim of capital controls not being connected with anti-money laundering and anti-terrorist financing measures, it is clear that the restrictions on capital movements between countries established by imposing the restrictions substantially affected the possibility of parties getting unlawful gain across borders. The abolition of foreign currency restrictions came in several steps, where restrictions were relaxed in October 2016 and again in January 2017 until the capital restrictions were mostly abolished in March 2017.

The total purchase of foreign currency in 2016, with the exception of transfers of foreign currency, was ISK 51.8 billion, compared to ISK 55.7 billion the following year. Foreign currency purchases by legal persons contracted slightly between the years, but foreign currency purchases by individuals grew by ISK 4.4 billion. The increase was mainly due to the purchase of euros. This could be due to normal explanations, such as increase in travel abroad and savings in foreign currency. It must be kept in mind that if the intention is to get unlawful gain out of Iceland to other states, it generally requires converting Icelandic kronur into another currency before transporting them out of the country since the market in another country for Icelandic kronur is considerably limited.

Weaknesses

The weaknesses of these factors directly relate to the weaknesses deriving from the discussion of transporting funds between countries. Notices to the FIU related to foreign currency transactions have

multiplied after the abolition of capital controls and the magnitude of the amounts related to these notices is considerable. The main weaknesses related to the purchase and sale of foreign currency after abolishing foreign currency restrictions are:

- Increased accessibility of foreign currency.
- The number of ways to move funds out of the country.
- Greater number of government cases regarding foreign currency transactions.
- Substantial increase in foreign currency purchases by individual with cash.
- Lack of education for customs authorities on methods for moving funds out of the country.

Risk classification

There is substantial risk that foreign currency will be used to launder unlawful gain from criminal activities. The accessibility of foreign currency is considerable, and there are no limits on how much currency is possible to take out each time. In this context, an increase in individuals' purchase of foreign currency and lack of instruction for customs authorities on methods for moving funds out of the country are important, whether it is by mail, cargo shipments or people. For the above reasons, the risk in this area of assessment is deemed **high**.

Increased number of tourists

Generally

The number of tourist arrivals increased substantially following the banking collapse in fall 2008. The reasons for this may be deemed traceable to several factors. First, the banking collapse sparked a substantial increase in the international discussion of Iceland, and, in the wake, the Icelandic krona's exchange rate fell. This resulted in trips to Iceland and trade becoming much more economical than before. Second, the Icelandic Government launched a campaign presenting Iceland as a tourist destination called *Inspired by Iceland* and last, but not least, an eruption started in Eyjafjallajökull Glacier that disrupted flight traffic around the world and provoked substantial international discussion of Iceland.

A tourist, in the sense discussed here, means a party from another country with foreign national IDs came to Iceland for their own or a business purpose. Outside this discussion fall parties applying for international protection, itinerant workers and others temporarily working in Iceland. Also, outside the discussion are transfer passengers.

In 2017, nearly 2.2 million tourists visited the country. This is more than six times the local population. The number of tourists in the period 2013-2017 increased as follows:

Increase in tourists year-on-year	2013-14	2014-15	2015-16	2016-17
	24%	30%	40%	24%

Information was gathered on the offences of tourists during these years, broken down by offence category, i.e., criminal offences, offences against special criminal acts, and traffic offences. The number of tourist offences has increased in recent years. The number of offences in each category in the period 2013-2017 is as follows:

Increase in tourist criminal offences	2013-14	2014-15	2015-16	2016-17
	23%	46%	40%	75%

Increase in tourist special criminal offences	2013-14	2014-15	2015-16	2016-17
	5%	30%	5%	92%

Increase in tourist traffic offences	2013-14	2014-15	2015-16	2016-17
	59%	35%	85%	29%

The increase of offences in all three categories has considerably exceeded the increase the number of tourists. The greatest increase in numbers has been in the category of traffic violations, mainly regarding driving speed and drivers. The category of greatest importance in the context of the risk assessment is

violations that can be predicate offences of money laundering, most of which are criminal offences, in addition to a number of special criminal offences, such as drugs violations and violations of the Customs Law.

In the category of criminal violations, the increase was greatest in enrichment violations and forgery. The increase of enrichment violations can mostly be traced to "itinerant offenders", which the section on predicate offences discusses in greater detail. The increase in forgery mainly involves forgery of travel papers, on one hand, parties seeking international protection, and, on the other hand, forgers of identity papers deemed to be itinerant offenders. Violations of special criminal acts mostly involve violations of the Foreign Nationals Act, such as refusal of entry, application for international protection, passports and rights to work, in addition to offences against the Act on Habit-forming and Narcotic Substances.

After correcting for offences of parties deemed to be itinerant offenders and parties applying for international protection, tourist offences are mainly traffic violations, and there driving speed is by far the most common offence.

Weaknesses

The increased number of tourists alone, in the quantity in Iceland in recent years, is a weakness since there has been no corresponding increase in police and customs officers.

Risk classification

The FIU has not gotten notices of suspicious entries on tourists, and the LEA has not handled any cases in this regard. There are therefore no indications regarding tourists, as defined in this assessment factor, linked to money laundering, regarding either predicate offences or money laundering in the country. Tourist-related risk is deemed **low**.

ID nos. for foreign persons

Generally

All individuals living in Iceland are registered in Registers Iceland and must have a 10-digit ID number. Foreign citizens can, because of special interests in Iceland, get an "ID no. for foreign persons" (previously *outsider's ID no.*). This involves an identifier issued for administrative use regarding individuals not requiring registration, or fulfilling conditions for registration, in Registers Iceland. Based on current law and rules, both governments and legal persons can be intermediaries regarding registration of an ID no. for foreign persons. Those utilising ID nos. for foreign persons are:

- Foreign employees receiving wages in Iceland for temporary work.
- Foreign students.
- Employees of embassies.
- Individuals sitting on boards of directors of Icelandic companies.
- Individuals accepting some kind of payments from Iceland, e.g., because of pensions.

All instances, therefore, involve individuals not domiciled in Iceland. If an individual requires an ID no. for foreign persons, he must turn to an intermediary regarding his stay in the country, such as an employer or financial institution, and that party in turn applies to Registers Iceland for registration. A photocopy of a passport or recognised travel documents shall accompany the application.

The difference in the issue of an ID no. for foreign persons, on one hand, and a traditional National ID no., on the other hand, is that there are different requirements for identification. Thus, an individual getting an ID no. for foreign persons does not need to identify himself and present a passport or other valid travel papers, but rather the party applying makes a copy of the individual's identity papers. It is a fact that, in some instances, the person involved never resides in Iceland and has never come to the country.

According to information from the register of ID nos. maintained by Registers Iceland, most applications for ID nos. for foreign persons regard citizens of the EEA, as well as countries in East Europe (61% in 2016 at 70% in 2017). Few applications regarding individuals are from states deemed to be risky states, i.e., 0.2% of the main states both years. Most applications regard work (74% in 2016 and 79% in 2017), and the biggest group of applicants in this regard are employers. The total number of applications for ID nos. for foreign persons was 9527 in 2016 and 13,353 in 2017. Of them, the percentages of applications refused were 6% in 2016 and 9% in 2017.

An issued ID no. for foreign persons actually grants no official rights in Iceland, for example, for residing longer than 3-6 months, payments from the Social Insurance system or any other such rights. On the other hand, an individual with an ID no for foreign persons can, for example, establish a bank account, acquire electronic identity papers, found a company and purchase real estate. Thus, there are examples of ID nos. for foreign persons that have been used to found and operate private limited companies, and ID nos. for foreign persons are also registered for more than 550 pieces of real estate in the country.

Considering how an application for and issue of an ID no. for foreign persons is organised, it is worth considering the cases that have arisen regarding forgery of identity papers. Considering information from the police in Sudurnes on people presenting forged identity papers upon arrival in Iceland, instances of this have increased at least since 2013 and possibly as far back as 2007. The record number of falsified document cases was 2018. A partial explanation for this number of cases was the increased number of passengers passing through the flight terminal. However, other explanations come from external factors. The number of forged personal paper cases coming up inside the country has also increased, for example, at Registers Iceland and the police cases in Greater Reykjavik.

There is apparently no connection between nationality of the individuals applying for an ID no. for foreign persons and the nationality of those discovered with forged identity papers. According to the above, on the other hand, there is an increase in the number of both applications for ID nos. for foreign persons and the number of cases coming up regarding forged identity papers. In addition, there are known cases of applications for an ID no. for foreign persons based on forged identity papers.

There is a parliamentary bill on the registration of individuals that ought to replace the Act on Registers Iceland and Census Act no. 54/1962. The parliamentary bill defines an ID no. for foreign persons as a "unique identifier for individuals, issued for individuals by the government regarding individuals not requiring, or not fulfilling, the condition for registration in Registers Iceland". In addition, the bill enables foreign citizens, because of special interests in Iceland, to obtain an ID no for foreign persons at Registers Iceland, and the central government authorities can intermediate regarding its registration.

The bill's explanatory notes state, among other things, that an ID no. for foreign persons is thus intended to enable a person in the country with special interests to obtain an ID no. or foreign persons. No rights attach to an ID no. for foreign persons, and this therefore only facilitates people's access to specified services like healthcare services. Furthermore, the bill proposes an innovation that only the central government authorities can intermediate to establish an ID no. for foreign persons, and therefore financial institutions and other private parties can no longer establish such National ID nos.

Weaknesses

Financial institutions and private parties can relatively easily establish a National ID no. for foreign persons. This poses a risk that an ID no. for foreign persons will be established, based on forged identity papers for the purpose of concealing the actual origin of the relevant person or even "creating" an individual within the system that does not actually exist. As soon as such a National ID no. is established, a bank account based on it can be created that, depending on circumstances, can be utilised to launder unlawful gain.

Risk classification

Issuing National ID nos. for foreign persons, based on unsatisfactory information (for example, financial institutions and private parties that do not have specially qualified employees for the purpose of assessing the origin and lawfulness of identity papers) and with too many parties involved in their issue poses considerable risk. In addition, there is little monitoring of National ID nos. for foreign persons, and the law has no directions regarding this. Offsetting this is that the government has realised the problem in greater measure and is also actively on the lookout for forged identity papers. Considering this, the risk that National ID nos. for foreign persons will be used to launder money must be assessed as **significant**.

TERRORIST FINANCING

Terrorism is by nature a mass criminality, where various perpetrators or victims are a considerable number of people. Assessment of the threat from terrorist financing was done in broad cooperation with domestic law enforcement institutions, such as police services, customs control, and the FIU. In addition, information was gathered from foreign sister institutions, and the National Security Unit (NSU) of the NCIP commits to international collaboration with other law enforcement and security institutions having the aim of preventing terrorism, pursuing research in the issue category, and other things. Moreover, the NSU has various information about terrorist operations. Since 2008, the department has assessed and produced reports on threats posed by terrorism. The information was referred to during the risk assessment, as well as knowledge and expertise within the NSU.

Terrorist financing

Generally

In parallel with assessing the risk of money laundering, the threats and weaknesses related to terrorist financing were assessed as well. Even though there is not a direct association between these two factors, they can share various things in common since terrorist financing can be the fruit of criminal activities, e.g., unlawful gain from predicate offences of money laundering as well as habit-forming and narcotic substances and enrichment offences. Moreover, weaknesses related to these two things can be the same or comparable.

Likewise, much is different between these two factors. Unlike what generally applies to money laundering, the sums regarding terrorist financing can be low. Thus, the money used is obtained by whatever means, lawful or unlawful. Also, terrorist financing can go on in a state other than the one planned as the site for terrorist acts, and it is therefore not possible to rate these two things as equal. In a state where terrorist threat is low, a threat because of terrorist financing can be great and vice versa.

Since 2015, the threat of terrorism in Iceland has been assessed as medium, i.e., it has not generally been deemed possible to preclude the risk of terrorism regarding the domestic situation or world affairs. The premises for the category in the report of the NCIP from January 2017 include:

- General and chronic threat of terrorist associations in the West Fjords.
- Number of terrorist acts committed in Europe.
- In Nordic countries people are concerned over citizens returning home after taking part in battles and terrorist acts in Middle Eastern countries in the name of terrorist groups.
- Iceland's image of threat is different than in the other Nordic countries.
- The composition of a group seeking international protection is different than in other Nordic countries.
- Competition of protection seekers.
- No knowledge of groups or societies embracing violent extremism.
- Possible that organisation of terrorism goes on in Iceland intended to commit in another state.
- Information that in 2015 individuals with ties to a terrorist group came to the country and requested international protection, and that Iceland has been used as a "flow-through country" of people from North America on their way to and from taking part in battles in Middle Eastern countries.
- Iceland and other Western states are under chronic threat from the ability of terrorist groups to spread their propaganda on the Internet and social media for the purpose of encouraging terrorism.
- In Iceland, weapons are accessible to the public, and there is some number of them.

- In 2016, terrorists twice perpetrated mass murder in Europe without using traditional weapons. Risk of changed methods and other things

Threat Assessment 2019 of the NCIP is scheduled for release soon. It does not anticipate changes in risk classification for terrorist threats.

In carrying out the risk assessment, known methods of financing terrorists, which FATF has called attention to, were kept in mind. For example, low contributions from private parties or companies to terrorists, misuse of a company with no financial purpose that, for example, sends money to areas that are risky with respect to terrorism, use of profit from various kinds of criminal activities, or pressure of various kinds, kidnapping, legal trade operations and official contributions from a state. In addition, it is known that in transporting funds used for terrorist financing, methods are used like transfers from bank accounts, remittances and transport of cash between areas or countries.

The risk assessment also considered that Iceland is a homogeneous society with relatively few residents, where about 12.6% of them are of foreign origin. The frequency of crime is low. General LEA do not bear arms day-to-day. There is no military in the country, and Iceland has no special ties to states regarded as risky with respect to terrorist threat. No confirmed cases have come up in the country that are related to terrorist financing. The same applies to terrorist offences and support for such conduct.

The main premises for an evaluation of threat are as follows:

- No terrorism has been perpetrated in Iceland after the enactment of the current provisions on terrorism.
- There are no indications of terrorists or terrorist groups operating in Iceland.
- There are no indications that Icelandic terrorist groups are operating in other countries.
- There are no visible signs that a community of extremist religious and life stance associations has formed in Iceland
- There are no visible signs that leaders or influencers engage in or organise indoctrination of extremist ideology or urge terrorism.
- There are no indications of trips of foreign fighters from Iceland.
- The number of received and sent requests, based on international collaboration on sharing of information regarding terrorist financing, is very small.

Weaknesses

Despite no cases related to terrorist financing having come up, there are weaknesses. They relate rather to lack of information, monitoring, and instruction. The weaknesses are:

- Accessibility of foreign currency in the country is good after the abolition of capital controls in 2017, and it is easy to convert Icelandic kronur to foreign currency. In this respect, the weaknesses are comparable to those pertaining to money laundering that are discussed in the section on the abolition of capital controls.
- It is easy and simple to transport cash out of the country, and there is limited monitoring of that. To this extent, the weaknesses are comparable to those pertaining to money laundering in the discussion of the transport of cash to and from Iceland.
- It is possible to transfer cash between countries speedily with remittances, and there is little monitoring up to now of those operations. Therefore, the same weaknesses apply as those applying to money laundering in the discussion of remittances.
- There is a lack of oversight regarding public interest associations falling into the category of general associations and working across borders in states deemed risky or their neighbouring

states. There is no monitoring of these associations, and they have not received general instruction on how they could defend against their operations being misused for the purpose of terrorist financing. Government also lacks knowledge of this issue category, and there is little collaboration between institutions. It is a fact that no analysis has been done on the public interest associations operating across borders, i.e., who is organising those associations, how their finances and accounting are organised, whether and how they transport funds across borders and in what measure, to which states, and whether they implement due diligence. FATF considers public interest associations particularly sensitive to misuse in connection with terrorist financing. FATF member states have certain obligations to take precautionary measures against this. The risk assessment considers the above perspectives. These weaknesses therefore have more importance for the assessment of terrorist financing than money laundering.

Risk

Despite weaknesses, there are no examples in Iceland of terrorist financing or connections with such activities in other countries. Having considered the above, the risk of terrorist financing in Iceland is deemed to be **low/medium**.