How effective are Suspicious Transaction Reporting System in Iraq?

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Abstract

Purpose - A cornerstone of the global anti-money laundering framework is the requirement that financial institutions are obligated to file suspicious transactions reports (STRs) to financial intelligence units. This obligation has been established by the Financial Action Task Force (FATF) Recommendations, the European Community Directive, and also the Iraqi Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) Act No.39 of 2015. The objective of this Article is to evaluate the effectiveness of the anti-money laundering reporting regime in Iraq in respect of suspicious transaction reports.

Design/methodology/approach - A descriptive approach is used to explore the result of the anti-money laundering (AML) process in Iraq. The research is based on the secondary data published in the Annual Reports of the Anti-Money Laundering and Combating the Financing of Terrorism Office in Iraq from 2016-2024 and Middle East and North Africa Financial Action Task Force (MENAFATF), Mutual Evaluation Report of Iraq in May 2024, which covers the period 2018-2022.

Findings - It is evident that the effectiveness of the Iraqi reporting suspicious transactions regime is questionable, given the relatively low number of STRs reported in light of the country's large exposure to high level of corruption, drug trafficking, fraud, human trafficking and other unlawful activities.

Research limitations/implications - The assessment of Iraqi STR regime is limited due to the lack of reliable statistics regarding the scope of money laundering (ML) activities.

Originality/value - There exists a considerable scarcity of scholarly research evaluating the reporting suspicious transaction regime under the Iraqi AML/CTF Act. Therefore, this Article seeks to provide an examination of the effectiveness of the Iraqi STRs regime. It is hoped that the study offers insights for researchers, banks, practitioners, and policymakers in Iraq.

Keywords: Iraq, Suspicious, Money laundering, Office, AML/CTF.

ما مدى فعالية نظام الابلاغ عن المعاملات المشبوهة في العراق ؟

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المستخلص

الهدف- يُعدّ إلزام المؤسسات المالية بتقديم تقارير المعاملات المشبوهة إلى وحدات الاستخبارات المالية حجر الزاوية في الإطار العالمي لمكافحة غسل الأموال. لقد تمّ تأسيس هذا الالتزام بموجب توصيات مجموعة العمل المالي (FATF)، وتوجيهات الجماعة الأوروبية، وكذلك قانون مكافحة غسل الأموال وتمويل الإرهاب العراقي رقم 39 لسنة 2015. يهدف هذا البحث إلى تقييم فعالية نظام الإبلاغ عن غسل الأموال في العراق فيما يتعلق بتقارير المعاملات المشبوهة.

التصميم/المنهجية/المنهج - يُستخدم هذا البحث المنهج الوصفي من اجل استكشاف نتيجة عملية مكافحة غسل الأموال في العراق. يستند البحث إلى البيانات الثانوية المنشورة في التقارير السنوية الصادرة عن مكتب مكافحة غسل الأموال وتمويل الإرهاب في العراق للفترة من 2016 إلى 2024، وتقرير التقييم المتبادل للعراق الصادر عن مجموعة العمل المالي لمنطقة الشرق الأوسط وشمال أفريقيا (MENAFATF) في أيار 2024، والذي يشمل الفترة من 2018 إلى 2022.

النتائج - يتضح أن فعالية نظام الإبلاغ عن المعاملات المشبوهة في العراق محل شك، نظراً للعدد المنخفض نسبياً من تقارير المعاملات المشبوهة المبلغ عنها ، في ضوء أنتشار مستويات عالية من الفساد، وتهريب المخدرات، والاحتيال، والاتجار بالبشر، وغيرها من الأنشطة غير المشروعة في العراق.

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قيود البحث/آثاره - يُعد تقييم نظام الإبلاغ عن المعاملات المشبوهة في العراق محدودًا بسبب نقص الإحصاءات الموثوقة المتعلقة بنطاق أنشطة غسل الأموال.

الأصالة/القيمة - يوجد نقص ملحوظ في الأبحاث الأكاديمية التي تُقيّم نظام الإبلاغ عن المعاملات المشبوهة بموجب قانون مكافحة غسل الأموال وتمويل الإرهاب العراقي. لذلك، يسعى هذا البحث إلى تقديم دراسة عن فعالية نظام الإبلاغ عن المعاملات المشبوهة في العراق. ويؤمل أن تُقدّم هذه الدراسة رؤى قيّمة للباحثين والبنوك والممارسين وصانعي السياسات في العراق.

الكلمات المفتاحية- العراق، مشبوهة، غسل الأموال، المكتب , مكافحة غسل الأموال وتمويل الإرهاب.

1. Introduction

When dirty money is infiltrated into legitimate financial institutions, the severe influence of them on economic development and political stability has made many bodies and countries realise the importance of combating ML activities globally. In response to this international threat, the United Nations presented three significant conventions, namely the Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances 1988, the Convention against Transnational Organised Crime 2000 and the Convention against Corruption 2003. All conventions require that all States Parties should establish ML as a criminal offence. The Group of Seven nations constituted the FATF in July 1989, and this body subsequently developed its Recommendations to institute the worldwide anti-money laundering criteria. The FATF produced the well-known 40 Recommendations in 1990, and in 1996, the FATF framework was broadened to encompass the proceeds stemming from all serious crimes, far beyond drug-related crimes. In reaction to the September 11, 2001, events, the FATF added nine ‘‘Special Recommendations’’ to fight against terrorist financing (TF) in October 2001. These Recommendations have become a widespread international strategy to combat ML and TF, as well as other related threats to the integrity of the international financial system. In February 2012, the FATF revised its Recommendations, merging the 40 Recommendations on AML with the 9 Special Recommendations on TF to form a unified framework of 40 Recommendations. Subsequently, the FATF has occasionally modernised its Recommendations to tackle developing problems, including the financing of proliferation of weapons of mass destruction.

Collectively these Recommendations for combating ML and TF chiefly emphasised the duty of financial institutions and designated non-financial businesses and professions to promptly report the suspicious transactions to the appropriate authorities. It is a criminal offence to refrain from submitting STRs to the relevant authority or deliberately submit false information. Furthermore, it is a criminal offence to reveal to a client or beneficiary or to apart from the competent authorities any of the measures related to reporting, investigation or examination, which have implemented in respect of financial transactions suspected to encompass ML or TF, or relating to the data associated with the individual. Authorised and required disclosures are not to be taken to break any limitation on the disclosure of information.

2. Evolution of the STRs Regime

The duty to report a suspicious activity has been evolved from non-reporting to non-mandatory reporting and lastly to compulsory reporting. The Basle Committee's response to the amplified global apprehension in respect of organised criminal groups and the focus of power and finance regarding drug and other criminals was to issue the December 1988 statement on prevention of criminal use of the banking system for the purpose of money laundering. The statement's primary objective is to make certain that banks are not utilised for the washing of illegitimate money. The statement includes four essential principles on prevention: proper customer identification; high ethical standards and compliance with laws; cooperation with law enforcement authorities; and policies and procedures to adhere to the statement. According to the statement, banks have no obligation to file STRs, even when they in any way suspect or have reasonable grounds to suspect any transaction perhaps connected to a predicate offence. It was merely essential that

banks ought not set out to present services or deliver active support in transactions suspected of being connected with ML operations. This situation required that banks should take appropriate measures, including, for instance, denying assistance, severing relations with the client and closing or freezing accounts.[1]

The FATF was the first body to directly address the issue of reporting suspicious transactions. In April 1990, the FATF issued its ‘‘Forty Recommendations on Money Laundering.’’ It recommended: ‘‘If financial institutions suspect that funds stem from a criminal activity, they should be permitted or required to report promptly their suspicions to the competent authorities. Accordingly, there should be legal provisions to protect financial institutions and their employees from criminal or civil liability for breach of any restriction on disclosure of…’’[2]

Obviously, the 1990 Recommendations do not make the reporting of suspicious activity mandatory, and they distinguished between the compulsory and non-compulsory reporting.[3] In 1991, the Council of Ministers of the European Community adopted the Directive aimed at preventing the financial system from being used for money laundering purposes (hereinafter known as the ‘‘Directive ’’). The Directive's objective was to respond to the new opportunities for ML activities that opened up by the liberalisation of capital flows and transnational financial services in the European Union.[4] Looking at Article 6 of the Directive shows that there is an obligation on credit and financial institutions to report suspicious transactions to the competent national authorities. Pursuant to the Directive, this duty is the most efficient measure to ensure the collaboration among financial institutions, judicial, and law enforcement. Furthermore, Article 12 was extended to include professions… which engage in

activities, which are particularly likely to be used for money laundering purposes.[5]

The FATF revised its Recommendations in 1996 to adapt to the evolving ML activities and to expand their scope beyond drug-money laundering. Importantly, the revision made the significant change in which the reporting regime was made compulsory.[6] This shift in position represented a substantial direction by requiring that each State should have a mandatory reporting system for the suspicion of criminal activity, which also required that suspicion should be reported ‘‘promptly,’’ a word, which had not been formerly used.[7]

Additionally, the FATF extended the financial Recommendations to encompass the non-financial businesses.[8] Currently, the obligation to report suspicious transactions is an essential indicator to identify any lack of adherence of Member States worldwide, that is, ‘‘lack of an efficient suspicious transactions reporting system; absence of an efficient mandatory system for reporting suspicious or unusual transactions; and lack of monitoring and criminal or administrative sanctions in respect to the obligation to report suspicious or unusual transactions.’’[9]

3. The STRs Regime in Iraq

The STRs regime is a core element in the fight against ML activities and other financial offences. It is defined as a part of information that notifies law enforcement of suspicious activity that is potentially connected to ML or TF.[10]The importance of the duty to report suspicious transactions is undisputed. Firstly, it fights against offence, in particular organised offence, by disrupting it and in this way reducing it; secondly, it detects, investigates and prosecutes money launderers and those who have perpetrated predicate offences; and thirdly, it recovers proceeds of crime.[11]Moreover, reporting duties are aimed at providing the

relevant authorities with information about suspicious or uncommon transactions (or information that permits them to filter such transactions), therefore permitting those authorities to rebuild the paper trail towards the predicate offence and its committers.[12]

However, the STRs regime is relatively new in Iraq. Looking at the Coalition Provisional Authority Order No. 93 of 2004, ‘‘Anti-Money Laundering Act’’ shows that the Act imposed an obligation on financial institutions to inform the office for the reporting of money laundering of the suspicious transaction, comprising all realities and conditions. The STR obligation arises when the overall amount involved in the transaction or succession of possibly connected transactions equals or surpasses IQD 4,000,000, or in the instance of suspected structuring transactions to avoid reporting obligations, irrespective of the sum. The STR has to be made as promptly as is reasonably possible, but in any event, within 14 days following the occurrence of the event that gives rise to suspicion or gives reason for suspicion.[13]The Act defined a suspicious transaction as a transaction, encompassing, without limitation, the setting up of an account, if the financial institution has knowledge, suspicion, or reason to suspect that:

a. the transaction encompasses funds acquired through illicit actions or ML, or it is carried out with the aim of avoiding any Act or regulation or for avoiding any transaction reporting requirement imposed by any law or regulation, encompassing but without being restricted to the provisions of Article 20 of this Act;

b. the transaction encompasses funds meant for the funding of offence, including, without limitation, terrorism;

c. the transaction encompasses assets or funds which are at the disposal of a criminal organisation;

d. the transaction is devised to avoid any duties of this Law or any regulations or orders enacted in accordance with this Act; or
e. the transaction lacks obvious business or legal objective or does not the type wherein the specific client would usually be anticipated to involve, and the bank is unaware of any reasonable justification for the transaction following reviewing the relevant information, encompassing transaction's background and possible goal.[14]

The failure to file the STR would be subject to a fine not exceeding IQD 10,000,000, or to imprisonment for a period not exceeding 1 year, or face both penalties.[15]

The AML/CTF Act repealed Order 93 in 2015. The current Act requires financial institutions and designated non-financial businesses and professions to report to the Anti-Money Laundering and Counter-Financing of Terrorism Office (hereinafter known as the ‘‘Office ’’) immediately any transaction suspected of involving ML or TF, whether it was conducted or not.[16] The expression ‘‘whether this transaction was conducted or not’’ extends the scope of the reporting requirements to attempted suspicious transactions. Pursuant to Article 1(18), the Act defines ‘‘suspicious transaction’’ as any transaction believed to include, in part or in whole, proceeds acquired from a predicate offence.

Furthermore, the Act, in Article 1(7), sets out the definition of predicate offence to include any offence pursuant to Iraqi law, be it a felony or a misdemeanour. Moreover, under Article 1(6), the Act defines proceeds of an offence as funds created or acquired directly or indirectly, fully or partly, from the perpetration of one of the predicate crimes. Notably, Article 12(5) (b) of the Act does not require lawyers and other independent accounting and legal professionals to report a transaction if the related information was acquired in conditions where they are subject to professional

confidentiality. The Act, in Article 26 (f), grants the supervisory authorities the power to inform the Office immediately of any information related to suspicious transactions that may be related to ML, its predicate offences, or TF.

When the Office receives the STRs, it then analyses them, and the Office can, in performing its tasks, obtain from reporting parties or any other body any extra information it considers valuable for conducting analysis. Under Article 9 (1/c), the Act grants the Office the power to defer the implementation of the financial transaction or operations for a maximum duration of 7 business days in the event of fright of smuggling the proceeds or damaging the progress of the analysis. Article 9 (1/d) of the Act states that when reports are founded on reasonable grounds to suspect ML, TF, or predicate offences, the Office should refer them to the Public Prosecution Presidency to take legal actions and notify relevant authorities.

Additionally, the Act provides a protection for whistleblowers of ML activities or TF. As it grants the court the power to exempt from the sentence whoever initiates informing any relevant authority of the presence of an illegal agreement to perpetrate an offence of ML and TF and of those involved in it before the offence took place and before the relevant authorities search and investigate those committers. The court can also waive or decrease the sentence if the notice takes place following the offence has transpired, provided that it enables the arrest of the committers and the seizure of the funds stemming from the offence.[17] More specifically, it is well established that financial institutions have a legal duty to secure the confidentiality of all customer information. The Act overrides the banking secrecy rule. It shields financial institutions from accountability associated with sharing suspicious operations and essential

account information with the competent authorities. It provides that there is no criminal or disciplinary responsibility for whosoever reports in *bona fide* any of the suspicious activities under this Act's provisions or provides information or data related thereto, notwithstanding that it is demonstrated to be inaccurate.[18]The obligation of banks to keep customers' personal data confidential has been replaced with the obligation of disclosure. The Act, in Article 12(4) requires banks to disclose to the competent authorities the lawful procedures taken with respect to transactions or financial activities that they suspect to be ML and TF.

Pursuant to Article 39(2) (a) of the Act, the failure to file the STR would be punishable by imprisonment for a term not surpassing 3 years as well as a fine of at least IQD 15,000,000 and not surpassing IQD 50,000,000 or by either penalty separately. The same sentence would be imposed on whoever reveals to the client or beneficiary or to apart from the competent authorities to implement this Act's provisions, any of the measures related to reporting, investigation or examination, which have implemented in respect of financial transactions suspected to encompass ML or TF, or regarding the data linked to the individual.[19]

A strong bank reputation obtains from compliance with the AML/CFT obligations. Effective AML/CFT compliance programmes serve a broader public good: they ensure financial transparency and integrity, which in turn safeguards national security and economic well-being. When banks rigorously verify customers, monitor transactions, and report suspicious activity, they help disrupt illicit networks that generate ‘‘hot money’’ flows, prevent the destabilisation of economies, and uphold the rule of law.[20] Conversely, failure to comply with the AML/CFT obligations can also impact a bank's renown. For instance, in

2024, TD Bank consented to pay penalties surpassing 1.8 billion USD to resolve the investigation of the United States Department of Justice regarding breaches of the Bank Secrecy Act as well as ML activities. The consequences for TD Bank were significant. It consented to forfeit $452,432,302.00 and to remit a criminal fine of $1,434,513,478.40, for an overall monetary sanction of $1,886,945,780.40.[21] Additionally, in 2024, the New York State Department of Financial Services fined Nordea Bank 35 million USD for AML compliance failures.[22] Both cases generated negative publicity toward the banks. When a bank's renown is damaged, it may face severe repercussions on its business. In respect of TD Bank, for example, the Bank consented to maintain an independent monitor for compliance purposes for a period of 3 years and to undertake remediation as well as enhancement of its AML compliance programme. Consequently, banks have sustained considerable compliance expenditures to evade such jeopardies. The resources devoted to averting the jeopardies to renown can surpass the cost of the ML jeopardy itself.[23]

4. Effectiveness of the STRs Regime

While the STRs regime is one of the most traditional tools for combating ML and TF, its effectiveness has been questioned. Levi claims that the STR regime may only be capable of targeting the most uncomplicated cases of laundering. However, it did not succeed in making the conviction of complicated money launderers.[24] The Home Affairs Select Committee of the House of Commons, United Kingdom, issued a statement concerning deficiencies in the SARs submission process. It states that ''we'' have expressed longstanding concern that the ELMER regime for Suspicious Activity Reports (SARs) is overburdened and consequently made entirely ineffective. The ELMER regime presently processes 381,882 SARs although being intended to

manage only 20,000, and of this total, only 15,000 are analysed in detail. ‘‘We’’ have repeatedly advised the Government that the regime has to be substituted. The failure of ELMER has rendered the SARs regime an ineffective tool in the international fight against ML and corruption.[25]Additionally, Sir Stephen Lander reviewed the STR system in the UK in 2006, and observed that it had several weaknesses. Certain weaknesses encompass:

- an lack of any single organisational concentration for the work and of backing regime-wide governance arrangements;
- the uneven training;
- weak communication between the reporting sectors and the regulators;
- an absence of feedback from law enforcement on the achievements attained;
- the restricted functionality available for accessing and manipulating the centralised database of SARs; and
- An uneven law enforcement exploitation of the chances provided by the disclosures made.[26]

In his Article, Chaikin questioned the effectiveness of the Swiss STR regime due to serious underreporting of suspicious transactions. He argued that effective Know Your Customer rules would lead to a high number of the STRs, taking place in the initial stages until the criminals and individuals involved in ML realise that they could be liable for disclosure reports if they engage with a financial mediator.[27] Subbotina argued that the increasing number of the STRs can be attributed to the intention of banks to evade errors and underreporting.[28]Johnston and Carrington pointed out that the defensive reporting may constitute problems because it overloads the authorities with enormous of reports, therefore decreasing the efficacy of analysis and the investigation process, even under circumstances where the initial

allegations were well-founded.[29] Matthew Fleming noted that the STRs were under-utilised by most law enforcement agencies. He particularly criticised the regime due to law enforcement bodies continuing to have poor management information on how SARs are utilised.[30] Aspalella A. Rahman found that the STR regime has obviously had an important effect on the processes of banks in Malaysia. Although the regime relies on proper criteria, the effectiveness of the regime continues to be uncertain.[31]Mariappan and Haq concluded that the effectiveness of the Indian STR regime is questionable because the count of STRs reported is comparatively low, taking into account the high level of criminal activities in India, such as corruption, drug trafficking, tax evasion, human trafficking, voluminous circulation of counterfeit currency, and other unlawful trades.[32] Suntura found that in Spain, there is complexity regarding the present measures pursued by regulated bodies to analyse uncommon transactions. This leads to challenges in the reporting of suspicious transactions related to ML. Consequently, the suspicious transaction cases reported to the external control authority are often vague, and the associated process lacks effectiveness.[33]

5. AML/CFT Regime in Iraq – an analysis

5.1. Methodology

A descriptive approach is utilised to explore the result of the AML process in Iraq. The research is based on the secondary data set forth in the Annual Reports of the AML/CFT Office in Iraq from 2016 to 2024 and the MENAFATF, Mutual Evaluation Report of Iraq in May 2024, which covers the term 2018-2022. This study is aimed at assessing the STR as a protective function of the AML system. STRs provide regulatory authorities forewarning of potential AML activities, enabling them to investigate and analyse them before they are completed. For

assessing the effectiveness of STR in Iraq, various key variables are considered, including the number of STRs submitted, the involvement of subject entities in STRs, the rate of information sharing and referrals to the Public Prosecution. The variables utilised are limited because of paucity of statistics, since agencies engaged in the AML activities preserve secrecy. The effect of the AML function is assessed in accordance with the number of investigations and convictions, as well as confiscation value.

5.2. STRs in Iraq

Table 1 offers particulars of the STRs received by the Office during the period 2016-2024. It shows that the Office received 5152 reports of suspected ML, which included 4805 relating to individuals bound by the reporting duty, 256 from the supervisory bodies over such individuals, as well as 91 from nationals.

Table No. (1): Number of reports received by the Office regarding suspected money laundering

Entity	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total
Central Bank of Iraq	4	7	31	30	24	24	5	11	62	198
Ministry of Commerce	-	-	1	0	-	-	-	-	-	1
Financial Supervision Bureau	-	-	1	1	1	1	1	-	-	5
Ministry of Planning	-	-	-	-	-	-	5	-	-	5
Iraq's Stock Exchange	-	-	16	13	12	5	4	-	-	50
Total of Reports from supervisors and	4	4	49	44	37	30	15	11	62	256

regulators										
E-payment companies	-	-	1	1	13	59	38	-	-	112
Exchange companies (category (a) & (b))	-	-	5	3	437	397	428	-	-	1270
Exchange companies (category c)	-	-	-	-	-	-	14	-	-	14
Total report from non-bank FIs			6	4	450	456	480			1396
Total of banks			158	143	110	135	82	672	451	1751
Lawyers	-	-	0	1	1	0	1	-	-	3
Natural persons	-	-	4	11	8	7	8	53	-	91
Total			217	203	605	628	586			5152

Source: MENAFATF Mutual Evaluation of Iraq and Annual Reports of the AML/CFT Office in Iraq.

The table above clearly shows that financial institutions in Iraq are the main source of the STRs. It also shows that beginning in 2020, a significant increase has been observed in the number of STRs submitted by exchange companies falling within categories (a) and (b). This is attributed to the enhanced role of the reporting departments within financial institutions, applying customer due diligence measures, monitoring transactions, and reporting any suspected ML and TF activity to the Office. Notwithstanding the quantitative increase, the qualitative analysis of these STRs that were submitted by exchange companies revealed a lower standard than those submitted by the banks. This conclusion was made based on the outcomes of the reports after referring them to the Public Prosecution and law enforcement agencies. It is observed that the quantity of STRs received from banks as well as exchange companies is, in general low, with no reports submitted

by other financial institutions. This can be attributed to the actuality that a total of only 27 banks, out of a group of 76 banks, offer currency transfer services, and engage in transactions involving United States dollars. Among the banks that do not offer this service and do not engage in United States dollar transactions, a single institution holds an 85% stake of the overall assets within the banking sector. Another reason derives from the underdeveloped nature of banking products in Iraq, and their use is limited among a major part of the population, mainly considering that the rate of financial inclusion stood at 33.5% in 2021, compared to 20.8% in 2017, as well as the coronavirus pandemic.[34]

The low volume of STRs submitted by exchange companies classified under category (C), which comprises a total of 402 companies, can be attributed to the limited role of their activities. They are mainly engaged in converting Iraqi dinars to US dollars for the purpose of specific financial transactions, for instance scholarships, medical treatment grants, and tourism grants. It is clearly observed that no STRs have been submitted by insurance companies and securities brokerage companies. Nevertheless, the effect of this absence is considered to be limited to a certain extent, since 7 insurance companies, which provide life assurance policies, and 39 securities brokerage companies were classified as low risk and represent a minor proportion of the overall assets within the financial sector. The differences in both the number and the quality of STRs submitted by banking and non-banking financial institutions, as stated previously, affect the financial intelligence backing, which may be offered by the Office for discovering ML, related predicate offences, and TF, as well as tracing the proceeds of crime. The near-total absence of STRs from designated non-financial businesses and professions denotes

an absence of information, which could be offered to the Office and that can support the detection and the tracing of the ML, predicate offences, and TF within these sectors.[35]

Table 2 shows that the STRs submitted to the Office seem to be of acceptable quality. STRs submitted by banks are of a higher quality than those submitted by exchange companies. Further, it has been observed that the quality of STRs submitted by banks has shown improvement on a yearly basis, whereas those submitted by exchange companies continue to be inconsistent as well as unequal.[36]

Table No. (2): The Office's evaluation of the quality of STRs received from banks and non-banking financial institutions for the period 2018 – 2022.

Reporting entity	Year	Good	Moderate	Acceptable	Poor	Total
Banks	2018	86	60	12	9	167
		51%	36%	7%	5%	100%
	2019	84	52	8	6	150
		56%	35%	5%	4%	100%
	2020	68	38	6	3	115
		59%	33%	5%	3%	100%
	2021	89	38	9	3	139
		64%	27%	7%	2%	100%
	2022	76	3	2	3	84
		90%	4%	2%	4%	100%
Non-banks FIs	2018	2	3	-	1	6
		33%	50%	-	17%	100%
	2019	1	2	1	-	4
		20%	50%	25%	-	100%
	2020	95	206	125	55	481
		20%	43%	26%	11%	100%
	2021	103	188	145	41	477
		22%	39%	30%	9%	100%
	2022	117	220	122	30	489
		24%	45%	25%	6%	100%

Source: MENAFATF Mutual Evaluation of Iraq

As shown in table 3 below, the Office received 115 reports of suspected TF, comprising 88 from financial institutions, and 27 from the Central Bank of Iraq, and the Presidency of the Council of Ministers/NGO Division. This largely limited number can be grounded in the fact that terrorist organisations have often used traditional channels for funding, as they primarily depend on the tangible transfer of funds and utilise the unregulated sector to enable their transactions. Support for this derives from the just 36 bank accounts that were prudentially frozen. Furthermore, it appears that the inclusion of 4497 persons on the national sanctions roster, in application of United Nations Security Council Resolution 1373 (2001), would reduce the risks of the financial sector being exploited for TF.[37]

It indicated that the Office disseminated 42 files associated with TF to the Public Prosecution. The reality is that certain of the files encompass a count of STRs, proposes that a appropriate volume of these STRs are of high quality and are superior in comparison to STRs associated with ML and predicate offences.[38] In relation to the Office's terrorism financing linked referrals totalling 42 cases associated with 115 STRs, 10 convictions were rendered, whereas 32 remain under consideration.[39]

Table No. (3): Number of reports received by the Office regarding suspected terrorism financing.

Entity	2018	2019	2020	2021	2022	Total
Central Bank of Iraq	-	1	10	5	-	16
Ministerial Cabinet / NGO Dept	1	7	-	1	2	11
Exchange companies (category (a) and (b))	-	-	31	21	9	61
Banks	9	7	5	4	2	27
Total						115

Source: MENAFATF Mutual Evaluation of Iraq

5.3. Disseminations of STRs (2018-2022)

Upon receipt of the STRs by the Office, the subsequent step is the analysis and dissemination of information filed pursuant to the STR. Statistics pertaining to the dissemination of information is of limited availability. Table 4 shows that between 2018 and 2022, the Office had disseminated a total of 1536 STRs to law enforcement agencies, supervisory authorities and specific parties. In this regard, 684 parts of information encompassed in 540 STRs were shared with law enforcement authorities, 763 with supervisory authorities, 89 with designated entities, and 6 were spontaneously shared with overseas counterpart financial intelligence units. Law enforcement authorities initiated investigations in respect of all referrals, which resulted in a considerable number of convictions before the courts of first instance with 102 cases, while 34 were archived, and 91 continued to be under investigation.[40]

Table No. (4): Dissemination of STRs (2018-2022).

Years	Referral to law enforcement authorities	Referrals to supervisory authorities	Referral as per competence	Total
2018	90	99	10	199
2019	89	145	18	252
2020	210	226	19	455
2021	125	164	17	306
2022	170	129	25	324
Total	684	763	89	1536

Source: MENAFATF Mutual Evaluation of Iraq

5.4. The Referral of STRs to the Public Prosecution

The Office is obligated to refer STRs to the Public Prosecution Office and notify relevant authorities. Table 5 gives the statistics related to the referrals that had actually been made as of 2016-2024, totalling 585 referrals. It is observed that the number of referrals in 2017 nearly doubled in comparison to 2016, with a constant upward trend in subsequent years, with the exception of

a decline observed in 2020. The year 2023 saw the highest number of referrals, reaching 209. Because of the absence of detailed statistical data, it cannot be inferred as to how many of the 585 referrals relate to suspected ML or suspected TF. However, available statistics show that, between 2018 and 2022, the Office received 2239 money laundering - linked STRs and 115 terrorist financing - linked STRs. The Office referred 181 reports to the Public Prosecution, comprising 139 referrals in respect of suspected ML, in reliance on 224 STRs and 42 referrals in respect of suspected TF, in accordance with all TF relevant STRs totalling 115. Therefore, approximately 11% of money laundering-linked STRs and 100% of terrorist financing-linked STRs were referred to the Public Prosecution. Notwithstanding the obvious limited number of money laundering-connected STRs conveyed by the Office to the Public Prosecution, in comparison with the number conveyed to other bodies, however, every one of them were submitted to the investigative courts. Of these, 54 cases that account for 39 % of STRs were referred to the court of first instance, resulting in 20 convictions; this is 33% and the archiving of 7 cases. With respect to terrorist financing-related referrals, a total of 42 cases associated with 115 STRs, resulting in 10 convictions, were rendered, while 32 cases remain under consideration. It is possible to infer that a rational proportion of the analyses of the Office and referrals presented backing to the operative requirements of the investigative and judicial bodies. Specifically, approximately 33% of money laundering-linked referrals and 24%of terrorist financing-linked referrals reached the court of first instance.[41]

Table No. (5): Number of reports referred to the Public Prosecution (2016 - 2024)

Year	Referring to the Public Prosecution	Keeping	In progress
2016	8	19	53
2017	15	18	150
2018	25	129	154
2019	34	180	192
2020	24	302	301
2021	39	425	181
2022	59	155	383
2023	209	-	332
2024	172	-	138
Total	585	1228	1884

Source: Annual Reports of the AML/CFT Office in Iraq.

5.5. Convictions

During the period from 2018 to 2022, statistics are available on investigations that are triggered because of STRs or convictions that are based on such investigations. Nevertheless, these statistics cover only banks and exchange companies, excluding other reporting entities. Therefore, it is not possible to infer the overall count of investigations as well as convictions. However, it indicated that while banks submitted fewer STRs compared to exchange companies, these reports resulted in 11 ML convictions, in contrast to only 3 convictions arising from STRs submitted by exchange companies. This finding further applicable to the reports instinctively referred by the Office to law enforcement agencies. STRs filed by banks led to the beginning of 131 investigations, resulting in 5 convictions for predicate crimes. Conversely, the submission of STRs by exchange companies led to 113 investigations, resulting in 43 convictions for predicate crimes. The volume of STRs submitted by banks as well as exchange companies remains, in general, low, with an absence for other financial institutions. This could be attributed to the reality that a total of only 27 banks, out of a group of 76, offer fund

transfer services and conduct transactions in United States dollars.[42]

5.6. Confiscation

No statistics are available regarding the amounts of funds confiscated during the period 2016 to 2017. Nevertheless, table 6 provides details on the funds confiscated between 2018 and 2022, amounting to a total of USD 3,157,573,642, which constitute a major source of revenues for the State treasury.

Table No. (6): Statistics concerning the total amount confiscated of funds for (2018-2022)

Years	2018	2019	2020	2021	2022
Amounts which were confiscated	481,432,940	659,772,555	126,056,112	264,156,560	1,626,155,475
Total in USD	3,157,573,642				

Source: MENAFATF Mutual Evaluation of Iraq

A significant portion of funds confiscated from corruption activities is obvious, because corruption constitutes one of the most severe crimes in Iraq. This is attributable to the value of confiscated proceeds stemming from corruption activities appraised at around 2.7 billion USD that represents 85% of the overall confiscations, with customs evasion ranking second. Confiscations associated with customs added up to USD 91,364,553, of which USD 22,077,910 stemmed from the smuggling of oil derivatives, categorised as a customs crime since the smuggling occurred in the customs region. With regard to transnational smuggling of oil, it comes under the category of smuggling oil derivatives, with an overall value of confiscated funds adding up to USD 13,683,516. It indicated that ML connected to confiscations attained a minimum of 18 million USD and almost 66 million USD, constituting the fines levied

because of the disposal of funds that form the basis of the offence. The value of real property has not been appraised; however, a number of case studies on laundered funds stemming from corrupt activities were examined and the confiscated real property was appraised at large quantities. As a consequence, the inability to appraise them as an entirety would prevent the formulation of a clear conclusion on this matter.[43]

It is noteworthy that out of the 62 ML convictions, only 17 included confiscations, which constitutes 27.4% of the overall convictions. In instances involving the disposal of confiscated funds, fines shall be imposed by the competent authority equal to the value of those funds. Furthermore, the majority of the convictions are attributed to stand-alone money laundering, totalling 25 convictions out of 62 ML convictions, and constituting 40% of the overall ML convictions. Nevertheless, this does not seem to have had a substantial influence on the efficacy of the confiscation system, as the overall value of the confiscated funds upon sentencing surpassed 3 billion USD.[44]

After all, it should be acknowledged that Iraq has taken steps to curb ML through the confiscation of illicitly obtained funds since the AML/CTF has been enacted; however, such progress remains insufficient. The value of confiscated proceeds does not represent the overall amount of illicit funds that exited from Iraq. As reported in Transparency International's 2024 Corruption Perceptions Index, Iraq is the 140 least corrupt nations out of 180 countries.[45]In 2021, the former Iraqi president stated that at least 150 billion USD had been stolen and smuggled out of the country since 2003.[46]

6. Conclusion

This paper was aimed at assessing the effectiveness of the STRs regime in backing AML efforts in Iraq during the period from 2016 to 2024. The main finding is that the reporting regime of Iraq is questionable, due to the relatively low volume of STRs reported, considering the high level of illegitimate activities. Increasing the effectiveness of the STRs regime could be accomplished by focusing on two key issues. The first issue is concerned with enhancing the awareness of financial institutions, particularly non-banking financial institutions and designated non-financial businesses and professions, about risks and duties linked to ML and TF, as well as the application of a risk-based approach to adopt particular procedures for mitigating those risks. Still, there is a limited understanding of these entities regarding the reporting of STRs. Therefore, the submission of STRs to the Office was generally low in number. The second issue is related to the enhancement of statistics availability about STRs. Complete and dependable data have not been available. Although the Office is obligated to receive, analyse and then disseminate STRs, these data are still not completely systematic. Moreover, the AML/CFT Act should explicitly place a legal duty on law enforcement agencies and even on individuals to submit STRs, as they are not considered reporting entities. These steps would considerably improve understanding of the STRs regime and of its effectiveness and would strengthen the regime's capability of meeting its intended aims.

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