Annex A

Republic of the Philippines
Anti-Money Laundering Council

Designated Non-Financial Businesses and Professions (DNFBPs)

2021 Risk Review on AMLC-Registered DNFBPs and an overview of the Risk-Based Supervisory Framework

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Introduction

Over the years, new trends have been used by money launderers and terrorism financiers to disguise the true source of revenues and conceal the purpose of funding activities. As a response to the increasing countermeasures adopted by governments and financial institutions, criminals resort to the use of non-financial entities, or Designated Non-Financial Business and Professions (DNFBPs) to continue their illegal practices. As an attractive channel for money laundering and terrorism financing, the risk of misuse of the DNFBPs sector, such as the use of gatekeepers to hide true ownership and control of illegal proceeds, the Financial Action Task Force (FATF) issued guidance for jurisdictions to include this sector under the Anti-Money Laundering and Counter Terrorism Financing (AML/CTF) regime, and develop and implement regulations to prevent or guard the sector against criminal financial activities.

FATF Recommendation 28 requires jurisdictions to regulate DNFBPs the same way as financial institutions, and adopt regulations tailored to the risks for each industry. Additionally, FATF issued Recommendation 1 on assessing Risks and applying a risk-based approach on supervision, and released the guidance on risk-based supervision to allow supervisors to focus on processes, according to its understanding of the risks, and effectively allocate its resources and adopt appropriate mechanisms to achieve effective AML/CTF supervision. The institutional measures and other means that jurisdictions use to apply risk-based supervision and enforcement should be tailored to each jurisdiction's context. This can include the existing institutional and regulatory framework (such as the prudential regulation of relevant sectors), the size and complexity of the regulated sectors and the degree of Money Laundering/Terrorism Financing (ML/TF) risks (including threats and vulnerabilities) to which they are exposed.[1]

The role of supervision in an AML/CTF framework is to supervise and monitor covered persons to ensure that their ML/TF risks are managed, and AML/CFT preventive measures are compliant with laws and regulations. Different jurisdictions adopt different measures to ensure compliance by supervised institutions.

This Report is an update on the risk and vulnerability assessment of the DNFBPs sector presenting the developments in the regulatory framework, as well as the sector's response to the laws enacted by the government, and the regulations issued by the AMLC. This Report also presents the risk-based supervisory framework adopted by the AMLC in response to Recommendation 1 and supervisory guidance issued by FATF.

[1] FATF Guidance on Risk-Based Supervision.

Background

In the 1st Philippine National Risk Assessment (NRA) covering the period 2011 to 2014, the DNFBP sector was assessed to have Medium to Medium-High ML/TF risks. One of the challenges encountered during the 1st NRA was the non-cooperation of some DNFBP players due to fear of being targeted for tax purposes. A brief summary of the results[2] of the risk and vulnerability assessment of the different sectors in the industry is presented as follows:

Sector	Vulnerability Assessment
Casinos	Very High
Real Estate	Medium/High
Jewelry Dealers and Dealers in Precious Metals and Stones	Medium/High
Lawyers and Notaries	Medium
Accountants	Medium
Trust and Company Service Providers	Low and Medium
Car Dealers	Medium

As a response to FATF's recommendation to include the DNFBPs and the casino sector under the AML/CTF regime, Republic Act (R.A.) Nos. 10365 and 10927 were passed in March 2013 and July 2017, respectively, to further amend R.A. No. 9160, as amended, otherwise known as Anti-Money Laundering Act of 2001 (AMLA), to include the aforementioned sectors.

In its extensive efforts to fight ML and TF and strengthen its AML/CTF regime, the Philippines conducted the 2nd NRA covering the period 2015 to 2016, to update the results of sectoral risks and vulnerability assessments considering regulatory and supervisory developments implemented. Although the 2016 Revised Implementing Rules and Regulation (2016 RIRR) of the AMLA was issued, specific provisions for the DNFBPs were not included. Thus, the identified weaknesses of the covered DNFBPs remained. A summary of the results of the sector's vulnerability assessment in the 2nd NRA is presented below:

Sector	Vulnerability Assessment
Casinos	High
Real Estate	Medium
Jewelry Dealers and Dealers in Precious Metals and Stones	Medium
Lawyers and Notaries	Medium
Accountants	Medium

[2] The 1st Philippine National Risk Assessment.

Sector	Vulnerability Assessment
Company Service Providers	Medium
Car Dealers	Medium

Another significant development in the Philippines' AML/CTF regime was the passing of R.A. No. 11521 in January 2021, which further amended the AMLA, as amended, and extended its coverage to include:

1. Real estate developers and brokers; and
2. Offshore Gaming Operators (OGO), as well as their service providers (SP), supervised, accredited and regulated by Philippine Amusement and Gaming Corporation (PAGCOR) or other Appropriate Government Agencies (AGAs).

With the new laws passed, the AMLC issued the 2018 Implementing Rules and Regulations (2018 IRR), which amended the 2016 RIRR, and subsequently issued the 2021 AML/CTF Guidelines for DNFBPs where the principles therein must be applied by the sector in their businesses.

Objectives

Consistent with FATF Recommendation No. 1 in Assessing Risk and Applying Risk-Based Approach, the AMLC undertakes this risk review as an update in the sectoral risk and vulnerability assessment of the DNFBP sector, specifically those registered with the Anti-Money Laundering Council Secretariat, with the following objectives:

1. To determine the current ML/TF risk and vulnerability level of the sector after being regulated and covered under the AMLA, as amended;

2. To assess the level of understanding of the sector of their AML/CTF obligations;

3. To determine the level of sufficiency of existing AML/CTF controls of the sector to prevent its misuse for ML/TF;

4. To provide information and guidance to the sector in order to enhance their general understanding of the AML/CTF initiatives;

5. To guide supervisors in the conduct of risk-based supervision; and

6. To identify potential improvements and action plans for a more effective AML/CFT compliance regime of the sector.

Scope and Data Collection

This update in the risk and vulnerability assessment which covers the period 2019 to 2021 only includes DNFBPs registered with the AMLC as of 25 May 2021 under the following sectors:

a) Jewelry dealers and dealers in precious metals and precious stones, who, as a business, trade in precious stones;
b) Company Service Providers (CSP), which as a business, provide any of the services cited in Section 1 of R.A. 10365;
c) Lawyers and Accountants who provide the services enumerated under Section 1 of R.A. 10365; and
d) OGO-SPs, supervised, accredited or regulated by the PAGCOR or AGA.

This assessment does not cover Real Estate Brokers, Real Estate Developers, and Casinos, as separate risk assessments have already been conducted on these sectors.

The collection of data in this update was conducted through a Risk Assessment and Data Collection Questionnaire (Questionnaire) adopted by the AMLC. Information on the recipients of the Questionnaire was taken from the registration data of the AMLC. The survey questionnaire focuses on qualitative and quantitative information on the DNFBP landscape, ML/TF risks, threats, risk consequences. Information on level of awareness of covered persons of the threats faced by their institution and industry, and the existence of AML/CTF controls of each of the entities also provided a picture on the current risk and vulnerability level of the sector after it has been covered under the AMLA, as amended. Entities under each DNFBP sector who are registered with the AMLC were given a link to the Questionnaire where they may provide their answers. Responses were then collected, analyzed and summarized to come up with this consolidated Report.

Limitations

The limitations and challenges encountered in the conduct of this assessment are as follows:

1. Only DNFBPs registered with the AMLA were the recipients of the Questionnaire and do not accurately reflect the entire population of the sector;
2. Data source and assessment results are limited to the responses of entities who responded to the Questionnaire;
3. Not all recipients participated in the survey providing a low response rate of only 30.84% (66 out of the 214 registered entities).

The above limitations do not however invalidate the responses presented in this updated assessment.

Assessment Methodology

The assessment methodology was patterned after the World Bank Assessment Tool considering the above-mentioned limitations. Overall vulnerability was assessed based on the inherent variables and the AML Control variables. For AML control variables, assessment was made on the AML/CTF controls present in each entity based on the responses provided. The responses also gauged the level of awareness on ML/TF risks and obligation of each sector player.

Relatively, with the data gathered from the survey, the inherent vulnerability of each business was identified considering the following available information:

1. Total population of businesses per industry gathered from open source vis-à-vis the registration data from the AMLC;
2. The estimated value or amount of transactions handled by a particular business/profession, which is indicative of the level of ML vulnerability that the business/profession can introduce into the DNFBP sector if the relevant risks are not mitigated;
3. Type of customers that the businesses cater; and
4. The level of cash activity associated with the business.
5. Cross-border risks, if any.

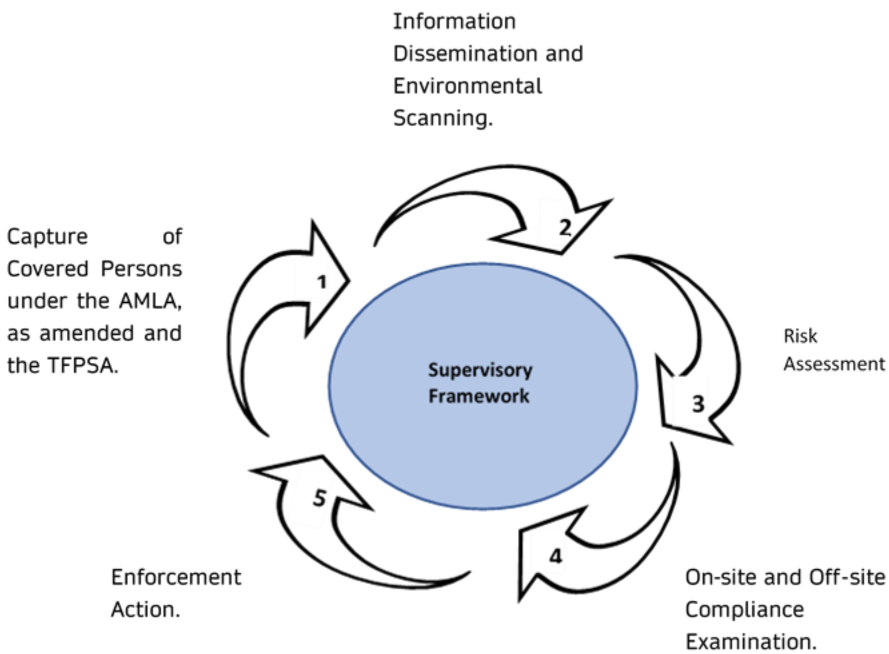
Based on the assessment of criteria and the data collected in relation to vulnerability and mitigating controls, the appropriate rating for the factor is decided using the following scale:

Rating[4]	Range
Very High (VH)	87% to 100%
High (H)	72% to 86%
Medium High (MH)	58% to 71%
Medium (M)	44% to 57%
Medium Low (ML)	29% to 43%
Low (L)	15% to 28%
Very Low (VL)	0% to 14%

[4] Adjectival ratings are taken from the World Bank too.

Risk-Based Supervisory Framework

Compliant with the FATF's Recommendation 1 to apply a risk-based approach in supervision, and to effectively discharge its function as AML/CFT supervisor, the AMLC adopted the following five (5) Stages of Supervisory Framework:



1. **<u>Capture of Covered Persons.</u>**

   The issuance of various laws and amendments to the AMLA to expand its coverage and to extend its powers has effectively captured covered persons under the AML/CTF regime consistent with the state's policy to protect the integrity of the financial system and ensure that the Philippines will not be used as a ML/TF site for the proceeds of illegal activity, or used to finance terrorism activities. As previously mentioned, among the amendments were Republic Act (RA) Nos. 10365 and 11521 to capture the other DFNBPs and the Real Estate Sector (RES), respectively. Relevant regulations were also amended to ensure up-to-date guidance over covered new persons. The 2021 AML/CTF Guidelines for DNFBPs amended the 2018 AML/CTF Guidelines for DNFBPs, and provides the guiding principle that these covered persons should adopt and implement in their businesses. The AMLC also issued the amended AMLC Registration and Reporting Guidelines (ARRG) in 2021 which provides a more comprehensive legal and policy framework for the registration of covered persons with the AMLC.

Another measure undertaken by the AMLC is to enter into an agreement with other appropriate government agencies by making the registration with the AMLC a pre-requisite to granting business licenses or permits to operate. Through the execution of Memorandum of Agreement (MOA) with these agencies, it is expected that registration will increase and the population of the DNFBP sector may be properly determined.

Currently, registration statistics vis-à-vis known total population of DNFBP industry players as of 30 June 2021 are as follows:

Sector	Population	Registered with the AMLC[5]	% of Registration
Jewelry Dealer and Dealers of Precious Metals and Stones (DPMS)	2,346[6]	86	7%
Company Service Providers (CSPs)	88[7]	34	39%
Lawyers	107[8]	32	30%
Accountants	228[9]	10	4%
Real Estate Brokers	30,232[10]	2,932	9.6%
Real Estate Developers	1,421[11]	679	48%
Philippine Offshore Gaming Operators (POGOs)	41[12]	41	100%
POGO Service Providers (SPs)	133[13]	86	65%
CEZA supervised (Licensees and SPs)	42[14]	6	14%
APECO Supervised	Not available	2	-
Land-based, PAGCOR supervised	68	68	100%
Internet Games, PAGCOR supervised	1,046[15]	44	4.2%
Total	**35,752**	**4,020**	**11%**

[5] Registration data as of 30 June 2021.
[6]https://www.businesslist.ph/category/jewellery
[7] 54 entities from https://www.businesslist.ph/category/virtual-office/2
[8] https://www.hg.org/lawfirms/philippines and https://www.legal500.com/c/philippines/directory/
[9] Auditing Firms, External Auditors, Valuers and Credit Rating Agencies - Securities and Exchange Commission
[10] Philippines' Second National Risk Assessment, 2017
[11] https://dhsud.gov.ph/services/broker-agent/list-of-brokers-salespersons/; https://www.investasian.com/2020/03/24/philippine-property-developers; and https://psa.gov.ph/sites/default/files/attachments/itsd/specialrelease/Table%201_Summary%20Statistics%20for%20Real%20Estate%20Activities%20Establishments%20by%20Industry%20SubClass_Philippines%2C%202018%20CPBI.pdf
[12] https://www.pagcor.ph/regulatory/pdf/offshore/List-of-Approved-Philippine-Offshore-Gaming-Operators.pdf
[13] https://www.pagcor.ph/regulatory/pdf/offshore/List-of-local-agents-with-ARO.pdf as of 6 August 2021.
[14] IO3 POPR as of 1 April 2021.
[15] https://www.pagcor.ph/pased/docs/2021-005-risk-assessment-of-egames-ebingo-poker.pdf

Registration statistics may continuously increase due to the ongoing verification and evaluation of pending applications for registration and the other DNFBP industry players that have yet to register with the AMLC, and also upon execution of the MOA with the different AGAs.

2. **Information Dissemination and Environmental Scanning.**

The conduct of continuous outreach activities for DNFBPs is one of the priorities of the AMLC to foster cooperation, open communication and awareness. As the AML/CTF supervisor, the AMLC continuously conducts outreach activities and awareness campaigns for these covered persons through trainings and caravans. Despite the restrictions brought about by the COVID-19 pandemic, the AMLC continuously conducts webinars to ensure the reach of the AMLA, as amended and other regulations to covered persons to educate and provide deeper understanding of their ML/TF risks.

Outreach activities and training also provide an opportunity for environmental scanning which allows various sectors to assess if they are covered persons and register with the AMLC. Likewise, through the conduct of compliance checking activities, covered persons are educated of their obligations under the AMLA through the discussion of deficiencies uncovered during the examination.

3. **Risk Assessment**

A risk-based approach involves tailoring the supervisory response to fit the assessed risks. This approach allows supervisors to allocate finite resources to effectively mitigate the ML/TF risks they have identified and that are aligned with national priorities. Tailoring supervision to address the relevant ML/TF risks will reduce the opportunities for criminals to launder their illicit proceeds, and terrorists to finance their operations, as well as improve the quality of information available to law enforcement authorities. It will also ensure that supervisory activities do not place an unwarranted burden on lower risk sectors, entities, and activities.[16]

To effectively execute its mandate as AML/CTF supervisor, the AMLC conducts a risk-based approach on supervision and conducts various risk assessments (RA) to support such approach. Among the RAs conducted are the following:

a. First and Second National Risk Assessments (NRAs) on ML/TF;
b. Real Estate Sector (RES): A Money Laundering/Terrorism Financing/Proliferation Financing Assessment;

[16] https://www.fatf-gafi.org/media/fatf/documents/Risk-Based-Approach-Supervisors.pdf

c. Understanding the Internet-Based Casino Sector in the Philippines: A Risk Assessment;
d. Money Service Business: 2021 ML/TF Sector Risk Assessment
e. Money Laundering and Terrorism Financing Risk Assessment on Legal Persons and Other Business Entities;
f. Terrorism and Terrorism Financing Risk Assessment
g. Other risk assessments, and typology studies conducted by the AMLC.

Aside from the risk assessments previously mentioned, the AMLC also conducted special reviews and assessment as follows:

a. Suspicious Transaction Report (STR) Quality Review;
b. Covid-19 studies, series 1 and 2;
c. Online Sexual Exploitation of Children (OSEC) Threat Assessment;
d. Risk information sharing and typologies on Drug Trafficking; and
e. Typologies on the use of DNFBPs.

To further promote awareness and enhance cooperation and a culture of compliance, the AMLC shall publish advisories and list of DNFBPs who are cooperative with the efforts of the AMLC to fight ML and TF.

4. **Risk-Based Supervision/Compliance Checking of Covered Persons**

With its role as AML/CTF supervisor, the AMLC conducts on-site and off-site compliance examination of covered persons. Although the outbreak of the COVID-19 pandemic in March 2020 significantly affected the work program for on-site compliance examinations, and with the abrupt change in work arrangements (i.e., work-from home), and plans to have an aggressive on-site compliance checking on high risk sectors were immensely delayed. Thus, the AMLC, to be able to continuously perform its mandate, adopted its Off-site Compliance Strategy where DNFBPs shall be examined remotely.

As part of the due process, entities shall be informed of the examination findings, as well as the enforcement actions imposed.

5. **Enforcement Action and Filing of Cases**

The role of supervision in an AML/CTF framework is to supervise and monitor covered persons to ensure that their ML/TF risks are managed and AML/CFT preventive measures are compliant with laws and regulations. Different jurisdictions adopt different measures to ensure compliance by supervised institutions.

In the event that weaknesses in risk management practices or breaches of laws or regulations are identified, AML/CFT supervisors should apply a proportionate range of remedial actions to address the identified weaknesses including appropriate sanctions that may include enforcement actions and/or financial penalties for more severe breaches of AML/CFT legal or regulatory requirements. [17] There are numerous factors to consider in determining the effectiveness of a country's supervisory regime, among these are:

a. Extent of remedial actions and/or effective, proportionate and dissuasive sanctions applied; and

b. Ability to demonstrate supervisor's actions have an effect on compliance by covered institutions.

Consistent with AMLC's Supervisory Framework, a range of available proportionate and dissuasive enforcement sanctions were adopted and implemented. The AMLC, issued the Enforcement Action Guidelines (EAG) that supplement the Rule of Procedure in Administrative Cases (RPAC) by providing procedures for the early resolution of administrative cases prior to the filing of a Formal Charge under the RPAC. The EAG describes AMLC's approach to exhaust, whenever appropriate, enforcement actions to allow the AMLC and the covered persons to save resources and the covered person's Board and Senior Management to take timely actions to correct violations and deficiencies.

DNFBP Landscape / Overview

1. ACCOUNTANTS

The practice of accountancy may be performed either in the professional's individual capacity, or as an employee in an accounting or auditing firm, or an employee in a public or private enterprise requiring professional knowledge in the science of accounting. Accountants are considered covered persons under the AMLA, as amended, only if they perform covered services as defined in R.A. No. 10365, and must comply with the AMLA, as amended, the Terrorism Financing Prevention and Suppression Act (TFPSA), their IRRs and other issuances relative to AML/CTF.

Based on open sources there are about 228 Accounting and Auditing Firms in the country. Data received from the Questionnaire shows that main clients are both domestic and international corporations and value of services are more than Php500,000.00. All respondents also provided that they do not receive large amount cash payments and the

[17] RBA-effective supervision and enforcement.

preferred mode of payment is through the use of the financial system (i.e bank/online transfers)

2. LAWYERS

With the increase in safeguards implemented by financial institutions, financial criminals turn to lawyers/notaries, or the "gatekeepers" to pursue their illegal activities. Criminals use lawyers due to the wide variety of services they provide and the presence of legitimacy and authenticity of the profession. In the Philippine setting, majority of lawyers or law firms provide services to domestic companies or individuals while those who have foreign clients have Americans as their common clients. Majority do transactions face to face. However due to the pandemic, online transactions became common. Large amount of cash payments are uncommon and payment modes are mostly done through checks and online transactions or the use of financial institutions. The estimated value of services provided ranges from less than Php500,000.00 to Php1 Million, or its foreign currency equivalent.

3. COMPANY SERVICE PROVIDERS

In this assessment, the Company Service Providers do not include companies that provide Trust services, as these companies are already regulated by the Bangko Sentral ng Pilipinas. Respondents under this category mostly provide registered offices or accommodation, and act as formation agents and manage of client's money or properties.

Clients for the CSP sector are both international and domestic corporations and majority of foreign clients are Americans. While majority of the value of services are transacted at less than the covered transaction reporting threshold of Php500,000 or its equivalent, the sector uses physical payment of cash and the financial system as the mode of payment of transactions.

Due to lack of available data, and since the sector remains to be unregulated for market entry purposes, open search results shows that there are at least 54 entities providing virtual offices. Population of the entire sector is larger considering that the sector comprises not just entities providing offices or accommodations, but also business engaged as formation agents and/or providing the covered services enumerated under R.A. 10365.

4. JEWELRY DEALERS AND DEALERS IN PRECIOUS METALS and STONES

The Philippine jewelry industry is a fragmented industry composed of cottage-type firms. Majority of manufacturers are small, five (5) to ten (10) person operations with minimal investment in modern tools and equipment. Only a few dozen of these firms have more than 50 workers. Only a few of the firms in the industry are corporations as majority are single proprietorship. Most of the large firms are family-owned. Foreign equity which is considered minimal comes mostly from USA, Italy, and Switzerland. Most jewelry manufacturing firms are located in Metro Manila, Bulacan, Davao, Cebu, Caraga Region, and Benguet Province (Baguio).[18]

A number of regulations have already been passed concerning the jewelry industry focusing on tax and import and export regulations, however, the sector remains unregulated unlike its “semi-related” business, the pawnshop industry. The AMLC has performed outreach activities to industry associations, and registration is slowly increasing. However, cooperation remains a challenge. With the cooperation of the Bangko Sentral ng Pilipinas, AMLC registration is now required as part of the customer due diligence process of the banks. Thus, leaving industry players no other option but to comply.

Majority of industry players are local businesses with only a few having branches across the country and almost all have domestic individuals as main clients. Physical cash, payment thru checks, credit cards and online transfers are the usual mode of payment. While a few have clients who are represented by a third-party, face to face is still the main mode of transaction for the industry. While most respondents estimated that the value of products sold is less than Php500,000.00 or its equivalent in foreign currency, those who have more than Php1,000,000.00 estimated value of products have 25% to 100% of their clients paying at this range of estimated value.

5. PHILIPPINE OFFSHORE GAMING OPERATORS-SERVICE PROVIDERS

Philippine Offshore Gaming Operators’ (POGO) Service Providers (SP)[19] are corporations which are registered in the Philippines that provide support to the operations of licensed operators in various areas of operations, including customer relations, strategic support, IT support, and gaming software platform providers and live studio and streaming providers. These entities are classified under Business Process Outsourcing (BPO).

With the joint study of the AMLC and the PAGCOR on the risk of internet -based casino sector in the Philippines, it was concluded that certain suspicious activities are within the realm of the SPs. which led to the inclusion of the industry under the AML/CTF regime. SPs are not licensed, but merely accredited by PAGCOR, and majority of the SPs of the POGOs are third-party entities and some are operating outside the country.

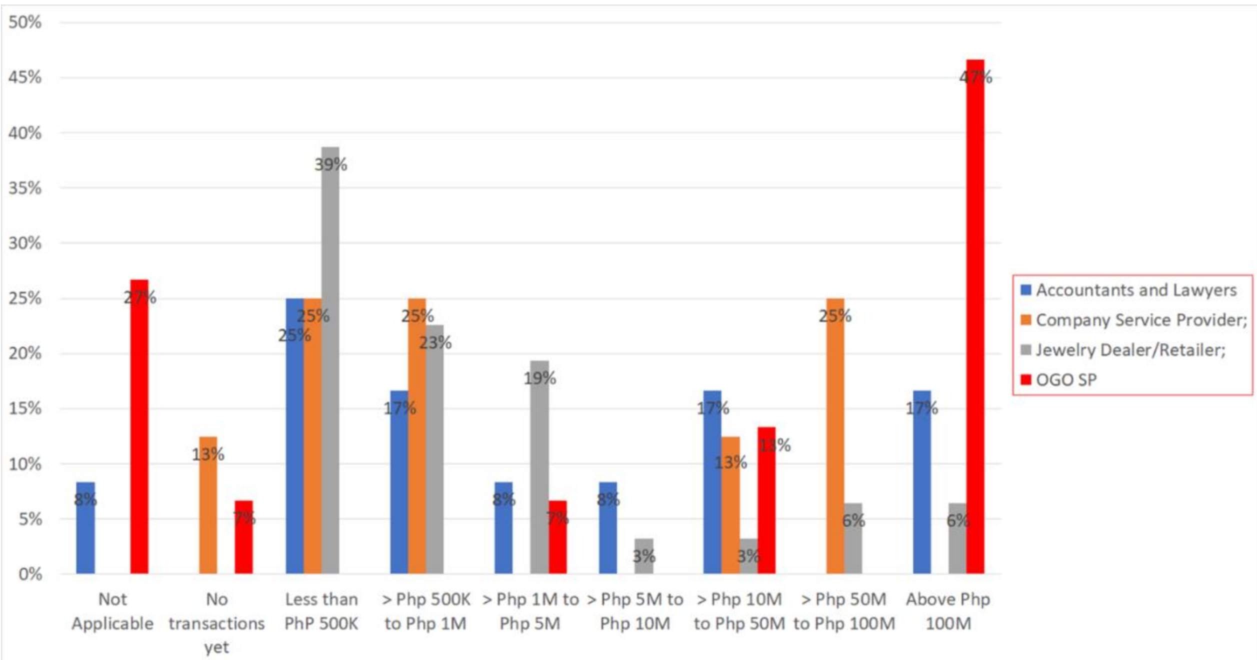
Clients of the OGO-SPs are mostly POGOs incorporated in the British Virgin Islands. All payments are done via financial institutions and/or international online transfers, where

[18] https://www.bulacan.gov.ph/business/jewelry.php
[19] POGO SP as defined by PAGCOR; https://pagcor.ph/regulatory/offshore-gaming.php

50% of the respondents provided that the estimated value of payments of their clients ranges from Php100 million and above or its foreign currency equivalent.

ESTIMATED VALUE OF SERVICES/PRODUCTS

Figure 1



Threat Assessment

As a result of being highly regulated of financial institutions, financial criminals found ways to divert and continue laundering their illicit funds through the use non-financial businesses and professions. Gold, which has high intrinsic value, and jewelry, can easily be transported and have been considered as an attractive way to launder money since illegal cash can easily be converted into transferable assets. The expert knowledge of "gatekeepers" (i.e., accounting and legal professionals) has also been considered by criminals as a secure way to obscure the illegal source of their illicit funds. The threat that these non-financial businesses and professions to be misused is high in a jurisdiction that lacks sufficient anti-money laundering laws and regulations.

Being newly covered under the AMLA, as amended, the DNFBP sectors in the Philippines is in its initial stage of complying with the anti-money laundering and anti-terrorism financing laws. This however, did not affect the sector's awareness that proceeds of illegal activities can be coursed through their businesses.

For the period 2019 – mid 2021, there were no jewelry dealers, dealers in precious metals and stones, accountants, company service providers or OGO-SPs that have been involved in money laundering cases investigated. Only one (1) case however, where a lawyer has been involved in a fraud case has been investigated.

Among all predicate crimes that are identified in the country, funds coming from fraud, tax crimes and corruption are identified by the industry players as high-risk and that may be coursed through the DNFBP sector. Funds from smuggling is also identified particularly for the jewelry sector.

Figures 4.1 to 4.5: Serious crimes that involve fund coursed through the sector.

Figure 4.1

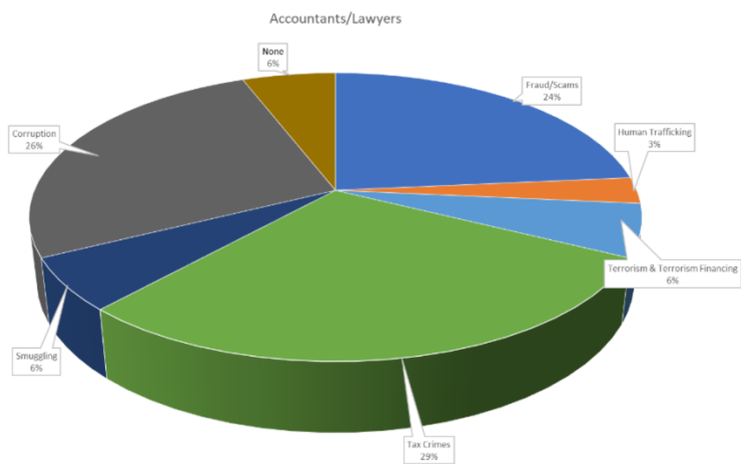


Figure 4.2

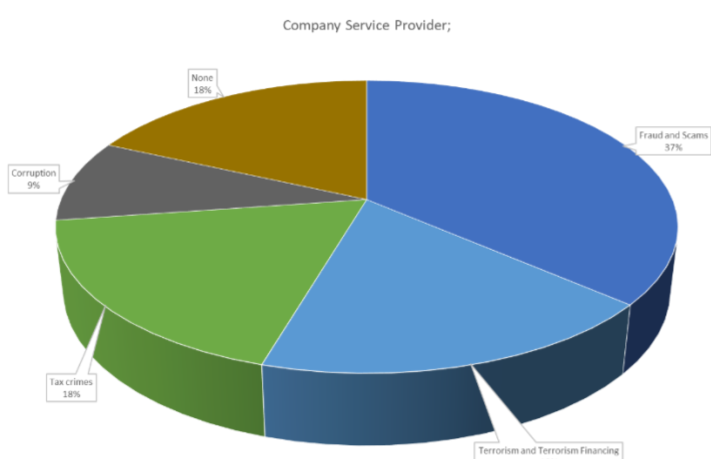


Figure 4.3

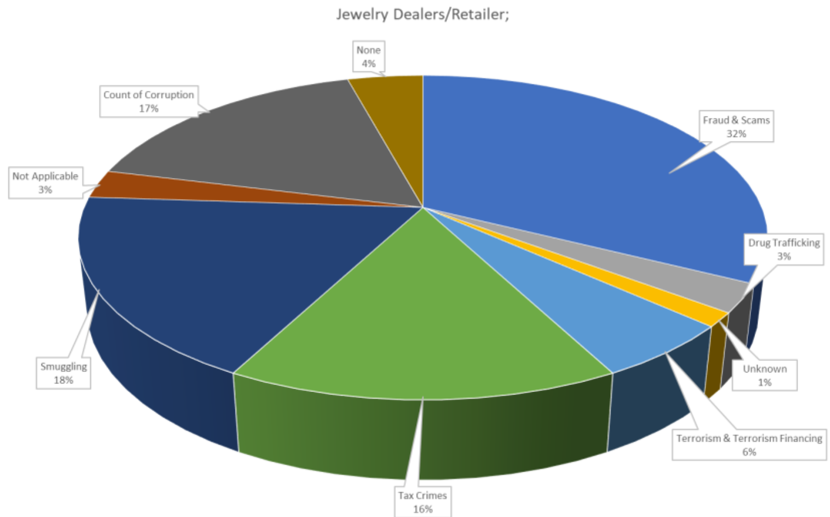
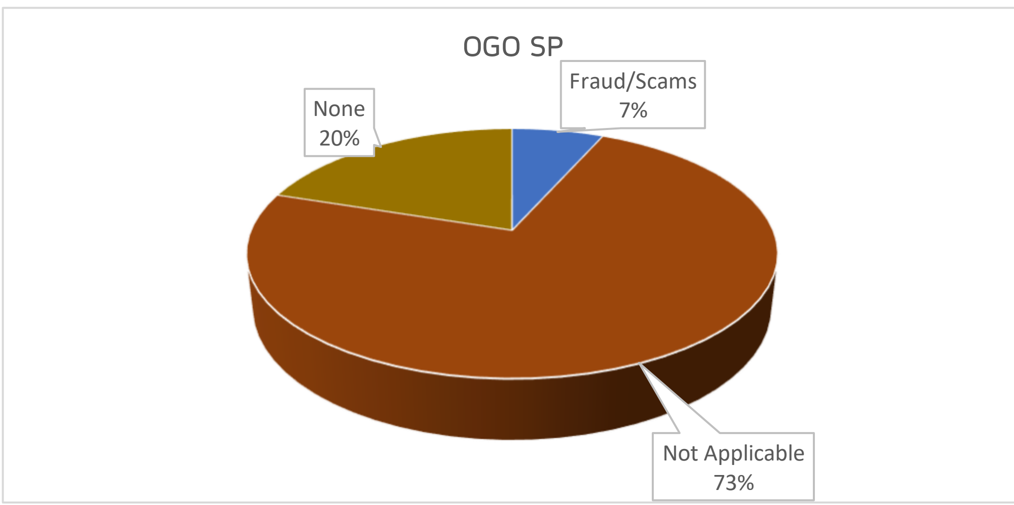
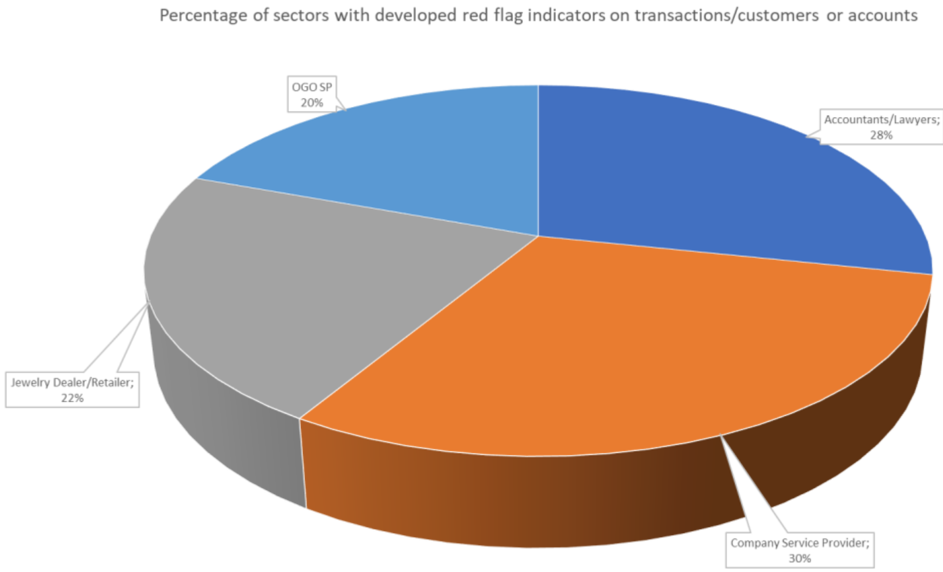


Figure 4.5



While high-risk countries are recognized by the sector, incoming and/or outgoing transactions coming from these countries are not processed by the respondents of the Questionnaire. Red flags are adopted arising from the following common indicators, among others:

a. Refusal to provide identification;
b. Transaction is more than Php500,000.00 and the transactor is a government employee;
c. Evasive answers to standard KYC questions;
d. Amount of transaction is not within the client's profile;
e. Foreign clients with no valid identification;
f. Absence of AMLC registration certificate (if a client is also a covered person under the AMLA, as amended); and
g. Red flag indicators as provided by the AMLC.



The measurement of threats also considered the number of covered and suspicious transactions (CT/STRs) filed by the sector. While lawyers and accountants who are: (a) authorized to practice their profession in the Philippines; and (b) engaged as independent legal or accounting professionals, in relation to information concerning their clients, or where disclosure of information would compromise client confidences or the attorney-client relationship are not required to file CTRs[20], they are, however, not precluded from submitting STRs to the AMLC with regard to any transaction of their clients that is in any way related to ML/TF or related unlawful activity that is about to be committed, is being or has been committed.

Presented below is the statistics on covered and suspicious transactions reports submitted to the AMLC.

Table 1. Number of CTRs and STRs filed by CPs, 2019 – 30 June 2021

Industry	CTRs	STRs
Accountants	214	-
Company Service Providers	4,147	-
Jewelry Dealers	8	18
Total	**4,369**	**18**

[20] AMLA 2018 Implementing Rules and Regulations.

Covered Transaction Reports

Most of the covered transactions reported by the DNFBP sector were filed by the CSPs encompassing 95% of the total number of CTRs filed with the AMLC and has a total amount of Php19.77 billion or 96% of the total reported value from 2019 to 2021.

Industry	No. of CTRs			Total Value (2019-2021)
	2019	2020	2021	
Accountants	214	-	-	Php 841.02 million
Company Service Providers	1414	1801	932	Php 19.77 billion
Jewelry Dealers	4	2	2	Php 2.44 million
Total	**1632**	**1,803**	**934**	**Php20.61 billion**

Suspicious Transaction Reports

For the period 2019 to 2021, only suspicious transactions coming from the jewelry sector were reported to the AMLC. In 2021, 18 STRs were reported identifying fraud and illegal exactions and transactions as the predicate crime related to the transaction.

It may be noted that there is still an evident lack of understanding of the sector with regard to filing of covered and suspicious transactions Nevertheless, with the available data and the responses provided, the threat assessment is still set at the **medium level.**

Vulnerability and Residual Risk Assessment

Due to the products and services being provided by the DNFBP sector, it cannot be denied that they are major contributors to the financial sector and economic development. These wide array of legitimate services are very attractive to financial criminals. This makes the sector vulnerable to money laundering and terrorism financing.

Since the inclusion of DNFBPs as covered persons under the AMLA, as amended, there has been numerous developments across the sector. From zero awareness since the 1st National Risk Assessment, industry players are gradually becoming aware of the money laundering and terrorism financing risks faced by their sector and the preventive measures that need to be implemented to protect their businesses from being misused. The regulatory landscape has also been responsive to ensure that appropriate guidelines are established for the prevention and detection of ML/TF and prosecution of money laundering cases.

Keeping in mind though that, no matter how well-built the regulatory framework is, limited understanding of ML/TF risks, lack of awareness of AML/CTF obligations and inadequacy and poor implementation of controls, still makes the DNFBP sector vulnerable to ML/TF.

This update on the vulnerability assessment of the sector considered the inherent vulnerability variables such as the total size/volume of the industry, the client base, and cash activity. It also considered industry exposures relative to the existence (or absence) of AML/CTF controls such as the establishment of Money Laundering and Terrorism Prevention Programs (MTPP), record-keeping and transaction reporting practices, oversight framework, including risk and self-assessment systems as manifested in the responses to the questionnaires. Customer Due Diligence (CDD) measures were also taken into consideration in determining level of exposure of the sector as part of vulnerability.

Assessment on the policies and procedures established thru the existence of the Money Laundering ang Terrorism Financing Program (MTPP) is however limited to its existence. Assessment on its quality or effectiveness or degree of compliance with the requirements of laws and regulations was not considered. Such assessment could only be seen in the compliance checking (on-site or off-site) activities of the AMLC.

Overall Vulnerability and Residual Risk Assessment

	Jewelry Sector	**Lawyers & Accountants**	**Company Service Providers**	**OGO-SPs**
Inherent Vulnerability	Medium	Medium	Medium	Medium High
Availability of Controls				
Oversight	Medium	Medium	Medium	Medium Low
Customer Due Diligence	Medium High	Medium	Medium High	Medium Low
AML/CTF Controls	High	Medium High	High	Medium High
Residual Risk	**Medium Low**	**Medium**	**Medium Low**	**Medium**

Level of Inherent Risks

	High	**Medium High**	**Medium**	**Medium Low**	**Low**
High					
Medium High			OGO-SP		
Medium			LAWYERS & ACCOUNTANTS	CSP JEWELERS	
Medium Low					
Low					
	Low	Medium Low	Medium	Medium High	High

Level of Controls

1. LAWYERS AND ACCOUNTANTS

Inherent Vulnerabilities: (Medium)

a. Total Size/Volume of Business.

Open sources show that there are 228 Accounting and Auditing Firms in the country. Due to lack of available database, data on individual practitioners, who are performing covered services under the AMLA, as amended, is not available. Statistics on the number of accounting professionals from the Professional Regulation Commission may also not be accurate since not all accounting professionals are performing the covered services under the AMLA, as amended. With the low registration statistics (i.e., only 4%) of the accounting sector with the AMLC leaving 96% unregistered, AML/CFT awareness may not be evident for these unregistered entities and individuals, and necessary AML/CFT controls in the way they conduct business may not be observed. While most large accounting firms have international affiliations that follow AML/CFT standards, this may not represent the entire sector since not all industry players have international affiliations.

Correspondingly, due to the limited available information on law firms and/or practitioners that provide the distinct type of services which may fall within the purview of the AMLA, as amended, the population totaling 107 has been determined mainly from open sources. Relatively, only 32 of the 107 or 30% of lawyers are currently registered with AMLC. The low registration for lawyers as of this period reflects the perspective and degree of relevance of AMLA rules and regulations in the profession. Unregistered covered persons may still be higher since the exact population of legal professionals performing covered services is not determined.

b. Client-base profile.

Clients of covered accountants and legal professionals cut across all types/sizes whether domestic or international individuals and companies, with one (1) respondent stating that it assesses clients from high-risk countries, This diverse client base coupled with weak risk profiling practices exposes the sector to higher risks that high risk clients may use the profession for their illegal activities.

c. Level of Cash activity.

Based on gathered data, while the value of services offered by the profession ranges from less than Php500,000 to Php100M, or its equivalent in foreign currency, acceptance of large payments of cash is not a practice. All payments go through the financial system which lessens the vulnerability of the sector being used for money laundering through high level of cash activity.

Oversight Framework Risk Exposure

The accounting profession is one of the most highly regulated professions in the country. The International Ethics Standards Board for Accountants (IESBA) Code was adopted for professional accountants in the Philippines to strengthen management responsibility and guide professionals in deciding what actions to take in the public interest when they become aware of a potential illegal act committed by a client.

Oversight on AML/CFT matters for covered legal professionals on the other hand shows a low degree of awareness as most of the respondents (88%) do not have an AML/CFT Board of Management level committee handling AML/CFT matters. Moreover, identification of money laundering and terrorism financing risks is not undertaken. With the nature of services being offered and the absence of such oversight framework, this exposes the profession to risks that it may be used by financial criminals to pursue their illegal activities.

As covered persons, the Board or Senior Management of entities performing covered services is ultimately accountable for ensuring compliance with the AMLA, as amended, and its Implementing Rules and Regulations. Weak oversight makes an institution more vulnerable to misuse by financial criminals. Identification of ML/TF risks, management of risks, and existence of self-assessment systems strengthens the oversight framework of an institution and lessens its vulnerability for being used for ML/TF.

Based on the responses, the accounting sector practices management oversight and performs internal audits and institutional risk assessments therefore, risk exposure levels are rated as follows:

CHARACTERISTICS	Level of Risk Exposure
Governance	Medium High
Institutional Risk Assessments	Medium
Self-Assessments and/or Internal Audit	Very Low

Customer Due Diligence Processes Risk Exposure

Considered as "gatekeepers", customer due diligence is one of the responsibilities to be conducted prior to onboarding of clients. Generally, there is a high level of awareness on the responsibility to conduct CDD in the accounting profession while weak CDD practices are shown for covered legal professionals. Based on gathered information, risk exposure of the sector in terms of their CDD practices is Medium.

	Controls	Level of Risk Exposure
Customer Due Diligence	Existence of Verification Systems	Medium
	Risk Classification of Clients	Medium
	PEP screening and identification	Medium

AML/CTF Controls Risk Exposure

Being at the forefront in the battle of money laundering, covered lawyers and accountants are required to carry out measures that will protect their profession from being used as facilitators in financial criminal activities. Generally, controls in the practice of the accounting profession are already embedded in the business process. As covered persons, however, to ensure misuse of the profession is avoided, AML/CTF controls are necessary. With increasing awareness of AML/CTF obligations, the accounting profession's AML/CTF controls showed improvements through establishment of MTPP, record-keeping, training and risk-based hiring practices. Responses form the legal profession on the other hand, show low awareness on the significance of establishing AML/CFT controls. Money laundering policies and procedures are not fully established, and while employee training is observed, most do not, however, include AML/CFT training.

While reporting covered transactions is not required for accounting and legal professionals in relation to information concerning their clients, or where disclosure of information would compromise client confidences, they are however not precluded to report suspicious transactions with regard to any transaction of clients that are in any way related to ML/TF, an area where the profession needs further improvement. The risk exposure of the sector considering the existence of AML/CTF controls are presented below:

	Controls	Level of Risk Exposure
AML/CTF Controls and preventive Measures	Money Laundering and Terrorism Preventive Program	Medium
	Employee Training	Medium
	Record Keeping	Very Low
	Risk-based Hiring	Very Low
	Reporting of Transactions	High

RESIDUAL RISK: MEDIUM

Considering the overall response on various characteristics and controls, the accounting and legal sector was assessed to have a medium net risk assessment considering the level of AML/CFT framework and controls that are in place to address inherent vulnerabilities. This assessment however does not mean that the profession may no longer be vulnerable to money laundering and terrorism financing. The low rate of registration with the AMLC still increases its risk exposure since compliance with AML regulations may not be assessed for entities who are not registered or under the supervision of the AMLC. To maintain a high level of professional responsibility and integrity, AML/CTF safeguards must be implemented by the sector to avoid misuse

2. COMPANY SERVICE PROVIDERS

<u>Inherent Vulnerabilities:</u> (Medium)

a. Total Size/Volume of Business.

Due to lack of reliable data and database sources to determine overall population of Company Service providers, and because this sector is not regulated for market entry purposes or required to have a license to operate, the 88 estimated count of entities, do not accurately represent the entire sector since the sector, as defined under the AMLA, as amended, provides wide array of covered services that may be exploited by launderers. The estimated 61% unregistered entities increases the vulnerability of the sector since compliance with the AMLA, as amended and the TFPSA might not be assessed on unregistered industry players.

b. Client-base profile.

Responses show that while the profession caters to both international and domestic clients (individuals and corporations), and 50% of the respondents assesses clients from high-risk countries, there were however no transactions processed (incoming or outgoing) with identified high-risk countries.

c. Level of Cash activity.

While 25% of the respondents stated that they accept cash payments, transactions are usually less than the covered transaction threshold amount of Php500,00.00 or equivalent to foreign currency. The payment of cash is not the usual practice of the profession, instead, the use of the financial system, either thru online transfers (international of domestic) and payment thru checks, are the most preferred mode of payment of the profession.

Oversight Framework Risk Exposure

There is low level of oversight for the sector that shows active participation of governing bodies in AML/CTF matters. Money laundering and terrorism financing risks are not identified by the sector which makes it vulnerable to ML/TF, and AML/CFT measures may not be appropriately established to mitigate and manage risks. Existence of internal audit processes do not equally relate to effective assessment measures since coverage of audits may not include assessment of effectiveness of AML/CTF compliance framework. Assessment of effectiveness of audit processes are still subject to compliance checking by the AML/CFT supervisor.

CHARACTERISTICS	Level of Risk Exposure
Governance	Medium High
Institutional Risk Assessments	Very High
Self-Assessments and/or Internal Audit	Low

Customer Due Diligence Processes Risk Exposure

Since being covered under the AMLA, as amended, increase in awareness of due diligence practices has been observed on the sector. Customer due diligence processes are established which include classification of clients based on risks. Majority (75%) also established Politically Exposed Person (PEP) screening and identification mechanism and considers the same in the risk level of clients.

	Controls	Level of Risk Exposure
Customer Due Diligence	Existence of Verification Systems	Low
	Risk Classification of Clients	Medium Low
	PEP screening and identification	Low

AML/CTF Controls Risk Exposure

Generally, the sector's awareness in establishing policies and procedures and having internal controls in place to ensure that businesses are protected from misuse of financial criminal is evident. Money Laundering and terrorism Prevention Programs is established and other preventive controls are practiced across the sector. Based on responses gathered, such high awareness of AML/CTF obligations presents low AML/CTF control sector vulnerability.

	Controls	Level of Risk Exposure
AML/CTF Controls and preventive Measures	Money Laundering and Terrorism Preventive Program	Medium Low
	Employee Training	Medium
	Record Keeping	Very Low
	Risk-based Hiring	Very Low
	Reporting of Transactions	Medium

RESIDUAL RISK: MEDIUM LOW

The assessed risk of the sector is attributable to its inclusion as covered persons under the AMLA, as amended. Awareness of their obligations and what the law requires from them significantly improved how the sector do business. This however does not mean that the sector is no longer vulnerable to ML and TF since it remains to be unregulated in terms of market entry. Registration also needs to further improve to enable the AML/CFT supervisor to perform adequate evaluation of effectiveness of AML/CTF controls in place..

3. JEWELRY DEALERS AND DEALERS IN PRECIOUS METALS AND STONES.

<u>Inherent Vulnerability. (Medium)</u>

1. Total Size/Volume of Business.

The COVID-19 pandemic made a huge impact in the jewelry industry, weeding out industry players. While consumers spend more on necessities, the demand for jewelry has declined. Mostly family-run businesses, the registration numbers (7%) do not accurately represent the sector since the current population is not determined due to lack of reliable database. However, the size of the sector and its accessibility across the country makes it vulnerable especially for those not registered with the AMLC since AML/CTF awareness is lacking.

2. Client-base profile.

The jewelry sector mainly caters to domestic clients, with 80% for domestic individuals. According to the respondents, most foreign clients are Americans and

Asians, a good number are also Overseas Filipino Workers. Only 10% of the respondents classify their clients as high risk, while 90% are low to medium risk.

3. Level of Cash activity. (Medium High)

   The value of products for the jewelry sector ranges from less than Php500,000.00 to more than Php100 Million. While the sector uses credit cards and bank transfers as mode of payments, large cash payments (61%) is still the common practice which makes the sector more vulnerable to money laundering.

Oversight Framework Risk Exposure

With the structure of jewelry businesses being family-owned entities, owners are hands-on in the management of businesses. AML/CFT oversight is however lacking, as more entity players need to increase AML/CFT awareness. Also, identification and management of money laundering and terrorism financing risks is not evident in the sector since most believe that they are not vulnerable to ML/TF.

CHARACTERISTICS	Level of Risk Exposure
Governance	Medium High
Institutional Risk Assessments	High
Self-Assessments and/or Internal Audit	Very Low

Customer Due Diligence Processes Risk Exposure

Generally, Jewelry Dealers/Retailers have high awareness on their responsibilities to conduct due diligence on customers. While some entities do not perform verification of clients since most are regular customers, majority of entities however, still perform manual verification by requiring presentation of valid identification documents. 61% classify clients according to their risks, however, only 21% are classified as high-risk customers. PEP screening is also considered in the CDD procedures practiced by majority (61%%) of the sector.

	Controls	Level of Risk Exposure
Customer Due Diligence	Existence of Verification Systems	Medium Low
	Risk Classification of Clients	Medium
	PEP screening and identification	Medium

AML/CTF Controls Risk Exposure

Data gathered from the survey show that the sector has improved in terms of establishing AML/CFT controls. This increase in awareness of the sector is the result of the coordination and outreach activities conducted by the AMLC particularly on the DNFBP sector.

	Controls	~~Level of Risk Exposure~~
AML/CTF Controls and preventive Measures	Money Laundering and Terrorism Preventive Program	Medium High
	Employee Training	Medium Low
	Record Keeping	Very Low
	Risk-based Hiring	Low
	Reporting of Transactions	Low

RESIDUAL RISK: MEDIUM LOW

Due to the high value of products offered by the sector and considering that these products hold value no matter what form it takes, the industry is indeed an attractive avenue for money laundering and terrorism financing. The medium low assessment of risk is an evidence of improvement of the awareness of the sector on AML/CTF concerns and compliance framework. This rating however does not indicate that the sector is no longer vulnerable to money laundering and terrorism financing. A deeper understanding on how these crimes are committed within the sector and adequate adoption and effective implementation is still necessary to prevent misuse of the sector. Increase in registration with the AMLC is still needed to assess compliance with the AMLA, as amended and the TFPSA.

4. OFFSHORE GAMING OPERATOR'S SERVICE PROVIDERS

Inherent Vulnerability (Medium)

a. Total Size/Volume of Business.

As of 6 August 2021, the Philippine Amusement and Gaming Corporation (PAGCOR) authorized the operation of 133 service providers (SPs) of offshore gaming operators. The high registration statistics relatively shows cooperation by the sector in the fight against money laundering and terrorism financing. As of same date, there are 41[21] POGOs licensed by PAGCOR. By the nature of the diverse operations that these SPs provide, the vulnerability that the sector might be used by the POGO operators, who may be involved in illegal activities to launder illegally obtained funds is high.

b. Client-base profile.

OGO-SPs clients are foreign-based entities, licensed to conduct businesses in the country offering offshore online gaming/casino. Based on the data gathered, the sector does not consider high risk jurisdictions in assessing their clients assess since most of their clients do not come from high-risk jurisdictions.

c. Level of Cash activity.

By the nature of its operations where clients are mainly foreign-based institutions, the main mode of payments of transactions is through the use of financial institutions (international online payments). The high value of services offered by the sector reaching above Php 100M or its equivalent in foreign currency makes it an attractive venue for money laundering.

Oversight Framework Risk Exposure

Data gathered from the responses indicate a high level of vulnerability in the sector. Money laundering and terrorism financing risks are not identified by the sector and there is low level of oversight by management, particularly on AML/CTF compliance.

CHARACTERISTICS	Level of Risk Exposure
Governance	Very High
Institutional Risk Assessments	Medium High
Self-Assessments and/or Internal Audit	Medium Low

Customer Due Diligence Processes Risk Exposure

The quality of customer due diligence processes implemented by the sector lack appropriate measures to determine risk levels of clients. While verification system is used to determine legitimacy of clients, client risk profiling however, is not practiced and screening or verification if a client is in any way related to a PEP is not considered.

[21] Total licensed POGOs including those who have no authority to resume operations.

Customer Due Diligence	Controls	Level of Risk Exposure
	Existence of Verification Systems	Medium Low
	Risk Classification of Clients	Medium High
	PEP screening and identification	Very High

AML/CTF Controls Risk Exposure

Low level of awareness on AML/CTF obligations is observed in the sector as majority of the players have not established AML/CTF policies and procedures. While employee training is conducted, training however do not include understanding of AML/CTF policies and procedures. Additionally, the sector is not reporting covered and suspicious transactions, as part of preventive measures and awareness of AML/CTF obligations.

AML/CTF Controls and preventive Measures	Controls	Level of Risk Exposure
	Money Laundering and Terrorism Preventive Program	Medium High
	Employee Training	Medium Low
	Record Keeping	Very Low
	Risk-based Hiring	Very Low
	Reporting of Transactions	High

RESIDUAL RISK: MEDIUM

In the risk assessment made on internet-based casinos jointly conducted by the AMLC and the PAGCOR, it was stated that service providers of offshore gaming operators are prone to abuse and exploitation for money laundering and other crimes[22]. The results of the vulnerability assessment on the sector clearly shows that the weak oversight coupled with the low understanding of AML/CTF obligations and lack of established AML/CTF policies and procedures greatly expose the sector to abuse and misuse.

Overall Risk of the AMLC-Registered DNFBPs

Considering the threat, and inherent vulnerability of the respondents in the DNFBP sector, it can be seen that the overall average net risk is at Medium level. Lawyers and Accountants maintains the risk level at Medium, consistent with the results of the 2nd National Risk

[22] Understanding the Internet-Based Casino Sector in the Philippines: A Risk Assessment March 2020

Assessments. Results for the OGO-SP is also consistent with the study conducted by the AMLC and PAGCR on inter-based casinos. As part of the risk-based supervisory framework, sectors with higher risk needs close supervisory attention.

Action Plan

Based on the threat, vulnerability, and overall risk levels of the DNFBP sector, and the risk that the sector may be used for money laundering and terrorism financing, the following priorities are identified:

1. To establish the total population of each industry in the sector by entering into agreements with other government agencies and local government units to enhance registration and environmental scanning;

2. To intensify outreach activities to raise awareness of the AML/CTF obligations of the sector;

3. To make, as a matter of policy, the regular dissemination of the Risk Assessment and Data Collection Questionnaire to all DNFBPS, particularly to newly registered DNFBPs;

4. To create a risk-based supervisory plan based on the results of the assessment, giving priority/enhanced supervision and monitoring to sectors which are more vulnerable to money laundering and terrorism financing;

5. To engage the cooperation of the Supervising Authorities or Appropriate Government Agencies, as well as the private sector and industry associations in environmental scanning and information dissemination to ensure the reach of the AMLA, as amended and the TFPSA across the sector;

6. To publish in the AMLC website the results of this updated risk assessment to increase public awareness; and

7. To increase AMLC personnel commensurate to the growing number of DNFBPs to ensure compliance examinations will be adequately conducted.