

FATF



Anti-money laundering and counter-terrorist financing measures

Türkiye

Follow-up Report &
Technical Compliance Re-Rating

July 2023

Follow-up report





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Türkiye's 3rd Enhanced Follow-up Report

Introduction

The FATF Plenary adopted the mutual evaluation report (MER) of Türkiye in October 2019¹. Based on the MER results, Türkiye was placed into enhanced follow-up. Türkiye's 1st Enhanced Follow-up Report (FUR) with technical compliance re-ratings was adopted in November 2021². Plenary adopted the 2nd enhanced FUR by written process in April 2022³. This 3rd enhanced FUR analyses Türkiye's progress in addressing most of the technical compliance deficiencies identified in its MER. Re-ratings are given where progress has been made.

Overall, the expectation is that countries will have addressed most, if not all, technical compliance deficiencies by the end of the third year from the adoption of their MER. This report does not address what progress Türkiye has made to improve its effectiveness.

The following experts, supported by Ms. Rana MATAR, Policy analyst from the FATF Secretariat, assessed Türkiye's request for technical compliance re-ratings:

- **Mr. Tiago João Santos e Sousa Lambin**, Senior Inspector, Instituto dos Mercados Publicos do Imobiliario from Portugal; and
- **Mr. Miguel Balbín Pérez**, Technical Counselor, Spanish Treasury from Spain.

The second section of this report summarises Türkiye's progress in improving technical compliance, while the following section sets out the conclusion and includes a table showing Türkiye's MER ratings and updated ratings based on this and previous FURs.

¹ www.fatf-gafi.org/content/fatf-gafi/en/publications/Mutualevaluations/Mer-turkey-2019.html

² www.fatf-gafi.org/media/fatf/documents/reports/fur/Follow-Up-Report-Turkey-2021.pdf

³ www.fatf-gafi.org/media/fatf/documents/reports/fur/Follow-Up-Report-Turkey-2022.pdf

Progress to improve Technical Compliance

This section summarises Türkiye’s progress to improve its technical compliance by addressing most of the technical compliance deficiencies identified in the MER or any previous FUR (R.8, R.12, R.15, R.22, R.26 and R.28).

Progress to address technical compliance deficiencies identified in the MER

Türkiye has made progress to address the technical compliance deficiencies identified in the MER in relation to R.8, R.12, R.15, R.22, R.26 and R.28. Because of this progress, Türkiye has been re-rated on these Recommendations.

Recommendation 8

	Year	Rating
MER	2019	PC
FUR1	2021	Maintained at PC
FUR2	2022	PC (not re-assessed)
FUR3	2023	↑ LC

a) Criterion 8.1 (*Mostly Met*)

- a. The 4th round MER noted that in Türkiye, NPOs that fall into the FATF definition include associations and foundations. Compared to foundations, which represent 5% of all NPOs, there is a rather large sector of associations, representing 95% of the entire sector (2019 MER, para. 272). As set out in the 2019 MER, Türkiye conducted an NRA in 2018, with a component dedicated to NPO risks that considered likely characteristics linked to TF abuse (for instance, NPOs that operate close to conflict zones), where Türkiye identified the subset of organisations falling within FATF’s definition of NPO that are likely to be at risk of TF abuse, NPO’s within humanitarian aid associations operating close to an area on the southern border near conflict zones. Regarding foundations, the risk of abuse for TF purposes was found to be significantly low, taking into account the scale of the sector, the fact that establishment of foundations is subject to strict rules and conditions (such as approval of a competent Court), and the low number of international activities in ratio to the size of the sector. Thus, measures regarding prevention of misuse of NPOs focus on associations, rather than foundations. The situation has not changed since the adoption of the MER as these conclusions were confirmed also in the updated NRA with the foundations being low risks and associations with humanitarian aid operating close to conflict zone, being identified as NPO to be at risk of TF abuse. Since the MER, Türkiye assigned the General Directorate of Relations with Civil Society (GDRCS) to do risk analysis of associations in terms of laundering proceeds of crime and the financing of terrorism, in accordance with the “Risk-based audit methodology in combating laundering proceeds of crime and financing of terrorism” (2022), resulting in associations being categorized into high, medium and low-risk groups.
- b. As it was noted in the MER, Türkiye has identified several threats, including domestic and international terrorism linked threats, posed by terrorist entities to the NPO sector at risk. Some NPOs in Türkiye are exposed to

international terrorism abuse due to Türkiye's geographical location and proximity to conflict zones. The new risk assessment indicates that the highest TF risk within the NPO sector was found within humanitarian aid associations operating close to an area on the southern border near conflict zones.

- c. At the time of the MER, Türkiye didn't meet the requirement of this sub-criterion as NPO audits were not focused on TF. The deficiency has been addressed since the 1st FUR as Türkiye has reviewed the adequacy of the laws that govern the NPO sector including its audit program for identified high TF risk NPOs, in order to protect the sector from possible misuse for TF purposes by revising the Law on Associations No. 5253 (art.19), updating the Regulation of Associations (art.1), and revising the audit Guidance of AML/CFT and Directive for auditors of Associations (art.38(b)), to focus on preventing TF abuse. Measures were focused on associations, rather than foundations, based on the findings of the risk analysis. The amended art.19 determined that the scope of the audits of NPOs will be carried out according to the risk analysis performed by General Directorate for Relations with Civil Society (GDRCS). Since Türkiye identified humanitarian aid associations operating close to conflict zones as the highest TF risk within the NPO sector, focused audits for TF abuse will be carried out on this sub-sector according to specific criteria and based on risk-scores, with more frequent audits covering the high and medium risk NPOs within this category. The Auditors of Associations Directive establishes that their objective shall be to analyse "whether associations have activities contrary to Law 6415 on Prevention of the Financing of Terrorism of, the Anti-Terror Law 3713, and article 282 of the Turkish Penal Law 5237, and to guide their managers, members and employees in raising their awareness about AML/CFT" (art. 38(1)(b)). In addition, the Directive requires in-service training programmes of auditors to include the topic of AML/CFT, to ensure the performance of risk-based audits (art. 95(3)). Therefore, these focused audits constitute proportionate and effective actions in order to mitigate the identified risks. In addition, since the 1st FUR, Türkiye updated in 2021 the Regulation of Associations and revised in 2022 the "Risk-based audit methodology in combating laundering proceeds of crime and financing of terrorism" to include an additional criterion (date of establishment) and a mitigating factor (self-corrective measures taken), as well as to update the weighting of risk criteria based on audits and feedback received from outreach activities. Risk criteria which carry greater weight are 'average of financial aid to/from abroad', 'type of activity' and 'annual revenue', followed by 'geographically activity area'. These criteria are deemed to be relevant, grounded in associated TF risks within the NPO sector in Türkiye, and consistent with the findings of the NRA. The GDRCS has also developed a specific 'Audit guidance on prevention of laundering proceeds of crime and financing of terrorism' (updated in March 2022). Based on the above, Türkiye applies a risk-based supervision to the subset of NPOs that would be at TF risk. However, the Law 7262 introduced new measures applied to the whole associations sector, including a requirement for notification to the GDRCS, and in some cases authorisation to send or receive aid from abroad, as well as aid collected through the internet, which are not proportionate and may impose burdensome measures given that they would be applied to the whole NPO sector.

- d. Türkiye didn't meet the requirement of this sub-criterion at the time of the MER, as Türkiye does not periodically reassess the NPO sector. The deficiency has been addressed as updated Regulation of Associations (art.1) stipulates that risk criteria shall be reviewed and updated annually considering new information. In addition, the risk-based methodology indicates that an audit programme will be conducted annually, and the risk of the sector will be reassessed every year using the methodology. In addition, based on this methodology, the criteria to be considered for determination of risks will be periodically reassessed annually in the light of new information.
- b) **Criterion 8.2 (Met).**
- a. As noted in the 2019 MER, Türkiye has policies to provide transparency in the setting up and activities of NPOs, to promote accountability, integrity and public confidence in the administration and management of the sector.
- b. Türkiye didn't meet the requirement of this sub-criterion at the time of the MER, because it was lacking specific procedures to conduct outreach and guidance to NPO sector and the donor community. Since the MER, Türkiye has addressed this deficiency by updating the Regulation of Associations in 2021, to indicate that training programmes and workshops will be organized for associations in proportion to their risks, to assist them in complying with their legal obligations and to raise awareness on the risks of TF (additional art. 3). In this sense, several workshops and educational programmes have been conducted to raise and deepen awareness of TF risks among NPOs and measures to prevent abuse. Many of these workshops were dedicated to high and medium risk NPOs. Outreach and educational programmes also targeted the donor community, including the publication of a "Guide for the Prevention of Abuse of Financing Terrorism for Donors to Non-Profit Organizations".
- c. Türkiye worked with NPOs to develop best practices and policies to address TF risks. The updated Regulations of Associations (additional art.3) required GDRCS to receive advice and feedback from associations when conducting outreach to associations. To this end, the GDRCS conducted surveys after each of the training programmes to obtain feedback about the activities. In addition, GDRCS circulated questionnaires to the representatives of the association to obtain their opinions and suggestions on the TF risk-based methodology and training programs. Türkiye has developed a specific guidance namely "Guidance Towards Donors of NPOs on Preventing Terrorist Financing Abuse", which can be accessed by donors through the GDRCS's website. In addition, the "Guidance on Principles and Procedures", published on the GDRCS's website in 2022, covers basic principles of current legislative framework and raises awareness of both associations and the donor community.
- d. Türkiye has encouraged NPOs to conduct transactions via regulated financial channels. For example, in the trainings for associations, the managers of the associations are informed about the legal obligation to make all kinds of income, collections, expenses and payments exceeding seven thousand Turkish Liras (around EUR 330) in the Law on Associations No. 5253 through banks and other financial institutions (FIs) or the Post and Telegraph Organization Joint Stock Company. In the "Guide on Principles and Procedures, the representatives of the associations are informed about the income and expense transactions of the associations through FIs. In the "Guide to Good

Practices for the Prevention of Using Associations for the Financing of Terrorism” prepared for the managers of the associations, information is given about the associations making money transfers through the banking system. In addition, an online meeting was held under the chairmanship of GDRCS with the participation of Public Institutions, Banks and NPOs on "Problems Experienced with Financial Transactions and Solution Proposals by NPOs in the Process of Combating Money Laundering and Terrorist Financing", where information was shared about the transactions of NPOs in opening accounts in banks and making money transfers through banks.

- c) **Criterion 8.3 (Met)** Türkiye didn't meet the requirement of this criterion at the time of the MER, as supervision applied to NPOs did not focus on TF and were aimed primarily at preventing fraud and mismanagement. Since the MER, in its 1st, FUR, Türkiye amended Law No. 5253 on Associations and established that audits shall be carried out “in accordance with the risk assessment” (art. 19) and changed audit requirements to focus on ML/TF. The audits will be carried out according to the risk analysis. However, amendments were not sufficient to demonstrate that Türkiye applied targeted, risk-based supervision to NPOs. Since the 1st FUR, Türkiye updated in 2021 the Regulation of Associations and specified that risk analysis of associations shall be done “in terms of laundering proceeds of crime and the financing of terrorism” (additional art. 1). Risk analysis is conducted by the GDRCS in accordance with the “Risk-based audit methodology (2022)”, resulting in associations being categorized into high, medium and low-risk groups (See analysis above under c.8.1(a)). The methodology requires that audit programmes be prepared for high and medium risk groups, which shall be audited by civil servants assigned by the Ministry of Interior or the relevant local administrator. In this sense, GDRCS conducted risk analysis in 2021 and 2022 as a result of which 115 associations were identified as high-risk and 1 011 as medium-risk. All high-risk associations were audited in 2021 and the audits for the medium-risk associations were completed between 2021 and 2022. As a result of these audits, reasonable administrative fines were imposed to the authorized chairman of the board of directors for different offences, such as: not fulfilling the notification requirement before giving aid abroad (article 32/k of the Associations Law), not notifying the changes in the organs of the association (art. 32/s), or failing to keep the statutory books or records of the association properly (article 32/d). According to the risk analysis conducted, vast majority of the associations are in the low-risk group where on-site visits are conducted for obligations and regulatory requirements and not for TF-related reasons. To ensure this aspect is known and understood by NPOs and inspectors as well, GDRCS informed low-risk associations and auditors that the scope of low-risk audits is not for TF purposes. This is also stated in the assignment letters sent to auditors “laundering of assets deriving from crime and combating the financing of terrorism are not included in the scope of this audit”, as well as in the relevant audit guidance which states that: “Audits for associations in the low risk group are carried out as a guide and examining whether the associations are operating in line with the purposes stated in their statutes, and whether they keep their books and records in accordance with the legislation, and if there is a complaint about the association, the matters subject to the complaint”. No audits have been conducted on foundations, which is consistent with the fact that the risk of abuse of foundations for TF purposes was found to be significantly low in the revised NRA.

d) **Criterion 8.4** (*Mostly Met*)

- a. Türkiye didn't meet the requirement of this criterion at the time of the MER, as monitoring compliance focused primarily on general financial management and prevention of fraud or tax crime, rather than AML/CFT. Since the MER, Türkiye has addressed this deficiency as noted above by precisizing that the purpose of audit is AML/CFT (see above analysis under c.8.1(c)).
- b. In its 2019 MER, it was noted that a range of sanctions are available, but many of the sanctions available were neither proportionate nor dissuasive, as they were too low. Since the MER, Türkiye adopted a new Law No. 7262 on Preventing Financing of Proliferation of Weapons of Mass Destruction, which entered into force on 31 December 2020. This law amended several existing laws related to NPOs, including Collection of Aid Law No. 2860, Law on the prevention of the financing of terrorism, and Associations Law No. 5253. As a result, the level of sanctions that can be applied to NPOs had been increased (Collection of Aid Law No. 2860, art.29 and Associations Law No. 5253, art.32) and the sanctions applied will depend on the severity of the acts. Different sanctions are available ranging from administrative fines, which include for different level of measures, to judicial penalty. Regarding the Collection of Aid Law, since the MER, the maximum penalty for collecting aid without authorization has risen from TRY 700 (EUR 32) to TRY 100 000 (EUR 4 679). New penalties are also imposed for: collecting aid through internet without authorization [maximum penalty of TRY 200 000 (EUR 9 319)]; providing facilities or venues for unauthorized aid collection in cases where such activity is not terminated despite warnings [max. penalty of TRY 5 000 (EUR 232)]; violation of information sharing principles, collection of aid with methods not authorized, and carrying out collection activities outside of a permitted venue [in all cases, maximum penalty of TRY 20 000 (EUR 931)]; and violation of other provisions, provided that the acts do not constitute a crime [max. penalty of TRY 1 000 (EUR 46)]. A new penalty is also introduced consisting of a fine for board members in charge in cases where foreign aid is provided in violation of the authorization granted (maximum penalty of TRY 100 000 (EUR 4 600)). Regarding the Associations Law No. 5253, new penalties are introduced for not submitting information or documents requested by the auditor (max. penalty of TRY 20 000 (EUR 930) and conducting financial transactions over TRY 7 000 (EUR 743) by means other than banks or other FIs (fine up to 10% of each transaction). While this indicates that there is a range of sanctions available to deal with failures to comply with the requirements of R.8, Türkiye introduced some new sanctions⁴ under Law 7262, of which some measures are disproportionate, given Türkiye's risk and

⁴ Article 30/A of association Law: If a prosecution from ML, TF, or drug-related offences under the Criminal Code is initiated on persons working in the organs of an association other than the general assembly, and those offences are committed within the activities of the association, these persons or organs may be suspended from duty by the Minister of Interior as a temporary measure. If this measure is not sufficient, the Minister of Interior may refer to the court to temporarily suspend the association from its activities.
Article 32 k) of associations Law: An imprisonment from three months to one year or judicial fine, for not submitting information, documents or records that must be kept and provided within the scope of the audit.

context. However, Türkiye has indicated that these measures have not been implemented yet, considering the exceptional nature of the penalty of suspension from duty, which ought to be applied only in cases where immediate ML/TF risk is justified.

- e) **Criterion 8.5 (Met)** As noted in the 2019 MER:
- a. The Department of Associations, subsequently renamed as General Directorate of Relations with Civil Society (GDRCS) in 2018, co-operates with and shares information with other public authorities (See c.8.5 (a));
 - b. GDRCS has the expertise and capability to perform initial examinations of NPOs suspected of TF before the matter is passed to MASAK or Public Prosecutor (See c.8.5 (b));
 - c. MASAK, the Turkish National Police and the Turkish General Command of Gendarmerie have direct access to information on foundations and associations through various databases (See c.8.5 (c));
 - d. If any offence is detected during an audit, the GDRCS, immediately notifies the Public Prosecutor's Office and the association. If, in the course of exercising its duties, MASAK identifies serious suspicion that a TF offence has been committed by, or through, an association or foundation, the case is immediately conveyed to the Public Prosecutor's Office.
- f) **Criterion 8.6 (Met)** As set out in the 2019 MER, MASAK is the central point of contact for information sharing with foreign counterparts regarding any NPO suspected of terrorist financing or involvement in other forms of terrorist support.
- g) **Weighting and conclusion:** The main deficiencies identified in the 2019 MER were: NPO audits did not focus on TF, lack of specific procedures to periodically review NPO risk, to conduct outreach and guidance to NPOs, and lack of specific procedures to work with NPOs to develop best practices on preventing TF abuse. Since the MER, in its 1st FUR, Türkiye amended the legal framework, and the GDRCS developed a risk-based methodology which established the criteria, principles and procedures of TF-based risk analysis of NPOs. However, the amendments were not targeted or proportionate enough to focus on those NPOs at greater risk of TF abuse. Since its 1st FUR, Türkiye has addressed most of the deficiencies stated in 2019 and 1st FUR by revising its national legislation, updating the Regulation of Associations, revising the Audit Guidance and Auditors of Association Directive in addition to revising its risk-based methodology where Türkiye applies targeted, risk-based supervision for TF purposes on high and medium at risk NPOs, working with NPOs to develop best practices and conducting outreach and guidance to NPOs. While Türkiye addressed the deficiencies identified in the 2019 MER, some new provisions introduced by the Law 7262 are disproportionate given Türkiye's risk and context, as noted under c. 8.1 (c) and 8.4 (b). Therefore Recommendation 8 is re-rated only to **Largely Compliant**.

Recommendation 12

	Year	Rating
MER	2019	NC
FUR1	2021	NC (not re-assessed)
FUR2	2022	NC (not re-assessed)
FUR3	2023	↑ C

- h) **Criterion 12.1** (*Met*) In its 4th round MER, Türkiye didn't meet the requirement of this criterion as there was no specific reference to foreign PEPs in Turkish AML/CFT legislation (See the 2019 MER, c.12.1). Since the MER, Türkiye introduced specific references to foreign PEPs in its AML/CFT legislation, MASAK General Communiqué No. 21 on PEPs (Com. 21) that entered into force on 17 November 2022⁵ (issued pursuant to ROM⁶, art. 26/A and ROC⁷, art. 13). Art. 3(1)d of the Com⁸. defines PEPs, with a set of categories of senior natural persons widely enough to cover the FATF definition. In addition to performing the CDD measures under R.10, FIs are required to carry out the following in respect of foreign PEPs:
- a. Include in the risk management systems measures to determine whether a customer or the beneficial owner is a foreign PEP (Com. 21, art.4(2) and art.4(1));
 - b. obtain senior management approval before establishing (or continuing, for existing customers) such business relationships (Com. 21, art.4(3)a and art.4(1));
 - c. take reasonable measures to establish the source of the assets and funds that belong to customers and beneficial owners identified as PEPs and that are the subject of the transaction (Com. 21, art.4(3)b and art.4(1));
 - d. conduct enhanced ongoing monitoring on that relationship (Com. 21, art.4(3)c and art.4(1)).
- i) **Criterion 12.2** (*Met*) The definition of PEPs covers in addition to domestic PEPs, persons who have been entrusted with a prominent function by an international organisation (Com.21, art. 3 (1)(d)). In relation to these persons, FIs are required to:
- a. Take reasonable measures to determine whether the Customer or the Beneficial Owner is considered one of those persons (Com.21, art.4(1)).
 - b. Take the measures identified in relation to clauses b) to d) under Criterion 12.1 above, when there is a high-risk business relationship accompanying such persons (Com.21, art.4(4)).

⁵ General Communiqué No: 21 on PEP that entered into force on 17 November 2022 is published in the Official Gazette no: 32016

⁶ Regulation on Measures Regarding Prevention of Laundering Proceeds of Crime and Financing of Terrorism.

⁷ Regulation on Program of Compliance with Obligations of Anti-Money Laundering and Combating the Financing of Terrorism.

⁸ Politically exposed person means senior natural persons entrusted with prominent public functions domestically or in a foreign country by election or appointment, and members of the executive board and senior management of international organizations and individuals entrusted with equivalent functions in such organizations.

- j) **Criterion 12.3 (Met)** FIs are required to apply enhanced measures set out in c.12.1 to spouses, first degree relatives or close associates of foreign PEPs (Com.21, art.4(3)); and to spouses, first degree relatives or close associates of domestic PEPs and persons who have been entrusted with a prominent function by an international organisation when domestic PEPs and persons who have been entrusted with a prominent function by an international organisation are considered to pose high risk in line with c.12.2 (Com.21, art.4(4)). ‘Close associates’ refers to any kind of social, cultural or economic relation, such as being relative other than by first degree, being a fiancé, being a company partner or employee, which can be considered an association of interest or purpose. (Com.21, 4(6)).
- k) **Criterion 12.4 (Met)** In relation to life insurance policies, FIs are required to take reasonable measures before or at the latest at the time of the payment of insurance policy-related rights and claims to the beneficiary to determine whether the beneficiaries or beneficial owners of a life insurance policy are PEPs (Com.21, art.4(5)). If a high risk has been identified, senior management shall be informed before making the payment and enhanced scrutiny as set out in c.12.1 (d) must be applied (Com.21, art.4(5)). There is no specific requirement in the Com. to consider making an STR when higher risks are identified but the general requirement to report suspicious activity (based on art.4 of AML Law and art.27 of the RoM) applies. In addition, the PEP Guidance requires obliged entities to inform MASAK when higher risks are identified, regardless of whether the PEP is a domestic, foreign or international organization PEP.
- l) **Weighting and conclusion:** The absence of requirements in relation to PEP is currently addressed with MASAK Communiqué No. 21 on PEP that introduced specific references to foreign, domestic and international organisations PEPs, their family members and close associates. Recommendation 12 is re-rated as **Compliant**.

Recommendation 15

	Year	Rating
MER	2019	LC
FUR1	2021	↓ NC
FUR2	2022	NC (not re-assessed)
FUR3	2023	↑ PC

New technologies

- a) **Criterion 15.1 (Met)** In its 4th round MER, Türkiye didn’t meet the requirement of this criterion as the requirement on FIs to identify and assess the ML/TF risks was covering the new products, non-face-to-face transactions and new technologies without explicitly covering risks that may arise in relation to the development of new business practices, new delivery mechanisms and pre-existing products. (See the 2019 MER, c.15.1). Since the MER, Türkiye addressed this deficiency by expanding the obligation to identify and assess the ML/TF risks to explicitly cover existing and new products (including new delivery channels), new business applications/practices, and the use of new and developing technologies (Revised RoM, art.20). This art. should be read in conjunction with art.11 and art 12 of the RoC where FIs are required to develop a risk management policy with the aim of defining [...], assessing and reducing the risk and where risk

management activities cover rating and classifying services, transactions and customers depending on risks and in particular with art. 15(3)(g) ROC , where monitoring and control activities should include risk-based control of services that may become prone to misuse due to newly introduced products and technological developments.

- b) **Criterion 15.2 (Met)** As noted above under c.15.1, Türkiye didn't meet the requirement of this criterion in 2019 as there was no explicit requirement on FIs to identify and assess the ML/TF risks that may arise in relation to the development of new business practices, new delivery mechanisms and pre-existing products. (See the 2019 MER, c.15.2). With the revised RoM (art. 20(1)), FIs are required to "pay special attention to" the risks of ML/TF posed by new products, business practices and technologies and to "take appropriate measures for its prevention". Pursuant to RoM art.20(2), they are required to: (i) pay special attention to operations such as establishment of permanent business relationships, depositing, withdrawing and wire transfers which are carried out through non face-to-face transactions; (ii) closely monitor the transactions which are not consistent with the risk profile of the customer or do not have relation with his/her activities; and (iii) establish a limit to amount and number of transactions.

Virtual assets and virtual asset service providers

R.15 has been changed since the adoption of the MER in June 2019. Türkiye 1st FUR in 2021 considered Türkiye's compliance with the new requirements related to virtual assets (VA) and virtual asset service providers (VASPs) and concluded that Türkiye had not met the new criteria of R.15 and therefore R.15 was downgraded to non-compliant.

- c) **Criterion 15.3 (Partly met)**
- a. MASAK has conducted risk analysis for the VA sector and VASPs to identify their ML/TF risks. The risk analysis report included three stages of data collection: data from the companies operating in the sector (i.e., information about their activities), from the banks (i.e., financial information), and from MASAK database (i.e., criminal record, STRs). Some of the results obtained based on the analysis concluded in January 2022 on information gathered on 37 VASPs operating in Türkiye and their partners: capital adequacy risk of the sector, asset security risk, susceptibility risk of prices to manipulative attacks, the scale of the sector, the fit and proper risk regarding founders and partners of companies due to the lack of legislation on the licensing of the sector, the risk regarding company foundation and partners due to the lack of legislation for licencing, risks of initial coin offering and personal data security are high. Therefore, the risk level of these categories was determined to be high. This, together with the fact that some ML/TF cases were detected abusing VASPs. For all these reasons, VASPs sector has been classified as high risk in the sectoral risk analysis and in Türkiye's new NRA of 2022 as well. The activities⁹ of the VASPs in the analysis are in line with the definition of VASPs in FATF Glossary.

⁹ Exchange between virtual assets and fiat currencies; exchange between one or more forms of virtual assets; transfer of virtual assets; safekeeping and/or administration of virtual assets or instruments enabling control over virtual assets; participation in and provision of financial services related to an issuer's offer and/or sale of a virtual asset.

- b. In 2021, VASPs have been included as obliged parties (RoM, art. 4(1)ü)), where they are subject to the general preventive measures (customer due diligence, identification of beneficial owner, suspicious transaction reporting). However, VASPs are not included within the scope of art. 26/A(1) of the RoM (enhanced measures). To mitigate the risks, Türkiye issued in April 2021 a regulation on the Misuse of VAs in payments where cash transfers to and from their customers can only be carried out through bank accounts opened in customers names and customers identity number. In addition, the Central Bank of Republic of Türkiye (CBRT) prohibited¹⁰ the direct and indirect use of VAs in payments and providing services for direct and indirect use of VAs in payments. Open-source information obtained from the websites of two major VASPs operating in the country (which has been provided by Türkiye), appears to be consistent with the ban on payments via VAs, as well as with the requirement to carry out exchanges between fiat currencies and VAs through VASPs¹¹. Since the NRA concludes that VAs and VASPs pose high ML/TF risks, and considering that all transactions of VASPs are carried out by or through FIs, especially banks, enhanced measures should be applied on transactions with VASPs and supervisors should examine whether these measures are appropriately applied by them considering that these are high risk situations. Moreover, given the result of the risk analysis, supervision and outreach activities to the VASPs sector is prioritised in Türkiye.
- c. There is no requirement for VASPs to take appropriate steps to identify, assess, and understand their ML/TF risks, nor to have internal policies, controls and procedures to enable them to manage and mitigate the risks that have been identified.
- d) **Criterion 15.4** (*Not met*)
- a. There are no requirements for VASPs to be licensed or registered in Türkiye, therefore there is no specific fit and proper criteria in the sector.
- b. The absence of a requirement for VASPs to be licensed or registered may limit the capacity of competent authorities in Türkiye to prevent criminals or their associates from holding, or being the beneficial owner of, a significant or controlling interest, or holding a management function in, a VASP.
- e) **Criterion 15.5** (*Not met*) There are no requirements in Türkiye to identify persons who carry out VASP activities without being registered. Indeed, the absence of a requirement for VASPs to be licensed or registered limits the country's capacity to take action to identify natural or legal persons that carry out VASPs activities without the requisite license or registration, and apply appropriate sanctions to them.

¹⁰ Articles 3 and 4 of The Regulation on the Misuse of Crypto Assets in Payments issued in April 2021 .

¹¹ According to the information provided by Türkiye, the websites of two major VASPs provide explanations on how customers can deposit fiat currencies (these companies only accept transactions in TRY) into their accounts for the purpose of trading cryptocurrencies, and how customers can withdraw fiat currencies from their accounts. These explanations specifically mention that: "You are required to perform your transactions only through your individual, demand deposit, Turkish Lira accounts (...) Transfers are made only to individual, demand deposit Turkish Lira accounts registered in your name. Transfer requests to a different person's bank account will be refunded by the bank."

- f) **Criterion 15.6** (*Partly met*)
- a. MASAK supervises VASPs under the same legislative framework for ensuring compliance with national AML/CFT requirements as other FIs (Law No 5549, art.11), meaning that VASPs are subject to AML/CFT regulation and risk-based supervision. However, the country is still developing its supervisory approach based on the specific risks to the VASPs sector. In 2021, MASAK supervised five companies operating in the sector who carry out approximately 90% of the VASP activity in Türkiye. In January 2022, based on the risk analysis conducted, all high and medium risk VASPs (13) were supervised in the 2022 Supervision of Compliance with Obligations Program. As a result of these supervisions, TRY 17 500 000 (EUR 787 500) administrative for CDD violations and TRY 9 300 000 (EUR 418 500) administrative fine for STR violations were imposed to VASPs in 2021 and TRY 7 721 700 (EUR 347 476) administrative for CDD violations and TRY 7 778 100 (EUR 350 014) administrative fine for STR violations were imposed to VASPs in 2022. However, VASPs are still not required to be registered or licensed and this has an impact on most of this sub-criterion.
 - b. MASAK possesses the necessary powers to supervise VASPs, given that they have been included as obliged entities under MASAK's supervision and considering Türkiye's rating on R. 27 is LC.
- g) **Criterion 15.7** (*Met*) In May 2021, MASAK issued guidance on "Fundamental Principles regarding Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Obligations for Virtual Assets Service Providers" ¹², as well as a "STR Guidance Specific to the VASP Sector" ¹³ through MASAK website. Additionally, Türkiye provided face-to-face guidance to the five companies supervised in 2021 and 13 companies supervised in 2022 by MASAK.
- h) **Criterion 15.8** (*Mostly Met*)
- a. In its 1st FUR, it was noted that Türkiye increased the monetary sanctions that can be applied to FIs and DNFBPs for breaches of AML/CFT requirements, therefore the sanctions framework was considered proportionate and dissuasive. This applies on VASPs, as in line with the provisions of the Law No. 5549 and RoM and RoC, VASPs must obey to ML/TF obligations, and VASPs are subject to administrative or judicial sanctions in case of violation of these obligations. The minor deficiency in R.35 regarding the existence of an eight-year statute of limitations have a minor impact on this sub-criterion.
 - b. VASP as well individuals that have responsibility for AML/CFT obligations within legal entities, including directors and senior managers, may be held in full or in part personally liable for the administrative fine imposed on the obliged entity (Law No. 6098, art. 400).
- i) **Criterion 15.9** (*Partly met*) VASPs are required to comply with the applicable requirements set out in Recommendation 10 (customer due diligence), except for the requirement to perform enhanced due diligence where the ML/TF risks are higher (c.10.17). They are required to comply with the requirements set out in R.11 (record keeping), R.12 (PEPs), and R.20 (reporting of suspicious

¹². <https://ms.hmb.gov.tr/uploads/sites/12/2021/05/Kripto-Varlik-Hizmet-Saglayicilar-Rehberi.pdf>

¹³ <https://ms.hmb.gov.tr/uploads/sites/12/2022/04/KVHS-Rehberi-16.04.2022.pdf>

transactions), however VASPs are not required to apply enhanced due diligence to business relationships and transactions with natural and legal persons from higher risk countries (R.19). The possibility of relying on third parties to perform certain elements of the CDD measures (R.17) is not applicable to VASPs, as they do not fall within the definition of FIs (articles 3(1)(f) and 1 of the RoM).

- a. According to Article 5(1)(c) of the RoM, obliged parties shall conduct CDD “when the amount of a single transaction or the total amount of multiple linked transactions is equal to or more than seven thousand five hundred TL in wire transfers”. This amount has been increased to 15 000 TL for 2023. Since VASPs are obliged parties and carry out their activities exclusively in electronic environments, article 5(1)(c) of the RoM applies to them. Consequently, with the current exchange rate, the occasional transactions designated threshold above which VASPs are required to conduct CDD is approximately 373 EUR for 2022, and 746 EUR for 2023, which is below the EUR 1 000 required by R.10.
- b. VASPs must comply with the measures on wire transfers (RoM, art. 24). Rec 16 was rated Largely Compliant with the requirements related to wire transfers, with only minor gaps related to lack of explicit requirements for MVTs providers to consider information on both originator and beneficiary sides to determine whether an STR must be filed and implementation of targeted financial sanctions.
- j) **Criterion 15.10 (Met)** Türkiye applies the same communication mechanisms, reporting obligations and monitoring to VASPs regarding targeted financial sanctions as it applies to all other obliged entities. Legal basis under which MASAK could communicate designations related to TF/PF to the VASPs sector is found in article 14(1)(e) of the RoTF and article 11(1)(e) of the RoPF, which foresee the possibility of notification to “*Natural and legal persons, and public institutions and organizations to whom notification is deemed necessary by MASAK*”. Therefore, although the provision does not specifically refer to VASPs, there is no legal impediment for the communication mechanism to apply to them. Moreover, Türkiye has been rated LC with R.6 and R.7 in its 1st FUR.
- k) **Criterion 15.11 (Mostly Met)** Türkiye has the same international co-operation powers and applies the same framework for all obliged entities including VASPs and does not exclude cooperation on ML/TF offences relating to VAs. Türkiye is rated compliant with R.37, R.38 and R.39 and largely compliant with R.40.
- l) **Weighting and conclusion:** The lack of explicit requirements to identify and assess the ML/TF risks that may arise in relation to existing and new products (including new delivery channels), new business applications/practices, and the use of new and developing technologies are now addressed by the revised RoM. On VAs and VASPs, Türkiye has conducted risk analysis for the sector and VASPs to identify their ML/TF risks. These analyses were concluded in January 2022, leading to the conclusion that the overall ML/TF risk of the sector is high. This result was also confirmed with the new NRA. VASPs have been included as obliged parties and MASAK supervises their compliance with national AML/CFT requirements. However, VASPs are not required to take AML/CFT measures beyond the general preventive measures and are not subject to licensing or registration, which may limit the capacity to effectively identify the relevant universe of high/medium risk VASPs operating in the country with a high level of confidence. These are considered moderate shortcomings, as some of the risks are mitigated through VASPs’ obligation to conduct business through a bank (as VAs

and VASPs are classified as high risk, FIs are required to apply enhanced measures to them within the framework of risk management activities and take additional measures such as enhanced customer due diligence measures and identifying beneficial owners), and the prohibition of using VAs as a payment instrument. Therefore, Recommendation 15 is re-rated as **Partially Compliant**.

Recommendation 22

	Year	Rating
MER	2019	PC
FUR1	2021	Maintained at PC
FUR2	2022	PC (not re-assessed)
FUR3	2023	↑ LC

- a) **Criterion 22.1 (Mostly Met)** As set out in 2019, casinos are forbidden in Türkiye by Law and TCSPs do not exist as a separate category (see the 2019 MER, c.22.1). The other DNFBPs are required to comply with the CDD requirements set out in Rec.10 in the specific situations, in line with the requirements of criterion 22.1. However, lawyers were not covered by the AML/CFT framework and DNFBPs were not required to adopt risk-based approach for enhanced due diligence where ML/TF risks are higher in addition to some deficiencies identified under R.10 that also apply to DNFBPs. In 2020, Türkiye amended the AML Law 5549 and included the lawyers as obliged parties. In 2021, Türkiye amended the ROM¹⁴ and extended the scope of DNFBPs to cover not only dealers in precious metals and stones, real estate agents, notaries, accountants, independent audit institutions, but also lawyers (ROM, art.3 (1)(m)). In addition, Türkiye addresses the deficiencies related to the absence of a requirement for DNFBPs to adopt risk-based approach for enhanced due diligence where ML/TF risks are higher, by amendments made to ROM and RoC. DNFBPs are now required to adopt risk-based approach for enhanced due diligence where ML/TF risks are higher (RoM, art.26/A and RoC, art.32/A). These amendments address most of the deficiencies identified in the MER and which persisted in their 1st FUR, however, the deficiencies identified under R.10 still apply to DNFBPs and will have an impact on this criterion. These were considered as minor deficiencies (R.10 rated LC in 2019).
- b) **Criterion 22.2 (Met)** As set out in 2019, DNFBPs are required to comply with the same record-keeping as FIs, however there was a scoping issue as regard the lawyers. In 2020, Türkiye amended the AML Law 5549 and included the lawyers as obliged parties. In 2021, Türkiye amended the ROM and extended the scope of DNFBPs to also lawyers (ROM, art.3 (1)(m)). This amendment addresses the deficiency as all DNFBPs are now required to comply with record keeping obligation (AML Law 5549, art.8).
- c) **Criterion 22.3 (Met)** In the 2019 MER, Türkiye didn't meet the requirement of this criterion as there was no specific reference to PEPs in Turkish AML/CFT legislation and no specific requirements for DNFBPs to comply with PEPs (see the 2019 MER, c.22.3). Since the MER, Türkiye introduced specific references to all types of PEPs in its AML/CFT legislation, MASAK General Communique No. 21 on PEP (Com. 21) that entered into force on 17 November 2022¹⁵ (See above the

¹⁴ In 24 February 2021, Türkiye has amended the Regulation on Measures (RoM).

¹⁵ General Communique No: 21 on PEP that entered into force on 17 November 2022.

analysis on R.12) and required DNFBPs to comply with the same PEPs requirements as FIs.

- d) **Criterion 22.4 (Met)** In its 4th round MER, Türkiye didn't meet the requirement of this criterion as there was no specific requirements for DNFBPs to comply with provisions covering new technologies (See the 2019 MER, c.22.4). In 2021, Türkiye expanded the scope of the obligation on new technologies to DNFBPs. Therefore, DNFBPs are required to specially consider the risks posed by new and developing technologies, existing and new products including new delivery channels, and new business applications for ML/TF and take appropriate and effective measures against them (ROM, art.20). In addition, DNFBPs have to carry out monitoring and controlling activities in order to ensure compliance with the obligations imposed by the Law, regulations and communiques issued pursuant to the Law, for defining, monitoring and mitigating risks by taking into account the risks identified within the scope of training, monitoring and national risk assessment, and to take the necessary measures within this scope (which includes new technologies and developing technologies, existing and new products including new delivery channels, and new business applications for ML/TF) (Article 32/A of the RoC in conjunction with the subparagraphs (k), (n), (s), (ş), (t) and (u) of the first paragraph of Article 4 of the RoM). Therefore, deficiencies identified in 2019 MER on new technologies were addressed (see above analysis on R.15).
- e) **Criterion 22.5 (Not Applicable)** As set out in 2019, third party reliance is not permitted for DNFBPs.
- f) **Weighting and conclusion:** Most of the deficiencies are addressed: the scoping issue (the non-coverage of lawyers under the AML/CFT framework), and the absence of specific requirements for DNFBPs to comply with provisions covering PEPs and new technologies with the amendments introduced in RoC and RoM in February 2021. The minor deficiencies in relation to R.10 still have an impact on R.22. Recommendation 22 is re-rated as **Largely Compliant**.

Recommendation 26

	Year	Rating
MER	2019	PC
FUR1	2021	PC (not re-assessed)
FUR2	2022	PC (not re-assessed)
FUR3	2023	↑ C

- a) **Criterion 26.1 (Met)** The supervisory framework for FIs remains as set out in the 2019 MER (See the 2019 MER, c.26.1). MASAK regulates and supervises the AML/CFT obligations of FIs through different agencies. Supervision of the AML obligations is carried out through the examiners assigned to conduct supervision (AML Law, art.11). The examiners listed in Article 2 (1)(e) are as follows: Tax Inspectors, Treasury and Finance Experts employed at MASAK, Customs and Trade Inspectors, Sworn-in Bank Auditors, Treasury Controllers, Insurance Supervisory Experts and Actuaries, Banking Regulation and Supervision Agency and Capital Markets Board Experts and Central Bank Auditors and Experts. Tax Inspectors, Treasury and Finance Experts in MASAK, Treasury Controllers all work under Ministry of Treasury and Finance; Insurance Supervisory Experts and Actuaries work for Insurance and Pension Regulation and Supervision Agency.

- b) **Criterion 26.2 (Met)** Core principles financial institutions are required to be licensed as set out in the 2019 MER (See the 2019 MER, c.26.2). Banking Regulation and Supervision Agency (BRSA) is still responsible for regulation and supervision of banks, factoring companies, financing companies and leasing companies; and Capital Market Board (CMB) is still responsible for regulation and supervision of capital market intermediaries. As of October 2019, Ministry of Treasury and Finance (MoTF) General Directorate of Insurance has become a separate regulatory and supervisory authority named Insurance and Pension Regulation and Supervision Agency (IPRSA), responsible for the regulation and supervision of insurance and private pension companies. Regulation and supervision of Payment and E-money Institutions has been transferred from BRSA to Central Bank of Republic of Türkiye (CBRT). Thus, they are now licensed by CBRT. The statutory framework for licensing prevents shell banks from being established or operating.
- c) **Criterion 26.3 (Met)** As set out in the 2019 MER, supervisory authorities (BRSA, CMB IPRSA, and CBRT) have measures to prevent criminals and their associates from holding a significant or controlling interest, or a management function, in a FI (See 2019 MER, c.26.3), however it was noted in the MER that there is a lack of fit and proper requirements for beneficial owners of exchange offices. In 2021, Türkiye amended¹⁶ the Communiqué concerning decree No. 32 on the Protection of the Value of Turkish Currency (Communiqué No: 2018 – 32/45)”, the scope of fit & proper requirements in the establishment of exchange offices has been expanded to cover persons related to the legal person partner (art. 3/1(s),6/1(d), 6/2, 6.4, 7(b)). Therefore, in addition to natural person founding partners, any person with more than 10% share in the legal person founding partner, general manager of the exchange office, member of board of directors, employees with signatory authority and internal control officers, persons related to the legal person partner should also not have convictions (even if they were pardoned) for several crimes including extortion, bribery, theft, money laundering, terrorism financing (Article 6 (1)(d)(2)).The list of crimes were also expanded to include crimes listed in Law no.7262 on Prevention of Proliferation of Weapons of Mass Destruction. Additionally, if a share transfer take place, the natural persons who take over the shares have to meet the conditions sought for founding partners (Article 18 (2)).
- d) **Criterion 26.4 (Met)** As set out in the 2019 MER, the referred consolidated supervision of banks is not specific to supervision for AML / CFT purposes, and the supervisory approach adopted by the supervisory authorities was not risk based. In 2020, MASAK prepared a Policy and Methodology document for Risk Based Supervision of Obligations, for FIs subject to core principles institutions and for all other FIs. The document sets forth the framework for risk-based supervision of obligations and determines the principles and procedures for an effective risk-based ML/TF supervision approach. According to the methodology, ML/TF risk analyses will be carried out every year by taking the National Risk Assessment into account and FIs will be categorised according to their risk scores. High risk FIs will be supervised every year and medium risk FIs every three years at the latest. For exchange offices, MASAK carried out a separate risk analysis in cooperation with General Directorate for Financial Markets and Foreign Exchange (GDFMFE) and Treasury Controllers Board (TCB). All these information indicated

¹⁶ Amended Communiqué is published in the Official Gazette on 12 October 2021.

that Türkiye implements a RBA in supervising their FIs. The AML Law obliges the FIs to implement group-wide AML/CFT programs and obliges the Supervisory Authorities to ensure such prescribed measures are adopted by the supervised institutions under the supervision of such Authorities. With the amendments introduced in 2020 to the AML Law, in 2021 to the RoC, and in conjunction with article 35 of RoM, MASAK has the authority to determine the extension and the scope of supervision under the discretion allowed by the risk base approach, both to FIs and financial groups for AML purposes.

- e) **Criterion 26.5 (Met)** As set out in 2019, the annual programs or case based supervision plans were based on the general risks of the sectors within the financial system through sectoral risk analysis and the risks of FIs in these sectors within the framework of certain criteria, without taking into consideration the ML/TF present in Türkiye, and the degree of discretion allowed to the obliged entities in general and the FIs in particular were not covered in the risk based approach of MASAK and or the sectoral supervisors. Türkiye has introduced risk-based methodologies in determining the frequency and intensity of on-site and off-site AML/CFT supervision of FIs or group by implementing the “Policy and Methodology Document for Risk Based Supervision of Obligations” in January 2020. The Intensity of Risk-Based Supervisions according to the Risks of Obligated Parties should differentiate the intensity of risk-based supervisions according to the risks of obliged parties in both quantity and quality and according to the risks in the risk categories such as customer, product, service, country/geographical region, distribution channel, etc., of obliged parties.
- f) **Criterion 26.6 (Met)** As set out in 2019, assessment of risk profile of FIs, especially the ones supervised by CMB and MoTF, were not reviewed periodically. In 2020, Türkiye put in place the Policy and Methodology Document for Risk Based Supervision of Obligations of 2020 setting out the framework for risk-based supervision of obligations and determining the principles and procedures for an effective risk-based ML/TF supervision approach. ML/TF risk analyses will be carried out every year and FIs will be categorised according to their risk scores (Chap.4 (Principles of Risk Based Supervision Approach) and Chap.5 (Stages Concerning Risk Based Supervision Approach) of the policy and Methodology Document).
- g) **Weighting and conclusion:** The deficiencies identified in the 2019 MER in relation to the supervisory approach being partly risk based are currently addressed by the adoption of Türkiye’s Policy and Methodology Document for Risk Based Supervision of Obligations in 2020 which sets the framework for Türkiye’s risk-based Supervision of Obligations Programs, since 2020. Recommendation 26 is re-rated as **Compliant**.

Recommendation 28

	Year	Rating
MER	2019	PC
FUR1	2021	PC (not re-assessed)
FUR2	2022	PC (not re-assessed)
FUR3	2023	↑ LC

- a) **Criterion 28.1 (Not Applicable)** As set out in 2019, casinos are forbidden in Türkiye by Law (See the 2019 MER, c.28.1).
- b) **Criterion 28.2/28.3 (Met)** As set out in the 2019 MER, MASAK is the competent authority for monitoring and ensuring the compliance of all obliged parties (including DNFBPs) operating in Türkiye with regard to the AML/CFT requirements, however there was a scoping issue as Lawyers were not covered (see 2019 MER, c.28.2). With the amendment of the AML Law No.5549 (art.2) lawyers are included among the Obligated Parties. Therefore, the deficiency is addressed.
- c) **Criterion 28.4 (Mostly met).**
- MASAK's powers to monitor and ensure compliance for all obliged entities remains the same as set out in 2019 MER (see 2019 MER, c.28.1), and with the inclusion of lawyers among the obliged parties, they are also covered within scope of AML/CFT supervision.
 - As set out in the 2019 MER, fit & proper requirements apply to these categories: real estate agents (Regulation on Trade of Immovable, art.6); dealers of precious metals and precious stones (Law No 5362, art. 6 and 7)¹⁷; notaries (Law No 1512, art. 7) and accountants (Law No 3568, art. 4 and 5). With the inclusion of Lawyers as obliged parties, Fit and Proper requirements apply to them (art. 3 and 5 of the "Attorneyship Law"). The 2019 MER identified the absence of measures to ensure that associates of criminals are not professionally accredited or hold (or be the beneficial owner of) a significant or controlling interest in a DNFBP and this is still a shortcoming as the fit & proper requirements do not extend to associates of criminals from being professionally accredited or holding (or being the beneficial owner of) a significant or controlling interest in a DNFBP.
 - The 2019 MER sets out that a limited range of sanctions is available for failure to comply with AML/CFT obligations by DNFBPs. However, in the 1st FUR, R.35 was upgraded to LC, when Türkiye also brought lawyers into the AML/CFT framework; the changes made then included increasing monetary sanctions that can be applied to FIs and DNFBPs for breaches of AML/CFT requirements of Recommendations 9-23. The updated monetary sanctions framework is overall proportionate and dissuasive when considered the business size of most obliged entities in Türkiye. Additionally, the 1st FUR of Türkiye also states that a minor deficiency remains regarding the existence of a statute of limitations (although it has increased from five years to eight years since the MER).

¹⁷ Regulation on DPMS are published in the Official Gazette on 14 April 2021 (art. 6 of the Regulation is related to Fit & proper requirements).

- d) **Criterion 28.5 (Met)** The 2019 MER identified a lack of risk-based supervision on the DNFBPs. Starting from 2021, MASAK's supervision of DNFBPs is performed on a risk-sensitive basis, taking into account the risk profile of each sector and/or obliged entities. In 2021, MASAK included DNFBPs in the Policy and Methodology Document for Risk Based Supervision of Obligations of 2020. According to the methodology, ML/TF risk analyses will be carried out every year by taking the National Risk Assessment into account and obliged parties will be categorised according to their risk scores. High risk obliged parties will be supervised every year and within the scope of available resources medium risk obliged parties every three years. In addition, Türkiye conducted sectorial risk assessments on, the Real Estate Agents (REAs) and Dealers in Precious Metals and Stones (DPMS) sectors identified as high risk according to Türkiye's NRA and MER to better fulfil the objective of conducting the DNFBPs supervision on a risk-sensitive basis. Türkiye conducted as well, the "Legal person Risk Analysis" comprising of all legal person types (notaries, accountants, independent audit institutions, lawyers) in 2021 where Türkiye determined that 5 accountants and 5 independent audit institutions represent high risk with lawyers and notaries to be quite low risk. Therefore, the 5 accountants and 5 independent audit institutions were included in the 2021 supervision of compliance program with lawyers and notaries being excluded from the scope of the supervision program for 2021.
- e) **Weighting and conclusion:** Türkiye has addressed most of the deficiencies stated in the 2019 MER. There is still a remaining minor shortcoming as the fit & proper requirements do not extend to associates of criminals from being professionally accredited or holding (or being the beneficial owner of) a significant or controlling interest in a DNFBP and a minor shortcoming on sanctions. Therefore, Recommendation 28 is re-rated as **Largely Compliant**.

Conclusion

Overall, Türkiye has made progress in addressing most of the technical compliance deficiencies identified in its MER and has been upgraded on R.8, R.12, R.15, R.22, R.26 and R.28.

The table below shows Türkiye's MER ratings and reflects the progress it has made and any re-ratings based on this and previous FURs:

Table 1. Technical compliance ratings, June 2023

R.1	R.2	R.3	R.4	R.5
LC	LC	LC	C	LC
R.6	R.7	R.8	R.9	R.10
<i>LC (FUR 2021)</i> PC	<i>LC (FUR 2021)</i> NC	<i>LC (FUR 2023)</i> PC	C	LC
R.11	R.12	R.13	R.14	R.15
C	<i>C (FUR 2023)</i> NC	LC	LC	<i>PC (FUR 2023)</i> NC LC
R.16	R.17	R.18	R.19	R.20
LC	C	<i>LC (FUR 2021)</i> PC	LC	C
R.21	R.22	R.23	R.24	R.25
C	<i>LC (FUR 2023)</i> PC	<i>C (FUR 2022)</i> PC	<i>LC (FUR 2022)</i> PC	<i>LC (FUR 2022)</i> PC
R.26	R.27	R.28	R.29	R.30
<i>C (FUR 2023)</i> PC	LC	<i>LC (FUR 2023)</i> PC	C	C
R.31	R.32	R.33	R.34	R.35
LC	LC	LC	LC	<i>LC (FUR 2021)</i> PC
R.36	R.37	R.38	R.39	R.40
LC	C	C	C	LC

Note: There are four possible levels of technical compliance: compliant (C), largely compliant (LC), partially compliant (PC), and non-compliant (NC).

Türkiye has one Recommendation rated PC. Türkiye will report back to the FATF on progress achieved in improving the implementation of its AML/CFT measures in its 5th round mutual evaluation.

Annex to the FUR

Summary of Technical Compliance –Deficiencies underlying the ratings

Recommendations	Rating	Factor(s) underlying the rating ¹⁸
1. Assessing risks & applying a risk-based approach	LC	<ul style="list-style-type: none"> • Risk assessment obligations for FIs do not explicitly cover delivery channels • No specific requirement for DNFBPs to apply enhanced measures to risks identified by the Ministry or by itself, except for certain risky transactions • No specific mechanism to share information on the results of risk assessment to all obliged entities
2. National co-operation and co-ordination	LC	<ul style="list-style-type: none"> • No overarching, national policies to combat ML/TF informed by the risks
3. Money laundering offences	LC	<ul style="list-style-type: none"> • The definition of ML is not totally in line with the Conventions as act of concealing and disguising assets requires a specific intention • The sanctions applied to the legal persons are not fully dissuasive
4. Confiscation and provisional measures	C	<ul style="list-style-type: none"> • The Recommendation is fully met
5. Terrorist financing offence	LC	<ul style="list-style-type: none"> • The sanctions applied to the legal persons are not fully dissuasive
6. Targeted financial sanctions related to terrorism & TF	PC (MER) LC (FUR 2021)	<ul style="list-style-type: none"> • Turkey's TF law does not prohibit persons from making other related services (to financial services) available to designated persons • no clear procedures to allow, upon request, review of the designation decision before a court or other independent competent authority, outside of 60-day.
7. Targeted financial sanctions related to proliferation	NC (MER) LC (FUR 2021)	<ul style="list-style-type: none"> • Not possible to assess how the new Commission on Supervision and Cooperation as monitoring authority and sanctioning powers will operate in practice
8. Non-profit organisations	PC (MER) LC (FUR 2023)	<ul style="list-style-type: none"> • Some new provisions introduced by the Law 7262 are disproportionate given Türkiye's risk and context
9. Financial institution secrecy laws	C	<ul style="list-style-type: none"> • The Recommendation is fully met
10. Customer due diligence	LC	<ul style="list-style-type: none"> • Lack of requirements for FIs to consider beneficiaries as a risk factor • Lack of explicit reference to all parties to a legal arrangement for conduct of CDD by FIs • Requirement to not to open account or terminate business relationship applying only in case of suspicion relating to customer identification, rather than all relevant CDD measures
11. Record keeping	C	<ul style="list-style-type: none"> • The Recommendation is fully met
12. Politically exposed persons	NC (MER) C (FUR 2023)	<ul style="list-style-type: none"> • The Recommendation is fully met
13. Correspondent banking	LC	<ul style="list-style-type: none"> • Minor gap regarding understanding fully the nature of the respondent's business

¹⁸ Deficiencies listed are those identified in the MER unless marked as having been identified in a subsequent FUR.

Recommendations	Rating	Factor(s) underlying the rating ¹⁸
14. Money or value transfer services	LC	<ul style="list-style-type: none"> Lack of specific mechanism aimed at identifying unregistered MVTS providers
15. New technologies	LC (MER) NC (FUR 2021) PC (FUR 2023)	<ul style="list-style-type: none"> VASPs are not required to take AML/CFT measures beyond the general preventive measures and are not subject to licensing or registration (identified in FUR 2023)
16. Wire transfers	LC	<ul style="list-style-type: none"> Lack of explicit requirements for MVTS providers to consider information on both originator and beneficiary sides to determine whether an STR has to be filed Gaps regarding implementation of targeted financial sanctions
17. Reliance on third parties	C	<ul style="list-style-type: none"> The Recommendation is fully met
18. Internal controls and foreign branches and subsidiaries	PC (MER) LC (FUR 2021)	<ul style="list-style-type: none"> No specific requirements for financial groups to apply additional measures and inform home supervisors if the host country does not permit the proper implementation of AML/CFT measures
19. Higher-risk countries	LC	<ul style="list-style-type: none"> No explicit obligation for FIs to apply enhanced due diligence measures for countries when called upon by the FATF, unless such countries are defined as high-risk by the MoTF
20. Reporting of suspicious transaction	C	<ul style="list-style-type: none"> The Recommendation is fully met
21. Tipping-off and confidentiality	C	<ul style="list-style-type: none"> The Recommendation is fully met
22. DNFbps: Customer due diligence	PC (MER) LC (FUR 2023)	<ul style="list-style-type: none"> Minor deficiencies in relation to R.10 still have an impact on R.22
23. DNFbps: Other measures	PC (MER) C (FUR 2022)	<ul style="list-style-type: none"> The Recommendation is fully met
24. Transparency and beneficial ownership of legal persons	PC (MER) LC (FUR 2022)	<ul style="list-style-type: none"> Lack of dissuasive sanctions
25. Transparency and beneficial ownership of legal arrangements	PC (MER) LC (FUR 2022)	<ul style="list-style-type: none"> Sanctions for failure to perform AML/CFT obligations are still not dissuasive No direct obligation on professional trustees to provide timely information to competent authorities
26. Regulation and supervision of financial institutions	PC (MER) C (FUR 2023)	<ul style="list-style-type: none"> The Recommendation is fully met
27. Powers of supervisors	LC	<ul style="list-style-type: none"> The amount of financial penalty for failure to comply with AML/CFT requirements not in line with R.35
28. Regulation and supervision of DNFbps	PC (MER) LC (FUR 2023)	<ul style="list-style-type: none"> Absence of measures to ensure that associates of criminals are not professionally accredited, hold or be the beneficial owner of a significant or controlling interest in a DNFBP.
29. Financial intelligence units	C	<ul style="list-style-type: none"> The Recommendation is fully met
30. Responsibilities of law enforcement and investigative authorities	C	<ul style="list-style-type: none"> The Recommendation is fully met
31. Powers of law enforcement and investigative authorities	LC	<ul style="list-style-type: none"> Not all the investigative techniques could be used by authorities in ML and predicate offences
32. Cash couriers	LC	<ul style="list-style-type: none"> False disclosure sanctions are not proportionate nor dissuasive unless it's dealt in the scope of other laws Some shortcomings to sanctions to persons carrying out cross border transportations of currency or BNI related to ML/TF offences or predicate offences
33. Statistics	LC	<ul style="list-style-type: none"> Statistics maintained by law enforcement authorities are

Recommendations	Rating	Factor(s) underlying the rating ¹⁸
		fragmented and not comprehensive
34. Guidance and feedback	LC	<ul style="list-style-type: none"> • Scope deficiency: lawyers are not covered. • Full range of competent authorities and SRBs are not involved in the establishment of guidance
35. Sanctions	PC (MER) LC (FUR 2021)	<ul style="list-style-type: none"> • Statute of limitations restricts the ability to levy administrative fines (although it has increased from five to eight years since the MER)
36. International instruments	LC	<ul style="list-style-type: none"> • Some technical gaps with the relevant elements of the conventions
37. Mutual legal assistance	C	<ul style="list-style-type: none"> • The Recommendation is fully met
38. Mutual legal assistance: freezing and confiscation	C	<ul style="list-style-type: none"> • The Recommendation is fully met
39. Extradition	C	<ul style="list-style-type: none"> • The Recommendation is fully met
40. International Co-operation	LC	<ul style="list-style-type: none"> • Lack of provisions with regard to the timeliness of responses • Some limitations in the purposes for which financial supervisors can share information • No specific requirement to prevent the misuse of information

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July 2023

Anti-money laundering and counter-terrorist financing measures in Türkiye

Follow-up Report & Technical Compliance Re-Rating

As a result of Türkiye's progress in strengthening its measures to fight money laundering and terrorist financing since the assessment of the country's framework, the FATF has re-rated the country on Recommendations 8, 12, 15, 22, 26 and 28.

Follow-up report