



# REPUBLIC OF NAOERO

## NATIONAL RISK ASSESSMENT – REPUBLIC OF NAOERO 2025

### MONEY LAUNDERING, TERRORIST FINANCING AND PROLIFERATION FINANCING (ML/TF/PF)

SEPTEMBER 2025

REPUBLIC OF NAOERO

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## FOREWARD

The Republic of Naoero remains steadfast in its commitment to protecting the integrity of its financial system and upholding international standards to combat money laundering, terrorist financing, and proliferation financing. This is *Naoero's Anti-Money Laundering and Terrorist and Proliferation Financing National Risk Assessment 2025* (NRA 2025). This 3<sup>rd</sup> NRA marks a pivotal step in strengthening our domestic resilience and affirming our role as a responsible member of the global financial community. It follows the initial 2018 NRA and the subsequent 2023 NRA.

In line with our obligations under the Asia/Pacific Group on Money Laundering (APGML) and the Financial Action Task Force (FATF), this NRA incorporates the expanded scope of risk analysis, including targeted financial sanctions and proliferation financing. It also aligns with Naoero's National Sustainable Development Strategy (NSDS), particularly Cross-Goal 2, which calls for strengthened governance, transparency, and institutional legitimacy.

This is the 3<sup>rd</sup> NRA Report for the Republic of Naoero, following previous assessments conducted in 2018 and 2023. The 2018 and 2023 NRAs provided critical insights and guidance that enabled the Government to take targeted action to strengthen compliance with Anti-Money Laundering, Combatting the Financing of Terrorism, and Proliferation Financing (AML/CFT/PF) obligations. Both reports contributed substantively to Naoero's 2023 Mutual Evaluation (ME), which assessed the effectiveness and technical compliance of the national AML/CFT/PF framework.

As a result of sustained commitment and reform, Naoero currently holds the highest

Technical Compliance ratings in the Pacific region and second highest among APGML member jurisdictions. The Government has invested significant resources to ensure that laws addressing money laundering, terrorist financing, and proliferation financing remain current, responsive, and aligned with evolving international standards. The outcome of the mutual evaluation confirms the operational independence and autonomy of the Naoero Financial Intelligence Unit (NFIU).

This assessment was developed through close collaboration between government agencies, law enforcement, supervisory authorities, and private sector stakeholders. It reflects our shared determination to identify and address vulnerabilities, enhance institutional coordination, and ensure that our legal and regulatory frameworks are fit for purpose. A substantial amount of research and information gathering was undertaken to ensure this assessment accurately reflects Naoero's current risk landscape.

Offences related to money laundering, terrorist financing, proliferation financing, and other financial crimes carry serious consequences. These acts have the potential to undermine financial markets, erode financial integrity, and damage national reputation. Reputational harm, in particular, can have long-lasting effects which takes years to repair.

One of the most concerning impacts is the undue financial pressure placed on legitimate businesses and operators. When systems are compromised or perceived as vulnerable, even compliant entities may face increased scrutiny, reduced access to financial services, and reputational spill-over.

This NRA seeks to mitigate such risks by providing a clear, evidence-based foundation for targeted reforms and proactive supervision. As a small island developing state, Naoero



faces unique challenges, including limited financial infrastructure and resource constraints. Yet these same characteristics demand heightened vigilance and tailored responses.

The 2025 NRA continues Naoero's systematic review of its domestic AML/CFT/PF compliance framework. It serves as a strategic foundation for risk-based supervision, legislative reform, and capacity-building across priority sectors, including banking, remittance services, legal practice, and government procurement. To maintain alignment with international standards, Naoero must regularly reassess the threats and vulnerabilities it faces. The 2025

NRA fulfils this obligation by providing an updated, evidence-based analysis to inform national policy and operational responses, including responding to recommendations of the ME Report.

The 2025 National Risk Assessment (NRA) was conducted by an independent consultant.

We extend our sincere appreciation to all contributors and reaffirm our commitment to continuous improvement, regional and international cooperation, and the protection of the Republic of Naoero, its people and institutions from financial crime and abuse.

Loretta Teueli  
**Acting Chairperson**  
**Anti-Money Laundering Governance Council**

**30/04/26**

## Table of Acronyms

|                         |                                                                                     |
|-------------------------|-------------------------------------------------------------------------------------|
| <b>ADB</b>              | Asian Development Bank                                                              |
| <b>AFP</b>              | Australian Federal Police                                                           |
| <b>AMLGC</b>            | Anti-Money Laundering Governance Council                                            |
| <b>AMLOC</b>            | Anti-Money Laundering Official Committee                                            |
| <b>AMLPPC</b>           | Anti-Money Laundering Private Partnership Committee                                 |
| <b>AML/CFT/CPF</b>      | Anti-Money Laundering, Combating Financing of Terrorism and Proliferation Financing |
| <b>AML-TFS Act 2023</b> | Anti-Money Laundering and Targeted Financial Sanctions Act 2023                     |
| <b>APG</b>              | Asia/Pacific Group on Money Laundering                                              |
| <b>ASYCUDA</b>          | Automated System for Customs Data System                                            |
| <b>ATMs</b>             | Automated Teller Machines                                                           |
| <b>AUD</b>              | Australian Dollar                                                                   |
| <b>AUSTRAC</b>          | Australian Transaction Reports and Analysis Centre                                  |
| <b>BCR</b>              | Border Currency Report                                                              |
| <b>BO</b>               | Beneficial Ownership                                                                |
| <b>CBI</b>              | Citizenship by Investment                                                           |
| <b>CDD</b>              | Customer Due Diligence                                                              |
| <b>CFT/CTF</b>          | Combating Financing of Terrorism                                                    |
| <b>CPF</b>              | Combating Proliferation Financing                                                   |
| <b>CTRs</b>             | Cash Transaction Reports                                                            |
| <b>CTTOC</b>            | Counter Terrorism and Transnational Organised Crime 2004                            |
| <b>DFA</b>              | Development Fund Act 2011                                                           |
| <b>DJBC</b>             | Department of Justice and Border Control                                            |
| <b>DNFBPs</b>           | Designated Non-Financial Businesses and Professions                                 |
| <b>DPP</b>              | Director of Public Prosecutions                                                     |
| <b>EFTPOS</b>           | Electronic Funds Transfer at Point of Sale                                          |
| <b>EMCCA</b>            | Environmental Management and Climate Change Act 2020                                |
| <b>EFTPOS</b>           | Electronic Funds Transfer at Point of Scale                                         |
| <b>FATF</b>             | Financial Action Task Force                                                         |
| <b>FI</b>               | Financial Institution                                                               |
| <b>FIU</b>              | Financial Intelligence Unit                                                         |
| <b>GDP</b>              | Gross Domestic Product                                                              |
| <b>GNI</b>              | Gross National Income                                                               |
| <b>IMF</b>              | International Monetary Fund                                                         |
| <b>ISMA</b>             | International Seabed Mineral Act 2015                                               |
| <b>LEAs</b>             | Law Enforcement Agencies                                                            |
| <b>MACMA</b>            | Mutual Legal Assistance in Criminal Matters Act 2004                                |
| <b>ML</b>               | Money Laundering                                                                    |
| <b>MER</b>              | Mutual Evaluation Report                                                            |
| <b>MOU</b>              | Memorandum of Understanding                                                         |
| <b>MVTS</b>             | Money or Value Transfer Services                                                    |

|                |                                                       |
|----------------|-------------------------------------------------------|
| <b>NAC</b>     | Naoero Agency Corporation                             |
| <b>NAPP</b>    | Naoero-Australia Policing Partnership                 |
| <b>NCS</b>     | Naoero Customs Service                                |
| <b>NCC</b>     | Naoero Chamber of Commerce                            |
| <b>NFIU</b>    | Naoero Financial Intelligence Unit                    |
| <b>NFMRA</b>   | Naoero Fisheries and Marine Resources Authority       |
| <b>NGOs</b>    | Non-Government Organizations                          |
| <b>NLS</b>     | Naoero Law Society                                    |
| <b>NMA</b>     | Naoero Maritime Administration                        |
| <b>NMPA</b>    | Naoero Maritime and Ports Authority                   |
| <b>NPF</b>     | Naoero Police Force                                   |
| <b>NPO</b>     | Non-Profit Organization                               |
| <b>NRA</b>     | National Risk Assessment                              |
| <b>NRO</b>     | Naoero Revenue Office                                 |
| <b>NSL</b>     | Naoero Shipping Line                                  |
| <b>NUC</b>     | Naoero Utilities Corporation                          |
| <b>OECD</b>    | Organisation for Economic Cooperation and Development |
| <b>ODPP</b>    | Office of the Director of Public Prosecutions         |
| <b>PACLI</b>   | Pacific Islands Legal Information Institute           |
| <b>PEP</b>     | Politically Exposed Person                            |
| <b>PF</b>      | Proliferation Financing                               |
| <b>PFIC</b>    | Pacific Financial Intelligence Community              |
| <b>POCA</b>    | Proceeds of Crime Act 2004                            |
| <b>PSPs</b>    | Payment Service Providers                             |
| <b>PTCN</b>    | Pacific Transnational Crime Network                   |
| <b>RONLAW</b>  | Republic of Naoero's Online Legal Database            |
| <b>RONPHOS</b> | Republic of Naoero Phosphate Corporation              |
| <b>RPC</b>     | Regional Processing Centre                            |
| <b>SAR</b>     | Suspicious Activity Report                            |
| <b>SOE</b>     | State Owned Enterprise                                |
| <b>STR</b>     | Suspicious Transaction Report                         |
| <b>TCSP</b>    | Trust or Company Service Provider                     |
| <b>TCU</b>     | Transnational Crime Unit                              |
| <b>TIN</b>     | Tax Identification Number                             |
| <b>TF</b>      | Terrorist Financing                                   |
| <b>TFS</b>     | Targeted Financial Sanctions                          |
| <b>UN</b>      | United Nations                                        |
| <b>UNCAC</b>   | United Nations Convention against Corruption          |
| <b>UNCTAD</b>  | United Nations Conference on Trade and Development    |
| <b>UNSCR</b>   | United Nations Security Council Resolution            |
| <b>VAs</b>     | Virtual Assets                                        |
| <b>VASPs</b>   | Virtual Asset Service Providers                       |



## *Executive Summary*

This is Naoero's third money laundering (ML), terrorist financing (TF) and proliferation financing (PF) national risk assessment (NRA), and its aim is to identify, assess and understand ML, TF and PF risks facing the country. The NRA is also intended to provide the basis for National Anti-Money Laundering, Combating Terrorist Financing and Proliferation Financing (AML/CFT/PF) Strategy and Action Plan, which, together with the findings from Naoero's 2024 Mutual Evaluation Report (MER) and Follow-up Reports, will lay the foundation for further strengthening Naoero's AML/CFT/PF regime.

The Financial Action Task Force (FATF) is an inter-governmental body whose objectives are to set global standards, to promote and review the effective implementation of legal, regulatory and operational AML/CFT/PF measures. Naoero has been a member of the Asia-Pacific Group on Money Laundering (APG), which is a part of a global network of regional bodies, referred to as Financial Action Task Force-Style Regional Bodies (FSRBs), since July 2007. Naoero is committed to the implementation of the FATF's recommendations which have been endorsed by over 200 countries as the international standards for combating money laundering, countering financing of terrorism, and forestalling the proliferation of weapons of mass destruction.

The requirement to assess risks at country-level is a core element of the FATF standards for evaluating the effectiveness of AML/CFT/PF systems, as set out in Recommendation 1. Naoero completed its first NRA in 2018 and the second in 2023. This current risk assessment has been undertaken in direct response to the recommendations made in Naoero's 2024 MER by the APG. Its purpose is to review and update the findings of the 2023 NRA by integrating additional, more comprehensive data from both the public and private sector. In doing so, it seeks to ensure that Naoero has well-grounded understanding of its ML/TF/PF environment, taking into account changes to existing threats and vulnerabilities as well as the emergence of new threats and vulnerabilities.

### *ML Threat*

The overall ML threat of Naoero is assessed as **LOW**. The level of domestic proceeds-generating crimes is assessed as **LOW** in Naoero, with the main relevant crime types being drug-related cases (primarily possession and cultivation of cannabis), sexual offences, and robbery and theft. Naoero has been free from the influence of organised crime, but there are elements undertaking profit-driven crime in Naoero, particularly in relation to tax evasion by businesses. Although investigations and prosecutions for bribery and corruption are rare, the ML threat posed by this crime is still perceived to be **medium** both nationally and internationally, due to systematic deficiencies relating to financial transparency and governance. Cybercrime is also an emerging threat, as evidenced by a rising number of related investigations in recent years. Naoero's domestic financial system is very small, which significantly reduces the risk of large-scale money laundering from domestic sources. Furthermore, the threat posed by proceeds of crimes committed outside the country is also assessed as **LOW**.

The sectoral threat assessment similarly indicated that money or value transfer services (MVTs), legal practitioners and casinos present a low risk of misuse for ML purposes, leading to their **LOW ML** threat.

Assessing the exposure of the operations of the “Agency” of *Bendigo and Adelaide Bank* in Naoero (hereinafter referred to as the “the Bendigo Bank Agency”) to ML threat is challenging, as it does not classify as a financial institution under the *Anti-Money Laundering and Targeted Financial Sanctions (AML-TFS) Act 2023*. Consequently, the Bendigo Bank Agency is neither obliged to comply with its requirements nor under the supervision of any competent authority in Naoero. Nonetheless, based on the limited available information, the ML threat faced by the Bendigo Bank Agency is considered **LOW**.

The above ratings reflect the limited extent to which the products and institutions/businesses in these sectors have been exploited for laundering criminal proceeds, whether from internal and external sources, in the ML schemes of criminals detected through this risk assessment.

**ML Vulnerabilities**

The overall ML vulnerability assessment of Naoero, considering national ability to combat ML and sectoral vulnerability is **LOW**.

Naoero’s ability to combat ML is assessed as **MEDIUM-LOW**, characterised by its improving legal AML/CFT/PF framework, high-level political commitment, close partnerships among government agencies, fair and efficient prosecution and judicial process, and good external and international cooperation. There are however still gaps that need to be addressed in order to strengthen Naoero’s overall AML/CFT/PF regime, including further enhancing its AML/CFT/PF legal framework to ensure its effective compliance with the international AML/CFT/PF standards, building strong public-private sector partnerships, improving capacity (human and technical) and capability for ML investigations, prosecutions and convictions, and strengthening operational cooperation between national agencies.

On the sectoral vulnerability, MVTs, legal practitioners, and casinos are assessed as having **LOW** vulnerability.

Considering the small size and nature of Naoero’s legal persons and legal arrangements as well the recent efforts to strengthen the legal and regulatory framework and mechanisms to ensure the transparency of beneficial ownership, the ML vulnerability of Naoero’s domestic legal persons and arrangements is assessed as **LOW**.

**Overall ML Risk**

Overall, Naoero is exposed to a **LOW** level of ML risk, comprising of **LOW** level of threat and a **LOW** level of vulnerability.

The table below gives an overview of the sectors which were given a final ML risk rating.

| SECTORS                                  | NRA 2025 |
|------------------------------------------|----------|
| Money or Value Transfers Services (MVTs) | LOW      |
| Legal Practitioners                      | LOW      |

|                                                |     |
|------------------------------------------------|-----|
| Casinos/Gaming Operator                        | LOW |
| Insurance Sector                               | N/A |
| Securities Sector                              | N/A |
| Money Lenders                                  | N/A |
| Credit Unions                                  | N/A |
| Accountants                                    | N/A |
| Dealers in Precious Metals and Precious Stones | N/A |
| Trust and Company Service Providers (TCSPs)    | N/A |
| Real Estate Agents                             | N/A |
| Legal Persons and Arrangements                 | LOW |
| NPOs                                           | LOW |

### *TF Threat*

Naoero is assessed to have a **LOW** level of terrorism threat and a **LOW** level of TF threat. There have been no confirmed TF cases in Naoero. High-risk patterns commonly associated with TF such as abuse of NPOs or physical movement of large quantities of cash or negotiable instruments across boundaries are not observed in Naoero.

### *TF Vulnerabilities*

The assessment of TF vulnerability across sectors (i.e., MVTs, legal practitioners, casinos/gaming operator, legal persons and legal arrangements, and NPO) is assessed as **LOW**, reflecting the limited size and complexity of the sectors, low transaction volumes, and the absence of identified TF cases or typologies linked to Naoero. At the same time, Naoero has a sound CFT framework. However, minor gaps have been identified in the fulfilment of the relevant United Nations Security Council Resolution (UNSCRs) resolutions and in ensuring effective compliance with the FATF recommendations on combating TF. Targeted steps should therefore be taken to address these gaps and further strengthen the effectiveness of the CFT framework.

### *Overall TF Risk*

Naoero is exposed to **LOW** level of TF risk, with threat and vulnerability both rated as **LOW**.

### *PF Threat*

Naoero is assessed as having a **LOW** level of PF threat. To date, there have been no confirmed PF cases in the country (including investigations, prosecutions, convictions, or SARs). Key high-risk factors typically associated with PF—such as a sophisticated financial services sector, complex legal persons

and arrangements, or significant levels of international trade and financial transactions—are not present in Naoero. Nonetheless, the potential misuse of Naoero-flagged vessels for transporting goods to sanctioned countries or engaging in other illicit activities cannot be entirely ruled out and should be subject to ongoing vigilance and monitoring

*PF Vulnerabilities*

Overall, Naoero has a sound PFT framework. However, gaps have been identified in the understanding and implementation of this framework by certain government agencies and reporting entities. Deficiencies also exist within the legal framework governing the shipping registry, including its operational and monitoring arrangements. In addition, there is a growing concern regarding the effective regulation, supervision and monitoring of the evolving, not yet operational, virtual assets (VAs) and virtual asset service providers (VASPs) sector, which may be exploited for PF purposes. These gaps and/or concerns should be properly addressed to strengthen the overall effectiveness and resilience of the Naoero’s PFT framework.

*Overall PF Threat*

Naoero is exposed to **LOW** level of PF risk, with threat and vulnerability both rated as **LOW**.

*Emerging ML/TF/PF Risks*

While Naoero is assessed to have an overall low ML/TF/PF risk, the jurisdiction must carefully monitor emerging threats arising from recent developments related to Virtual Assets (VAs) and Virtual Asset Service Providers (VASPs), the Citizenship by Investment (CBI) Program, and the shipping registry, all of which have been identified as presenting a high or medium-high risk to the country.

| SECTORS           | NRA 2025    |
|-------------------|-------------|
| Shipping Registry | HIGH        |
| VAs and VASPs     | HIGH        |
| CBI Program       | MEDIUM-HIGH |

*Way Forward*

In response to the risks identified in this assessment, there are five priority areas of work that are recommended for Naoero to mitigate the risk of ML/TF/PF in the country. These include:

- a) **Enhancing the AML/CFT/PF legal framework:** While significant efforts have been made to enhance Naoero’s AML/CFT/PF legal framework to address the deficiencies identified in the 2024 MER of Naoero, Naoero shall continue to work on strengthening its AML/CFT/PF regime to ensure alignment with the international standards. In recent years, Naoero has reviewed and amended a number of its AML/CFT/PF-related laws and regulations, including AML-TFS Act 2023 and



associated regulations. Nonetheless, there are still a number of remaining gaps, as identified in the 2024 MER and this risk assessment, primarily relating to procedural and policy requirements which have yet to be addressed. These include, for instance, minor gaps in the beneficial ownership (BO) data collection and availability, the need to assess proportionate measures for sectors not currently covered by comprehensive AML/CFT/CPF obligations (such as foreign payment service providers), and the further strengthening of the legislative and regulatory framework applicable to VAs and VASPs, and the shipping registry.

- b) Enhancing capacity and resources for effective AML/CFT/PF supervision, financial crime investigations and prosecutions:** Human and technical resources of the Naoero Financial Intelligence Unit (NFIU) should continue to be strengthened to support effective AML/CFT/PF supervision, improve analytical capabilities, and promote clear understanding of AML/CFT/PF obligations and ML/TF/PF risks among reporting entities. Sustained resource development would also help ensure operational continuity and the long-term sustainability of supervisory and analytical functions.

The capacity to conduct ML/TF/PF investigations is also restricted within the relevant agencies (including NPF, NCS, NRO and NMPA) by the current available resources and limited availability of specialist staff with AML/CFT/PF knowledge. This is an issue that has also been raised by the NRO and NCS, coupled with limited staff trainings and workshop participations on AML/CFT/PF.

Moreover, the ML/TF/PF investigative capabilities of relevant agencies – including the Naoero Police Force (NPF), Naoero Customs Service (NCS), Naoero Revenue Office (NRO), and Naoero Maritime and Port Authority (NMPA) – should be progressively strengthened by allocating personnel with expertise in AML/CFT/PF matters and providing regular targeted training and workshops in this area. Feedback from several agencies, particularly the NRO and NCS, indicated that additional specialist capacity and expanded AML/CFT/PF training opportunities would further support operational effectiveness. Enhancing technical knowledge and investigative skills across these institutions would further improve the effectiveness of ML/TF/PF detection, investigation, and inter-agency coordination.

- c) Strengthening risk-based supervision and partnership:** AML/CFT/PF supervision of domestic MVTs, legal practitioners and gaming operator has been enhanced in the past few years. Nonetheless, there are still some gaps identified in implementing a risk-based AML/CFT/PF supervision of these sectors which needs to be further strengthened to promote awareness and compliance with the AML/CFT/PF obligations. Naoero should identify and establish an appropriate mechanism for the effective regulation, supervision and monitoring of foreign payment service providers (PSPs) providing remittance services in the country, while also taking into account its implications for financial inclusion.



Even with the legal persons, legal arrangements and NPOs, the DJBC should develop targeted supervisory strategies, and implement risk-based AML/CFT/PF supervision to prevent ML/TF /PF risks for these sectors and for Naoero overall.

Capacity-building efforts also need to be strengthened to enhance the knowledge, understanding and awareness of all the sectors about ML/TF/PF threats and any identified patterns pertinent to them. This will facilitate more efficient and targeted detection of any suspicious activities. With the new emerging risk related to VAs and VASPs in the jurisdiction, reporting entities and competent authorities should be provided with targeted trainings in this area to understand the risks and typologies.

Engaging the private sector more prominently as partners in combating ML/TF threat is an excellent strategy adopted in many other jurisdictions. Public-private partnerships constituting of LEAs, supervisory/regulatory authorities and the private sector stakeholders should be further strengthened to discuss the ML/TF/PF cases, trends and typologies and for sharing of intelligence – all of which contributes to shared understanding of the ML/TF/PF risks and formulation of risk-based interventions.

- d) **Monitoring new and emerging risks:** Risks may evolve with changes in patterns of predicate offences and the related modes of ML/TF/PF, as well as the development of new technologies creating new opportunities for unlawful activities. Naoero shall continue to monitor risks and keep abreast with new and emerging typologies to ensure it responds appropriately and proportionately. ML/TF/PF risks associated with PSPs, VAs and VASPs, shipping registry, and citizenship by Investment (CBI) program need to be closely monitored.
- e) **Strengthening law enforcement efforts and intelligence capability:** To prepare a detailed ML/TF/PF NRA a wide range of statistics and other data is required. It has been evident from the work on this ML/TF/PF NRA that there has been a limited range of statistical and other relevant information available to assist the development of this NRA. The lack of sufficient ML/TF/PF related statistics has hampered the ability to validate the conclusions, particularly with regards to the threats and some vulnerabilities. To develop a more thorough NRA, statistical and other data needs to be collected, maintained and analysed, commencing immediately. In particular, authorities should collect and maintain data not only on the predicate offences but also the actual funds derived from those crimes so that such data can be made available for the next process of ML/TF/PF risk assessment. Relevant statistics are also required to be collected and maintained on the reporting entities – their products and services, customer base, transactions etc.– through which the associated funds may be involved in the ML/TF/PF process. Naoero should implement a program to ensure that all relevant government agencies identify, document and immediately collect and analyse all the essential data required to conduct an effective and efficient ML/TF/PF NRA. This should be supervised by the Anti-Money Laundering Governing Council (AMLGC) of Naoero.

# 1. Introduction and Context

## 1.1 Geographical Position

Naoero is a small island country in Micronesia, 42 km south of the equator and approximately 2,000 km north-east of Papua New Guinea. Naoero's nearest neighbour is Banaba Island (Ocean Island) of Kiribati which is approximately 298 km to the east. It has total land area of 21 sq. km,<sup>1</sup> which makes it the world's smallest independent Republic and third smallest country in the world. It mainly consists of single raised, fossilised coral atoll with a coastline of 30km, and is one of the three great phosphate rock islands in the Pacific Ocean.<sup>2</sup>

## 1.2 Population

In 2024, Naoero's population is estimated to be 11,947 people, which has been growing at the average rate of 0.63% in the past few years.<sup>3</sup> The population density in Naoero is 601 per sq. km, and 94% of the population (i.e., approximately 11,000 people) is urban.<sup>4</sup> The median age in Naoero is 20.2 years.<sup>5</sup>

As of mid-2025, majority (94.6%) of the population in the country are Naoero citizens.<sup>6</sup> Other nationalities primarily include Pacific Islanders (largely from Kiribati, Tuvalu, Solomon Islands, and Tonga), Fijian, Chinese, Australian, and Filipino expatriates.<sup>7</sup>

According to Data Reportal's 2025 'State of Digital' report, 94.9% of Naoero's population had active mobile cellular connections in 2025.<sup>8</sup> At the beginning of the year 2025, 82.7% of individuals in Naoero were using the internet, and approximately 42.8% of the total population were active on social media.

Christianity is the main religion in Naoero. According to 2023 US International Religious Freedom Report of Naoero, approximately 93% of the Naoero population is Christian.<sup>9</sup> The Naoero Congregational Church (which includes the Naoero Protestant Church) is the largest Christian group, constituting 34.3% of the population, followed by the Roman Catholic Church at 33.9%, Assemblies of God 11.7%, Pacific Light House (6.0 percent), the Naoero Independent Church (3.5 percent), Baptists

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<sup>1</sup> Available at: <https://www.cia.gov/the-world-factbook/countries/Naoero/#people-and-society> (accessed 05 July 2025).

<sup>2</sup> Available at: <https://www.cia.gov/the-world-factbook/countries/Naoero/#people-and-society> (accessed 05 July 2025).

<sup>3</sup> Available at: <https://data.worldbank.org/country/NR> (accessed 05 July 2025).

<sup>4</sup> Available at: <https://www.worldometers.info/world-population/Naoero-population/> (accessed 05 July 2025).

<sup>5</sup> Ibid.

<sup>6</sup> Available at: <https://www.cia.gov/the-world-factbook/countries/Naoero/#people-and-society> (accessed 05 July 2025). See, also [https://microdata.pacificdata.org/index.php/catalog/816/variable/V895?utm\\_source=chatgpt.com](https://microdata.pacificdata.org/index.php/catalog/816/variable/V895?utm_source=chatgpt.com) (accessed 05 July 2025).

<sup>7</sup> Available at: [https://microdata.pacificdata.org/index.php/catalog/816/variable/V895?utm\\_source=chatgpt.com](https://microdata.pacificdata.org/index.php/catalog/816/variable/V895?utm_source=chatgpt.com) (accessed 05 July 2025).

<sup>8</sup> Simon Kemp, 'Digital 2025: Naoero' (DataReportal, 3 March 2025). Available at: <https://datareportal.com/reports/digital-2025-Naoero> (accessed 06 July 2025).

<sup>9</sup> Naoero 2023 International Religious Freedom Report (Office of International Religious Freedom, United States Department of State). Available at: <https://www.state.gov/reports/2023-report-on-international-religious-freedom/Naoero/> (accessed 07 July 2025).

(1.4 percent), Seventh-day Adventists (1.4 percent), and other Protestants (1.0 percent).<sup>10</sup> Approximately 1.3 percent of the population reports no religious affiliation.<sup>11</sup>

### 1.3 Language

Naoero has two official languages: Naoero and English. Naoero, a distinct Pacific Island language, is the primary language spoken by 93% of the population.<sup>12</sup> English (2%) is also widely understood and spoken, and commonly used in the government, professional and commercial settings. Other languages spoken in the country account for 5% of the population, including Kiribati (2%) and Chinese (2%).

### 1.4 Government Structure

Naoero gained independence in 1968, following its status as a United Nations-designated trust territory jointly administered by Australia, New Zealand and the United Kingdom. It became an independent Republic under Article 1 of the *Constitution of Naoero 1968*.

The Constitution of Naoero provides for a parliamentary system of government. The National Government of Naoero is made up of three branches: Legislative, Executive and Judiciary. The legislative branch is Parliament, which comprises of the Head of State and the Legislative Assembly. The Constitution provides for a unicameral legislature. The Legislative Assembly comprises of 19 members elected for three-year term. The President is both Head of Government and Head of State and is elected by, and responsible, to the unicameral parliament. Naoero is divided into 14 districts, which are groups to form eight electoral constituencies from which the members of parliament are elected. There is no political party system in Naoero, and most members of parliament stand as independent candidates, although it is usual for them to form groups. The members of parliament sit for three-year terms.

The Executive branch of the Government is the Cabinet, which comprises of the President and a maximum of 7 members of Parliament nominated by the President. The Cabinet is appointed as the central decision-making authority of the executive government. The Cabinet is responsible for the day-to-day management of the country and is accountable to the Head of State, Parliament and the people of Naoero.

The political situation in Naoero has been stable over a number of years. Most recent elections were held in September 2022, and 17 out of the 19 parliamentary seats were retained by incumbents. The next upcoming elections are in October 2025.

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<sup>10</sup> Ibid.

<sup>11</sup> Ibid.

<sup>12</sup> The World Factbook: Naoero. Available at: <https://www.cia.gov/the-world-factbook/countries/Naoero/#people-and-society> (accessed 06 July 2025).



Naoero has been ranked 75/100 in ‘Freedom in the World 2024’ report, published by the Freedom House, rating political rights in Naoero at 32/100 and civil liberties at 43/60.

## 1.5 Legal System and the Judiciary

Naoero has a mixed legal system of common law and customary law. The system is based largely on Australian and English common law, but also incorporates to a limited extent Naoero customary law. The hierarchy of legal instruments is the Constitution, Acts of Parliament, subsidiary legislation (regulations) derived from powers with Acts and then rules or by-laws. The judiciary interprets the law, ensures that the rule of law prevails, and is the supreme law of Naoero i.e., the Parliament cannot affirm or overturn court decisions. The Chief Justice is the judicial and administrative head of the judiciary.

Naoero’s judicial system consists of the District Court,<sup>13</sup> the Supreme Court<sup>14</sup> and the Court of Appeal<sup>15</sup>. The Court of Appeal is the highest court, which was established in 2018.<sup>16</sup> It is headed by the President of the Naoero Court of Appeal, pursuant to Article 54(4) of the Constitution of the Republic of Naoero, and consists of the Chief Justice of Naoero and five (5) Justices of Appeal. The session of the Court of Appeal is required to be notified in the Gazette and shall be convened at least once a year, although the Court of Appeal may also sit from time to time as the President of the Court of Appeal may deem necessary. It has appellate jurisdiction only and has the power and jurisdiction to hear and determine all appeals, where such authority is expressly provided by virtue of the *Constitution*, the *Naoero Court of Appeal Act 2018* or any other written law. The Supreme Court, which consists of the Chief Justice of Naoero and several judges, has both original and appellate jurisdiction in civil and criminal matters, and reviews decisions of the District Court.

There is also a separate family court in Naoero established under the Family Court Act 1973, which operates separately from the other courts, handling family law matters. It has jurisdiction under *the Maintenance Ordinance 1959-1967* and the *Adoption of Children Ordinance 1965-1967*.

## 1.6 Law and Order

Naoero’s crime rate is relatively low, compared to nearby Pacific Islands. The US Department of State Travel Advisory assessed Naoero at ‘Level 1’, indicating travellers to exercise normal precautions. Most crimes in Naoero are crimes of opportunity. Incidents of petty crime, such as pickpocketing and purse

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<sup>13</sup> The District Court Act 2018.

<sup>14</sup> The Supreme Court Act 2018

<sup>15</sup> Naoero Court of Appeal Act 2018

<sup>16</sup> Until 2018, Naoero’s judicial system comprised only of the District Court and the Supreme Court. The High Court of Australia served as Naoero’s final appellate court for Naoero, with limited jurisdiction in criminal matters, specific civil matters, and appeals related to rejected asylum seeker applications.

snatching, may happen.<sup>17</sup> According to the 2023 Global Organized Crime Index, “there is no evidence of organized crime in Naoero”<sup>18</sup>.

## 1.7 Economy

In 2024, Naoero’s gross domestic product (GDP) is estimated to be approximately USD 160.35 million.<sup>19</sup> The GDP per capita is estimated at USD 13,421, which has grown by 1.85% annually.<sup>20</sup> In 2022, Naoero has a gross national income (GNI) per person of AUD 19,760 (USD 12,428), which was a 0.78% decline from 2021. Naoero uses the Australian dollar as its official currency.

The economy of Naoero has largely been dependent on Regional Processing Centre (RPC), followed by fishing licence fees and other external grants. Approximately 60% of the government budget is coming from payments from the Australian Government for the RPC.<sup>21</sup> Nonetheless, income from the RPC has also resulted in a substantial collection of personal emoluments and business tax, which is the third highest income. The RPC and the Government of Naoero are the country’s major employers. Furthermore, approximately AUD 50 million per annum is generated by the fee from fishing licences in FY2025.<sup>22</sup>

It is important to note, however, that GDP assessments based on RPC-related income do not accurately reflect Naoero’s real income or economic capacity. This is because once the RPC ceases operations, which is currently in an Enduring Capability Contingency State with no transferees on the Island, government revenue and overall economic cash flow are expected to decline sharply.<sup>23</sup> Moreover, Naoero receives direct income in the form of hosting and visa fees for the transferees and the foreign workers, and for limited commercial services. A substantial portion of RPC-related funds ultimately flows back to Australia, due to the high costs of imports and foreign workers.<sup>24</sup> While these inflows artificially raise Naoero’s per capita income, they do not represent sustainable economic growth. As a result, Naoero is classified as a high-income country, despite the fragility of its underlying economy.

Another major source of income for Naoero has been phosphate exports, which has declined substantially in the last few years. Only secondary level mining is currently underway.

Naoero is heavily reliant on imports for virtually all material needs. Australia is Naoero’s principal import source. According to the reports, in 2023, the top imports of Naoero were Titanium Ore (\$6M), Tug Boats (\$3.4M), Refined Petroleum (\$2.95M), Other Edible Preparations (\$2.07M), and Passenger

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<sup>17</sup> <https://travel.gc.ca/destinations/Naoero> (accessed 05 July 2025).

<sup>18</sup> The Global Initiative against Transnational Organized Crime, “Global Organized Crime Index: Naoero” (2023). Available at: <https://ocindex.net/country/Naoero> (accessed 05 July 2025).

<sup>19</sup> Available at: <https://data.worldbank.org/country/NR> (accessed 05 July 2025).

<sup>20</sup> Ibid.

<sup>21</sup> This includes. RPC hosting fee, reimbursable costs, service fee and DJBC operations. See, IMF (2025) *2025 Article IV Consultation – Press Release; Staff Report; Staff Statement; and Statement by the Alternate Executive Director for the Republic of Naoero* (IMF Country Report No. 25/275, September 2025), p. 27.

<sup>22</sup> Ibid.

<sup>23</sup> 2023 NRA, p. 13.

<sup>24</sup> 2024 MER of Naoero, p. 22

and Cargo Ships (\$1.96M).<sup>25</sup> The top origins were Australia (\$33.5M), Japan (\$7.44M), Fiji (\$6.07M), Senegal (\$6M), and China (\$5.99M).<sup>26</sup>

Regarding exports, Naoero's main exports are frozen fish and phosphates. In 2023, the top exports of Naoero were Non-fillet Frozen Fish (\$180M), Calcium Phosphates (\$16.5M), Medical Instruments (\$1.24M), Machinery Having Individual Functions (\$473k), and Iron Pipe Fittings (\$433k).<sup>27</sup> The top destinations were Thailand (\$160M), Philippines (\$22.9M), New Zealand (\$10.9M), Japan (\$2.62M), and Canada (\$1.62M).<sup>28</sup>

The total annual export of goods from Naoero constitutes US\$205 million in 2023, which shows a continuous increase since 2018. The exports of Naoero have increased by \$185 million from \$20 million in 2018 to \$205 million in 2023.

In 2018, the Naoero government partnered with a deep-sea mining company in order to harvest poly-metallic nodules from the ocean floor in Naoero's Exclusive Economic Zone.<sup>29</sup> The minerals and metals found in these nodules are highly valuable "green" energy transition metals. Globally, no commercial deep-sea mining permits have yet been authorised, and deep seabed mining remains controversial. Even for Naoero, processes are underway to consider commencing this activity.<sup>30</sup>

Remittances to Naoero are known to be a relatively small as compared to other Pacific countries. Naoero participates in seasonal worker programs with Australia and New Zealand, such as the Recognized Seasonal Employer (RSE) scheme (2014) and the Seasonal Worker Programme (SWP) (2012), allowing Naoero citizens to temporarily work abroad and send money home, supporting their families.<sup>31</sup> Remittances received as a share of Naoero's GDP was 0.6% in 2023<sup>32</sup> (i.e., US\$0.881 million)<sup>33</sup>. Annual personal remittances decreased by 2.4% in 2023, amounting to US\$0.88 million, as compared to 2022 when it was US\$6.54 million.<sup>34</sup>

In 2021 census, the national unemployment rate was reported as 5.0%, of which female unemployment rate was 5.2% and male unemployment rate was 4.9%.<sup>35</sup> The national youth unemployment rate was reported to be 12.0%.<sup>36</sup>

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<sup>25</sup> Available at: <https://oec.world/en/profile/country/nru> (accessed 07 July 2025).

<sup>26</sup> Ibid.

<sup>27</sup> Ibid.

<sup>28</sup> Ibid.

<sup>29</sup> 2024 MER of Naoero, p. 21.

<sup>30</sup> [https://en.wikipedia.org/wiki/Deep-sea\\_mining\\_regulations\\_in\\_Naoero](https://en.wikipedia.org/wiki/Deep-sea_mining_regulations_in_Naoero) (accessed 07 July 2025).

<sup>31</sup> Available at: [https://diasporaforddevelopment.eu/wp-content/uploads/2020/12/CF\\_Naoero-v.3.pdf](https://diasporaforddevelopment.eu/wp-content/uploads/2020/12/CF_Naoero-v.3.pdf) (accessed 5 July 2025).

<sup>32</sup> The World Bank Data, *Personal remittances, received (% of GDP) – Naoero*. <https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS?locations=NR> (accessed 05 July 2025).

<sup>33</sup> The World Bank Data, *Personal remittances, received (current US\$) – Naoero*. Available at: <https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT?locations=NR> (accessed 05 July 2025).

<sup>34</sup> Ibid.

<sup>35</sup> Available at: <https://stats.gov.nr/statistics/economic-statistics/> (accessed 06 July 2025).

<sup>36</sup> Ibid.

Below is the ranking of Naoero in some of the world's major indexes and reports:

*Table 1: Naoero's ranking in World's Major Indexes and Reports*

| S. No. | Index/Reports                                          | Naoero's Ranking                                                  |
|--------|--------------------------------------------------------|-------------------------------------------------------------------|
| 1.     | Human Development Index 2025                           | 124                                                               |
| 2.     | Freedom in the World Report 2024                       | 75/100<br>[Political Rights – 32/40 &<br>Civil Liberties – 43/60] |
| 3.     | Henley and Partners Passport Index 2025                | 61                                                                |
| 4.     | World Bank: Control of Corruption Percentile Rank 2023 | 69.8                                                              |

## 2. Risk Assessment Methodology

### 2.1 Purpose of National Risk Assessment

This risk assessment builds upon the previous two national risk assessments of Naoero conducted in 2018 and 2023. Specifically, this risk assessment is undertaken in response to the recommendations outlined in Naoero's 2024 MER by the APG. The risk assessment aims to review and update the information and findings in 2023 NRA of Naoero by incorporating additional, more comprehensive data sourced from both the public and private sector.

The purpose of this NRA is to provide a comprehensive assessment of Naoero's ML/TF/PF risks in order to strengthen understanding of these risks and support the development of effective strategies to mitigate them. The assessment is intended to assist the Government of Naoero, its law enforcement authorities (LEAs), competent authorities, and the private sector to gaining a clearer picture of the country's ML/TF/PF risk landscape. This will enable resources to be allocated and activities to be prioritised in a proportionate, risk-based manner.

Conducting an NRA is a core recommendation of the FATF<sup>37</sup> and serves as the foundation for formulating and prioritising AML/CFT/PF policies and measures.<sup>38</sup> The findings of this NRA will guide the future development of Naoero's AML/CFT/PF regime, including its National AML/CFT/PF Strategy and Action Plan.

### 2.2 Stakeholder Engagement

This assessment is a result of extensive engagement with a wide range of government bodies, regulators and supervisors, LEAs, and private sector representatives culminating in an overall collective understanding of ML/TF/PF for the purpose of identifying and assessing the key risks facing Naoero and the effectiveness of Naoero's current approach to addressing those risks. Industry views on ML/TF/PF risks were sought and were used, where available, to enhance and substantiate the information provided by the public sector.

The NFIU acted as a National Coordinating Agency responsible for the coordination with the key stakeholders (i.e., distributing questionnaires, organising meetings, interviews and focus group

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<sup>37</sup> FATF (2012-2025), *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation* (FATF: Paris, France, Updated – June 2025) (hereinafter '2012 FATF Recommendations'), Recommendation 1. Available at: <https://www.fatf-gafi.org/content/dam/fatf-gafi/recommendations/FATF%20Recommendations%202012.pdf.coredownload.inline.pdf> (accessed 05 July 2025)

<sup>38</sup> FATF (2025), *Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of the AML/CFT/PF Systems* (FATF: Paris, France) (hereinafter 'FATF Methodology 2025'), Immediate Outcome 1. Available at: <https://www.fatf-gafi.org/content/dam/fatf-gafi/methodology/FATF-Assessment-Methodology-2022.pdf.coredownload.inline.pdf> (accessed 05 July 2025)

discussions) in the conduct of the NRA. The NRA has been conducted between April 2025 and August 2025.

The following key stakeholders from the government and private sector bodies that have been consulted and involved in the NRA process.

| Government Agencies                                                                                                                                                                                                                                                                                                                                                                                                                             | Private Sector                             |                                                         |                                                                                                                                                                                                           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|---------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Financial Institutions                     | DNFBPs                                                  | Others                                                                                                                                                                                                    |
| Naoero FIU (Oversight)<br>Department of Justice and Border Control (DJBC)<br>Office of Director of Public Prosecutions<br>Naoero Police Force<br>Naoero Customs Service Office<br>Naoero Revenue Office<br>Naoero Fisheries and Marine Resources Authority<br>Naoero Program Office for CBI<br>Command Ridge Virtual Assets Authority<br>Registrar of Courts<br>Naoero Maritime and Ports Authority<br>Office of the Legislative Drafting -DJBC | MVTs Provider - Agent of the Western Union | Legal Practitioners –5 law firms<br>The Gaming Operator | NPOs – 20 NPOs<br>Bendigo Bank Agency<br>Commonwealth Bank of Australia (CBA) – Agency in Naoero<br>Naoero Maritime Administration (NMA)<br>Henley and Partners – CBI program<br>Naoero Law Society (NLS) |

In line with international best practices, Naoero’s ML/TF/PF NRA has been drawn on the best available data and information obtained through questionnaires, interviews, focus-groups, and other information or data from government and private sector entities, media reports and other public sources. The assessment also reflects the expert opinions and professional judgments of relevant stakeholders from both the public and private sectors.

The NRA questionnaires were distributed to all relevant stakeholders, as noted above, through the FIU in its coordinating role in early June 2025 and responses were received by early July 2025. After analysing initial data collected via questionnaires and other available information, interviews and consultation meetings were held with all the relevant stakeholders, across both government agencies and private sector, in Naoero from 11<sup>th</sup>-15<sup>th</sup> August 2025 to address any data/information gaps and obtain stakeholders’ input on the preliminary findings of the draft NRA report.

The information gathered through this process has been used to assess the ML/TF/PF risk in and through Naoero using the standard risk management approach of identifying and evaluating the threats, systemic weaknesses/vulnerabilities and the possible consequences to Naoero should those ML/TF/PF risks eventuate.

## 2.3 NRA Methodology

This NRA was conducted using the World Bank’s methodology for assessing ML/TF risks, and the Royal United Services Institute (RUSI) methodology for assessing PF risks – both of which were adapted to suit Naoero’s specific context. Additionally, the methodology also incorporated sector-specific methodologies developed by the World Bank and was informed by extensive consultations with the NFIU.

The methodology combines both the qualitative and quantitative data, as well as expert analysis to identify the key financial crime risks to Naoero and to develop actionable steps to address them. A key part of this process is the development of the AML/CFT/PF National Strategy and Action Strategy, which will follow the publication of this revised and updated NRA report and provide concrete measures for mitigating the identified risks.

The risk assessment aligns with the FATF guidance, which identifies ML/TF risk as a function of criminal threat, vulnerability and consequence – each of which is described in [Table 2](#) below.

**Table 2: Risk Terminology**

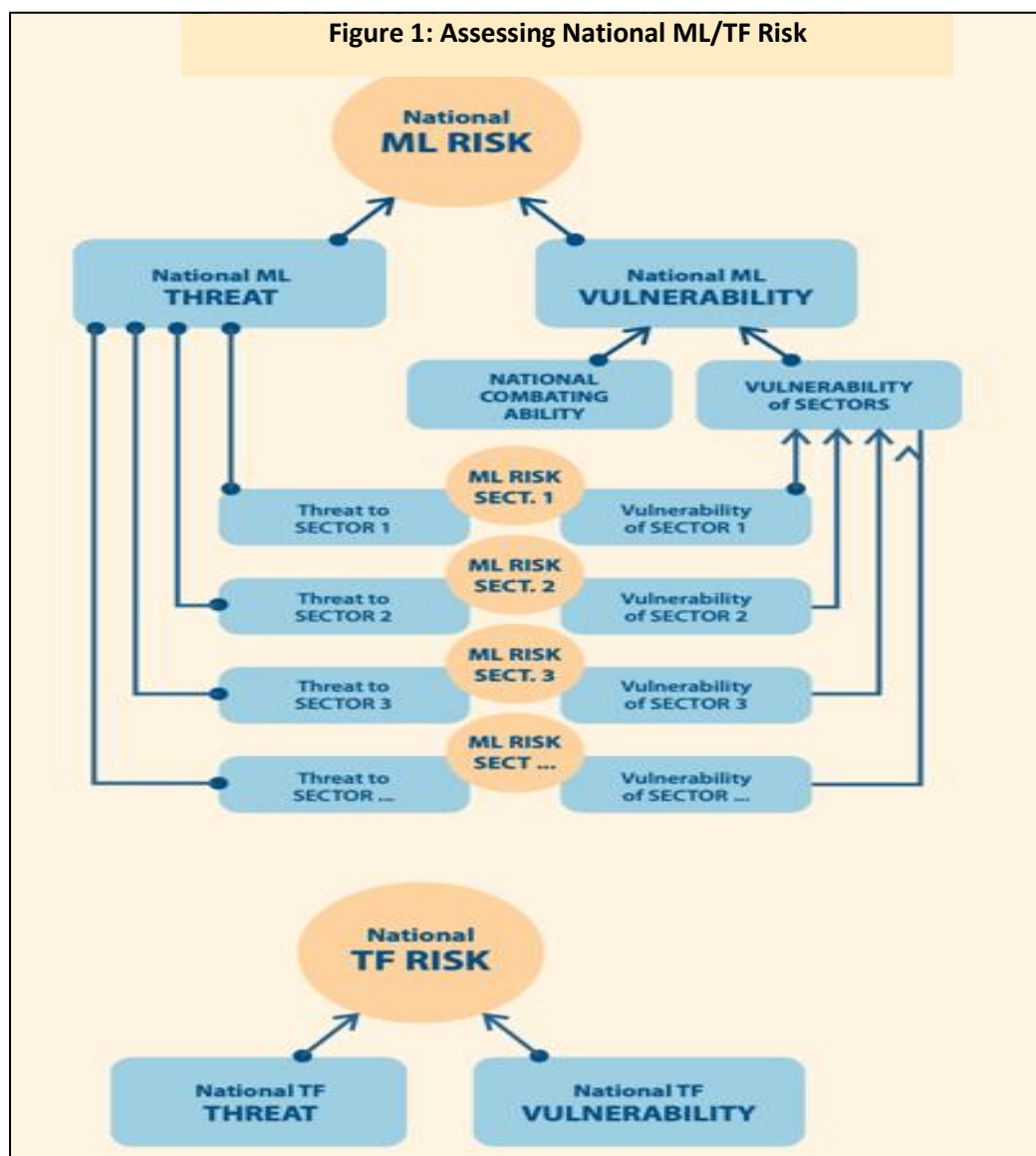
| Term                 | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Threat</b>        | <p>Threat is a person or group of people, object or activity with the potential to cause harm to the state, society, the economy etc.</p> <p>In the ML/TF context, ‘threat’ includes criminals, terrorist groups and their facilitators, their funds, as well as past, present and future ML or TF activities.</p>                                                                                                                                                                                                       |
| <b>Vulnerability</b> | <p>When used in a risk assessment, vulnerability refers to those characteristics that can be exploited by the threat or that may support or facilitate its activities.</p> <p>This includes features of a particular sector that can be exploited, such as customer types, products and services, delivery channels and the foreign jurisdictions with which it deals. Vulnerability is also influenced by the AML/CTF systems and controls in place across the sector.</p>                                              |
| <b>Consequence</b>   | <p>Consequence refers to the potential impact or harm that ML/TF activity may cause, and includes the effect of the underlying criminal and terrorist activity on financial systems and institutions, as well as the economy and society more generally.</p> <p>For the purpose of this risk assessment, the consequences component is regarded as constantly significant and will therefore not be dealt with in detail. The proposed methodology consequently focuses on the threats and vulnerability components.</p> |
| <b>Mitigants</b>     | <p>Mitigants include all circumstances and mitigating measures in place in terms of law enforcement, supervision and capacity to combat ML/TF in various sectors.</p> <p>The mitigants can reduce the overall risk level of a sector where law enforcement and/or supervisory activity effectively mitigate the risk, thus leading to a lower residual risk.</p>                                                                                                                                                         |
| <b>Risk</b>          | <p>Risk is a function of threat, vulnerability and consequence, as mitigated by certain factors and circumstances.</p> <p>A risk assessment involves making judgements about threats, vulnerabilities, mitigants and consequences.</p>                                                                                                                                                                                                                                                                                   |



The two major components of this risk assessment are the “*national ML threat*” and “*national ML vulnerability*”. The *national ML threat* focuses on understanding the proceeds of crime in the country resulting from domestic-predicate crimes as well as external crime threat - the fund associated with which are laundered through or in Naoero. It also analyses generation, flow and patterns of proceeds of crime from different sector perspectives.

The *national ML vulnerability* assesses the defense mechanisms available for combating ML in Naoero. It is estimated as a function of the national ability to combat ML and the overall ML sectoral vulnerability. The former evaluates all the main drivers of the national ML combating ability, including the legal and regulatory framework, high-level commitment and institutional framework, prosecution and judicial processes, inter-agency cooperation, and external and international cooperation. The overall ML sectoral vulnerability considers the vulnerabilities of various sectors that could be potentially abused or exploited for ML, including financial institutions and DNFBPs.

While there are many similarities between ML and TF in how funds are raised, stored and distributed, the terrorist financing risks posed to Naoero may be somewhat different than those posed by money laundering. For this reason, this assessment includes a separate chapter on TF risk, assessing TF threat and TF vulnerability.

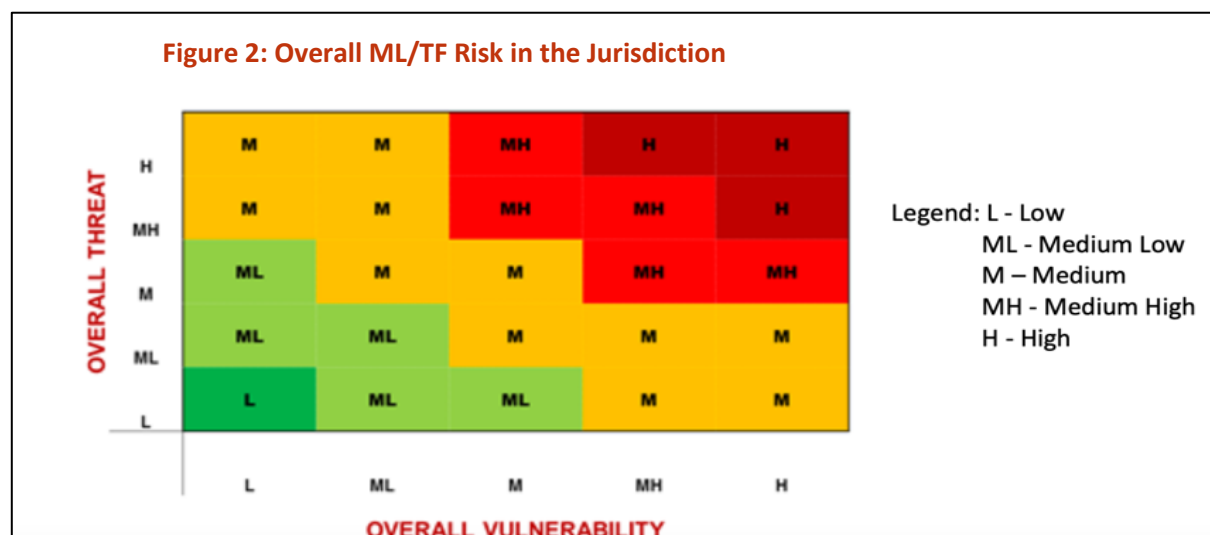


Source: World Bank ML/TF Risk Assessment Tool

The categories used for the risk rating in this risk assessment, both for threat assessment and vulnerability assessment, are *Low*, *Medium-Low*, *Medium*, *Medium-High* and *High* rated on a 10-point grading scale, with 10 being the highest risk and 1 being the lowest risk.

To determine the overall ML or TF risk level, which is a function/combination of the results of the threat assessment and vulnerability assessment, the below correlation matrix has been used:

**Figure 2: Overall ML/TF Risk in the Jurisdiction**



The overall analysis of the seriousness of the risk in terms of its impact or influence, as well as the probability of realisation has been rated as follows:

|             |                                                                   |
|-------------|-------------------------------------------------------------------|
| High        | The level of risk is at the highest                               |
| Medium-High | The level of risk is of significant concern                       |
| Medium      | The level of risk is of concern and needs to be monitored closely |
| Medium-Low  | The level of risk is manageable at this point in time             |
| Low         | The level of risk is considered acceptable and unlikely to change |

## 2.4 NRA Process

The methodology adopts a systematic approach that requires a combination of both quantitative (i.e. based on statistical figures) and qualitative (i.e. based on the views of experts in various areas of AML/CFT/PF) data techniques to assess the ML, TF and PF risks facing Naoero.

Since both the quantitative and qualitative data techniques have their own advantages and disadvantages, it is an appropriate approach to use both types of data collection methods so that the advantages of one may best be used to supplement the disadvantages of the other. For instance, although the quantitative data has the advantage of being impartial, consistent, and easier to measure and compare, it is not sufficient to rely solely on statistics to analyse the highly complex components of AML/CFT/PF regimes. In addition, the possibility of partial, inconsistent and low availability of AML/CFT/PF data will further make quantitative statistics difficult to rely as the sole data source of analysis. On the other hand, the qualitative data has the advantage of being based on the view of AML/CFT/PF and industry experts or professionals who are familiar with the operation of the system, its complexities, and its shortcoming; however, it may suffer from relying on subjective views. The views of industry professionals may be unintentionally biased, overly focused on some aspects while overlooking others, or provided by professionals with limited expertise on the specific subject matter.



Furthermore, the use of both qualitative and quantitative data collection methods would also be advantageous at the data analysis stage where one type of data may be utilised to validate or inform the other. This could happen, for instance, by requiring the industry professionals to review statistics to confirm their validity and general accuracy, and where it is determined that no undesired bias would be created, to be better informed before completing their own qualitative assessment.

The data for this National Risk Assessment (NRA) covers a sample period of seven financial years, from July 2018 to June 2025 (i.e., FY2018–19 to FY2024–25). This timeframe was selected to allow for a comprehensive update of the 2023 NRA, which covered the period from 2019 to 2023, by extending the analysis to include the additional years of 2024 and 2025.

The methodology consulted a broad range of stakeholders across the public and private sectors, as mentioned earlier, in order to identify relevant threats and vulnerabilities and to provide quantitative and qualitative information in respect of those threats and vulnerabilities. The methodology gathered and analysed the quantitative and qualitative data from the following sources for the purposes of the NRA:

- Crime and criminal justice statistics
- Suspicious Transaction Reports (STRs), Cash Transaction Reports (CTRs) and Border Cash Reports (BCRs) submitted in the past five years (July 2018 to June 2025);
- Other intelligence, information and monitoring reports from supervisory authorities, and a variety of other relevant agencies including NFIU, police, judiciary, customs, immigration, revenue and other LEAs across the government;
- General financial sector and economic statistics; and
- Surveys and questionnaires, feedback and professional insights offered during interviews and consultations with a range of entities operating in various sectors, as well as industry experts and industry associations.

In addition to the above, the assessment also collected and analyzed information from a variety of other available resources, including previously conducted national risk assessments, mutual evaluation report, regional risk assessments, national and international guidance documents, strategic reports, sector-specific typology reports, as well as open-source information.

The information gathered through data collection templates and otherwise provided by stakeholders (through interviews and consultation meetings), has been considered and assessed to identify and prioritise the main threats, vulnerabilities and risks to Naoero.

The overall findings of NRA were analysed, discussed and presented to the members of AMLGC and AMLOC for peer-review, with revisions made where necessary, followed by formal endorsement of the final ratings. As such, the findings of the NRA are the result of the stakeholders' assessment of the identified risk scenarios supported by qualitative and quantitative data, where available, and is informed by their collective expertise and professional judgment.



It is important to note, that whilst these ratings (*low, medium-low, medium, medium-high* and *high*) are for ‘residual risk’ – i.e. the residual risk after taking mitigants and other relevant factors into account – a higher rating does not necessarily indicate that there is low compliance in this sector, as some sectors will by their very nature or scale remain higher risk even with robust AML/CFT/PF compliance, while others may remain relatively unproblematic, despite potential vulnerabilities.

## 2.5 Limitations of the Assessment

The risk assessment is faced by a number of limitations and challenges, which are as follows:

- Data and statistics required for the purposes of this risk assessment has either limited availability, or is non-existent, or not updated by some agencies/authorities. In addition, reporting entities such as the MVTs provider, legal practitioners and the gaming operator do not maintain comprehensive data or statistics required for this risk assessment.

Due to the limited availability of appropriate statistics and information, this NRA heavily relies on the views and experiences of the representatives of government agencies and the private sector, and includes information from public sources, such as annual report of various government agencies, regional and international reports, research work, and related studies. For the next NRA, it is recommended that Naoero should take appropriate steps to ensure that the statistical and other required data for the NRA process is properly collected and retained by the relevant agencies and private sector entities.

- Manual maintenance of data by government agencies have also posed challenges, leading to inconsistencies in the data/information provided for this risk assessment, 2024 MER, and earlier assessments.
- Another major limitation in developing this ML/TF/PF NRA has been the limited availability, or the non-existence, of statistics with regards to the value of funds associated with the predicate crimes. Proceeds generated from predicate crimes are usually not captured, making it difficult to assess the impact and extent of these crimes. In such cases, the NRA relies on qualitative data such as survey results, research studies made by the competent authorities, and best estimates by the LEAs and government agencies, where available.

Nonetheless, the above data limitations do not in any way invalidate the results of this assessment.

## 3. Money Laundering Threat Analysis

### 3.1 Introduction

This section of the NRA sets out the understanding of the nature and scale of criminal conduct in Naoero which generates illicit proceeds, particularly as informed by supervisory authorities and LEAs.

When assessing ML threat, it is important to consider the full spectrum of relevant data, including investigated cases, prosecuted cases, and convictions for ML and predicate offences. Focusing solely on prosecutions or convictions can underestimate the true threat, as much ML activity remains undetected or unprosecuted. Including investigated cases helps identify emerging trends and typologies, while prosecutions and convictions provide insight into enforcement outcomes and the types of predicate offences most commonly associated with laundering. Additional sources, such as suspicious transaction reports (SARs), financial intelligence, and regulatory findings, are also considered to capture ML linked to crimes that may not have resulted in formal legal action. This comprehensive approach ensures a more accurate and risk-based understanding of the ML landscape.

Based on the above approach, this chapter identifies and assesses major ML threats based on the examination of 2,015 predicate offences<sup>39</sup> investigated (1,892), prosecuted (86) and adjudicated (37) by the LEAs and ODP, as well as 2 SARs received by the NFIU between July 2018 and June 2025.

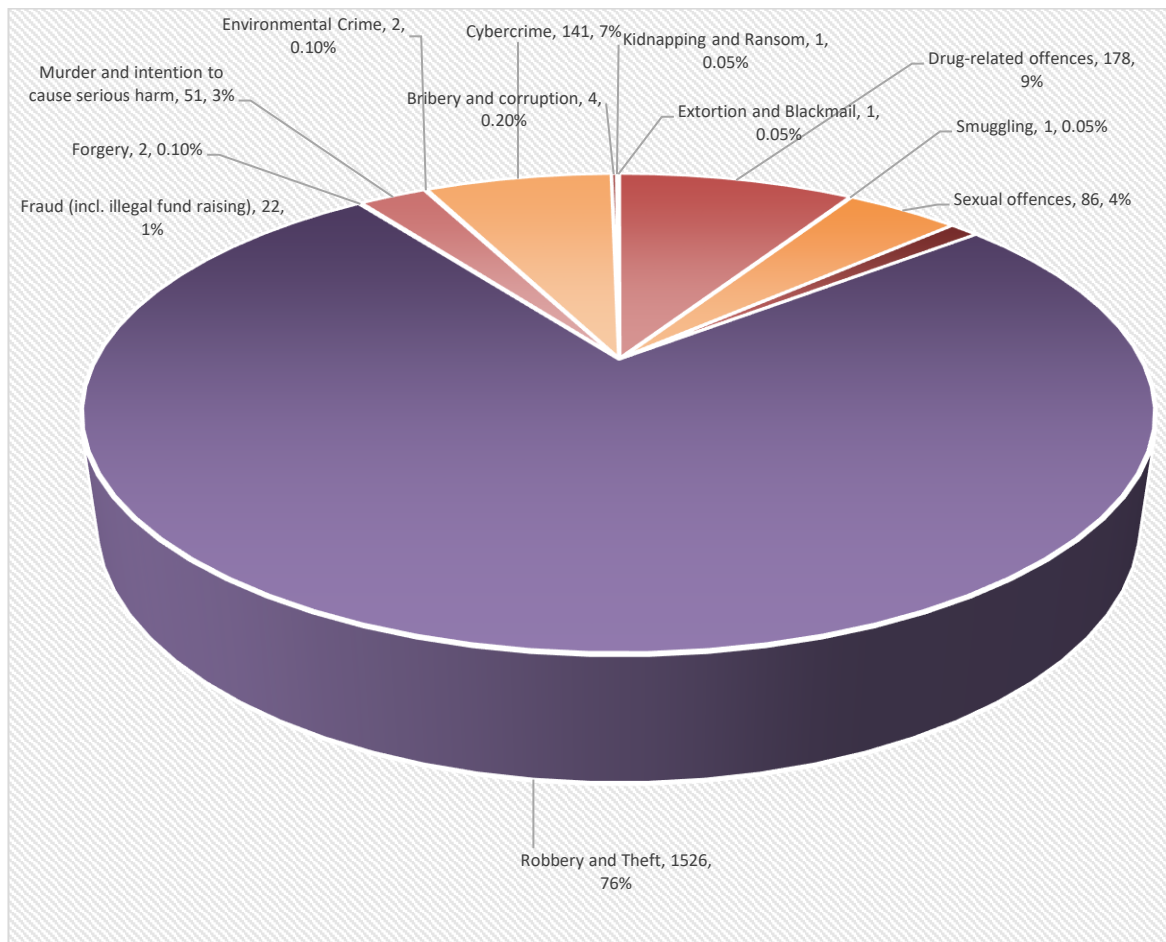
The national ML threat level was assessed based on three major components: a) the prevalence of predicate offences and the estimated proceeds they generate (where available), b) sectoral threat assessment, which measures the extent to which the financial sector and DNFBPs are exposed to predicate offences and money laundering; and c) external threat assessment, which measures the exposure of the country to cross-border criminal proceeds and ML.

Overall, the level of domestic proceeds-generating crimes in Naoero seems to be **LOW**. A breakdown of the predicate offences identified to be associated with 2,015 cases is available in Figure 2 below. For the period covered, ML threat arising from the following crimes is considered as relatively **MEDIUM** (when compared to other domestic crimes): tax evasion, and bribery and corruption. The threat and criminal proceeds arising from other predicate offences (i.e., drug-related offences; cybercrime; fraud; robbery or theft; and sexual offences) is rated as **LOW**.

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<sup>39</sup> Naoero has 21 recognised predicate offences, which are covered under different pieces of legislation, including CTTOC; Crimes Act 2016; Illicit Drugs Control Act 2004; Customs Act; AML-TFS Act 2023; Environmental Management and Climate Change (EMCCA) 2020; International Seabed Minerals Act (ISMA) 2015; Fisheries Act 1997; Revenue Administration Act 2014; Telecommunications Services Tax Act 2009. The predicate offences in Naoero include: a) participation in an organised criminal group and racketeering; 2) terrorism, including terrorism financing; 3) trafficking in human beings and migrant smuggling; 4) sexual exploitation, including sexual exploitation of children; 5) illicit trafficking in narcotic and psychotropic substances; 6) illicit arms trafficking; 7) illicit trafficking in stolen and other goods; 8) corruption and bribery; 9) fraud; 10) counterfeiting currency; 11) counterfeiting and piracy of products; 12) environmental crime; 13) Murder, grievous bodily injury; 14) kidnapping, illegal restraint and hostage-taking; 15) robbery or theft; 16) smuggling, including in relation to customs and excise duties and taxes; 17) tax crimes (related to direct and indirect taxes); 18) extortion; 19) forgery; 20) piracy; 21) insider trading and market manipulation.

**Figure 3: Breakdown of 2,015 identified predicate offences between July 2018 and June 2025**



In the sectoral threat assessment, all financial institutions and DNFBPs in Naoero i.e., the MVTs provider, legal practitioners and the gaming operator is identified to have **LOW** potential to be used to launder the amounts of proceeds of crime. Due to lack of supervision and monitoring of foreign PSPs offering remittance services in Naoero, no domestic data/information is available to assess the extent to which they may be exposed to proceeds of crime. The assessment of threat faced by the Bendigo Bank Agency is challenging due to limited availability of information; however, based on the limited banking products and services of the Bendigo Bank provided *via* the Bendigo Bank Agency and limited domestic proceeds of crime, this risk assessment assesses the threat to be **LOW**.

Naoero has a low overall crime rate, and it is exposed to limited threats related to ML and TF - both internal ML threats – those arising from domestic predicate offences, and external ones involving the laundering of proceeds from illicit activities elsewhere, which flow into or through the market or financial system. In the external threat, the threat coming from proceeds of crimes committed outside of the country's territory was assessed to be **LOW**, which is primarily based on limited requests for intelligence information received by the NFIU and no MLA requests received by the Secretary for Justice, respectively, from foreign jurisdictions between July 2018 and June 2025. **Low** threat is also due to Naoero's remote location, small size and its economic and cultural context. Naoero's narrow



economic base, absence of a developed financial sector, and strict land tenure system with related restrictions on foreign investment create very limited opportunities for generating criminal proceeds within the formal economy.<sup>40</sup> These factors also make Naoero unattractive option as transit route for illicit goods or funds.<sup>41</sup>

In the assessment of the ML threat (both internal and external), one of the major limitations of this risk assessment is little or no statistical information captured on the level of funds involved in some of the predicate crimes. Where possible, the views of various authorities based on their current and past investigations, as well as open-source information, is therefore taken into consideration to determine the possible level of funds available for ML/TF.

Overall, the national money laundering threat level was assessed as **LOW**.

## 3.2 Domestic Threat

### 3.1.1 Threat arising from predicate crimes

#### 3.1.1.1 Tax Crimes

Tax crimes (related to direct taxes and indirect taxes), as set out in Division 3 of the Revenue Administration Act 2014, section 11 of the telecommunication Services Act 2009, section 252 of Customs Act 2014, are recognised as predicate offence for ML in Naoero. Until 2017, the Government of Naoero did not collect tax from businesses, relying instead on revenue generated from phosphate extraction. This changed with the enactment of the Business Tax Act 2016, which came into effect on 1 July 2016 to introduce business taxation, and the Business Tax (Rates of Tax) Regulations 2017 only commenced on 1 July 2017. As of June 2025, Naoero has not signed any bilateral tax agreements with any jurisdiction for the exchange of information with respect to taxes. However, Naoero has signed and ratified the Multilateral Convention on Mutual Administrative Assistance in Tax Matters ('MAC') on 24 May 2016. Under the Convention, Naoero has exchange of Information arrangements in place with all OECD treaty partners and has formally committed to 'Automatic Exchange of Information' (AEOI) in tax matters in September 2018.<sup>42</sup>

The 2018 NRA of Naoero identified tax evasion as the primary source of laundered funds in Naoero.<sup>43</sup> This finding may be linked to the recent implementation of the Business Tax Act, which was still in its early stage of enforcement at the time. Nonetheless, the 2023 NRA of Naoero, identified the risk posed

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<sup>40</sup> 2024 MER of Naoero, p. 17.

<sup>41</sup> Ibid.

<sup>42</sup> Republic of Naoero, Office of the Minister of Finance: [https://naoerofinance.info/wp-content/uploads/2020/08/minister\\_s\\_statement\\_on\\_oecd\\_2017\\_7.pdf](https://naoerofinance.info/wp-content/uploads/2020/08/minister_s_statement_on_oecd_2017_7.pdf) (accessed 08 July 2025).

<sup>43</sup> The 2018 NRA reported that AUD 6,113,656.56 was linked to tax evasion; however, the source of these figures remains unclear. As stated in 2013 NRA, these figures could not be verified by the NRO or Department of Finance. It is also important to note that the 2018 NRA was neither approved nor endorsed by the Government of Naoero, which raises concerns about the reliability of its findings.



by tax evasion from “Low to Medium”, considering the size and nature of the economy and the mechanisms put in place by the NRO for businesses.

Based on the information and data collected for this risk assessment, there are 151 registered tax paying business in Naoero. These include 8 foreign controlled businesses operating on the topside, 85 large local business with an annual turnover exceeding AUD250,000, 18 SOEs, and 40 small businesses with an annual turnover below AUD250,000 (40). In addition to businesses, a significant number of contracts and employees fall under the Government or its instrumentalities. For these individuals and contractors, taxes are deducted at source by the employer and remitted directly to the NRO.

Between July 2018 and June 2025, there have been no reported cases – investigations, prosecutions or convictions, related to tax offences. There have also been no SARs submitted, or intelligence received by the NFIU related to tax crimes. The Department of Finance within NRO has also not received any tax exchange information under the OECD Global Forum Framework. Nonetheless, the information provided by the NRO indicated that tax evasion is a concern in Naoero.

As part of its recently launched *Compliance Improvement Strategy*, the NRO conducted three full audits of large local retail businesses. The audits revealed significant underreporting of income, particularly cash sales. In each case, the businesses accepted amended assessments and entered into instalment arrangements to repay the reassessed tax liabilities and penalties. Actual incomes were found to be between two and four times higher than those declared in tax returns, with estimated tax evasion per business ranging from AUD 50,000 to AUD 150,000 annually. According to NRO, the evidence suggests these practices had been ongoing for several years. Although in these cases, according to the NRO, there are evidentiary challenges in proving deliberate tax evasion—such as language barriers, weak recordkeeping, and limited accounting or tax knowledge—the scale of undeclared income indicates a high likelihood of intentional evasion.

The information provided by the NRO highlighted that the current secrecy provisions within the NRO prevent unsolicited disclosure of ML suspicions to law enforcement (i.e., NPF) or NFIU, which might also be one of the reasons for no SARs on tax crimes submitted to the NFIU by NRO. However, the NFIU may request such information if it has its own grounds for suspicion. The NRO is in the process of submitting proposals to Cabinet to amend these provisions, enabling more effective information sharing in support of AML/CFT measures.

On the basis of the information analysed in 2023 NRA and for this risk assessment, the risk of tax evasion in Naoero is assessed to be **MEDIUM**, despite the lack of any investigations, prosecution or convictions on tax crimes.

### **3.1.1.2**    *Corruption and Bribery*

Corruption and bribery, as set out in section 56 of CTTOC and sections 173 to 176 of Crimes Act 2016, constitute a predicate offence in Naoero. It is punishable with an imprisonment of up to seven years.

The 2018 NRA of Naoero identifies corruption as the second highest source of proceeds of crime in Naoero, with a total of AUD 331,000 in bribes being accepted between 2010 and 2018.<sup>44</sup> Further, it highlighted interference by senior government officials and politicians at the borders.<sup>45</sup> The 2023 NRA, on the other hand, assessed corruption and bribery threat as **low**.

Naoero became a party to the United Nations Convention against Corruption (UNCAC) on 11 August 2012, with the Convention entering into force in the country on the same day. Naoero's latest 2021 UNCAC review noted, as a challenge in implementation, that Naoero needed to:

- Strengthen the systems of public procurement, including through the public distribution of information relating to procurement procedures, tendering rules and criteria, invitations to tender and information on the award of contracts, for example, through e-procurement processes, and matters regarding procurement personnel.
- Establish, within public procurement systems, an effective system of domestic review and appeal, and provide legal recourse and remedies to address disputes over adherence to applicable rules and procedures.

These findings are also echoed in the 2023 IMF Country Report (November 2023) stating that “[m]easures to address governance and corruption vulnerabilities are critical to achieving Naoero’s medium-term growth and development objectives.”<sup>46</sup> The 2024 MER of Naoero also raised concerns about weak or absent public procurement processes and the lack of effective oversight over use of public monies in Naoero.<sup>47</sup> Corruption risk in Naoero has also been highlighted in other international reports, including the Global Organised Crime Index 2023, Freedom House Report on Naoero 2021, and Transparency International 2022 findings.<sup>48</sup>

Nonetheless, the latest 2025 IMF Country Report acknowledged progress in strengthening fiscal transparency and governance in Naoero, noting that “the *Naoero* Government has made progress in publishing regular budget documents and reports on development funds”,<sup>49</sup> <sup>50</sup>while emphasizing that

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<sup>44</sup> Similar to the figures for tax evasion, the source of these statistics in the 2018 NRA remains unclear.

<sup>45</sup> 2018 NRA, p. 22 (Instances include when goods have been falsely declared by importers and falsely declared goods were forcibly removed from the airport baggage area without undergoing clearance by customs).

<sup>46</sup> International Monetary Fund (2023), *Naoero 2023 Article IV Consultation – Press Release; Staff Report; and Statement by the Executive Director for Republic of Naoero*. IMF Country Report No. 23/376, November 28, 2023. Available at: <https://www.imf.org/en/Publications/CR/Issues/2023/11/28/Republic-of-Naoero-2023-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-541784> (accessed 05 July 2025).

<sup>47</sup> 2024 MER of Naoero, p. 19 & p. 33. The findings of the MER are, however, disputed by Naoero on the basis that no evidence was produced to corroborate their concerns or findings, except a reliance on international reports, and it is only a perception.

<sup>48</sup> These international reports highlight the risk of corruption in Naoero focussing primarily on the phosphate mining sector and RPC. It has to be noted here that Naoero disputed the findings of these reports, which were also relied upon in the MER 2024, on the grounds that there is no evidence to corroborate these findings and it is only a perception.

<sup>49</sup> IMF (2025) *2025 Article IV Consultation – Press Release; Staff Report; Staff Statement; and Statement by the Alternate Executive Director for the Republic of Naoero* (IMF Country Report No. 25/275, September 2025), p. 12.

<sup>50</sup> It has to be noted here that Naoero has also finalised the Public Debt Bill 2026, which will be introduced in the Parliament in early 2026. The Bill aims to regulate public debt and introduces more stringent reporting requirements and transparency processes, which involves Parliamentary approval prior to borrowing, pledging a guarantee/security, among others.

priorities remain to build capacity for systemic audits of investment projects and to strengthen monitoring of fiscal risks, which will help bolster confidence in public governance.<sup>51</sup>

During the sample period of July 2018 to June 2025, there were only three (3) cases investigated by LEAs related to bribery and corruption. There was a single prosecution of abuse of power offence in 2019-20, involving small amounts of proceeds that are estimated to be around AUD 1,000. No statistics are available on the amount of criminal proceeds involved in the cases under investigation.

**Table 3: Number of bribery and corruption-related cases in Naoero (July 2018 – June 2025)**

| Financial Year | No. of cases Investigated | No. of cases Prosecuted |
|----------------|---------------------------|-------------------------|
| 2024-25        | 1                         | 0                       |
| 2023-24        | 1                         | 0                       |
| 2022-23        | 1                         | 0                       |
| 2021-22        | 0                         | 0                       |
| 2020-21        | 0                         | 0                       |
| 2019-20        | 0                         | 1                       |
| 2018-19        | 0                         | 0                       |
| <b>TOTAL</b>   | <b>3</b>                  | <b>1</b>                |

On the basis of the information collected for this risk assessment and the findings of international reports, the corruption and bribery threat in Naoero is assessed as **MEDIUM**, despite only a limited number of investigations and prosecution or convictions of this offence.

### 3.1.1.3 Drug-related Offences (Possession of Narcotics, Cultivation, etc.)

Drug-related offences do not pose significant threat of ML to Naoero, although it appears to be a growing concern (2024 MER, p. 20). The drug-related cases in Naoero mainly involve marijuana, largely for personal use. The past few years have however seen an increase in the number of drug-related cases in Naoero, which mainly relate to the possession of illicit drugs and cultivation of illicit drugs (see [Table 4](#) below). The use of harder drugs (cocaine and methamphetamine) has been reported, though it is still at a relatively low level with only one case related to harder drugs

**Table 4: Number of Drug offences related cases in Naoero (July 2018 – June 2025)**

| Financial Year | No. of cases Investigated | No. of cases Prosecuted | No. of Convictions | No. of Individuals Convicted | Estimate of relative size of undetected criminal proceeds |
|----------------|---------------------------|-------------------------|--------------------|------------------------------|-----------------------------------------------------------|
| 2024-25        | 17                        | 7                       | 5                  | 5                            | 34.4 g                                                    |
| 2023-24        | 31                        | 10                      | 8                  | 9                            | 165 g                                                     |
| 2022-23        | 35                        | 3                       | 3                  | 3                            | 47 g                                                      |
| 2021-22        | 17                        | 2                       | 2                  | 2                            | 4.37 gram (AUD 10,000)                                    |
| 2020-21        | 23                        | 1                       | 1                  | 1                            | 3.1 kg                                                    |

<sup>51</sup> *ibid.*

|              |    |                   |                   |                   |                   |
|--------------|----|-------------------|-------------------|-------------------|-------------------|
| 2019-20      | 11 | No data available | No data available | No data available | No data available |
| 2018-19      | 0  | 1                 | 1                 | 1                 | AUD 2,000         |
| <b>TOTAL</b> |    | <b>24</b>         | <b>20</b>         | <b>21</b>         |                   |

#### 3.1.1.4 Theft

Theft constitutes a predicate offence in Naoero, and the punishment for this offence ranges from one year to 7 years making it a ‘serious offences’ under section 154 of the Crimes Act 2016. The offence of theft in fiduciary relationship is punishable with 10 years of imprisonment.

Theft is the most commonly investigated offences in Naoero. Theft in Naoero is perpetrated by a wide range of individuals and mostly crimes of opportunity. A total of 1,504 cases related to theft are investigated in Naoero between July 2018 and June 2025. However, there have been no prosecutions or convictions for theft and unfortunately, no statistics are maintained on the proceeds of crime linked to this offence. According to the NPF, most theft cases involve items such as mobile phones, and are often closed either because the stolen items are recovered but the culprit is not found, or because the stolen items cannot be traced.

*Table 5: Number of theft cases investigated in Naoero (July 2018 – June 2025)*

| Financial Year | No. of cases Investigated | No. of cases Prosecuted |
|----------------|---------------------------|-------------------------|
| 2024-25        | 91                        | 0                       |
| 2023-24        | 122                       | No data available       |
| 2022-23        | 141                       | No data available       |
| 2021-22        | 160                       | No data available       |
| 2020-21        | 294                       | No data available       |
| 2019-20        | 323                       | No data available       |
| 2018-19        | 373                       | No data available       |
| <b>TOTAL</b>   | <b>1,504</b>              |                         |

#### 3.1.1.5 Robbery

Robbery constitutes a predicate offence for ML in Naoero. The imprisonment term for robbery ranges from at least 12 to 14 years, making it a ‘serious offences’ under sections 158 and 159 of the Crimes Act 2016.

A total of 21 robbery cases have been investigated in Naoero within the sample period for this risk assessment, resulting in one prosecution but no convictions. The proceeds of crime in the prosecuted case amounted to AUD2,500.

*Table 6: Number of Robbery investigated and prosecuted in Naoero (July 2018 – June 2025)*

| Financial Year | No. of cases Investigated | No. of cases Prosecuted | Estimate of relative size of undetected criminal proceeds |
|----------------|---------------------------|-------------------------|-----------------------------------------------------------|
| 2024-25        | 2                         | 1                       | AUD 2,500                                                 |

|              |           |                   |                   |
|--------------|-----------|-------------------|-------------------|
| 2023-24      | 1         | No data available | No data available |
| 2022-23      | 0         | No data available | No data available |
| 2021-22      | 3         | No data available | No data available |
| 2020-21      | 4         | No data available | No data available |
| 2019-20      | 6         | No data available | No data available |
| 2018-19      | 5         | No data available | No data available |
| <b>TOTAL</b> | <b>21</b> | <b>1</b>          | <b>AUD 2,500</b>  |

### 3.1.1.6 Sexual Offences (rape, indecent acts etc.)

Sexual offences, as covered under sections 107-109 and 118-120 of the Crimes Act 2016, qualifies as a predicate offence for ML in Naoero, resulting into life imprisonment for up to 15 years.

Sexual offences constitute 4% of the total predicate offences investigated, prosecuted and convicted between July 2018 and June 2025.

*Table 7: Number of Sexual offences related cases in Naoero (July 2018 – June 2025)*

| Financial Year | No. of cases Investigated | No. of cases Prosecuted | No. of Convictions |
|----------------|---------------------------|-------------------------|--------------------|
| 2024-25        | 11                        | 3                       | 2                  |
| 2023-24        | 5                         | 4                       | 3                  |
| 2022-23        | 6                         | 4                       | 2                  |
| 2021-22        | 10                        | 4                       | 2                  |
| 2020-21        | 10                        | 1                       | 1                  |
| 2019-20        | 7                         | No data available       | No data available  |
| 2018-19        | 11                        | No data available       | No data available  |
| <b>TOTAL</b>   | <b>60</b>                 | <b>16</b>               | <b>10</b>          |

### 3.1.1.7 Smuggling, Extortion, Kidnapping and Ransom

Between July 2018 and June 2025, the NPF investigated one case each of smuggling, extortion, and kidnapping for ransom, all during 2024–25. No data is available on the estimated proceeds of crime for these cases. During the same period, there were no prosecutions or convictions related to smuggling, extortion, and kidnapping for ransom.

### 3.1.1.8 Fraud, Deception, Forgery and related Offences

A total of 22 fraud-related cases (including illegal fund raising) has been investigated in Naoero between July 2018 and June 2025.

*Table 8: Number of fraud-related cases in Naoero (July 2018 – June 2025)*

| Financial Year | No. of cases Investigated |
|----------------|---------------------------|
| 2024-25        | 1                         |
| 2023-24        | 3                         |
| 2022-23        | 1                         |
| 2021-22        | 4                         |

|              |           |
|--------------|-----------|
| 2020-21      | 2         |
| 2019-20      | 2         |
| 2018-19      | 9         |
| <b>TOTAL</b> | <b>22</b> |

In one of the fraud cases, the matter involved fraudulent activities relating to a bank account. The suspect and the victim were all siblings staying under one roof. The victim had travelled overseas and upon return discovered that funds were missing from the account. Upon further inquiries, the victim suspected a member of the family had unauthorised access to her banking facilities resulting in money being withdrawn on various occasions without her consent. Victim reported the matter to the Police and the sum involved was AUD\$12, 246.00. No statistics are available as to the estimated proceeds of crime involved in all fraud cases.

Within the sample period of July 2018 and June 2025, there were two cases of forgery investigated by NPF in 2024-25. One involved falsified bank receipts to evade passport renewal fees, while the other concerned forged signatures by a sports official to unlawfully obtain sponsorship funds.

There were no prosecutions or convictions related to fraud, deception or forgery cases between July 2018 and June 2025.

#### 3.1.1.9 Murder and Intentionally causing serious harm

Murder and intentionally causing serious harm, as defined under Crimes Act 2016, constitutes a predicate offence for money laundering in Naoero. It represents 3% (i.e., 51 cases) of the total predicate offences prosecuted in Naoero between July 2018 and June 2025.

*Table 9: Number of murder and intentionally causing serious harm cases in Naoero (July 2018 – June 2025)*

| Financial Year | No. of cases investigated | No. of cases Prosecuted | No. of Convictions |
|----------------|---------------------------|-------------------------|--------------------|
| 2024-25        | 0                         | 11                      | 0                  |
| 2023-24        | 0                         | 4                       | 0                  |
| 2022-23        | 0                         | 9                       | 1                  |
| 2021-22        | 0                         | 7                       | 1                  |
| 2020-21        | 0                         | 7                       | 1                  |
| 2019-20        | 1                         | 4                       | 1                  |
| 2018-19        | 1                         | No data available       | 0                  |
| <b>TOTAL</b>   | <b>2</b>                  | <b>42</b>               | <b>7</b>           |

#### 3.1.1.10 Environmental crime

During the sample period of July 2018 and June 2025, there was one (1) case prosecuted by LEAs in 2024-2025 related to discharge of toxic waste into the sea by a foreign vessel. Two (2) foreign nationals were charged and prosecuted. They were further prosecuted for failing to maintain a garbage record

book. The case was investigated and forwarded to the ODPP for prosecution by the NPF. Due to the nature of the offence, there are no estimated proceeds of crime in this case.

3.1.1.11 Cybercrime

The development of globalisation provides a new threat of cybercrime which threatens information and personal security. Cybercrime can also have a damaging effect on the investment and economy of a country, in general. It also has the ability to generate funds through online scams and extortion. There is no definition of “cybercrime” in Naoero legislation; however, there are sections in Cybercrime Act 2016 (sections 6 to 23) and sections 194-195 of Crimes Act 2016 devoted to crimes against information security. Cybercrime is generally described as illegal actions, which are carried out by people using information technologies for criminal purposes. Among the main types of cybercrime are illegal access; illegal interception; illegal data interference; data espionage; illegal system interference; making, selling, distribution or possessing software or device for committing a crime; computer-related fraud; child pornography; publishing of indecent or obscene information or material in electronic form; identity-related crimes; spam; and sending or publishing information or material through electronic communication.

Cyber-related criminal activity poses an emerging threat to Naoero. During the sample period of July 2018 and June 2025, there has been 140 cases investigated related to cybercrime and one successful prosecution in 2024-25. The cybercrime unit is currently undertaking another case which relates to business email compromise and has been disseminated by the NFIU to the LEAs, involving estimated proceeds of crime worth AUD 38,000. There are however no statistics available on the amount of funds involved in all the cyber-crime cases investigated by NPF. Despite the lack of statistics in respect of funds relating to cybercrime, the value of associated funds has not considered to be very high by the authorities.

*Table 10: Number of cybercrime cases in Naoero (July 2018 – June 2025)*

| Financial Year | No. of Investigations | No. of cases prosecuted |
|----------------|-----------------------|-------------------------|
| 2024-25        | 11                    | 1                       |
| 2023-24        | 24                    | 0                       |
| 2022-23        | 25                    | 0                       |
| 2021-22        | 32                    | 0                       |
| 2020-21        | 41                    | 0                       |
| 2019-20        | 7                     | 0                       |
| 2018-19        | 0                     | 0                       |
| <b>TOTAL</b>   | <b>140</b>            | <b>1</b>                |

### 3.1.1.12 Other Offences/Unlawful Activity

#### A. Cash Smuggling

The 2018 NRA finds cash smuggling to be Naoero's highest ML risk, with tax evasion the largest source of illicit funds (87%). The conclusion was largely based on assumptions of compensating cash uplifts driven by the depletion of withholding cash reserve, along with risks related to tax evasion, corruption, robbery, and theft. The vulnerability of this risk was also considered high due to the absence of effective border controls measures. However, for the latter, reform measures including legislative reforms have taken place to strengthen effective border control measures. The Naoero Customs is now required to report all border cash declarations or infringements to the NFIU.

By contrast, the 2023 NRA assessed the risk of illegal export of cash as **low**. The findings of this current risk assessment are consistent with those of the 2023 NRA. Since 2018, Naoero has introduced several measures to reduce the risk of cash smuggling. These includes stricter measures for exporting cash (see sections [4.2.9.1.2](#) and [4.2.9.1.3](#) of this report), the application of risk assessment and risk management techniques and the use of non-intrusive technologies. All checked-in luggage is scanned, outgoing passengers undergo security checks, and custom officers conduct random inspections of hand luggage. According to the information provided by NCS during the consultation meeting, all business owners are subject to physical searches when leaving Naoero.

In addition, the Bendigo Bank Agency reported increased use of internet banking and electronic means of payments, with only 1-2% cash transactions now conducted in cash at its service outlets. The Government also makes all payments, including contractor payments, electronically. Moreover, 83 ETTPPOS terminals are currently operational in Naoero.

Regarding concerns about cash depletion, the Treasury cash balance data reviewed for this risk assessment indicates year-to-year volatility, with an overall downward trend since 2020. Annual changes ranged from decreases of 3.4% to 12.4%, except for an increase recorded in 2023. However, these cash depletion could be due to various factors, such as rising expenditure pressures, lower revenue performance, need for strengthening cash management, delays in external funding etc. The Bendigo Bank Agency clarified during consultations for this risk assessment that most cash uplifts between July 2018 and June 2025 were driven by the replacement of unfit notes. In 2023, there was also a significant uplift of coins (approximately AUD 400,000), attributed to the collection of coins in piggy boxes distributed to children.

Over the past seven years, only four cash export licenses have been issued by the NRO, with none granted in FY2023–24 or FY2024–25.

### 3.1.2 *Sector Threat Analysis*

For the period between July 2018 and June 2025, the NFIU has directly received only 2 SARs, which served as a basis for assessing sectoral threat. One STR was submitted by the MVTs on ground of suspicious circumstances involving the customer behaviour and the other STR was submitted by a

business relating to compromised business email address. There have been no investigations, prosecutions and convictions involving any of the relevant sectors or reporting entities in Naoero within the sample period for this risk assessment.

A. Banking Agency

There are no commercial banks operating in Naoero. Since 2015, banking services have been provided through an agency arrangement between the Government of Naoero and an Australian bank – Bendigo and Adelaide Bank Limited. As explained earlier, this banking agency is referred to as the Bendigo Bank Agency, and the arrangement allows Naoero to function in the absence of a Central Bank. The arrangement primarily enables the Government of Naoero (via the Department of Finance) to circulate money supply (cash) within the country.<sup>52</sup>

However, the Bendigo Bank Agency was not considered a “financial institution” under the AML-TFS Act 2023, as it did not undertake activities listed in the FATF glossary. The Agency serves solely to facilitate Bendigo Bank’s operations in Naoero. As an Australian-regulated bank, Bendigo Bank is subject to Australia’s AML/CFT framework, including compliance obligations relating to accounts and transactions conducted through the Bendigo Bank Agency.

On 8 August 2025, the Bendigo Bank Agency ceased its operations, and the Commonwealth Bank of Australia (CBA) signed an ‘agency’ agreement with the Government of Naoero, commencing operations on 11 August 2025. For the purposes of this risk assessment, however, the focus remains on assessing the ML threat associated with the operations of the Bendigo Bank Agency during the sample period covered by this risk assessment.

That said, assessing ML risk associated with the Bendigo Bank Agency’s operations is challenging, as it was neither required to file SARs with the NFIU nor to provide data for this assessment. Nonetheless, the NFIU maintains close cooperation with AUSTRAC, the AML/CFT supervisor of the Bendigo Bank, through which it receives relevant information. In 2020, AUSTRAC provided the NFIU with a batch of 141 SARs (in clustered form) filed by the Bendigo Bank in relation to accounts or customers onboarded via the Bendigo Bank Agency, covering the period from 2017 to 2020. However, since then, no further SAR-related information has been shared between AUSTRAC and the NFIU.

Table 11: *Risk Indicators related to 141 SARs shared by AUSTRAC (2017 – 2020)* below provides a list of common risk indicators cited in these 141 SARs.

*Table 11: Risk Indicators related to 141 SARs shared by AUSTRAC (2017 – 2020)<sup>53</sup>*

| Risk Indicator           | No. of SARs |
|--------------------------|-------------|
| Unusual transactions     | 128         |
| Unusual account activity | 119         |
| Unusually large transfer | 95          |

<sup>52</sup> MER 2024, p. 27

<sup>53</sup> MER 2024, p. 47.

|                                |            |
|--------------------------------|------------|
| Inconsistent customer profile  | 88         |
| Suspicious behaviour           | 51         |
| Avoiding reporting obligations | 27         |
| Country jurisdiction risk      | 9          |
| Suspected scam                 | 3          |
| <b>TOTAL</b>                   | <b>141</b> |

FIU has analysed 17 of 141 SARs and disseminated 3 SARs to LEAs for further investigations, with no further action being taken by LEAs.

Based on the limited available information, the threat faced by Bendigo Bank Agency is considered **LOW**. These ratings reflect the limited extent to which the products and services offered by the Bendigo Bank *via* the Agency in Naoero have been exploited for laundering criminal proceeds, whether from internal and external sources, in the ML schemes by criminals.

### **B. Money or Value Transfer Services (MVTs)**

Money Laundering threat to the MVTs sector is assessed as **LOW**.

In the sample period of July 2018 to June 2025, only 1 SARs has been submitted to the NFIU by the MVTs in 2024. The total value of submitted STR is approximately AUD 1,200.

***Table 12: Number and Value of SARs from the MVTs Sector (July 2018-June 2025)***

| Financial Year | No. of SARs | Value of SARs (AUD) |
|----------------|-------------|---------------------|
| 2021-22        | 0           | 0                   |
| 2022-23        | 0           | 0                   |
| 2020-21        | 0           | 0                   |
| 2021-22        | 0           | 0                   |
| 2022-23        | 0           | 0                   |
| 2023-24        | 1           | 1,200               |
| 2024-25        | 0           | 0                   |
| <b>TOTAL</b>   | <b>1</b>    | <b>AUD 1,200.00</b> |

The NFIU investigated the SAR submitted by MVTs negating any suspicious activity:-

The main suspicious indicator cited in SARs where MVTs has become suspicious of money laundering is the unusual customer behaviour i.e., body language and reluctance in providing a reason for remitting funds. No predicate offence has been highlighted in the STR from the MVTs sector.

### **C. DNFBPs and NPOs**

Between July 2018 to June 2025, no DNFBPs in Naoero (i.e., legal practitioners and casinos) were detected as being involved in ML cases. Similarly, no SARs were reported from the sector, and neither financial investigations revealed any indications that DNFBPs were used to launder criminal proceeds. There is, however, a clear lack of data concerning these businesses and professions. Despite being designated as reporting entities under the AML-TFS Act 2023, largely the DNFBPs sector remained

unsupervised for AML/CFT/PF purposes. As a result, compliance monitoring was either absent or very limited, and no SARs were filed by DNFBPs. Despite these deficiencies, considering the size and nature of the DNFBPs sector, the ML threat posed by legal practitioner and the gaming operator is assessed as **LOW**.

With respect to the NPO sector in Naoero, considering the small size and nature of this sector, as well as lack of any cases, SARs, intelligence involving NPOs as a conduit for ML, the NPO sector is assessed as presenting **LOW** ML threat.

***D. Legal Persons and Legal Arrangements***

Chapter 8 of this risk assessment gives an overview of legal persons and arrangements in Naoero. Corporate vehicles and legal structures are inherently attractive to ML, especially because of their inherent characteristics, such as relative anonymity, the possibility to distinguish between legal and beneficial ownership, and possibility to create complex corporate structures etc.

Naoero is not particularly attractive as an offshore financial centre to international entities, and there is a small domestic sector, comprising of corporations and partnerships. There is no evidence of Naoero’s domestic sector being abused for laundering the proceeds of predicate crimes, whether foreign or domestic. There are no investigations, prosecutions, and/or convictions involving domestic corporate sector in the sample period of July 2018 and June 2025. The NFIU has not received any SARs featuring the domestic corporate sector. There have also been no foreign requests for information relating to Naoero corporations, partnerships or trusts which indicate possible misuse for ML or associated predicate offences. Considering all the available information, Naoero’s domestic corporate sector is being rated as facing **LOW** ML threat.

**3.3 International Threat**

It is a declared policy of the country to ensure that Naoero shall not be used as a ML site for the proceeds of any unlawful activity, among others. Accordingly, Naoero extends cooperation in transnational investigations and prosecutions of persons involved in ML activities where committed. Undeniably, any attempt to transfer criminal proceeds generated abroad into the territory of Naoero would augment ML threat in the country.

Between July 2018 and June 2025, Naoero has received three (3) informal requests for information and assistance from other jurisdictions, but no formal mutual legal assistance requests. The requests, as detailed in [Table 13](#), were mainly concerning ML matters, and received by the NFIU from New Zealand, Saudi Arabia and Kiribati.

***Table 13: Main offences as Subject of Requests to the NFIU (July 2018-June 2025)***

| Types of Predicate Offence | Number of Requests |         |         |         |         |         |         |
|----------------------------|--------------------|---------|---------|---------|---------|---------|---------|
|                            | 2018-19            | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 |
|                            |                    |         |         |         |         |         |         |

|           |   |   |   |   |   |   |   |
|-----------|---|---|---|---|---|---|---|
| Not-Known | 0 | 0 | 1 | 0 | 1 | 1 | 0 |
|-----------|---|---|---|---|---|---|---|

One request from Kiribati sought details of a Western Union transaction of about AUD 400, which was obtained and shared with the Kiribati Police. Another request, relayed through DFAT, aimed to trace alleged funds in Naoero valued at AUD 69,000; no such bank account was found, and follow-up was hindered due to a lack of translation support. A further request from New Zealand's FIU involved checks into potential breaches of Russian sanctions linked to trade-based money laundering, which were completed and communicated back.

### 3.4 Overall ML Risk

All the foregoing showed the limited prevalence of predicate offences and to some extent, the proceeds they generate (especially for some offences), and the extent to which financial sector, DNFBPs, NPOs, legal entities and arrangements have been threatened by the ML schemes.

Overall, the level of domestic proceeds-generating crimes seems to be **LOW** in Naoero, with the main relevant crime types being drug-related offences, cybercrime, theft, robbery, sexual offences, and bribery and corruption. Naoero has been relatively free from the influence of organised crime, but there are elements undertaking profit-driven crime in Naoero, particularly in relation to tax evasion. Tax evasion and bribery and corruption, however, poses a **MEDIUM** level threat, which needs to be closely monitored. Naoero's domestic financial system is small, and there is relatively low risk of large amounts of proceeds of crime derived from domestic sources. Moreover, the threat coming from proceeds of crimes committed outside of Naoero is rated **LOW**.

The sectoral threat assessment similarly indicated that money or value transfer services (MVTs), legal practitioners and the gaming operator present a low risk of misuse for ML purposes, leading to their **LOW** threat. Assessing the ML threat faced by the operations of the Bendigo Bank Agency has been more challenging, as it has not been classified as a financial institution under the *AML-TFS Act 2023*. Consequently, the Bendigo Bank Agency is neither obliged to comply its requirements nor under the supervision of any competent authority in Naoero. Nonetheless, based on the limited available information, the threat faced by the Bendigo Bank Agency is also considered **LOW**. These ratings reflect the limited extent to which the products and institutions/businesses in these sectors have been exploited for laundering criminal proceeds, whether from internal and external sources, in the ML schemes of criminals detected through this risk assessment.

The ML threat posed by legal persons and legal arrangements, as well as NPOs is also assessed as **LOW**.

Accordingly, the overall money laundering threat of Naoero is assessed as **LOW**.

### 3.5 Next Steps

The result of the assessment show that the overall ML threat posed by domestic proceeds-generating crimes involving drug-related offences, robbery and theft, and fraud is relatively **LOW**. Nonetheless, while there is already good coordination and cooperation between the NFIU and the respective LEAs



authorised to investigate and/or prosecute such unlawful activities, greater efforts are needed by the LEAs, especially the NRO, to fully utilise the NFIU, and this mechanism may need to be further strengthened. In addition, LEAs involved in the risk assessment must be encouraged to maintain adequate statistics specifically needed in conducting the threat analysis to eliminate the challenge in data collection faced in the previous and current risk assessment, including identifying the funds associated with each offence and the movement of those funds.

## 4. Overall Money Laundering and Terrorist Financing Combating Ability

This chapter outlines and analyses factors affecting Naoero's ability to combat ML activities. It examines the AML/CFT/PF legal, regulatory and institutional frameworks, prosecution and judicial processes, national and international co-operation mechanisms. Further detail on the legal framework relating to terrorist financing can be found in [10 Terrorist Financing Threat and Vulnerability Assessment](#).

### 4.1 AML/CFT/PF Legal and Regulatory Framework

The *Anti-Money Laundering and Targeted Financial Sanctions Act 2023* (hereinafter referred to as "AML-TFS Act 2023") is the primary ML legislation in Naoero, which has repealed the *Anti-Money Laundering Act of 2008*. In addition to the AML-TFS Act 2023, the *Proceeds of Crime Act 2004*, amended in 2023 (hereinafter referred to as "POCA 2004"), the *Crimes Act 2016*, and the *Counter Terrorism and Transnational Organised Crime Act 2004*, amended in 2025 (hereinafter referred to as "CTTOC 2004") also provide the legislative basis for AML/CFT/PF in Naoero. In 2023, Naoero has also adopted new *Anti-Money Laundering and Targeted Financial Sanctions (Financing of Terrorism and Proliferation Financing) Regulations 2023* to implement the provisions of the AML-TFS Act 2023. Naoero has also issued a number of AML/CFT/PF-related Guidelines in the past years to provide guidance to the reporting entities to comply with their AML/CFT/PF obligations under AML-TFS Act 2023. This section will outline the legal and regulatory framework governing the AML/CFT/PF regime in Naoero.

#### 4.1.1 The AML-TFS Act 2023

The AML-TFS 2023 makes provision for the prevention of ML in Naoero. It repealed the Anti-Money Laundering Act 2008 and introduced provisions with the objective to strengthen Naoero's AML/CFT/PF regime to effectively combat ML and TF while adhering to international standards. Sections 9 and 10 of the AML-TFS Act 2023 criminalise the act of ML.

The AML-TFS 2023 places a number of obligations on financial institutions and DNFBPs to prevent their services from being misused for ML/TF purposes. Such requirements include the obligations to conduct customer due diligence (CDD),<sup>54</sup> conducting business risk assessment,<sup>55</sup> appointing a compliance officer,<sup>56</sup> maintaining records,<sup>57</sup> reporting suspicious matters to the NFIU,<sup>58</sup> and adopting and applying AML/CFT/PF policies, procedures and controls to ensure the effective prevention of ML/TF on a risk-

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<sup>54</sup> Division 3, AML-TFS Act 2023

<sup>55</sup> Section 24, AML-TFS Act 2023

<sup>56</sup> Section 20, AML-TFS Act 2023

<sup>57</sup> Sections 28 and 29, AML-TFS Act 2023

<sup>58</sup> Division 5, AML-TFS Act 2023



assessed basis, including proper monitoring and managing compliance with those policies and procedures.<sup>59</sup> and ensuring awareness and training of staff<sup>60</sup>.

#### **4.1.2 The Crimes Act 2016**

The Crimes Act 2016 repealed and replaced Naoero's 116-year-old Criminal Code 1899. The Act brought clarity on offences and all such offences which have been created after 1899 in its consolidated form. Part of the Crimes Act 2016 directly applies to AML/CFT/PF-related matters, such as predicate offences. The Crimes Act 2016 Part 2 Division 3.4 lists a number of ancillary offences and is applicable to the ML offence, as provided under the AML-TFS Act 2023.

#### **4.1.3 POCA 2004**

The Proceeds of Crime (POCA) Act 2004 sets out the legislative framework for seizure and confiscation of proceeds of crime in Naoero. POCA empowers LEAs to identify, seize, and confiscate the proceeds of crime or assets linked to criminal activities. The confiscation provisions (forfeiture orders and pecuniary penalty orders) apply if a person is convicted of a serious offence<sup>61</sup>. The ML offence, most predicate offences and TF offences are all serious offences.

Confiscation proceedings seek to recover the financial benefit that an individual has gained as a result of their offending. It is the most commonly used asset recovery mechanism. Confiscation orders are available following a criminal conviction. The type of property that can be confiscated is 'tainted property', which includes both proceeds and instruments of crime, as defined under Section 3 of POCA<sup>62</sup>. POCA contain provisions on the protection of third-party interests in the forfeited property.<sup>63</sup>

Sections 23 and 26 of the POCA enables the court to identify the value of the benefit in monetary terms that the defendant has received, and orders him to pay an amount equal to the value of the property instead of the forfeiture of the property in certain circumstances. Confiscation proceedings can only be instigated by the Secretary for Justice and the standard of proof in these proceedings is on the balance of probabilities<sup>64</sup>.

Section 48 of the POCA also provides for the making of a restraining order, the effect of which is to restrain a person from dealing with the tainted property so as to prevent them from being dissipated in advance of a forfeiture or pecuniary penalty order being made. A restraining order can be applied for as soon as a person is charged or convicted of a serious offence. The test for grant of a restraining

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<sup>59</sup> Section 19, AML-TFS Act 2023

<sup>60</sup> Section 23, AML-TFS Act 2023

<sup>61</sup> Section 25A, POCA 2004

<sup>62</sup> According to Section 3 of POCA 2004, 'tainted property' means property that (1) is used in, or in connection with, the commission of a serious offence; (2) is intended to be used in, or in connection with the commission of a serious offence; (3) proceeds of that offence; (4) criminal property under AML-TFS Act; (5) terrorist property under CTTOC Act.

<sup>63</sup> Section 20, POCA 2004

<sup>64</sup> Section 103, POCA 2004



order is that there are reasonable grounds for believing that a forfeiture order may be or is likely to be made under POCA in respect of that property.

The POCA, together with Criminal Procedure Act 1972, also provides mechanism for the management and disposal of property frozen, seized or confiscated. Section 78 of the Criminal Procedure Act 1972 provides that anything seized may be detained with reasonable care taken for its preservation and Section 124 states that the court in any criminal proceedings may make orders for the preservation or disposal of property. Additionally, sections 46 and 47 of POCA provides that all property seized is held by the Commissioner of Police till the court makes a restraining order directing the 'Administrator' to take custody and control of the seized property. Under POCA, the Minister may appoint an 'Administrator' to administer property that is forfeited or restrained. Where an administrator is not appointed the Secretary for Justice shall act as administrator.

Section 100 of POCA also permits the establishment of the 'Confiscated Assets Fund' as a special purpose or contingency fund, which is supervised by the Secretary of Finance. The monies from this fund can be disbursed or shared with other countries. In practice, this fund account has been inactive since it was opened in September 2016, with no confiscated assets deposited into it.

#### ***4.1.4 CTTOC (Amendment) Act 2004***

The CTTOC 2004 criminalises TF in Naoero and is fully in line with Recommendation 5 of the FATF Recommendations, according to the MER 2024 of Naoero.

CTTOC also contain provisions with respect to forfeiture and confiscation of terrorist property, as defined under the Act. Section 23 of CTTOC provides that the Minister may apply to the court for the forfeiture order.

#### ***4.1.5 AML/CFT/PF-related Regulations and Guidelines***

As previously highlights, Naoero has enacted a series of AML-CFT related regulations in recent years to aimed at combating ML, TF and PF within the jurisdiction. In addition, guidelines have been issued to reporting entities to strengthen their compliance with the applicable AML/CFT/PF legislative and regulatory framework. The measures introduced include the following:

- 1) Anti-Money Laundering and Targeted Financial Sanctions (Financing of Terrorism and Proliferation Financing (Amendment) Regulations 2024
- 2) Anti-Money Laundering and Targeted Financial Sanctions (Parallel Financial Investigations) Regulations 2024
- 3) Anti-Money Laundering and Targeted Financial Sanctions (Financing of Terrorism and Proliferation Financing (No. 2) (Amendment) Regulations 2024
- 4) Anti-Money Laundering and Targeted Financial Sanctions (Fit and Proper Person) Criteria 2023
- 5) Anti-Money Laundering and Targeted Financial Sanctions (Simplified Due Diligence) Guideline 2023
- 6) Anti-Money Laundering and Targeted Financial Sanctions (High-Risk Countries) Guideline 2023

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- 7) Beneficial Ownership (Identity and Declaration) Regulations 2023
  - 8) Beneficial Ownership Guide 2023
  - 9) Business Licences (Non-Operational Businesses Record Keeping) Regulations 2023
  - 10) Counter Terrorism and Transnational Organised Crime (Amendment of the Schedule) Regulations 2023
  - 11) Counter Terrorism and Transnational Organised Crime (Targeted Financial Sanctions) Regulations 2023
  - 12) Designated Non-Financial Businesses and Professions Customer Due Diligence Guide 2023
  - 13) Naoero Cash Border regulation Framework Guide 2023
  - 14) Naoero Targeted Financial Sanctions Terrorism and Proliferations Financing Guide 2023
  - 15) Non-Government Organisations or Non-Profit Organisations Best Practice Guide 2023
  - 16) Proceeds of Crime (Border Declaration Form) (Amendment) Regulations 2024
  - 17) Proceeds of Crime (Management and Disposal of Property) Regulations 2024
  - 18) Proceeds of Crime (Miscellaneous) (Amendment) Regulations 2024
  - 19) Trusts (Trustee Duties) Regulations 2023
  - 20) Virtual Asset Service Provider Policy 2023

## **4.2 High-Level Commitment and Institutional Framework**

Naoero recognises the importance of maintaining a comprehensive and robust AML/CFT/PF regime that requires high-level political commitment from the government and close collaboration and coordination among policy-making bodies, regulators and supervisors, LEAs and others.

### ***4.2.1 Anti-Money Laundering Governance Council***

Naoero has demonstrated high-level commitment to all issues bordering ML, TF and PF by establishing the national AML Governance Council (AMLGC) in 2022, in accordance with its National AML/CFT/PF Strategy 2022-2025, which became operations from 1 January 2023. The AMLGC is the lead agency in Naoero responsible for overall strategic co-ordination of AML/CFT/PF issues and for providing the necessary framework to develop and enhance the AML/CFT/PF regime and its oversight. The AMLGC is composed of the following members:

- a) The Secretary for Justice and Border Control – Chairperson of the AMLGC
- b) The Secretary for Finance - Member
- c) The Commissioner of Police – Member
- d) The Director of Public Prosecutions - Member
- e) The NFIU Supervisor – Secretariat

The AMLGC meets on quarterly basis and when necessary; however, as per the Terms of Reference (ToRs), it shall hold a minimum of three meetings per year.

#### 4.2.2 Anti-Money Laundering Official Committee

The National AML/CFT/PF Strategy 2022-25 of Naoero also established the AML Officials Committee (“AMLOC”) to provide oversight and to strengthen cooperation and collaboration among various stakeholders in Naoero implementing the AML/CFT/PF regime.

The AMLOC comprises of the representatives of Treasury, Naoero Revenue Office (NRO), Naoero Police Force (NPF), Customs, Immigration, Fisheries and Director of Public Prosecutions (DPP), and is currently chaired by the Head of NFIU. The AMLOC became effective from 1 January 2023 and held its first meeting in July 2023 and since then, it is meeting regularly to discuss and share strategies as well as identifying risks.

According to the ToRs for AMLOC, it shall hold a minimum of six (6) meetings per year, although it is required to meet monthly as and when necessary. The representatives of the AMLOC are obliged to attend the meetings of the Committee whenever they are convened.

The AMLOC is responsible to maintain dialogue amongst the members of the AMLOC and AML Private Partnership Committee and between each Committee or relevant authorities by meetings or other means. The AMLOC is also responsible to hold regular presentations and discussions, either with AMLOC members only or including private stakeholders (such as MVTs, legal practitioners), to analyse any emerging ML threats, typologies and trends, such as risks associated with cryptocurrencies etc.

In the past seven years, the AMLGC in collaboration with the AMLOC has compiled and finalized a number of documents for the purpose of strengthening the AML/CFT/PF system to detect and prevent ML/TF and to comply with the international standards. These include, for instance, *AML-TFS (Financing of Terrorism and Proliferation Financing) (Amendment) Regulations 2024*, *AML-TFS (Parallel Financial Investigations) Regulations 2024*, *AML-TFS (Amendment) Act 2024*, *AML-TFS (Simplified Due Diligence) Guideline, as amended in March 2024*, *Proceeds of Crime (Border Declaration Form) (Amendment) Regulations 2024*, and others.

#### 4.2.3 Anti-Money Laundering Private Partnership Committee (AMLPPC)

The National AML/CFT/PF Strategy 2022-25 of Naoero established the AMLPPC to involve the private commercial entities or organizations in the work related to the effective implementation and enforcement of AML/CFT/PF laws. It became effective from 1 January 2023.

The AMLPPC is currently composed of the representatives of the Naoero Chamber of Commerce (NCC), Western Union Agency, and Naoero Law Society (NLS).

The AMLPPC is required to meet monthly, as and when necessary and for a minimum of four (4) times per year. The representatives of the AMPPC are obliged to attend the meetings of the Committee whenever they are convened.

#### 4.2.4 Office of the Director of Public Prosecutions (ODPP)

##### 4.2.4.1 General Overview

The Office of the Director of Public Prosecutions (“ODPP”) is an independent office established under the Criminal Procedure Act 1972. Essentially, the ODPP administers the prosecution process in the criminal justice system in Naoero.

The Director of Public Prosecutions (DPP) is the Head of the Prosecutions Section within the Department of Justice and Border Control and acts as the State Prosecutor in all criminal proceedings involving Government. The ODPP is the competent authority for prosecution of offenders under the ML/TF/PF legislation, and it is the office that instigates confiscation and other related proceedings provided under the legislation in force to combat ML/TF/PF.

##### 4.2.4.2 Staff Capacity and Resources Available

The ODPP consists of the DPP, a team of public prosecutors of varying hierarchies (1 – Principal public Prosecutor, 1 – Senior Public Prosecutor, and 1 – Public prosecutor), a pleader, a police inspector and a police constable to enable the Office to perform the functions, responsibilities and duties as public prosecutors. As of June 2025, the ODPP office consists of 7 staff members, including the DPP.

Within the sample period for this risk assessment, the ODPP has reported making overall improvements in its recruitment processes and in upskilling the ODPP staff to ensure quality legal services.<sup>65</sup> Nonetheless, resource constraints (considering the workload) and frequent mobility of staff continue to limit the prosecutorial capacity.

The ODPP has expertise in relation to proceeds of crime and ML/TF/PF matters; however, it has not had the opportunity to prosecute a case yet. Most ODPP prosecutors have come from overseas and have brought experience and expertise in ML and financial crime matters from previous roles outside Naoero. However, to further broaden staff knowledge and awareness in relation to AML/CFT/PF matters, the ODPP staff has participated in AML/CFT/PF training and workshops.<sup>66</sup>

With regards to systems, the ODPP is still in the early stages of developing mechanisms for recording and reporting relevant data on prosecutions and convictions of ML, predicate offences, TF, and PF. Since 2023, data collection systems have become operational and more structured.

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<sup>65</sup> See, ‘ODPP Section’ at the DJBC website. Available at: <https://justice.gov.nr/office-of-the-director-of-public-prosecution/> (accessed 25 July 2025).

<sup>66</sup> Please note that training data from the ODPP Office is only available starting in 2023. Based on information provided by the ODPP and NFIU, ODPP staff have participated in several trainings over the past seven years, including six focused on AML/CFT/PF-related matters.

## 4.2.5 Naoero Financial Intelligence Unit (NFIU)

### 4.2.5.1 General Overview

The NFIU was established under section 7 of the repealed *AML Act 2008*, and it continued to exist under Section 68 of the *AML-TFS Act 2023* to carry out the functions and powers as specified in the *AML-TFS 2023*. The NFIU is based within the DJBC. However, it exercises its functions and powers without direction or obstruction. The NFIU has a separate budget line within the DJBC budget agreed ahead of the financial year. The NFIU is able to effectively exchange information in respect of SARs it receives internally and externally through established information exchange channels. On 8<sup>th</sup> August 2025, the NFIU became an official member of the EGMONT Group.

The primary role of the NFIU is to collect, analyse and disseminate relevant information to law enforcement agencies (LEAs) to assist with the investigation and prosecution of criminals and their illegal activities. The NFIU does not have any responsibility for directly investigating ML or TF offences. However, the NFIU has a role in supporting LEAs and the ODPP by providing information obtained from reporting entities, regulatory agencies and international counterparts on request pertaining to investigations, prosecutions or mutual assistance.

In addition to its FIU role, the NFIU is also responsible for AML/CFT/PF regulation and supervision of all reporting entities – both financial Institutions and DNFBPs sector – in Naoero. Each year, the NFIU prepares a supervisory plan outlining the process for conducting both off-site supervision and on-site examinations of reporting entities. At present, however, the draft supervisory plan does not include casinos or law firms unless they provide TCSP services, leaving uncertainty over who is responsible for supervising these sectors now and in the future. The manual provides for determining the level of ML/TF risk each reporting entity faces based on the data collected, which is adequate, also given the small number of reporting entities currently in scope, such as only one licensed MVTs provider. However, if the number of reporting entities increases, the manual should also establish a system for assigning risk ratings to reporting entities, based on the data they submit, in order to support effective risk-based supervision.

Sections 69 and 77-80 of the *AML-TFS 2023* provide a series of specific functions and powers of the FIU in the detection and prevention of ML/TF activities.

### 4.2.5.2 Staff Capacity and Resources Available

NFIU staff has appropriate level of expertise to effectively manage and conduct analysis of SARs, provide support to investigative agencies, and to perform AML/CFT/PF trainings and supervisory responsibilities. NFIU has three responsible staff members who have duties including AML/CFT/PF supervision, which includes Head of NFIU, Assistant Supervisor and FIU officer. At the time of drafting this NRA, the NFIU has already advertised for the recruitment of two FIU officer positions for analysts. In addition, the NFIU plans to further expand its staffing with the recruitment of a Finance and Administration Officer and a Senior FIU Technical Officer.



During the sample period, the NFIU, together with AMLOC members (including NPF, ODPP, and DJBC), participated in a number of meetings and training workshops organised by international bodies such as AUSTRAC, APG, Asian Development Bank (ADB), the United Nations Organisation against Drug and Crime (UNODC), and Organisation for Economic Cooperation and Development.<sup>67</sup> The trainings/workshops were focussed on various AML/CFT/PF matters, such as beneficial ownership transparency, countering proliferation financing, asset recovery, trade-based money laundering, data analytics, ML/TF typologies etc.

The NFIU also continues to conduct regular trainings and meetings with the reporting entities and re-emphasized their obligations under the AML-TFS 2023, including reporting of suspicious matters and cash transactions.<sup>68</sup>

The NFIU is currently receiving cash transaction reports (CTRs), suspicious activity reports (SARs) and border currency reports (BCRs) *via* secure email. These documents are encrypted and passwords are sent separately. The information from these reports is then manually transferred to the system called 'TAIPAN' database – once the information from email is entered into a excel sheet, the system will convert it into a particular format for entry into TAIPAN database. The NFIU is currently working with the AUSTRAC experts to further strengthen the data ingestion and searchability function in TAIPAN database, enabling the NFIU to search throughout all SARs involving the same person and can also generate graphic charts.

The NFIU has access to systems such as World Check, which is used both for due diligence and analysis purposes. For intelligence purposes, the NFIU also have access to INTERPOL, Egmont Group, Pacific Financial Intelligence Community (PFIC) and other similar regional bodies. In fact, the NFIU, together with the New Zealand FIU, has also played a role in evaluating gaps and deficiencies in Pacific FIUs and promoting secondments to strengthen their capacities.

The NFIU also conducts inspections of the reporting entities; two (2) inspections were conducted of the MVTs provider in the past seven years. The inspections are to strengthen and enforce compliance with the requirements of AML-TFS Act 2023. Furthermore, regular consultations and meetings are held with legal practitioners and the gaming operator to discuss and raise awareness about their obligations under AML-TFS Act 2023 and related regulations.

At the time of drafting this NRA, the NFIU is in the process of finalising its risk-based Supervisory Manual, with the assistance of the IMF. The manual sets out a process to be followed by the NFIU when conducting both offsite supervision and onsite examinations of reporting entities operating in Naoero to assess compliance with the requirements of the AML-TFS Act 2023.

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<sup>67</sup> In the period covered by this risk assessment (July 2018 to June 2025), the NFIU participated in 41 trainings and workshops, either independently or with various AMLOC members.

<sup>68</sup> Between July 2018 and June 2025, the NFIU has conducted ten (10) training workshops for reporting entities.

The NFIU has established a strategic analysis policy and procedure to guide its staff in identifying ML/TF/PF-related trends and patterns from SARs, CTRs, BCRs, and other information received. To promote awareness, the NFIU published its *Strategic Analysis Report 2021-2023*<sup>69</sup>, aimed at informing reporting entities, supervisory authorities (SAs), and the public about emerging trends, patterns, and risks of financial crime, along with the corresponding responses. In addition, the NFIU has adopted a *Standard Operating Procedure (SOP)* to provide clear guidance for staff in carrying out their functions and exercising their powers. This SOP has recently been revised to further strengthen the effectiveness of the NFIU's operations.

#### 4.2.5.3 Suspicious Activity Reports (SARs)

Financial institutions and DNFBPs are required under AML-TFS 2023 to report any suspicious activity to the NFIU as soon as practicable but no later than 2 working days after forming a suspicion. Within the sample period of July 2018 and June 2025, only 2 SARs have been reported to the NFIU – one was filed by the MVTs provider and another one by a business; the later relates to business email compromise.

**Table 14: Number and Value of SARs (July 2018-June 2025)**

| <b>Financial Year</b> | <b>No. of SARs</b> | <b>Value of SARs (AUD)</b> |
|-----------------------|--------------------|----------------------------|
| 2018-19               | 0                  | 0                          |
| 2019-20               | 0                  | 0                          |
| 2020-21               | 0                  | 0                          |
| 2021-22               | 0                  | 0                          |
| 2022-23               | 0                  | 0                          |
| 2023-24               | 1                  | 1,200                      |
| 2024-25               | 1                  | 38,000                     |
| <b>TOTAL</b>          | <b>2</b>           | <b>39,200</b>              |

The NFIU also received from AUSTRAC a batch report of 141 SARs which were filed by the Bendigo Bank related to accounts/customers onboarded via the Bendigo Bank Agency. These SARs were only received once in 2020, covering the period of 2017 to 2020. However, no further information has been exchanged on SARs between the NFIU and AUSTRAC since 2020.

The NFIU has developed Standard Operating Procedure (SOP) for Strategic Analysis as a basis to guide the NFIU staff to carry out strategic analysis using the data and information held by the Unit. A strategic analysis was conducted in 2023, and a report was published covering the period of 2021-23.

<sup>69</sup> [https://justice.gov.nz/wp-content/uploads/2023/12/Naoero\\_financial\\_intelligence\\_unit\\_strategic\\_analysis\\_2021\\_to\\_2023.pdf](https://justice.gov.nz/wp-content/uploads/2023/12/Naoero_financial_intelligence_unit_strategic_analysis_2021_to_2023.pdf) (accessed 25 July 2025)

During the sample period for this risk assessment, the NFIU has disseminated 12 operational analysis products to LEAs, including to NRO, DPP and Customs. This includes the SARs received from AUSTRAC in 2020.

**Table 15: Total No. of SARs disseminated by NFIU to LEAs (July 2018-June 2025)**

| Financial Year | No. of SARs received by the NFIU, including from AUSTRAC | No. of Operational Analysis Products disseminated to LEAs |
|----------------|----------------------------------------------------------|-----------------------------------------------------------|
| 2018-19        | 0                                                        | 0                                                         |
| 2019-20        | 141 <sup>70</sup>                                        | 0                                                         |
| 2020-21        | 0                                                        | 1                                                         |
| 2021-22        | 0                                                        | 3                                                         |
| 2022-23        | 0                                                        | 6                                                         |
| 2023-24        | 1                                                        | 1                                                         |
| 2024-25        | 1                                                        | 1                                                         |
| <b>TOTAL</b>   | <b>143</b>                                               | <b>12</b>                                                 |

The operation analysis products disseminated by the NFIU to relevant authorities relate to different offence types. One case arose from 141 SMRs involving unexplained and complex transactions, raising suspicions of potential ML. Two (2) cases, identified through collaboration between the NFIU and NRO via RFIs, were disseminated to NRO for alleged tax evasion. A drug-related case was referred to Police following information shared by NCS. Two separate cases linked to the alleged illegal sale of alcohol after hours were uncovered through RFIs; analysis by NFIU confirmed the transactions, leading to simultaneous disclosures to both NPF and NRO. In addition, two forgery cases (detailed separately above under section 3.1.1.8) and one business email compromise case were also recorded.

## 4.2.6 Department of Justice and Border Control (DJBC)

### 4.2.6.1 General Overview

DJBC is a government body in Naoero responsible for maintaining the country's security and justice system, as well as the lead agency for the AML/CFT/PF regulatory framework. Under the DJBC, the Business Section comprises of two divisions: a) *Corporations, Partnerships, Associations and Trusts Registration Division*; and b) *Business Registration, Business licensing, Security Licensing, Import Licensing and Beneficial Ownership Division*. The former is responsible for the registration of corporations, partnerships, associations and trusts in Naoero, while the latter is responsible for registration of business names, issuing business license, security license, import license, and for establishing and maintaining the register of beneficial owners.

<sup>70</sup> Batch report from AUSTRAC, covering the period from 2017 to 2020.

**Table 16: Total No. of Registrations with DJBC (as of 30 June 2025)**

| Registration Types | Numbers    |
|--------------------|------------|
| Corporations       | 112        |
| Partnerships       | 58         |
| Associations       | 39         |
| Trusts             | 0          |
| Sole Traders       | 445        |
| <b>TOTAL</b>       | <b>654</b> |

The Secretary for Justice and Border Control is the Registrar of Corporations, partnerships, associations and trusts, as well as of business licenses and business names. It is also the Authority responsible for the registration of beneficial ownership and maintaining the Register of Beneficial Owners. The DJBC is also responsible for immigration issues through the Immigration Division.

#### **4.2.6.2 Staff Capacity and Resources Available**

DJBC staff is well experienced and familiar with the AML-TFS Act 2023 and other related legislations as well as the international standards promulgated by the FATF. The Business Section of six (6) staff members, including two (2) inspectors, who ensure that all corporations, partnerships, associations, trusts and businesses in Naoero comply with the relevant laws that take into account international standards, including the AML-TFS 2023. DJBC's staff continue to build its supervisory and regulatory knowledge by participating in AML/CFT/PF trainings, meetings and workshops held overseas and locally.<sup>71</sup>

DJBC maintains all its registers on paper and electronically (in Microsoft Excel) through careful maintenance of underlying physical documents and forms for all entities located in filing cabinets. The database of beneficial owners is also currently maintained in excel form, although DJBC is working to get assistance from international bodies to establish an online business registry and beneficial ownership registry. This will help DJBC in improving its registration process and making information more readily available.

DJBC has detailed application registration forms for corporations, partnerships, associations and trusts, which are very comprehensive and requires applicants to provide all the necessary information to satisfy the regulator as to the legitimacy of the application. An application will not be successful if all the information required to be submitted is not provided, including the information on beneficial owners. Due diligence on all persons named in the application is carried out by the business section team.

DJBC monitors compliance of registered entities and businesses with the applicable laws and regulations, including requirements for the accurate disclosure of beneficial ownership information,

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<sup>71</sup> According to the information shared by NFIU and DJBC, the DJBC staff has attended 16 AML/CFT/PF trainings/workshops between July 2018 and June 2025.

through both off-site and on-site inspections. During the sample period for this risk assessment, DJBC did not conduct inspections of corporations, partnerships, associations or trusts. However, as shown in [Table 17](#) below, inspections primarily targeted sole traders. On-site inspections were carried out by two licensing inspectors.

**Table 17: Total No. of On-site Inspections by DJBC (July 2018-June 2025)**

| Type of Legal Entities Inspected | 2018-19   | 2019-20   | 2020-21   | 2021-22  | 2022-23  | 2023-24   | 2024-25  |
|----------------------------------|-----------|-----------|-----------|----------|----------|-----------|----------|
| Corporations                     | 0         | 0         | 0         | 0        | 0        | 0         | 0        |
| Partnerships                     | 0         | 0         | 0         | 0        | 0        | 0         | 0        |
| Associations                     | 0         | 0         | 0         | 0        | 0        | 0         | 0        |
| Trusts                           | 0         | 0         | 0         | 0        | 0        | 0         | 0        |
| Sole Traders                     | 10        | 11        | 11        | 4        | 6        | 10        | 1        |
| <b>TOTAL</b>                     | <b>10</b> | <b>11</b> | <b>11</b> | <b>4</b> | <b>6</b> | <b>10</b> | <b>1</b> |

Based on inspections, the warning letters/penalties/fines were also issued or levied against sole traders for breaches of the applicable law and regulations. [Table 18](#) shows the number of warning letters/penalties/fines against sole traders.

**Table 18: No. of warning letters/penalties/fines (July 2018-June 2025)**

| Type of Legal Entities Inspected | 2018-19   | 2019-20   | 2020-21   | 2021-22  | 2022-23  | 2023-24   | 2024-25  |
|----------------------------------|-----------|-----------|-----------|----------|----------|-----------|----------|
| Corporations                     | 0         | 0         | 0         | 0        | 0        | 0         | 0        |
| Partnerships                     | 0         | 0         | 0         | 0        | 0        | 0         | 0        |
| Associations                     | 0         | 0         | 0         | 0        | 0        | 0         | 0        |
| Trusts                           | 0         | 0         | 0         | 0        | 0        | 0         | 0        |
| Sole Traders                     | 90        | 108       | 101       | 54       | 89       | 105       | 56       |
| <b>TOTAL</b>                     | <b>10</b> | <b>11</b> | <b>11</b> | <b>4</b> | <b>6</b> | <b>10</b> | <b>1</b> |

## 4.2.7 Naoero Fisheries and Marine Resources Authority (NFMRA)

### 4.2.7.1 General Overview

NFMRA is the official body responsible for the management of fisheries and other marine resources of Naoero. It was formally established under the Naoero Fisheries and Marine Resources Authority Act 1997. Its core functions include managing, developing, conserving and protecting the country's fisheries and marine resources. NFMRA also coordinates with regional bodies such as the Forum Fisheries Agency (FFA), South-Pacific Community (SPC), and is a signatory to major fishery agreements including the Naoero Agreement, Niue Treaty, Palau Arrangements.

Fisheries are vital to Naoero's economy, serving as one of the few significant sources of national revenue. Licensing fees from foreign vessels accounts for a 16-18% of government income (approximately, AUD 50 million). It is under a Memorandum of Understanding (MOU) between NFMRA



and the Naoero Maritime Administration (NMA) that Naoero issues certificates for a vessel to sail and trade under the Naoero flag.

#### **4.2.7.2 Staff Capacity and Resources Available**

The NFMRA currently employs a total of 89 staff and is generally considered to have adequate resources to carry out its mandated activities. However, it continues to face capacity challenges, particularly in filling existing vacancies, some of which are tied to project-funded positions that require specific expertise or short-term contractual arrangements. Recruitment and retention have been going issues, limiting ability of the agency to fully utilise its staffing establishment. It should also be noted that contracted Fisheries Observer, who play an important role in monitoring fisheries activities, are not included in the official staff count, which means the actual workforce involved in sector oversight is largely project dependent.

### **4.2.8 Naoero Maritime and Ports Authority (NMPA)**

#### **4.2.8.1 General Overview**

NMPA was established under Section 6 of the *Ports and Navigation Act 2019*. It is the official body responsible for running the Port in Naoero, completing the Port project and a new project to arrange a wet lease of a ship for a cargo freight service to Naoero to mitigate sea-freight supply risks.

For the purposes of AML/CFT/PF, under the Vessel Registration Act 2024, the NMPA is a responsible authority to issue certificates for a vessel to sail and trade under the Naoero flag. However, a Memorandum of Understanding (MOU) was signed between NFMRA and the Naoero Maritime Administration (NMA) in 2022 which provides the NMA the authority to issue licenses to vessels to sail and trade under the Naoero flag, both for fishing and non-fishing activities. NMA is operating out of Singapore and sits under the umbrella of the National Project Limited (NPL), which is located in Hong Kong. As of June 2025, the NMA is carrying out the administration of the shipping registry for Naoero while based in Hong Kong.

However, according to the Director of the NMPA, Naoero has instituted a 12-month moratorium on its shipping registry to be administered locally by the NMPA in Naoero. This will be done under the Vessel Registrations Act 2024 and the NMPA will then be responsible for administering the Shipping Registry. The Registrar of the Shipping Registry appointed under the Vessel Registration Act 2024 shall be the responsible person to administer the Registry.

#### **4.2.8.2 Staff Capacity and Resources Available**

The NMPA is mandated to manage the Shipping Registry under the newly enacted Vessel Registration Act 2024. While the Authority employs approximately 100 staff in total, only three (3) are currently dedicated to maritime services, which significantly limits its ability to effectively administer and oversee the Registry. The NMPA has confirmed that, to fully operationalize and sustain the Shipping Registry in line with international standards, it will require at least five (5) additionally trained and



competent staff. Those roles would be essential for handling core functions such as vessel registration, compliance monitoring, safety and technical oversight, and engagement with international maritime bodies. Without these additional resources, the current staffing is not adequate to ensure the proper management and growth of the Shipping Registry.

## **4.2.9 Law Enforcement Authorities (LEAs)**

### **4.2.9.1 Naoero Customs Services Office**

#### **4.2.9.1.1 General Overview**

Naoero Customs Service (NCS) office is responsible for protecting the border against transnational crimes such as cash smuggling, human trafficking and human smuggling at the border under the Customs Act 2014. It also controls, monitors, and reports on border currency movement.

#### **4.2.9.1.2 Staff Capacity and Resource(s) Available**

NCS has 28 staff, including 10 officers in charge of declaration at the international airport. During the sample period for this risk assessment, the NCS staff has attended a number of trainings; however, only a few trainings and workshops are on AML/CFT/PF. Majority of trainings for customs are provided by Oceania Customs Cooperation and are mainly focussed on monitoring and evaluation, border fundamentals, brand protection and product identification, and data analytics and intellectual property rights. The NCS does not have any dedicated staff responsible for ML/TF detection initiatives.

NCB works closely with the NFIU, and other government and international enforcement agencies to detect and deter unlawful movement of goods and people across the border; however, the coordination between NCS and NPF is reported to occur only on an irregular basis. The task of intercepting illegal drugs, illegal imports and exports, and cash smuggling has significantly improved due to the application of sophisticated techniques such as risk assessment and risk management techniques and ongoing use of non-intrusive X-Ray technology.<sup>72</sup> All checked-in luggage is scanned by the machine (only one for airfreight), and outgoing passengers are also subject to security checks, with customs officers randomly inspecting hand luggage. According to the information provided by NCS, they also conduct risk-based checks on passengers in accordance with their own SOP – checks are performed selectively based on intelligence profiling, but all business owners are physically searched when departing Naoero.

Improvements are still ongoing through the ‘Prosperity for Customs Revenue (PROCURE)’ project aiming at strengthening NCB services such as: improve the revenue flows for provision of government services; strengthen the economy through better services to the trading community; effective & efficient border control and management procedures; and strengthen the capacity to monitor and

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<sup>72</sup> Department of Finance Annual Report 2021-22, p. 50-58. Available at: <https://Naoerofinance.info/wp-content/uploads/2023/04/Finance-Department-Annual-Report-21-2022-1.pdf> (accessed 25 July 2025).



provide timely statistics. Digitisation and movement towards a paperless environment through implementation of a new Document Management System (DMS) for registry and intelligent information management is also in progress.<sup>73</sup>

The introduction of the UNCTAD's Automated Systems for Customs Data World version also known as the ASYCUDA WORLD by NCS in August 2021 has further strengthened the administration of customs in Naoero.<sup>74</sup> ASYCUDA's web-based system provided a platform for e-government, opportunities for streamlining of core business processes, better accounting and statistical capabilities, and the Division's gradual advancement towards a paperless environment.

Insufficient scanning equipment, absence of targeted ML/TF/PF detection training, and limited staffing, with personnel often required to cover both coastal and airport functions, has been identified as some of the key challenges by the NCS. that overlaps with functions at coast and airport, is identified by the NCS.

#### **4.2.9.1.3 Border Currency Reports (BCRs)**

As stipulated under section 96 of the Proceeds of Crime Act 2004, any person who enters or leaves Naoero with more than AUD5,000 in cash or negotiable bearer instruments or precious metals or precious stones (including gold, silver, diamonds, sapphire on their person or in their luggage) must first declare such amount to the Customs. Customs is responsible for undeclared movement of currency/BNIs/precious metals or precious stones for incoming and outgoing passengers and the requirements for passengers taking cash out of Naoero can be found in the Naoero Cash Border Regulation Framework Guide.<sup>75</sup> Any passenger taking funds in excess of \$5,000 requires approval of the Chief Collector of Customs by submitting an '*Application for Cash Export Form*' to NCS which will then refer it to the Naoero Revenue Office (NRO).<sup>76</sup> The NRO will permit the exportation of cash. Once the Form is endorsed, that needs to be given to the NCS prior to departure. The NCS Officers will be required to verify the amount. One of the important things that exportation of cash will be required to provide is 'source of fund'. This requirement is important to ensure that money is legitimate and also to avoid tax evasion. Signage is displayed at the airport and at the Bendigo Bank Agency and NRO office, and declaration requirements are also stated on the Customs declaration card.

In the sample period of July 2018 to June 2025, no BCRs from incoming border crossing have been received by the NCS. During the same period, the number of BCRs from outgoing border crossing has been four (4), which have, in fact, been the cash export licence issued by the NRO. Since the

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<sup>73</sup> Department of Finance Annual Report 2021-22, p. 50-58. Available at: <https://Naoerofinance.info/wp-content/uploads/2023/04/Finance-Department-Annual-Report-21-2022-1.pdf> (accessed 25 July 2025).

<sup>74</sup> Department of Finance Annual Report 2021-22, p. 50-58. Available at: <https://Naoerofinance.info/wp-content/uploads/2023/04/Finance-Department-Annual-Report-21-2022-1.pdf> (accessed 25 July 2025).

<sup>75</sup> MER 2024, para 24.

<sup>76</sup> 2023 NRA of Naoero, p. 34.

amendment of POCA in June 2023, Customs have not received any incoming or outgoing cross-border declaration. No cash export license has been issued in 2023-24 and 2024-25.

[Table 19](#) below shows the number of BCRs (outgoing and incoming).

*Table 19: Total No. and Value of BCRs (July 2018-June 2025)*

| Financial Year | BCRs from Incoming border crossings |                   | BCRs from Outgoing border crossings |                   |
|----------------|-------------------------------------|-------------------|-------------------------------------|-------------------|
|                | No.                                 | Value (AUD)       | No.                                 | Value (AUD)       |
| 2018-19        | No data available                   | No data available | No data available                   | No data available |
| 2019-20        | 0                                   | 0                 | 0                                   | 0                 |
| 2020-21        | 0                                   | 0                 | 1                                   | No data available |
| 2021-22        | 0                                   | 0                 | 2                                   | No data available |
| 2022-23        | 0                                   | 0                 | 2                                   | No data available |
| 2023-24        | 0                                   | 0                 | 0                                   | 0                 |
| 2024-25        | 0                                   | 0                 | 0                                   | 0                 |
| <b>TOTAL</b>   | -                                   | -                 | -                                   | -                 |

During the sample period, no instances of undeclared or inaccurate BCRs at incoming or outgoing border crossings were detected. However, there was one case in which NCS suspected that passengers had structured large amounts of cash by dividing it among several individuals. The suspicion and details of these passengers were shared by NCS with the NFIU, and they were red-flagged and closely monitored for their future travel activities.

### Box 1: Case Study – Suspected Structuring of Outgoing Cash

In early 2024, NCS conducted targeted searches of several Asian passengers travelling on Naoero Airlines flight across three (3) different occasions between February and March 2024. These passengers were identified as travelling together and were consistently found carrying amounts of cash below the threshold limit of AUD 5,000 per person. This raised suspicions of structuring the cash in order to avoid making declarations. NFIU and Customs agreed to monitor all these passengers for future travels.

On each occasion, the combined cash amounts carried by the group exceeded the threshold when aggregated:

- Occasion 1 (February 2024): Two passengers carried a total of approximately AUD 7,500.
- Occasion 2 (late February 2024): Four passengers carried a combined amount of approximately AUD 11,700.
- Occasion 3 (March 2024): Two passengers carried nearly AUD 10,000 in total.

Overall, the group was found to be transporting around AUD 29,000 over this short period

Following these detections, the NFIU and NCS agreed to monitor these individuals' future travel activity more closely.

While a Standard Operating Procedure exists together with a provision in law (*96B Reporting of declaration etc to the Financial Intelligence Unit Proceeds of Crime Act 2004*) whereby any false declarations or disclosure should be reported by the NCS to NFIU by using a secure channel and in which electronic means (email) is preferred, no such reports have been submitted to the NFIU during the sample period, as there have been no such detections. Moreover, according to section 77 of AML-TFS Act 2023, NFIU has the power to request declaration information obtained by Customs and to exchange and share information with authorities that have entered into any agreement or arrangement. NFIU has signed a MOU with Customs.

## 4.2.9.2 Naoero Revenue Office (NRO)

### 4.2.9.2.1 General Overview

NRO is the competent authority that deals with tax related offences. It is made up of four separate divisions: a) Revenue Division; b) Design and Monitoring Division; c) Taxpayer Services Division; and d) Compliance Division. Together, these Divisions administer the tax laws, the Gaming Act, Superannuation Act compliance activities, price control regulations compliance activities as well as issuing driver licences. NRO is also responsible for ensuring that Naoero remains compliant with all international commitments under the OECD Standards, the European Union Code of Conduct (Business Tax) Group and numerous international monetary organisations such as the IMF, ADB and the World Bank.



As of June 2025, NRO has approximately 151 registered tax paying businesses, which can be divided into four categories:

- a). Topside businesses: foreign controlled businesses associated with the operation of the Regional Processing Centre. There are 8 businesses in this category;
- b). Large local businesses. These are businesses with annual turnover of more than \$250,000. The majority are owned and operated by the Chinese community. But there are others, such as the Bendigo Bank Agency, the two telecommunication companies, a large supermarket and a construction company. In total there are approximately 85 businesses in this category;
- c). State Owned Enterprises (SoE) – 18 in total; and
- d). Small Businesses - Those with annual turnover of less than \$250,000 - there are approximately 40 businesses in this category.

Of the 151 total, around half are also registered as employers.

#### **4.2.9.2.2 Staff Capacity and Resources**

As of June 2025, NRO consists of 19 staff members whereas it needs 24 staff members to be in full capacity. During the sample period for this risk assessment, NRO staff has participated in four (4) AML/CFT/PF training and workshops.<sup>77</sup>

During the sample period for this risk assessment, NRO has completed eight (8) audits of large local businesses.<sup>78</sup> Four (4) of these audits have been done within the FY2024-25, following the recent adoption of the Compliance Improvement Strategy by NRO.

### **4.2.9.3 Naoero Transnational Crime Unit (TCU)**

#### **4.2.9.3.1 General Overview**

Naoero Police Force (NPF) hosts Transnational Crime Unit (TCU) as a part of the broader Pacific Transnational Crime Network (PTCN), which comprises of 29 TCUs across 21 Pacific member nations. The TCU was first established in 2020 with members from the NPF and was later joined by the NCS. In 2025, a joint MOU was signed among broader agencies, strengthening the TCU capabilities through collaboration with the Naoero immigration Office, Naoero Quarantine Office and Naoero Passport Office and the NFIU. This partnership aims to safeguard Naoero by leveraging advanced local and global investigative and operational intelligence networks to detect and prevent both national and

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<sup>77</sup> Based on information provided by the NFIU.

<sup>78</sup> Four audits were done in FY 2021-22 – See, Republic of Naoero, *Department of Finance Annual Report 2021-22*. Available at: <https://Naoerofinance.info/wp-content/uploads/2023/04/Finance-Department-Annual-Report-21-2022-1.pdf> (accessed 25 July 2025). There is no information available about any audits for FY2018-19, FY2019-20, FY2020-21, FY2022-23, and FY2023-24.



transnational criminal activities. The TCU is now a multi- disciplinary Unit within NPF's Crime Unit, and its functions align with the standard operational model of TCUs under the Pacific umbrella:

- a). Criminal intelligence: collection, analysis, development, and local dissemination
- b). Investigations: proactive targeting, dismantling, and disruption of transnational criminal networks
- c). Collaboration with regional bodies: coordination on border control, joint operations, and other investigative support.

TCU is the primary point of contact in-country for transnational and cross border matters.

#### **4.2.9.3.2 Staff Capacity and Resource(s) Available**

The staff of the TCU are trained intelligence and investigation officers. The TCU has in its reach specialist assistance from foreign law enforcement agencies like the Australian Federal Police (AFP), the NZ Police and other local authorities like the ODPP and the NFIU. The AFP supports the PTCN through the deployment of dedicated advisors in Naoero.

The TCU as part of capacity can seek assistance throughout the region using PTCN network. It also has Interpol which allows for request to be sent internationally and vice versa. Nature of the requests is to do with intelligence and information collection, and it is restricted. Domestically, the TCU aims to facilitate information sharing and cooperation between NPF, NCS, Naoero immigration Office, Naoero Quarantine Office, Naoero Passport Office and NFIU, including coordinating the use of resources for any investigative or other joint operations under the signed MoU. The TCU members meet regularly on a monthly basis.

### **4.2.9.4 Naoero Police Force (NPF)**

#### **4.2.9.4.1 General Overview**

Naoero Police Force (NPF) is the main law enforcement agency in Naoero that can investigate ML, TF and predicate offences.

The Naoero Police Force Act 1972 stipulates specific functions and responsibilities of the NPF in preserving public peace, preventing and detecting offences, preventing injury to life and property, lawfully apprehending offenders, regulating and preserving order during processions and assemblies and more, working together with other agencies and departments to carry out health, quarantine, immigration and port and maritime regulations and work alongside the Court system.

#### **4.2.9.4.2 Staff Capacity and Resource(s) Available**

The NPF is the designated authority responsible for investigating money laundering and Terrorist Financing offences. The NPF works closely with the DPP's office and NFIU for the successful prosecution of cases. The Naoero Police Force Act 1972 provides adequate powers to the Police to

gather evidence and compel the production of financial records and files from financial institutions and DNFBPs. The Police also have sufficient powers to investigate and prosecute ML and TF offences using the same structures, staff and resources available for examining a range of crimes reported to NPF. According to 2024 MER (para 21), “LEAs have investigative capacity but do not have the capability or experience to identify and investigate ML or the financial element of most proceeds generating cases. However, it should be noted that this is in the context of a low crime jurisdiction.”<sup>79</sup>

To counter the above limited capacity, NPF is able to seek assistance from the Australian Federal Police (AFP), which currently has two officers in Naoero. NPF has a bilateral instrument with the AFP in which the AFP supports and mentors NPF counterparts, including assistance with logistics and providing equipment where necessary in Naoero. Naoero and the in-country AFP presence conducted one formal joint cybercrime investigation in May 2022. AFP carried out the primary investigation as NPF lacked technical capability.<sup>80</sup>

**Box 2: Case Study – Joint Cybercrime Investigation**

In May 2022, the NPF experienced a major cyber breach in which approximately 285,000 emails (around 80GB of data) were unlawfully accessed and subsequently published on a hacktivist social media platform.

A joint investigation was launched, supported by in-country AFP team. The cyber investigation was primarily led by a specialised cybercrime team of AFP, given the limited technical capacity of NPF to conduct complex digital forensic work.

As part of the response, NPF’s compromised email domain was replaced with a more secure platform in June 2022.

Information was continuously shared with NPF throughout the investigation, which formally concluded in August 2022.

The AFP also provides support to a number of other stakeholders through the Naoero-Australia Policing Partnership (NAPP) program. The NAPP program includes law enforcement cooperation, transnational crime and border security, operations capability, training, and corporate reform.<sup>81</sup>

**4.2.9.4.3 Overview of ML/TF cases investigated**

During the sample period of July 2018 to June 2025, there have been no ML/TF cases reported and/or investigated by the NPF. The crimes that have often been reported to and investigated by the NPF include theft (1,504), cybercrime (140), drug trafficking (134), sexual exploitation (60), robbery (21), bribery and corruption (3), forgery (2), murder and violent crime (2), smuggling (1), extortion and

<sup>79</sup> 2024 MER of Naoero, p. 8.  
<sup>80</sup> Ibid.  
<sup>81</sup> 2024 MER of Naoero, p. 23.

blackmail (1), kidnapping and ransom (1) and environmental crime (1). [Table 20](#) shows the total number of criminal cases reported and investigated by the NPF in the sample period for this risk assessment, indicating an overall declining crime risk and threat.

**Table 20: No. of criminal cases reported and investigated by the NPF (July 2018-June 2025)**

| Financial Year                                | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 |
|-----------------------------------------------|---------|---------|---------|---------|---------|---------|---------|
| No. of criminal cases reported & investigated | 390     | 356     | 373     | 222     | 209     | 184     | 136     |

While investigations into predicate offences have been conducted, they have generally not been followed by financial investigations. This is largely because most cases involve petty theft (such as mobile phone theft), where complaints are often later withdrawn. However, there are currently three ongoing investigations into bribery and corruption, which may include money laundering elements that the NPF intends to pursue.

### 4.3 Prosecution and Judicial Process

The ODPP provides legal advice to LEAs on their investigations and generally exercises the discretion whether or not to bring criminal proceedings. All prosecution decisions are made strictly in accordance with the law and admissible evidence. Prosecution is initiated when the evidence demonstrates a reasonable prospect of conviction, and it is in the public interest to prosecute. The ODPP make decisions to prosecute or not independently.

There have been no ML cases prosecuted or convicted in Naoero between July 2018 and June 2025. However, the ODPP staff has been provided consistent and ongoing training on ML/TF prosecutions. The ODPP also continues to foster links with counterparts in other jurisdictions and participates in international conferences and events to keep prosecutors abreast of the latest developments in the AML/CFT/PF regime.

The summary of predicate offences prosecuted and convicted by the DPP during the sample period of July 2018 to June 2025 is as below in [Table 21](#).

**Table 21: Number of cases prosecuted and convicted by the ODPP (July 2018-June 2025)**

| Predicate offences                            | No. of Cases Prosecuted | No. of Convictions |
|-----------------------------------------------|-------------------------|--------------------|
| Drug-related Offences                         | 24                      | 20                 |
| Abuse of Office                               | 1                       | 0                  |
| Robbery and Theft                             | 1                       | 0                  |
| Cybercrime                                    | 1                       | 0                  |
| Environmental crime                           | 1                       | 0                  |
| Murder and intentionally causing serious harm | 42                      | 7                  |
| Sexual Offences (rape, indecent assault etc.) | 16                      | 10                 |

|              |           |           |
|--------------|-----------|-----------|
| <b>TOTAL</b> | <b>86</b> | <b>37</b> |
|--------------|-----------|-----------|

#### 4.4 Internal Inter-Agency Cooperation

AMLOC members collaborate across different levels. As noted earlier, they meet regularly to exchange information, discuss identified risks, and contribute ideas to support national-level strategies. However, there is limited information available of cooperation between various agencies at operational level, except with the NFIU.

NFIU continues to work closely with its counterparts in Naoero in respect of any transactions or information involving ML/TF/PF and predicate offence. One of the main functions of the NFIU is to provide assistance to the relevant government agencies and offices and supervisory/regulatory authorities in relation to information requests and due diligence checks to support their work. Based on the nature and purpose of the request, the NFIU collects the relevant information. Such information was analysed, and findings were reported back to the requested agency together with relevant attachments. The NFIU had received and responded to several requests from agencies between July 2018 and June 2025.<sup>82</sup> These include 9 requests from NPF, 30 from Naoero Program Office, 4 from JBC, 2 from NCS, 3 from Passport Section, 1 from Immigration, 2 from NRO, 1 from Fisheries agency, 1 from the office of the DPP, 3 from President's Office, and 4 other agencies.

*Table 22: Number of Requests received and responded by NFIU (July 2018-June 2025)*

| Financial Year                         | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 |
|----------------------------------------|---------|---------|---------|---------|---------|---------|---------|
| No. of requests received and responded | -       | -       | 4       | 2       | 8       | 8       | 39      |

According to 2024 MER of Naoero, "NFIU provides financial intelligence and other relevant information to LEAs in a timely manner. The intelligence has been used for the purposes of investigating predicate offences by LEAs. However, there has been limited use of financial intelligence to investigate ML offences by LEAs."<sup>83</sup>

Other mechanisms (regular or ad hoc) to ensure timely and effective inter-agency cooperation in response to ML/TF threats and typologies include:

- a) NFIU, Corporations, Immigration, Quarantine and Passport Sections are all part of the DJBC whilst NPF, NCS and NRO are all government departments closely related to the law enforcement activities and overlapping roles. Hence in context of a microstate, these departments and sections are able to exchange information without the need for a formal arrangement. In addition, the Secretary for Justice is the Registrar of Cooperation, Registrar of

<sup>82</sup> This data is based on statistics provided in 2024 MER of Naoero (p. 45) and the updated information shared by the NFIU for this risk assessment.

<sup>83</sup> 2024 MER of Naoero, p. 5



Partnerships, Registrar of Trusts, Beneficial Ownership Authority and no arrangement is needed to enable information exchange.

- b) Moreover, under section 77 of AML-TFS Act 2023, NFIU has the power to request declaration information obtained by Customs and to exchange and share information with authorities that have entered into any agreement or arrangement. NFIU has signed a MOU with Customs.
- c) NFIU has also signed MOUs with NCS, NRO and NPF. Under the arrangement with the NRO, the NFIU may request information where suspicions arise, which the NRO is obliged to share with the NFIU on a case-by-case basis. However, due to the NRO's secrecy provisions, it is prevented from making unsolicited disclosures of any ML suspicions to either the NPF or the NFIU.
- d) The NFIU conducts trainings and arranges seminars for AMLOC members to promote awareness and share information on risk and typologies and latest ML/TF developments, and to promote CDD, record-keeping and suspicious transaction reporting.
- e) The NFIU regularly meets AMLOC members to discuss the latest crime trends and provide updates on cases of interest and referrals. In the sample period of July 2018 to June 2025, the NFIU has conducted two meetings annually, on an average, with competent AML/CFT/PF authorities. The NFIU also hosts quarterly meetings with the AMLOC members to discuss AML/CFT/PF-related matters, including awareness raising of AML/CFT/PF obligations of reporting entities.

## 4.5 External and International Cooperation

ML often involves transnational crimes. Effective international cooperation is thus essential in tracing criminal proceeds and uncovering the identity and background of criminals. As a member of the FATF, the APG, the International Criminal Police Organisation ("INTERPOL"), and recently, the Egmont Group through the NFIU,<sup>84</sup> Naoero participates in a number of international efforts to combat ML/TF/PF. Mechanisms are put in place for providing assistance to other jurisdictions, including mutual legal assistance (MLA), financial intelligence exchange, and cooperation among LEAs and financial regulators.

### 4.5.1 Mutual Legal Assistance and Extradition

The Mutual Assistance in Criminal Matters Act (MACMA) 2004 is the primary instrument that facilitates the provision and obtaining of mutual legal assistance in relation to criminal matters in Naoero, supplemented by the POC and CTTOC. Sections 6 and 7 MACMA enables Naoero to provide and obtain a wide range of international assistance in relation to investigation, prosecution and related proceedings in respect of 'criminal matters, which is defined in Section 3 as an offence punishable with

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<sup>84</sup> NFIU became the member of Egmont Group on 8<sup>th</sup> August 2025.



imprisonment with a term of not less than 12 months or a fine of no less than AUD5,000. ML and TF offences and most predicate offences qualifies as ‘criminal matters’ in Naoero for MLA purposes. POCA and AML-TFS Act 2023 also allows Naoero to provide MLA in respect of ‘serious offence’ or ‘financial crime’ or criminal conduct.

Naoero is a participant in the Scheme of the Mutual Assistance in Criminal Matters within the Commonwealth framework and has acceded to the United National Convention against Corruption on 11 August 2012. In the absence of any applicable bilateral agreement or multilateral conventions, MLA may still be provided on the basis of a reciprocity undertaking provided by the requesting State and the authorities can exchange information spontaneously. The MACMA Regulations 2023 also provides for a priority procedure for urgent MLA requests.

The Minister for Justice and Border Control is the central authority responsible for executing MLA and extradition requests, while the Minister of Foreign Affairs and Trade communicate as a primary contact point with foreign counterparts. Under Section 21, where a request is made urgently, the Minister, court or any other person authorised may direct any person or authority to summarily deal with the substance of the application to be attended without the requirement to follow all the intricate procedures. Under the Mutual assistance in Criminal Matters Guide, Naoero authorities are able to contact foreign authorities directly.

The types of MLA that may be provided include taking of evidence and statements (including via a live video link), search and seizure, production of documents and other materials, transfer of persons (in custody or otherwise) to provide evidence abroad, and confiscation of proceeds of crime (including freezing pending confiscation).

The only grounds for refusal or postponement are if the request would prejudice the sovereignty, national security or other essential public interest of Naoero or would prejudice the conduct of an investigation or proceedings in Naoero or the requested action is inconsistent with the Constitution or the requested document or material is prohibited from disclosure under Naoero’s obligations to another jurisdiction.<sup>85</sup> Such conditions are common in MLA practices of many countries and are not considered unduly restrictive.

During the sample period, Naoero has not received nor sent any requests for MLA, which seems to be reasonable considering the risks and context of the jurisdiction.

#### **4.5.1.1 Extradition**

Extradition is regulated by the provisions of the Extradition Act 1973, amended in August 2024. The competent authority is the Ministry for Justice and Border Control. Naoero is also a participant in the

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<sup>85</sup> Section 9, MACMA; Section 99, AML-TFS 2023.



London Scheme for Extradition within the Commonwealth framework, (not a formal treaty), which establishes simplified extradition procedures among member Commonwealth countries.

Under the Extradition Act 1973, extradition is only available for ‘relevant offences’ and with countries designated by the order of the Cabinet, which will be published in the Gazette.<sup>86</sup> Naoero has not concluded any bilateral extradition treaties, and only sixteen (16) countries have been designated under the Extradition (Designated Countries) Order 2023. ‘Relevant offences’ are defined as offences punishable with a term of imprisonment of 12 months or more, which includes both ML and TF.

The extradition procedure involves both a judicial and an administrative procedure. The procedure for extradition is provided in the Extradition Guide, which was issued by the Secretary for Justice and Border Control. Requests for extradition must be submitted through the formal/diplomatic channel to the Minister for Foreign Affairs, who may issue an authority to proceed in accordance with the Extradition Act and Extradition Guide.<sup>87</sup> Naoero does not have an adequate priority/simplified procedure for extradition requests.

Requests for extradition are not common in Naoero. Between July 2018 and June 2025, Naoero has not received nor sent any extradition requests.

#### ***4.5.2 Financial Intelligence Exchange***

Under the AML-TFS Act 2023, the NFIU has the authority to exchange financial intelligence information with foreign counterparts by entering an agreement or arrangement in writing. However, the law also authorises the NFIU to exchange this information even without entering into any such agreement, arrangement or Memorandum of Understanding (MoU). The NFIU is a member of the Pacific Financial Intelligence Community (PFIC) (Group of Pacific Island FIUs) and has entered into MoUs with the FIUs of PFIC countries under a multilateral framework.<sup>88</sup> In addition, it has signed bilateral MOUs with Australia, Chinese Taipei, Vietnam and Timor Leste.

NFIU is an important conduit for accessing international information, but utilisation by LEAs has not been effectively demonstrated. Naoero has joined the Egmont group of FIUs on 8<sup>th</sup> August 2025 and has access to INTERPOL, Pacific Islands Chief Police of (PICP), and the Australian Federal Police for information exchange.

In addition, now as a member of the Egmont Group, the NFIU will work with the FIUs worldwide to support cross-jurisdiction law enforcement and intelligence exchange. Between July 2018 and June 2025, the NFIU has received only three (3) incoming requests and sent forty-seven (47) outgoing requests to foreign counterparts.

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<sup>86</sup> Section 4, Extradition Act 1974.

<sup>87</sup> Option 1, Extradition Guide.

<sup>88</sup> PFIC Members include Australia, NZ, PNG, Fiji, Naoero, RMI, Cook Is., Samoa, Tonga, Tuvalu, Solomon Is., Vanuatu, Kiribati, Niue and Palau.

[Table 23](#) shows the numbers of requests received and sent out by the NFIU for intelligence purposes and appropriate actions.

*Table 23: Intelligences exchanges by NFIU (July 2018-June 2025)*

| Financial Year                            | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 |
|-------------------------------------------|---------|---------|---------|---------|---------|---------|---------|
| Incoming Requests & Spontaneous Exchanges | 0       | 0       | 1       | 0       | 1       | 1       | 0       |
| Outgoing Requests & Spontaneous Exchanges | 0       | 0       | 1       | 1       | 7       | 5       | 33      |

Majority of requests received by the NFIU from the foreign counterparts have been timely responded, on an average of 5 to 14 days from receiving the request. During the sample period, the requests have been received by the NFIU from its counterparts in New Zealand, Saudi Arabia and Kiribati. The outgoing requests for information from the NFIU are primarily to its counterparts in Australia (15), Thailand (2), Marshall Islands (2), Saudi Arabia (1), and PFIC (28). The estimated value of criminal proceeds involved in the requests sent out to counterparts in approximately AUD 500,000.

The NFIU also provides assistance to overseas LEAs, whenever appropriate. The NFIU officers participated in the meetings and workshops of the APG, AFP, AUSTRAC, ADB, DFAT, OECD, UNODC and PFIC, with a view to exchanging financial intelligence and sharing experience. Between July 2018 and June 2025, six (6) NFIU representatives have participated in 30 such events (2 in 2020; 10 in 2021; 7 in 2022, 1 in 2023, and 10 in 2024)<sup>89</sup>.

#### 4.5.3 External Cooperation by LEAs

Naoero LEAs can cooperate at the international level through a number of mechanisms and networks, including INTERPOL, Naoero-Australia Policing Partnership (N-APP), Pacific Islands Chief of Police (PICP), Pacific Transnational Crime Network (PTCN) Pacific Community for Law Enforcement Cooperation (PCLEC) and Pacific Islands Law Officers' Network (PILON). Naoero became the member of the INTERPOL on 6 September 197, when it established its National Central Bureau in Yaren, connecting its law enforcement to INTERPOL's global network.

Naoero has a range of tools for communication and analysis at the international level. Standard communication channels are used, in addition to secure covert channels, such as the INTERPOL I-24/7 global police communications system.

Australia and New Zealand have placed liaison officers who, as appropriate, act as advisors or mentors to the Naoero Police Service and help with cooperation at the operational level. Naoero has also been involved in exchanges and secondment of personnel, including, for instance, to Samoa Pacific Transnational Crime Coordination Centre (PTCCC).

<sup>89</sup> No training data is available between July 2018 and September 2020.

The NPF has dedicated cybercrime unit to handle cybercrimes.

Although the LEAs in Naoero actively engage in forums for international cooperation, especially in the Pacific region, which is adequate considering Naoero's context, no cooperation requests have been sent or received by Naoero's LEAs to and from foreign LEAs.

Between July 2018 and June 2025, the representatives of LEAs have also participated in approximately 17 international events, including meetings, AML/CFT/PF workshops and training organised by various international and regional bodies, with a view of sharing and exchanging experience.

## 4.6 Overall National Vulnerability

Naoero's ability to combat money laundering is assessed as **MEDIUM-LOW**, characterised by its legal framework, high-level commitment, a multi-agency AML/CFT/PF institutional framework, a fair prosecution and judicial system, and effective internal and external cooperation, especially considering the context of Naoero. There is however still a room for improvement in some areas, which are detailed below in the next section.

## 4.7 Next Steps

- **Enhancing the AML/CFT/PF legal framework:** Ongoing efforts are needed to improve the AML/CFT/PF legal framework in keeping with the changing security landscape and ensuring compliance with the FATF recommendations.
- **Enhancing the capacity, resources and skills of relevant agencies in AML/CFT/PF:** Limited resource availability (both human and technical) as well as lack of proper training of the staff in some of the relevant agencies responsible for investigation and prosecution of ML/TF/PF cases has been identified as a hindrance in successful ML/TF/PF investigations, prosecution and convictions. Ensuring sufficient resources and strengthening capacity of the relevant staff in different agencies to effectively detect and prevent ML will be taken as a priority step forward. The resources and capacity of the NFIU should also be further strengthened to ensure effective and efficient risk-based supervision and monitoring of all reporting entities.
- **Expanding AML/CFT/PF partnerships:** While the AMLGC and AMLOC ensures good cooperation and coordination among the competent authorities on exchanging information and intelligence on AML/CFT/PF matters, the work of the AMLPCC should continue to be strengthened for better intelligence development and information sharing.
- **Strengthening internal and external cooperation and coordination:** Naoero' participation in international cooperation and coordination arrangements provides a solid basis for cooperation with regulators and LEAs of other jurisdictions but needs to be further strengthened to ensure resources are focused on the most complex and multi-jurisdictional cases. Even internally, the AML/CFT/PF coordination and cooperation among various operational and supervisory agencies should be further strengthened to ensure the effectiveness of Naoero's AML/CFT/PF system, including the frequent and timely exchange of information between authorities from both within and outside the working groups to ensure optimum outcomes in AML/CFT/PF operational matters.



## 5. Sectoral Money Laundering Vulnerability – Financial Institutions

### 5.1 Overview

This Chapter sets out the assessment of the financial institutions, which includes one agency of a bank and one licensed MVTs provider in Naoero, although the former is not classified as a financial institution in Naoero, for it does not conduct any activities listed in the glossary of the FATF standards. There are no other financial institutions operating in Naoero i.e., no insurance sector, securities sector, money lenders, and credit unions in Naoero.

The Bendigo Bank Agency and the licensed MVTs provider has been assessed individually to determine their ML/TF vulnerability and thus given an individual ‘vulnerability’ risk rating based on the average score of the identified risk factors. Only the MVTs provider is subject to the AML/CFT/PF requirements prescribed in AML/CFT/PF framework of Naoero, for the other is not classified as ‘financial institution’ under the AML-TFS Act 2023.

Vulnerability refers to the characteristics of a sector that make it susceptible to criminal exploitation. This includes nature, size and complexity of business, products and services, customers, delivery channels, countries/jurisdictions with which it deals. Sector vulnerability also takes into account the operational vulnerabilities common among businesses in the sector, as well as the AML/CFT/PF systems and controls in place across the sector.

Data collection sheets and/or questionnaires were distributed to the MVTs provided by the NFIU, as the AML/CFT/PF supervisor of the MVTs. Since the Bendigo Bank Agency is not classified as a financial institution and is not obliged to comply with the AML-TFS Act 2023 and to share any information with the NFIU, no questionnaires have been sent to the Bendigo Bank Agency. However, an interview was conducted with the representative of the Bendigo Bank Agency to understand their perspective of the vulnerability of the financial sector to ML, TF and PF.

It has to be noted that during the write-up of this NRA, the Bendigo Bank Agency ceased its operations in Naoero on 8<sup>th</sup> August 2025, and the Commonwealth Bank of Australia (CBA) started its operations on 11<sup>th</sup> August 2025 under the ‘agency’ agreement with the Government of Naoero. This NRA has not conducted an assessment of the CBA operations in Naoero; however, it has briefly summarized in this section below some of the key changes moving forward for Naoero.

Here is the snapshot of ‘Vulnerability’ risk rating for each sector.

| Financial Institutions           | NRA 2025 | NRA 2023 | NRA 2018 |
|----------------------------------|----------|----------|----------|
| Money Transfers Operators (MVTs) | LOW      | LOW      | HIGH     |
| Insurance Sector                 | N/A      | N/A      | N/A      |
| Securities Sector                | N/A      | N/A      | N/A      |



|               |     |     |     |
|---------------|-----|-----|-----|
| Money Lenders | N/A | N/A | N/A |
| Credit Unions | N/A | N/A | N/A |

|                |          |          |          |
|----------------|----------|----------|----------|
| Others         | NRA 2025 | NRA 2023 | NRA 2018 |
| Banking agency | LOW      | LOW      | HIGH     |

## 5.2 Money or Value Transfer Services (MVTs)

The overall level of ML vulnerability of MVTs sector is assessed as **LOW**. This assessment is based on two key factors: a) the existence of only one domestically licensed entity offering international remittance services in Naoero, and b) the relatively small number of clients and comparatively low volume of in-bound and out-bound overseas remittances to-and-from Naoero, mainly through the MVTs, which makes the sector potentially less vulnerable to ML.

Although the licensed MVTs provider is applying its group-wide AML/CFT/PF controls and systems, the NFIU need to continue its effective risk-based AML/CFT/PF supervision of the sector to ensure that it is not being abused for ML/TF purposes. MVTs also need to continue to further enhance and strengthen their AML/CFT/PF controls and systems, especially CDD measures and record-keeping, despite the low level of ML/TF/PF risk in Naoero.

### 5.2.1 Overview

MVTs providers in Naoero must be registered and licensed under the Business License Act 2017 and are subject to oversight by the NFIU for compliance with their AML/CFT/PF obligations.

As of the end of June 2025, the agent of the Western Union remains the sole licensed MVTs provider operating in Naoero. It is the only reporting entity under the classification of ‘financial institution’ in the AML-TFS Act 2023. There has been no change in the number of licensed MVTs providers in Naoero over the past seven years, with the agent of the Western Union continuing to be the exclusive service provider in this category since 2015.

Remittances play a small role in Naoero’s economy. According to a report of World Bank, remittances accounted for 0.6% of Naoero’s GDP in the year 2023, which is one of the lowest percentages among Pacific Island countries.<sup>90</sup> Annual remittances to Naoero saw a significant decrease from 12.3% of Naoero’s GDP in 2015 to 0.6% in 2023.<sup>91</sup>

MVTs provider continues to play a key role in facilitating the inflow and outflow of personal remittances to Naoero, with it being the only financial institution in the country. However, the recent increased use of two foreign PSPs – one of which has been active since 2018 - in facilitating remittance services has begun to impact the business of the licensed MVTs provider. The MVTs provider provides

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<sup>90</sup> World Bank, *Personal remittances, received (% of GDP) – Pacific Island Small States*. Available at: <https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS?locations=S2> (accessed 05 July 2025). See, also, International Monetary Fund, *Naoero 2023 Article IV Consultation – Press Release; Staff Report; and Statement by the Executive Director for Republic of Naoero*. IMF Country Report No. 23/376, November 28, 2023. Available at: <https://www.imf.org/en/Publications/CR/Issues/2023/11/28/Republic-of-Naoero-2023-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-541784> (accessed 05 July 2025).

<sup>91</sup> World Bank, *Personal remittances, received (% of GDP) – Pacific Island Small States*. Available at: <https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS?locations=S2> (accessed 05 July 2025).

quarterly financial transaction reports to NFIU, starting the period of 2021-22. [Table 24](#) below provides the total volume and value of incoming and outgoing transactions for the past seven years:

**Table 24: No. and Value of MVTs Transactions (July 2018 – June 2025, in approximation)**

| Financial Transactions | 2018-19           | 2019-20           | 2020-21   | 2021-22   | 2022-23   | 2023-24   | 2024-25 |
|------------------------|-------------------|-------------------|-----------|-----------|-----------|-----------|---------|
| <b>Number</b>          | No data available | No data available | 4,984     | 3,848     | 3,272     | 3,452     | 3,192   |
| <b>Value Outgoing</b>  | No data available | No data available | 2,229,460 | 3,640,164 | 1,312,414 | 1,025,100 | 325,800 |
| <b>Value Incoming</b>  | No data available | No data available | 567,119   | 221,422   | 343,341   | 269,600   | 75,000  |

### 5.2.2 ML/TF Risks associated with MVTs

Products and services offered by the licensed MVTs provider include only receiving and sending remittances. The MVTs provider only process small number and amounts of transactions on a yearly basis, especially since FY 2022-23.

Businesses, government agencies/ministries and the general public use MVTs services and products due to it being the only financial service provider in the country. Over the past seven years, the number of MVTs customers has declined significantly, largely due to the increased use of two foreign payment applications in Naoero.

**Table 25: Number of individual Customers (July 2018 – June 2025)**

| Year                       | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 |
|----------------------------|---------|---------|---------|---------|---------|---------|---------|
| <b>Number of Customers</b> | 528     | 428     | 432     | 384     | 288     | 240     | 144     |

The MVTs provider primarily serves walk-in customers, all of whom are individuals, with no corporate or business clients. The vast majority (98%) of its customers are non-residents, asylum seekers and refugees, comprising approximately 90% Fijian, 5% Chinese, 3% Sri Lankan, and 2% from Solomon Island nationals. However, during the face-to-face consultation process for this risk assessment, it was noted that the customer base has recently shifted towards a large proportion of Chinese customers.

All MVTs transactions are carried out in person. Given Naoero's small population, the provider's customer base largely consists of the same recurring individuals.

The MVTs provider in Naoero has reported that cash is the sole method of conducting transactions. Until March 2023, Western Union operated under an unusual model in Naoero whereby the total daily remittance value for all customers combined were capped at AUD 20,000, after which the office would close for the day. Since March 2023, this cap has been removed, and there is no longer a limit, there is no cap on total remittances per day now. Over the past seven years, the maximum daily transfer has

been AUD10,000 (typically not exceeding AUD5,000), with an average of 10 transaction per day.<sup>92</sup> The average principal amount per transaction was USD 339 on the sending side and USD 296 on the receiving side<sup>93</sup>.

In recent years, the Bendigo Bank Agency has become increasingly reluctant to provide financial services to the remittance sector, which may be due to strains in correspondent banking relationships or other factors<sup>94</sup>. The MVTs provider in Naoero has recently faced the closure of its bank accounts, leaving the sector more vulnerable to ML/TF risks. To overcome challenges in accessing financial services, the MVTs provider has reportedly been accepting funds in Naoero and using either a personal or business account held in another jurisdiction (Australia) to process transfer, further heightening vulnerabilities through this alternate remittance arrangement due to financial exclusion. The cash collected in Naoero is then deposited to the personal account.

Out of total remittances, majority (93%) are outward remittances and only 7% are inwards remittances. United States of America (approximately 21.3%)<sup>95</sup> and New Zealand are the two main countries of origin for remittance inflows to Naoero, followed by Australia, Fiji, and Kiribati. In the recent years, remittance outflows are mainly to China (40.71%),<sup>96</sup> Solomon Islands (17.48%), Fiji (10.22%), the Philippines (6.80%), and Marshall Islands (4.29%), none of which is currently a FATF high-risk jurisdiction<sup>97</sup>. However, given the limited activity with a few previously designated high-risk jurisdictions (such as the Philippines and Vanuatu), the MVTs provider classifies its customers as presenting 'medium-low' residual risk.<sup>98</sup>

There is no firm evidence of alternative remittance occurring on the Island; however, due to the closure of bank accounts of many business owners by the Bendigo Bank Agency in the past several months, especially of Chinese business community, the existence of alternative remittance system cannot be completely overlooked. Behaviour of some of the Chinese business community and some of the refugees show potential red-flags for the operation of alternative remittance services, possibly on an ad-hoc basis. The alternative remittance remains an inherent risk in Naoero.

Finally, although the agent of the Western Union is currently the only licensed and supervised MVTs provider in Naoero, during this risk assessment, two foreign PSPs – one operational since 2018 – have also been identified as offering mobile and internet-based cross-border transfer services to Naoero-based customers with no physical presence in Naoero and without being licensed, registered, or subject to domestic AML/CFT supervision. While these entities are being regulated in their home jurisdictions, their activities in Naoero fall entirely outside the domestic regulatory perimeter. As a

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<sup>92</sup> NFIU on-site inspection report dated 28-29 September 2023.

<sup>93</sup> MVTs Provider, *Financial Crime Risk Executive Summary 2023 & 2024* (shared by the MVTs provider for this risk assessment).

<sup>94</sup> No details have been provided regarding the reasons for the closure of the MVTs provider's account.

<sup>95</sup> Ibid.

<sup>96</sup> Ibid.

<sup>97</sup> although the Philippines has been on the FATF's high-risk jurisdictions' list from June 2021 to February 2025.

<sup>98</sup> MVTs Provider, *Financial Crime Risk Executive Summary 2023 & 2024* (shared by the MVTs provider for this risk assessment).



result, the Naoero authorities have no visibility over the volume, value, purpose, or nature of transactions sent or received through these channels, nor do they receive direct STRs or have access to their internal controls or CDD information relating to Naoero-based users. Although the NFIU informed that information-sharing arrangements with the relevant foreign FIU are already in place and allow for the exchange of certain data/information, these mechanisms have not yet been utilised in relation to the foreign PSPs. As a result, a regulatory and operational visibility gap persists, reducing Naoero's ability to apply a risk-based approach to the effectively monitor their activities in Naoero.

According to the NFIU, the agency agreement with the Bendigo Bank and Western Union imposes certain limitations on the registration/licensing of PSPs in Naoero, despite the requirements of the Business Licence Act, which stipulates that any business offering services in Naoero must be registered locally. The NFIU also noted that payments made through the PSPs are all linked to customers' bank account in Naoero, which helps reduce certain ML/TF risks associated with anonymity. In addition, a limited review, during this risk assessment, of the products and services available to Naoero-based users, based on information available on the PSPs' websites and user accounts, indicates that they offer only cross-border remittance services, and do not provide cards, payment accounts, or other payment management services. They also appear to apply customer identification and verification measures prior to processing transaction. However, this assessment is based solely on publicly available information and a limited user-level review, and therefore may not fully capture the extent of their controls.

Overall, the presence of foreign PSPs increases the inherent ML/TF risk associated with cross-border money transfers in Naoero. While such PSPs may apply AML/CFT controls of their countries of licensing and are subject to AML/CFT supervision in their home countries (currently, Australia and New Zealand for two existing PSPs), their operations in Naoero are not subject to local oversight, reporting obligations, or enforcement mechanisms, and there is a lack of clear regulatory approach by Naoero. The NFIU has bilateral and multilateral agreements with the foreign FIUs supervising foreign PSPs, these have never been utilised to obtain any information/data in relation to Naoero-based users of these PSPs. Such regulatory gap creates opportunities for these channels to be misused to circumvent the regulated MVTs sector, especially when AML/CFT obligations in the home country of foreign PSPs may differ from the requirements in Naoero, thereby reducing the overall effectiveness of Naoero's AML/CFT framework.

### ***5.2.3 AML/CFT/PF Systems and Controls***

The AML-TFS Act 2023 clearly specify the AML/CFT/PF obligations of the MVTs providers to prevent the sector from being misused for ML/TF activities. The AML-TFS (Financing of Terrorism and Proliferation Financing) Regulations 2023, as amended in 2024, issued to reporting entities also elaborate more on the requirements as stipulated under the legislation.

The compliance function for the Western Union's Naoero agent is managed from New Zealand, with the provider in Naoero implementing AML/CFT/PF internal controls and procedures in line with its

group compliance programme<sup>99</sup> and its own documented business-wide risk assessment. These measures include compliance/monitoring, screening tools that incorporate high-risk jurisdictions and UN designations, application of risk assessment findings from the home jurisdiction, regular staff training, and on-site oversight.<sup>100</sup>

Customer identification is carried out manually using two forms of valid IDs (generally passport and driving licence), and all customers are screened against both the UN list and Western Union database. Screening is conducted for PEPs, sanctions, and negative media at onboarding, upon updates to sanctions lists, during trigger events, and in response to unusual or suspicious activity. While client verification is manual, approximately 95% of transaction monitoring is automated to support ongoing monitoring. Based on its risk assessment, 98% of customers are classified as low risk, with only 2% categorized as standard risk.

The MVTS has only one staff who participated in AML/CFT/PF awareness programs organized by the NFIU to enhance his knowledge and understanding of their AML/CFT/PF obligations under the applicable legislation. Between July 2018 to June 2025, the MVTS staff was advised twice by the NFIU of their reporting obligations under Naoero’s AML/CFT/PF framework (in July 2021 and September 2023). Additionally, the regular trainings and physical oversight of the MVTS operations has also been conducted by its headquarters. According to the 2024 MER of Naoero, “the MVTS provider has a fair understanding of the ML/TF risks in general and AML/CFT/PF measures.”<sup>101</sup> This is however largely attributable to its group-wide compliance programme in another jurisdiction, its enagement in the consultation process of NRA 2018 and 2023, as well as its participation in AML Private Partners’ Committee.<sup>102</sup>

The MVTS provider is under active compliance supervision and monitoring by its headquarters in Auckland, New Zealand, which oversees the performance of the provider operating in Naoero, including through the on-site supervision (per six months).<sup>103</sup> The NFIU however also endeavours to conduct regular inspections of MVTS provider as part of its supervision efforts and to encourage MVTS to take necessary measures and implement appropriate systems to counter the increasing sophistication of ML/TF techniques.

Table 26: No. of Onsite/Offsite Inspections by the NFIU (July 2018 – June 2025)

| Financial Year | No. of Inspections | Type of Inspection | Scope                                                                                                                                                                |
|----------------|--------------------|--------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2018-19        | 1                  | On-site            | <ul style="list-style-type: none"><li>• AML/CFT/PF obligations (CDD, STR, record keeping), AML/CFT/PF Programme</li><li>• Awareness raising on obligations</li></ul> |

<sup>99</sup> 2024 MER of Naoero, p. 74.  
<sup>100</sup> Ibid, p. 77  
<sup>101</sup> Ibid, p. 75.  
<sup>102</sup> Ibid.  
<sup>103</sup> Ibid, p. 74.

|                |   |          |                                                                                                                                                                                                                                                                           |
|----------------|---|----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>2019-20</b> | 0 | -        | -                                                                                                                                                                                                                                                                         |
| <b>2020-21</b> | 1 | Off-site | <ul style="list-style-type: none"> <li>Quarterly report on transactions</li> </ul>                                                                                                                                                                                        |
| <b>2021-22</b> | 0 | -        | -                                                                                                                                                                                                                                                                         |
| <b>2022-23</b> | 1 | On-site  | <ul style="list-style-type: none"> <li>Awareness of AML-TFS 2023 (CDD, EDD, PEPs, BO, record-keeping, STR, TFS) strategy and ME process</li> <li>Compliance with the CSS/record keeping and STR obligations</li> </ul>                                                    |
| <b>2023-24</b> | 1 | On-site  | <ul style="list-style-type: none"> <li>Compliance with STR obligations and conducting business-wide risk assessment</li> </ul>                                                                                                                                            |
| <b>2024-25</b> | 1 | Onsite   | <ul style="list-style-type: none"> <li>Compliance with STR obligations, record-keeping requirements, and conducting business-wide risk assessment</li> <li>Implementation of TFS and their obligations under the AML-TFS Act, including UNSC Consolidated list</li> </ul> |

The NFIU has however identified a few anomalies during inspections related to AML/CFT/PF policies and procedures as well as their implementation. These include, for instance, a lack of business-wide risk assessment by the MVTs provider, failure to maintain customer ID records for 7 years, and failure to file SARs with the NFIU. The framework applied within the MVTs provider also does not take into account the specific risks and context of Naoero. Weaknesses identified during onsite inspections were discussed with MVTs provider and recommendations were provided by the NFIU for rectification/remedial action. Areas that require particular attention and further strengthening include conducting business-wide risk assessment, the performance of proper CDD measures (including identification and verification of beneficial owners), record keeping for audit and trail purposes, and effective identification of unusual and or suspicious transactions. Some of the recommendations provided by the NFIU include appointment of compliance officer, customer risk profiling, and STR training. In 2023, the NFIU also requested the MVTs provider to provide it the business-wide risk assessment and submit SARs to NFIU. No sanctions have so far been imposed by the NFIU for these breaches, only warnings were given.

During the sample period for this risk assessment, the MVTs provider has only filed one STR with the NFIU in the past seven years, involving a sum of AUD2,000. However, the Naoero's 2024 MER noted that the MVTs provider has raised SARs in relation to its Naoero operations, which was lodged with the jurisdiction of the MVTs's headquarters rather than NFIU.<sup>104</sup> During its on-site inspections<sup>105</sup> of the MVTs provider, the NFIU clarified the requirements regarding SARs and the provider's obligation to submit them to the NFIU. The MVTs provider confirmed that no SARs had been filed with its headquarters in New Zealand; however, it reported having stopped a transaction suspected to be a scam and requested the sender to supply additional information about the beneficiary.

<sup>104</sup> 2024 MER of Naoero, p. 46.

<sup>105</sup> On-site inspection dated 12 December 2023 and 12 March 2024.



Submission of quarterly financial transactions reports to the NFIU are not mandated by law, but it appears that they are provided in lieu of SARs. NFIU has reminded the MVTS provider of its STR obligation under the AML-TFS Act 2023 during the on-site inspection in 2023. However, in practice, the MVTS provider has been able to provide a quarterly financial transaction report within 2 days of a request from NFIU.<sup>106</sup>

Section 62 of the AML-TFS Act 2023 requires all reporting entities, including MVTS, to report any cash transactions or series of transactions, amounting to AUD10,000 or more to the NFIU within seven (7) days. During the sample period, the MVTS did not submit any such reports. However, as noted earlier, the MVTS provider has been submitting quarterly financial transaction reports to NFIU since 2021-22, ensuring the NFIU remains fully informed and alert to potential risks relating to number and value of transactions processes through the MVTS.

#### 5.2.4 Next Steps

Ongoing efforts by the authorities have resulted into improving the understanding and compliance of MVTS with their AML/CFT/PF obligations. On-site inspections of MVTS are an important step to improve AML/CFT/PF compliance in this sector, which should be planned on a risk-sensitive basis. The authorities should continue strengthening risk-based AML/CFT/PF supervision and providing appropriate guidance on enhancing compliance with CDD and SAR obligations by MVTS, especially on maintaining adequate records and statistics.

To effectively manage and mitigate the ML/TF risks associated with foreign PSPs providing remittance services, Naoero will need to adopt a clear, risk-based approach and establish mechanisms for the adequate regulation, supervision and monitoring of their activities, while also considering Naoero's unique circumstance and the potential impact of such measures on financial inclusion.

### 5.3 Banking Agency Arrangements

As stated earlier, assessing the ML/TF/PF risks faced by the Bendigo Bank Agency in Naoero is challenging, as it is not classified as a "financial institution" under the AML-TFS Act 2023 and is therefore not subject to its obligations. This means the Bendigo Bank Agency is neither required to share information with the NFIU, including filing SARs, nor to provide data for this risk assessment.

Despite these limitations, the overall ML/TF vulnerability of the Bendigo Bank Agency is assessed as **LOW**. This assessment is drawn from limited available information voluntarily shared by the Bendigo Bank Agency during the consultation meeting for this risk assessment, as well as from previous NRAs and Naoero's 2024 MER. The assessment takes into account: (a) the limited range of products and services offered by the Bendigo Bank *via* the Agency; (b) a predominantly resident customer base, mainly individuals, business owners, and locally incorporated legal persons and arrangements in Naoero; and (c) the relatively low volume of cash transactions. However, because of the specific

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<sup>106</sup> Ibid.



arrangement under which the Bendigo Bank Agency operates in Naoero, evaluating the effectiveness of its AML/CFT policies, procedures, and controls is difficult. That said, the Bendigo Bank Agency has indicated that, as an agency of the bank, it applies the group-wide policies and procedures of Bendigo and Adelaide Bank, consistent with its compliance obligations under Australia's AML/CFT framework.

### **5.3.1 Overview**

As explained earlier, there are no commercial banks licensed in Naoero. An Australian bank – Bendigo and Adelaide Bank Limited – is providing banking services to Naoeros under an 'agency' agreement between the bank and Government of Naoero since 2015. The Bendigo Bank Agency solely facilitates the operations of the Bendigo Bank in Naoero, and the bank, including the Bendigo Bank Agency, is stated to be supervised by AUSTRAC in accordance with Australian AML/CFT/PF obligations. Moreover, it is stated that the information and forms in relation to CDD and onboarding are processed by the Bendigo Bank in Australia, and all necessary documentation on accounts for Naoeros are held in Australia, not in Naoero. After September 2017, the Bendigo Bank Agency, which is not a reporting entity in Naoero, has been prohibited from voluntarily disclosing SARs to the NFIU, citing Australia's tipping off provision in the relevant Australian legislation (section 123 of the AML/CFT Act 2006).<sup>107</sup>

As of 30 June 2025, through the Bendigo Bank Agency, the Bendigo bank holds approximately 17,000 accounts of Naoeros, operate 13 automatic teller machines (ATMs) and 83 terminals (ETTPoS). The Bendigo Bank Agency has two service outlets in Naoero to provide customer services, including cash deposit and withdrawals. There are also approximately 8,000 debit cards issued by the Bendigo bank linked to these accounts.

On 8 August 2025, the Bendigo Bank Agency ceased its operations in Naoero and Commonwealth Bank of Australia (CBA) took over under the agency agreement with the Government of Naoero. As of that date, the Bendigo Bank Agency closed all corporate accounts, government and PEP accounts. Individual customers, however, are permitted to retain their Bendigo Bank Agency accounts and renew their debit cards, which will continue to be issued directly from Bendigo and Adelaide Bank. To support the transition to CBA Agency, the Bendigo Bank Agency has also committed to providing customer inquiry support for three (3) months period.

### **5.3.2 ML/TF risks associated with the Banking Agency**

The banking sector is generally at a risk of being targeted by criminals to launder the proceeds of crime and finance terrorism due to the broad range of products and services offered by the sector and the nature of the products and services offered.

However, in Naoero, the Bendigo Bank Agency primarily serves the Government to facilitate the circulation of cash within the country and to support the operation of the economy. Cash is typically withdrawn from ATMs in Naoero that are owned and serviced locally, but the processing happens in

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<sup>107</sup> 2024 MER of Naoero, p. 22.



Australia. The cash for ATMs is provided by the Government of Naoero, not by the Bendigo Bank Agency. The Government is reimbursed in Australia by the agency for the cash dispensed in Naoero.<sup>108</sup>

The Bendigo bank *via* the Agency provides only limited financial products/services in Naoero, offering only savings and transaction accounts to individuals, sole traders, and corporates. Apart from these, the Bendigo bank does not offer any other banking products or services, such as loans, credit cards, pre-paid cards, or bank cheques *via* the Agency. Naoeros typically access Bendigo Bank services in Australia via debit card and internet-banking. The Bendigo Bank Agency *via* the Bendigo Bank also facilitates telegraphic transfers in 16 currencies for Naoero customers, but not in USD, Euro or GBP.<sup>109</sup> It does not provide currency exchange services in Naoero and there is no other (official) currency exchange in Naoero.

The Bendigo Bank Agency maintains two service outlets in Naoero to provide customer services, including cash deposit and withdrawals. Cash from the saving account can only be withdrawn from the service outlets. According to the information provided by the Bendigo Bank Agency during consultation, in majority accounts opened *via* the Agency, the funds come in the form of salary from the Naoero treasury department *via* electronic transaction. Cash deposits constitute a very small portion of transactions at the Bendigo Agency (approximately 1-2%).

By the end of June 2025, the Bendigo Bank, through the Agency, operated thirteen (13) ATMs in Naoero, out of which only 8 were operational. The number of Electronic Funds Transfer at Point of Sale (EFTPOS) were 83. Customers onboarded through the Bendigo Bank Agency are able to access internet banking services. According to the information provided, 70% of the Bendigo Bank Agency onboarded customers use internet banking and 20% use ATMs/ETTPOS.

Cash is an important part of the Naoero economy, and the retail operations of the Bendigo Bank Agency continue to be exposed to potential ML risks from customers engaged in cash-intensive businesses. The only over the counter services offered by the Bendigo Bank Agency related to cash includes cash deposits or withdrawals at its two service outlets in Naoero. The provision of services to cash-generating businesses is a particular area of risk associated with retail banking. Some businesses are legitimately cash based, including large parts of the retail sector, and therefore often have high levels of cash deposits associated with their accounts. The risk arises when the level of cash activity is exceeds what the underlying business would reasonably justify, which may indicate that the account is being used for money laundering. However, according to the information provided by the Bendigo Bank Agency during the consultation for this risk assessment, cash deposits only constitute 1-2% of the Bendigo Agency's transactions. Moreover, for any cash payments above AUD 20,000, the Bendigo Bank Agency needs approval from the Bendigo Bank.

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<sup>108</sup> 2024 MER of Naoero, p. 27.

<sup>109</sup> Ibid.



As stated earlier, through the Bendigo Bank Agency, the Australian bank currently holds approximately 17,000 accounts for customers from Naoero.<sup>110</sup> Of these, the majority are reported to be individual customers (approximately 10,500) and sole traders. Most customers are from Naoero, although the Bendigo Bank also serves expatriates customers through the Agency who are working with Government of Naoero.

There is no information available on the geographical risk of transactions conducted on accounts facilitated *via* the Bendigo Bank Agency.

### **5.3.3 AML/CFT/PF Systems and Controls**

AUSTRAC is responsible for undertaking the prudential and AML/CFT/PF supervision of the Bendigo Bank, including its foreign agency operating in Naoero. The bank and its agency are required to comply with the Australian AML/CFT/PF obligations.<sup>111</sup> Much of the formal financial activity of the Bendigo Bank Agency is outside of Naoero's AML/CFT/PF system. It does not conduct transaction monitoring onsite, and oversight of transactions is conducted in Australia and thus, not visible to NFIU in real time.<sup>112</sup> The Bendigo Bank Agency is also not required to file SARs to the NFIU; thus, there is little coming to the NFIU to be analyzed to ensure compliance with Naoero's AML/CFT/PF framework. The Bendigo Bank reports threshold transactions conducted in Naoero to AUSTRAC, about which no further information has been made available.

Although the Bendigo Bank Agency is not required to submit SARs to NFIU, there is a close cooperation between the NFIU and AUSTRAC, the AML/CFT/PF supervisor of the Bendigo Bank and its agency in Naoero, through which the NFIU receives SARs related to accounts/customers in Naoero onboarded *via* the Bendigo Bank Agency. In 2020, AUSTRAC provided to the NFIU with a batch of 141 SARs related to the customers/accounts through the Bendigo Bank Agency, covering the period 2017 and 2020.

AUSTRAC also shares the outcomes of its supervision/monitoring of the Bendigo Bank Agency with NFIU, with no negative findings reported so far.<sup>113</sup> However, the exchange of information between the AUSTRAC and NFIU relating to the Bendigo Bank Agency operations in Naoero occurs only on request-driven basis, when the NFIU submits a request to AUSTRAC, with NFIU lacking real time access to data.<sup>114</sup> In 2020, there was a one-off batch exchange of STRs-related information by AUSTRAC with the NFIU concerning accounts/customers onboarded through the Bendigo Bank Agency. Since 2020, however, no further information exchanges of this nature have taken place between the NFIU and ASUSTRAC, making it difficult to adequately assess the risks faced by the Bendigo Bank Agency

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<sup>110</sup> 2024 MER of Naoero, p. 22

<sup>111</sup> During the consultation meetings for this risk assessment, information was provided that the Bendigo Bank Agency itself is not obliged to comply with the Australian AML/CFT/PF framework or to report SARs directly to AUSTRAC.

<sup>112</sup> 2024 MER of Naoero, p. 8.

<sup>113</sup> 2024 MER of Naoero, p. 96.

<sup>114</sup> 2024 MER of Naoero, p. 39



operations in Naoero. Moreover, the lack of available information from the Bendigo Bank Agency to NFIU also creates an ongoing concern regarding LEA's timely access to information.

### **5.3.4 The New Arrangement with CBA**

The CBA commenced its operations in Naoero under the 'agency' agreement with the Government of Naoero on 11 August 2025. Some of the key changes introduced under CBA's operations include:

- **Telegraphic transfers:** CBA will provide electronic telegraphic transfers in 19 currencies, including USD, Euro or GBP. However, telegraphic transfer will not be available at its two service outlets, and no currency exchange services will be offered.
- **Accounts and business services:** For individuals, CBA offers savings and transaction accounts. For businesses, services include transaction accounts and once launched, business saver accounts (not yet offered in August 2025). Businesses will also have accesses to merchant facilities, with a limited number permitted to use COMBIS. Customers can use internet banking, as previously available *via* the Bendigo Bank Agency.
- **Compliance framework:** CBA has appointed a dedicated AML/CFT/PF Compliance Officer for Naoero and has committed to voluntarily report SARs to NFIU.

It has to be noted that as a part of its agreement with the Government of Naoero, CBA Agency is exempt from complying with the AML-TFS Act 2023. Based on the information provided during consultations for this assessment, CBA Agency will also apply its group-wide compliance policies, procedures and controls in Naoero. While it is not directly obliged to comply with Australian AML/CFT/PF legislation or to report suspicious matters to AUSTRAC, CBA Agency has agreed to voluntarily report such matters to the NFIU.

### **5.3.5 Next Steps**

The transition from the Bendigo Bank Agency to CBA Agency provides an opportunity to improve cooperation, with CBA Agency committing to voluntarily report SARs to the NFIU. However, this arrangement with CBA still falls outside the scope of the AML-TFS Act 2023, as it is based on negotiations with the service provider in consideration of the need to ensure the continued provision of basic banking services to Naoero residents and address the challenge of financial exclusion. Moving forward, it is suggested that Naoero should build trust and seek to establish clear mechanisms (e.g., through MoU) to ensure timely access to relevant data and information sharing with CBA. This would help close information gaps, improve the ability of the NFIU and LEAs to monitor risks, and strengthen Naoero's alignment with international AML/CFT standards, while at the same time ensuring safe and accessible financial services for individuals and businesses in Naoero.

## 6. Sectoral Money Laundering Vulnerability – Designated Non-Financial Businesses and Professions (DNFBPs)

### 6.1 Overview

This Chapter sets out the assessment of the DNFBPs sector, which is relatively small in Naoero. There are only five private law firms and one gaming operator in Naoero. Except these, there are no real estate agents, no dealers in precious metals and stones, no accountants or auditors, no licensed trust and company service providers (TCSPs), and no high-value dealers in Naoero.

Legal practitioners and the gaming operator, falling within the scope of DNFBPs, have been assessed individually to determine their ML/TF vulnerability and thus given an individual ‘vulnerability’ risk rating based on the average score of the identified risk factors. Both these sectors are subject to the AML/CFT/PF requirements prescribed in the AML-TFS Act 2023.

Vulnerability refers to the characteristics of a sector that make it susceptible to criminal exploitation. This includes nature, size and complexity of business, products and services, customers, delivery channels, countries/jurisdictions with which it deals. Sector vulnerability also takes into account the operational vulnerabilities common among businesses in the sector, as well as the AML/CFT/PF systems and controls in place across the sector.

Here is the snapshot of ‘Vulnerability’ risk rating for each sector falling within the scope of DNFBPs.

| DNFBPs Sector                                  | NRA 2023 | NRA 2023 | NRA 2018 |
|------------------------------------------------|----------|----------|----------|
| Legal Practitioners                            | LOW      | LOW      | LOW      |
| Casinos/Gaming Operator                        | LOW      | LOW      | LOW      |
| Accountants                                    | N/A      | N/A      | N/A      |
| Dealers in Precious Metals and Precious Stones | N/A      | N/A      | N/A      |
| Trust and Company Service Providers            | N/A      | N/A      | N/A      |
| Real Estate Agents                             | N/A      | N/A      | N/A      |

## 6.2 Non-Existing DNFBPs in Naoero

As noted above in section 6.1, the following DNFBPs do not exist and/or operate in Naoero:

### 6.2.1 *Real Estate Agents*

In Naoero, the sale and purchase of land is prohibited, as land is held communally. Due to the absence of a real estate market, no real estate businesses are registered in the country. Likewise, there are no individuals operating as real estate agents without formal business registration.

### 6.2.2 *Accountants*

There are no accountants or accounting firms in Naoero, nor is there any legislation regulating the operation of the accounting profession. As a result, an individual may establish an accounting practice by merely registering a business and obtaining a business licence. As of July 2025, no individual has been registered as carrying out accountancy practice in Naoero.

### 6.2.3 *Dealers in Precious Metals and Stones*

There are no dealers in high-value precious metals or stones in Naoero, and the likelihood of such businesses being established is minimal due to the very small market. Furthermore, jewellery and other precious metal items are typically sourced from Australia or Fiji.

### 6.2.4 *Trust and Company Service Providers*

The Naoero Agency Corporation (NAC), established by the Government to provide trust and company services, was dissolved in 2018. As a result, there are currently no companies or entities offering such services. Corporations registered in Naoero must have a locally based representative with a residential address in the country. Consequently, there is nothing to assess in this section for TCSPs. There is, however, one law firm in Naoero that is providing such services in Naoero – the risk of which will be assessed under part [6.3](#) of this report under ‘Legal Practitioners’.

### 6.2.5 *High-value Goods Dealers*

Dealers in high-value goods do not fall within the category of DNFBPs under the FATF Recommendations. However, since they are considered as ‘reporting entities’ under Section 7 of AML-TFS Act 2023, they are included within this risk assessment to assess their ML/TF risk.

However, again, there are no dealers in high-value goods in Naoero, and the likelihood of such businesses being established is minimal due to the very small market.

## 6.3 Legal Practitioners

The overall level of ML/TF risk for legal practitioners in Naoero is assessed as **LOW**. This assessment is primarily based on the limited range of services offered within the scope of AML-TFS Act 2023, the predominance of local face-to-face clients, the absence of complex transactions or services, and no dealing with high-risk jurisdictions. Additionally, only one legal law firm provides TCSP services, which is primarily to domestic corporate sector.

Despite the above, the sector demonstrates only limited engagement with AML/CFT/PF obligations, faces minimal supervision, and received limited training in this area. There is also insufficient data available on the extent to which AML/CFT/PF controls are applied in practice.

### 6.2.6 Overview

Legal practitioners in Naoero fall into two categories: a) Barristers and Solicitors; and b) Pleaders. Section 4 of the *Legal Practitioner Act 2019* defines a 'legal practitioner' as "a barrister and solicitor or a pleader duly admitted to practice law under Part 2 or 3 of [the] Act and who has a current practising certificate."

To be admitted as a Barrister and Solicitor, an individual must meet 'fit and proper' criteria, hold a law degree from a designated country or tertiary institution and be admitted to practice in that jurisdiction, or have practised as a pleader in Naoero for a period over 12 months. Admission as a pleader, on the other hand, requires meeting 'fit and proper' criteria and successfully completing a Pleaders program prescribed by the Chief Justice. A pleader must ordinarily reside in Naoero. The Chief Justice may also appoint any legal practitioner as a notary public for Naoero if considered 'fit and proper'.<sup>115</sup>

Under the AML-TFS Act 2023, legal practitioners who provide certain legal services fall within its scope and are classified as 'reporting entities'. The term 'legal practitioner' has not been defined in the AML-TFS Act 2023, but it is interpreted to include within its scope barristers and solicitors, notaries and other independent legal professionals, as required under the FATF Recommendations. The relevant services which bring the legal practitioners within the scope of the Act are:

- i) buying or selling real estate; or
- ii) managing client money, securities or other assets; or
- iii) managing a bank, savings or securities accounts; or
- iv) organising contributions for the creation, operation or management of companies; or
- v) creating, operating or managing bodies or legal arrangements and buying and selling of business activities. of trusts, companies or similar structures.

The legal practitioners in Naoero are required to be registered with the Registrar of Courts to practice law in Naoero, and the Registrar is also responsible for regulating the profession in Naoero. The *Legal Practitioner's Disciplinary Tribunal*, which is comprised of a judge or someone qualified to be a judge,

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<sup>115</sup> Section 61, Legal Practitioners Act 2019.

is the executive body of the Court responsible for inquiring into and determining complaints made against legal practitioners in Naoero. Complaints must be filed to the Registrar and must be made within 2 years of rights accruing. There is no fee to lodge a complaint, and all complaints are logged in register.

As of June 2025, a total of 276 legal practitioners are registered with Registrar of Court.<sup>116</sup> Out of these 97 are Barristers and Solicitors, 98 Barrister and Solicitors (Particular Clause), and 81 Pleaders. Only fifty (50) legal practitioners have current practising certificates – twenty-three (23) of them are duly registered pleaders and the rest twenty-seven (27) are Barristers and Solicitors. Out of 27 Barristers and Solicitors, there were only nine (9) Naoero local Barristers and Solicitors duly registered, which means there is a total of eighteen (18) foreign Barristers and Solicitors practicing in Naoero<sup>117</sup>. Out of 50 legal practitioners, twenty-two (22) are private legal practitioners and seven (7) are government legal practitioners.<sup>118</sup> There are five (5) law firms operating in Naoero and eight (8) legal practitioners acting as notary public.

Of the total 50 practising legal practitioners, only one law firm consisting of five (5) legal practitioners are subject to the AML-TFS Act 2023 because they provide services that fall within its scope, and are therefore required to comply with its provisions.

The Naoero Law Society (NLS) is also established under Section 47 of the *Legal Practitioner's Act 2019* as a body for Naoero legal professionals that works to enhance legal services and ensure access to justice. A legal practitioner carrying on the practice of law in Naoero is required to be a member of the NLS.<sup>119</sup>

### 6.2.7 AML/CFT/PF risks associated with legal practitioners

The Registrar of Court issues rules which bind and regulate the conduct of all members. Legal practitioners must meet minimum requirements for admission. To be admitted as a lawyer with the Registrar of Courts, one of the general qualifications is that the person must be of established good character<sup>120</sup>, together with satisfying other requirements under the Legal Practitioner's Act 2019. A non-citizen is eligible for admission to the profession in Naoero if fit and proper, holds prescribed qualification, is admitted in designated country, has evidence of offer of employment in Naoero or is law partner with someone in Naoero and must have lived in Naoero for 2 months prior to admission.<sup>121</sup>

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<sup>116</sup> Graydon, C. (2021) *Situation Analysis of Pacific Lawyer Associations*. Pacific Judicial Strengthening Initiative, Federal Court of Australia, 26<sup>th</sup> March 2020 (updated, May 2021), p. A-13. Available at: <https://www.fedcourt.gov.au/pjsi/reports/technical-reports/PJSI-Situation-Analysis-of-Pacific-Lawyer-Associations.pdf> (accessed 31 July 2025).

<sup>117</sup> Out of 18 foreign Barristers and Solicitors, there are four (4) Australians, one (1) Indian, six (6) Fijians, one (1) Solomon Islanders, four (4) Indo-Fijians, and two (2) Samoans.

<sup>118</sup> Ibid.

<sup>119</sup> Section 47, Legal Practitioners Act 2019.

<sup>120</sup> Section 5, Legal Practitioners Act 2019.

<sup>121</sup> Graydon, C. (2021) *Situation Analysis of Pacific Lawyer Associations*. Pacific Judicial Strengthening Initiative, Federal Court of Australia, 26<sup>th</sup> March 2020 (updated, May 2021), p. A-13. Available at:

For admission as a barrister or a solicitor, the Registrar of Court is required to complete an inquiry into the character, qualification and experience of the applicant, and provide that report to the Chief Justice for assessment.<sup>122</sup> For admission as a pleader, an applicant is required to undergo a Pleadings program prescribed by the Chief Justice and also any such trainings as the Chief Justice may prescribe from time to time by rules.<sup>123</sup> The Registrar of Court maintains a roll of legal practitioners.<sup>124</sup>

Upon admission, legal practitioners are required to follow high standards of professional conduct and ethics. They are required to obtain and renew their practising certificates annually, before 14<sup>th</sup> of February each year, to continue practicing law in Naoero.<sup>125</sup> A law practice is defined in Section 4 of the Legal Practitioners Act 2019 as follows:

*‘law practice’ or ‘practice’ means a law firm registered under the Business Names Registration Act 2018, the Business Licences Act 2017, Beneficial Ownership Act 2017 and where applicable, the Partnership Act 2018 but does not include a department of the Government providing legal services or a legal section of an instrumentality of the Republic.*

The Registrar has also issued *Legal Practitioner (Professional Conduct) Rules 2019*, *Legal Practitioners Practice Rules 1973*, *Barrister and Solicitors (Accounts) Rules 1973*, and *Barristers and Solicitors (Remuneration: Non-Contentious Business) Rules 1974*. Under Rule 31 of the *Legal Practitioner (Professional Conduct) Rules 2019*, a legal practitioner has a duty to report any suspicious activities of money laundering by clients to the NFIU as per the AML-TFS Act 2023.<sup>126</sup>

Although the Registrar of Court and NLS arranges ongoing Continuing Legal Education (CLE) throughout the year, this is not mandatory for renewal of license<sup>127</sup>. NLS has previously engaged with the Australian Government and the UNDP to provide trainings to the legal practitioners on professional ethics and conduct.<sup>128</sup> Recently a training on AML/CFT/PP obligations of legal practitioners has also been organised by the Naoero Law Society, in collaboration with the Australian government and UNDP.<sup>129</sup> During the sample period for this risk assessment, the Registrar has also conducted two CLE events were in 2019 and 2025 focussed on the legal practitioner's act and disciplinary mechanism.

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<https://www.fedcourt.gov.au/pjsi/reports/technical-reports/PJSI-Situation-Analysis-of-Pacific-Lawyer-Associations.pdf> (accessed 31 July 2025).

<sup>122</sup> Ibid, A-1. See also, Sections 30(1)(b) and 31, Legal Practitioner Act 2019.

<sup>123</sup> Section 8, Legal Practitioners Act 2019.

<sup>124</sup> Section 12, Legal Practitioners Act 2019.

<sup>125</sup> Section 14, Legal Practitioners Act 2019.

<sup>126</sup> Rule 31, *Legal Practitioner (Professional Conduct) Rules 2019*

<sup>127</sup> Graydon, C. (2021) *Situation Analysis of Pacific Lawyer Associations*. Pacific Judicial Strengthening Initiative, Federal Court of Australia, 26<sup>th</sup> March 2020 (updated, May 2021), p. A-8. Available at: <https://www.fedcourt.gov.au/pjsi/reports/technical-reports/PJSI-Situation-Analysis-of-Pacific-Lawyer-Associations.pdf> (accessed 31 July 2021).

<sup>128</sup> Available at: <https://www.facebook.com/republicofNaoero/posts/the-Naoero-law-society-with-support-from-the-australian-government-and-undp-hoste/1012308071065030/> (accessed 17 August 2025).

<sup>129</sup> Available at: <https://www.facebook.com/republicofNaoero/posts/the-Naoero-law-society-with-support-from-the-australian-government-and-undp-hoste/1012308071065030/> (accessed 17 August 2025).



Within the sample period, there has only been one training on AML/CFT/PF obligations of the legal practitioners.

Legal practitioners in Naoero typically provide services in areas such as land appeals, criminal matters (though predicate offences are limited), litigation, and family law. As of 30 June 2025, only five (5) legal practitioners are providing services covered within the scope of the AML-TFS Act 2023. Based on the data provided for this risk assessment, only one law firm, consisting of five legal practitioners, currently offers TCSP services, primarily to a small number of corporations and partnerships (around 10 clients annually). Of these 10, the majority (90%) are domestic corporations and partnerships, 80% of beneficial owners being domestic. Only 10% of the firm's corporate clients are from foreign jurisdictions i.e., Australia, Hong Kong and USA. Additionally, some legal practitioners serve on the boards of a few local corporations and assist them in the annual renewal of corporate licenses and certificates.

According to the NLS, it is uncommon for legal practitioners to have foreign corporations as clients. While some practitioners occasionally receive inquiries about registering corporations in Naoero, they do not progress any further. The legal profession in Naoero is however still evolving, and it is quite possible that conveyancing may be undertaken by legal practitioners. This may not be for properties in Naoero but Naoero buying properties overseas.

In the course of their professional practice, legal practitioners can receive money for or on behalf of their clients relating to a business arrangement or deal. For this, they are required to operate a trust account to hold their client's money, which can only be opened with the approval of the Chief Justice.<sup>130</sup> Client monies are required to be deposited or paid directly into a trust account of a legal practitioner.<sup>131</sup> A legal practitioner who manages a trust account must keep accurate records for annual audits, report trust money to clients, and submit a yearly account to the Registrar when renewing their practicing certificate.<sup>132</sup> Failure to comply with these requirements would constitute a professional misconduct and may result in debarment of a legal practitioner.<sup>133</sup> As of June 2025, there are no records of any legal practitioner seeking approval of the Chief Justice to operate a trust account. Furthermore, there are no trust accounts operated by legal practitioners, as this service (trust accounts) is not provided by the Bendigo Bank *via* the Agency.

### ***6.2.8 AML/CFT/PF Systems and Controls***

Legal practitioners are subject to the AML/CFT/PF requirements under the AML-TFS Act 2023. NFIU is the AML/CFT/PF supervisory authority of the legal practitioners. Since the enactment of the AML-TFS Act 2023, a complete package of AML/CFT/PF documents (including the DNFBPs CDD Guidelines 2023, and UNSC Circular for law firms) was distributed to all legal practitioners. Moreover, legal practitioners

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<sup>130</sup> Section 17, Legal Practitioners Act 2023.

<sup>131</sup> *ibid.*

<sup>132</sup> *ibid.*

<sup>133</sup> Legal Practitioners Act 2023.



have also received trainings, either internally or arranged by the Naoero Law Society/NFIU, on how to comply with their obligations under AML-CTF Act 2023, including on identifying and reporting suspicious transactions.<sup>134</sup>

According to the 2024 MER of Naoero, there was variation in the understanding of AML/CFT/PF obligations amongst legal practitioners, including regarding activities such as TCSP services and formation and management of legal persons.<sup>135</sup> They did not demonstrate their application of risk mitigating measures.<sup>136</sup>

Moreover, the AML/CFT/PF supervision of the sector by the NFIU is limited, except some outreach conducted by the NFIU, such as the one conducted in May 2025 in collaboration with the NLS, the Australian Government, NZ FIU, Department of Internal Affairs NZ, APG and UNDP. No off-site or on-site AML/CFT/PF inspections of the sector have ever been conducted by the NFIU (as the sector's AML/CFT/PF supervisor) to test the efficiency of their internal AML/CFT/PF controls as well as their effective implementation to detect and prevent any ML activities.

### **6.2.9 Next Steps**

Moving forward, the NFIU, in collaboration with the Naoero Law Society, should engage with the legal practitioners to enhance their knowledge, understanding and awareness of ML/TF/PF risks associated with the profession, emerging ML/TF trends and typologies, as well as their AML/CFT/PF obligations under the AML-TFS Act 2023. The NFIU should also implement the risk-based AML/CFT/PF supervision of the sector and arrange to conduct off-site and on-site inspections of the reporting entities within the sector accordingly.

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<sup>134</sup> Available at: <https://www.facebook.com/republicofNaoero/posts/the-Naoero-law-society-with-support-from-the-australian-government-and-undp-hoste/1012308071065030/> (accessed 18 August 2025).

<sup>135</sup> 2024 MER of Naoero, p. 30.

<sup>136</sup> Ibid, p. 74.

## 6.4 Casinos/Gaming Operator

The casinos sector in Naoero has been assessed as having **LOW** level of vulnerability. This is largely attributable to the presence of only a single gaming operator, the limited range of products and services offered, the predominantly resident customer base, and the relatively low volume of cash transactions. Although AML/CFT/PF supervision of the sector by the NFIU remains limited, these factors collectively reduce the likelihood of casinos sector being misused for ML/TF purposes or for converting proceeds of crime into legitimate funds.

### 6.4.1 Overview

Under Article 7 of the AML-TFS Act 2023, a person operating a casino and lottery is required to comply with the AML/CFT/PF obligations under the Act.

Casinos operating in Naoero are required to be registered under the Business Licences Act 2017, and licensed and regulated by the provisions of the Gaming Act 2011.<sup>137</sup> There is only one gaming operator in Naoero, which is not categorised as a type of casino in the legislation and by the supervisor in Naoero. On satisfying all the licensing requirements, this gaming operator was first issued the license in 2014, which become operative in October 2014. The licensing, prudential supervision and monitoring of the casinos is done by the Business Registrar and the AML/CFT/PF supervision by the NFIU.<sup>138</sup>

Section 7 of the Gaming Act 2011 outlines the suitability of applicants to hold a gaming licence in Naoero, which includes consideration of character, the financial position of the applicant and any other prescribed matter. Under Article 13, the suspension of licence can occur by being charged with, or convicted of, an offence under section 22 of the Act, which mainly refers to failures to comply with a licence conditions. Additionally, clause 5(4)(b) of the AML-TFS (Fit and Proper Person) Criteria 2023 also specifies that any individual who has been convicted of a criminal conduct, serious offence or terrorist offence is prevented from holding (or being the beneficial owner of) a significant or controlling interest, or holding a management function, or being an operator of a casino.

The gaming operator in Naoero is a family-run business and has only one outlet in Naoero. The total amount of assets is approximately AUD 40,000 and the total turnover of the gaming operator is approximately AUD 20,000, as of June 2025.

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<sup>137</sup> Section 5 of the Gaming act 2011 requires a person to apply for a gaming licence to the Secretary if they are conducting “(a) bingo; (b) betting on sports or other events; (v) a lottery; (d) a game to be played on a gaming machine; or (e) one or more table games.”

<sup>138</sup> It is important to note here that Naoero has challenged the inclusion of the gaming operator as reporting entity within its 2024 MER under the DNFBPs Sector. This is essentially on the grounds that the FATF has not defined the term ‘casino’ and the slot machines do not fall under the meaning of ‘casino’ in the Oxford dictionary. This has resulted in a referral to FATF and working group has been established by the FATF to define ‘casino’ and review the standards on gambling. Therefore, according to the NFIU, the gaming operator does not fall under the DNFBPs category of ‘casino’. Nonetheless, based on the mutual understanding and the Gaming Act requirements, they are conducting limited CDD.

### 6.4.2 AML/CFT/PF risks associated with casinos

The only product offered by the gaming operator is slot machines.<sup>139</sup> There are around 20 slot machines operational at site, as of June 2025, which are very old<sup>140</sup>. The machines are not connected but individually plugged. The slot machines lock out when it reaches AUD 10,000 and the money has to be taken out before it could be operating again.

The total number and value of transactions/pay outs at the gaming operator are small. The gaming operator does not maintain records of the number and value of transactions; however, the total turnover of the operator has decreased in the past seven years.

**Table 27: Estimated Turnover of the Gaming Operator (July 2018 – June 2025)**

| Year            | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 |
|-----------------|---------|---------|---------|---------|---------|---------|---------|
| Annual Turnover | 40,000  | 40,000  | 40,000  | 30,000  | 25,000  | 25,000  | 20,000  |

The gaming operator does not apply a specific threshold for the winnings. In 2018, it recorded a pay out of approximately AUD18,000, which exceeds USD/EUR 3,000 prescribed in the international standards. This pay out was made to a local resident, an elderly woman, who won that amount. Apart from this instance, the gaming operator has not made any pay outs exceeding USD/EUR 3,000 during the sample period covered by this risk assessment.

During normal times, the average intake ranges between AUD200-400, with pay outs typically between AUD100-200. However, during unusual times i.e., when the campsites were operating at maximum capacity and foreign workers were present on the Island and frequently visiting the gaming entity, the average intake increased to AUD2,000-4,000, with pay outs ranging from AUD1,000-2,000. The gaming operator has established a threshold of AUD1,000 for cash acceptance at slot machines; however, this measure is not for AML/CFT/PF purposes.<sup>141</sup>

Casino is by nature a cash intensive business and all transactions at the gaming operator in Naoero are cash-based. The money used to play in casino is only AUD. There is no use of any other payment methods (such as online bank transfers (domestic/international), credit cards or pre-paid cards) at the gaming operator in Naoero.

The gaming operator in Naoero has 95% local residents as their customers and only 5% of their customers are non-residents, who are mainly the hotel guests at Od-N Aiwo Hotel. All customers of

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<sup>139</sup> <https://whitesandscasino-Naoero.com> (accessed 20 June 2021).

<sup>140</sup> There were a total of 60 slot machines in September 2023, as per the NFIU inspection report. Out of these 60 slot machines, only 49 were operational. The number of operational slot machines have reduced significantly in the past 2 years, which is also due to limited interest and activity at the site. According to the information provided by the gaming operator for this risk assessment, the broken-down machines will not be repaired and instead used as spare part for the working ones. Due to limited activity, the gaming operator might close soon.

<sup>141</sup> MER 2024, p. 75.



the gaming operator are face-to-face customers. No online gaming facilities/services are provided by the gaming operator in Naoero. The gaming operator does not maintain statistics of customers; however, it is estimated to be around 7 customers per day during normal times and around 40 per day during unusual times. According to the gaming operator, these customers do not solely come to play but for drinks and socializing at the bar.

There are no ML-related cases reported involving the gaming operator; however, instances of unlawful gaming have been identified. Specifically, three cases of unlawful bingo operations were recording during the sample period. Under the Business Licenses Act 2017, a day license is required to operate bingo, and in these cases, inspectors found that bingo was conducted without the necessary license. Bingo is exempt from the AML-TFS 2023, due to its social context in Naoero.

### ***6.4.3 AML/CFT/PF Systems and Controls***

The AML-TFS Act 2023 clearly specify certain requirements for the operation of a casino. The designated authority put in place some controls to manage and prevent the casino from being misused for ML/TF activities.

Casino is classified as a DNFBP under the AML-TFS Act 2023, and in compliance with the DNFBP Guidelines, casinos/gaming operator are required to comply with the provisions of the AML-TFS Act 2023 if their customers engage in financial transactions equal to or above USD/EUR 3,000.

The gaming operator in Naoero has no documented ML/TF risk assessment. The 2024 MER also identified that ‘the gaming operator only checks IDs of customers to meet the requirements of another regulation (age restrictions for entering the gambling venue), not for the purpose of AML/CFT/PF, and does not keep records of customers and pay out of the winnings.’<sup>142</sup> This risk assessment identifies that the gaming operator carries out CDD on foreign customers at the time when they come to play and for locals, only at the time of winning. The gaming operator usually asks for a valid ID to identify and verify foreign customers identity at the time of ‘on-boarding’, but it does not use any verification system for customer identification. The 2024 MER of Naoero also highlights that there is limited understanding of the gaming operator about the ML/TF risks facing the sector<sup>143</sup> and their AML/CFT/PF obligations under the Act.<sup>144</sup>

The NFIU has met with the representatives from the gaming operator in 2023 to discuss the responsibilities of casinos as a DNFBP under AML-TFS Act 2023 and related regulations. This was also an opportunity for the NFIU staff to actually view how the gaming operator operates and get to know the controls in place for monitoring and security purposes.

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<sup>142</sup> 2024 MER of Naoero, p. 76.

<sup>143</sup> 2024 MER of Naoero, p. 37.

<sup>144</sup> Ibid, p. 76 and 83.



The NFIU has conducted two (2) onsite inspections of the gaming operator in the FY2023-2024, first in September 2023 focusing on licensing obligations<sup>145</sup> and then in December 2023 to inspect the slot machines, address the issue of expired business licence despite a valid gaming licence, and gather further information and clarification from the initial inspection. Some of the deficiencies identified in the AML/CFT/PF controls of the gaming operator during the on-site include the following: expired business licence and no regular records on business volume. The NFIU made recommendations for renewing the business license.<sup>146</sup> No sanctions were applied.

No SARs have been filed by the gaming operator in the sample period of July 2018 to June 2025; therefore, no ML cases have been disseminated to LEAs for investigation. The 2024 MER of Naoero also highlights that there is limited understanding of the gaming operator about the ML/TF risks facing the sector<sup>147</sup> and their AML/CFT/PF obligations under the Act.<sup>148</sup> This risk assessment also identified limited understanding of ML/TF obligations and risks by the gaming operator.

The obligation to report CTRs have been imposed on the gambling operation (cash-in and cash-out), and the threshold is AUD10,000 or more. No CTRs have been reported by gaming operator to the NFIU within the sample period for this risk assessment.

#### **6.4.4 Next Steps**

Moving forward, the NFIU should continue to engage with the gaming operator to enhance their knowledge, understanding and awareness of ML/TF risks associated with this sector, emerging ML/TF trends and typologies, as well as their AML/CFT/PF obligations under the AML-TFS Act 2023. The NFIU should implement the risk-based AML/CFT/PF supervision of the sector, conduct off-site and on-site inspections based on the identified risks.

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<sup>145</sup> 2024 MER of Naoero, p. 82.

<sup>146</sup> 2024 MER of Naoero, p. 82.

<sup>147</sup> 2024 MER of Naoero, p. 37.

<sup>148</sup> Ibid, p. 76.

## 7. Non-Profit Organisations (NPOs)

The overall TF risk for the Non-Profit Organisation (NPO) sector has been assessed as **LOW**. This has primarily due to the small size and nature of the NPO sector in Naoero. While the Registrar of Associations within the DJBC, as a regulator, and the NFIU have had only limited engagement with this sector, the DJBC has sufficient information on the level of NPOs governance structure and internal controls to mitigate the risk of their misuse for ML or TF. Moving forward, DJBC should adopt a risk-based approach to supervising the sector in order to prevent its potential abuse for TF purposes, and conduct regular outreach and awareness raising of the sector.

### 7.1 Overview

NPO Sector in Naoero consists primarily of associations. The term ‘association’ is defined in the Act to include “*society, club, institution, civil society or non-governmental organisation or similar body, which is not formed for any pecuniary gain or profit.*”<sup>149</sup> The term ‘non-government organisation’ is further defined in the Act to mean

*“a private voluntary grouping of associations that are ... not operated for pecuniary gain that can be of national, district or community level ... to serve the community.”*<sup>150</sup>

The term ‘non-government organisation’ is also defined under the AML-CTF Act 2023 as follows

*“NPO is a legal person or arrangement or organisation that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of “good works.”*<sup>151</sup>

NPO sector is regulated and supervised by the Registrar of Associations under the Registration of Associations Act 2020, which came into force in October 2020. A best practice guide for NPOs/NGOs was published in 2023, with sections on indicators for TF risk and CTF mitigation.

The Registration of Association Act 2020 requires any associations formed or established not for gain or profit to be registered. Within the sample period for this risk assessment, a total of 39 associations were registered in Naoero with the Registrar of Associations (see [Table 28](#) below). Compared to only 11 associations in the FY2022-2023, the number of registrations has gone up in the past few years, particularly in FY 2024-25. A total of 24 associations were newly registered in the FY2024-2025.

**Table 28: Total Number of New NPOs registration by Registrar of Associations (July 2018 to June 2025)**

| Type and No. of NPOs | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 |
|----------------------|---------|---------|---------|---------|---------|---------|---------|
| No. of Associations  | 0       | 0       | 2       | 4       | 5       | 4       | 24      |

<sup>149</sup> [emphasis added]. Section 4, the Registration of Associations Act 2020.

<sup>150</sup> Ibid.

<sup>151</sup> [emphasis added]. Section 5, AML-TFS Act 2023.



NPOs are required at the time of their registration to provide certain necessary information to the Registrar, including their location, executive members, types or scope of their activities, and source of funds, including name of banks. This information is required to be updated annually at the time of renewal of registration with the Registrar.

NPOs are also required to submit annual reports, which include information on the sources of funds and their use, to the Registrar within 3 months after the end of the fiscal year, which is 30 June of each successive year.<sup>152</sup> They are also to maintain required documents, including accounts, transaction records, invoices, annual reports, assets or liabilities etc., for not less than 7 years.<sup>153</sup>

NPOs in Naoero are generally the receiver of inward remittances from overseas through grants, aid, donations, contributions, sponsorships, subscriptions, etc. The majority of remittances received were for sports, athletics, cultural, social welfare, and agricultural activities.<sup>154</sup> It is an extremely rare occasion for NPOs in Naoero to send funds overseas, given that, Naoero does not have a large pool of people it can raise funds for overseas activities. Majority of the outward remittances were conducted by sports activities, primarily for mission support services, travel allowances, conferences, sports events, & fellowship held overseas.<sup>155</sup>

## 7.2 TF Risks

The abuse of NPOs (charities) to conceal the source and nature of funds, as well as to facilitate distribution of funds to finance terrorism presents **LOW** risk to Naoero because of its size and the number and nature of NPOs involved.

In 2023 NRA of Naoero, nine (9) out of the total eleven (11) NPOs have been identified as falling under the FATF definition of NPOs. Considering the increase in the size of registered NPOs, this risk assessment identified thirty-six (36) out of thirty-nine (39) NPOs in Naoero as satisfying the FATF definition of NPOs. Three (3) NPOs do not raise or disburse funds for the purposes listed in the FATF standards.

The NPO sector in Naoero has primarily evolved to meet the particular needs and concerns of local communities, with a strong focus on grassroot and community-based issues. For instance, many organizations (approximately 15 associations) address public health by encouraging participation in sports, such as Special Olympics Naoero, World Powerlifting Naoero, Naoero Athletics, Naoero Boxing, Oceania Weightlifting Federation, Naoero Cycling Club, Panzer Football Club etc. Others provide support in fisheries or agricultural, including the Naoero Chamber of Commerce, EcoNaoero Foundation, and Fisher of Men Pentecostal. Charitable organisations such as Live and Learn Naoero, the Women Empowerment Naoero Association, and the Promotion of Women's and Children's Empowerment and Right are similarly engaged in addressing local challenges, meaning their funds are

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<sup>152</sup> Section 33, The Registration of Association Act 2020.

<sup>153</sup> Section 32, The Registration of Association Act 2020.

<sup>154</sup> There is lack of data on inward and outward remittances by the NPOs sector, which should be collected for the next NRA.

<sup>155</sup> There is lack of data on outward remittances by the NPOs sector, which should be collected for the next NRA.



typically dedicated to domestic projects or activities. These community-based organisations, as well as NGOs, are generally familiar to the small community and thus it is noticeable when suddenly a new organisation enters the market for aid. Due to their local engagement, it would also be very noticeable when any organisation transfers funds overseas. As a result, any transfer of funds overseas would be highly noticeable.

Majority (32 NPOs) have primarily domestic donors (such as embassies, local businesses, and government agencies) and receive their funds via online transfers to their bank account. A few large-sized NPOs (5 NPOs) rely on funding from international bodies such as international weightlifting federation and UNESCO, which require them to maintain robust financial management system. The amount of funding raised by the sector depends on the size of NPO, ranging anywhere between AUD5,000 and AUD360,000.<sup>156</sup> In an awareness meeting conducted on 8 September 2023, some NPOs reported their accounts do not regularly hold funds as this generated through fund raising or grants from international donors. All sources of funds for NPOs are identified and accounted for. None of the total 39 NPOs has been identified as being vulnerable to TF.

### 7.3 Internal Policies, Procedures and Controls to Prevent TF

The Registrar of Associations is the supervisory authority of the NPO sector and carries out supervision and monitoring of NPOs to ensure compliance with the statutory requirements under the Registration of Association Act 2020. Such requirements include the renewal of registration annually, submission of annual accounts, putting in place appropriate internal controls, including an appropriate system to identify conduct which may involve any financial or other risks, submission of resolutions of its previous annual general meeting, as well as providing an updated list of its executive committee and members of the NPO to the Registrar. The Act requires NPOs to maintain high standards of governance, transparency and accountability. The policy of establishing an administrative framework and promoting accountability and integrity is expressly set out in Section 3 of the Act. NFIU has also issued the best practice guide to further promote their legitimate establishment and operations.

The Registrar is authorised to monitor NPOs by requesting information or documents from NPOs for inspection or obtaining information from other governmental agencies and conducting on-site inspections at any time.<sup>157</sup> Between July 2018 and June 2025, the Registrar and the NFIU conducted only one joint desk-based audit of the NPO, which took place in FY 2023–24, following which an outreach and awareness exercise was conducted with the then 11 registered associations.

On supervision and monitoring of the NPO sector, this risk assessment concurs with the findings of Naoero's 2024 MER, which observed that 'measures and monitoring of the NPO sector is generic and it does not consider the TF risks of individual NPOs, therefore, they are not fully implemented in a TF

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<sup>156</sup> Majority NPOs (24) have recently registered in the FY 2024-25 and do not own many assets nor have an office, except for the Naoero Chamber of Commerce and Naoero Olympic Committee, which have recently rented an office.

<sup>157</sup> Sections 34 to 37, the Registration of Associations Act.

risk-based manner<sup>158</sup>. Majority NPOs also do not have any documented organisational risk assessment policies and procedures or codes of good conduct nor conduct screening of their donors, partners or beneficiaries. However, consistent with the MER, this risk assessment also considers this deficiency to be relatively minor, given the overall low TF risk of the jurisdiction.<sup>159</sup>

The Registrar of Associations regulates and manages NPOs from being misused for criminal activities through the enforcement of existing internal controls and requirements as well as laws and regulation already in place. For any non-compliance and potential breach of laws, the Registrar may take any action necessary or required by law. Such action may result in cancellation of registration certificate, suspension of operations, monetary penalties,<sup>160</sup> and imprisonment of relevant NPO persons,<sup>161</sup> damaging an NGO's reputation and losing the trust of the community. Between July 2018 and June 2025, no NPOs have been removed or de-registered by the Registrar.

Despite the above measures, as noted earlier, there is still no targeted risk-based supervision of the sector implemented by the Registrar. Except the Guide issued for NPOs in 2023, there has been limited outreach to the sector on the AML/CFT/PF issues. However, NFIU has recently, in 2023, begun providing education, training, and support to all NPOs in relation to AML/CFT/PF. In 2023, NFIU and the business registration team has also conducted outreach sessions for representatives of then 11 registered NPOs operating in Naoero. During this activity, NFIU and DJBC identifies breaches among six out of the then 11 NPOs against obligations for renewal of registration, and/or annual reporting. Warning letters have been issued to these 6 NPOs. No outreach/awareness raising or inspections of the sector have been conducted in 2024 and 2025.

Nonetheless, NFIU assesses the NPO sector vulnerability to terrorist activities by quarterly reviewing NPOs' operation and risks based on the checklist attached with the NPO Guidance.

Till 2023, nine NPOs that fall within the FATF definition of an NPO are required to have a Financial Crime Compliance Officer. This requirement was included in the *Non-Government Organizations or Non-Profit Associations Best Practice Guide 2023* checklist, which is not a binding document. However, after the on-site visit of the assessment team for MER, the Guide was amended to remove this requirement for NPOs, which was mainly based on findings of the NRA 2023<sup>162</sup> i.e., low level of TF risk associated with NPOs in Naoero and no organisation being identified as being vulnerable to TF. This is also to comply with a key element of core issue 10.2 of the FATF Methodology that jurisdictions do not disrupt or discourage legitimate NPO activities.

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<sup>158</sup> 2024 MER of Naoero, p. 119.

<sup>159</sup> 2024 MER of Naoero, p. 119.

<sup>160</sup> The penalty for an individual is a fine of up to AUD 20,000 or a term of imprisonment of up to 12 months or 3 years (whichever is applicable) or both; for the NPOs the penalty is a fine ranging from AUD 100,000 to AUD 200,000.

<sup>161</sup> Sections 41 to 47, the Registration of Associations Act.

<sup>162</sup> 2024 MER of Naoero, p. 10.



## 7.4 Next Steps

Moving forward, the Registrar of Associations in collaboration with the NFIU should look for the best possible way to engage with the NPO sector and to educate, train and strengthen NPOs awareness in relation to AML/CFT/PF matters, especially considering the rising number of NPOs registrations in Naoero. The risk-based AML/CFT/PF supervision of the NPO sector should be implemented by the Registrar, including the collection of relevant statistics.

## 8. Legal Persons and Legal Arrangements

The overall ML risks associated with legal persons and arrangements in Naoero is assessed as **LOW**. This assessment reflects the small size of the sector, its primarily domestic nature, the predominance of simple structures, and the strong role of the *Corporations, Partnerships and Associations Division* of the DJBC that works to uphold the various registry acts and sanctions effectively, efficiently, and appropriately, as well as making the information publicly available.

However, some minor shortcomings remain in the legal and regulatory framework, particularly in the systems and procedures for capturing and accessing beneficial ownership of domestic legal persons and legal arrangements, which requires strengthening. In addition, there is a need to further enhance the understanding of some competent authorities (such as NPF and Customs) regarding the ML/TF risks associated with this sector, although efforts have been made in this regard in the past two years. Even according to the 2024 MER of Naoero, “[w]hile ML and TF is low risk for legal entities and arrangements, competent authorities outside of the NFIU, DPP and DJBC did not have a good understanding of risks associated with ML and TF.”<sup>163</sup>

### 8.1 Overview

Corporate vehicles can be misused for illicit purposes. Complex corporate structures and trusts are generally used to conceal ownership and control of proceeds of foreign tax evasion, corruption or other predicate crimes. The FATF Recommendations 25 and 25 deal with the transparency of legal persons (such as companies) and legal arrangements (such as trusts and foundations). The FATF also requires members to understand the associated risks of such entities, both domestic and foreign that have “sufficient links” with the jurisdiction.

The term ‘legal persons’ is defined in the FATF Recommendations as follows:

*Legal persons refer to any entities other than natural persons that can establish a permanent customer relationship with a financial institution or otherwise own property. This can include companies, bodies corporate, foundations, Anstalt, partnerships, or associations and other relevantly similar entities.*

The FATF Recommendations defined the term ‘legal arrangements’ as follows:

*Legal arrangements refers to express trusts and other similar legal arrangements. Examples of other similar arrangements<sup>164</sup> (for AML/CFT purposes) may include but are not limited to fiducie, certain types of Treuhand, fideicomiso and Waqf.<sup>165</sup>*

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<sup>163</sup> 2024 MER of Naoero, p. 12.

<sup>164</sup> Similarity is assessed having regard to Article 2 of the Hague Convention on the law applicable to trusts and their recognition on the basis of whether legal arrangements have a similar structure or perform a similar function to an express trust.

<sup>165</sup> Except in countries where Waqf are legal persons under Recommendation 24.

For the purposes of this risk assessment, the corporate vehicles in Naoero have been divided into two: a) legal persons, which includes corporations and partnerships; and b) legal arrangements, which includes trusts and other similar legal arrangements.

As briefly discussed in Chapter 3 of this risk assessment, there was a major concern about the misuse of Naoero as a conduit for ML due to the Naoero Corporation Agency (NCA), which was established by the Government for the purposes of providing trust and company services. The NCA was wound up by the Government in 2018, after which there are no companies or body providing such services in Naoero. Amendments to the Corporation Act 1972 in 2016 and 2018 introduced requirements for any foreign corporation operating in Naoero to register with the DJBC, maintain a local residential address and appoint a nominated person resident in Naoero. As a result of these amendments, majority of foreign corporations were struck off in 2018.

The main legislative framework that governs legal persons and legal arrangements include the following:

- a) *Corporation Act 1972*, which governs corporations;
- b) *Partnership Act 2018*, which governs partnerships;
- c) *Trusts Act 2018*, which governs trusts;
- d) *Business Licence Act 2017*;
- e) *Beneficial Ownership Act 2017*; and
- f) *Business Names Registration Act 2018*.

Under Naoero law, an individual may also operate a business under his or her name by registering with the Registrar under the *Business Names Registration Act 2018* at Department of Justice and Border Control (DJBC). As of June 2025, there are 445 individual sole traders registered with DJBC. However, since they are not legal persons or legal arrangements, they are not covered within the scope of this chapter.

## 8.2 Legal Persons

### 8.2.1 Types and Number of Legal Persons

There are mainly two types of legal persons that can be incorporated in Naoero: a) corporations – including both holding and trading companies; and b) partnerships. The supervision and monitoring of activities of legal persons is carried out by the *Corporations, Partnerships, Associations and Trusts Division* and the *Business Registration, Business licensing, Security Licensing, Import Licensing and Beneficial Ownership Division* of the DJBC.

The Naoero domestic corporate sector is relatively small by international comparison. By the end of June 2025, a total of 112 corporations and 58 partnerships were registered with the DJBC. Out of 112

corporations, there are only four (4) foreign corporations, which are required to be registered with the DJBC to operate in Naoero.<sup>166</sup> There are no foreign partnerships.

**Table 29: Type and Number of legal persons registered with DJBC (as of June 2025)**

| Type of legal persons | Registered with DJBC |
|-----------------------|----------------------|
| Corporations          | 112                  |
| Partnerships          | 58                   |
| <b>TOTAL</b>          | <b>170</b>           |

## 8.2.2 Legal Framework – Registration Process

### 8.2.2.1 Registration of Corporations and Partnerships

Before starting their business activities in Naoero, legal persons – both corporations and partnerships – are required to be registered with the Registrar in Naoero and obliged to obtain a license under the *Business Licence Act 2017*. The Registrar has issued an Information Paper and Guide for registration of all legal persons and legal arrangements. The information can be obtained from the Division in person, or via phone or email, and is also available from *Business Section* of the DJBC at the Government of Naoero website.

The filing requirements include application forms, identification of every key person, as well as details of the beneficial owner(s). These legal persons are required to file legal ownership and identity information upon application for a licence. Due diligence requirements include:

- a) copies of photo identification cards;
- b) police clearance;
- c) passport size photos; and
- d) bank details

Any change of key persons or any change to the ownership requires to be reported to the Registrar within a month of the changes. In both cases, upon receipt of the information, the Registrar thoroughly assesses the information and carries out checks on each individual. Key persons include directors and secretaries of a corporation and partners. Registrar is also required to be updated of a change in share allotment within a month.

Corporation and partnerships file annual returns to the Registrar, which are mandatory, listing all shareholders, directors, managers, secretaries, auditors, former and new partners, and beneficial owners, as well as their addresses.

The Registrar has powers prescribed under the respective laws to which the registered or licensed entity is subject, should they not comply with any obligations or requirements including the

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<sup>166</sup> Under section 225 of the Corporation Act 1972, foreign corporations that are “carrying out business” in Naoero, as defined under section 224’ are required to lodge certain documents with the Registrar within one month after it establishes a place of business within Naoero.

maintenance of ownership information under the laws which bind them. There are a range of disciplinary and also administrative actions/sanctions for certain violations, including monetary sanctions or fines, suspension or revocation of licence, or imposing conditions on a licence.

### 8.2.2.1.1. Corporations

Corporations, including holding and trading companies as well as foreign incorporations, are incorporated under *the Corporation Act 1972* administered by the DJBC. A registry in paper and electronic form is maintained by the *Corporations, Partnerships, Associations and Trusts Division* of the DJBC which holds the basic information relating to corporation's directors, and shareholders, and the share register. Section 15(1)(1) of the *Corporation Act 1972* requires corporations to disclose on registration key information relating to the corporation. Such information includes proposed name of the corporation, general nature of the proposed business, name and addresses of all directors, secretaries and shareholders, the registered office, principal place of business, memorandum of incorporation and articles of association, tax identification number issued by NRO etc. The registration form also requires disclosure of the beneficial owners of a corporation.<sup>167</sup>

The electronic form itself maintains the following information: registration number, name of the Corporation, date of incorporation, date of issue, date of expiry, fee, receipt, tax identification number, annual return, contact person, phone, email. The electronic form additionally maintains all of the required information, with the basic regulating powers provided for statutorily. The database of beneficial owners is also currently maintained in excel form, although DJBC is working to get assistance from international bodies to establish an online business registry and beneficial ownership registry. This will help DJBC in improving its registration process and making information more readily available.

As of June 2025, there are approximately 112 corporations operating in Naoero.<sup>168</sup> Except FY2024-25, the last few years have seen a drop in the number of new corporations registered in Naoero. In FY2019/2020, however, a total of 46 new corporations were registered with DJBC<sup>169</sup> compared to 4 in FY2018/19. Out of these 112 corporations, there are four (4) foreign corporations.

**Table 30: Total No. of new domestic corporation registered (July 2018 to June 2025)**

| Financial Year | No. of companies registered |
|----------------|-----------------------------|
| 2018-19        | 4                           |
| 2019-20        | 46                          |
| 2020-21        | 13                          |
| 2021-22        | 3                           |
| 2022-23        | 3                           |

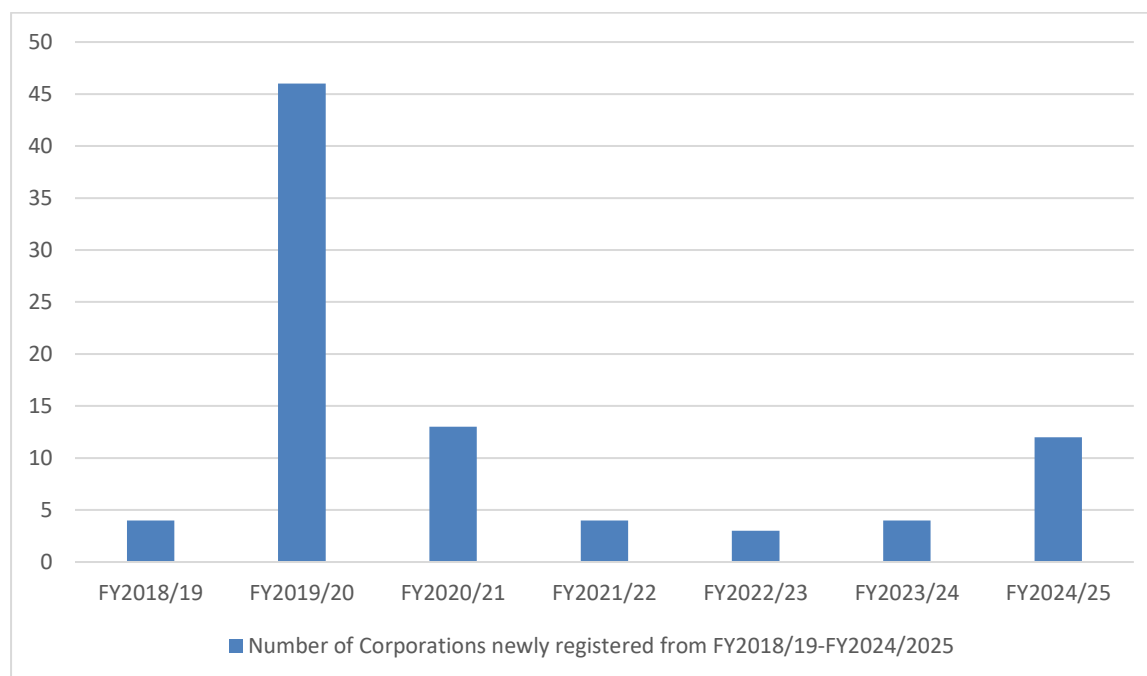
<sup>167</sup> The following information is required to be provided on beneficial owners: a) full name – surname and forename; b) gender; c) usual residential address; d) correspondence address (if different from intended registered or principal address of corporation); e) nationality (if the nationality is not the nationality of origin, specify the nationality of origin); f) date of birth; g) email address; h) telephone number; and i) tax identification number in Naoero and abroad, if applicable.

<sup>168</sup> Due to the lack of statistics here, this number has been estimated based on the study of the OECD which reported the number of domestic companies registered with MCIL, as of April 2018, to be 1,552. See, OECD (2019), *Global Forum on Transparency and Exchange of Information for Tax Purposes: Naoero 2019 (Second Round): Peer Review Report on the Exchange of Information on Request*, (Paris: OECD Publishing, Global Forum on Transparency and Exchange of Information for Tax Purposes), p. 38.

<sup>169</sup> No particular reason has been given for the sudden increase of registration of corporations in 2019-20.

|         |    |
|---------|----|
| 2023-24 | 4  |
| 2024-25 | 12 |

**Figure 4: Number of corporations newly registered from FY2018/19-FY2024/25**



The main sectors in which corporations operate in Naoero include cafés, retail, building construction services, restaurants accommodation services, cleaning services, automotive rental services and garbage collection services. Most of the registered corporations mainly operate in the sectors: (i) accommodation services, (ii) automotive rental services, (iii) cleaning services, (v) garbage collection services and (vi) building construction services. It is imperative to note that a corporation duly registered could have more than nature of business or operate in more than one sector per se.

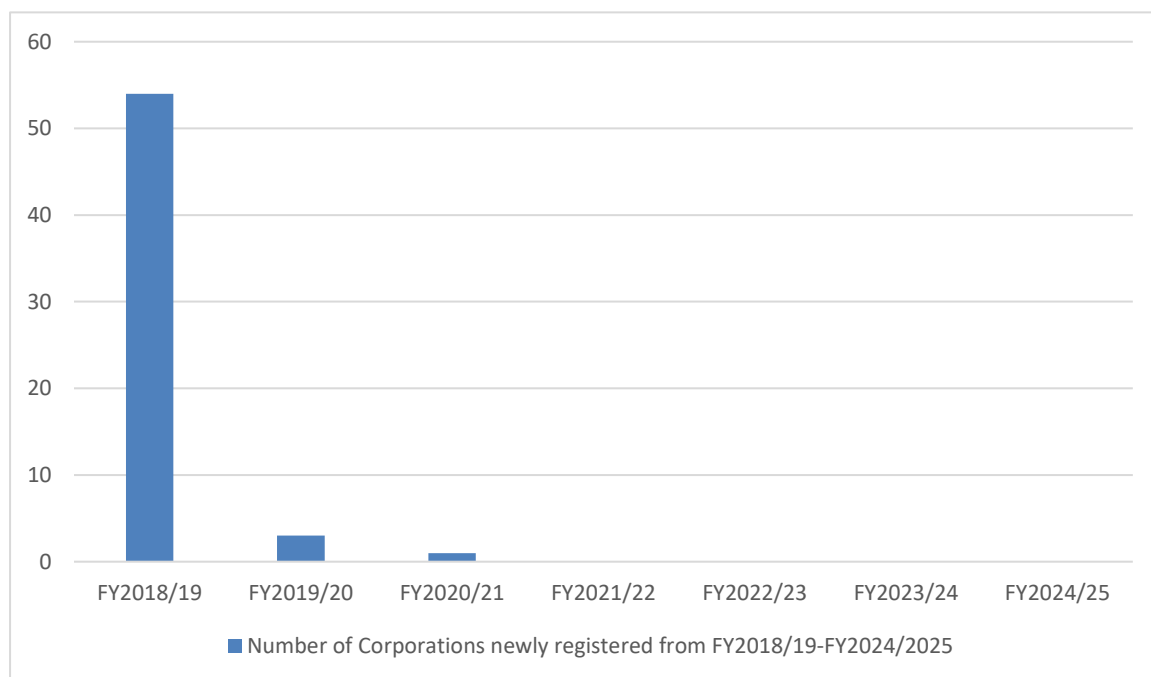
#### **8.2.2.1.2. Partnerships**

Partnerships must apply for registration with the Registrar of Partnerships through the *Partnership Act 2018* and regulations. At the time of registrations, a partnership is required to disclose certain key information to the Registrar, including general nature and purpose of the business, name of partners, their residential address, % share, phone number/email contact of partners, copy of the partnership agreement or deed, TIN registration for business, and statement of assets and liabilities at the date of the registration. Registration of is submitted by the authorised partner to the Registrar.

All registered partnerships require and are issued a Certificate of Registration of Business Name, a Business Licence and Certificate of Partnership Registration under the applicable Acts, upon the payment of the requisite fees. As of 30 June 2025, there are a total of 58 partnerships registered with the Registrar, majority of which got registered in 2018-19.

**Table 31: Total No. of new domestic partnership registered (July 2018 to June 2025)**

| Financial Year | No. of new partnerships registered |
|----------------|------------------------------------|
| 2018-19        | 54                                 |
| 2019-20        | 3                                  |
| 2020-21        | 1                                  |
| 2021-22        | 0                                  |
| 2022-23        | 0                                  |
| 2023-24        | 0                                  |
| 2024-25        | 0                                  |

**Figure 5: Number of partnerships newly registered from FY2018/19-FY2024/25**

As with corporations, partnerships are required to submit annual returns to the Registrar, providing a list of all former and new partners and any changes in beneficial ownership. However, the partnership registration form itself does not request beneficial ownership information.

#### **8.2.2.1.3. Sanctions**

For corporations and partnerships, the applicable sanctions are under *Corporations Act 1972* and *Partnership Act 2018* and related regulations.

Section 241 of the Corporations Act sets out a tiered system of penalties, with increasing severity depending on the provision breached. In general, failure to comply with the Act may result in a fine of AUD 1,000 (USD 629). However, non-compliance with provisions such as Section 6 (requirements relating to the Registrar of Corporations), Section 42 (application monies to be held in trust until allotment), Section 63 (special resolution for reduction of share capital), Section 94 (register of charges), Section 119 (circulation of members' resolutions), Section 134 (maintenance of accounts),

Section 147–148 (compromises with creditors and members), and Section 214 (offences by officers in liquidation) may incur penalties of up to AUD 5,000 (USD 3,145) and/or six months' imprisonment for each offence.

For more serious violations—including offences under Section 33 (public invitations to lend or deposit money with a trading corporation), Section 40 (civil liability for misstatements in a prospectus), Section 107 (restraining certain persons from managing corporations), Section 215 (fraud by officers), and Section 216 (failure to keep proper accounts or incurring debts without reasonable expectation of repayment)—the penalties increase to fines of up to AUD 10,000 (USD 6,289) and/or imprisonment for up to 12 months.

While the Corporations Act applies these sanctions equally to natural and legal persons, Section 80 of the Interpretation Act 2011 specifies that if a fine is prescribed for an offence without distinguishing between individuals and corporate bodies, a court may impose a fine up to five times greater on a body corporate than on an individual.

The Partnerships Act 2018 also sets out general penalty provisions for non-compliance. In general, failure to comply with the requirements of the Act or with directions issued by the Registrar constitutes an offence, punishable by a fine of up to AUD 1,000. More serious breaches, including non-compliance with Sections 8 and 45, may result in penalties of up to AUD 5,000. In addition, failure to pay a penalty automatically results in the cessation of the partnership's operations. Any penalty that remains unpaid within 30 days of its imposition becomes a debt owed to the Republic.

### 8.2.3 Transparency of Beneficial Ownership

The process of registering corporations and partnerships in Naoero is relatively simple and straightforward in Naoero, with all required forms and guidelines accessible both in hard copy from the DJBC office and online through the Business Section of the DJBC's website.

Section 6 of the *Beneficial Ownership Act 2017* requires corporations and partnerships to disclose their BO information to the Registrar at the time of registration and to submit a statement of compliance when filing annual return. Section 5 of the Act defines beneficial owner as '*a natural person (a) who has ultimate control, directly or indirectly, over the legal entity; (b) who ultimately owns, directly or indirectly, the legal entity; (c) on whose behalf a legal entity is created; or (d) on whose behalf a transaction is conducted.*'

While the corporation registration form (Form 1) includes a specific field for declaring beneficial owners, the partnership registration form does not request this information. However, the annual return forms for both corporations and partnerships include sections to report any changes in beneficial ownership details.

In accordance with Section 20 of the Beneficial Ownership Act 2017, the Registrar is maintaining a database of beneficial owners of corporations and partnerships in excel format. This database contains the following information on beneficial owners: a) full name – surname and forename; b) gender; c) usual residential address; d) correspondence address (if different from intended registered or principal address of corporation); e) nationality (if the nationality is not the nationality of origin, specify the

nationality of origin); f) date of birth; g) email address; h) telephone number; and i) tax identification number in Naoero and abroad, if applicable.

Moreover, corporations and partnerships are also required to nominate, provide notice to the Registrar, and maintain an internal register of nominated officers, respectfully.<sup>170</sup> Under section 21, nominated officer is obliged to take all reasonable steps necessary to ascertain whether a legal entity has a beneficial owner and is obliged to provide the required beneficial ownership information under section 12 of the Beneficial Ownership information to the Registrar. Moreover, under section 7(b) of the Beneficial Ownership Act, the required nominated officer must be a natural person who is a resident or citizen of Naoero. The nominated is accountable to the Registrar for providing basic and beneficial ownership information and also to provide specific information to certain authorities (NFIU, Solicitor General, NRO, NPF, DJBC, Chief Collector of Customs or any other nominated officer, and DPP), when requested for “permitted purpose”<sup>171</sup>, within seven days.

Moreover, under section 8 of *Beneficial Ownership (Identity and Declaration) Regulation 2023*, legal persons are also required to “keep and maintain adequate, accurate and current beneficial ownership information” including “a) means and mechanisms through which ownership, control or effective control is exercised; and b) where ascertainable, numerical value of any interest held, voting rights description of voting rights, or other forms of control or management of position or appointment of board members.”

Both the Registrar and nominated officer are obliged to keep and maintain records of beneficial ownership of legal persons for seven (7) years commencing from the data of winding up, dissolution or cessation of a legal person.

The Registrar has the authority to investigate or inspect account books, electronic documents, or request for any information from legal persons. Corporations are required to notify the Registrar of changes in shareholders and the number of shares. The Registrar, only if not satisfied with the documentation provided for registration, conducts due diligence checks on the owners/shareholders and director(s) of a company. Nevertheless, legal persons are obligated to produce accurate information to the Registrar for registration.

#### **8.2.3.1. The ability to issue bearer sharer**

Section 46 of the *Corporations Act 1972* prohibits corporations from issuing bearer shares or share warrants. Pursuant to Section 87(2A), any bearer shares that existed prior to the Corporations Amendment Act No. 2 of 2016 were required to be converted into ordinary securities; otherwise, under Section 87(2B), such securities would be forfeited, and the corporation would be obligated to cancel the bearer shares at its next annual renewal date. No other type of legal entity in Naoero is permitted to issue shares.

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<sup>170</sup> Sections 7, 8 and 9, Beneficial Ownership Act, 2017.

<sup>171</sup> Under section 3 of Beneficial Ownership Act 2017, *permitted purpose* includes “(i) determining whether to investigate, prosecute, or bring proceedings; (ii) initiate or end such an investigation, prosecution or proceedings; or (iii) trace, freeze, seize, confiscate or recover assets.”

### 8.2.3.2. Use of Nominee Shareholders and Directors

In 2019, Naoero repealed provisions allowing nominee shareholders through the *Corporations (Amendment) Act 2019*. Corporations are now required to disclose shareholding information in the Corporations (Forms and Fees) Regulations 2018, specifically in Form 1 (Application for Incorporation), Form 2 (Renewal), and Form 4 (Annual Return).

Under Section 134(1)(m) of the *Corporations Act 1972*, corporations must maintain records and accounts of both current and former directors. While nominee directors may be appointed in writing by a corporate director under Section 103(2) of the *Corporation Act 1972*, it is the director's information that must be recorded with the Registrar, not that of the nominee. This ensures that the director's identity is disclosed both to the company and to the Registrar. There is no provision in the legislation that requires at least one natural person to be appointed as a director.

### 8.2.3.3. Timing to update the BO information and its availability to authorities and public

Section 9 of the *Beneficial Ownership (Identity and Declaration) Regulation 2023* requires a beneficial owner to provide their information to the legal entity within seven (7) days of either becoming a beneficial owner or any subsequent change in beneficial ownership. Once received, the nominated officer of the legal entity is obliged under Section 8 to update the beneficial ownership information in the registry within seven (7) days. Taken together, these requirements mean that any changes in beneficial ownership must be reported to the Registrar within a maximum of 14 days from the date of change. However, the *Beneficial Ownership Guide*<sup>172</sup> published on the website of the Government of Naoero requires the beneficial owner or legal entity to provide beneficial ownership information to the nominated officer within one (1) month of becoming a beneficial owner or any subsequent change and then the nominated officer is required to provide that information to the Registrar within 30 days of the receipt of the information, creating an inconsistency in the reporting timeline. Moreover, the legal framework does not include any provision requiring the Registrar to retain historic records of the beneficial ownership information or data, even though this is recognised as a good practice.

The basic beneficial ownership information from the Registry is available to public for a fee. Section 12(2) of the Corporation Act 1972 provides that a person may “inspect a document filed or lodged with the Registry” or may “require any certificate issued under this Act or copy of or extract from any document be kept by the Registrar be given or certified by the Registrar” for a fee.

A fee is also charged for making changes to a corporation's or partnership's particulars, including shareholder structure. Fee also applies to notifications for changes in beneficial ownership.<sup>173</sup>

<sup>172</sup> Beneficial Ownership Guidelines, p. 8 and 18. Available at: [http://Naoerogov.nr/media/194187/beneficial\\_ownership\\_guideline.pdf](http://Naoerogov.nr/media/194187/beneficial_ownership_guideline.pdf) (accessed 20 August 2025).

<sup>173</sup> The prescribed fee for changing a corporation's particulars, including its shareholding structure, is \$750 under Regulation 5 of the Corporations (Forms and Fees) Regulations 2018. This fee is separate from other statutory requirements. Section 15(4A) further stipulates that any person intending to incorporate a corporation or renew its certificate of incorporation must also comply with the Business Licences Act 2017, the Beneficial Ownership Act 2017, and the Business Names Registration Act 2018 where the corporation intends to trade under a business name. Accordingly, corporations are still required to pay

However, imposing such fee would not align with international good practice, as it may discourage legal persons and legal arrangements from updating beneficial ownership information, thereby affecting the accuracy of the database or register.

Section 16 requires the nominated officer to provide assistance, upon request and for a permitted purpose, to designated authorities—including the NFIU, Solicitor General, NRO, NPF, DJBC, Chief Collector of Customs, and the DPP—within seven days. This obligation is understood to cover the provision of beneficial ownership information. However, from the perspective of the Registry, there is no explicit provision ensuring the timely availability of such information to competent authorities, aside from Section 242A (1) of the Corporations Act 1972 and Section 32 of the Business Licensing Act. These sections authorize the respective Registrars to share any information, including copies of documents, accounts, or records obtained under the Acts, with domestic or foreign law enforcement and regulatory agencies for the purpose of carrying out their functions.

Within the sample period for this risk assessment, the Business section has only received four (4) requests from NFIU with regard to BO information. No other competent authority has approached the registry with any such request. Typically, when LEAs and competent authorities require the BO information, they submit a formal written request, through the NFIU, to the BO registrar. If the NFIU, and subsequently the Registrar is satisfied that the request is justified, the information is furnished. As no other competent authority has approached the registry for BO information to date, it is difficult to assess whether access is provided in a timely manner, particularly when requests are channelled through the NFIU; however, to enhance access and efficiency, competent authorities should be able to approach the BO Registry directly for BO information.

#### 8.2.4 Supervision, Information Verification and Enforcement

DJBC through its monitoring and evaluation, inspections and on-site visits attempt to ensure the compliance of the domestic legal persons with their various legislative requirements, including *Corporation Act*, *Partnership Act*, *Business Licenses Act* and *Beneficial Ownership Act*. DJBC also continuously engages with the domestic legal persons through social media (such as Republic of Naoero Facebook page) and awareness programmes to increase compliance. To strengthen compliance with beneficial ownership requirements, the DJBC issued *Beneficial Ownership Guide 2023*, with its revised edition published on 20 March 2024. [Table 32](#) highlights the total number of inspections and follow-ups conducted by the DJBC in the sample period of July 2018 to June 2025.

**Table 32: Total Number of Inspections and Follow-ups by DJBC of Domestic Legal Persons (July 2018 to June 2025)**

| Financial Year                        | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 |
|---------------------------------------|---------|---------|---------|---------|---------|---------|---------|
| Total no. of inspections & follow-ups | 10      | 11      | 11      | 4       | 6       | 10      | 1       |

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the \$30 fee for changes in beneficial ownership information in addition to the prescribed fees under the Corporations Act 1972.

DJBC confirmed that there have been no companies struck off or have their licences cancelled due to ML/TF activities. However, companies were struck off from the register due to non-compliance with the provisions of the Corporation Act, Partnership Act, Business Licenses Act, including failure to re-register. Within the sample period this risk assessment, 44 corporations were struck-off in 2018 because they did not have a physical presence in Naoero, and six (6) corporations were struck-off for failure to respond to Registrar's notice. In majority cases, fines/penalties and warning letters are being issued, which is as follows:

**Table 33: Fines/Penalties/Warning Letters<sup>174</sup> (July 2018 to June 2025)**

| Financial Year                  | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 |
|---------------------------------|---------|---------|---------|---------|---------|---------|---------|
| Fines/Penalties/Warning letters | 90      | 108     | 101     | 54      | 89      | 105     | 56      |

The Registry Divisions apply a distinctive approach to sanctions, operating in practice as an informal “three-strikes” policy. When an entity is late, the Registrar requires a written explanation, typically in the form of a letter of apology. Based on this, the Registrar or relevant authority determines whether to impose the full penalty or waive it and allow re-registration, while maintaining a record of violations to apply progressively stricter sanctions for repeated non-compliance. Entities are not permitted to re-register until approval is granted by the Registrar/Authority, and any applicable fees must be paid before business operations can resume. Striking-off corporations and partnerships is rare in practice.

Gaps have however been identified relating to sanctions provided under the *Beneficial Ownership (Identity and Declaration) Regulations 2023* and the *Trusts (Trustee Duties) Regulation 2023*, which do not map on to established sanctions in the *Beneficial Ownership Act*.

### 8.2.5 ML Risk – Domestic Legal Persons

Due to its size, context and strong legal framework governing legal persons, Naoero is assessed to be less attractive to criminals for ML/TF purposes misusing these structures.

There is no evidence of the proceeds of predicate crimes (either domestic or foreign) being laundered in Naoero or through its domestic corporate sector (for example, on the basis of detections by domestic authorities or requests from foreign counterparts relating to Naoero's domestic corporate sector). In the sample period of July 2018 to June 2025, the NFIU has received no intelligence and information requests from foreign counterparts relating to the legal persons operating or registered in Naoero. There have also been no SARs submitted to the NFIU relating to the activities of domestic legal persons.

Where corporate vehicles are engaged in international trade, there is a risk that those vehicles could be used to carry out one or more of the components related to trade-based money laundering. Trade-based money laundering is a method of ML that is believed to be prevalent internationally since verifying actual or purported trade movements and the identity of goods, shipments, documents etc.

<sup>174</sup> The data in this table covers fines, penalties, and warning letters issued to both legal persons and sole traders/business owners, and it is not available in a separate (segregated) format.

can be difficult. Given that most goods in Naoero are imported, this risk cannot be fully ruled out. However, the lack of reliable import and export data makes it difficult to assess the scale of the risk with confidence. Based on the information provided by the relevant authorities, and noting that only a limited number of corporations in Naoero appear to be engaged in international trade, the overall TBML may not be widespread or occurring at a significant scale, although data gaps create uncertainty.

### 8.3 Legal Arrangements

Trusts in Naoero are regulated by the *Trusts Act 2018* (as amended in 2021) and must abide by subsidiary legislation – *Trusts (Forms and Fees) Regulation 2018*, *Trusts (Trustee Duties) Regulations 2023*, *Beneficial Ownership Act 2017* and *Beneficial Ownerships (Identity and Declaration) Regulations 2023*.

*Trusts (Trustee Duties) Regulations 2023*, *Beneficial Ownership Act 2017* and *Beneficial Ownerships (Identity and Declaration) Regulations 2023*.

Trusts (both express and charitable) are required to be registered with the DJBC, which is the responsible authority to obtain and maintain central information on trusts that are created or administered in Naoero. The Registrar has the power to inspect information of trusts, including inspecting and taking copies of information from the trustee.<sup>175</sup> Notably the Trust Act does not extend to foreign trusts, unless the trustee is ordinarily a resident of Naoero, where a foreign trust becomes a registrable trust. According to section 11 of the *Trusts Act 2018*, registrable trusts, once registered are legal entities that can (a) sue and be sued; (b) enter into contracts and other legal obligations; and (c) acquire, hold, manage and dispose of real or personal properties, which is unlike trusts as we understand in common law. As of 30 June 2025, there are no registered trusts in Naoero.

Foreign trusts are covered by the *Foreign Trusts, Estates, and Wills Act 1972*. Under this Act, a foreign trust is only valid if at least one of the trustees of the trust is a trustee corporation that has acknowledged in writing acceptance of the appointment. However, given that trustee corporations can no longer be registered under the *Corporations Act 1972*, any foreign trusts would seemingly no longer be valid.

Registrable trusts are required to register with the DJBC within 30 days of their creation.<sup>176</sup> The application, prescribed in the *Trusts (Forms and Fees) Regulation 2018*, must include information on the settlor, trustee, beneficiaries (when ascertainable), protector, and beneficial owners.<sup>177</sup> Beneficial owner means a natural person exercising ultimate effective control over the trust. Trusts are also required to file annual return, providing the same information as at registration.<sup>178</sup> However, the *Trust Act 2018*, as amended in 2023, requires trustees to notify the Registrar of any variation in the information within 7 days.<sup>179</sup>

*Trusts (Trustee Duties) Regulations 2023* obliges trustees to maintain books, records, and accounts throughout the operation, during any dormant periods, and for 7 years following its termination.<sup>180</sup>

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<sup>175</sup> Section 18, *Trusts Act 2018*.

<sup>176</sup> Sections 12(3) and 12(4), *Trusts Act 2018*.

<sup>177</sup> Section 3, *Trusts (Forms and Fees) Regulation 2018*.

<sup>178</sup> Sections 15, *Trusts Act 2018*.

<sup>179</sup> Sections 7(2), *Trusts Act 2018*.

<sup>180</sup> Sections 25, *Trusts (Trustee Duties) Regulations 2023*.

The Regulations expanded trustee duties to keep and maintain basic information, what information to be obtained from regulated agents, and access to basic information of the trustee to competent authorities.

Trusts are also required to comply with the *Beneficial Ownership Act 2017* and *Beneficial Ownerships (Identity and Declaration) Regulations 2023*, including the appointment of a nominated officer (who may not be a trustee) to provide beneficial ownership information to the Registrar, to maintain and preserve the required details, and to update the information on the register within 14 days after the change<sup>181</sup>. Although the definition of beneficial owners of trusts, as provided in Section 7 of *Beneficial Ownerships (Identity and Declaration) Regulations 2023* is in compliance with the FATF Recommendations, it is suggested to amend Form 1 under the *Trusts (Forms and Fees) Regulation 2018* to record information on all settlors, protectors, and beneficiaries or class of beneficiaries.

Finally, although sanctions are incorporated for violations of the Trust Act 2018, there is no independent penalty or sanctions listed in the Trusts Act or *the Trusts (Trustee Duties) Regulations 2023* for violation of the regulations derived from the Act. These include, for instance, non-compliance with timely provision of information (section 5), or with the duty to obtain and hold the information.

## 8.4 Overall ML Risk

The overall ML risks associated with the legal persons and legal arrangements in Naoero is assessed as **LOW**. This is primarily due to the small size of the sector, domestic nature of businesses, the predominance of simple structures, and the strong role of the *Corporations, Partnerships and Associations Division* of the DJBC that works to uphold the various registry acts and sanctions effectively, efficiently, and appropriately, as well as making the information publicly available.

However, some minor shortcomings remain in the legal and regulatory framework, particularly in the systems and procedures for capturing and accessing beneficial ownership of domestic legal persons and legal arrangements, which requires strengthening, and consistency between different pieces of legislation and guidelines. Moreover, it is recommended that the concept of beneficial ownership should be clarified in line with the international standards and best practice (such as beneficiaries of trusts, criteria on identifying beneficial owners of legal persons). Additionally, there is a need to enhance the understanding of competent authorities regarding the ML/TF risks associated with this sector. Even according to the 2024 MER of Naoero, “[w]hile ML and TF is low risk for legal entities and arrangements, competent authorities outside of the NFIU, DPP and DJBC did not have a good understanding of risks associated with ML and TF.”<sup>182</sup>

There is also no evidence available on the misuse of domestic corporate sector (corporations, partnerships and trusts) in Naoero, although the risk of their abuse cannot be discounted, especially in light of minor deficiencies in the existing legal and regulatory framework to ensure the transparency of beneficial ownership of legal persons and legal arrangements.

<sup>181</sup> Under section 9, beneficial owners is required to submit the information to the legal entity within 7 days of becoming a beneficial owner or any change or variation of beneficial ownership. A legal entity is then required to submit this information to the Registrar within 7 days of becoming aware of the change.

<sup>182</sup> 2024 MER of Naoero, p. 12.

## 8.5 Next Steps

Naoero should take further steps to strengthen the transparency of beneficial ownership of legal persons and legal arrangements, in line with the FATF standards and international best practice. Key measures include establishing clear criteria for identifying beneficial owners, collecting not only beneficial owners' information but also chain of ownership and supporting documentation to verify accuracy, establishing an online beneficial ownership register, and revising Form 1 and related forms to capture information all parties to a trust. It is also important to ensure consistency across legislation, particularly regarding timelines for reporting changes in beneficial ownership and the application of sanctions.

In addition, the DJBC and the NFIU are encouraged to engage proactively with legal persons and arrangements—particularly associations—to build awareness and understanding of beneficial ownership obligations, as well as with competent authorities to strengthen their understanding of the ML/TF/PF risks associated with legal persons and arrangements. Finally, adopting a risk-based supervisory approach will be essential for effective monitoring and for preventing misuse of this sector for money laundering, terrorist financing, or proliferation financing.

## 9. EMERGING RISKS

This section of the report identifies and assesses some of the other emerging risks for Naoero related to the recent developments in the country.

### 9.1 Shipping Registry

#### 9.1.1 Overview

Naoero commenced construction of its seaport in 2019 to enable vessels to berth directly at the site. The port is funded by Asian Development Bank (ADB) grant. Although the project is still ongoing, some ships can now dock at the partially completed port to load and unload cargo. The NSL '*Micronesian Pride*' and other smaller vessels do load and offload goods or cargo from the port since 2022. In September 2023, a vessel carrying petroleum products was able to berth for the first time at the port to deliver fuel through the pipes to the bunkers in Buada District.

To address shipping challenges—particularly during the COVID-19 pandemic, which disrupted the supply of food and essential goods—Naoero initially chartered a vessel and later acquired its own. This vessel can transport approximately 320 containers per voyage, and Naoero now benefits from regular shipping services.

During the same time period (i.e., on 10 July 2018), Naoero also established a shipping registry and started issuing certificates to vessels to sail and trade under Naoero flag. As of June 2025, 128 vessels (102 non-fishing and 26 fishing vessels) are registered in the shipping registry.

**Table 34: Total Number of Vessels Registered in the Shipping Registry (July 2018 to June 2025)**

| Financial Year                       | 2018-19   | 2019-20   | 2020-21   | 2021-22   | 2022-23   | 2023-24   | 2024-25   |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Entities with fishing activities     | 2         | 12        | 6         | 0         | 0         | 2         | 4         |
| Entities with non-fishing activities | 12        | 7         | 5         | 17        | 26        | 12        | 23        |
| <b>TOTAL</b>                         | <b>14</b> | <b>19</b> | <b>11</b> | <b>17</b> | <b>26</b> | <b>14</b> | <b>27</b> |

The administration of the shipping registry is provided by a private entity – the Naoero Maritime Administration (NMA). NMA, operating out of Singapore and having an administration office in Hong Kong, sits under the umbrella of the National Project Limited (NPL). In 2022, a Memorandum of Understanding (MoU) was signed between the Naoero Fisheries and Marine Resources Authority (NFMRA) and NMA, granting NMA the authority to issue certificates for a vessel to sail and trade under the Naoero flag. This arrangement was established pursuant to the Shipping (Registration of Foreign Vessels) Act 2018, which has since been repealed and replaced by the Vessel Registration Act 2024, effective from 28 January 2025.

There is an increasing global concern around the risk of ships being misused for the purposes of evading TFS related to TF and PF. The TF and PF TFS obligations under the FATF standards require all natural and legal persons to freeze assets (including maritime vessels, registration rights or licenses) and/or funds of persons or entities designated by or under the authority of the UNSC under Chapter

VII of the Charter of the United Nations and or by the country pursuant to Resolution 1373 (2001). This section will assess the risk of TF and PF TFS related to the shipping registry.

### 9.1.2 TF and PF TFS Risk Assessment

The shipping registry records information on vessel owners at the time of registration in order to issue a certificate permitting a vessel to sail and trade under the Naoero flag. Citizens of, and legal persons registered in Naoero or, any foreign country are qualified to own a Naoero-flagged vessel.

A corporate entity must submit certain documents at the time of registration including company IMO number (if applicable), certificate of incorporation/good standing, certificate of incumbency listing all shareholders and directors, and passport or ID of a director, while individuals must provide certified proof of nationality (i.e., passport or ID). However, ownership information is collected for only up to 64% of a vessel's shares, rather than the full 100%. To identify and verify the owners, the NMA is obtaining copy of passport or ID of owners.

As of 30 June 2025, all registered Naoero-flagged vessels are owned through corporate structures.

**Table 35: Vessels registered by NMA (July 2018 to June 2025)**

| Financial Year | Ownership  |         |
|----------------|------------|---------|
|                | Individual | Company |
| 2018-19        | 0          | 14      |
| 2019-20        | 0          | 19      |
| 2020-21        | 0          | 11      |
| 2021-22        | 0          | 17      |
| 2022-23        | 0          | 26      |
| 2023-24        | 0          | 14      |
| 2024-25        | 0          | 27      |

The type of vessels registered by the NMA vary (see [Table 36](#)); however, 17 % of the vessels registered between July 2018 and June 2025 were passenger vessels and tugs while 83 % were classified as commercial or cargo. The registration of tankers is banned to mitigate exposure to sanctions-related risks, including the risk of involvement in trade linked to Russia/Iran sanctions.

**Table 36: Type of Vessels Registered at the Shipping Registry (July 2018 to June 2025)**

| Financial Year | Type     |      |           |            |       |
|----------------|----------|------|-----------|------------|-------|
|                | Pleasure | Tugs | Passenger | Commercial | Cargo |
| 2018-19        | 0        | 3    | 0         | 6          | 5     |
| 2019-20        | 0        | 1    | 0         | 15         | 3     |
| 2020-21        | 0        | 3    | 0         | 8          | 0     |
| 2021-22        | 0        | 6    | 0         | 9          | 2     |
| 2022-23        | 0        | 1    | 3         | 4          | 18    |
| 2023-24        | 0        | 2    | 0         | 9          | 3     |
| 2024-25        | 0        | 3    | 0         | 15         | 9     |

Commercial vessels pose the highest risk of being involved in proliferation related activities as it is these types of vessels that are generally identified in transnational shipping where goods may be directed or redirected to proliferation acting states such as Iran and DPRK.

During the sample period for this risk assessment, the top five overseas jurisdictions where vessel owners are based were China, the British Virgin Islands, Indonesia, the Republic of the Marshall Islands, and Singapore. Owners also come from a variety of other countries, including Seychelles, Taiwan, Japan, Lithuania, Russia, Libya, the Philippines, the Republic of Korea, Tanzania, Cambodia, the UAE, Liberia, and Australia.

As noted earlier, Naoero-flagged vessels registered with NMA fall into two categories: a) fishing vessels; and b) non-fishing vessels. During the mutual evaluation process, the authorities informed the assessment team that the fishing vessels were required to register with the Registry Division of DJBC as a trading corporation under the Shipping (Registration of Foreign Vessels) Act 2018, and that DJBC obtained and maintained beneficial ownership information on such corporations. However, no such legal requirement could be confirmed and DJBC was not aware of any such vessels registered with them. Moreover, the shipping registry also does not collect and provide requisite transparency or information on beneficial ownership of Naoero-flagged vessels to mitigate the concerns related to its misuse for TF or PF TFS.

To address these gaps, the recently adopted Vessel Registration Act 2024, which came into force on 28 January 2025, requires all vessels (including fishing vessels) to register with the Registrar and provide beneficial ownership data/information in line with the *Beneficial Ownership Act 2017*.<sup>183</sup> Despite this, the NMA has not yet (as of August 2025) started collecting beneficial ownership information for either fishing or non-fishing vessels, meaning such data is currently unavailable from the NMPA.<sup>184</sup> It also remains unclear whether, under the Vessel Registration Act 2024, the NMA will continue to serve as the registrar of vessels, as no new registrar has yet been appointed. According to the information provided during the risk assessment, the shipping register will in the future be administered locally in Naoero by NMPA under the Vessel Registration Act 2023 and a 12-month moratorium period to establish the register locally has already commenced.

For non-fishing vessels, the forms and documents provided by the NMA for this risk assessment do not require information on the beneficial owners of the vessels, except for a declaration in the registration form by the applicant stating that “The Registered Owner/Technical Manager/Commercial Manager/Charterer/Beneficial Owner is NOT a designated person/entity under any United Nations Security Council resolution.” Moreover, the Registrar under the Vessel Registration Act is not permitted to register vessels unless a declaration is made by the owner that vessel will not be used as an instrumentality for TF/PF.<sup>185</sup>

While it is not explicitly required for the NMA to assess potential misuse of vessel registrations by foreign ships or to apply TF/PF TFS measures during registration, it nevertheless uses the Lloyd’s List

<sup>183</sup> Section 30, Vessel Registration Act 2024.

<sup>184</sup> It has to be noted that NMA developed the Beneficial Ownership Declaration Form (FORM NMA-10 BOD) in September 2025, which is reported to be a mandatory submission for registration purposes.

<sup>185</sup> Section 29(1)(v).

Intelligence SEASearcher platform to conduct screenings. This platform includes a sanctions-check feature that verifies the names of corporate entities, shareholders, and directors against sanctions lists. In addition, it flags:

- a). indications of “flag-hopping”;
- b). whether the current flag is considered high-risk (e.g., Comoros, Djibouti, Gabon, Oman, São Tomé & Príncipe, Sierra Leone, Tanzania, Timor Leste, etc.);
- c). vessel ownership and management history (including links to sanctioned entities);
- d). vessel movements and port calls within the past 12 months (including visits to sanctioned ports); and
- e). AIS (Automatic Identification System) gaps, unless a valid explanation is provided.

The NMA also conducts searches against the UNSC Consolidated List, the U.S. OFAC Sanctions List, and through open-source tools such as Google. According to an internal NMA memo, any positive matches from sanctions screening or searches, as well as applications involving complex ownership structures (e.g., natural persons concealed behind more than two layers of corporate entities), are to be rejected outright. However, it remains unclear whether, and by what means, the NMA obtains information on such complex ownership structures.

Changes in shareholders and directors are identified annually during the vessel’s annual registration renewal. Any new shareholders and directors are screened against SEASearcher and the other platforms mentioned above, and a positive match leads to de-registration of the vessel. However, there is no procedure or system in place to obtain timely information or update on changes in shareholders, directors or beneficial owners. In addition, it appears that vessels are screened against SEASearcher only at the point of initial registration, with no ongoing monitoring for TF or PF TFS compliance.

The NMA carries out real-time vessel movement tracking through MarineTraffic and SEASearcher, which is in conjunction with the arrangement of annual Flag State Inspection. Long Range Identification and Tracking (LRIT) lapses or Automatic Identification System (AIS) gaps identified from MarineTraffic are investigated further through requesting for an explanation from the ship operator. Acceptable reason(s) for AIS and LRIT lapses include: a) vessel being laid up and not in operation; b) vessel under maintenance in shipyard or dry dock; c) vessels are transiting high-risk areas in relation to piracy and armed robbery; d) AIS/LRIT equipment failure; and e) avoidance of interference with other critical navigational or communication equipment. NMA also reported to have integrated vessel movement checks into annual Flag State inspections, and issues targeted circulars, including NMA Circular C67, in vessels calling at Russia ports, reinforcing sanctions compliance expectations.

The MOU signed between the NFMRA and NMA does not provide any information on how Naoero competent authorities have oversight of the register or specify any reporting requirements for NMA. No competent authority from Naoero is explicitly made responsible to ensure that TF or PF TFS are implemented in the registration of vessels under Naoero’s Shipping registry. There is no clear reporting line providing Naoero with oversight of the activities undertaken on their behalf.

Nonetheless, NMPA and NFIU receives regular monthly update or report of registered vessels from NMA. NMPA is also granted access to the shipping register through NMA’s online portal (NARO). NMPA

reported to have been conducting its own checks of registered vessels for TFS evasion against the UNSC consolidated list shared by the NFIU and has the authority to request for de-registration of vessels in case of positive search. NFIU also stated to have been receiving monthly reports from NMA on beneficial owners of registered vessels; however, the reports shared by the NFIU does not contain any information on beneficial owners but only legal owners of vessels.

The NMA staff has not received any technical assistance or training in TF or PF TFS nor on risk mitigation, except holding monthly coordination meetings with the NFIU.

### 9.1.3 Overall Risk

The overall risk of the shipping registry is assessed as **HIGH** with respect to TF and PF TFS. This assessment is driven mainly by weaknesses in obtaining adequate, accurate, and up-to-date information on beneficial ownership; gaps in shareholder information; limited oversight of the registry; and insufficient monitoring of NMA's operations by the competent authorities in Naoero to ensure compliance with TF and PF TFS requirements.

### 9.1.4 Next Steps

To strengthen compliance with TF and PF TFS obligations and reduce risks of vessel misuse, Naoero should enhance transparency and oversight of its shipping registry by collecting and verifying full beneficial ownership information, supported by reliable verification mechanisms. A system should be established to capture timely updates on changes in shareholders, directors, or beneficial owners, moving beyond annual checks, and continuous monitoring through SEASEARCHER and other platforms should be implemented rather than screening only at registration. Clear legal provisions should designate a competent authority in Naoero with explicit responsibility for overseeing the registry and ensuring compliance with TF and PF TFS. Further, NFIU and NMPA should receive accurate, comprehensive reporting on beneficial ownership. Finally, NMA staff should receive targeted training on TF/PF TFS compliance, beneficial ownership transparency, and risk mitigation.

## 9.2 Citizenship by Investment (CBI) Program

### 9.2.1 Overview

Citizenship and residency by investment (CBI/RBI) programmes are government-administered programmes that grant citizenship or residency to foreign investors by expediting or bypassing normal migration processes. These programmes can help spur economic growth through foreign direct investment, but they are also attractive to criminals and corrupt officials seeking to evade justice and launder the proceeds of crime amounting to billions of dollars.

According to the Former President of FATF

*Granting citizenship and residency to wealthy investors through 'golden' passport and visa programmes can potentially lead to economic growth. But they can and are being exploited by criminals and the corrupt, who want to launder their money hide their identity and assets, or carry out further crimes. This report calls on governments operating these programmes to*

*implement a variety of safeguards to ensure these programmes are administered in a risk-sensitive way.*

Properly managed, CBI programmes can benefit both host countries and individuals, but in practice, such programmes bring significant risks of money laundering, fraud, and other forms of misuse. For instance, CBI programmes can allow criminals more global mobility and help them hide their identity and criminal activities behind shell companies in other jurisdictions. The vulnerabilities of these complex and international investment migration programmes include the frequent use of intermediaries, involvement of multiple government agencies, abuse by professional enablers and lack of proper governance of the CBI/RBI programmes.

Naoero has recently launched CBI program, the “Economic and Climate Resilience Citizenship Program” (ECRCP) in 2024, offering citizenship to foreign nationals based on their investment in Naoero’s economic development and climate resilience. The ECRP is governed by the following primary laws and regulations:

- a). *Naoero Economic and Climate Resilience Citizenship Act 2024;*
- b). *Naoero Economic and Climate Resilience Citizenship Regulations 2024;*
- c). *Climate Resilience Citizenship (Forms and Fees) Regulations 2025.*

The DJBC has the primary responsibility for the ECRCP. The Registrar (Secretary for Justice and Border Control), and the Registrar’s Office, maintain oversight of a registry of citizens granted through the ECRCP and are responsible for submitting the application to cabinet for approval. A Government Working Group (established via Gazette No. 383/2024)<sup>186</sup>, made up of key stakeholders, was also established in August 2024 to provide oversight and strategic direction for ECRCP.

Naoero previously faced international criticism and pressure from the US regarding an earlier investor passport program in the 1990s, which was reportedly exploited by international criminals, including individuals allegedly linked to Al-Qaeda. The program was halted in 2003. Naoero's current government acknowledges the challenges faced by previous CBI programs globally and emphasizes that they have implemented robust measures to ensure integrity and prevent misuse of the new ECRCP program.

### 9.2.2 Risk Assessment

To qualify for Naoero’s ECRCP, applicants must meet the following criteria:

- Be at least 18 years of age
- Maintain a clean personal background<sup>187</sup>
- Provide proof of the legitimate source of funds or
- Pay a minimum of USD 130,000 for a single applicant, USD 137,500 for a family of two to four members, or USD 145,000 for a family of five or more members (additional fees may apply)

<sup>186</sup> [https://www.pacii.org/nr/other/NRGovGaz/2024/383.pdf?utm\\_source=chatgpt.com](https://www.pacii.org/nr/other/NRGovGaz/2024/383.pdf?utm_source=chatgpt.com) (accessed 26 September 2025).

<sup>187</sup> For more details, see Regulation 4(1), Naoero Economic and Climate Resilience Citizenship Regulations 2024.

The Government of Naoero has mandated Henley & Partners to design, implement, and promote the ECRCP. Under this mandate, Henley & Partners also oversee the operation of the Naoero Program Office, a private entity contracted by the Government to administer the program.

The Naoero Program Office is responsible for:

- licensing and monitoring agents,
- processing applications,
- conducting the due diligence checks, and
- recommending application for approval or rejection to the Registrar's Office.

Henley & Partners also acts as a licensed Agent under the program and is authorized to submit applications to the Naoero Program Office on behalf of clients.

Due diligence on applicants follows four-tiered approach:

- a). First-tier – licensed agents conduct initial checks;
- b). Second tier – the Program Office performs a secondary review;
- c). Third tier – Naoero LEAs (i.e., NPF) and NFIU conduct independent assessments; and
- d). Fourth tier – independent third-party due diligence providers carry out external verification.

As of 30 June 2025, Naoero Program Office has 43 licensed agents. Agents undergo compliance checks prior to granting of license and are classified according to risk (e.g. presence in a high-risk jurisdiction) which influence the frequency of monitoring, and must comply with the *Agent Licencing Agreement and Code of Conduct*. Agents (and their sub-agents) are monitored regularly for their activities, including their conduct, quality of applicants, marketing practice and reputation. Licensed agents are subject to a “three-strikes” compliance policy whereby their actions are monitored for compliance, allowing for suspension or revocation of a license in case of repeated breaches. Sub-agents of agent's are also monitored, with the Naoero Program Office obtaining their list and maintain oversight of their activities.

Regulations 4(1)(a) requires verification of the applicants by an approved due diligence firm as a part of eligibility. Due diligence on applicants is accordingly conducted by external, independent, and specialized due diligence firms. A panel of independent due diligence providers are engaged to verify application in line with Regulations 4(1)(a). These providers are

- S-RM (<https://www.s-rminform.com/>)
- LSEG (<https://www.lseg.com>)
- Exiger (<https://www.exiger.com/>)

These firms conduct in-depth checks, including on-the-ground investigations to verify identity, employment, education, Source of Funds (SoF), Source of Wealth (SoW). They also interview the main applicant and assess the authenticity of submitted documents, cross-checking information through discrete inquiries and official sources. Their findings contribute to the overall due diligence review submitted to the Registrar's Office.

As a part of the application process, the Naoero Program Office also shares applicant information with the NFIU and NPF, both of which carry out their own independent due diligence. Based on the initial adverse findings of the NFIU's due diligence checks, two applications have already been put on hold until detailed investigations are complete.

The Registrar's Office conducts its own due diligence and receives reports from the NFIU and NPF. Based on its recommendations, the Cabinet makes the final decision on whether to approve or reject an application. The government then grants the citizenship.

Applicants are not required to be present during the application process or reside in Naoero. All documentation, verification, and interviews (virtual or in-person) may be completed remotely. Evidence of SoF and SoW must be provided by the applicant (e.g. bank statements, shareholdings, payslips). All supporting documents provided by the applicant must be notarised. Entities owned by applicants are also subject to independent verification. However, it is not clear what information or data is collected to verify the SoW of applicants, and the mechanisms used to identify and verify if the applicant is a beneficial owner of any entities.

All applicants are screened using World Check by the Naoero Program Office. The program does not permit the change of name during the application process and for five years, except in cases of marriage.

High risk applicants undergo additional checks and verification of SoF and SoW. Red flags include criminal records, sanctions listings, politically exposed person (PEP) status, ties to shell companies, links to certain industries (e.g., cryptocurrency), fraudulent documentation, and citizenship or residence in high-risk jurisdictions. Such cases require enhanced review by the Program Office compliance staff and the CEO. A risk rating is assigned to applications before a recommendation is made to the Registrar's Office.

Eligibility restrictions are further detailed in Part 2, Section 4(1) (a-m) of *the Climate Resilience Citizenship Regulations 2024*. The section details restrictions, *inter alia*, criminal record, international criminal sanctions, and national security considerations. Additionally, the Naoero Program Office places further restrictions in its AML policy for individuals who are citizens or residents of restricted countries from applying, which includes Iran, North Korea, Myanmar, Russia, and Belarus. Although biometric verification is not yet part of the process, applicant passports and MRZ are verified, and the government is exploring biometric systems for future use.

As the ECRCP is newly established, detailed statistics have not yet been made public. An annual report will however provide data on applications, approvals, rejections, and withdrawals.

As of 30 June 2026:

- a). Only two applications have been approved and granted citizenship
- b). Current applications under review include one PEP and one applicant from a high-risk jurisdiction.
- c). No application has been rejected on ML/TF/PF grounds, but:
  - one applicant withdrew after discrepancies in SoW documentation were flagged by the third-party providers;

- two applicants were linked to adverse media concerning civil litigation and money laundering.

Section 14 of the Act requires a minimum of annual independent audit of the program. The ECRCP will be subject to external audits twice a year. Naoero Program Office is currently engaging auditors for this purpose.

Agent conduct, including marketing and promotion, is strictly regulated by the Agent Licensing Agreement and Code of Conduct. Breaches may lead to warnings, suspension, or revocation, as outlined in Part 5 of the Act and Part 3 of the Regulations.

On approval of citizenship application by the Cabinet, applicant fee is received and placed in a separate escrow account managed by the Naoero Program Office. After deducting their commission/fee, funds are transferred to a dedicated Treasury account. Financial oversight mechanism includes:

- annual audits;
- publicly released annual reports on program performance and fund allocation; and
- A government workflow tool to manage and approve expenditures.

In addition to the separate account for CBI revenue, the working group is exploring whether a separate committee can be established to approve the use of funds raised from the CBI programme.

Section 23 of the NECRC Act empowers the Minister to revoke citizenship, if necessary. The Program Office, through its 3<sup>rd</sup> party due diligence providers, and the NFIU both conduct ongoing monitoring of the applicants to identify any situation that may require the revocation of citizenship.

The Government retains the right to suspend or repeal the program in the event of serious vulnerabilities. A Risk Governance Framework is in place to manage risks, supported by incident reporting, escalation to senior leadership, and a whistleblowing mechanism for reporting abuse.

### 9.2.3 Overall Risk

Given that the ECRCP in Naoero is still in its early stages, a full assessment of the associated ML/TF risks remains challenging. Nevertheless, based on currently available information and the program's operations to date, the overall ML/TF risks is assessed as **MEDIUM-HIGH**. This stems primarily from the inherent nature of the program – namely, the transfer of significant funds and the involvement of high-net worth individuals – as well as the investor profiles who might be seeking Naoero citizenship as a means of circumvention; however, Naoero has put in place effective applicant screening and due diligence procedures to mitigate these risks.

## 9.3 VAs and VASPs

### 9.3.1 Overview

Virtual assets (VAs) and virtual asset service providers (VASPs) are included within the scope of the AML-TFS Act 2023, requiring VASPs to comply with the AML/CFT/PF requirements. VASPs have been identified as financial institutions in the AML-TFS Act 2023. However, as of June 2025, there are no VASPs registered for operation in Naoero.

On 17 June 2025, Naoero adopted the *Command Ridge Virtual Asset Authority Act (CRVAA) 2025*, establishing a regulatory framework for VAs and related technologies. The Act introduced licensing and oversight mechanism under the newly created Command Ridge Virtual Asset Authority. This assessment does not provide a detailed analysis of the ML/TF/PF risks associated with VAs and VASPs in Naoero, as the Authority was only just established under the Act and not fully functional by the end of June 2025, and no VASPs have been licensed at that time. It does, however, consider the risks posed by unlicensed or unregistered VASPs in the jurisdiction. Looking ahead, given the inherent vulnerabilities associated with VAs and VASPs, along with Naoero's limited technical resources and its still-developing regulatory landscape, these risks are assessed as **HIGH** unless effective mitigation and management measures are put into place. Once the legal and regulatory framework is fully established and operational, Naoero should undertake a comprehensive risk assessment to re-evaluate the risk associated with the VASPs sector.

### 9.3.2 Risk Assessment

Over the past decade, the emergence of new technologies, products and related services has been one of the most influential developments affecting the global financial system. While these new technologies, products and related services have the potential to stimulate financial innovation and efficiency as well as to improve financial inclusion, they also present new risks for the financial system and regulators. One such new technological product is virtual assets or crypto currencies, which have become very popular in the past ten years. VAs are widely recognised as posing new challenges in the fight against ML/TF/PF, for they create new opportunities for criminals and terrorists to launder their proceeds of crime or to finance their illicit activities.

The risks inherent to VAs and VASP stem from the high degree of user anonymity or pseudonymity, the ability to conduct multiple high-value transactions and the speed at which these transactions can be conducted, the simplicity of structuring transactions, and the capacity to carry out cross-jurisdictional transfers with ease.

In Naoero, VAs and VASP activities are not prohibited; rather, they are regulated under the AML-TFS Act 2023 and, more recently, the CRVAA Act 2025. Prior to the commencement of the CRVAA Act 2025, VASPs were required to register and obtain licences under the Business Names Registration Act 2018 and the Business Licence Act 2017. These laws applied to VASPs in the same manner as other businesses, including provisions for suspension and cancellation. However, effective 17 June 2025, the licensing of VASPs will fall under the authority of the Command Ridge Virtual Asset Authority, as provided for in the CRVAA. Section 14 makes it an offence for any person or entity to offer or operate VA services in Naoero without obtaining a licence from the Authority, punishable with a fine not exceeding AUD20,000 and imprisonment up to 3 years for an individual, and a fine of up to AUD100,000 for a body corporate.

The CRVAA 2025 defines the terms VASP as set out in Section 4(1)(n) of the AML-TFS Act 2023, and regulates the following VA services:

- a). operation of centralised or decentralised VA Platforms;
- b). exchange of VA or fiat currencies;
- c). custodial and non-custodial wallet services;

- d). token issuance, including Initial Coin Offering and Non-Fungible Token minting;
- e). lending, staking, yield farming, and Decentralised Finance services;
- f). stablecoin issuance and cross-border payment solutions; and
- g). any other services that may be prescribed by Regulations.

As of 30 June 2025, no VASPs were registered or licensed under the Business Names Registration Act 2018, the Business Licence Act 2017, or CRVAA Act 2025.

Although Naoero's legal framework requires VASPs to be formally registered before commencing operations, there is no evidence that competent authorities (such as the NPF or NFIU) have access to, or make use of, tools and resources (e.g., web scrawling) to detect unlicensed VASP activities. The NFIU indicated that it relies on open-source information to identify online advertisements or potential business solicitations by unregistered or unlicensed entities, as well as tips/information from the general public or agency circles—an approach considered practical given the jurisdiction's small size. However, there is no internal policy or SOP in place for detecting unlicensed or unregistered VASPs, which falls short of proactive, risk-based supervision and enforcement, and leaves the risk of unlicensed or unregistered VASPs operating in Naoero undetected.

Nonetheless, to mitigate the risks associated with VAs and VASPs, Section 4(1)(n) of the AML-TFS Act 2023 explicitly includes VASPs within the definition of financial institutions, thereby subjecting them to AML/CFT/PF obligations. While this aligns broadly with the FATF definition, there are gaps—such as the absence of clarification on “transfer” and the lack of VA-specific obligations in certain provisions (e.g., Recommendation 16 on cross-border transfers). The NFIU has also developed a VASP Policy, which includes generic reg flag indicators in relation to VA/VASPs, though this is more declaratory than practical, since no VA/VASP activity is currently licensed in Naoero.

Supervisory and enforcement mechanisms exist in law for non-compliance with the AML-TFS Act 2023. Sections 68–70 of the AML-TFS Act 2023 designate the NFIU as the regulator, with powers under sections 78–80 to inspect, demand information, and impose penalties for non-compliance. Sanctions are significant, ranging up to AUD 1 million for legal persons and imprisonment of up to 20 years for individuals. Under the newly enacted CRVAA Act, Command Ridge Virtual Asset Authority has been designated as the regulator for VASPs. It is, however, unclear as to whether CRVAA would only be prudential supervisor and NFIU AML/CFT supervisor, and the division of responsibilities between the two, and how they will cooperate with each other.

Section 88 and related provisions of the AML-TFS Act 2023 establish “fit-and-proper” requirements as the basis for screening responsible persons in VASPs and other FIs. Similar requirements are also included under section 17 of the CRVAA Act 2023. However, under the AML-TFS Act 2023, beneficial owners are subject to these provisions; however, under the CRVAA Act, fit-and-proper requirements do not extend to beneficial owners nor ongoing monitoring of fitness and propriety is mandated under both laws, leaving a structural vulnerability in preventing criminal infiltration of VASPs and also inconsistency between the two legislations.

Customer due diligence (CDD) obligations under the AML-TFS Act apply to VASPs in line with other financial institutions. Section 37 requires verification for transactions above AUD 10,000, while section 52 applies to electronic currency transfers above AUD 1,000. However, the threshold is not fully

harmonised with FATF's USD/EUR 1,000 standard for VA transfers, and the framework does not specifically treat VA transfers as cross-border transactions requiring travel rule compliance, except a brief mention in this regard in VASP policy. This creates a regulatory gap in addressing the specific risks associated with VASPs.

Finally, the AML-TFS (FT&PF) Regulations 2023 extend TFS obligations to VASPs, covering UNSCR 1267/1373 requirements, communication mechanisms, and monitoring obligations. International cooperation provisions (sections 69, 89, and 90) allow the FIU to share information with foreign counterparts. While these frameworks provide for robust sanctions and cooperation, their effectiveness in practice is limited by the absence of an actual VASP sector.

The NFIU and LEAs, however, currently have limited resources or the expertise to analyse or investigate crypto-based transactions and SARs. This is a vulnerability that may elevate the risk of such activities going undetected or not being properly investigated, which itself increases the risk of criminals for being able to misuse Naoero's VASPs for ML/TF/PF. There is also limited targeted cryptocurrency training of the NFIU, LEAs and RAs.

### 9.3.3 Overall Risk

With the law regulating VAs and VASPs in Naoero having only recently been enacted, it is difficult to comprehensively assess the ML/TF/PF risks of this sector. However, in light of the inherent nature of VAs and based on the information currently available, the overall ML/TF risk associated with VAs and VASPs in Naoero is assessed as **HIGH**. This assessment is driven primarily by gaps in the new legal framework, moderate shortcomings in Naoero's compliance with R. 15, as well as existing limitations on the NFIU and the competent Authority in effectively supervising and mitigating these risks. Moreover, even prior to the passage of this Act, it remains unclear how the NFIU ensured that no natural or legal persons were conducting VASP activities without a license or registration, aside from reliance on the oversight possible within Naoero's small community.

### 9.3.4 Next Steps

Moving forward, Naoero should focus on strengthening the oversight of its VA and VASP sector by addressing gaps in the recently enacted law to ensure full alignment with FATF standards and adopt the related regulations, while building the supervisory capacity of the NFIU and the designated Authority through staff training, risk-based supervision tools, and clear enforcement powers. The country should establish a robust licensing and registration regime with transparent criteria, fit-and-proper checks, and periodic reviews for all VASPs, alongside effective monitoring and enforcement mechanisms to detect and prevent unlicensed activities. Enhanced reporting requirements for suspicious transactions, beneficial ownership, and cross-border activity should be implemented, supported by clear guidance and penalties for non-compliance. Steps should be taken to train NFIU, LEAs and reporting entities on risks associated with VAs and VASPs, together with putting in place appropriate technological tools that would assist the authorities in effectively monitoring VASP activities, including analysing VA-based SARs by the NFIU.

## 10. Terrorist Financing Threat and Vulnerability Assessment

This Chapter discusses the overall TF risk in Naoero. The assessment has taken into account all relevant considerations, including the extent of terrorism threat in Naoero, the risk of the country being abused for TF activities, and the strength of countering financing of terrorist (CFT) regime and systems, including the legal and regulatory framework, in Naoero.

### 10.1 Terrorism Threat

Recent years have seen the emergence of groups such as ISIL and Al-Qaeda which have perpetrated terrorist attacks in conflict zones as well as advanced economies, through home-grown terrorists or foreign terrorist fighters operating alone or in small cells. However, by virtue of its demographic and geographical location as well i.e., being distant from certain areas in Asia where terrorist incidents are frequent, there is a **LOW** risk of terrorism to Naoero.

Further, as noted in Chapter 1, Naoero's population is estimated to be approximately 11,947 people of whom over approximately 94.6% are of ethnic Naoero. Non-Naoero ethnic groups constitute only around 5.4% of the population, including 3.5% Pacific Islanders and 1.9% others.<sup>188</sup> The main religion practiced in Naoero is Christianity, with only 5.7% of Naoero population practicing other religions. Given the lack of diversity, there are very low chances of Naoero population having links to areas where there is a higher threat of terrorism.

There have been no terrorist attacks in Naoero or evidence of known activities of domestic or foreign-based terrorist groups or TF. There have also been no specific intelligence or information exchange requests to suggest that Naoero is likely to be a target of terrorist attacks. There is no intelligence indicating signs of self-radicalization and no known indigenous or transnational terrorist groups operating within Naoero's borders. The U.S. Department of State has assessed Naoero as being a LOW-threat location for terrorism directed at or affecting US government interests.<sup>189</sup> There is no history of indigenous or transnational terrorism in Naoero.

The UN Security Council – Counter-Terrorism Committee (CTC) noted that *“the terrorism risk to States of the Pacific Islands subregion is low, owing to their isolated geographical location, transport limitations, their small size and populations (factors that limit anonymity), and their relatively small financial and commercial sectors. No State of this subregion has experienced a terrorist attack.”*<sup>190</sup>

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<sup>188</sup> Available at: [https://microdata.pacificdata.org/index.php/catalog/816/variable/V895?utm\\_source=chatgpt.com](https://microdata.pacificdata.org/index.php/catalog/816/variable/V895?utm_source=chatgpt.com) (accessed 05 July 2025).

<sup>189</sup> US Department of State's Overseas Security Advisory Council (OSAC), *Naoero 2023 Crime & Safety Report*. Available at: <https://www.osac.gov/Content/Report/b3638d5a-1a1a-4876-b339-1df2850e8c08> (accessed 30 July 2025).

<sup>190</sup> Available at: <https://www.un.org/securitycouncil/ctc/content/pacific-islands#:~:text=The%20terrorism%20risk%20to%20States,has%20experienced%20a%20terrorist%20attack> (accessed 30 July 2025).

## 10.2 Terrorist Financing Threat

The prevalence of terrorism worldwide has propelled the international community to make the fight against TF a priority. The FATF has identified that terrorist groups or organizations use funds for five broad purposes:

- a) Operations;
- b) Propaganda and recruitment;
- c) Training;
- d) Salaries and member compensation; and
- e) Social services.

NPOs, funding from criminal or legitimate activities, physical transportation of cash, the use of bank accounts and MVTs – are still prevalent. In addition, the financing of foreign terrorist fighters has become a prominent issue, and social media platforms and new payment products and services have been exploited for TF.<sup>191</sup> The 2016 TF regional assessment of South-East Asia<sup>192</sup> and Australia has found that “terrorist funds within the region are more likely to be used for operational than organizational expenditure – namely for personnel mobility and travel, and the purchase of weapons and explosives.”<sup>193</sup> Self-funding through legitimate sources for TF (particularly for foreign terrorist fighters travelling to or operating in conflict zones), raising funds through NPOs and cash smuggling to move funds are areas identified as prone to high TF risks.<sup>194</sup>

### 10.2.1 TF in Naoero

Given the “LOW” level of terrorism threat in Naoero, the threat of financing domestic terrorism is also assessed as **LOW**. The threat of financing terrorism abroad (including for foreign terrorist fighters) is also viewed as LOW by authorities, given Naoero’s cultural and economic dis-connectedness with regions affected by terrorism. SARs and investigations as well as TF-related MLA requests have not led to confirmation of any TF activity in Naoero, or discovery of high-risk patterns such as self-funding from legitimate sources, abuse of NPOs, use of virtual assets, or physical movement of cash across boundaries in Naoero. There has never been a terrorist incident in Naoero, nor has there been any SARs reported pertaining to TF. There has been no instances or investigations, prosecutions or convictions related to financing of terrorism in Naoero, which is consistent with a low level of risk for FT. There are no known external cases in other jurisdictions concerning terrorism financing in Naoero. Open-source information also suggests that Naoero’s TF risk is low, which is consistent with other Pacific Island jurisdictions.

As regards the use of technology for TF purposes, available information does not indicate that social media platforms, virtual assets, online payment systems, crowdfunding or other new payment methods have been exploited in Naoero. But as these platforms and products are evolving very fast, it

<sup>191</sup> FATF (2015) *Emerging Terrorist Financing Risks*. Paris: FATF/OECD.

<sup>192</sup> Including Indonesia, Malaysia, the Philippines, Singapore and Thailand.

<sup>193</sup> AUSTRAC (2016) *Terrorism Financing Regional Risk Assessment 2016*. Available at: [https://www.austrac.gov.au/sites/default/files/2019-07/regional-risk-assessment-SMALL\\_0.pdf](https://www.austrac.gov.au/sites/default/files/2019-07/regional-risk-assessment-SMALL_0.pdf) (accessed 3 July 2021).

<sup>194</sup> Ibid.

is important to keep a close watch on their potential to be misused for TF, especially for Naoero with respect to evolving landscape for VAs.

### *10.2.2 TF-related SARs, Investigations and MLA Requests*

TF-related SARs are required to be filed to the NFIU as a mandatory requirement under the AML-TFS Act 2023. Between July 2018 and June 2025, no TF-related SARs were submitted to the NFIU.

No terrorist or TF activity or terrorist funds have ever been detected within Naoero or other Pacific Islands states involving Naoeros and there have been no cases or attempts of TF detected, nor intelligence indications of such activities involving Naoero or Naoeros.

Naoero has been a member of Pacific Financial Intelligence Community (PFIC), which brings together 15 Pacific FIUs. Naoero has also been a member of the INTERPOL since 1971 and the TCU actively uses the INTERPOL network as a means of assessing risk generally, including the risk of terrorism and TF. There have been no foreign requests to the Government of government (either formal or informal) for information exchange or assistance relating to either terrorism or TF involving Naoero or Naoeros.

### *10.2.3 Overall TF Threat*

The TF threat of Naoero is assessed as **LOW**. There is no confirmed case of TF activity in Naoero. No MLA or other information exchange requests supports this understanding. Despite low terrorism threat, the threat of TF taking place in or through Naoero cannot be completely ruled out and must be constantly monitored with vigilance, especially in light of the new development related to VAs and VASPs.

## **10.3 Terrorist Financing Vulnerability**

### *10.3.1 Implementation of UNSC sanctions in Naoero: Legal and Regulatory Framework*

The Counter Terrorism and Transnational Organized Crime (CTTOC) 2004 (as amended in 2025), the Proceeds of Crime Act 2004 and the AML-TFS Act 2023 are the three main pieces of legislation criminalizing terrorist financing, implementing counter terrorism and sanction measures imposed by the United Nations Security Council (UNSC). The CTTOC Act 2004 made several amendments, including amending the TF offence, to bring Naoero's legal framework in compliance with the United Nations Convention for the Suppression of the Financing of Terrorism 1999 (hereinafter "TFS") and to address the gaps identified in the 2012 MER of Naoero.

The CCTOC Act 2004 prohibits persons within Naoero's jurisdiction from making funds, resources or financial services available to terrorists, terrorist groups or for terrorist acts. Under the CCTOC Act 2004, it is an offence:

- to provide, offer, collect a property by any means, directly or indirectly, with the knowledge that such property be used or is to be used, in full or in part, to carry out a terrorist act, by a terrorist group or a terrorist (punishable by a maximum penalty of life imprisonment for an individual or a maximum fine of AUD 10,000,000 for a legal person).

- to knowingly make available, directly or indirectly, property or financial or other related services to, or for the benefit of, a terrorist group (punishable by a maximum penalty of 20 years' imprisonment).
- to knowingly deal, directly or indirectly, in any terrorist property, or collect or acquire or possess terrorist property, or enter into, or facilitate, directly or indirectly, any transaction in respect to terrorist property, or convert, conceal or disguise terrorist property (punishable by a maximum penalty of 20 years' imprisonment).
- to harbor or conceal, or prevent, hinder or interfere with the apprehension of, any other person knowing or having reason to believe that the other person has committed or is planning or likely to commit a terrorist act, or is a member of a terrorist group (punishable by a maximum penalty of 20 years' imprisonment).
- to knowingly offer to provide, or provide, a weapon to a terrorist group, a member of a terrorist group, or any other person for use by, or for the benefit of, a terrorist group or a member of a terrorist group (punishable by a maximum penalty of life imprisonment).
- to knowingly agree to recruit, or recruit, another person to be a member of a terrorist group, or to participate in the commission of a terrorist act (punishable by a maximum penalty of life imprisonment).

Sections 15A-15C establish offences related to providing assistance to, or financing, foreign terrorists. According to Naoero's 2024 MER, the TF offence under CTTOC Act complies with all the requirements of Recommendation 5, as set out in Article 2(1) of the TFC. Consequently, Naoero has been rated fully compliant with this Recommendation.

The AML-TFS Act 2023, in combination with the Counter Terrorism and Transnational Organized crime (Targeted Financial Sanctions) Regulations and the AML-TFS (FT & PF) Regulations 2023, also establish a robust legislative framework for TF TFS in Naoero. The AML-TFs Act 2023 and the related regulations implement, inter alia, a decision of the UNSCR 1373 requiring states to freeze the property and assets of terrorists. The property and assets that can be frozen are not required to be tied to a particular terrorist act or plot.

Naoero's 2024 MER, however, observed certain minor gaps in Naoero's legislative framework vis-à-vis the FATF standards. First, the assessment team observed that, in practice, the implementation without delay of UN designations from point of change is largely reliant on NFIU's publication of consolidated lists, with real time access to UN website.<sup>195</sup> This may mean implementation to freeze the funds or other assets of a person or entity designated as a terrorist or terrorist associate is not without delay, as required by the FATF Recommendation 6, if stakeholders on Island are not aware of the website access. However, this deficiency has been addressed by the NFIU by not only publishing the consolidated list of designated persons and entities on its website but also circulating the updated list every time via email to all public and private AML/CFT stakeholders within 24 hours of its publication on the UN website. The MER also observed that although the Ministry of Justice, which is responsible for the designations under the AML-TFS (Financing of Terrorism and Proliferation Financing) Regulations 2023, did not yet have the opportunity to make designations due to the low TF risk profile

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<sup>195</sup> 2024 MER of Naoero, p. 116

of Naoero, deficiencies have also been identified in relation to a process for identifying targets for designation based on the relevant UNSCR designation criteria. The procedures for the release of funds categorized as basic expenses have been incorporated under Regulation 53(1)(d) of the AML-TFS (Financing of Terrorism and Proliferation Financing) (Amendment) Regulations 2024; however, they need to be further elaborated to incorporate clear timelines as well as the procedure for the release of funds categorized as extraordinary expenses.

Naoero's National Police Force (NPF), being a member of the INTERPOL and Naoero-Australia Policing Partnership (N-APP), Pacific Islands Chief of Police (PICP), Pacific Transnational Crime Network (PTCN) Pacific Community for Law Enforcement Cooperation (PCLEC) and Pacific Islands Law Officers' Network (PILON), maintains close liaison with counterparts in other jurisdictions and provide assistance in intelligence, investigation and legal matters. As yet, the NPF have not received any request from other jurisdictions to freeze terrorist property to test the mechanism of doing so.

### 10.3.2 Vulnerability to International TF Trends

Given the LOW risk of terrorism or TF in Naoero and no such cases so far, it has been assessed that some competent authorities in Naoero, including the NPF, NCS and TCU, have limited understanding, skills and capacity to identify, manage and mitigate TF risk. Between July 2018 and June 2025, no specific training on TF have been received by the competent authorities. However, NFIU has the skill set to identify and address TF and has regular communication with LEAs. DPP is also proficient in its understanding of TF risk, and how to identify and prosecute TF. NFIU officials have received 2 trainings targeted on TF. DPP office has also received 1 training on TF. There are, however, no operational procedures or mechanisms on how they should handle enquiries relating to freezing measures, false positives, and potential evasions.

Despite the lack of evidence of terrorism or TF in Naoero and it being considered as LOW risk, the NFIU has issued specific or targeted TF policies, procedures or guidance materials for responding to the identification of possible TF activity or conducting TF analysis. This includes *Naoero Targeted Financial Sanctions Terrorism and Proliferation Financing Guide 2023* and *AML-TFS High-Risk Countries Guideline*.

However, all the ML vulnerabilities identified in earlier chapters of this risk assessment equally applies to TF. In Naoero, the Bendigo Bank Agency and MVTs could be at the risk of facilitating TF, as foreign workers, refugees and asylum seekers remit monies to their homelands. Since the Bendigo Bank Agency does not classify as a financial institution in Naoero and is not under the AML-TFS Act 2023, it has been supervised by AUSTRAC for their compliance with Australian AML/CFT/PF framework including with respect to TF and TFS. The NFIU monitors the compliance by MVTs, the only financial institution, and other reporting entities – gaming operator and legal practitioners – with the AML/CFT/PF obligations. MVTs is following group-wide policies and is automatically screening customers against up-to-date UN sanctions lists using third-party databases provided by its headquarters in New Zealand. The MVTs has attended two (2) trainings during the sample period, specifically focused on TF and TFS. Moreover, as a part of group compliance, the MVTs staff attend mandatory training on yearly basis with its headquarters. NFIU has also promoted awareness of TF and TFS among other reporting entities in Naoero. The NFIU provides regular updates to reporting entities

to monitor the lists published by UN Sanctions Committees by making the UNSC consolidated list publicly available from its website to ensure that they are aware of listing and de-listings. These alerts are however not automatic and sent on ad-hoc basis whenever there is any change in the TF TFS lists. For instance, the notifications have been sent out by the NFIU via email to all public and private AML/CFT stakeholders five times since 2023<sup>196</sup>, whenever there is an update of the listing. No funds have ever been identified in Naoero that have any links to terrorism or TF. As for the gaming sector and legal practitioners, the level of awareness on TF, TFS, and their obligations is generally low. They, however, screen their customers against the consolidated list shared by the NFIU.

The risks of NPOs being misused to move funds to terrorists or terrorist groups in other jurisdictions have been well recognized by the FATF. There has been no report of NPOs in Naoero being misused for TF purposes, or found to sympathize with or condone terrorism, or linked to known or suspected terrorist groups. There has been no intelligence or evidence from SARs, or investigations or MLA requests suggesting that NPOs in Naoero are being exploited for raising or moving funds for TF. On this basis, there is no apparent TF threat identified for the NPO sector in Naoero.

The inherent TF vulnerability of NPOs in Naoero is low, having regard to the landscape of terrorism and TF threats in Naoero as well as the inward focus of the majority of NPOs in Naoero. NPOs in Naoero are commonly part of the international charities network to which the funds raised are disbursed, and have to a large extent put in place internal governance and financial controls on their own. MVTs permits fund transfers only by individuals and does not allow such transfers by businesses or NPOs.

### **10.3.3 Overall TF Vulnerability**

Naoero has a robust legal and institutional framework, which has been strengthened by AML-TFS Act 2023 and CTTOC Act 2004 (as amended in 2025), to counter TF activities which is commensurate with the threat identified. While some gaps from full compliance with the FATF's recommendations still exist, majority have been addressed. The overall TF vulnerability is assessed as **LOW**.

## **10.4 Terrorist Financing Risk**

The data collected and analysed for this NRA also does not indicate that Naoero is a source, transit or destination country for terrorist financing. Naoero has a **LOW** TF risk, with threat and vulnerability both rated as **LOW**.

## **10.5 Next Steps**

While Naoero faces relatively low TF risk, the situation must be closely monitored, with current preventive measures kept under constant review and to develop or adjust the counter- terrorism and CFT strategy, as appropriate, having regard to the changing security landscape and risk factors, especially in light of recent development in Naoero with respect to VAs and VASPs. Steps should also

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<sup>196</sup> The latest UN Consolidated List has been issued and emailed by the NFIU on 25 April 2024, 18 September 2024, 25 February 2025, 10 June 2025 and 06 August 2025

be made to strengthen the understanding of competent authorities and reporting entities on TF risks and TFS.

The legislative amendments made over the past few years by the Government has strengthened the CFT framework and further alleviated the TF risk. Nonetheless, minor gaps, as identified in Naoero's 2024 MER, should be addressed to ensure effective implementation and compliance with FATF recommendations on combating TF.

## 11. Proliferation Financing Threat and Vulnerability Assessment

The proliferation of nuclear, chemical and biological weapons (weapons of mass destruction or WMD) and their delivery systems represents a serious threat to international peace and security. The Treaty on the Non-Proliferation of Nuclear Weapons (NPT)<sup>197</sup> remains a cornerstone of the global security framework, complemented by UNSC resolutions issued to member states aimed at preventing the spread of WMD and their delivery systems.

When the conduct of a country threatens international peace and security, the UNSC may adopt resolutions and impose targeted sanctions, as has been the case with Iran and North Korea since 2006 to curtail their nuclear and delivery system programs. Targeted sanctions are directed against designated natural persons, companies or organisations or restrict trade in certain goods.

In parallel, the FATF has expanded its mandate beyond ML and TF to include PF. Since 2012, the FATF has required member states to implement financial sanctions arising from relevant UNSC resolutions. In 2020, these requirements were strengthened through the introduction of a risk-based approach, obliging countries to identify, assess and understand the risks of potential breach, non-implementation, or evasion of TFS, particularly concerning Iran and North Korea, within the context of NRAs.

Although there is no single international definition of proliferation or PF, proliferation is generally understood and defined along the lines of UNSC Resolution 1540: the proliferation of weapons of mass destruction, i.e., nuclear, biological or chemical weapons and their delivery systems. Building on this, in 2010 the FATF adopted a broad working definition of this term and defines PF as follows:

*the act of providing funds or financial services which are used, in whole or in part, for the manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual use goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations.*

At present, FATF Recommendations on PF only refer to the implementation of the UNSC targeted sanctions relating to WMD programmes,<sup>198</sup> particularly sanctions imposed on Iran and North Korea.

This Chapter assesses the risk of PF facing Naoero. The assessment considers the nature and extent of PF threats, the likelihood of the country being misused for PF activities, and the robustness of the national regime and systems for countering PF, including the legal and regulatory framework.

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<sup>197</sup> SR 0.515.03 – Treaty of 1 July 1968 on the Non-Proliferation of Nuclear Weapons, (NPT, Non-Proliferation Treaty), status as of 30 June 2025.

<sup>198</sup> Iran: R. 2231 (2015). North Korea: R. 1718 (2006), 1874 (2009), 2087 (2013), 2094 (2013), 2270 (2016), 2321 (2016) und 2356 (2017). See FATF (2012-2025), *International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation* (FATF: Paris, France, Updated – June 2025) Interpretive Note to Recommendation 7, p. 51.

## 11.1 Proliferation Financing Threat

In Naoero, the threat of PF, both in the domestic and international context, remains low. There have been no investigations, prosecutions or convictions related to PF during the sample period for this risk assessment. There are no SARs filed with the NFIU related to PF or PF related activities. Moreover, there are no international requests or intelligence received by the NFIU where PF or any PF was the subject of the request or intelligence. There have also been no directions issued by the NFIU in relation to any person or entity associated with PF or any reporting by FIs and DNFBPs of assets frozen and other actions taken against designated persons.

In Naoero's context, particular attention has been paid to the threats facing the country in relation to

- a). Use of legal persons and legal arrangements;
- b). international trade and collection and movement of funds; and
- c). the use of vessels registered with the Shipping Registry and their related activities, which include international trade and shipping of goods by or on behalf of designated persons through the use of legal persons and legal arrangements owning those vessels.

Considering the size and domestic nature of Naoero's legal persons and legal arrangements, there is low risk of them being misused for the purposes of PF. There has been no SARs filed related to PF or PF related activities that involved Naoero's legal persons or legal arrangements. The risk of this threat is therefore considered as **LOW**.

Most legal persons incorporated in Naoero are created for the purposes of local business activities. Only a very small number of legal persons engage in import/export and other trading related activities; therefore, the possibility of these entities being involved in the export and trade of dual use and other proliferation sensitive materials is not a concern. The risk of these entities having direct or indirect engagement with some sanctioned jurisdictions, or being used, whether knowingly or unknowingly, to provide goods that may allow for the financing of proliferation related activities or development of proliferation capabilities for the benefit of these sanctioned jurisdictions is minimal. Moreover, as there are no manufacturing sites or research centers physically located in Naoero that produce dual use and proliferation sensitive goods, exposure to the export and trade in such goods from a domestic perspective is not considered to be a threat. Additionally, the geographical location of Naoero does not make it attractive as a trans-shipment point for goods destined to the DPRK or Iran. The risk of this threat is therefore assessed as **LOW**.

There is no banking sector in Naoero, and the Australian Bank *via* the Bendigo Bank Agency only provides very limited standard banking-related services and products i.e., saving and transaction accounts and internet banking services. The services through the Bendigo Bank Agency are provided predominantly to residents and local businesses and corporations. Exposure to high-risk customers and PEPs is therefore highly localized to those types of customers resident in Naoero. Given the predominantly domestic nature of the banking services provided, and the limited services provided to non-resident individuals, the threat of PF within this sector is considered to be **LOW**.

With regard to money transfer services, there is only one licensed MVTs provider in Naoero, which is an agent of a large international money transfer organizations – Western Union. They currently provide money transmission services through two branches and three representative offices. Outward

money transfers constitute the greatest number of transactions recorded, accounting for the average principal amount per transaction was USD 339 on the sending side and USD 296 on the receiving side<sup>199</sup>. Incoming transfers average approximately 7% of all transactions. Given the context of Naoero, this imbalance between incoming and outgoing transfers is not unexpected.

The core markets for the MVTs provider are non-resident workers repatriating funds to their home countries. Majority of MVTs clients have been identified as construction workers, refugees, and asylum seekers, and low-income earners. The top jurisdictions receiving outward transfers are Solomon Islands, Fiji, Philippines, Vanuatu, and China. This is aligned to the size of these immigrant populations in Naoero. The threat of misuse of the MVTs sector for PF purposes, therefore, is considered to be **LOW**, as there is no evidence of any financial flows involving Iran or DPRK or any high-risk conflict areas.

Section 9.1 of this report already analysed in detail the overall risk of the shipping registry related to PF TFS and is assessed as **HIGH**.

## 11.2 Proliferation Financing Vulnerability

Vulnerabilities inherent in a jurisdiction's AML/CFT/PF systems are closely linked to threats and represent weaknesses that allow such threats to persist. Vulnerabilities comprise those things that can be exploited by the threat, including those that may support or facilitate the breach, non-implementation, or evasion of sanctions. Such vulnerabilities include features of a particular sector, financial product or type of service that may provide opportunities for designated persons and entities to misuse them in an effort to facilitate the financing of proliferation. This section reviews the vulnerabilities that would allow the threats identified to increase the Naoero's PF risk.

First, as noted under Section 11.1, legal persons and legal arrangements in Naoero are considered to be low risk for misuse for PF or PF-related activities. There are no TCSPs licensed in the country providing TCSP services to legal persons or legal arrangements.

Given the predominantly domestic nature of the services and limited products provided by the Bendigo Bank *via* its Agency and the MVTs provider, there appears to be little vulnerability of these sectors being abused for the purpose of PF, although the MVTs provider appears to have a limited understanding of PF risks. However, the issues identified above in relation to CDD failings apply equally in relation to the vulnerabilities identified here.

The vulnerabilities identified under Section 9.1. of this report relating to the shipping register i.e., lack of obtaining and maintaining adequate, accurate, and up-to-date information on beneficial ownership; gaps in shareholder information; limited oversight of the registry; and insufficient monitoring of NMA's operations by the competent authorities in Naoero to ensure compliance with TF and PF TFS requirements apply equally here.

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<sup>199</sup> MVTs Provider, *Financial Crime Risk Executive Summary 2023 & 2024* (shared by the MVTs provider for this risk assessment).

While the probability of PF related activities occurring domestically appears to be low, LEAs' understanding of PF and the risk it poses to the Naoero is still important. It is important, therefore, to consider the level of understanding of PF across LEAs and the systems they may have in place to address PF and PF related activities, as this would have an impact on LEAs' ability to identify and respond to threats as well as provide useful international cooperation when requested to do so.

While there is general recognition across LEAs that they have a role to play in the country's CPF framework, there is only a fair understanding of PF generally and in relation to most LEAs specific roles within the national CPF framework. There is a need for additional training within LEAs, as most LEAs have received limited PF training.

With regard to the NFIU, there is understanding of its responsibilities under the AML-TFS Act 2023, which empowers the NFIU to take action against any person or entity for non-compliance with the provisions of the Act. However, the AML-TFS Act was only enacted in 2023 and the NFIU has not issued any directions under this legislation, which is also due to low risk of Naoero. The NFIU also understands the need for effective cooperation and coordination with the Ministry of Justice and Secretary for Justice in relation to responding to any enquiries from the UN.

### 11.2.1. VAs and VASPs

#### Threats:

International typologies indicate that digital assets, and more specifically, cryptocurrencies are being used by non-state actors tied to the DPRK. These cryptocurrencies are being used to purchase goods, particularly HVGs, which can then be sold legally or on the black market for fiat currency, which is then used to finance the DPRK's nuclear weapons program.

VASPs include a significant number of different activities that carry varying threats and vulnerabilities and pose different risks. Services provided include VA exchanges which may be exposed to PF risk as criminals may attempt to use exchanges to place, layer and integrate the proceeds of criminal conduct into the financial system. Other services include VA platforms, custodian services, wallets and transfer services which also pose an elevated level of risk as it is often challenging to verify that the assets are being deposited, transferred, or withdrawn from addresses owned or controlled by the customer of record. For PF purposes, Naoero has not yet identified any VASPs operating within the jurisdiction. However, as noted in Section 9.3. of this report, Naoero has recently enacted the *Command Ridge Virtual Asset Authority Act 2025* to regulate this sector. While it is too early to fully assess the risks associated with VAs and VASPs sector in Naoero, the inherent nature and characteristics of these technologies and their activities make this sector the most relevant emerging PF risk for the country.

#### Vulnerabilities:

As of 30 June 2025, VAs and VASPs are not regulated in the country. However, in July 2025, the country has adopted a law allowing for the registration of VASPs in the country, resulting in an evolving risk from VASPs operating in or from Naoero that serve as VASPs or facilitate the provision of VAs.

The vulnerabilities identified under **VAs and** VASPs of this report relating to VAs and VASPs apply equally here in relation to PF.

### 11.3 Overall PF Risk

The current overall PF risk rating for Naoero has been identified as **LOW**. The findings provide a useful foundation upon which NFIU, and other regulatory authorities can conduct meaningful risk analyses and adopt policies, procedures and strategies to address PF related matters. The results of this exercise will enable authorities to identify, assess and understand any changes in the PF risks faced by the jurisdiction in order to apply appropriate and effective risk-based preventative or mitigating measures, and should be used to better understand the PF risks within the jurisdiction.

Such risk analysis is important as it will assist the jurisdiction in implementing suitable policies and procedures to combat PF. Further, the results of the exercise will help both public sector agencies and relevant private sector entities to identify the particular PF risks they face. This is particularly important for the private sector as these businesses are required to carry out their own assessments and have regard to their findings in determining what their risk appetite is, and what constitutes appropriate measures to manage and mitigate risks. The results of this assessment should also be used by supervisory authorities to aid in shaping their inspection programs and identifying those entities that may require more specialized supervision.

The methods by which proliferation activities are being financed continue to evolve. This is particularly relevant with regard to the use of virtual assets and provision of services by virtual asset service providers to facilitate PF. It is imperative, therefore, that Naoero continues to review its CPF regime on an ongoing basis and seek to ensure that it remains robust and adaptable to any developing risks. Naoero has to strengthen its shipping register to mitigate the risk of Naoero-flagged ships being misused for PF or PF-related activities.

## 12. Financial Inclusion Risk Assessment

### 12.1 Introduction

Financial inclusion—ensuring individuals and businesses have access to useful, affordable, and appropriate financial products and services (payments and transfers, deposit-taking and savings, credit/loans, insurance) delivered responsibly and sustainably—is a critical development objective and a key factor in AML/CFT risk mitigation. In Naoero, the state of financial inclusion has direct relevance to the ML/TF risk profile: limited access to formal financial services can push economic activity into informal or cash-based channels, increasing vulnerabilities.

FATF Recommendation 1 encourages countries to deepen their understanding of the relationship among ML/TF risks, AML/CFT measures, financial exclusion, and informal economies by conducting a specific risk assessment focused on financial exclusion problems and financial inclusion products and services. This approach ensures proportionate and effective implementation of FATF standards in line with a risk-based approach. When integrated with other FATF recommendations, it is a key component in building an effective AML/CFT regime that prevents financial exclusion and informality while mitigating ML/TF risks in the formal financial sector.

The new *2025 FATF Guidance on Financial Inclusion and AML/CFT Measures*<sup>200</sup> and *2025 ML NRA toolkit*<sup>201</sup> requires that countries, in preparation of their next mutual evaluation, should:

- Assess the AML/CFT-related risks (financial exclusion integrity risks) of their informal/shadow economies;
- Assess the extent to which financial inclusion in the country matches the broader definition adopted by the FATF, especially in relation to active usage of regulated products and services, and identify any relevant barriers to be addressed;
- Assess where financial inclusion should be supported as a financial exclusion integrity risk mitigation measure, undertake a granular risk assessment of appropriate products, services and customers to identify lower risks where SDD can be encouraged; and
- Determine and communicate the country's AML/CFT priorities and risk tolerance levels to inform a strategic approach that would lower the level of overall ML/TF risk in the country.

This chapter assesses the financial exclusion integrity risks of Naoero, focussing on ML/TF risks stemming from existing and emerging or new financial inclusion (FI) products, and outlines recommended measures to mitigate the risks in the products.

### 12.2 FATF's Perspective on Financial Inclusion and Exclusion

FATF recognizes financial inclusion as a critical component of both economic development and effective AML/CFT frameworks. Financial inclusion refers to the ability of individuals and businesses to access and use formal financial services—including payments and transfers,<sup>202</sup> deposit-taking and

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<sup>200</sup> FATF (2025) *Guidance on Financial Inclusion and Anti Money Laundering and Terrorist Financing Measures* (FATF: Paris, June 2025)

<sup>201</sup> FATF (2025) *Money Laundering National Risk Assessment Toolkit – Annexes A-C* (FATF: Paris, August 2025)

<sup>202</sup> i.e., sending or receiving money domestically or cross-border

savings,<sup>203</sup> credit/loans,<sup>204</sup> and insurance<sup>205</sup>—safely, efficiently, and responsibly. In the past few years, the concept of financial inclusion has evolved, from access to regulated financial services to also include appropriate usage and quality of those services and products, financial literacy, financial resilience and financial well-being of end-users.<sup>206</sup>

FATF emphasizes that financial exclusion occurs when individuals or businesses face barriers to accessing these services, either no access or limited access, due to geographic, economic, identification, literacy, or regulatory constraints. Excessive exclusion pushes individuals into informal or cash-based channels that are less transparent and potentially higher risk for ML/TF activity.

Expanding financial inclusion is therefore essential for reducing the informal economy and the use of cash, lowering ML/TF vulnerabilities in the financial system, enhancing the effectiveness of AML/CFT measures, and ensuring that low-risk individuals and small businesses can participate in the formal financial sector in a way that aligns with risk-based AML/CFT requirements.

Informal or “shadow” economies create an ideal environment for criminal and terrorist organizations to generate, conceal, launder, and mobilize funds, potentially undermining AML/CFT efforts. Countries with higher levels of financial exclusion typically see increased ML/TF risk associated with informal transactions and cash reliance, making financial inclusion a critical component of risk mitigation.

## 12.3 Financial Inclusion Landscape in Naoero

### 12.3.1 Structural Context

The 2025 International Monetary Fund (IMF) Article IV Consultation on Naoero noted that “Naoero’s financial system is in a nascent stage and remains generally stable, though it faces pockets of vulnerabilities”<sup>207</sup>, which is primarily due to the presence of single bank (*via the agency agreement with the Government of Naoero*) in Naoero which provides basic services but without extending credits<sup>208</sup>.

Naoero has limited financial services and cross-border payment facilities and its banking and financial infrastructure is extremely limited. Like many other microstates in the Pacific, Naoero does not have its own currency or central bank and uses the Australian dollar as the legal tender. Naoero also does not have any licenced commercial banks. Since mid-2015, the Bendigo Bank is offering primary banking services in Naoero under an agency agreement with the Government of Naoero and is subject to Australian financial supervision and AML/CFT regulations and supervision. Under the agency agreement, the Bendigo Bank provide Naoero’s residents access to basic financial services, which includes savings and transaction accounts, ATM access, debit cards, and electronic payments through

<sup>203</sup> i.e., holding money safely in accounts

<sup>204</sup> i.e., borrowing for personal, business, or productive purposes

<sup>205</sup> i.e., for managing any financial shocks

<sup>206</sup> FATF (2025) *Guidance on Financial Inclusion and Anti Money Laundering and Terrorist Financing Measures* (FATF: Paris, June 2025), p. 10.

<sup>207</sup> IMF (2025) *2025 Article IV Consultation – Press Release; Staff Report; Staff Statement; and Statement by the Alternate Executive Director for the Republic of Naoero* (IMF Country Report No. 25/275, September 2025).

<sup>208</sup> Ibid (emphasis added).

internet banking. However, the Bendigo Bank *via* the Bendigo Bank Agency does not offer credit or loan facilities, and foreign exchange/cross-border services also remain limited.

In addition to the Bendigo Bank agency, an agent of Western Union, an international money transfer operator also operates in Naoero since 2008 under the Business License Act. It implements group-wide AML/CFT policies of its head office based in New Zealand and is supervised by the NFIU for AML/CFT compliance.

Naoero's connectivity to the global payment system remains fragile and constrained. Until March 2023, Western Union operated under an unusual model in Naoero whereby the total daily remittance value for all customers combined were capped at AUD 20,000, after which the office would close for the day. Only since March 2023, this cap has been removed, and there is no longer a limit or there is no cap on total remittances per day now. Customers onboarded through the Bendigo Bank Agency have access to correspondent banking relationships (CBR) services via the Bendigo Bank, but they do not have access to CBRs for foreign currency transactions in USD, Euro or GBP through Bendigo bank Australia.

Although Naoero's connectivity to the global payment system remains fragile and constrained due to Naoero's small size, economy, population and its remoteness – limiting the operational reach of its formal financial sector – the commencement of CBA's operations in August 2025, which will provide access to CBRs for foreign exchange transactions in all major currencies (including USD, GBP and EUR), is expected to further strengthen and enhance the overall financial system in Naoero.

Regarding Naoero's financial system, the IMF has observed that it remains at a nascent stage of development—generally stable but with certain pockets of vulnerability.<sup>209</sup> During the preparation of this risk assessment, the CBA commenced operations in Naoero in August 2025, marking a significant transition in the domestic financial services landscape. The IMF emphasized that “an orderly transition from Bendigo Bank to CBA is necessary to maintain financial stability.”<sup>210</sup> It further recommended proactive public outreach to encourage depositors—particularly non-individual entities—to establish accounts with CBA, along with enhanced coordination between government agencies and the Agency to address potential bottlenecks and minimize disruptions in banking services.

### ***12.3.2 Financial Inclusion indicators & data limitations***

#### ***12.3.2.1 Structural and Contextual indicators of Financial Exclusion Risk***

##### **A. Extent of cash usage**

As discussed in this report earlier, the extent of cash usage in Naoero has significantly declined over recent years, reflecting improved financial inclusion and reduced ML/TF risk associated with cash-based transactions. In the 2018 NRA, cash smuggling was assessed as Naoero's highest ML risk. The assessment attributed this primarily to assumed compensating cash uplifts following

<sup>209</sup> IMF (2025) 2025 Article IV Consultation – Press Release; Staff Report; Staff Statement; and Statement by the Alternate Executive Director for the Republic of Naoero (IMF Country Report No. 25/275, September 2025) - Statement by the IMF Staff Representative September 17, 2025.

<sup>210</sup> Ibid.

depletion of withholding cash reserves and to predicate offences such as tax evasion (87% of illicit funds), corruption, robbery, and theft. The vulnerability of this risk was also deemed high due to weak border control mechanisms at the time, which facilitated potential cross-border movement of cash without detection.

Since 2018, substantial mitigating measures have been introduced. Legislative and operational reforms have strengthened border control and introduced mandatory reporting of all cross-border cash declarations and infringements to the NFIU. Customs now applies a risk-based approach, using non-intrusive inspection technologies, full scanning of checked-in luggage, and random inspection of hand luggage. Additionally, all business owners undergo physical searches before departure, further reducing the likelihood of illicit cash movements.

The 2023 NRA accordingly assessed the risk of illegal export of cash as low, confirming that the earlier vulnerabilities have been largely mitigated. This improvement is also supported by structural changes in the domestic payment ecosystem. The Bendigo Bank Agency reported that only 1–2% of transactions are now conducted in cash, with widespread adoption of internet and electronic banking. The Government has also transitioned to fully electronic payments, including all payroll and contractor payments, significantly reducing the use of physical cash in public expenditure. The operation of 83 EFTPOS terminals nationwide further facilitates digital transactions and promotes cashless payments.

Overall, the extent of cash usage in Naoero has declined over the past years, indicating reduced financial exclusion risk and a lower associated ML/TF risk from cash-intensive activities. The transition toward digital payments and strengthened border measures demonstrates effective policy alignment between AML/CFT and financial inclusion objectives. However, continued monitoring is recommended to ensure that the residual reliance on cash—particularly in remote or informal economic activities—does not create exclusionary effects or residual ML vulnerabilities.

#### **B. Existence and size of unregulated MVTs (money/value transfer services)**

There is no firm evidence of alternative remittance occurring on the Island; however, due to the closure of bank accounts of many business owners by the Bendigo Bank Agency in the past several months, especially of Chinese business community, the existence of alternative remittance system cannot be completely overlooked. Behaviour of some of the Chinese business community and some of the refugees show potential red-flags for the operation of alternative remittance services, possibly on an ad-hoc basis. The alternative remittance remains an inherent risk in Naoero.

#### **C. Size of the informal or underground economy**

Naoero's informal economy is not precisely quantified due to a lack of comprehensive official statistics. Nonetheless, according to 2021 census by the Naoero Bureau of Statistics, although the Employment Population Ratio (EPR) was only 63.6%, the unemployment rate in Naoero was low

i.e., 5.0%, of which female unemployment rate was 5.2% and male unemployment rate was 4.9%.<sup>211</sup> The national youth unemployment rate was reported to be 12.0%.<sup>212</sup>

However, there is limited private sector in Naoero. Few Naoeros work in private sector and much of the economy relies on government and foreign aid. Many (approximately 95%) Naoeros are employed by the government. The reliance on a single, declining industry (phosphate), coupled with the government's role as the primary employer creates conditions where informal economic activities are necessary for many citizens to survive.

#### D. Barriers to access regulated services

According to 2025 the International Monetary Fund (IMF) Financial Access Survey (FAS), Naoero has relatively high levels of digital and traditional banking access. In 2024, there were approximately 100 units of non-branch retail agent outlets per 1,000 square kilometres and 500 units of ATMs per 1,000 square kilometres. In terms of adult population, there were 26.9 units of non-branch retail agents, 134.5 ATMs, and 2,152 deposit accounts per 1,000 adults. Digital adoption is notable, with 1,479.7 mobile and internet banking transactions and 1,210.7 debit cards per 1,000 adults, indicating widespread usage of electronic payment methods. The number of depositors mirrors transaction figures, at 1,479.7 per 1,000 adults, reflecting strong formal financial participation.

There are no legal or regulatory restrictions (e.g., on non-residents, refugees) to access financial services in Naoero. Moreover, there have been no specific issues highlighted related to documentation and identification challenges; however, the high cost of services has been indicated related to remittances, which appears to have been mitigated in the recent years by foreign Payment Service Providers (PSPs). The fee for withdrawal from ATMs in Naoero is AUD 2.00 at the Bendigo Bank Agency's outlet and AUD 3.60 outside the Agency outlet respectively. There are limited financial payment tools in Naoero; cross-border mobile and internet-based transfer services have also been introduced by foreign PSPs.

Limited financial literacy and low trust in institutions is however a contextual issue in Naoero, as in the case in many Pacific Island countries more broadly. This has been highlighted in a number of studies.<sup>213</sup> According to a Needs Assessment Report, published by the International Telecommunication Union (ITU) and approved by the Government of Naoero:

*Bendigo Bank, does not offer loan products due to a lack of a strong savings culture and financial literacy in the country. This has hindered the bank's ability to provide loans, particularly to SMEs. The regulatory environment for credit is underdeveloped, resulting in*

<sup>211</sup> Available at: <https://stats.gov.nr/statistics/economic-statistics/> (accessed 06 July 2025).

<sup>212</sup> Ibid.

<sup>213</sup> See, ADB (2023) *Strengthening Financial Inclusion and Financial Sector Development* (TCR Validation Report, June 2023); International Telecommunication Union, *Naoero Needs Assessment Report*, p. 11. Available at: [https://www.itu.int/en/ITU-D/Regional-Presence/AsiaPacific/Documents/Projects/SVSI/APPROVED%20by%20Gov\\_Naoero%20Needs%20Assessment%20Final.pdf](https://www.itu.int/en/ITU-D/Regional-Presence/AsiaPacific/Documents/Projects/SVSI/APPROVED%20by%20Gov_Naoero%20Needs%20Assessment%20Final.pdf) (accessed 11 November 2025); J. Collins (2023) *Reducing Remittance Costs in the Pacific Islands* (Lowy Institute Policy Brief, October 2023); Y.S.Zhou et al (2024), *Rise of Digital Money: Implications for Pacific Island Countries* (IMF Departmental Papers DP/2024/003, February 2024).

*limited credit options and the prevalence of unsustainable practices like pay-day lending. The absence of an insurance provider in Naoero increases risk for SMEs and hampers investment opportunities.*<sup>214</sup>

#### **E. Prevalence of de-risking practices**

In recent years, strains in correspondent banking relationships and other factors appears to have led the Bendigo Bank to become increasingly reluctant to provide financial services through the Bendigo Bank Agency to the remittance sector and some retail businesses in Naoero. As a result, the MVTs provider and businesses in Naoero have recently faced the closure of its bank accounts, leaving the sector more vulnerable to ML/TF risks. To overcome challenges in accessing financial services, the MVTs provider has reportedly been accepting funds in Naoero and using either a personal or business account held in another jurisdiction (Australia) to process transfer, further heightening vulnerabilities through this alternate remittance arrangement due to financial exclusion. The cash collected in Naoero is then deposited to the personal account. Similarly, due to the closure of bank accounts of many business owners by the Bendigo Bank in the past several months, especially of Chinese business community, increases the risk of use of alternative remittance systems.

#### **F. Vulnerability of un/underserved people**

No cases have been identified to date that indicate misuse or targeting of unserved or underserved persons for ML/TF purposes in Naoero. This reflects both the small population size and the limited complexity of domestic financial activities.

The majority of the population now has access to regulated financial services through the Bendigo Bank Agency and Western Union, with increasing use of internet and electronic payments. The Government's policy of fully electronic salary and contractor payments has further reduced dependency on informal financial mechanisms, thereby lowering the vulnerability of financially excluded groups to exploitation.

Moreover, there is no evidence of criminal networks using unbanked or low-income individuals as intermediaries (e.g., money mules or cash carriers), and no reports of coercion, fraud, or exploitation of financially vulnerable persons for ML/TF purposes.

While current indicators suggest low vulnerability, this does not eliminate potential exposure in the future. As financial services become increasingly digital, attention should be maintained on digital literacy gaps, online fraud, and access barriers for older persons or those without reliable internet access, which could create new forms of vulnerability or exclusion if not addressed through targeted consumer education and financial literacy initiatives.

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<sup>214</sup> International Telecommunication Union, *Naoero Needs Assessment Report*, p. 11. Available at: [https://www.itu.int/en/ITU-D/Regional-Presence/AsiaPacific/Documents/Projects/SVSI/APPROVED%20by%20Gov\\_Naoero%20Needs%20Assessment%20Final.pdf](https://www.itu.int/en/ITU-D/Regional-Presence/AsiaPacific/Documents/Projects/SVSI/APPROVED%20by%20Gov_Naoero%20Needs%20Assessment%20Final.pdf) (accessed 11 November 2025).

## G. Effectiveness of national financial inclusion policies

The Government of Naoero does not have a stand-alone strategy or action plan explicitly on financial inclusion. The data available on financial inclusion is relatively high-level and there are limited published, detailed breakdowns of undeserved groups, barriers to access, or targeted financial-inclusion interventions.

### 12.3.2.2 *Qualitative Indicators of Financial Inclusion/Exclusion*

Demand-side adult-survey data (such as from the Global Findex Database from the World Bank) are either not available or not publicly disaggregated for Naoero, making measurement of key indicators (account ownership, account usage, digital payments activity, formal savings/borrowing) difficult.

The Naoero Bureau of Statistics, under the Ministry of Finance, publishes financial statistics on its website covering indicators such as the total number of bank accounts, personal customer accounts, ATM transactions, average account balances, and personal customer transaction and savings balances. However, these datasets have not been updated since 30 June 2020. According to the statistics available as of that data:<sup>215</sup>

- More than 12,000 bank accounts were held with the Bendigo Bank through the Bendigo Agency;
- Over 11,400 of these were personal customer accounts;
- Approximately 40,000 ATM transactions were conducted each month, valued at around AUD8.3 million;
- The average account balances stood at AUD 18,000;
- The average personal customer transaction and savings balances was an average of AUD 2,000; and
- During 2019-20 financial year, Naoero customers generated over 1.2 million transaction totalling more than AUD 2 billion.

Since 2022, Naoero has begun reporting financial access data to the International Monetary Fund (IMF) Financial Access Survey (FAS). The FAS provides information on the number of ATMs, deposit accounts, debit cards, and mobile/internet banking transactions. However, granular breakdown of financial inclusion indicators – particularly at the adult level – remains unavailable. According to the IMF's 2025 FAS, which reflects 2024 annual data, Naoero recorded the following statistics on financial service access and usage, which have improved since 2022<sup>216</sup>:

- Approximately 16,000 deposit accounts;
- 10 ATMs across the country;
- Around 11,000 mobile and internet banking transactions;
- 11,000 depositors;
- 9,000 debit card users; and

<sup>215</sup> <https://stats.gov.nr/statistics/financial-statistics/> (accessed 30 October 2025).

<sup>216</sup> [https://data.imf.org/en/Data-Explorer?datasetUrn=IMF.STA:FAS\(4.0.0\)](https://data.imf.org/en/Data-Explorer?datasetUrn=IMF.STA:FAS(4.0.0)) (accessed 30 October 2025).

- 2 non-bank retail agent outlets.

Since both the Banking Agency and, more recently, the CBA Agency, operate outside Naoero's domestic AML/CFT supervisory framework, data on usage and usage patterns is limited locally. Nevertheless, according to the information provided by the representative of the Bendigo Bank Agency for this risk assessment, as of mid-2025, the Bendigo Bank maintained 17,000 bank accounts of customers from Naoero, operated 13 ATMs (of which 8 were functional), supported 83 EFTOPS terminals, and issued about 8,000 debit cards. The majority of customers (around 70%) used internet banking while only 20% primarily used ATMS/EETPOS services. Additionally, according to 2025 IMF Article IV Consultation on Naoero, bank deposits as of May 2025 total AUD257.1 million, distributed across current accounts (58% of total deposits), savings accounts (11%), and fixed deposit accounts (30%).<sup>217</sup>

On starting its operations in August 2025 in Naoero, CBA reported to be offering a broader suite of financial products, including savings and transaction accounts for individuals, and is progressively introducing business saver accounts, merchant facilities (though not universally), internet banking, and telegraphic transfers in 19 major currencies, including USD, EUR, and GBP. This transition is anticipated to expand financial access, enhance digital payment capacity, and contribute to the long-term stability and inclusiveness of Naoero's financial sector. According to the IMF 2025 Article IV Consultation Report for Naoero, "the CBA has ... endorsed Naoero as a low-risk jurisdiction with a high level of financial inclusion. Banking services are available for deposit and real-time payments, including international payments in major currencies."<sup>218</sup>

As discussed earlier, cross-border remittances historically been offered through the Bendigo Bank Agency had some limitations, especially due to lack of major currencies for telegraphic transfers. The shift to CBA is expected to improve access through stronger correspondent banking links and by making telegraphic transfers possible in 19 major currencies, though the impact will depend on transfer fees, service availability, and public awareness. Alongside the banks, Western Union remains the easiest option for people needing cash transfers or payouts, but it is also associated with high remittance cost (minimum AUD\$20 for the amount between AUD\$1-AUD\$75 and it continues increasing with the amount of transaction). The emergence of foreign PSPs offers cheaper and faster cross-border transfers, yet they mainly benefit those who already have bank accounts, internet access, and adequate digital literacy. This means low-cost digital options deepen inclusion only for some, while others may continue to rely on high-cost or informal channels, reinforcing financial exclusion and increasing vulnerabilities linked to alternative remittance channels.

Despite notable progress in financial inclusion in recent years—particularly through the services offered by the Bendigo Bank Agency, which expanded access to bank accounts and ATMs—the credit

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<sup>217</sup> IMF (2025) 2025 Article IV Consultation – Press Release; Staff Report; Staff Statement; and Statement by the Alternate Executive Director for the Republic of Naoero (IMF Country Report No. 25/275, September 2025). <https://www.elibrary.imf.org/view/journals/002/2025/275/article-A001-en.xml#:~:text=As%20of%20end%2DFY2024%2C%20the%20government,administration%20and%20making%20initial%20contributions>.

<sup>218</sup> IMF (2025) 2025 Article IV Consultation – Press Release; Staff Report; Staff Statement; and Statement by the Alternate Executive Director for the Republic of Naoero (IMF Country Report No. 25/275, September 2025) - Statement by the IMF Staff Representative September 17, 2025.

dimension of financial inclusion remains largely underdeveloped. The absence of a formal domestic credit market means that “formal borrowing” opportunities are minimal or non-existent. Similarly, savings and insurance products appear to be limited, reflecting the lack of supporting institutional infrastructure within Naoero’s financial system. Naoero’s National E-Commerce Assessment 2021 also notes that

*Weak access to finance and the lack of insurance providers has been identified as a critical challenge for Small and Medium Enterprises (SMEs) ... The regulatory framework for credit and insurance needs to be developed before such services can be offered. Broader issues of weak savings culture, among others, also need to be addressed.*<sup>219</sup>

This has also been highlighted in the IMF’s 2023 Article IV Consultation of Naoero which states that

*On the Island, there is a high degree of financial inclusion and access to cash through Automatic Teller Machines, but the agency does not lend to households or businesses, and no insurance products are available.*<sup>220</sup>

Existing data and documentation on financial inclusion in Naoero primarily focus on basic banking access, such as the number of bank accounts or ATMs, but provide little insight into active usage, access to credit, or uptake of insurance services—all of which are critical indicators of comprehensive financial inclusion.

### 12.3.3 Implications for Financial Inclusion Depth and Breath

While Naoero has made progress in expanding access to basic deposit and savings services through banking agencies such as the Bendigo Bank Agency and now the CBA Agency, the overall depth of financial inclusion remains limited. Many individuals and small businesses continue to rely on informal mechanisms, including cash holdings and borrowing or saving through family and friends. This reliance reflects both the historical underdevelopment of formal financial infrastructure and the restricted range of available financial products.

The breadth of financial inclusion is also constrained. Formal financial services in Naoero remain largely limited to transaction and savings accounts, with very few options for credit, insurance, or advanced digital payment services. The absence of such diversified offerings reduces the ability of individuals and businesses to manage financial risks, build resilience against economic shocks, and access productive credit—all key benefits typically associated with deeper financial inclusion.

Several structural factors continue to limit both the depth and breadth of inclusion:

- **Geographical remoteness** and dispersed populations increase the cost of delivering financial services efficiently.
- **Small population** size restricts the commercial viability of diverse banking products.

<sup>219</sup> Pacific E-Commerce Initiative (2021) *National E-Commerce Assessment: Naoero* (August 2021), p. 11.

<sup>220</sup> IMF (2023) *2023 Article IV Consultation – Press Release; Staff Report; Staff Statement; and Statement by the Alternate Executive Director for the Republic of Naoero* (IMF Country Report No. 23/376, September 2025) – Statement by Robert Bruce Nicholl, Executive Director for Republic of Naoero and Chris Becker, Advisor to the Executive Director November 17, 2023, p. 3.

- **Market-scale limitations** create challenges for economies of scale that are essential to sustain broad, cost-effective financial services.

Nevertheless, the recent transition from the Bendigo Bank Agency to CBA Agency, coupled with improvements in digital and telegraphic banking services, presents an opportunity to broaden financial access and usage. Over time, sustained banking stability could support the introduction of credit products, including business and consumer loans. However, to ensure that these services are used responsibly and contribute to a sustainable financial ecosystem, financial literacy initiatives must be prioritized. Enhanced understanding of borrowing, saving, and digital financial services will be critical for Naoero to achieve both deeper and wider financial inclusion while mitigating associated ML/TF risks.

## 12.4 Financial Inclusion Products/Services, including recent and emerging initiatives

According to the authorities, as of 30 June 2025, there were no service providers in Naoero offering dedicated financial inclusion products. Nonetheless, based on available information during consultations, existing banking operations, and later follow-ups, this section examines and evaluates the specific features of some of the financial inclusion (FI) products in Naoero, along with their associated risks, to determine whether they may qualify for Simplified Due Diligence (SDD) under AML/CFT standards.

### 12.4.1 Regular Savings Accounts

The Bendigo Bank through its Agency offers regular savings accounts as part of its core banking services. However, as the Bendigo Bank and the Agency does not fall under the AML/CFT supervision of the NFIU, there is no available data on the number of active savings accounts or the specific AML/CFT controls applied to them. The banking agency operates under Australia's AML/CFT regulatory framework, including the potential application of simplified due diligence (SDD) measures for products or customers assessed as low ML/TF risk.

Information gaps remain concerning the product's characteristics—such as whether accounts are offered only to existing clients or also to walk-in customers, transaction volumes and thresholds, average daily activity, availability to non-residents, and any cross-border functionalities. Due to these data limitations, it is not possible to fully evaluate the ML/TF risk profile of the savings accounts facilitated by the Bendigo Bank Agency or to identify appropriate measures for supporting financial inclusion through this product.

### 12.4.2 MVTs

There is only one licensed MVTs provider in Naoero – an agent of Western Union – which has been offering cross-border remittance services since 2015. Since March 2023, Western Union in Naoero has lifted its previous operational restriction that capped the total daily remittance value for all customers at AUD 20,000, after which transactions ceased for the day. The removal of this cap has facilitated greater access to remittance services and promoted financial inclusion by allowing customers to send funds without interruption. However, it has also increased the potential ML/TF exposure, as higher

transaction volumes now may flow through the channel requiring effective monitoring and controls. The MVTS provider applies group-wide policies, procedures, and controls of its head office and is supervised by the NFIU.

### *12.4.3 Payment Service Providers (PSPs)*

People in Naoero have access to two mobile and internet money transfer platforms provided by foreign PSPs. These foreign PSPs provides the foreign exchange, clearing, and settlement network that enables cross-border transfers and regional interoperability. The platforms rely on their regional payment/settlement network to facilitate the movement of value between Pacific Island and some other countries.

Both foreign PSPs offer low-cost cross-border transfers, which support financial inclusion by giving Naoero users access to more affordable remittance options, their fees remain relatively low – around AUD\$5 per transfer depending on the transaction size and payment method. One operates under New Zealand’s regulatory and supervisory framework while the other is supervised in Australia as a licensed remittance and non-cash payment provider. Their services are available to both Naoero and non-Naoero customers on the Island, and their home-country regulation, combined with internal controls, is considered by Naoero authorities to provide a degree of risk mitigation. Transfers from-and-to Naoero are stated to be only made via a bank account held with the Bendigo Bank *via* the Agency, and nether provider offers e-wallets, stored-value products or cards; they only facilitate international transfers. However, neither provider is licensed or registered to provide services in Naoero, meaning they are not formally regulated and/or supervised by Naoero authorities nor comes under the AML/CFT supervision of NFIU. As a result, no data is thus available on the number or value of transactions conducted by Naoero customers through these channels, both residents and non-residents, nor on the specific controls put into place to manage and mitigate ML/TF risks.

Since both the identified PSPs allow cross border transactions, their services can be attractive for misuse, including ML/TF. Managing and mitigating these risks usually requires measures such as reporting transactions above the threshold, limiting such transactions in terms of transactions, the amounts that can be transacted, and transactions with high-risk jurisdictions. While both these platforms support and promote financial inclusion, there is no information available in Naoero on their policies, controls and procedures for cross-border activity, as they are not regulated in Naoero. There is also no available data on the number or value of mobile or internet-based transaction carried out by Naoero users, nor on the size of the user base, which limits the ability to assess overall risk and inclusion levels.

Overall, while foreign PSPs offer useful innovations that can lower costs and expand access, they also introduce significant ML/TF risk when not supported by adequate oversight. Their online nature, combined with the fact that they operate from foreign jurisdictions with different regulatory requirements, limits Naoero’s ability to monitor their compliance. These risks are amplified when users have low financial literacy or rely heavily on digital services without understanding the safeguards needed. For this reason, broader access through foreign PSPs should be matched with a clear and proportionate regulatory and monitoring framework to ensure that financial inclusion does not create new vulnerabilities.

#### 12.4.4 Government Programs/Initiatives

The Government of Naoero does not appear to have a stand-alone strategy or action plan explicitly on financial inclusion. As discussed in previous sections, the data available on financial inclusion is relatively high-level and there are limited published, detailed breakdowns of underserved groups, barriers to access, or targeted financial-inclusion interventions. Nonetheless, the Government of Naoero has published a “Naoero National Digital Transformation Strategy (NNDTS) 2025-2030”, signalling its intent to promote connectivity, efficiency and access to digital services across the economy, supporting financial inclusion via digital payments and mobile banking. The NNDTS provides as follows:

*The government will develop a secure and efficient mobile and digital payment platform to enhance financial inclusion and economic activity. This platform will be integrated with the national digital ID system and other digital services and will enable citizens to conduct financial transactions easily and securely. The scope includes developing the technical infrastructure, ensuring the security of transactions, promoting the adoption of mobile and digital payments among citizens, and integrating the system with other digital services.*<sup>221</sup>

Additionally, Naoero has engaged in the Pacific Islands Forum’s Regional E-commerce Strategy and Roadmap<sup>222</sup>, an initiative that encourages the development of mobile money, digital currencies and digital wallets, either in partnership with traditional banks or through independent service providers.

Improved digital infrastructure is a facilitative condition for greater financial inclusion (digital payments, e-money platforms, remote access). It may also support AML/CFT supervision via digital capture and monitoring of transactions.

The Government’s efforts to widen economic participation also support financial inclusion in many meaningful ways. In 2025, the Government has passed the Naoero Small Business Enterprises Act 2025, establishing and providing Small Business Enterprises Fund to encourage Naoeros to engage in small business enterprises, helping them to build basic financial and entrepreneurial skills while creating alternative or supplementary source of income. A similar grant assistance program has also been run by Naoero Ocean Resources Inc (NORI) which although aims at community development, also helps groups manage funds, plan small projects, and interact with formal processes, all of which strengthen financial capability and broaden inclusion.

#### 12.4.5 Virtual Assets

As discussed in Chapter 9 of this NRA, in June 2025 Naoero passed legislation establishing the Command Ridge Virtual Asset Authority (CRVAA) — the first such digital-asset regulator in the Pacific.

<sup>221</sup> Naoero National Digital Transformation Strategy 2025 – 2030, p. 15. Available at:

[https://www.Naoero.gov.nr/media/204028/nndts\\_final\\_version\\_2025.pdf](https://www.Naoero.gov.nr/media/204028/nndts_final_version_2025.pdf) (accessed 29 October 2025).

<sup>222</sup> Pacific E-Commerce Initiative (2021) *Pacific Regional E-Commerce Strategy and Roadmap* (August 2021). Available at:

<https://pacificcommerce.org/wp-content/uploads/2022/06/Regional-Ecommerce-Strategy-Roadmap.pdf> See also, Pacific

E-Commerce Initiative (2021) *National E-Commerce Assessment: Naoero* (August 2021). Available at:

<https://pacificcommerce.org/wp-content/uploads/2022/06/NAOERO-ECommerce-Assessment.pdf> (accessed 29 October 2025).

CRVAA will oversee virtual asset service providers (VASPs), DeFi services, stablecoin issuance, token issuance, and cross-border payment and settlement solution, among others.

While this initiative may reduce traditional barriers to financial access and promote inclusion opportunities (e-money, digital wallets, cross-border payments) with low transaction costs than traditional transfer channels, it simultaneously introduces financial stability and integrity risks, including consumer protection and ML/TF risks (e.g., anonymity, cross-border flows, novel instruments) unless robust controls are implemented. For more details, please refer to Chapter 9 of this NRA.

## 12.5 Overall Conclusion

In Naoero, financial inclusion remains constrained by structural, geographic and market-scale factors. While basic banking access has improved with the Banking Bank Agency and now with the transition to CBA Agency expanding financial services while maintaining low ML/TF risk, the depth of inclusion (especially credit, digital payments, insurance) remains shallow, which implies that there are “economic exclusion” zones where financial activity may be informal and outside of formal AML/CFT oversight. Informal channels, cash reliance, and limited credit/insurance access increase ML/TF vulnerability. Where formal access is limited, individuals or businesses may use informal (cash-based) transactions, peer-to-peer transfers, or non-regulated financial intermediation, which may reduce transparency and increase ML/TF risk.

The expansion of digital payments and virtual-asset services presents significant opportunity for leap-frog inclusion, but also increased ML/TF risk if oversight is weak, if VASPs or money transfer providers are not effectively regulated/supervised, or if cross-border flows circumvent controls.

The combination of a small population, remote geography and limited financial-market scale place Naoero at higher structural risk of de-banking or reliance on few correspondent banks; in turn, this concentration can affect resilience of formal flows and oversight.

Improved infrastructure and strategy (digital transformation, virtual-asset regulation, AML policy) create momentum, but the speed of uptake, capacities (supervisory, compliance, technological) and institutional resources are a challenge.

## 12.6 Next Steps

To strengthen the inclusion-risk nexus and reduce ML/TF vulnerabilities via financial exclusion or new channels, the following actions are recommended:

- **Expand data collection on financial inclusion:** Undertake a national survey (or integrate into existing surveys) of adult financial-service usage: account ownership, digital payment and cross-border remittance use especially via PSPs, and formal savings/borrowing. This will enable monitoring of inclusion trends, and help identify underserved segments.
- **Promote accessible deposit and payment services:** Encourage providers (banks, e-money platforms) to expand reach (including remote communities) and develop affordable digital payment/savings products. Formalising such access reduces reliance on informal cash flows.

- **Ensure robust AML/CFT oversight of emerging new technologies:** This includes strengthening oversight of foreign PSPs operating in Naoero, as well as the new VASPs that will be licensed under the CRVAA Act. Given that these platforms facilitate rapid cross-border transactions, the regulator and the FIU should monitor flows, ensure transparency and coordinate with foreign counterparts to detect any illicit activity while ensuring that these safeguards continue to support, rather than restrict, access to financial services.
- **Strengthen correspondent banking resilience and payment-connectivity:** Given the small market size, work with regional partners to maintain correspondent banking links, shared infrastructure or pooled services to avoid exclusion from the global financial system. Efforts to address CBR pressures should take into account the low-risk environment of ML/TF in Naoero and focus on the outreach to key foreign regulatory authorities, including a corridor risk assessment.
- **Target financial-inclusion outreach:** Identify population segments (e.g., remote, older persons, informal economy) that may be unbanked or underserved, and support financial-literacy, incentives or tailored services to bring them into the formal system.
- **Foster financial literacy:** Sustained stability in the banking sector could offer a pathway to the introduction of credit services; however, fostering financial literacy is a prerequisite to harnessing this opportunity. Such a phased approach can facilitate responsible borrowing, eventually paving a way for a sustainable credit environment.

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