Mutual Evaluation of Malaysia

Anti-money laundering and countering the financing of terrorism and proliferation financing measures

December 2025

The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF Recommendations are recognised as the global anti-money laundering (AML) and counter-terrorist financing (CFT) standard.

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How to read this mutual evaluation report

The Financial Action Task Force (FATF) has revised its assessment methodology to place an even greater focus on effectiveness, to ensure that countries are implementing and making use of the laws, regulations and policies that are being passed, as well as a greater emphasis on the major risks and context. This round of mutual evaluations is operating on a six-year cycle, significantly shorter than earlier rounds, and includes time-bound Key Recommended Actions roadmaps for countries that need to improve in key areas.

Effectiveness has been assessed according to the 11 immediate outcomes that an effective anti-money laundering/countering the financing of terrorism/countering proliferation financing (AML/CFT/CPF) framework should be able to deliver. The extent to which a country is taking effective action in this area is reflected in ratings that range from low to high level of effectiveness (see chapters 1 – 11).

Technical compliance has been re-assessed in line with the FATF Recommendations where: (i) the country has made legal, regulatory or operational framework changes since its last mutual evaluation or follow-up report with technical compliance re-ratings and (ii) there has been a change in the FATF Standards for which the country has not previously been assessed. Where technical compliance has been reassessed the relevant section is clearly indicated in the Technical Compliance Annex. Where a Recommendation has not been re-assessed, the previous assessment is included under a grey heading (see Technical Compliance Annex – Annex A).

A glossary of key terms is available at the end of the report.

Citing reference:

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Executive summary

1. This report summarises the anti-money laundering, countering the financing of terrorism and counter-proliferation financing (AML/CFT/CPF) measures in place in Malaysia as of 21 February 2025. It analyses the level of compliance with the FATF 40 Recommendations and the level of effectiveness of Malaysia's AML/CFT/CPF system and provides recommendations on how the system could be strengthened.

Key Findings

a) Malaysia's previous mutual evaluation report (MER) was adopted in 2015, which was led by the Asia/Pacific Group on Money Laundering. Since then, Malaysia has become a member of the FATF and has further strengthened its legal framework, including introducing new institutional frameworks, amendments to various laws, the introduction of a new corporate liability offence and revisions to supervisory approaches and guidelines. Malaysia has also undertaken a range of initiatives to update and deepen its understanding of money laundering (ML), terrorist financing (TF), and proliferation financing (PF) risks, as well as to strengthen domestic cooperation and coordination mechanisms, and leverage enhanced IT solutions.

b) Since 2015, the 1Malaysia Development Berhad (1MDB) case—a sovereign wealth fund that became the subject of extensive domestic and international corruption investigations and asset repatriation efforts—has been a significant development, revealing structural vulnerabilities in areas such as transparency, governance and integrity. In response, Malaysia implemented substantial reforms encompassing policy, strategic, institutional, legislative, supervisory and operational levels. Given its scale and complexity, the 1MDB case is a priority for law enforcement agencies (LEAs), requiring the reallocation of resources from other ML investigations. LEAs have dedicated specialised personnel and expertise to investigate, prosecute, and recover assets, including tracing complex financial flows across multiple jurisdictions. While this focus has been critical in addressing the case and restoring public confidence, it has affected the LEAs' capacity to pursue other ML matters.

c) Overall, Malaysia has a sound understanding of its ML, TF, and PF risks. Risk assessments are conducted regularly using a robust and well-defined methodology that draws on a wide range of quantitative and qualitative data. While Malaysia has made progress in enhancing its risk understanding, further improvements are needed in specific areas, such as enriching its understanding of cross-border crimes, third-party ML, trade-based ML, and ML risks associated with the Labuan International Business and Financial Centre (Labuan IBFC). A notable strength of Malaysia's AML/CFT/CPF framework is its strong domestic coordination and cooperation mechanisms.

d) Since 2015, Malaysia has undertaken initiatives to expand data access and improve the efficiency of financial intelligence production, enabling competent authorities to draw on a wide range of information and intelligence to support criminal investigations. As a result, ML investigations have roughly tripled compared to the 2015 report. However, Malaysia faces significant challenges in translating ML investigations into prosecutions and convictions. Constraints include evidence collection, legislated time limits, limited prosecutorial training and experience, and a preference for compounds and tax-based asset recovery, all of which reduce the effectiveness of criminal enforcement. ML prosecutions and convictions remain misaligned with Malaysia's risk profile, and sentences, where imposed, are generally low. Nevertheless, the authorities demonstrated a strong emphasis on asset recovery, as evidenced by the recovery of approximately EUR 8 billion during the period under review, the majority of which pertained to 1MDB-related assets. Outside of 1MDB, most recoveries have relied on tax or administrative remedies, highlighting a limited use of criminal confiscation. Overall, while 1MDB-related recoveries are significant, other asset recovery efforts are not fully aligned with the country's risks.

e) Since 2019, Malaysia has convicted seven individuals of TF, with prison sentences ranging from 1.5 to 6 years, a notable improvement compared to the 2015 MER, which reported no TF prosecutions or convictions. However, concerns remain regarding the dissuasiveness of the sanctions imposed. In terms of targeted financial sanctions (TFS), Malaysia now actively applies its domestic designation regime alongside TF investigations and prosecutions, and implements both TF and PF TFS obligations promptly, based on a sound legal framework and supervisory guidelines. Nonetheless, designated non-financial businesses and professions (DNFBPs) generally focus more on identifying positive matches of listed individuals and pay less attention to detecting and freezing assets held by those acting on behalf of, or at the direction of, designated persons and entities.

f) Supervisors demonstrate a solid understanding of risks across the financial, virtual asset service provider (VASP), and DNFBP sectors. Risk understanding is generally sophisticated in larger financial institutions (FIs), VASPs, and DNFBPs, particularly casinos and trust and company service providers (TCSPs), while smaller FIs and DNFBPs have less-developed risk awareness and mitigation measures. Supervisory approaches rely heavily on general supervisors, supplemented by technical support teams, and expertise for in-depth examinations on some technical aspects rests with dedicated AML supervisors. Onsite examinations, especially in the onshore banking sector, could place greater emphasis on AML/CFT/CPF measures to reflect the high-risk nature of the sector. Supervisors employ a mix of remedial measures while sanctions and enforcement actions remain infrequent and are not proportionate to the risks identified. Technological tools support the identification of higher-risk DNFBPs and the supervision of both the MSB and DNFBP sectors. This has added to the efficiency and effectiveness of supervision overall. Nevertheless, the number of firms classified as high-risk does not always align with sectoral risk or reporting obligations.

g) Malaysia has a strong understanding of the risks associated with legal persons and arrangements, including foreign-created entities with sufficient links with the country. Malaysia has implemented risk-based measures to mitigate misuse, including oversight by company secretaries, Labuan trust companies, and professional trustees, as well as the prohibition of bearer shares. A multi-pronged approach is used to obtain accurate and up-to-date beneficial ownership (BO) information in a timely manner. While this approach is positive, further improvements are needed to fully meet the needs of competent authorities. Sanctions for non-compliance with BO information requirements are mainly applied for non-submission and are rarely applied for submission of false information.

h) Malaysia has a sound legal framework for international cooperation. The introduction of a new case management system in December 2024 is a positive development that may help reduce delays in responding to incoming requests. Since the MER 2015, Malaysia has shown increased use of mutual legal assistance (MLA) relating to ML, TF, corruption and fraud, though improvements are needed on the utilisation of MLA for investigation and prosecution particularly relating to high-risk predicate offences such as fraud, drugs trafficking, smuggling and organised crime. Malaysian authorities utilise other forms of cooperation including information exchanges through joint operations and regional cooperation/platforms for investigations and prosecutions, especially in addressing TF and cross-border risks such as drugs trafficking and smuggling. However, these measures cannot substitute for the underutilisation of MLA.

Ratings for effectiveness and technical compliance

	Effectiveness		Technical Compliance	
Risk mitigation through policy, co-ordination and co-operation				
Assessment of risk, coordination and policy setting	IO.1	Substantial	R.1	Compliant
			R.2	Compliant
International co-operation	IO.2	Moderate	R.36	Largely compliant
			R.37	Largely compliant
			R.38	Largely compliant
			R.39	Largely compliant
			R.40	Largely compliant
Cross-cutting requirements			R.33	Compliant
Prevention, detection & reporting of illicit funds across sectors				
Financial sector and virtual asset supervision and preventive measures	IO.3	Substantial	R.9	Largely compliant
			R.10	Compliant
			R.11	Largely compliant
			R.12	Compliant
			R.13	Compliant
			R.14	Compliant
			R.15	Largely compliant
			R.16	Compliant
			R.17	Largely compliant
			R.18	Compliant
			R.19	Compliant
			R.20	Compliant
			R.21	Compliant
			R.26	Largely compliant
			R.27	Compliant
Non-financial sector supervision and preventive measures	IO.4	Moderate	R.22	Largely compliant
			R.23	Compliant
			R.28	Largely compliant
Transparency and beneficial ownership	IO.5	Moderate	R.24	Largely compliant
			R.25	Compliant
Cross-cutting requirements			R.34	Compliant
			R.35	Largely compliant
Detection and disruption of threats, sanctions & deprivation of illicit funds				
Financial intelligence	IO.6	Substantial	R.29	Compliant
Money laundering investigations and prosecutions	IO.7	Moderate	R.3	Compliant
Asset recovery	IO.8	Moderate	R.4	Largely compliant
			R.32	Compliant
Terrorist financing investigations and prosecutions	IO.9	Substantial	R.5	Compliant
Terrorist financing preventive measures and financial sanctions	IO.10	Substantial	R.6	Compliant
			R.8	Largely compliant
Proliferation financing financial sanctions	IO.11	Substantial	R.7	Compliant
Cross-cutting requirements			R.30	Compliant
			R.31	Compliant

Note: Effectiveness ratings can be either a High- HE, Substantial- SE, Moderate- ME, or Low – LE, level of effectiveness. Technical compliance ratings can be either a C – compliant, LC – largely compliant, PC – partially compliant or NC – non-compliant. While the technical compliance findings can be relevant across the effectiveness immediate outcomes (for example, R.1 or R.40), the table above illustrates the main technical compliance findings specific to each effectiveness immediate outcome and cross-cutting requirements for each of the intermediate outcomes. For more detail on the relevant technical compliance requirements relevant to each effectiveness immediate outcome, see the relevant paragraph at the beginning of each chapter. See also paragraphs 53 and 54 of the FATF 2022 Methodology for links between effectiveness and technical compliance ratings.

Risks and general situation

2. Malaysia consists of two regions: Peninsular Malaysia (or West Malaysia) and East Malaysia in northern Borneo, which incorporates the Labuan IBFC, with its own supervisory structure governing Labuan FIs and legal persons and arrangements. Labuan reporting institutions (RIs) are subject to Malaysia's justice system and the same AML/CFT/CPF requirements as onshore domestic counterparts.

3. ML risks in Malaysia correspond to a range of factors, including domestic illegal activities like corruption and fraud (including scams and investment fraud); its strategic location as a transit hub for smuggling (drug, wildlife, weapons and migrants), human trafficking, organised crime and piracy; the presence of an informal economy; and the rapid growth of digital finance. Fraud, particularly online scams and investment fraud has emerged as a significant source of illicit proceeds in the country and the Southeast Asian region. Malaysia assesses the risk of corruption as high, and some high-ranking government officials have either been found guilty, charged, or are under investigation for corruption. High-profile cases like the 1MDB case underscore the significant illicit proceeds linked to corruption, which is often laundered through major international FIs.

4. Malaysia is not a source country for terrorism or TF, but its geographic proximity to terrorist groups in neighbouring jurisdictions exposes it to TF risks. TF typically involves small, self-financed amounts remitted overseas for travel or to provide material support to those in conflict zones [e.g., to Islamic State of Iraq and the Levant (ISIL)].

Risk assessment, coordination and definition of policies (Chapter 1 - IO.1; R.1, R.2, R.33 and R.34)

5. Malaysia has a sound understanding of its ML and TF risks, informed by five ML/TF national risk assessments (NRAs) and various other risk assessments. According to its most recent NRA (NRA 2023), Malaysia identifies fraud, corruption, illicit drug trafficking, smuggling, and organised crime as the highest ML threats, followed by tax crimes, forgery, human trafficking/migrant smuggling, sexual exploitation, and environmental crime. In terms of sectoral risks, banking institutions, dealers in precious metals and stones (DPMS), and lawyers face the highest sectoral ML risks, while money services business (MSBs) and designated payment instrument (DPI) issuers are rated medium due to reduced transaction volumes/value, and improved supervision, respectively. Labuan money brokers and Labuan banks face elevated ML risks from increased international transaction volumes and higher risk customers.

6. Malaysia's risk assessments are conducted on a regular basis and adopt a largely robust and well-defined assessment methodology that leverages a vast collection of quantitative and qualitative information. The extensive and systematic ML/TF data collection processes demonstrate strong political commitment and domestic cooperation towards risk understanding.

7. Despite Malaysia's efforts in improving its risk understanding, there are several areas where this could be deepened. For instance, the lack of enforcement data may impact the comprehensive understanding of ML risks in relation to cross-border crimes (including the laundering of foreign predicate offences in Malaysia), third-party ML and trade-based ML (TBML), the latter of which competent authorities demonstrated a mixed understanding. There is also a need to ensure that Malaysia's understanding of ML/TF/PF risks associated to virtual assets (VA) and VASPs is kept current, given the evolving risks in the region. Understanding the risks related to Labuan IBFC could also be improved by considering specific crime factors and the occurrence of predicate offences associated with it.

8. A key strength of Malaysia's AML/CFT/CPF system is its robust domestic coordination and cooperation at both the policy and operational levels. The long-established National Coordination

Committee to Counter Money Laundering (NCC) serves as the central body that brings together a broad range of stakeholders, including government agencies, regulatory bodies and competent authorities. The ongoing review and recalibration of its structure has reflected Malaysia's commitment in prioritising and refining its AML/CFT/CPF efforts. As outlined throughout the report, these coordination mechanisms have yielded positive results in major AML/CFT/CPF activities, including ML and TF cases.

International cooperation (Chapter 2; IO.2 ; R.36–40)

9. Malaysia has a sound legal framework for international cooperation. Authorities seek and provide MLA and extradition through a range of bilateral agreements and other international treaties that cover most jurisdictions in the region and major trading partners. Malaysia can also provide MLA and extradition on the basis of reciprocity.

10. Malaysia receives broadly positive feedback from other countries on formal cooperation. However, several delays in responses have been noted. A new case management system is a positive step that may help address delays, although as it was only introduced in December 2024, its impact on effectiveness cannot be determined at this stage. Delays are primarily due to incomplete requests and almost one quarter of incoming MLA requests are closed due to a lack of information, despite follow-up by Malaysia.

11. Malaysia prioritises incoming and outgoing requests according to the severity of the offence, the urgency of the request (as stated by the requesting country), and the risk of asset dissipation. In practice, MLA requests received by Malaysia were acceded or denied within 15 months, with approximately 53% within 12 months. Since the MER 2015, Malaysia has shown increased use of MLA relating to ML, TF, corruption and fraud, although improvements are needed for MLA to be fully utilised in investigations and prosecutions, particularly related to high-risk predicate offences such as fraud, drugs trafficking, smuggling and organised crime. Malaysian authorities utilise other forms of cooperation such as information exchanges through joint operations and regional cooperation/platforms in investigations and prosecutions, especially in addressing TF and cross-border risks, including drugs trafficking and smuggling. However, these measures cannot substitute for the underutilisation of MLA. Moreover, Malaysia has successfully repatriated illicit proceeds in very limited cases, and competent authorities do not systemically pursue illicit proceeds that have been moved abroad in a manner that is fully commensurate with the country's risk profile.

12. Malaysia and the financial supervisors leverage other forms of cooperation to expedite investigations and information exchange, while some other authorities do so to a lesser extent. Feedback received from the global network on other forms of international cooperation was generally positive. However, some countries registered concerns on the delay in responding to the requests sent to LEAs or the FIU. Although the response time for FIU have improved since 2024, opportunities remain to further optimise timeliness.

Financial sector and virtual asset supervision and preventive measures (Chapter 3; IO.3 ; R.9-21, R.26-27, R.34 and R.35)

13. Malaysia has a robust licensing framework in place to ensure that criminals and their associates are not beneficial owners or hold a management function in most FIs and VASPs. Supervisors focus significantly on identifying and tackling unauthorised activity, generally relating to fraudulent investment schemes and offshore VASPs. Supervisors have a good understanding of the ML/TF risks to the financial and VASP sectors. However, given the quantum of FIs (particularly in the MSB and DPI sectors) that are rated as higher risk due to marginal controls, the sectoral risk appears to understate the actual level of risk and can impact supervisory resource allocation.

14. The AML/CFT/CPF supervision of onshore banks and Capital Market Intermediaries (CMIs) is mainly conducted by general supervisors as part of prudential supervision. Technical support for higher-risk banks is provided by a dedicated in-house AML team. While the general supervisors appear to have sufficient knowledge to examine the implementation of general AML/CFT/CPF measures, they have limited expertise to carry out in-depth examinations of some technical areas. While onsite examinations are most frequently and comprehensively conducted in the onshore banking sector, the level of focus on AML/CFT/CPF measures as part of these inspections can be improved, to be more in line with the high-risk nature of the sector.

15. CMIs and money brokers in Labuan IBFC are supervised by general supervisors, with LFSA having four AML/CFT/CPF supervisors to support general supervisors across all sectors. AML/CFT resource allocation, including the level of specialist support, can be improved to be commensurate with the level of risk in the CMI sector, which also includes VASPs.

16. Risk understanding in larger FIs and VASPs is sophisticated and well aligned with the NRA. Risk understanding is generally less developed in smaller FIs and VASPs. Large FIs and VASPs understand their AML/CFT/CPF obligations and apply appropriate mitigating measures. However, mitigating measures in smaller FIs are less developed and suspicious transaction reporting in non-bank sectors is generally low.

17. Supervisory letters and other informal remedial measures are most frequently used by the authorities to address deficiencies. Although the number of applicable cases is limited, Malaysia has taken some formal enforcement action, where it has identified cases of serious failings.

Non-financial sector supervision and preventive measures (Chapter 4; IO.4 ; R.9-21, R.26-27, R.34 and R.35)

18. Malaysia has robust licensing, registration and other controls in place to prevent criminals or their associates from being beneficial owners or holding a controlling interest in most DNFBPs. The respective licensing authorities and self-regulation bodies (SRBs) have effective processes to assess the suitability, eligibility and the fitness and propriety of owners, controllers and key responsible persons prior to approving their applications. However, the DPMS sector, identified as high-risk by Malaysia, is not subject to licensing or registration for AML/CFT/CPF purposes.

19. DNFBP supervisors have a good understanding of sectoral risk in line with the findings of the most recent NRA. Understanding of risk is generally strong amongst larger DNFBPs, the casino and TCSPs, which is important given their key role as gatekeepers to Malaysia's financial system. However, risk understanding by other DNFBPs is more limited and largely confined to the findings of the NRA.

20. Larger DNFBPs, particularly those that are part of international groups, generally understand their AML/CFT/CPF obligations and implement measures to comply with them, including using automated systems to verify BO information and monitor suspicious activity. This understanding is more limited for smaller DNFBPs.

21. DNFBP supervisors monitor AML/CFT/CPF compliance in the different sectors in close collaboration with the relevant SRBs and industry associations. BNM uses a centralised analytics platform to help identify the highest risk onshore DNFBPs for more intensive supervision. This is a good example of the use of supervision technology, which Malaysia has been embedding into its DNFBP supervisory framework since 2019. Nevertheless, the number of firms identified as high-risk does not appear to be consistent with the risk of the sectors or the number of reporting institutions within them.

22. Both BNM and LFSA have reasonable supervisory engagement with the identified high-risk RIs and provide guidance to help DNFBPs comply with their obligations. Nevertheless, the frequency of supervision in some sectors (particularly onsite) appears low and not in line with a risk-based approach. Furthermore,

some DPMS in East Malaysia (mainly sole traders and small businesses) were only recently included as RIs and are currently in the process of being subjected to supervision.

23. All supervisors are guided by respective supervision, and enforcement and penalty frameworks, which provide the spectrum of corrective and punitive actions. However, supervisors rely on supervisory letters to ensure DNFBPs address AML/CFT/CPF deficiencies and improve their frameworks on the basis that they consider the identified breaches to be minor lapses, rather than continued or significant AML/CFT/CPF failures. Enforcement action (e.g., compounds) is rarely used, despite some serious deficiencies being identified. Furthermore, it is not clear if current sanctions levels are proportionate for general AML/CFT/CPF breaches.

Transparency and beneficial ownership (Chapter 5 – IO.5; R.24 and R.25)

24. Malaysia has a robust understanding of the ML/TF risks associated with legal persons and arrangements, including foreign-created entities with sufficient links with the country, which is largely derived from the NRA and two specific risk assessments for legal persons and arrangements in 2021 and 2024, respectively.

25. Malaysia has some risk-based mitigating measures in place, to prevent the misuse of legal persons and arrangements, which include the role of onshore company secretaries, Labuan trust companies, and professional trustees as gatekeepers, the prohibition of bearer shares and bearer share warrants, and the publication of basic information of legal persons. For onshore foundations/incorporated trusts, for which both risk assessments concluded ML/TF risks are higher, the RMP conducts security vetting on founders and trustees, and the Legal Affairs Division of the Prime Minister's Department publishes a basic and BO information registry for these entities.

26. Malaysia adopts a multi-pronged approach for obtaining adequate, accurate and current BO information for legal persons in a timely manner: (1) through information held by legal persons; (2) information submitted to the Companies Commission of Malaysia (CCM) and LFSA registries; and (3) information held by RIs. Although the breadth of this approach is a positive aspect of the regime, significant improvements are required to fully meet the needs of the competent authorities.

27. Malaysia relies heavily on its tax framework for basic and BO information for onshore legal arrangements that are not administered by RIs. The IRBM conducts audits on the trustees and other BOs of legal arrangements. However, they have never identified deficiencies in the accuracy of BO information submitted by legal arrangements, which appears unusual given the number of returns they receive and audit. Furthermore, there is no mechanism for legal arrangements to update basic and BO information outside the annual tax reporting cycle, meaning a significant amount of time can pass before a change is updated in the IRBM records.

28. Malaysia applies a wide range of sanctions, including the issuance of "show cause" notices, administrative penalties and compounds for failure to comply with some basic and BO requirements. For legal persons, most sanctions relate to failure to submit, or late submission of annual information returns, rather than inaccuracies, or the submission of false information. The significant number of enforcement actions taken for failure to submit annual returns highlights the CCM's and LFSA's commitment to ensuring the availability of legal persons' BO information, which serves as the primary mechanism for accessing information, prior to the implementation of the BO registries. Nevertheless, this approach is not effective in ensuring information requirements relating to the accuracy of BO information are being met.

Financial intelligence (Chapter 6 - IO.6; R.29-32)

29. Since its 2015 MER, Malaysia has undertaken various initiatives to expand data access and improve the efficiency of financial intelligence production. A key development is the update of the Financial Intelligence System (FINS), designed to serve as a dedicated platform for accessing financial intelligence by facilitating communication between the FIU, competent authorities, and RIs.

30. Competent authorities actively leverage financial intelligence and information through inter-agency collaboration, particularly with the FIU. Competent authorities have access to a wide range of reports and databases, including FINS and other law enforcement and government sources. Direct electronic access facilitates timely and up-to-date intelligence gathering by the FIU and LEAs. Malaysia continues to strengthen data integration, and FIU disclosures generally align with the risk profiles outlined in NRA 2023. However, challenges in ensuring accurate and up-to-date BO information can limit the availability of critical data needed by the FIU and LEAs. Numerous case studies were provided on how financial intelligence is being translated into concrete enforcement actions for ML, predicate offences and TF activities in line with the risks identified.

31. While the use of cross-border currency declarations (CBNI) information is unclear, competent authorities are making use of FIU data and other information to support investigations and enforcement activities. Such authorities have also consistently provided positive feedback on the quality of financial intelligence disseminated by the FIU.

Money laundering investigations and prosecutions (Chapter 7 – IO.7; R.3, R.30 and R.31)

32. Malaysia identifies domestic predicate offences and initiates parallel financial investigations that lead to ML investigations, particularly in relation to corruption, fraud and drug trafficking. However, the number of ML investigations linked to Malaysia's other identified high-risk predicate offences (i.e., organised crime and smuggling), remains low. Similarly, there are few ML investigations related to medium-high risk predicate offences, namely tax crimes, forgery, human trafficking and migrant smuggling, sexual exploitation, and environmental crimes. The increase in ML investigations to 2 648 cases, approximately three times the number reported in Malaysia's 2015 MER, is a positive development. Notably, the complex ML investigations related to 1MDB are a significant achievement and demonstrate enhanced coordination between various LEAs, Bank Negara Malaysia (BNM), the FIU and the Attorney General's Chambers (AGC). Nonetheless, despite these efforts, the overall proportion of ML investigations in relation to the number of predicate investigations remains low.

33. Between 2019 and February 2025, Malaysia recorded 234 prosecutions and secured 52 convictions, despite a high number of investigations. This reflects serious shortcomings in translating investigations into outcomes. Issues such as evidence collection challenges, legislated time limits to investigate, lack of training of and experience for prosecutors, and a preference for compounds and tax-based asset recovery continue to limit the effectiveness of criminal enforcement. Moreover, while there has been success in self-laundering prosecutions, there are very few prosecutorial results for stand-alone, third-party ML, and ML involving legal persons and arrangements, or foreign predicate offences. ML prosecutions and convictions are not fully in line with Malaysia's risk profile, particularly relating to high- and medium-high risk predicate offences. Overall, ML sentences imposed in practice are low.

34. Malaysia often applies alternative measures (primarily compounds) with significant success; however, there is no clear evidence that alternative measures are systematically reserved for cases where an ML prosecution was attempted but could not proceed for legitimate reasons, such as lack of admissible evidence or unavailability of key witnesses.

Confiscation (Chapter 8 – IO.8; R.1, R.4 and R.32)

35. At a policy and operational level, Malaysian authorities prioritise asset recovery. This commitment is evident from the significant efforts and success in recovering 1MDB assets, including the recovery of over EUR 5.72 billion in misappropriated funds. Malaysia is actively pursuing the remaining funds through a dedicated task force.

36. Between 2019 and February 2025, Malaysia recovered EUR 8.11 billion in assets, with EUR 6.08 billion linked to the 1MDB case. The majority of these 1MDB-related assets were repatriated through foreign civil forfeiture actions and settlements. However, the remaining asset recoveries unrelated to 1MDB (i.e., EUR 2.03 billion), raise concerns as most were achieved through the Inland Revenue Board of Malaysia (IRBM) tax remedies, indicating a heavy reliance on administrative recovery mechanisms rather than pursuing criminal confiscation. In terms of criminal confiscation, Malaysia relies more on non-conviction-based forfeiture (NCBF) than on conviction-based forfeiture (CBF). Although the FATF Methodology does not favour one form of asset recovery over the other, the low use of CBF highlights broader challenges in effectively prosecuting and securing convictions for ML offences.

37. Moreover, while the most significant results are seen in corruption and fraud, forfeiture outcomes for drug trafficking, organised crime, and smuggling are not proportionate to Malaysia's risk profile, particularly given their transnational nature and designation as high-risk threats in the NRA. Beyond the 1MDB case, Malaysia makes limited use of asset recovery linked to foreign predicate offences or overseas assets. Overall, while the 1MDB asset recovery efforts are significant, other recovery efforts are not fully aligned with the country's identified risk exposure, particularly for high- and medium-high-risk predicate offences.

Terrorist financing investigations and prosecutions (Chapter 9 – IO.9; R.5, R.30, R.31 and R.39)

38. Since its 2015 MER, Malaysia has centralised TF investigatory responsibilities exclusively within the Special Branch (SB) of the Royal Malaysia Police (RMP). These organisational changes have had a positive impact on Malaysia's effectiveness in combating TF. The overall number of TF investigations and prosecutions is in line with Malaysia's TF risk profile; however, most involve ISIL, which does not fully capture the regional TF risks Malaysia faces, such as those posed by the Abu Sayyaf Group and Jemaah Islamiyah.

39. Between 2019 and February 2025, Malaysia convicted seven individuals of TF, with sentences of imprisonment ranging from 1.5 to 6 years. This is a positive development as compared to the 2015 MER, when the country reported no TF prosecutions or convictions. Nevertheless, there are concerns related to the dissuasiveness of TF sanctions imposed in practice by the High Court, as there have been several appeals (occurring between 2016-2017) resulting in significant increases in the initial TF sentences imposed by the Court.

40. In cases where it is not practicable to secure a TF conviction, LEAs implement alternative measures to disrupt TF activities. These measures include pursuing prosecutions for other related criminal offences, such as terrorism and firearms-related crimes. Additionally, when TF elements are identified but convictions are unattainable, the SB uses various preventive measures, including the enforcement of preventive laws, immigration regulations and TFS.

Terrorist financing preventive measures and financial sanctions (Chapter 10 – IO.10; R.1, R.4, R.6 and R.8)

41. Malaysia has a sound legal framework for TF TFS pursuant to the United Nations Security Council Resolutions (UNSCRs) 1267/1988 and 1373, and their successor resolutions. As compared to its 2015 MER, Malaysia now actively uses its domestic designation regime alongside TF investigations and prosecutions. This is in line with Malaysia's evolving TF risk profile. Since 2020, Malaysia has domestically designated over 100 individuals and entities to its domestic TF list. Malaysia has not submitted any designation proposal (nor co-sponsored designations) to the relevant UN Committees during the review period. Further collaboration with foreign counterparts could also be sought to cross-designate individuals/entities designated by Malaysia domestically.

42. Malaysia actively identifies and freezes terrorist funds and other related assets without delay, including those owned, controlled, or held by individuals acting as directors, representatives, or on behalf of designated entities. Most assets frozen correspond to Malaysia's implementation of UNSCR 1373, which is in line with its risk profile and active use of its domestic designation regime. Freezing the financial accounts or assets of foreign terrorist fighters' (FTF) family members may lead to unintended consequences and should be applied only when alternative interventions would be ineffective.

43. Malaysia implements TFS obligations without delay, based on a sound legal basis and guidelines established by competent authorities. Large and medium sized FIs understand their TFS obligations, including the obligation to freeze funds and other assets without delay. VASPs understand their TF TFS obligations with a varying degree of sophistication in implementation. In general, DNFBPs place greater emphasis on detecting positive matches of listed individuals pursuant to both the UN and domestic lists, and less attention to the obligation to detect and freeze assets of those acting on behalf, or at their direction of designated persons and entities.

44. Supervisory authorities actively assess TFS compliance using various tools, including onsite and offsite examinations. In response to failures, supervisors have imposed a range of measures, from remedial actions to punitive sanctions. Efforts to enhance understanding of TF TFS obligations have been carried out through multiple communication channels. However, the consistently high number of TFS-related deficiencies in certain sectors suggests the need for enhancing the effectiveness of remedial actions, and the overall impact of outreach and compliance monitoring.

45. Malaysia effectively identifies NPOs that fall within the FATF's functional definition and has assessed which amongst them face the highest risk of TF abuse. While Malaysia generally applies risk-based oversight to these high-risk NPOs, monitoring measures (such as onsite inspections) could be more targeted to ensure that limited resources are concentrated on the most vulnerable subset of high-risk NPOs, maximising the effectiveness of mitigation efforts.

Proliferation financing financial sanctions (Chapter 11 – IO.11; R. 7)

46. Malaysia faces PF risks due to its role in international trade, strategic location, and integration with global shipping networks. However, the cessation of diplomatic relations with the Democratic People's Republic of Korea (DPRK) in March 2021 has reduced this risk to some extent. Malaysia conducted its first PF risk assessment (PFRA) in 2021, which concluded that the country's exposure to proliferation activities and PF risks is medium-low. The second 2024 PFRA maintained this rating.

47. The Strategic Trade Action Committee (STAC) provides a sound platform for competent authorities to collaborate on action to implement measures relating to CPF and PF TFS at an operational level, and to update CPF national policies. Malaysia has implemented several PF risk mitigation measures, including

recent updates to the PF Red Flags and Typologies Report and ongoing institutional risk assessments by RIs. These tools can be leveraged to enhance both risk understanding and mitigation efforts.

48. Malaysia has a comprehensive legal and regulatory framework in place for PF TFS pursuant to UNSCR 1718 and its successor resolutions, which requires all natural and legal persons within the country to freeze without delay, the funds or other assets upon designation by the Security Council Committee pursuant to UNSCR 1718.

49. Supervisors demonstrated a good understanding of laws and relevant guidelines related to PF TFS. RIs are required to identify funds or assets held by UNSCR 1718 designated individuals/entities, as well as those acting on their behalf, or at their direction. Case studies provided also demonstrated their ability to detect possible complex sanctions evasion techniques. Amongst RIs, DNFBPs' understanding appears to be limited to the basic requirement of detecting positive matches against sanctioned individuals and entities, and less attention to the obligation to detect and freeze assets of those acting on behalf, or at their direction of designated persons and entities. Some smaller RIs still rely on manual checks in updating their sanctions database, which may cause issues in the timely implementation of asset freezing. The consistently high number of TFS compliance deficiencies identified in certain sectors suggests the need for enhancing the effectiveness of outreach and remedial actions by supervisors.

Roadmap of key recommended actions (KRAs)

Malaysia underwent a Mutual Evaluation of its AML/CFT/CPF measures in place as of 21 February 2025 (i.e., the final day of its onsite visit). This evaluation was based on the 2012 FATF Recommendations (as updated from time to time) and prepared using the 2022 Methodology.

The Mutual Evaluation Report identifies the strengths and weaknesses of Malaysia's AML/CFT/CPF system, including the levels of effectiveness and technical compliance, and recommended actions for improvement. The highest priority measures are identified as Key Recommended Actions (KRA).

Immediate Outcome 2 (International cooperation)

a) Malaysia should actively use mutual legal assistance (MLA) commensurate with its risk profile, including to target illicit proceeds that have been moved abroad. The Attorney General's Chambers and law enforcement authorities should adopt strategies and processes that ensure MLA (or other cooperation where appropriate) is considered a priority in all cases with a cross-border nexus.

b) Malaysia should review its incoming MLA processes and operational procedures to assess the cause of delays in relation to the timely execution of incoming MLA requests.

c) Malaysia should update standard operating procedures and/or provide guidance to authorities on how to assess the risk of asset dissipation when prioritising incoming requests, and on prioritising outgoing MLA requests based on Malaysia's risks, including high and medium-high risk foreign predicate offences, or origin or destination countries for illicit proceeds.

Immediate Outcome 4 (Non-financial sector supervision and preventive measures)

d) Bank Negara Malaysia (BNM) and other designated non-financial businesses and professions (DNFBP) supervisors should utilise the full range of available measures to address the significant number of failures in DNFBPs and reduce the reliance on supervisory letters where significant or ongoing AML/CFT failings are identified.

e) Malaysia should improve its sanction framework to ensure proportionate and dissuasive sanctions are available. Consideration should be given to whether the maximum penalty for general breaches of AML/CFT/CPF obligations is appropriate and whether additional measures could be introduced to ensure dissuasiveness.

f) Malaysia should intensify its efforts to ensure that reporting institutions have a clear understanding of, and comply with, their suspicious transaction reporting obligations, with a view to enhancing reporting across all DNFBP sectors, in accordance with Malaysia's risk and context.

Immediate Outcome 5 (Transparency and beneficial ownership)

g) Malaysia should continue to ensure the beneficial ownership registries are populated with accurate information on all legal persons and continue to take steps to ensure that RIs are aware of the new requirement to report discrepancies to improve the accuracy of information held in the registries.

h) Malaysia should ensure that proportionate and dissuasive sanctions are applied to legal persons who submit false or inaccurate beneficial ownership information.

Immediate Outcome 7 (Money laundering investigations and prosecutions)

i) Malaysia should augment capacity and capabilities to investigate ML associated to medium-high risk predicate offences and build upon recent enhancements to its prosecutorial approach to better target the breadth of ML offences to more effectively translate investigations into prosecutorial results in line with its high and medium-high risk predicate offences.

j) Malaysia should demonstrate a sustained increase in prosecutions and convictions of ML, including on stand-alone, third party and complex ML cases (e.g., involving legal persons and trade-based money laundering), consistent with its ML risk profile.

k) Regarding sanctions, Malaysia should demonstrate that effective, dissuasive and proportionate sanctions are applied to persons convicted of ML.

Immediate Outcome 8 (Confiscation)

l) Malaysia should increase the use of criminal and non-conviction-based forfeiture to ensure a stronger judicial response to financial crime in line its high and medium-high risk predicate offences, including enhancing forfeiture efforts in relation to illicit proceeds moved abroad.

m) Malaysia should ensure that illicit cross-border movements of currency and bearer negotiable instruments are identified, seized and forfeited to a greater extent, consistent with its risk profile.

Preface

This report summarises the anti-money laundering/countering the financing of terrorism/countering proliferation financing (AML/CFT/CPF) measures in place as at the date of the on-site visit. It analyses the level of compliance with the FATF 40 Recommendations and the level of effectiveness of the AML/CFT/CPF system and recommends how the system could be strengthened.

This evaluation was based on the 2012 FATF Recommendations (as updated from time to time) and was prepared using the 2022 Methodology.[1] The evaluation was based on information provided by the country, and information obtained by the evaluation team during its on-site visit to the country from 3-21 February 2025.

The evaluation was conducted by an assessment team consisting of:

- Christopher Chor Ka SIN, Superintendent, Financial Intelligence and Investigation Bureau, Hong Kong Police Force, Hong Kong, China
- Dr. Waleed AL HOSANI, Advisor, Advisor to National Committee on AML/CFT, United Arab Emirates
- Yuki MORI, Deputy Director, Financial Services Agency, Japan
- Carlos MORGADO, Officer, the Financial Intelligence Office of the Unitary Police Service, Macao, China
- Jeff BENDER, Director, Royal Canadian Mounted Police, Canada
- Sabina KOOK, Senior Policy Advisory, Department of Treasury, United States of America

with the support from the FATF and APG Secretariats: Kristen ALMA, Ben ALDERSEY, Kazuki NARADATE, Chris BLACK and Gavin RAPER.

The report was reviewed by Michael SOMERVILLE (Australia), Ramesh BHARDWAJ (India), and Carlos ACOSTA (International Monetary Fund).

Malaysia previously underwent a Mutual Evaluation in 2015, conducted according to the *2013 FATF Methodology*. The 2015 evaluation and 2018 *follow-up report* have been published and are available at the FATF website.

That Mutual Evaluation concluded that the country was compliant (C) with 16 Recommendations; largely compliant (LC) with 21; and partially compliant (PC) with three. Malaysia was rated C or LC with five of the following five Recommendations: R.3, 5, 10, 11 and 20).[2] Malaysia was placed in enhanced follow-up, based on effectiveness, as it had a moderate level of effectiveness for seven out of the 11 effectiveness outcomes.

In 2018, Malaysia achieved four technical compliance re-ratings:

- Three Recommendations upgraded from LC to C: R.5, 32 and 34.
- One Recommendation upgraded from PC to C: R.7.

In total, two Recommendations remained rated PC (R.24 and 25) following the adoption of the 2018 follow-up report.

[1] The methodology of April 2024 was applied.

[2] For the purposes of the report, a country will be placed in enhanced follow-up if any one of the following applies: (a) it has 5 or more PC ratings for technical compliance; or (b) 1 or more NC ratings for technical compliance; or (c) it is rated PC on any one or more of R.3, R.5, R.6, R.10, R.11 and R.20; or (d) it has a moderate level of effectiveness for 6 or more of the 11 effectiveness outcomes; or (e) it has a low level of effectiveness for 1 or more of the 11 effectiveness outcomes.

Introduction to Money Laundering and Terrorist Financing Risks and Context

50. Malaysia, a Southeast Asian nation spanning 329 960km^2, is located on the Malay Peninsula and Borneo Island. It is a federation of 13 States and three federal territories strategically positioned between two major Southeast Asian maritime corridors—the South China Sea and the Strait of Malacca, making it a key maritime hub. Malaysia shares land borders with Thailand, Brunei Darussalam and Indonesia, and maritime borders with Thailand, Singapore, Vietnam, Indonesia, Brunei Darussalam and the Philippines. The South China Sea divides the country into two regions: Peninsular Malaysia (or West Malaysia) and East Malaysia in northern Borneo.

51. Labuan IBFC, situated on Labuan Island in East Malaysia, operates in tandem with, but distinctly from the island's domestic businesses. It caters to both international and domestic business under a distinct regulatory and tax framework, as well as supervisory structure governing Labuan FIs and legal persons and arrangements. Labuan RIs are subject to Malaysia's justice system and similar AML/CFT/CPF requirements as onshore domestic counterparts.

52. Malaysia is a federal constitutional monarchy with a legal system that includes both secular, customary and Shariah laws, with roots in British common law.[3] It has a parliamentary system headed by a prime minister, modelled after the Westminster parliamentary system. The King, or Yang di-Pertuan Agong, serves as head of State, rotating every five years amongst the nine Malay States' constitutional rulers.

53. The administrative system is divided between the Federal and State governments, with each of the 13 States having its own constitution, legislature, and executive. The Federal government holds the primary responsibility of governance across the country.

54. The judiciary follows a hierarchical structure, with the Federal Court[4] at the highest level, followed by the Court of Appeal, the High Courts of Malaya, and Sabah and Sarawak. Below them are Sessions Courts and Magistrates' Courts.[5] The Sessions Courts have jurisdiction in cases of a civil nature where the amount does not exceed RM 1.0 million (approximately EUR 215 590).[6] The prosecution for ML cases commences

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[3] Unlike countries which apply Shariah law as the national law, Malaysia implements Shariah law in limited areas of personal and family law, such as marriage and custody. Moreover, it is only applicable to Muslims.

[4] The Federal Court also has exclusive jurisdiction in constitutional matters.

[5] Parallel to the secular courts, the Shariah Courts operate to adjudicate on matters of Islamic law.

[6] As of 21 February 2025, the exchange rate was approximately 1 Malaysian Ringgit (RM) = 0.2155 Euros (EUR) according to https://www.bnm.gov.my/currency-converter.

at the Sessions or High Court, depending on the complexity and amount in dispute, whereas TF cases are exclusively heard in the High Court for security reasons.

ML/TF/PF Risks and Scoping of Higher-Risk Issues

Overview of ML/TF/PF Risks

55. ML risks in Malaysia stem from a range of factors, including domestic illegal activities like corruption and fraud (including scams and investment fraud); its strategic location as a transit hub for smuggling (drug, wildlife, weapons and migrants), human trafficking, organised crime and piracy; the presence of an informal economy; and the rapid growth of digital finance. Fraud, particularly online scams and investment fraud has emerged as a significant source of illicit proceeds in the country and the Southeast Asian region.

56. Malaysia assesses the risk of corruption as high, and several high-ranking government officials have either been found guilty, charged, or are under investigation for corruption. Malaysia's Anti-Corruption Strategy notes that since 2016, Malaysia has consistently ranked amongst the top three countries out of 43 selected nations with the highest proportion of billionaires' wealth originating from sectors associated with crony capitalism and rent-seeking.[7] High-profile cases like 1MDB underscore the significant illicit proceeds linked to corruption and laundered through major international FIs (see Case Studies 7.2 in IO.7 and 8.1 in IO.8).

57. Malaysia's strategic maritime and trade transit points, particularly through the Strait of Malacca, exposes it to heightened risks associated with drug trafficking (assessed as high-risk in the NRA for ML), TBML, smuggling and PF. The complexity of trade transactions allows criminals to disguise the origins of illicit proceeds by over or under-invoicing goods, falsifying shipping documents, and using shell companies.

58. Malaysia is a transit and destination country for illicit drugs, with syndicates exploiting the proximity to drug-producing countries and the Golden Triangle. ML also typically involves mule accounts and anonymous cash transactions.

59. The rising prevalence of scams in Southeast Asia has escalated ML risks in Malaysia. From 2021 to April 2024, a total of EUR 685 million was lost to online scams affecting over 95 800 victims through schemes like investment fraud, imposter scams (e.g., government, employment and love impersonation), and phishing/ransomware. Illicit proceeds are moved rapidly via mule accounts, cryptocurrency, or layered through multiple bank transfers.

60. Additionally, environmental crimes—including illegal logging, poaching and wildlife smuggling—further fuel ML risks, as Malaysia serves as a key transit, source and destination country for trafficked wildlife. Criminal syndicates exploit its porous land and maritime borders and weaknesses in enforcement and financial systems to launder proceeds through cash-intensive businesses, shell companies, and international trade channels.[8] [9] Environmental crime is assessed by Malaysia as medium-high risk for ML.

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[7] Government of Malaysia, National Anti-Corruption Strategy 2024-28, page 19.

[8] For example, in 2019, Malaysian authorities raided two illegal pangolin meat facilities, confiscating approximately 30 tons of pangolins (see UNODC 2020 Wildlife Report).

[9] United Nations Office on Drugs and Crime (UNODC) (2024). World Wildlife Crime Report 2024.

61. Malaysia is both a destination and transit country for human trafficking with up to 3.5 million undocumented workers in the country.[10] Human trafficking and migrant smuggling is assessed by Malaysia as medium-high risk for ML.

62. Malaysia is not a source country for terrorism or TF, but its geographic proximity to terrorist groups in neighbouring countries (e.g., Abu Sayyaf Group and Jemaah Islamiyah) exposes it to TF risks. TF in Malaysia typically involves small, self-financed amounts remitted overseas for travel or to provide material support to those in conflict zones (e.g., to ISIL). Since the 2015 MER, Malaysia states that its TF risk has decreased particularly with the fall of the ISIL, with its 2023 NRA having reduced the risk to "Medium" due to an observed downward trend of terrorism and TF cases.

63. Malaysia faces PF risks due to its role in international trade, strategic location, and integration with global shipping networks. Case studies prior to 2018 suggest that DPRK proliferation networks are the greatest PF threat to Southeast Asia.[11] The trend of PF risk in the VA and VASP sector highlights countries such as Malaysia, which have been targeted by cybercriminals for PF in 2018.[12] However, the cessation of diplomatic relations with the DPRK in March 2021 has reduced this risk to some extent. The 2024 PF risk assessment concluded the overall risk of PF as medium-low.

Malaysia's risk assessment and scoping of higher-risk issues

64. Since 2013, Malaysia has completed five ML/TF NRAs and continues to update and adapt its NRA methodology, considering the NRAs of other jurisdictions and available data. Malaysia updates its NRA every three years, with the latest iteration completed in 2023. According to NRA 2023, Malaysia identifies fraud, corruption, illicit drug trafficking, smuggling, and organised crime[13] as the highest ML threats, followed by tax crimes, forgery, human trafficking/migrant smuggling, sexual exploitation, and environmental crime. In terms of sectoral risks, banking institutions, DPMS, and lawyers face the highest sectoral ML risks, while MSBs and DPI issuers are rated medium due to reduced transaction volumes/value, and improved supervision, respectively. Labuan money brokers and Labuan banks face elevated ML risks from increased international transaction volumes and higher risk customers.

65. The methodology of NRA 2023 is sound. It assesses residual risks based on inherent risks and control measures at both national and sectoral levels. National threats are assessed by analysing 22 predicate crime types and assigning a weighted score based on inherent risk and control effectiveness, with weightings agreed upon by the NCC. Inherent risk is evaluated using statistical data on occurrence, foreign threats, impact, and stakeholder perceptions. Data sources include investigation papers, suspicious transaction report (STRs), MLA/extradition requests, financial amounts, interconnectedness, and perceptions of threats. Control effectiveness measures ML enforcement through investigation figures, amounts involved in the cases, assets seized and frozen, sentencing, prosecution/conviction rates, and stakeholder perceptions via surveys. Sectoral vulnerabilities are assessed by reviewing 25 financial and non-financial sectors, their inherent features (such as sector transaction volume and global reach) and characteristics, and the effectiveness of AML/CFT controls. The NRA process also considers qualitative data, including expert views through multiple focus groups, literature reviews, media reports, and information from international counterparts, academicians and experts. Interconnectedness of the predicate offence with other crimes are also considered.

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[10] International Organization for Migration, "Malaysia" https://www.iom.int/countries/malaysia.

[11] UN Security Council, "Final Report of the Panel of Experts Submitted Pursuant to Resolution 2276 (2016)", S/2017/150, 27 February 2017, pp. 34-37.

[12] United Nations Interregional Crime and Justice Research Institute (UNICRI), CBRN Proliferation Financing: A perspective from Southeast Asia. October 2023. pp 14, 27 29-30.

[13] Organised crime relates to criminal syndicates. Associated predicate offences largely relate to illegal gambling, fraud, smuggling of goods, human trafficking and unlicenced money lending.

66. The 2024 VA risk assessment found Malaysia's VA illicit activities to be negligible, accounting for less than 1% of global illicit activities from 2020 to 2022. While foreign VA activities pose vulnerabilities to Malaysian VASPs as conduits for illicit funds, Malaysia concludes that the likelihood of such occurrences is low as law enforcement authorities (LEAs) indicate a higher preference towards foreign VASPs due to increased anonymity and complex products and services such as mixers, mining pools, and peer-to-peer platforms.

67. In terms of scoping issues for increased focus, the Assessment Team prioritised measures to counter ML associated with corruption and fraud/scams, as well as supervision and compliance of FIs and VASPs due to their materiality and growth. Another area of focus included the Labuan IBFC, given its role as an international financial centre, and considering the conclusion of a 2019 report by the Organisation for Economic Co-operation and Development highlighted insufficient oversight and enforcement of Labuan trust companies for the period of 2015 to 2017.[14]

68. The Assessment Team identified the following areas for decreased focus during the onsite: notaries and financial leasing. These sectors were deemed less significant in terms of risk and context, especially since notaries have a limited role in Malaysia as they rarely perform the activities listed in Recommendations 22 and 23.

Materiality

69. Malaysia is an upper-middle-income country with a diversified economy driven by export-oriented industries, a growing services sector and significant natural resources. In 2023, its GDP was EUR 380.6 billion.[15] Key sectors include manufacturing (electronics, palm oil and automotive), oil and gas, financial services, and tourism. With a population of 34.1 million, Malaysia is a multi-ethnic country, primarily composed of Malays, Chinese, and Indians, along with various indigenous groups.[16] The official language is Malay, while English is widely used.

70. Malaysia has 23 free commercial zones, 22 free industrial zones, and a digital free trade zone with companies in these zones subject to the same reporting requirements applicable to all Malaysian companies.[17] [18]

71. Informal sector employment for non-agricultural activities was approximately 8.5% of the nation's total employment in 2023.[19] Malaysia's shadow economy declined from 30.2% of GDP (2000-2009) to 21.2% (2010-2019)[20] and efforts like the implementation of tax identification numbers[21] and e-invoices aim to reduce revenue leakage and further shrink the shadow economy.

72. Malaysia operates a dual financial system that integrates conventional and Islamic finance, encompassing two regulatory areas: the onshore financial sector and Labuan IBFC. There is high financial inclusion: as of 2023, 97% of adults held deposit accounts, 40% had loans, and 50% were insured.[22] The onshore financial system's assets totalled EUR 1.53 trillion as of December 2024, while the onshore Islamic

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[14] OECD, OECD Economic Surveys: Malaysia 2019. The report also recommended the Labuan Financial Services Authority (LFSA) to reinforce the monitoring and enforcement of the obligations regarding the record keeping of beneficial ownership (BO) of entities and arrangements.

[15] World Bank, "GDP (current US$) – Malaysia".

[16] Malaysia - The Population of Malaysia | OpenDOSM.

[17] Malaysian Investment Development Authority, "Policy Booklet 2022, Chapter 9," January 2024.

[18] Department of Statistics Malaysia. (2024, November). https://www.dosm.gov.my.

[19] Department of Statistics Malaysia. (2024, November). https://www.dosm.gov.my.

[20] Tin, e-Invoice to address revenue leakage, reduce the size of shadow economy – Ahmad Maslan (mof.gov.my)

[21] Implementation Of Tax Identification Number (TIN) | Lembaga Hasil Dalam Negeri Malaysia.

[22] Bank Negara Malaysia, Key Financial Inclusion Indicators in Malaysia.

capital market reached EUR 560.3 million, representing 63% of the domestic capital market.[23] Labuan IBFC managed total financial sector assets of approximately EUR 85.3 billion as of December 2024. Notably, its Islamic finance sector issued the world's first Islamic digital assets worth EUR 47.8 million. Labuan IBFC contributes 5.6% of Malaysia's onshore financial system assets and 2.3% of transactions with onshore FIs.

73. Cash is a common means of payment in Malaysia.[24] As a strategic adjustment to mitigate the risks associated with cash transactions highlighted in the NRA 2017, Malaysia reduced the threshold for cash threshold reports (CTR) from RM 50 000 (EUR 10 775) to RM 25 000 (EUR 5 388). E-payment transactions have increased following COVID-19 restrictions, rising from 9.3 billion in 2022 to 11.5 billion in 2023.[25]

Financial sector and VASPs

Main characteristics, weighting and materiality of the various financial sectors and VASPs

74. Malaysia's onshore and Labuan IBFC financial systems host over 5 400 FIs, over 21 900 DNFBPs, and 15 VASPs. Labuan IBFC specifically accommodates nearly 500 FIs and 67 trust companies. The onshore financial sector contains banks, non-bank FIs (including insurers and takaful operators, development FIs and fund management companies). Banks account for 50.1% of the financial sector's assets, followed by provident and pension funds with 19.8%, and fund management with 14.6%. The Labuan IBFC comprises banks and non-bank FIs such as insurance and takaful operators, money brokers and fund managers. The Labuan banking sector holds assets of EUR 53.3 billion, while the insurance sector underwrites premiums of EUR 1.9 billion as of December 2021.

75. Most FIs in Malaysia are locally owned and large Malaysian FIs have regional operations in countries such as Singapore, Indonesia and Thailand. Many Labuan FIs are branches or subsidiaries of international organisations, primarily offering corporate and wholesale financial services. Malaysia's financial system exhibits a high degree of interconnectedness across sectors, with major financial groups spanning multiple sectors, ownership structures, and maintaining subsidiary and branch presences in Labuan IBFC.

76. Regulated VASP activities in Malaysia are relatively small and exist both onshore and in Labuan IBFC. VAs are considered as securities and primarily used for investment purposes. Onshore VASPs primarily focus on providing retail exchange services for domestic customers in a limited number of cryptocurrencies, while Labuan VA activity is mainly carried out by Labuan banks, money brokers and payment systems operators, serving existing corporate clients and investment activities.[26] In 2022, 85% of VASP activities (EUR 2 billion of EUR 2.4 billion) were facilitated by domestic digital asset exchanges, with the remaining 15% (EUR 366 350) handled by Labuan VASPs, primarily Labuan money brokers.[27] Although credible sources have highlighted the regional trend of increased use of VAs in predicate offences, such as fraud and scams, the Assessment Team places medium weight on the VASP sector due to its size, the main activities undertaken, and the mitigating measures described in IO.3.

77. The most weight is placed on the banking sector (including Labuan banks) given its size and complexity. A high level of weight is also placed on lawyers due to the activities conducted on behalf of their clients (e.g., company formation), higher risk nature customers (e.g., PEPs), and marginal control measures. The Assessment Team also weights the DPMS sector heavily due to low levels of controls, the

[23] Securities Commission Malaysia. (2025). Annual Report 2024.

[24] Bank Negara Malaysia Annual Report 2023.

[25] Bank Negara Malaysia Annual Report 2023.

[26] The domestic VASPs offers only nine VAs, of which, none are stablecoins and private coins while Labuan VASPs offers a wide range of VAs, of which, none are private coins.

[27] In comparison to its financial sector, the size of domestic VASPs activities is less than 1% of the capital market. Similarly, Labuan IBFC's VASPs activities is also less than 1% of the activities of Labuan licensed sectors.

use of cash, lack of registration, licensing or other measures and given that part of the sector has only recently been incorporated into the regulatory perimeter. Significant weight is also placed on company secretaries and Labuan trust companies given their important roles as gatekeepers to the financial sector in Malaysia. A medium level of weight is placed on the real estate sector given the increasing number of transactions involving foreign, higher risk customers. The MSB sector is similarly weighted due to large remittance volumes, including to high-risk jurisdictions.

78. The details and breakdown of FIs are as follows:

Table 0.1. Financial Institutions (as of December 2024)

Types of FIs	No. of Firms	Breakdown of Firms	Licensing/ Registration Authority	AML/CFT/CPF Supervisory Authority
Domestic (Onshore)				
Banking Institutions	63	Commercial Banks: 29 (including 3 digital banks) Islamic Banks: 18 (including 2 Islamic digital bank) Investment Banks: 10 Development FIs: 6	BNM	BNM
DPI Issuers	53[28]	E-money Issuers: 48 Charge Card Issuers: 6 Credit Card Issuers: 2	BNM	BNM
MSBs	258	Money-changing: 207 Remittance: 32 Money-changing & Remittance: 10 Money-changing & Wholesale Currency: 1 Money-changing, Remittance & Wholesale Currency: 8	BNM	BNM
Insurance and Takaful Operators	57	Life insurance: 14 Family takaful: 11 General insurance: 19 General takaful: 4 Life reinsurance: 1 General reinsurance: 4 Family retakaful: 2 Composite retakaful: 1 Composite reinsurance: 1	BNM	BNM
Capital Market Intermediaries (excluding VASPs)	162	Stock broking companies: 33 Fund management / unit trust companies: 101 Derivative broking companies: 4 Peer-to-peer financing: 12 Equity crowdfunding: 12	SC	SC
Banking Intermediaries	6	Money broking companies: 6	BNM	BNM
Insurance Intermediaries	75	Insurance & takaful broking companies: 26 Financial advisors: 49	BNM	BNM
Non-Bank FIs	3	Lembaga Tabung Haji (Pilgrim Fund Board): 1 Sabah Credit Corporation: 1 Borneo Housing Mortgage Finance Berhad:	PM's Department Ministry of	BNM

[28] Total number of firms (53) is lower than the sum of the three types of DPI issuers due to three issuers having two businesses, i.e. e-money and credit/charge card

Types of FIs	No. of Firms	Breakdown of Firms	Licensing/ Registration Authority	AML/CFT/CPF Supervisory Authority
		1	Finance Sabah	
Moneylenders	3 297	-	KPKT	BNM
Pawnbrokers	886	-	KPKT	BNM
Leasing Companies	24	-	-	BNM
Factoring Companies	22	-	-	BNM
Labuan IBFC				
Labuan Banking Institutions	72	Commercial Banks: 38 Investment Banks: 34	LFSA	LFSA
Labuan Insurance and Takaful Operators	60	General Reinsurance: 30 General Retakaful: 1 General Insurance: 16 Life Insurance: 7 Life Reinsurance: 5 Family Retakaful: 1	LFSA	LFSA
Labuan Capital Market Intermediaries (excluding VASPs)	49	Fund managers: 49	LFSA	LFSA
Labuan Money Brokers	102	-	LFSA	LFSA
Labuan Leasing	195	Financial Lease: 1 Operational Lease: 194	LFSA	LFSA
Labuan Factoring	0	-	LFSA	LFSA
Labuan Payment System Operator	19	-	LFSA	LFSA

79. The VASP registration/licensing and supervisory regimes started in 2019, with the SC and LFSA being the regulatory authorities.

Table 0.2. Overview of VASPs (as of December 2024)

Types of VASPs	No. of Firms	AML/CFT/CPF Supervisory and Licensing/Registration Authority
Domestic (Onshore)		
Digital Asset Exchanges	6	SC
Digital Asset Custodian	4	SC
Initial Exchange Offering	2	SC
Labuan IBFC		
Labuan Banks	9	LFSA
Labuan Money Brokers	27	LFSA
Labuan Payment Systems Operators	2	LFSA

Main characteristics, weighting and materiality of designated non-financial businesses and professions (DNFBPs)

80. All DNFBPs, as defined by the FATF Recommendations, are RIs under the Malaysian AML/CFT/CPF framework.

Table 0.3. Overview of DNFBPs (as of December 2024)

Types of DNFBPs	No. of Firms	Licensing / Registration Authority	AML/CFT/CPF Supervisory Authority
Domestic (Onshore)			
DPMS	2 390	-	BNM
Lawyers	9 967	Respective Registrars of High Court / Bar Council	BNM
Company Secretaries	4 173[29]	CCM	BNM and CCM
Accountants	3 355	Malaysian Institute of Accountants	BNM and MIA
Casino	1	Ministry of Finance	BNM
Real Estate Agents	1 378	Board of Valuers, Appraisers, Estate Agents and Property Managers	BNM
Gaming Outlets[30]	10	Ministry of Finance	BNM
Trust Companies	60	CCM	BNM
Notaries	532	AGC	BNM
Labuan IBFC			
Labuan Trust Companies	67	LFSA	LFSA

Legal persons and arrangements

81. Malaysian laws provide parallel frameworks for onshore and Labuan IBFC for creation of legal persons and arrangements. Malaysia is not a major hub for international company and trust formation. Consequently, foreign-created legal persons with sufficient links to Malaysia[31] are rare, comprising only 0.2% of all registered legal persons as of December 2022.[32] Foreign-created legal arrangements are similarly uncommon, accounting for less than 0.1% of the total value of all legal arrangements. Nearly all the value, 99.9%, or approximately EUR 4.3 billion, is held within commercial trusts.[33]

Domestic (Onshore) Legal Persons

82. There are two types of legal persons that can be created: companies and limited liability partnership. The below table provides an overview of domestic legal persons.

Table 0.4. Overview of Domestic Legal Persons (as of December 2024)

Types of Legal Persons	Total Active Entities
Companies	**690 942**
Companies limited by shares	687 319
Companies limited by guarantee	2 209
Unlimited companies	14
Foreign companies	1 400

[29] Company service providers.

[30] Gaming outlet is not part of the definition of DNFBPs within the FATF Glossary, however this sector is designated as a reporting institution based on domestic risk.

[31] These include where a company has permanent establishment/branch/agency, has significant business activity or ongoing business relations with FIs or DNFBPs, subject to AML/CFT regulation, has significant real estate/other local investment, employs staff, or is a tax resident in Malaysia.

[32] Malaysia's Risk Assessment of Legal Persons 2024, endorsed in August 2024.

[33] Malaysia's Risk Assessment of Legal Arrangements 2024, endorsed in August 2024.

Types of Legal Persons	Total Active Entities
Limited Liability Partnerships (LLPs)	**37 130**
Domestic LLPs	37 127
Foreign LLPs	3

83. All domestically incorporated legal persons are registered with the CCM, which maintains records of basic and BO information, and makes ownership details accessible at the entity level, RIs and through the CCM as the official registrar. Company secretaries oversee compliance with regulatory requirements and governance standards.

84. Other forms of businesses include conventional partnerships and sole proprietorships (governed under the Registration of Businesses Act 1956) that do not fall under the scope of FATF's Recommendations, due to lack of legal personality.[34] While an account held at a FI is in the name of the general partnership, the signatory of the account and associated liability rest with the natural person who is the partner. Similarly, a sole proprietorship refers to a business carried out by a natural person without establishing an entity with legal personality. As of December 2024, data from the CCM indicates that there are 224 808 conventional partnerships and 1 449 216 sole proprietorships.

Legal Persons in Labuan IBFC

85. Labuan's legal framework allows the formation of the following types of legal persons: companies, partnerships and foundations.

Table 0.5. Overview of Labuan Legal Persons (as of December 2024)

Types of Labuan Legal Persons	Total Active Entities
Labuan Companies	**4 785**
Labuan companies limited by shares	4 698
Labuan companies limited by guarantee	7
Labuan unlimited companies	2
Labuan protected cell companies	18
Foreign Labuan companies	60
Labuan Partnerships	**78**
Limited Partnerships	62
Limited Liability Partnerships (LLPs)	16
Recognised LLPs	0
Labuan Foundations	**237**

86. All legal persons established in Labuan IBFC are mandated to register with the LFSA. Basic and BO information is also accessible at the entity level, the entity's appointed Labuan trust company and through the LFSA, which acts as the registrar of Labuan IBFC.

Domestic (Onshore) Legal Arrangements

87. There are five main types of legal arrangements created in Malaysia, based on the common law principles and relevant statutes. The below table provides an overview:

[34] A conventional partnership in Malaysia does not hold independent legal status and its identity is the collective union of its partners, which have unlimited liability, jointly and are severally responsible.

Table 0.6. Overview of Domestic Legal Arrangements (as of December 2024)

Types of Legal Arrangements	Total
Private Trust *-administered by the onshore trust companies*	5 988
Commercial Trust *-administered by the onshore FIs*	3 188
Testamentary Trust *-administered by the onshore trust companies*	7 054
Foundations / Incorporated Trust *-within the purview of the Legal Affairs Division (BHEUU) of the PM's Department*	593
Waqf - *administered by the State Religious Offices*	14
Total	**16 837**

88. Domestic legal arrangements can be established and managed by both professional and non-professional trustees. Access to basic and BO information is available through various sources. Professional trustees, including trust companies, are RIs under Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLA). Non-professional trustees which are non-RIs, represent a very small segment and typically do not engage in such activities as a business. These trustees must still rely on RIs to obtain financial and professional services, such as opening bank accounts or having trust deeds prepared by lawyers.

89. All legal arrangements, regardless of whether they are managed by professional, or non-professional trustees are subject to tax obligations and must submit annual tax returns, including basic and BO information to the IRBM. Once a tax file is registered, the trustee is required to submit tax returns annually, even if no income was generated.

90. Commercial trusts are administered by FIs, while basic and BO information of foundations/incorporated trusts is maintained by BHEUU, and waqf is held by the respective State religious authorities.

Labuan IBFC Legal Arrangements

91. In Labuan IBFC, legal arrangements take a singular form: the Labuan trust. Unlike domestic legal arrangements that can originate from various sources, a Labuan trust is solely established under the Labuan Trusts Act 1996 (LTA). Trusts in Labuan IBFC benefit from a more favourable and flexible tax efficient regime compared to onshore trusts, which subject to a maximum tax rate of 3% on audited net profits, whereas onshore trusts are generally subject to the standard Malaysian income tax rates of 24% on chargeable income. As of December 2024, there were 263 Labuan trusts, all of which must appoint a Labuan trust company as one of their trustees. This ensures that basic and BO information are maintained by the Labuan trust company, and LFSA.

Weighting of Legal Persons and Arrangements

92. The Assessment Team places the most weight on onshore companies limited by shares on the basis that they are most frequently identified in STRs involving legal persons, their use as shell and/or shelf companies, and their abuse for ML. Considerable weight is placed on foundations/incorporated trusts as they generate the highest number of STRs and CTRs amongst legal arrangements and are often formed by, or linked to, political parties. Less weight is placed on foreign-created legal persons with sufficient links to Malaysia, given the small number and value of transactions. Less weight is also applied to Labuan legal arrangements, given the mitigating measures in place.

Structural elements

93. Malaysia has all the key structural elements required for an effective AML/CFT/CPF system, including political and institutional stability; separation of powers enshrined in law for the Executive, Legislative and Judiciary; a high-level commitment to address AML/CFT/CPF issues across various parts of government; the rule of law; and a capable and efficient public service and judicial system.

94. Prior to 2020, public reports alleged judicial interference in high-profile corruption cases, largely due to the over-centralisation of power within the Executive. Concerns were raised that institutions such as the MACC and the AGC lacked genuine independence, limiting their ability to effectively investigate and prosecute large-scale corruption cases. This was particularly evident in the early stages of the 1MDB scandal, when initial attempts to expose financial misconduct were reportedly obstructed by political influence.[35]

95. Since 2020, Malaysia has undertaken anti-corruption initiatives, including efforts to strengthen judicial independence, enhance transparency in public governance, and improve institutional checks and balances. Reforms in the MACC and AGC, coupled with some high-profile convictions, indicate a shift towards greater accountability. While there are challenges in ensuring that anti-corruption measures are consistently enforced across all levels of government without political interference, constructive steps are being undertaken by Malaysia (please refer to Box 0.1 below).

Box 0.1. Examples of anti-corruption initiatives since 1MDB

The 1MDB case uncovered structural issues, including with systems relating to transparency, governance and integrity. In response, Malaysia has undertaken significant reforms. For example:

National Policy/Strategy: Malaysia developed the National Anti-Corruption Plan 2019-2023, which was the country's first integrated anti-corruption policy. It reflects the need for strengthening independence of enforcement bodies. The National Anti-Corruption Strategy 2024-2028 was launched as a continuation of these efforts.

Institutional Reinforcement: The National Anti-Financial Crime Centre (NFCC) was established in 2019 to coordinate enforcement of cross-cutting crimes. Complementing the NFCC, the Multi-Agencies Taskforce (MATF) comprising key LEAs was also established in 2023. The MACC established an AMLA unit in 2018 to strengthen asset tracing analysis.

Legislation: The Malaysian Anti-Corruption Commission Act 2009 (MACCA) was amended in 2018 to hold commercial organisations and associated persons accountable for corruption, raising anti-corruption awareness amongst company leadership and employees. The Public Finance and Fiscal Responsibility Act 2023, aims to enhance transparency in public finances and expenditure. Additionally, the Mutual Assistance in Criminal Matters Act 2002 (MACMA) was amended in 2024 to improve mechanisms for international cooperation.

Supervision/Preventive Measures: Enhanced measures targeting government/state-owned companies, and nominees were introduced through amendments of Guidelines in 2019. Supervisory and enforcement actions have been significantly intensified, particularly since 2018. The enhanced enforcement approach, including publication continue to act as a key deterrent to the industry by all supervisory authorities.

[35] World Bank, *Malaysia's Approach to Fighting Corruption*, February 2021.

Other contextual factors

96. The ongoing challenge of corruption in Malaysia is an important contextual factor that has implications for governance, economic stability, and public trust. High-profile corruption cases such as the 1MDB scandal, as well as other recent incidents, highlight the need for strengthened transparency and accountability measures. Corruption undermines economic growth by deterring foreign investment, increasing the cost of doing business, and creating inefficiencies in public procurement and infrastructure projects. While Malaysia's anti-corruption agency and government-led initiatives have made progress, there are still areas that require further attention and improvement.

97. The 1MDB scandal, due to its scale and complexity, has demanded significant attention from Malaysian LEAs, becoming a priority case that has necessitated the reallocation of resources from other ML investigations. Consequently, LEAs have redirected personnel and expertise to thoroughly investigate, prosecute, and recover assets related to 1MDB, focusing on unravelling complex financial networks and tracing funds globally. This strategic focus on addressing 1MDB and restoring public confidence has impacted the capacity to address other ML cases.

98. From 2020 to 2022, Malaysia, like many countries, faced significant challenges from the COVID-19 pandemic. In March 2020, authorities implemented a nationwide Movement Control Order that imposed a full lockdown, including the closure of non-essential businesses and strict bans on inter- and intra-state travel without police approval. The pandemic led to a shift in risks towards online activities, resulting in more instances of online fraud, gambling, and cybercrimes. Conversely, the stringent movement controls and border closures implemented during the pandemic led to a reduction in ML/TF risks (e.g., smuggling, drug and human trafficking).

AML/CFT/CPF strategy

99. Since 1999, the NCC is responsible for setting out national strategic directions and formulating AML/CFT/CPF policies in line with Malaysia's risks. In 2021, as part of a comprehensive review of AML/CFT/CPF measures in Malaysia, the NCC approved the NCC Roadmap 2021-2023, building on the previous National AML/CFT Strategic Plan 2015-2020 and incorporating recommendations from the 2020 NRA. Malaysia reports an 88% completion rate for this Roadmap. Updated in 2024 to reflect findings from the NRA 2023 and other risk assessments, the new Roadmap covers the period 2024-2026. Each successive roadmap builds upon the foundations laid by the earlier strategic plan and focuses on five key areas: (i) legal, regulatory and coordination; (ii) risk; (iii) preventive measures; (iv) capacity building and awareness; and (v) enforcement.

100. In addition, in upholding the integrity of the Malaysian financial system, the Financial Sector Blueprint 2022-2026 outlines three key areas in relation to AML/CFT, namely (i) enhance integrated efforts and improve coordination to better prevent, detect, disrupt, and dismantle financial crimes at the earliest opportunity; (ii) deepen understanding of emerging and higher ML/TF risk areas and develop appropriate policy responses; and (iii) encourage industry-led collaborative initiatives to elevate compliance culture.

101. Corruption is identified as one of the high-risk crimes and is a national priority. The National Anti-Corruption Plan 2019-2023 and the National Anti-Corruption Strategy 2024-2028 focus on corruption mitigation, as well as improving governance and integrity in civil service administration and government-linked companies.

102. National strategic directions for CPF are covered by the NCC. The NCC Roadmap 2024-2026 prescribes the action items regarding CPF, namely (i) conducting joint operations targeting illegal and

overstayed foreigners with PF risk exposure; and (ii) reviewing emerging ML/TF/PF risks. Additional CPF action items are integrated into the daily work of the respective LEAs, NCC sub-committees, and the STAC.[36]

Financial Inclusion

103. Financial inclusion is a key governmental priority, and Malaysia has one of the highest levels of financial inclusion in Southeast Asia as recognised by the World Bank and the Alliance for Financial Inclusion. This achievement stems from policies leveraging mobile phones, banking agents, and nationwide financial education initiatives to elevate financial capabilities.[37] [38] According to the World Bank's Global Findex 2021, 88% of Malaysians aged 15 years old and above have a bank account (an increase from 81% in 2014), and 79% of Malaysian adults use digital payments (an increase from 63% in 2014).

104. To further advance financial inclusion, Malaysia published the Financial Inclusion Framework 2023–26[39] in June 2023 as a strategic roadmap. Key measures include reducing the size of the informal economy and increasing the usage of digital payment. In this respect, Malaysia has introduced simplified measures and e-KYC policies (see IO.1).

Institutional and legal framework

105. The AMLA, Penal Code and Strategic Trade Act 2010 (STA) serve as the legal foundation for the Malaysian AML/CFT/CPF regime. Since the 2015 MER and 2018 follow-up report, there have been several initiatives that aimed to strengthen the legal framework, which include enhancement in relation to the legal person and BO reporting regime through the amendments of the Companies Act 2016, Trustees Act 1949, Labuan Companies Act 1990, introduction of a new corporate liability offence under the MACCA and revisions to the AML/CFT/CPF guidelines by respective supervisory authorities.

106. AML/CFT/CPF efforts involve coordination between various government bodies and the private sector. The following key authorities are responsible for AML/CFT/CPF efforts in Malaysia.[40]

Ministries

- The **National Coordination Committee to Counter Money Laundering** (**NCC**),[41] led by BNM's Deputy Governor and comprising representatives from 17 ministries and agencies, is responsible for setting out strategic directions and formulating AML/CFT/CPF policies in line with risks.
- The Minister of the **Ministry of Finance (MoF)** appoints the AML/CFT/CPF competent authority, creates subsidiary legislation to invoke new RIs and include new predicate offences under the AMLA, and oversees the regulation and licensing of casino and the gaming outlets.
- The **Ministry of Home Affairs (MoHA)** oversees public safety and order and plays a role in relation to TF targeted financial sanctions (TF TFS), which include listing and delisting of terrorists and dealing with applications for basic expenses for sanctioned entities/individuals. MoHA is also the Central Authority for extradition.

[36] STAC serves as the main platform to discuss issues and matters relating to the implementation of the Strategic Trade Act 2010, including PF issues.

[37] World Bank. (2017). Financial Inclusion in Malaysia: Distilling Lessons for Other Countries. World Bank Group.

[38] Alliance for Financial Inclusion. (2024). Promoting Financial Literacy: A Case Study of Bank Negara Malaysia.

[39] BNM. The Financial Inclusion Framework (2023–26) Strategy Paper.

[40] This is not an exhaustive list but includes the primary stakeholders.

[41] The NCC is not a ministry but is the primary coordinating body for AML/CFT/CPF.

- The **Ministry of Investment Trade and Industry (MITI)** through the Strategic Trade Committee (STC), enforces the STA, including provisions on PF. MITI also issues permits for the export, transit, transhipment and brokering of strategic items.
- Other ministries include the **Ministry of Foreign Affairs (MoFA)** that manages Malaysia's international diplomacy and applications for listing or delisting with the UN Sanctions Committees, the **Ministry of Housing and Local Government (KPKT)** regulates and licenses the moneylenders and pawnbrokers, while the **Ministry of Domestic Trade and Cost of Living (KPDN)** oversees and investigates predicate and ML offences related to counterfeit goods, piracy, and domestic trade violations.

Supervisory authorities

- **Bank Negara Malaysia (BNM)** is the central bank, and the competent authority under the AMLA. It is also the AML/CFT/CPF and prudential regulator and supervisor for onshore banks, DPI issuers, MSBs, insurers and takaful operators. BNM also hosts the financial intelligence unit (FIU). BNM serves as the AML/CFT/CPF regulator and supervisor for the majority of DNFBPs and non-bank FIs and investigates predicate offences under its laws and related ML offences.
- The **Securities Commission Malaysia (SC)** acts as the AML/CFT/CPF and prudential capital market regulator, supervising onshore capital market intermediaries, including VASPs. It also investigates securities-related predicate offences and associated ML offences.
- The **Labuan Financial Services Authority (LFSA)** regulates and supervises the Labuan IBFC's FIs, VASPs and Labuan trust companies. It is the Registrar for Labuan legal persons and arrangements and investigates predicate offences under Labuan laws and related ML offences.
- The **Companies Commission of Malaysia (CCM)** oversees the incorporation of domestic companies and business registrations, regulates, licenses and registers onshore company secretaries and trust companies, and investigates predicate offences under CCM laws and related ML offences. The CCM is the AML/CFT/CPF supervisor for company secretaries.

Criminal Justice and Operational Agencies

- The **Financial Intelligence and Enforcement Department (FIED)** of BNM is the FIU, and the exclusive recipient of STRs and CTRs from RIs. FIED analyses these reports and disseminates intelligence to LEAs, including international counterparts.
- The **Attorney General's Chambers (AGC)** acts as the legal advisor, drafts legislation, prosecutes predicate and ML offences, and serves as Malaysia's Central Authority for mutual legal assistance (MLA) in criminal matters.
- The **National Anti-Financial Crime Centre (NFCC)** coordinates the joint operations on financial crimes amongst LEAs and provides analytical support in identifying high-risk areas and key subjects.[42]
- The **Royal Malaysia Police (RMP)** is Malaysia's principal LEA responsible for investigating predicate offences, ML, TF and PF. RMP's Special Branch (SB) is responsible for Malaysia's security intelligence.

[42] NFCC is a coordinating agency for law enforcement authorities and not a law enforcement agency.

- The **Malaysian Anti-Corruption Commission (MACC)** leads Malaysia's anti-corruption efforts, focusing on prevention and enforcement, and investigates ML linked to corruption-related predicate offences.
- The **Royal Malaysian Customs Department (RMCD**) administers and enforces customs laws and cross-border currency reporting requirements, and investigates ML related to customs predicate offences.
- The **Inland Revenue Board of Malaysia (IRBM)** manages the tax system, including cross-border tax matters and investigates ML related to tax offences.
- Other LEAs include the **Immigration Department of Malaysia**, **Department of Wildlife and National Parks (PERHILITAN)** and the **Malaysian Maritime Enforcement Agency (MMEA)**.

Other Relevant Authorities

- The **Registrar of Societies (ROS)** oversees the registration, regulation, and supervision of most non-profit organisations (NPOs), while the **Legal Affairs Division (BHEUU)** of the Prime Minister's Department manages foundations. The **Department of Awqaf, Zakat, and Hajj** coordinates waqf, zakat, and hajj administration. The **Board of Valuers, Appraisers, Estate Agents, and Property Managers** registers real estate agents.

107. Since Malaysia's 2015 MER, Malaysia has implemented several key measures to enhance its AML/CFT/CPF effectiveness. For example:

i. **New Predicate Offences (2016-2024): **Malaysia added offences such as theft of electricity supply for crypto mining, corporate liability for corruption and illegal drug distribution by 'kingpins' under the AMLA.

ii. **Centralised TF Investigation (2016):** TF investigative responsibilities were exclusively assigned to the SB, replacing the AMLA Unit's role, aligning with a 2015 MER Recommended Action.

iii. **Risk Assessments (2017 to 2024):** Malaysia conducted three NRAs, two regional TF and NPO risk assessments, and five thematic risk assessments covering NPOs, legal persons and arrangements, PF, and VA.

iv. **VASPs (2018):** Inclusion of VASPs as RIs under the AMLA.

v. **MyFINet Establishment (2017):** The public-private partnership (PPP) was established to enhance intelligence sharing.

vi. **Reduction of CTR Threshold (2019)**: The threshold was reduced from RM 50 000 (EUR 10 775) to RM 25 000 (EUR 5 388) to address the risks associated with cash transactions.

vii. **Revised AML/CFT/CPF Guidelines (2019-2024)**: Guidelines were updated to address emerging risks and align with international standards.

viii. **National Scam Response Centre (2022)**: Integrated resources from various agencies and FIs, while implementing five security protocols to mitigate financial fraud and mule accounts.

ix. **National Fraud Portal (2024)**: Developed to automate tracing processes, facilitate recovery of stolen funds, and improve information-sharing among FIs for swifter blocking of suspected accounts.

x. **Malaysia Checkpoints and Border Agency (2024):** Established as the sole agency for border control and inspection at all 141 entry points nationwide.

Preventive measures

108. Malaysia's preventive measures are set out in the AMLA and apply to all FIs, VASPs and DNFBPs, with the detailed enforceable requirements provided under respective guidelines. The AMLA also covers some entities that are not required under the FATF Standards (such as gaming institutions) based on risk posed by the sector.

109. The AML/CFT/CPF guidelines require FIs, VASPs and DNFBPs to adopt a risk-based approach, allowing simplified measures in low-risk areas. Further, banks offering agent banking services can open limited-feature accounts for unbanked/underbanked populations without requiring branch visits.

110. Advancements in e-KYC technology and digitalised customer identification and verification have significantly enhanced financial inclusion. BNM's revised e-KYC policy (April 2024)[43] aims to enable safe and secure application of e-KYC technology in the financial sector, including ensuring robust AML/CFT/CPF control measures. Similarly, both the LFSA and SC have outlined e-KYC requirements to ensure RIs and specified entities effectively implement sufficient controls and a reliable e-KYC system.

Supervisory arrangements

111. Malaysia's AML/CFT/CPF supervision is led by three main supervisory authorities: BNM and LFSA oversee financial and DNFBP sectors, with LFSA also responsible for Labuan VASPs, while SC supervises capital market intermediaries and onshore VASPs. The supervisors cover the different types of entities falling within the scope of the FATF Standards. Additionally, CCM and MIA have also began conducting AML/CFT/CPF supervision on company secretaries and accountants, respectively.

International cooperation

112. Malaysia conducts international cooperation based on bilateral and multi-lateral treaties (13 treaties with 21 foreign jurisdictions - 12 bilateral treaties and one multilateral treaty) and the principle of reciprocity. Malaysia's FIU, a member of the Egmont Group, uses the Egmont secure platform for information exchange, while LEAs leverage platforms like INTERPOL to apprehend criminals and facilitate assets identification/repatriation.

113. Malaysia plays an active role in regional cooperation initiatives, such as a multi-jurisdictional anti-fraud project with Indonesia and Singapore under the ambit of the Financial Intelligence Consultative Group (FICG).[44] Malaysia is also a member of the Association of Southeast Asian Nations (ASEAN). Its most significant international partners are Indonesia; Singapore; Hong Kong, China; Australia; the United States; and the United Kingdom.

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[43] The first e-KYC Policy Document was issued in June 2020.

[44] The FICG is a regional body of FIUs from ASEAN 10, New Zealand and Australia. Malaysia was the co-chair with Australia from 2022 to 2023.

1 Assessment of risks, coordination and policy-setting

The relevant Immediate Outcome considered and assessed in this chapter is IO.1. The Recommendations relevant for the assessment of effectiveness under this chapter are R.1, 2, 33 and 34 and elements of R.15.[45]

Key Findings, Recommended Actions, Conclusion and Rating

Key Findings

a) Overall, Malaysia has a sound understanding of its ML and TF risks, informed by five ML/TF NRAs and various other risk assessments. Malaysia's risk assessments are conducted on a regular basis and adopt a largely robust and well-defined assessment methodology that leverage a vast collection of quantitative and qualitative information. The extensive and systematic ML/TF data collection processes conducted every four months demonstrates strong political commitment and domestic cooperation towards risk understanding. The standardised dictionary of terms used by authorities is a best practice, as it ensures consistency and clarity in data collection and analysis across stakeholders. Malaysia also conducted complementary thematic risk assessments to deepen its understanding. Risk assessment findings are communicated to stakeholders through a variety of channels.

b) Despite Malaysia's efforts in improving its risk understanding, there are several areas where it could be deepened. For instance, the lack of enforcement data may impact the comprehensive understanding of ML risks in relation to cross-border crimes (including the laundering of proceeds associated with foreign predicate offences in Malaysia), third-party ML and TBML, the latter of which competent authorities demonstrated a mixed understanding. There is also a need to ensure that Malaysia's understanding of ML/TF risks associated to VA and VASP is kept current given the evolving risks in the region. Also, the risk understanding relating to Labuan IBFC could be improved by considering specific crime factors and the occurrence of predicate offences linked to Labuan IBFC.

c) Exemptions, as well as simplified and enhanced measures, are risk-based and support Malaysia's priority of promoting financial inclusion nationwide. Malaysia demonstrates a consistent and coordinated approach in aligning the objectives and activities of competent authorities and self-regulatory bodies (SRBs) with evolving AML/CFT policies, ensuring alignment with the NRAs and other risk assessments. However, risk-based measures related to the DPMS sector appear inadequate.

[45] Recommendations. 1, 2 and 15 are under review, see the Technical Compliance Annex.

d) A key strength of Malaysia's AML/CFT system is its robust domestic coordination and cooperation at both the policy and operational levels. The long-established NCC serves as the central body that brings together a broad range of stakeholders, including government agencies, regulatory bodies and competent authorities. The ongoing review and recalibration of its structure has reflected Malaysia's commitment in prioritising and refining its AML/CFT efforts. Through this system, objectives and activities of competent authorities are generally consistent with the risks identified, with progress on implementing policies and strategies monitored through a robust mechanism.

e) Regarding operational activities, Malaysia has established strong coordination and cooperation mechanisms for operational purposes, including the NFCC, MATF and public private partnerships PPPs. Moreover, Malaysia actively uses secondments across agencies and MOUs to rapidly exchange information and collaborate on operational issues. As outlined throughout the report, these mechanisms have yielded positive results in major AML/CFT activities, including ML and TF cases. Nevertheless, potential overlap in case focus for the NFCC and MATF may exist, therefore suggesting a more integrated approach to enhance operational efficiency is needed.

Recommended Actions

a) Malaysia should continue to strengthen its understanding of risk in the following areas:
   - TBML;
   - Third-party ML;
   - Cross-border ML (including ML related to foreign predicates), considering the increasingly cross-border nature of prevalent crimes such as fraud/scams and drug trafficking;
   - Labuan IBFC, by considering specific crime factors and the prevalence of predicate offences associated with Labuan IBFC, particularly in relation to financial crime; and
   - VA/VASPs, given the evolving risks in this area and in the region.

b) To avoid potential duplication of efforts, the authorities should streamline coordination between the NFCC and MATF, particularly in handling high-profile cases involving substantial illicit proceeds, to ensure a more integrated approach.

a) Malaysia should continue to mitigate the risks associated with its cash-based economy, for example by considering the implementation of a Cash Transaction Limit, particularly within high-risk sectors and scenarios, such as DPMS. Also, given the high ML risks related to the DPMS sector, Malaysia should review the adequacy of the risk mitigating measures in this area.

Overall Conclusions on IO.1

Overall, Malaysia has a sound understanding of its ML and TF risks, informed by its five ML/TF NRAs and various other risk assessments. Malaysia's NRAs largely adopt a robust and well-defined assessment methodology drawing on a wide range of information. Malaysia's data collection mechanism using a shared dictionary of terms is an international good practice. There are several areas where Malaysia's ML/TF risk understanding could be further strengthened. These include ML risks in relation to TBML, Labuan IBFC, cross-border ML (including ML related to foreign predicate offences), and third-party ML. Malaysia also needs to ensure an up-to-date understanding of its risks associated to VAs and VASPs, given the evolving risks. Nonetheless, these shortcomings are considered moderate as authorities demonstrated a good understanding of risks in these areas and Malaysia demonstrated ongoing work to enhance its risk understanding.

Malaysia demonstrates strong political commitment to address ML/TF risks through the long-established NCC. Exemptions, as well as simplified and enhanced measures, are largely risk-based and support Malaysia's governmental priority of promoting financial inclusion. Malaysia demonstrates a consistent and coordinated approach in aligning the objectives and activities of competent authorities and SRBs with evolving AML/CFT policies, ensuring alignment with its understanding of risks. The key strength of Malaysia's AML/CFT system lies its robust domestic coordination and cooperation on AML/CFT issues at both the policy and operational levels.

Malaysia is rated as having a Substantial level of effectiveness for IO.1.

Immediate Outcome 1

114. Since the 2015 MER, Malaysia had completed three NRA iterations. In addition, Malaysia has carried out thematic ML/TF risk assessments in the areas of legal persons and arrangements, NPOs, VAs, and Labuan IBFC. Malaysia has participated in regional risk assessments on TF and NPOs, which were published in 2017 and 2018, respectively.

115. National AML/CFT policies—such as the National AML/CFT Strategic Plan 2015-2020 and the NCC Roadmaps for 2021-2026—have driven initiatives to strengthen Malaysia's legal and institutional frameworks. Several coordination and cooperation mechanisms have also been updated or newly established, as detailed in "Introduction to Money Laundering and Terrorist Financing Risks and Context".

1.1. Country's identification, assessment and understanding of its ML/TF risks

1.1.1. General understanding of ML/TF risks

116. Overall, Malaysia has a sound understanding of its ML and TF risks. Since 2013, Malaysia has completed five ML/TF national risk assessments (NRAs) and continues to update and adapt its NRA methodology, considering the NRAs of other jurisdictions and available data. Malaysia updates its NRA every three years, with the latest iteration completed in 2023 (NRA 2023). The regular update of the NRA has helped ensure risk findings are informed by the latest financial crime landscape and emerging threats.

117. Malaysia's NRA adopts a largely robust and well-defined assessment methodology as summarised in "Introduction to Money Laundering and Terrorist Financing Risks and Context". The NRA is drafted in a coordinated effort by the NCC-designated team, led by BNM. Risk assessment findings and key recommendations are first discussed in various NCC sub-committee meetings, then reviewed by the NCC working group and high-level meetings for final endorsement. Results are reported to the highest levels of government, including the Prime Minister.

118. Malaysia has established a comprehensive ML/TF data collection mechanism to enhance risk understanding. Competent authorities submit data every four months using a standardised entry form, with all relevant stakeholders manually inputting and updating information. The NCC data team, led by BNM, consolidates this data, reflecting strong political commitment and inter-agency cooperation. A dictionary of terms ensures consistency across stakeholders, which the Assessment Team recognises as a best practice. Additionally, data is gathered from private sector reporting entities via e-platforms linked to

supervisory activities. Relevant public and private sector representatives also contribute qualitative insights through focus groups.

119. The NCC plays an important role in proactively communicating risk findings to various stakeholders to ensure a consistent understanding of ML/TF risk. For example, detailed NRA findings are shared with all NCC members. Sector-specific industry engagement sessions are organised by BNM and other regulators to socialise the detailed findings with RIs and judiciary. An executive summary is also published online for public access.[46] The NRA findings are also integrated into training by LEAs and delivered to the private sector through platforms such as the Annual International Conference on Financial Crime and Terrorism Financing and the Compliance Officer Networking Group.

120. The following table summarises the overall findings of the most recent 2023 NRA.

Table 1.1. 2023 NRA Findings on ML and TF Risks

	Crimes	Sectors (ML)	Sectors (TF)
High Risk	Fraud Corruption Drug trafficking Smuggling Organised Crime	Banking institutions Lawyers DPMS	
Medium-High Risk	Tax crimes Forgery Human Trafficking/Migrant Smuggling Sexual Exploitation Environmental Crimes	Capital Market Intermediaries (CMIs) Labuan Money Brokers Casino Company Secretaries Registered Estate Agents (REAs) Accountants	Banking institutions DPI Issuers MSBs Labuan Money Brokers DPMS
Medium Risk	Robbery/theft Extortion Illegal Remittances Insider Trading and Market Manipulation Counterfeiting and Piracy of Products Terrorism and TF Illicit trafficking in Stolen and Other Goods Illicit Arms Trafficking	MSBs DPI Issuers Labuan Banking Institutions NBFIs Insurance and Takaful Operators (ITOs) Money Lenders Insurance Intermediaries Banking Intermediaries Leasing Factoring Labuan CMIs Labuan Trust Companies	CMIs Insurance and Takaful Operators Insurance Intermediaries Banking Intermediaries Leasing Factoring Labuan CMIs Casino Company Secretaries Lawyers Registered Estate Agents Accountants
Low Risk	Murder, Grievous Bodily Injury Kidnapping Counterfeiting Currency Sea Robbery	Pawnbrokers Labuan Insurance and Takaful Operators Trust Companies Licensed Gaming Outlets	Pawnbrokers NBFIs Labuan Banking Institutions Labuan Insurance and Takaful Operators Moneylenders Trust Companies Licensed Gaming Outlets Labuan Trust Companies

Note: While some sectors share the same risk rating, the underlying implications vary (e.g., materiality of banking institutions versus types of services provided by lawyers).

[46] See 2023 NRA Executive Summary here.

121. Moreover, as outlined in the table below, the NRA includes sectoral linkages with high-risk crimes. These linkages are based on case studies, focus groups, perception surveys, media articles, typology reports and STRs. Malaysia demonstrates an understanding of how the proceeds of different crimes might be laundered and which sectors are particularly vulnerable to specific predicate threats or TF.

Table 1.2. Common sectors abused for ML originating from high-risk crimes

High-Risk Crimes	Common Sectors Abused
Fraud	Banks, ITOs, CMIs, DPIs, MSBs, Labuan Banks, Labuan Insurers, Labuan CMIs, Lawyers, Company Secretaries, Accountants, Trust Companies, DPMS, REAs, Labuan Trust Companies
Corruption	Banks, Lawyers, Company Secretaries, Labuan Trust Companies, Accountants, DPMS and REAs
Drug Trafficking	Banks, DPIs, CMIs, Digital Assets Exchanges (DAXs), MSBs, and Casino
Smuggling	Banks and DPMS
Organised Crime	Banks, DPIs, ITOs and Company Secretaries
TF	Banks and MSBs

122. Complementary to the NRA, Malaysia produces thematic risk assessments using a similar risk assessment methodology to the NRA, focusing on specific areas, including legal persons and arrangements, VAs, Labuan IBFC and NPOs. The specific parameters of these assessments are modified where relevant to better assess the unique characteristics of the different thematic areas. Malaysia has also engaged in regional TF (in 2016) and NPO (in 2017) risk assessments with neighbouring jurisdictions. These products have deepened Malaysia's overall understanding of ML and TF risks.

123. For Labuan IBFC, the risk assessment methodology used in the 2022 Labuan IBFC risk assessment mirrored that used in the NRA. While this assessment did not explicitly examine the risks associated with certain sectors, such as leasing, factoring companies and company management, competent authorities and particularly the LFSA demonstrated an understanding of the ML risks in these sectors. More generally, apart from risk ratings of individual sub-sectors, the Labuan IBFC 2022 risk assessment only included high-level information on tax evasion, along with a comparison of the number and value of STRs submitted by Labuan RIs versus non-Labuan RIs. Risk understanding could therefore be improved by considering specific crime factors and the occurrence of predicate offenses linked specifically to Labuan IBFC.

1.1.2. ML risks

124. The above section and Table 1.1 above provide an overview of Malaysia's assessment of its ML risks as summarised in NRA 2023. These assessments represent a snapshot in time, as ML risks evolve continuously. As of February 2025, Malaysia concludes that banking institutions, DPMS, and lawyers are assessed as having the highest ML risks. MSBs are considered to have lower inherent risks due to a decline in transaction volume and value, while supervision capabilities of the DPI issuers have been strengthened. As a result, these two sectors are assessed as having medium ML risks. Labuan money brokers and Labuan banking institutions, however, face elevated ML risks due to their exposure to increased international transaction volumes and a growing base of high-risk customers, leading to a rise in their sectoral inherent risks. The Assessment Team generally finds this assessment reasonably sound.

125. When assessing its ML risks, Malaysia also demonstrated an understanding of emerging risk areas, which include: (i) a shift to digital payment involving electronic fund transfer, e-wallets and VAs; (ii) decreasing cash intensity in money lending business; and (iii) the increasing use of professional enablers (such as lawyers and company secretaries) in ML activities. The 1MDB case has also shaped Malaysia's evolving understanding of ML risks, particularly in relation to corruption.

126. Competent authorities, supervisory authorities and private sector representatives largely have a consistent understanding of Malaysia's ML risks, as articulated in NRA 2023, other various risk assessments, and highlighted during interviews with the Assessment Team. Moreover, private sector representatives met by the Assessment Team reiterated BNM's and competent authorities' proactive efforts in communicating the NRA findings and promoting ML risk understanding across the sectors.

127. While Malaysia has a sound understanding of its ML risks and robust risk assessment methodology, there are some areas where this understanding could be further strengthened:

- Malaysia has made substantial efforts to understand the ML risks related to **foreign predicate offences** and **third-party ML**, including the increasing use of **professional enablers**. Yet, as noted in IO7, Malaysia competent authorities face challenges in investigating and prosecuting standalone ML cases—where no clear predicate offense is identified. Authorities cited difficulties in meeting the high legal threshold required to connect illicit proceeds to criminal activities in court, which hinders effective enforcement. The limited investigation data (both qualitative and quantitative) by LEAs, which is partly attributed to the high threshold of pursuing ML prosecution in connection to foreign predicate offences and third-party ML—together with shortcomings in international cooperation, including a lack of proactive use of MLA (see IO.2)—may impact the comprehensive risk understanding of these areas.
- Competent authorities' understanding of **cross-border ML risks** could also be strengthened. The cross-border nature of Malaysia's prevalent crimes, such as fraud, illicit drug trafficking, and smuggling, is notable. Malaysia's geographic proximity to the "Golden Triangle", and countries known to be major scam-operating hubs, combined with its status as a financial and commercial centre in the region, further underscores the potential for incoming illicit financial flows. Malaysia recognises its position as a transit point for drug and smuggling offences, while the focus on transnational laundering risks is more limited. Malaysia has been working to expand its risk understanding in this area, with specific work undertaken related to illegal remittances, foreign legal persons and arrangements, and human trafficking. Nonetheless, interviews with public and private sector stakeholders revealed inconsistencies in how this risk is perceived.
- Malaysia would benefit from a more widespread understanding of **trade-based ML** (TBML) risks given its context as a trade-dependent economy and case studies and discussions with FIs pointing to risks in this area. TBML was covered in earlier risk assessments and Malaysia has contributed to regional studies in this area in the past decade, which provide a solid basis for building a consistent risk understanding. However, TBML is not clearly covered in the NRA 2023 and some competent authorities provided limited responses when questioned about current TBML risks. In contrast, private sector entities flagged this as a specific risk faced by Malaysia.
- Finally, Malaysia could enhance competent authorities' understanding of the **ML risks associated with VAs**, given the regional risks and context and their rapidly evolving nature. The 2024 VA risk assessment (data period covering 2020 and 2022) recognises the increasing risks posed by VA activity and increasing links to high-risk crimes like fraud. Nonetheless, onsite interviews revealed a disparity in understanding of these links. Since 2012, Malaysia has assessed its highest risk ML predicate offence as fraud (which includes scams). During onsite interviews, authorities asserted that, in fraud cases, most criminal proceeds are withdrawn via ATMs, and hence illicit funds generally remain within the country and have limited connection with VAs. While the Assessment Team acknowledges Malaysia's cash-intensive economy, it raises concerns considering reports by international

organisations linking fraud and VAs, particularly in Southeast Asia. For example, a 2024 report by the UNODC estimates financial losses between EUR 16.5 billion and 34 billion from scams targeting victims in East and Southeast Asia in 2023, with a high proportion of these losses attributed to scams committed by organised crime groups in Southeast Asia. The report further highlights the use of VAs and other online mechanisms to perpetrate the schemes.[47] Moreover, a 2024 report by INTERPOL noted the extensive use of VAs in investment and romance fraud and also highlighted the growing scam risks in Southeast Asia.[48] Malaysia reasonably assesses its current risks in this area as relatively low, based on its 2024 VA risk assessment and other information such as blockchain analytics reports. Nevertheless, given the rapidly evolving risks associated with fraud and scams in the region (including scam centres in neighbouring countries) and the borderless nature of VA, Malaysia should ensure its understanding of ML risks associated to VAs and VASPs remains current.

1.1.3. TF risks

128. Malaysia has a sound understanding of its TF risks, informed by five NRAs and various other assessments, including thematic and regional assessments. The NRA 2023 states that Malaysia is not a destination for TF. Most TF cases in Malaysia are self-financed or perpetrated by sympathisers or supporters who are influenced by terrorist groups ideologies. The Assessment Team finds that this conclusion is reasonable given the risk and context of Malaysia.

129. Since its 2015 MER, Malaysia's TF risk profile has declined, particularly with the fall of ISIL and movement restrictions enforced during the COVID-19 pandemic. Prior to 2020, Malaysia states that it was used as a source of TF and recruitment for foreign terrorist groups, including several cases where Malaysians were recruited to travel to Syria to join ISIL.[49] After 2020, Malaysia assessed its TF risk as "Medium-High" given the return of FTFs and the potential spread of associated radical ideologies and influence on terrorist-linked groups and sympathisers in the Southeast Asian region. In 2023, Malaysia reduced its TF risk assessment to "Medium" due to an observed downward trend of terrorism and TF cases, the further weakening of ISIL in Syria and the Philippines and its shifting influence towards Africa, and the emergence of lone-wolf and self-radicalised terrorist fighters.

130. Information outlining the latest terrorism and TF risk landscape is regularly shared with RIs and competent authorities through quarterly newsletters, primarily via FINS (see IO.6). Moreover, TF-related PPPs allow authorities to share privileged tactical information with Malaysia's FIU and selected major banks and money services business with a higher risk of terrorism and TF (see IO.9). These efforts support an up-to-date and comprehensive understanding of TF risks across the country.

1.2. National policies and activities to address identified ML/TF risks

1.2.1. Policies and activities to address ML/TF risks

131. Malaysia demonstrates strong political commitment to address ML/TF risks. Since 1999, the NCC is responsible for setting out national strategic directions and formulating AML/CFT policies in line with Malaysia's risks. The NCC is chaired by the Deputy Governor of BNM, who reports directly to the Central

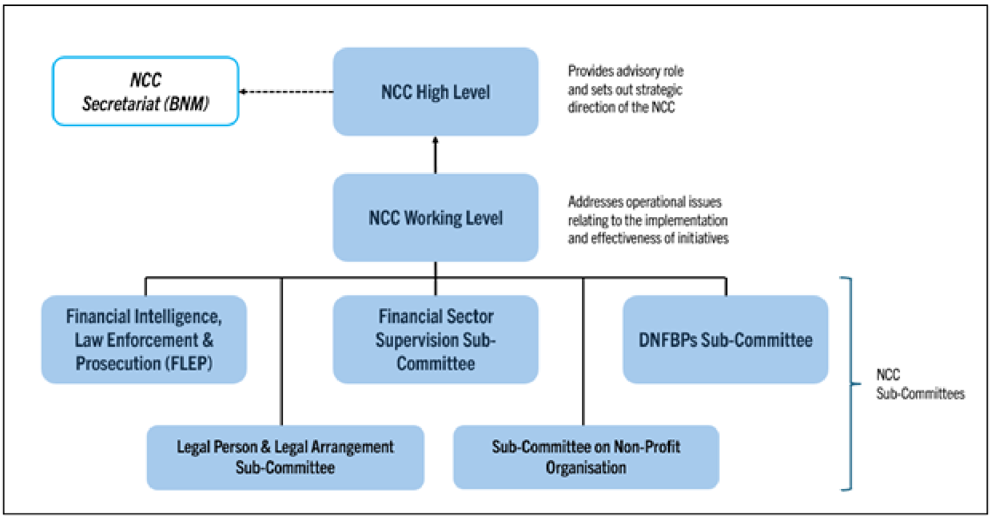
[47] United Nations Office on Drugs and Crime (UNODC), Cyberfraud Industry Expands in Southeast Asia, *UNODC ROSEAP*, October 2024.

[48] Interpol, *Global Financial Fraud Assessment 2024*, March 2024.

[49] During the rise of ISIL in 2014-2018, 122 Malaysians left for Syria, including children brought by their parents. Since 2018, Malaysia reports that no further departures of FTFs have been recorded.

Bank Governor. The Governor, in turn, serves as the designated Minister responsible for AML/CFT. Additionally, the Deputy Governor is appointed by the Minister of Finance, who also holds the position of Prime Minister of Malaysia. The below figure presents the structure of the NCC.

Figure 1.1. NCC Structure



132. In 2021, as part of a comprehensive review of AML/CFT measures in Malaysia, the NCC approved the NCC Roadmap 2021-2023. This roadmap is built upon the previous National Strategic Plan 2015-2020 and incorporated recommendations from the 2020 NRA. Malaysia states that this Roadmap was concluded with an 88% completion rate. The remaining actions were incorporated into an updated Roadmap, which also incorporated the findings from the NRA 2023 and other risk assessments and covers the period 2024-2026. The NCC Roadmap 2024-2026 includes 21 actions aimed at addressing the ML/TF risks identified from the 2023 NRA. Examples of such initiatives include: amending legislation, developing systems to improve asset management, setting specific targets for LEAs to pursue ML associated to high-risk crimes, and launching a campaign aimed at vulnerable groups to enhance their awareness of mule accounts.

133. Various competent authorities are responsible for implementing these action plans. Their progress is monitored by the NCC's five sub-committees, which meet at least biannually and report to the NCC Working Group.

134. During the onsite, competent authorities demonstrated strong alignment and commitment to achieving AML/CFT objectives, driven by BNM's leadership and the whole-of-government approach to addressing identified ML and TF risks. After reviewing the NRA findings and engaging in in-depth discussions with Malaysian authorities, the Assessment Team concluded that the Action Plans are well-aligned with the NRA recommendations and effectively address the identified ML/TF risks.

135. In addition to the NCC Roadmaps, Malaysia has introduced and implemented other policies and activities to address its ML/TF risks. For example, since 2020, the country has introduced numerous anti-corruption measures, including the completion of the National Anti-Corruption Plan of 2019-2023 and launching the National Anti-Corruption Strategy of 2024-2028. In response to an increase in fraud (including cyber-enabled scams), in 2022, the National Scam Response Centre (NSRC) was established as a joint effort between the NFCC, RMP, BNM, and the Malaysian Communications and Multimedia Commission (MCMC), as well as FIs and telecommunication companies. The NSRC ensures swift responses to online financial scams and a more coordinated approach to aid the recovery of stolen funds (details of NSRC can be found below). In 2024, Malaysia launched the National Fraud Portal to further enhance the

NSRC's ability to detect, trace, and respond to financial fraud quickly and effectively. The key features of the National Fraud Portal include automating the tracing process to improve the recovery of stolen funds, supporting data-driven assessments for identifying mule account holders, and promoting the integration and sharing of transaction data amongst FIs for swift action against fraud.

136. Malaysia has also implemented legislative amendments to address its evolving ML/TF risks, for example:

- Amendment of the Penal Code to combat online crimes using mule accounts for online fraud, by criminalising unauthorised possession, transfer and use of financial instruments or accounts.
- Introducing BO discrepancy reporting mechanisms to improve the accuracy of BO information.
- Inclusion of new offences into the AMLA to expand and align the scope of predicate offences with the FATF Standards.

137. Considering the above factors, Malaysia's national policies and activities appropriately address its identified ML/TF risks. The country has established a comprehensive and robust framework, supported by a clear commitment from all levels of government. This framework includes a well-coordinated mechanism that ensures the consistent and efficient implementation of AML/CFT measures across various sectors. The whole-of-government approach, combined with strong institutional collaboration, ensures that these efforts are not only aligned with international standards but also adaptable to emerging risks. Additionally, ongoing monitoring and evaluation processes are in place to ensure the continued effectiveness and impact of the national strategy in mitigating ML/TF threats. That said, case studies and onsite interviews indicated that corruption remains a significant concern of the country. To address this challenge, it is essential to hasten the implementation of Malaysia's National Anti-Corruption Strategy to continually mitigate the risk associated to corruption.

1.3. Exemptions, enhanced and simplified ML/TF measures

1.3.1. Exemptions

138. As noted in the Technical Compliance Annex, Malaysia applies preventive measures to all categories of FIs and DNFBPs except custodian services in relation to capital markets. This is limited to banks, subsidiaries of banks and trust companies. Malaysia assesses these custodians to be low risk for ML/TF due to the financial activity being limited to clients of fund managers which are subjected to AML/CFT requirements. Additionally, custodians do not have direct interactions with the client of the fund managers, as their role is limited to the safekeeping of cash and liquid securities. Fund managers are expected to conduct CDD on individual investors who invest with fund managers. The Assessment Team considers Malaysia's risk-based justification for this minor exemption to be reasonable.

1.3.2. Simplified and enhanced measures

Simplified Measures to Promote Financial Inclusion

139. Financial inclusion is a governmental priority in Malaysia. In line with this agenda, Malaysia has introduced simplified measures to promote further financial inclusion. For example, RIs that are agent banks serving the unbanked/underbanked population are allowed to facilitate the opening of bank accounts with limited features without requiring customers to visit a bank branch. Malaysia ensures these

measures are in line with risk by permitting delayed CDD only where limits are placed on the types and/or number of transactions that can be performed.

140. Malaysia also allows RIs to apply simplified measures where ML/TF risks are assessed as low. E-money accounts with a limit below RM 3 000 (EUR 647) may qualify for simplified CDD but can only be used for domestic purchases. To mitigate risk, these accounts do not support cash withdrawals or fund transfers. Simplified CDD can also be applied to e-money with account limits between RM 3 000 and RM 4 999 (EUR 1 077) when certain conditions are met. MSBs offering money-changing and currency services below RM 3 000 may also apply simplified CDD.

Technological advancements and the introduction of e-KYC solutions in the financial sector have significantly enhanced the digitalisation of customer identification and verification processes, also becoming a key enabler for financial inclusion. In April 2024, the BNM revised its e-KYC policy to ensure the safe and secure application of e-KYC technology within the financial sector, while maintaining comprehensive AML/CFT control measures. Similarly, SC and LFSA have also outlined e-KYC requirements in their guidelines and circulars to ensure that RIs and specified entities effectively implement sufficient controls and a reliable e-KYC system for AML/CFT compliance.

Enhanced Measures

141. RIs apply enhanced due diligence (EDD) based on relevant risk factors specified in the AML/CFT/CPF and TFS Guidelines, particularly those identified in the NRA and during institutional risk assessments. This includes a higher emphasis on suspected mule account holders, politically exposed persons (PEPs), residents of higher-risk jurisdictions, and customers from high-risk sectors, such as DPMS and DPI issuers. Further in 2019, several enhancements to address higher-risk scenarios were introduced as follows:

Table 1.3. Enhanced measures imposed on RIs

Higher Risk Scenarios	Enhanced Measures	Justification
Receipts of Third-Party Deposits	Requirement to assess the ML/TF risks associated with third-party deposits and prohibition of third-party payments from a customer's account to a third-party account.	To mitigate the risk of funds transferred to a person unknown to the reporting institution.
Government-Linked Companies and State-Owned Corporations	Removal of the exemption from full CDD requirements.	To address risks stemming from legal entities influenced by public officials, considering corruption and abuse of power cases involving senior officers (e.g., 1MDB).
Nominee Services	Automatic EDD on customers who require nominee services for the gatekeepers.	To mitigate risks from opaque relationships, especially for lawyers and company secretaries who are professional enablers, as identified under the NRA 2020.
Money-changing and Wholesale Currency Transactions (by banks and MSB operators)	Requirement to conduct specific CDD (six data points) on transactions between RM 3 000 and RM 10 000, while standard CDD is required for transactions above RM 10 000.	To mitigate the higher risks of MSBs as identified under the NRA 2020.
E-Money Products	Standard CDD applies to account limits equivalent to RM 5 000 and above or have higher risk functionalities such as cross-border wire transfer and cash withdrawals.	To mitigate risks arising from extensive use of cash in the sector.

142. In 2019, Malaysia reduced the CTR threshold from RM 50 000 (EUR 10 775) to RM 25 000 (EUR 5 388). These changes were introduced because of the 2017 NRA, which identified risks associated with cash

transactions (e.g., corruption). Given Malaysia's cash-intensive economy and the risks from large cash transactions, the country should continue mitigating these risks by implementing enhanced measures in high-risk sectors such as DPMS. Malaysia has identified DPMS as high risk due to the absence of a specific licensing or registration regime. The Assessment Team considers it necessary to review whether current risk-mitigation measures for this sector are adequate.

143. Overall, the Assessment Team finds that the results of Malaysia's ML/TF risk assessments largely inform and support the application of enhanced measures for higher-risk scenarios, and simplified measures for lower-risk scenarios.

1.4. Objectives and activities of competent authorities and SRBs

144. The risk assessments serve as part of the foundation for the objectives and activities of Malaysia's competent authorities. Guided by national AML/CFT policies, Malaysian LEAs have expanded existing units or established new units or other bodies to enhance their capacity and capability in addressing ML/TF risks. Additionally, LEAs have intensified their focus on leveraging technology, in line with recommendations from the NRA and other relevant assessments, to tackle the evolving risks of digitised criminal activities. For example, there has been an expansion of digital forensics departments or units focused specifically on digital crime, including cyber-enabled fraud and scams.

145. Based on discussions onsite, it is evident that AML/CFT supervisory authorities consistently realign their focus to ensure compliance with evolving ML/TF risks. The NCC Roadmap, which is based on recommendations from the NRAs, thematic risk assessments and international developments, is translated into each supervisor's strategic objectives and business plans. For example, BNM has enhanced its supervisory capacity, including through greater adoption of supervision technology, to better address ML/TF risks. Similarly, the LFSA has refined its supervisory focus on higher-risk sectors, guided by the NRA's findings. All supervisory authorities have implemented an AML/CFT Supervisory Framework, which either operates independently or as part of integrated supervision (i.e., prudential and conduct). Based on emerging risks, supervisory authorities issue typologies and thematic reviews to industry players, highlighting current trends, vulnerabilities, and areas of concern.

146. Malaysia's risk-based approach includes SRBs. As supervision of DNFBPs transitions to SRBs (see IO.4), the Malaysian Institute of Accountants (MIA) and the Malaysian Bar Council are working with BNM to integrate AML/CFT oversight and risk understanding into their strategic objectives. MIA has conducted joint risk-based examinations with BNM, and similar efforts are expected from the Bar Council as the transition progresses.

147. Malaysia's FIU also places significant emphasis on the NRAs to guide its operational priorities. High-risk ML crimes and TF are integrated into the triage process of STR screening, ensuring they receive priority attention for analysts' review (see IO.6 for further details). Additionally, the FIU has produced several intelligence products based on prevailing and emerging ML/TF risks, including:

- Thematic analysis on mule account networks (2021).
- Advisory on cybercrime (2022).
- Report on smuggling networks in East Malaysia (2023).
- Red flag indicators for accountants and company secretaries (2024).

148. Overall, Malaysia has demonstrated a consistent and coordinated approach in aligning the objectives and activities of competent authorities and SRBs with evolving AML/CFT policies, ensuring alignment with the NRAs and other risk assessments.

1.5. National coordination and cooperation to develop and implement policy

149. A strength of Malaysia's AML/CFT system is its robust domestic coordination and cooperation on AML/CFT issues at both the policy and operational levels. Since 1999, the NCC is responsible for formulating national policies and initiatives, providing advice and setting strategic directions in relation to AML/CFT. As of February 2025, NCC membership has expanded to include representation from 17 agencies and ministries (as illustrated below).

Figure 1.2. NCC composition

150. Malaysia's AML/CFT policies are anchored on domestic cooperation and coordination amongst competent authorities through the NCC and its five sub-committees.[50] Recent key outcomes from these committees include updating the risk assessments, joint supervision exercises, publication of red flag and typology reports and training.

151. Various ministries, agencies, and committees are also involved in counterterrorism and TF strategies outside of the NCC framework. These committees complement the NCC. For example, the National Security Council (NSC) located within the Prime Minister's Department, coordinates policy implementation for Malaysia's national security and develops the National Counter-Terrorism Strategy (see IO.9). The Committee on TF TFS reviews potential and existing designations under UNSCR 1373 and advises the MoHA accordingly (see IO.10 for details).

[50] The respective mandate of the NCC Sub-committees includes:

a. Financial Intelligence, Law Enforcement & Prosecution: sharing information, addressing legal, policy, and operational issues on intelligence, investigation and prosecution of ML/TF offences.
b. Financial Sector Supervision: aligning supervisors' measures, deepening ML/TF risk understanding, and strengthening supervision/monitoring.
c. DNFBPs: identify and address operational and policy issues related to AML/CFT obligations, including sharing of good practices for supervision, facilitate ML/TF risk assessments, capacity building and information sharing
d. Legal Person & Legal Arrangement: conduct risk assessments, and review legislation, policy and initiatives in relation to BO transparency
e. NPOs: conduct risk assessment, outreach program, and review legislation in relation to AML/CFT.

152. Cooperation between supervisory authorities, SRBs (e.g., MIA), and industry associations is key to developing and implementing AML/CFT policies for FIs and DNFBPs. BNM and SRBs have held multiple engagements to discuss risks, policy impacts, and implementation issues. These include sharing common gaps, best practices, and enforcement actions. Topics such as control measures, STR expectations, and TFS implementation are regularly addressed. SRBs also play a key role in raising awareness of identified risks and mitigation measures among their members.

1.6. National coordination and cooperation for operational purposes

153. Malaysia has established strong coordination mechanisms for operational purposes, including PPPs. In 2019, it launched the NFCC under the National Anti-Corruption Plan (2019-2023) to enhance inter-agency collaboration and drive a whole-of-government response to financial crimes. The NFCC coordinates joint operations amongst LEAs, facilitates intelligence sharing, and streamlines enforcement against high-impact cases. Its integrated structure allows agencies to pool expertise, resources, and data analytics for more effective detection, investigation, and prosecution of complex financial crimes. The NFCC also oversees efforts to seize and forfeit assets from major joint operations, including pilot projects toward centralised asset management.

154. In January 2023, the MATF was established to focus on economic crimes and the top five high-risk crimes identified in the NRAs. Chaired by the Attorney General and coordinated by the MACC, the MATF discusses emerging risks, trends, and criminal modus operandi, as well as conducts joint analyses and information-sharing amongst agencies. To date, the MATF coordinated actions resulted in the dismantling of corruption, fraud and smuggling syndicates, coupled with the recovery of proceeds and tax penalties totalling more than EUR 5.6 million.

155. Given the multiple operational coordination and cooperation mechanisms in place in Malaysia, the Assessment Team focused on determining whether any duplication or inefficiencies exist in practice. Regarding potential overlaps in responsibilities between the NFCC and the MATF, Malaysia noted that the NFCC handles high-profile cases, while MATF focuses on cases involving significant crime proceeds or property. Furthermore, Malaysian authorities stated that case allocation between NFCC and MATF is mutually exclusive. To further improve coordination, Malaysia could consider optimising coordination between the NFCC and MATF to prevent any practical overlaps that may arise (e.g., high-profile cases involving substantial illicit proceeds).

156. Malaysia has implemented various other initiatives to enhance operational coordination of the NFCC and MATF in tackling high-risk crimes. Key efforts include:

- The National Scam Response Centre (NSRC) - Established in October 2022, the NSRC brings together the NFCC, RMP, BNM, MCMC, FIs, and telecommunications companies. Its goal is to strengthen national efforts in combating scam-related crimes and facilitate the recovery of stolen funds through a coordinated response.
- The National Fraud Portal (NFP) - Established in August 2024, the NFP, is an electronic platform that connects NSRC agencies and the private sector to enhance fraud detection and response. Key features of the NFP include:
  - Automated fund tracing – Expedites the tracing and recovery of stolen funds within minutes, preventing further dissipation.
  - Data-driven risk assessments – Identifies mule account holders through advanced analytics.
  - Enhanced transaction data sharing – Facilitates collaboration amongst FIs for faster fraud detection and action.

- Additionally, the NFP includes a mule module, allowing FIs to share mule account information, thereby improving preventive and risk mitigation measures.

- Public-Private-Partnerships: There are multiple PPP initiatives focused on different crime types, i.e. corruption, smuggling, tax, securities offences, TF and PF. Malaysia established the Malaysia Financial Intelligence Network (MyFINet) in 2017 as a PPP for information sharing on specific cases between FIU, LEAs and specific RIs. MyFINet has organised six thematic working groups focused on these crime types.

157. Malaysian competent authorities also regularly collaborate through bilateral MOUs. These arrangements outline the cooperation for sharing intelligence, joint investigations, and leveraging each agency's unique capabilities and areas to combat ML/TF and financial crimes. They also cover supervisory coordination. For example, BNM has signed an agreement with CCM and collaborates with MBC and MIA to enhance supervision of company secretaries, lawyers, and accountants.

158. Apart from formal collaboration channels, working level collaboration amongst both law enforcement and supervisors is also enhanced by measures such as secondment of officers. The table below outlines the various secondment arrangements in place.

Table 1.4. AML/CFT Secondments between key agencies (2019-2025)

Seconding Agency	Recipient Agencies	No. of Individuals
BNM	NFCC, MACC, RMCD, ROS, LFSA	22
IRBM, MACC	BNM (FIU)	7
IDM, CCM, LFSA, MMEA, KPDN, MACC, RMCD, LHDN, RMP, AGC	NFCC	37
RMP	SC	4

159. Malaysia also presented case studies demonstrating effective collaboration between the FIU and LEAs in combating ML, TF, and predicate offences. Interviews with authorities reaffirmed that both LEAs and the FIU exhibit strong commitment to inter-agency cooperation, demonstrating a clear understanding of its critical role in financial crime enforcement. Domestic operational coordination and cooperation are key strengths to Malaysia's AML/CFT efforts.

2 International Co-operation

The relevant Immediate Outcome considered and assessed in this chapter is IO.2. The Recommendations relevant for the assessment of effectiveness under this chapter are R.36-40 and elements of R.9, 15, 24, 25 and 32.[51]

Key Findings, Recommended Actions and Conclusion and Rating

Key Findings

a) Malaysia has a sound legal framework for international cooperation. The authorities seek and provide MLA and extradition through a range of bilateral agreements and other international treaties that cover most jurisdictions in the region and major trading partners. Malaysia can also provide MLA and extradition on the basis of reciprocity.

b) Malaysia receives broadly positive feedback from other countries on formal cooperation. However, a number of delays in responses have been noted and Malaysia is currently not meeting its own agreed timelines. A new case management system is a positive step that may help address delays, although as it was only introduced in December 2024, its impact on effectiveness cannot be determined at this stage. Delays are primarily due to incomplete requests and almost one quarter of incoming MLA requests are closed due to a lack of information, despite follow-up by Malaysia.

c) Malaysia prioritises incoming and outgoing requests according to the severity of the offence, the urgency of the request (as stated by the requesting country), and the risk of asset dissipation. The SOPs on MLA in criminal matters does not include instructions or guidance for LEAs on how to assess or consider the risk of dissipation when prioritising requests. In practice, approximately 53% of all MLA requests received by Malaysia were acceded to or denied within 12 months.

d) LEAs, including the AGC, are not fully utilising MLA during investigations and prosecutions or to seek asset recovery, especially where transnational elements are involved and for high-risk predicate offences. From 2019 to 2025, Malaysia made 109 requests for MLA, including relating to ML, TF, corruption and fraud. The overall number of requests related to fraud, drug trafficking, smuggling and organised crime appears low. This is a concern given Malaysia's risk and context, including the NRA's identification of Malaysia as a transit hub and destination for drugs, and the regional risks and trends relating to cross-border scams. Malaysia has successfully repatriated illicit proceeds in very limited case, and competent authorities do not systemically pursue illicit proceeds that have been moved abroad in a manner that is fully commensurate with the country's risk profile.

[51] Recommendations. 15, 24, 25, 36, 37 and 38 are under review, see the Technical Compliance Annex.

e) The FIU, RMP, MACC and supervisors leverage other forms of cooperation to expedite investigations and information exchange, while some other authorities do so to a lesser extent. Feedback received from the global network on other forms of international cooperation with Malaysia was generally positive. However, some countries indicated registered concerns on the delay in responding to the requests sent to LEAs or the FIU. Although response time has improved since 2024, on average it takes Malaysia's FIU over two months to respond to requests, which is not considered timely.

Key Recommended Actions (KRAs)

a) Malaysia should actively use MLA commensurate with its risk profile, including to target illicit proceeds that have been moved abroad. AGC and LEAs should adopt strategies and processes that ensure MLA (or other cooperation where appropriate) is considered a priority in all cases with a cross-border nexus.
b) Malaysia should review its incoming MLA processes and operational procedures to assess the cause of delays in relation to the timely execution of incoming MLA requests.
c) Malaysia should update SOPs and/or provide guidance to authorities on how to assess the risk of asset dissipation when prioritising incoming requests, and on prioritising outgoing MLA requests based on Malaysia's risks, including high and medium-high risk foreign predicate offences, or origin or destination countries for illicit proceeds.

Other Recommended Actions

a) Malaysia should fully utilise the new i-AGC case management system to ensure LEAs are managing requests within specified timelines (e.g., sending reminders when deadlines are approaching) and to update the AGC on progress, including delays.
b) Malaysia should continue to raise awareness of and provide training to LEAs and prosecutors on the use of MLAs in investigations/prosecutions, including for asset tracing/confiscation.
c) Authorities should take proactive steps to facilitate complete incoming MLA requests, including requests on confiscation and repatriation. LEAs should also review unexecuted requests to determine whether domestic action should be taken.

Overall Conclusions on IO.2

Malaysia has established a sound legal framework for international cooperation and is party to multiple treaties for MLA and extradition. However, it does not consistently execute incoming requests in a timely manner, and some jurisdictions have raised concerns regarding delays in receiving assistance. Additionally, the SOPs for MLA in criminal matters do not provide specific guidance on assessing the risk of asset dissipation when prioritising requests. While Malaysia follows up where requests lack sufficient information, almost a quarter of requests are closed on this basis, suggesting that Malaysia could benefit from taking further proactive steps to facilitate complete requests (e.g., guidance for requesting states, reviewing drafts, etc.). In addition, there is no clear process to ensure such requests are reviewed to determine whether domestic action could be taken.

With respect to outgoing MLA and extradition requests, Malaysia is not seeking MLA and extradition in a manner fully commensurate with its risk profile. LEAs, including the AGC, are not fully leveraging MLA mechanisms during investigations and prosecutions, and to pursue asset recovery—particularly in cases involving transnational elements and high-risk predicate offences such as fraud, drug trafficking, smuggling and organised crime. This is a significant concern for the Assessment Team, especially in light of Malaysia's risks; for example, the 2023 NRA indicates that the country remains an attractive location for drug syndicates—both as a transit hub for international distribution and as a destination for illicit drugs. While Malaysia has successfully confiscated and repatriated illicit proceeds in very limited cases, competent authorities do not systematically pursue assets that have been transferred abroad in a manner fully aligned with Malaysia's risk profile. This gap may be partly attributed to the absence of clear manuals or guidance for the FIU, LEAs, and the AGC on how to effectively trace, identify, seize, freeze, and repatriate assets located overseas during financial analysis, investigations, and prosecutions.

Informal cooperation is used widely by many competent authorities who leverage networks and proactively seek other forms of international cooperation. LEAs and the FIU engage in joint analysis/investigations with foreign counterparts which have resulted in positive outcomes. However, cooperation is not always translated adequately into formal cooperation requests and is not leading to investigation, prosecution and conviction outcomes (see IO.7 and IO.8). Additionally, agencies expected to play a key role in international cooperation—such as the MMEA—do not appear to be engaging at a level consistent with their operational risks and responsibilities. Since 2024, the FIU's request response time averages 51 days, below its 60-day target, and a 25% reduction from the 67 days response time for the period prior to 2024.

Malaysia is rated as having a Moderate level of effectiveness for IO.2.

Immediate Outcome 2

160. Malaysia's ML/TF/PF risks require significant effective international cooperation with its neighbours and internationally. Due to its geographic location, Malaysia is a transit hub for smuggling (drug, wildlife, weapons and migrants), human trafficking, organised crime and piracy. The rising prevalence of online scams and fraud in the region also necessitates effective international cooperation as proceeds are rapidly moved between countries. High-profile Malaysian cases like 1MDB have also seen significant amounts of illicit proceeds moved offshore and laundered through the international financial system.

161. Malaysia has made progress in strengthening international cooperation since its 2015 MER, notably by increasing the number of treaties and MOUs with partners, ensuring international cooperation is embedded in national strategies (e.g., National Strategic Plan and NCC roadmaps) and by organising training and workshops for LEAs on MLA and extradition. Since 2015 and throughout the review period, Malaysia made use of its international cooperation framework—both incoming and outgoing—to recover stolen assets and support criminal investigations related to the 1MDB scandal. Further details of Malaysia's efforts are set out in "Introduction to Money Laundering and Terrorist Financing Risks and Context", IO.7 and IO.8.

162. Malaysia has a strong legal framework for providing and requesting MLA and extradition in relation to ML/TF and associated predicate offences, underpinned by MACMA and the Extradition Act. The MACMA was amended in September 2024 enabling Malaysia to freeze/seize instrumentalities that have been used or intended to be used in ML/TF, or predicate offences. Prior to the amendments, the restraint and forfeiture of instrumentalities (and property of corresponding value to instrumentalities) was achievable if requested by a foreign jurisdiction with an enabling bilateral treaty, or through multilateral treaties and acts, where these were in place (e.g., Malaysia can use AMLA to cover instrumentalities in cases where a foreign country request Malaysia for assistance and Malaysia chooses to take its own domestic action). The amendment to the MACMA is a significant enhancement to Malaysia's international cooperation framework and is likely to deliver greater effectiveness in the future, particular in cases where bilateral or multilateral treaties do not exist.

2.1. Providing constructive, timely and quality mutual legal assistance and extradition

2.1.1. Providing evidence and locating criminals

163. Malaysia provides MLA to countries with which it has bilateral and/or multilateral agreements. It has bilateral agreements with 21 foreign states, including neighbouring jurisdictions and major trading counterparts. In the absence of agreements or treaties, MLA or extradition can be provided on the principle of reciprocity, subject to agreement from the Minister charged with responsibility for legal affairs on the recommendation of the Attorney General (AG) in the case of MLA and for extradition, subject to an order or direction from the Minister of Home Affairs. Most requests received by Malaysia are from treaty partners.

164. Most MLA sought from Malaysia is for the production of documents, witness statements, production of evidence and service of process. Malaysia also receives a limited number of requests for search and seizure, asset repatriation and asset confiscation.

165. Incoming requests for MLA are now managed through a case management system (i-AGC), which allocates requests to a case handler and establishes deadlines for the execution of requests (6-12 months for most requests, 1-2 years for more complex requests). This is a positive step and likely to contribute to efficiency in managing, tracking and prioritising requests. Prior to the launch of this system in December 2024, cases were handled and tracked manually via bi-weekly checks on the status of requests, monthly updates, quarterly progress meetings and quarterly reporting to the NCC Secretariat. Though these regular oversight meetings continue, given the i-AGC's recency, the extent to which it has impacted the overall effectiveness of the MLA process is unclear at this stage.

166. The AG is the central authority for MLA matters, and the Transnational Crime Unit (TCU) within the AGC is the unit responsible for managing incoming and outgoing MLA requests. TCU consists of eight DPPs and three support staff, one of which is responsible for handling correspondence between embassies and the MoFA. MLA requests are received through diplomatic channels. The 2024 amendments to MACMA allows for requests to be sent directly from the foreign embassy/consulate to the AG to accommodate certain circumstances. However, in part due to the recency of the change, requests are also often transmitted from the foreign embassy, to the MoFA, and then to the TCU. Upon receipt, the TCU case handler, a DPP, reviews the request to ensure all requirements are met, then forwards it to the appropriate competent authority for execution. From the date the MoFA or AGC receives the request, the process typically takes one to two weeks.

167. The TCU prioritises incoming MLA requests based on factors such as the severity of the offence, the risk of asset dissipation, whether the requesting country specifies it as urgent, or if the request is

complex. The MLA SOPs do not provide clear instructions on how to assess the risk of asset dissipation when prioritising requests. Requests are then sent to the responsible competent authority for execution. For example, if the request relates to corruption, the TCU will allocate it to the MACC, for drugs to the RMP, etc.

168. Overall, Malaysia received broadly positive feedback from the FATF Global Network on formal cooperation, including from some of its major trading partners. Where delegations expressed concerns about delays in receiving responses—or not receiving responses at all—Malaysia acknowledged these delays but attributed them to incomplete requests and the need for additional information. Malaysia does not attribute the delays to deficiencies in its MLA handling process nor to a lack of resources within the TCU, which it considers adequately staffed.

169. If a request is incomplete or additional information or documents are needed, the TCU coordinates with the requesting country. The TCU has a policy of sending three reminders to the jurisdiction to provide the additional required information. If a response is not received after this date, the case is classified as not requiring further action but can be reopened upon receipt of full information. While the completeness of requests is largely outside of Malaysia's control, in such instances, there does not appear to be a process to review the request to determine whether domestic action could be taken, for example, where there is an offence that touches on Malaysia or where criminal proceeds may be located within the jurisdiction.

Box 2.1. Incoming MLA Case Study

In March 2023, Malaysia received a request from Country Z to help locate a witness needed to testify via audio-visual link in a September 2023 conspiracy-to-defraud trial in Country Z. The RMP located the witness, who agreed to testify. Malaysia then coordinated with Country Z to arrange for the testimony to take place at a room in Country Z's embassy. The witness successfully testified in October 2023.

170. Malaysia received 621 MLA requests between 2019 and February 2025. Incoming MLA requests are assessed and classified as viable (65%), closed because of insufficient information (24%), or because of their withdrawal by the requesting state (11%). Of the 404 viable requests, 202 were acceded, nine were denied and 193 are in progress (72 with Malaysia and 121 with the requesting country). Approximately 53% of these completed MLA requests were acceded to or denied within 12 months. Forty-six (46) requests took over two years to be executed and 56 requests are still in progress for more than two years (27 in progress with Malaysia and 29 with the requesting country) (see Table 2.2 below). Malaysia reports that the primary reasons for requests remaining pending for over two years are the inability to locate witnesses and the complexity of the requests.

171. Of the 17 1MDB related requests, 14 were fulfilled, one denied and two remain in progress. To promote quality requests, the AGC publishes a standard form for MLA requests and maintains a dedicated support email address on its website and staff regularly attend international meetings, regional forums, and workshops on MLA. Such forums and workshops are attended by LEAs and AGC staff who stated that they have noticed an increase in the quality of outgoing MLA requests in the last year. These are positive steps. Nonetheless, given the proportion of requests that are closed based on insufficient information, Malaysia could benefit from taking additional proactive steps to prevent incomplete requests (for example by providing guidance to foreign countries on Malaysia's MLA requirements, publishing information on common issues encountered by requesting states, meeting with key partners to provide help on preparing MLA requests, or reviewing draft requests before they are submitted).

Table 2.1. Most common offences underpinning MLA requests (2019-2025)

Offence	MLA Request
Fraud	283
Other[52]	132
ML	97
Drug offences	27
Corruption	21
Computer crime	17
Tax crime	16
Terrorism	14
Smuggling	12
TF	2
Total	**621**

Table 2.2. Status of MLA requests received

Status	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
Total MLA Requests Received	**102**	**72**	**117**	**115**	**103**	**109**	**3**	**621**
Acceded	46	38	43	37	20	18	-	**202**
No further action (closed but reversible upon full receipt of information)	38	21	41	31	15	5	-	**151**
Withdrawn by requesting countries	13	9	17	12	13	2	-	**66**
In progress in Malaysia	2	4	5	14	18	27	2	**72**
In progress in requesting countries	2	-	10	16	36	56	1	**121**
Denied	1	-	1	5	1	1	-	**9**

2.1.2. Extradition (including backed warrants)

172. Malaysia executes incoming extradition requests through treaties and on the principle of reciprocity in a similar way as it executes MLA. Malaysia has 11 extradition treaties with foreign states that enable it to execute requests in line with the Extradition Act. Any extradition outside of treaties must be approved by the Minister of Home Affairs, on the recommendation of the AGC.

173. The MoHA is the central authority for incoming and outgoing extradition but in practice, the AGC examines requests and advises the MoHA on whether a request complies with the Extradition Act and can be executed. Following MoHA's receipt of an extradition request, the request is managed by the TCU in the AGC according to the Extradition Manual. The TCU assesses the request to ensure all requirements are met, including whether there is sufficient evidence to support extradition. The request is then added to i-AGC and sent to the MoHA for consideration. Extradition requests are managed and tracked in the same way as MLA requests.

174. Of the 67 requests received between 2019 and 2025, 41 were assessed as viable, 11 were granted, four denied and 26 are in progress (eight with Malaysia and 18 with the requesting country). Of the 11 granted requests, five were processed within 12 months, three were processed between 12 and 24 months, and three took more than two years to complete. Malaysia notes that the main reasons for not meeting the Charter timelines include difficulties in locating fugitives and delays due to appeals reaching the apex

[52] "Other" corresponds to sexual offences, murder, traffic offences, human trafficking, kidnapping or abduction, crimes of violence, theft or robbery, counterfeiting, piracy, manslaughter and rape.

court. Extradition was denied in four cases: one where the individual was still under investigation, two based on a lack of reciprocity, and one was refused at the discretion of the MoHA.

Table 2.3. Incoming extradition requests and status

	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
Total Extradition requests received	**9**	**9**	**12**	**16**	**16**	**5**	**-**	**67**
Acceded	5	3	-	1	1	1	**-**	**11**
No further action (i.e. insufficient information, legal impediments, overtaken by event)	3	3	7	4	4	-	**-**	**21**
Withdrawn by requesting countries	1	-	1	2	1	-	**-**	**5**
In progress in Malaysia	-	1	-	2	3	2	**-**	**8**
In progress in requesting countries	-	-	3	6	7	2	**-**	**18**
Denied	-	2	1	1	-	-	-	**4**

175. Malaysia generally prioritises requests for extradition based on urgency, for example, where the requesting jurisdiction indicates the request is a priority. For requests relating to high-risk offences, 89% were responded to within two years. The MoHA can also direct the dispensation of the *prima facie* requirement for extradition requested by treaty partners, provided that such dispensations are expressly stipulated in the provisions of the Treaty. On 18 out of 58 possible occasions (i.e., requests from treaty partners), Malaysia has used this mechanism which allows for the extradition procedure to be executed expeditiously. Further, by using a provisional warrant apprehension, Malaysia can temporarily apprehend fugitives for 45 to 60 days without requiring a full extradition application. This mechanism enhances law enforcement capabilities by allowing for rapid arrest to prevent ongoing criminal activity and reduce the likelihood of the fugitive evading justice while formal extradition proceedings are underway.

176. Malaysia also operates an extradition process using backed warrants. Backed warrants provide for the reciprocal service of arrest warrants in Malaysia, Singapore or Brunei (i.e., can be executed without the need of a full extradition request). Malaysia received 122 backed warrants requests during the review period and executed 92 of these (75%).

177. The Extradition Act does not preclude Malaysia extraditing its own citizens. Between 2019 to 2025, Malaysia received nine extradition requests to extradite Malaysian citizens for offences relating to fraud (5), human trafficking (2), drug offences (1) and sexual offences (1). However, none of these requests have been executed. Insufficient information resulted in three cases being designated for no further action, four are in progress with the requesting countries and two were denied, one due to non-fulfilment of reciprocity and one because the person was required for an investigation and not for prosecution in the requesting state.

178. Malaysia has taken steps to improve extradition, including seeking feedback on quality of assistance and providing workshops to relevant competent authorities on the extradition process.

Box 2.2. Example of fulfilment of an extradition request

In 2022, Individuals A and B were sought by Country Y to stand trial for wire fraud and aggravated identity theft. Malaysia received requests for their provisional arrest warrants on 15 April 2022. Applications for these warrants were submitted to the Magistrates' Court on 25 July 2022, and the warrants were issued on the same day. Full extradition requests were received by Malaysia on 12 September 2022. Individual A was surrendered to Country Y on 10 November 2022 after waiving his right to committal proceedings before the Sessions Court, thereby enabling his prompt surrender. In the case of Individual B, the Sessions Court ordered his surrender to Country Y following the conclusion of committal proceedings.

2.1.3. Identification, freezing, seizing and sharing of criminal assets

179. Malaysian authorities consider the risk of asset dissipation as one of several factors in determining the prioritisation of MLA requests. During the review period, Malaysia received four incoming MLA requests related to asset repatriation and confiscation; however, none resulted in successful confiscation. According to the authorities, these requests could not be executed due to the failure of requesting countries to provide additional information, despite repeated follow-ups. Additionally, Malaysia received 19 search and seizure requests, of which six were granted (32%). Of the remaining 13 (68%), three were withdrawn by the respective LEAs, four were classified as requiring no further action (due to non-responses from the requesting jurisdictions and the subject is not in Malaysia), one was refused, and five remain pending with the requesting authority awaiting additional information.

180. These outcomes highlight ongoing challenges and continue to undermine international asset recovery efforts. A large proportion of asset recovery related MLA requests are not executed due to a lack of information. While Malaysia is not responsible for the content of incoming requests, it would benefit from taking proactive steps to facilitate complete requests.

2.2. Seeking appropriate and timely mutual legal assistance and extradition

2.2.1. Seeking evidence and locating criminals

181. Malaysia now uses i-AGC to manage outgoing MLA requests. To support LEAs in preparing these requests, the AGC has also published an MLA template and form on its website. Throughout the drafting process, the TCU works closely with LEAs, and once a final draft is submitted, the TCU ensures all requirements are met before transmitting the request. The table below summarises outgoing requests between 2019 and February 2025.

Table 2.4. Outgoing MLA requests by offence

Categories	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
ML	**16**	**12**	**6**	**16**	**5**	**9**	**-**	**64**
Corruption	14	7	5	8	4	5	-	43
Fraud	2	5	1	2	1	3	-	14
Others	-	-	-	6	-	1	-	7
Predicate Offence	**9**	**8**	**9**	**6**	**8**	**3**	**-**	**43**
Fraud	4	1	4	2	-	2	-	13
Corruption	1	2	3	1	4	-	-	11
Murder	-	2	1	-	1	-	-	4
Terrorism	1	1	-	-	-	--	-	2
Drug Offences	1	-	-	-	-	-	-	1
Crimes of violence	-	1	-	-	-	-	-	1
Sexual offences	-	-	-	1	-	-	-	1
Computer crime	-	-	-	1	-	-	-	1
Theft/robbery	-	-	-	-	-	1	-	1
Rape	1	-	-	-	-	-	-	1
Others	1	1	1	1	3	-	-	7
TF	**-**	**-**	**-**	**2**	**-**	**-**	**-**	**2**
Total	**25**	**20**	**15**	**24**	**13**	**12**	**-**	**109**

182. The successive National Strategic Plan and NCC roadmaps' inclusion of international cooperation in action plans has seen outgoing MLA requests increase from 36 in the 2015 MER to 109 in the current review period (2019-2025). Malaysian authorities advised that they leverage, and prefer, informal international cooperation due to its efficiency; however, the Assessment Team notes that informal cooperation cannot be an effective substitute for MLA (e.g., where court evidence is required). The SOP on MLA in criminal matters does not cover how to prioritise outgoing MLA requests based on urgency and risk of asset dissipation, nor is there is any guideline or matrix on how to use MLA requests during investigations and prosecutions. Furthermore, the SOP does not refer to prioritisation based on Malaysia's risks, including high/medium risk foreign predicate offences, or origin or destination countries for illicit proceeds. This is likely to impact the nature and likelihood of success of outgoing requests.

183. From 2019 to 2025, Malaysia made 109 outgoing MLA requests for an array of offences including ML (42 related to 1MDB) and TF. Requests included, production of evidence or documents, witness statements, seizure and recovery/confiscation of illegal proceeds. Consistent with the NRA, requests related to corruption (54) and fraud (27) (either alone or as an ML predicate) were most common. While these are higher risk offences for Malaysia, the overall number of requests related to fraud appears low in light of the regional risks and current trends. Moreover, there were few requests related to organised crime, drugs and smuggling, which is not in line with Malaysia's risk and context. The 2023 NRA states that Malaysia remains an attractive location for drug syndicates—both as a transit hub for international distribution and as a destination for illicit drugs. Malaysia advised that LEAs pursue drug crimes and associated ML through joint operations and via treaties, as they face challenges in obtaining assistance through MLA from some jurisdictions where offences are punishable by the death penalty or corporal punishment (e.g., drug trafficking, criminal breach of trust). This is a reasonable approach but does not explain the lack of requests for ML relating to drug offending, which does not carry the death penalty.

184. Only two TF-related requests were made which is not in line with risk, particularly the risks related to terrorist organisations active in the region.

185. In total, 60% of Malaysia's outgoing MLA requests either remain pending with the requested jurisdictions (35%) or have been subsequently withdrawn (25%) (see Table 2.5 below). Withdrawals typically occur in cases where the requested evidence is no longer required by LEAs. After accounting for withdrawn requests, only 46% of outgoing requests during the review period have been successfully executed. Malaysia does not attribute the low response rate to poor quality of its requests, and feedback from the FATF Global Network does not indicate that the quality of requests is an issue. Although outside Malaysia's control, this low execution rate is concerning and is likely to substantially impact Malaysia's ability to investigate, prosecute, and secure convictions in cases involving transnational elements.

Table 2.5. Outgoing MLA requests by status

Status of Outgoing	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
Acceded	13	8	6	7	4	-	**-**	**38**
Denied	-	1	-	-	-	-	**-**	**1**
Withdrawn by Malaysia	10	4	5	4	3	1	**-**	**27**
In progress in Malaysia	-	1	-	3	1	-	**-**	**5**
In progress in requested countries	2	6	4	10	5	11	**-**	**38**
Total	**25**	**20**	**15**	**24**	**13**	**12**	**-**	**109**

2.2.2. Extradition (including backed warrants)

186. Outgoing extradition requests follow a similar process to outgoing MLA requests, however, MoHA considers the request and its adherence to the requirements of the Extradition Act and treaties. Malaysia's use of extradition requests is not fully aligned with its risk profile. Since 2019, Malaysia sent 32 extradition requests (including 24 backed warrants), 31 related to predicate offences such as human trafficking, fraud, smuggling, computer crimes, murder and one related to ML linked to corruption (see table below for yearly breakdown). In terms of outcomes, two requests were rejected by the requested country, two were withdrawn by Malaysia and four requests were in progress as of February 2025. Of the 24 backed warrant requests, 19 were executed, and five remain pending. During the same period, Malaysia made 42 provisional arrest requests through the INTERPOL Red Notice system and advised this is an effective tool, but it is unclear how many of these resulted in successful arrests or ultimately led to extradition to Malaysia. The below case study demonstrates Malaysia's efforts to pursue extradition when faced with legal impediments.

Box 2.3. Extradition efforts by authorities

In 2022, Malaysia sent a provisional arrest request for Person A to Country B for the offence of cheating and dishonestly inducing delivery of property under section 420 of the Penal Code. However, the request was refused by Country B due to lack of dual criminality. In 2023, Malaysia made another effort to extradite Person A by sending a full extradition request for the offence under section 12 of the Anti-Trafficking in Persons and Anti-Smuggling of Migrants Act. Concurrently, Country B also received an extradition request for Person A from Country C for a different offence. Country B has decided to surrender Person A to Country C.

Table 2.6. Outgoing Extradition requests (including backing warrants)

Categories	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
ML	1	-	-	-	-	-	-	**1**
Predicate	9	2	3	10	2	5	-	**31**
Total	**10**	**2**	**3**	**10**	**2**	**5**	**-**	**32**

2.2.3. Identification, freezing, seizing, confiscation and sharing of criminal assets

187. During the review period, Malaysia sent nine MLA requests to trace, seize, confiscate and repatriate illicit assets that had moved abroad. Three were completed and the funds repatriated (one related to 1MDB through a voluntary return process for the value of EUR 926 000, one related to ML and fraud for EUR 699 286 and one related to ML and cheating for EUR 736 088). There are six ongoing MLA requests all related to 1MDB (of a significant value), which are pending with the requested jurisdictions.

188. Despite these successful recoveries, the total number of cases is very limited, particularly given Malaysia's context as a transit country; its risks related to cross-border fraud and scams, and corruption; and the case studies provided which show proceeds being moved offshore. Competent authorities do not systemically pursue illicit proceeds that have been moved abroad in a manner that is fully commensurate with Malaysia's risk profile. For instance, there is only one asset recovery-related request for fraud and no requests for other high-risk crimes (drug trafficking, organised crime or smuggling) or medium-high risk crimes (tax crimes, forgery, human trafficking/smuggling, environmental crimes and sexual exploitation) where there is likely an international element. This gap may be partly attributed to the absence of clear manuals or guidance for the FIU, LEAs, and the AGC on how to effectively trace, identify, seize, freeze, and repatriate assets located overseas during financial analysis, investigations, and prosecutions.

Box 2.4. Tracing and repatriation (ML, fraud)

In August 2021, the RMP initiated an investigation into ML and fraud involving assets transferred to Country X. The case concerned a business email compromise between Company F (the victim) and Company G. Company F had been in a legitimate transaction with Company G for the purchase of machinery worth EUR 1 million.

In May 2021, Company F received an email—purportedly from Company G—attaching an invoice for EUR 700 000. Acting on this, Company F transferred the funds to the bank account specified in the email. It was later discovered that Company F's business email had been compromised, and the correspondence had come from a suspicious address rather than Company G's official email. This indicated that the invoice was fraudulent, and the funds had been sent to an unknown bank account in Country X.

In January 2022, Malaysia requested Country X's assistance in repatriating the assets. Country X identified and froze the relevant assets and asked Malaysia to obtain a restraint order from its courts. In March 2023, the Malaysian court granted the restraint order, and in April 2023, Malaysia submitted a supplemental request to Country X to restrain the assets under that order. This led to the repatriation of EUR 699 286 to Company F in Malaysia.

2.3. Seeking other forms of international cooperation for AML/CFT purposes, including asset recovery

2.3.1. FIU

189. The FIU has 47 MOUs with foreign FIUs. It also uses Egmont Group templates and Egmont Secure Web to exchange information with other Egmont members. For non-Egmont members, the FIU shares information upon receiving certain undertakings from the receiving FIU. The FIU requests information for its own analysis and on behalf of LEAs and feedback from foreign FIUs on the quality of its requests is generally positive. Outgoing requests are prioritised according to the five high-risk predicate offences identified in the NRA.

190. The FIU made 180 outgoing requests for information to foreign FIUs during the assessment period, with 42% of these requests made in 2024. Of these, 111 requests related to high-risk crime types (see table below). There were only 28 requests relating to ML and the low number of requests for drugs (3) is not in line with Malaysia's risk profile. Most outgoing requests were made to neighbouring countries, or jurisdictions with strong ties to Malaysia. There were only three requests related to human trafficking and none for other medium-high risk crime types (tax crimes, forgery, environmental crimes and sexual exploitation). Noting the comparatively low number of formal MLA requests, it is not clear if and how requests for information are developed into MLA requests where necessary (e.g., to use evidence in court, to execute coercive measures, to arrest individuals, etc.). The FIU made 17 outgoing requests related to terrorism and TF. Most international requests relating to terrorism and TF are made directly by the RMP rather than the FIU (see Tables 2.7 and 2.8). Malaysia advised that, as identified in the NRA, terrorism and TF risk is declining due to the fall of ISIL, absence or death of prominent domestic ISIL leaders, effective enforcement and preventive measures, and because most TF cases are self-financed.

Table 2.7. FIU outgoing requests by offence

Offence	2019	2020	2021	2022	2023	2024	Feb (2025)	Total
Corruption	10	7	5	3	6	22	1	**54**
Fraud	5	1	8	5	11	8	-	**38**
ML	1	-	7	3	3	13	1	**28**
Terrorism and TF	5	4	2	2	1	3	-	**17**
Organised crimes	1	-	-	-	-	15	-	**16**
Smuggling	-	-	1	2	-	10	1	**14**
PF	-	-	-	-	-	5	-	**5**
Human trafficking	2	-	-	1	-	-	-	**3**
Drug trafficking	1	-	-	1	1	-	-	**3**
Illegal remittance	1	-	-	-	-	-	1	**2**
Total	**26**	**12**	**23**	**17**	**22**	**76**	**4**	**180**

191. Since the FICG's establishment in 2016, a regional body of FIUs, Malaysia's FIU has actively participated in information sharing activities relating to projects such as unregistered and suspicious remittance, TF disruption, fraud, corruption and TBML. This provides an additional avenue to seek information from neighbouring jurisdictions to assist with specific analysis.

2.3.2. Law enforcement agencies (LEAs)

192. Most informal forms of international cooperation (i.e. cooperation outside MLA and extradition) are conducted by the RMP (2019 requests during the reporting period), RMCD (161) and MACC (152). LEAs leverage a wide range of available tools/platforms to exchange information, including the National Central Bureau Unit (NCB)/INTERPOL, ASEAN Chiefs of National Police (ASEANAPOL) and Asset Recovery Interagency Network Asia Pacific (ARIN-AP). In addition, LEAs can exchange information with foreign counterparts on the basis of reciprocity. To facilitate international cooperation, RMP has 52 liaison officers strategically located in 10 consulates, embassies and organisations around the world. Different divisions within RMP regularly exchange information with foreign counterparts either via the centralised coordinator NCB/INTERPOL or directly via established contacts. Requests tend to be operational in nature and relate to intelligence-sharing, production of documents and requests for joint operations.

Box 2.5. Example of joint operation on illegal gambling

In June 2024, CID's Gambling Prevention Unit conducted a joint operation with Country S Police Force to bust an illegal gambling syndicate operating in the Country S's market. The syndicate operated at three different locations in Malaysia. The CID arrested four Country S citizens and two Malaysian citizens. Investigations have been conducted through three Investigation Papers. On 9 July 2024, six individuals were charged and convicted under section 6(1) of the Betting Act 1953. The accused were fined between EUR 521 to EUR 625 each. The four foreign individuals were handed over to Country S Police Force for further action.

Table 2.8. RMP's divisions outgoing requests (by offence)

Department	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
TF	**82**	**81**	**66**	**54**	**56**	**26**	**29**	**394**
NCB INTERPOL	16	30	1	-	11	2	-	60
SB	66	51	65	54	45	24	29	334
ML	**4**	**9**	**4**	**8**	**21**	**13**	**16**	**75**
NCB INTERPOL	-	1	-	-	-	7	2	10
AMLA	4	8	4	8	21	6	14	65
Human Trafficking	**2**	**-**	**4**	**3**	**4**	**4**	**1**	**18**
NCB INTERPOL	2	-	4	3	4	4	1	18
Fraud	**29**	**68**	**432**	**324**	**311**	**232**	**5**	**1 401**
NCB INTERPOL	26	68	430	323	311	232	-	1,390
CCID	3	-	2	1	-	-	5	11
Drug Trafficking	**7**	**34**	**45**	**12**	**8**	**18**	**7**	**131**
NCB INTERPOL	4	31	40	10	3	10	4	102
NCID	3	3	5	2	5	8	3	29
Total	**124**	**192**	**551**	**401**	**400**	**293**	**58**	**2 019**
NCB INTERPOL	48	130	475	336	329	255	7	1 580
Respective RMP Department	76	62	76	65	71	38	51	439

Note: Anti-Money Laundering Act Unit (AMLA), Commercial Crime Investigation Department (CCID) and National Criminal Investigation Department (NCID).

193. RMP made more than 2 000 outgoing requests during the reporting period, leading to a number of positive outcomes, including the opening of 27 investigations on fraud cases. RMP demonstrated its effective use of informal cooperation, which resulted in the arrest of 261 individuals for fraud and 135 individuals for drug offences and the seizure of approximately EUR 76 million in drugs. The active use of informal cooperation by the RMP is generally in line with Malaysia's risks and highlights its capacity to use international cooperation.

194. The MACC has five designated liaison officers responsible for exchanging information with foreign counterparts, including the Australian Federal Police, National Crime Agency United Kingdom, Corrupt Practices Investigation Bureau Singapore, Commercial Affairs Department Singapore, Singapore Police Force, United States FBI, and United States Office of Attorney General. The MACC continues to devote significant resources to international cooperation for AML purposes in its ongoing 1MDB investigation. Since 2015, MACC formalised an additional 11 MOUs including with Uzbekistan, Egypt, China, Kingdom of Saudi Arabia and Brunei Darussalam, for a total of 16 MOUs to enable mutual exchange of information. During the review period, MACC sent 152 requests on corruption and related ML to its foreign counterparts, resulting in the charging of customs officers, the CEO and president of a statutory body and the former Finance Minister.

Table 2.9. Outgoing requests by MACC concerning corruption and related ML

Outgoing requests	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
United Kingdom	7	1	4	6	6	22	5	**51**

Outgoing requests	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
Singapore	-	-	7	9	4	8	2	**30**
France	2	2	6	4	-	1	2	**17**
USA	-	-	-	5	4	3	4	**16**
Switzerland	-	3	4	3	1	-	-	**11**
Australia	-	-	-	5	4	-	1	**10**
Kuwait	-	2	2	-	3	-	-	**7**
Mauritius	-	-	3	-	1	-	1	**5**
Luxembourg	-	-	-	3	-	1	-	**4**
Germany	-	-	-	-	-	1	-	**1**
Total	**9**	**8**	**26**	**35**	**23**	**36**	**15**	**152**

195. NCB INTERPOL send requests on behalf of PERHILITAN, IDM and MMEA who use international requests and cooperate internationally to a moderate degree. International cooperation by the RMP and MMEA with neighbouring jurisdictions has led to the extradition of four individuals in 2023 (now on trial in Malaysia) and 21 arrests for human trafficking and smuggling offences in 2024.

Table 2.10. Outgoing INTERPOL requests sent on behalf of other agencies

	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
RMCD	245	216	203	165	156	115	60	**1 160**
Wildlife (PERHILITAN)	-	2	3	1	2	9	1	**18**
Forestry	-	1	-	6	2	2	-	**11**
MMEA	-	-	1	-	1	3	1	**6**
Total	**245**	**219**	**207**	**172**	**161**	**129**	**62**	**1 195**

2.3.3. Supervisors of FIs, VASPs and DNFBPs

196. The primary FI, DNFBP and VASPs supervisors actively engage with counterparts and regularly seek cooperation and exchange information as part of their enforcement and supervision activities. BNM, SC and LFSA maintain a number of MOUs. Malaysia is a signatory to the International Organisation of Securities Commissions Multilateral Memorandum of Understanding (IOSCO MMoU), and the SC became a signatory to the IOSCO Asia Pacific Regional Committee Multilateral MOU for Supervision Cooperation and became a member of IOSCO's AML Network in 2024. In exercising its investigative powers, BNM made 16 outgoing enforcement requests for financial and BO information to 14 countries relating to illegal deposit-taking and remittances. As a supervisor, BNM seeks information to conduct fit and proper checks (137 requests), regularly participates in supervisory colleges or bilateral meetings, and requests information from jurisdictions that host branches or subsidiaries of Malaysian headquartered banks and considers this information as part of its supervisory approach (21 requests).

197. In exercising its investigative powers, the SC made 145 international cooperation requests to 28 jurisdictions to support investigations into fraud, insider trading, market manipulation and ML. The SC commonly seeks banking information and transaction records, trading records, BO information and other information. Documents can be requested through IOSCO's platform. For its supervisory role, the SC conducted 417 fit and proper checks between 2019-2025. From 2019-2025, the LFSA's investigation team made 17 requests relating to ML and predicate offences while supervisors made 85 requests to foreign

counterparts for fit and proper vetting purposes. No information was provided on the efforts of other supervisors to seek international cooperation.

Table 2.11. Outgoing requests relating to enforcement cases by supervisors

	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
SC	28	17	36	18	30	15	1	**145**
LFSA	7	1	1	1	3	4	-	**17**
BNM	1	-	1	-	2	12	-	**16**
CCM	-	-	-	-	-	-	-	**-**
Total	**36**	**18**	**38**	**19**	**35**	**31**	**1**	**178**

2.3.4. Customs and tax authorities

198. Since 2015, the RMCD has signed eight additional MOUs with foreign counterparts for customs cooperation, including intelligence and investigation information exchanges related to customs documents, (e.g., customs forms, import/export forms, transshipment documents and manifests). It has a number of liaison officers and staff posted to Belgium, Indonesia and China to assist with intelligence and enforcement-related exchanges of information.

199. Since 2019, RMCD sent 161 requests, to its foreign counterparts with most requests related to the smuggling of cigarettes (50), beer/liquor/wine (29) and drugs (20). Requests were made primarily to neighbouring countries and trading partners, and all have been fulfilled. RMCD also participates in a Malaysia-Indonesia Task Force on Narcotics and has participated in several operations with regional partners, mainly relating to drugs and smuggling activities.

200. The IRBM exchanges information with foreign counterparts based on double taxation agreements, tax information exchange agreements, and the Convention on Mutual Administrative Assistance in Tax Matters. IRBM introduced a case management system in 2019, and between 2019 and February 2025, it made 87 requests for information related to basic and BO information, financial records and other records (e.g., accounting). Of these, 85 were fulfilled and two are pending. Malaysia notes that 64 of 87 outgoing requests related to tax investigations, but none related to ML or any other ML predicate offence.

2.4. Providing other forms of international cooperation for AML/CFT purposes, including asset recovery

201. Feedback received from the FATF Global Network on the provision of other forms of international cooperation was generally positive. However, several delegations indicated concerns on the delays in responding to requests sent to the FIU and LEAs.

2.4.1. FIU

202. The FIU prioritises incoming requests according to the five high-risk crimes identified in NRA 2023. It also actively participates in many joint operations and intelligence sharing with foreign FIUs and in international/regional forums. For example, in 2023, the FIU engaged in joint analysis of a corruption case with financial flows across three jurisdictions in the region. This was the first joint analysis programme between FICG and the Pacific Financial Intelligence Community and a joint report was issued in October

2024. In addition to responding to requests, the FIU also spontaneously disseminates intelligence to foreign FIUs as appropriate.

Table 2.12. Outgoing spontaneous disseminations by the FIU by offence

Offence	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
Fraud	114	25	7	-	1	4	-	**151**
Terrorism and TF	28	10	-	2	1	2	1	**44**
ML	6	-	-	10	1	12	-	**29**
PF	2	-	-	-	2	13	1	**18**
Tax Evasion	1	-	-	-	-	4	-	**5**
Smuggling	1	-	-	3	-	1	-	**5**
Drugs Trafficking	-	-	1	-	1	2	-	**4**
Human Trafficking	-	-	1	-	-	1	-	**2**
Corruption and Bribery	-	-	-	-	1	1	-	**2**
Environmental Crime	-	-	-	-	1	-	-	**1**
Total	**152**	**35**	**9**	**15**	**8**	**40**	**2**	**261**

203. The FIU received 848 incoming requests, including 111 requests on ML and 60 requests on terrorism/TF from foreign FIUs. The FIU's target response time is within 60 days. At the time of the onsite, the average response time was 67 days. Through system enhancements (see IO.6) and a lessening of COVID-19 restrictions on movement, for requests made since 2024, the response time is now down to 51 days. While some delegations noted delays, feedback received from foreign FIUs is mainly positive with 94% of respondents saying that they are satisfied with the overall cooperation provided.

Table 2.13. Incoming requests to the FIU

Offence	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
Fraud	58	63	55	26	32	41	2	**277**
Corruption	33	22	21	20	14	18	2	**130**
ML	16	11	15	20	22	24	3	**111**
Drug trafficking	8	8	15	5	15	14	3	**68**
Others	12	19	9	6	10	11	-	**67**
Terrorism/TF	16	12	15	7	4	6	-	**60**
Tax offences	6	3	6	11	3	8	4	**41**
Smuggling	4	8	2	2	5	8	1	**30**
Organised crime	5	4	4	1	4	7	-	**25**
Illegal remittance	2	-	2	4	3	4	-	**15**
PF	2	-	-	1	-	7	-	**10**
Environmental crime	1	1	4	-	1	1	1	**9**
Human trafficking/smuggling	-	-	2	-	1	2	-	**5**
Total	**163**	**151**	**150**	**103**	**114**	**151**	**16**	**848**

204. Between 2019 and February 2025, the FIU received 528 spontaneous disseminations from foreign FIUs, including for ML and TF. The FIU cross-checked the disseminations received against its database and

where matches were identified, the FIU sought consent from the foreign FIU to forward the dissemination to the appropriate LEA. While Malaysia was not able to provide figures on the number of matches identified or disseminations made, case studies such as the Sabah Water case (see Box 7.3) and Analyst Exchange Programme (see Box 9.1) demonstrate how information exchange between Malaysia's FIU and other FIUs has assisted domestic and foreign LEAs in their investigations.

2.4.2. Law enforcement agencies (LEAs)

205. Between 2019 to February 2025, Malaysia's RMP received 30 367 requests relating to ML, predicate offenses (excluding corruption), and terrorism/TF (see Table 2.14). Malaysia prioritises requests by urgency, nature of the case, complexity and sufficiency of information and on average executes requests within one week, with complex requests taking between one week and three months. Terrorism and TF requests average 2-3 weeks, with more complex requests taking 1-2 months. The most common types of requests relate to information such as phone numbers, bank account information, addresses, as well as the production of documents and joint operations.

Table 2.14. Incoming requests received by the RMP

Offence	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
Others	2 880	1 866	1 332	6 541	3 414	8703	1 543	**26 279**
Fraud	302	109	217	263	70	225	20	**1 206**
Terrorism & TF	289	138	220	164	161	168	6	**1 146**
Customs	235	223	175	204	82	84	19	**1 022**
Drug Trafficking	40	32	50	33	6	42	6	**209**
Smuggling/Wildlife Trafficking	3	3	32	55	26	74	8	**201**
ML	59	6	29	21	23	-	6	**144**
Terrorism (INTERPOL)	4	10	40	33	-	-	5	**92**
Direct requests to NCID Unit	10	-	9	11	11	-	-	**41**
CBT	2	-	4	3	4	10	4	**27**
Total	**3 824**	**2 387**	**2 108**	**7 328**	**3 797**	**9 306**	**1 617**	**30 367**

206. MACC maintains five liaison officers for six designated foreign counterparties in Australia, Singapore, United Kingdom and United States, and appoints officers as contact points for regional and international partners. During the review period, MACC participated in multiple joint operations with foreign counterparts for the purpose of investigations and prosecutions. MACC received 71 incoming requests on corruption and related ML from direct counterparts seeking intelligence information, production of documents and statement records. Requests were fulfilled between two weeks to three months, depending on complexity.

207. PERHILTIAN, MMEA and IDM provide information during joint operations with international partners but do not maintain statistics on requests received, response times or outcomes.

2.4.3. Supervisors of FIs, VASPs and DNFBPs

208. Financial supervisors exchange information with foreign AML/CFT supervisors on the status of FIs' AML/CTF programmes and participate in supervisory colleges with foreign regulators focusing on the assessment of banking groups including Malaysian subsidiaries. BNM, SC and LFSA responded to all the

numerous fit and proper requests (127, 118 and 60 respectively), and exchanged supervisory information at supervisory colleges and bilateral meetings in relation to the sectors under their purview. The BNM and LFSA responded to a small number of other international cooperation requests from foreign counterparts during the reporting period.

209. From 2019 to 2025, the SC received 38 requests for information pursuant to the IOSCO MMOU relating to securities breaches in foreign countries. Information requested included banking transaction and trading records, BO information, contact information or requests for witness statements. All requests were fulfilled, on average between 1.5 and four months. During the same period, the LFSA received 33 requests for financial intelligence. Requests were fulfilled between 14-45 working days, and the one request denied was beyond the LFSA's jurisdiction.

2.4.4. Customs and tax authorities

210. IRBM introduced a case management system to manage requests in 2019 and has received 314 requests for information or documents relating to tax audits or investigations including 16 requests for BO information. Significantly, IRBM has never declined a request for exchange of information.

211. RMCD received 267 incoming requests from foreign counterparts and 108 requests from regional foreign agencies[53] primarily for smuggling offences relating to cigarettes, drugs and alcohol. Requests are prioritised and since 2024, monitored via a document management system and typically responded to within two weeks. All requests have been fulfilled and were generally responded within an average of two weeks, with complex cases being responses within a period of less than two months.

2.4.5. Other authorities

212. Basic information on legal persons is accessible through the CCM's online portal for a fee. The CCM's database contains information on the company name, number, incorporation date, company type, status, registered and business address, share capital, directors/officers, shareholders, charges (if any) and financial information. Corporate information can also be accessed through several authorised online service portals. Between 2019 and 2025, the CCM received and responded to one direct request for information on company records and BO information.

[53] WCO Regional Intelligence Liaison Office, OLAF (European Anti-Fraud Office), BASEL Action Network, INTERPOL, UNODC-WCO Programme to Unify and Integrate Training and Education on border control and customs enforcement.

3 Financial sector and virtual asset supervision and preventive measures

The relevant Immediate Outcomes considered and assessed in this chapter is IO.3.[54] The Recommendations relevant for the assessment of effectiveness under this chapter are R.9-21, 26, 27, 34 and 35 and elements of R.1, 29 and 40.[55]

Key Findings, Recommended Actions and Conclusion and Rating

Key Findings

a) Malaysia has a robust licensing framework in place to ensure that criminals and their associates are not beneficial owners or holding a management function in most FIs and VASPs. Heavy reliance is placed on pre-application fit and proper checks ahead of consideration by supervisors. All supervisors focus significantly on identifying and tackling unauthorised activity, generally relating to fraudulent investment schemes and offshore VASPs. As most illegal operators have no physical presence in Malaysia, authorities' efforts are primarily aimed at effectively disrupting services, rather than enforcement activity.

b) The BNM, SC and LFSA have a good understanding of the ML/TF risks to the financial and VASP sectors, based on their involvement in the NRA process, through regular data collection from RIs and sectoral risk assessments, such as the VA risk assessment. However, the latest assessment only covers the ML/TF/PF risks for the period between 2020 and 2022. Furthermore, given the quantum of FIs (particularly in the MSB and DPI sector) that are rated as higher risk due to marginal controls, the sectoral risk assessments appear to understate the actual level of risk and can impact the level of resource assigned to the supervision of the sector.

c) AML/CFT supervision of onshore banks and CMIs is mainly conducted by general supervisors as part of prudential supervision. Technical support for higher-risk banks is provided by a dedicated in-house AML team. While the general supervisors appear to have sufficient knowledge to examine the implementation of AML/CFT measures, they are not equipped with sufficient

[54] When assessing effectiveness under Immediate Outcomes 3, assessors should take into consideration the risk, context and materiality of the country being assessed. Assessors should clearly explain these factors in the introduction to risk and context of the mutual evaluation report under the heading of "Financial Institutions and VASPs", as set out in the instructions for this heading in the Methodology.

[55] Recommendations. 1, 11, 12, 13,15, 17 and 26 are under review, see the Technical Compliance Annex.

expertise to carry out in-depth examinations of some technical aspects. BNM's specific in-house AML team holds this knowledge and expertise, but participation in onsite inspections is on a limited basis. While onsite examinations are most frequently and comprehensively conducted in the onshore banking sector, the level of focus on AML/CFT measures as part of these inspections can be improved to be more in line with the high-risk nature of the sector.

d) CMIs and money brokers in Labuan IBFC are supervised by general supervisors, with LFSA having four AML/CFT supervisors to support general supervisors across all sectors. Nevertheless, this level of specialist support can be improved to be commensurate with the level of risk in the CMI sector in Malaysia, which also includes VASPs. In particular, AML/CFT resource does not appear to be allocated between supervisory authorities in a way that is fully commensurate with risk. For example, the LFSA and SC supervise sectors that share similar features in terms of level of risk and size, yet the LFSA has considerably less resources than the SC.

e) Supervision of the MSB sector is increasingly technology-driven and leverages transaction information to inform risk understanding across the sectors and in individual MSBs. Malaysia is exploring how this technology could be utilised further across its supervisory population and should continue to do so.

f) Supervisory letters and other informal measures are most frequently used by the authorities to address AML/CFT deficiencies. Although the number of applicable cases is limited, Malaysia has taken some formal enforcement action where it has identified cases of serious AML/CFT failings.

g) Risk understanding in larger FIs and VASPs is sophisticated and well aligned with the NRA. Risk understanding is generally less developed in smaller FIs and VASPs.

h) Large FIs and VASPs understand their AML/CFT obligations and apply appropriate mitigating measures, including in relation to identifying BOs and reporting suspicious activity. However, mitigating measures in smaller FIs are less developed and many spend significant amounts of time and resources or simply rely on the accuracy of self-declarations by customers in identifying BOs in complex structures and involving foreign legal persons. Furthermore, STR reporting in non-bank sectors is low relative to their risks and size.

Recommended Actions

a) Malaysia should ensure AML/CFT supervision appropriately focuses on the effectiveness of preventive measures that onshore banks have implemented.

b) Malaysia should ensure that sectoral risk assessments and robust individual firm risk rating drive the intensity of supervision and, AML/CFT resources and expertise among authorities is appropriately allocated to deliver effective risk-based supervision, particularly for higher risk sectors (e.g., Labuan FIs).

c) Malaysia should take steps to improve the reporting of STRs and verification of BOs by non-bank FIs by ensuring they have robust measures in place to identify suspicious activity, effective processes in place to ensure reports are promptly submitted and efficient mechanisms in place to identify BO information of their customers.

d) BNM, SC and LFSA should use the full range of powers available to them to promote compliance by FIs and VASPs. Interventions should be tailored for each specific case and formal measures should be utilised when significant AML/CFT/CPF violations are identified.

Overall Conclusions on IO.3

Malaysia has a comprehensive licensing framework to ensure criminals, and their associates are not beneficial owners or holding a management function in FIs or VASPs. Unlicensed activity is being addressed effectively through reasonable disruptive means. The distribution of individual FIs risk ratings in some specific sectors is not in line with the sectoral risks outlined in the NRA. This makes it hard to obtain a true picture of the intensity of supervision in these sectors. This may impact Malaysia's cross-sectoral risk-based approach including effective resource allocations.

FIs and VASPs generally have a good understanding of their ML/TF risks and AML/CFT obligations and apply appropriate mitigating measures. However, STR reporting remains low across all FI sectors, except for banks.

While risk-based supervision is generally applied within each sector, the highest-risk sectors should receive the highest level of scrutiny in terms of quality and granularity. AML/CFT supervision of banks could be improved by further involving specialist AML supervisors in onsite examinations given the limited specialist expertise of general supervisors to deliver effective AML/CFT supervision in some technical areas.

Authorities apply supervisory letters most frequently to address the issues uncovered by their onsite examinations, which does not appear to directly provide FIs and VASPs with an incentive to enhance the robustness of their overall controls. However, Malaysia has demonstrated it takes appropriate remediation and enforcement actions to address more serious failings, although this is infrequent.

Guidance and outreach appear effective in ensuring FIs and VASPs understand their risks and obligations and the authorities note FIs, particularly banks, have increased the level of AML/CFT expertise and experience at senior levels in recent years.

Malaysia is rated as having a Substantial level of effectiveness for IO.3.

Immediate Outcome 3

213. There are three AML/CFT supervisors for FIs and VASPs in Malaysia (onshore and Labuan): the BNM, SC and LFSA. The BNM supervises onshore banks, ITOs, MSBs, DPIs, and NBFIs. The SC supervises onshore CMIs and VASPs. The LFSA supervises all FIs and VASPs in Labuan.

214. In assessing the effectiveness of Malaysia's supervision of FIs and VASPs, the Assessment Team placed the most weight on the banking sector, given its size, importance and complexity. It also placed significant weight on the MSB sector, given the large amount of remittance activity, including with some high-risk jurisdictions. Significant consideration was also given to characteristics of the Labuan IBFC, the specific risks it presents and whether effective supervision is in place to mitigate these risks. Conclusions are based on statistics and examples of supervisory activities and actions provided by Malaysia, guidelines and guidance issued by the supervisors, documents used to monitor the different reporting sectors, discussions with the relevant authorities and representatives of a broad sample of FIs and VASPs.

215. Since the 2015 MER, Malaysia's supervisory framework has evolved and its risk-based approach matured, most notably with the increased use of data and supervision technology in developing risk understanding and supervision of the MSB sector.

216. The 1MDB scandal led to significant enforcement action relating to one of the main Malaysian banks in 2021. This led to other FIs strengthening compliance functions and increasing senior management oversight of their AML/CFT frameworks.

217. Malaysia has licensed and supervised VASPs since 2019, through the SC for onshore VASPs and the LFSA for VASPs incorporated in Labuan. Onshore VASPs are licensed and supervised as CMIs. They provide a limited number of VAs and the main activities conducted are buying and selling VAs. VASP activity in Labuan can only be carried out by licensed banking institutions, money brokers and payment system operators and often involves trading type activities.

3.1. Licensing, registration and controls for FIs and VASPs preventing criminals and associates from entering the market

3.1.1. Market entry controls

218. Malaysia has a robust process for the licensing and approval of most FIs and VASPs. Leasing and factoring companies are not subject to licensing or approval, but these represent a small number of entities, which are determined as low risk. The BNM and SC are responsible for the licensing and approval of onshore FIs, except for the pawnbroking and moneylending sectors, which are licensed by KPKT. The SC licenses onshore VASPs and the LFSA licenses all FIs and VASPs in Labuan. As VASPs are licensed as FIs (CMIs onshore and banking institutions, money brokers and payment system operators in Labuan), the licensing process is the same as for other FIs.

219. Almost all FIs and VASPs, including foreign legal persons, must be licensed or approved by the relevant supervisory authority (BNM, SC, LFSA or KPKT) before they can carry out activity in Malaysia. This is in addition to being registered with the CCM or LFSA as a legal person (see IO.5).

220. License applications to carry out FI or VASP activity include information on the qualifications and work experience of proposed candidates for shareholders and key management functions, including attestations that they have no criminal records or undischarged bankruptcy orders. Upon receipt of applications, the BNM, SC and LFSA carry out robust assessments to ensure the candidates wishing to own, control or hold a management function in the applicant FI are fit and proper.

221. For onshore FIs, fit and proper assessments are extended to those seeking to hold 5% or more in shares or wishing to become directors, chief executive officers and senior management of an FI. For Labuan FIs, fit and proper assessments for owners or controllers apply to those holding one third of votes attached to voting shares as well as directors, principal officers and trust officers. Fit and proper assessments draw on a range of internal and external information, including internally developed databases, open-source adverse news checks, sanctions screening, criminal records checks, and outreach to foreign authorities, particularly in relation to foreign ownership applications. Applicants are interviewed when they are higher risk, or any concerns are flagged when the application is being considered, but not generally as a matter of course. If adverse information on the candidates is found during the assessment process, the BNM, SC and LFSA add such findings to their own internal databases as a reference for consideration in future applications. Once individuals are included on the list, there is no way for them to appeal or be removed, although the authorities explained that being on the list did not automatically mean a future rejection decision and that a broader set of considerations were involved.

222. For onshore banks and ITOs, an additional step in the licensing process is a pre-application assessment by the Nomination and Remuneration Committee (NRC) of the entity. The NRCs are required to conduct necessary due diligence and attest that the proposed candidates for key responsible person functions are fit and proper, ahead of consideration by the BNM. The SC introduced a pre-application step

in 2022 for entities seeking to become licensed CMIs. This step includes fit and proper checks for key responsible persons and controllers, including shareholders with 15% shareholding or more, but this pre-application does not extend to applications for changes in such status by existing licensed CMIs. For Labuan FIs, all applications undergo due diligence check by Labuan Trust Companies prior to a formal submission to LFSA. These pre-application processes act as an important step in ensuring that applications are only submitted if the NRC, SC or trust company is confident that owners and shareholders are fit and proper.

223. The BNM and LFSA have reappointment processes for the persons holding key management functions and applicants for reappointment are subject to similar fit and proper assessments to those applied at the appointment stage. Although each authority suggests it determines the frequency for re-assessment according to risk, re-assessments in higher-risk sectors are not conducted more frequently than in other sectors. For example, key responsible persons in MSBs are subject to re-vetting on a one-to-three-year cycle depending on their risk category. All principal officers in Labuan are subject to re-vetting every two years. Other onshore FIs are subject to re-vetting based on certain triggers, including identification of adverse information submitted in compulsory annual fit and proper declarations, or ongoing surveillance. In addition to the ongoing monitoring of KRPs, the BNM, SC and LFSA also conduct periodic assessment of the BOs of FIs to ensure that they do not have any criminal convictions or ongoing lawsuits.

224. The BNM extended its reassessment process to key responsible persons in MSBs and e-money issuers (part of the DPI sector) in 2022. The initial reassessment was recently completed in 2024 for 458 Key Responsible Persons (KRPs) across these sectors and 43 of these identified with various concerns including potential involvement in criminal activity. Out of these, five were subjected to enforcement action (e.g., removal of approval and revocation of licences) and one being put forward for criminal investigation, including for ML. 21 individuals were still under investigation as of February 2025. Although the re-vetting exercise is a welcome exercise, the Assessment Team is concerned that criminals or their associates may have remained KRPs until this reassessment process took place. Other existing frameworks, such as the license renewal process at a maximum of 3-year intervals and ad hoc onsite examinations based on tip-offs from other parties including LEAs, are considered to have mitigated this risk to some extent.

225. Basic fit and proper assessment are carried out on directors and key responsible persons of moneylenders and pawnbrokers. These include criminal checks with LEAs. The assessment on the application of licensee is reviewed by the New License Selection Committee within KPKT, which was established in 2013 and comprises of a chairperson and two appointed members. The license is valid for a two-year period and re-assessment will be conducted upon any change to the licensee, including change in the directors. There are currently three non-bank FIs in Malaysia, which are credit unions or carry out similar functions. The licensing regime, including appointment of directors and key responsible persons, is governed under the respective Acts and is proportionate to the low risk presented by these entities.

226. Overall, the combined licensing framework in Malaysia, including pre-application checks and ongoing monitoring is effective at preventing criminals and their associates from owning, controlling or holding key management functions in FIs to some extent. Comprehensive guidance for applicants and the pre-application measures mentioned above explain why there are low numbers of rejected or withdrawn applications, as demonstrated by case studies provided by the authorities.

Box 3.1. Rejection of application due to fit and proper concerns

Prior to submitting a formal application, the SC conducted preliminary screening on an individual seeking to be a director of a securities dealing company. The SC discovered adverse media showing that the individual had been fined and jailed for assault in Singapore in 2021. During the pre-application consultation, the applicant confirmed the report was accurate. As a result, the prospective applicant withdrew their application as they were informed that they were not eligible to be licensed for failing to meet fit and proper criteria outlined in the Capital Markets and Services Act and the SC's Licensing Handbook.

3.1.2. Detecting and addressing breaches

227. The identification and disruption of unlicensed activity is a key policy objective for authorities and seen as essential in reducing and preventing fraud. The BNM and SC conduct surveillance to identify unlicensed activities by leveraging data analytics, onsite mystery shopping and agent provocateurs. Once unlicensed/illegal activity is identified, they take actions to disrupt and dismantle the illegal activities, such as by listing such entities in their own alert lists, referring the entities to internal/external stakeholders, blocking websites or issuing warning letters. As most illegal operators do not have a physical presence in Malaysia, authorities' efforts are aimed at disruption of services rather than enforcement.

228. The BNM detected 40 cases of potential licensing breaches in 2024. As a result of close collaboration with FIU and RMP, ten illegal MSBs were charged with conducting illegal money service activity and nine of these were convicted. The SC received 1 957 complaints and enquiries in 2024 and investigated 394 websites and social media platforms for carrying on unlicensed activity. Social media interventions are the most frequent actions the SC takes to counter unlicensed and illegal activities.

Box 3.2. Enforcement action against unlicensed activity

The SC received enquiries and complaints from the public concerning "Individual L" who was allegedly providing investment advice to subscribers in a private Telegram group and charging subscription fees without obtaining a license. Following this complaint, the SC conducted an 'agent provocateur' exercise and confirmed that Individual L was providing investment advice. The SC also discovered that between a period of eight months, Individual L received approximately EUR 16 351 in subscription fees. The SC issued a Notice to Show Cause under the CMSA, imposed a public reprimand and a monetary penalty of EUR 65 378 on the individual in 2023.

229. The LFSA conducts desktop surveillance through regulatory submissions, web search and complaint or referral from other LEAs to detect illegal activities. The LFSA also provides a platform for the public to lodge complaints and seek clarification on whether third party entities are licensed by LFSA.

3.2. Actions by the supervisory authorities to identify, understand and promote understanding of ML/TF risks by FIs and VASPs

3.2.1. Identifying and maintaining an understanding of the ML/TF risks in the different sectors and types of FIs and VASPs and of individual FIs and VASPs over time

230. The supervisory authorities have a good understanding of the ML/TF risks to the financial sector. This is largely informed through involvement in the NRA process, periodic quantitative and qualitative data collection from FIs, meetings with foreign regulators (e.g., supervisory colleges) and engagement with LEAs, industry players and other authorities as part of the NCC. Sectoral risk analysis has been conducted and is reflected in the NRA (see IO.1).

231. In addition, supervisory authorities conduct standalone thematic risk assessments on certain sectors with significant ML/TF risks identified in the NRA (e.g., Labuan IBFC risk assessment). This is in addition to sectoral risk assessments, the outcomes of which are not disseminated outside the NRA process.

232. The SC and LFSA have a reasonable understanding of risk in the VA/VASP sector and contributed significantly to the 2024 VA risk assessment, which follows a similar methodology to other sectoral analysis, using qualitative and quantitative information and focussing on threats and controls. However, this assessment only covers the ML/TF and PF risks for the period between 2020 and 2022. Given the fast-moving nature of the VASP sector, this assessment should continue to be updated on a regular basis.

233. The supervisory authorities have robust systems in place for categorising the individual risks in most FIs and VASPs. Individual risk categorisation is driven by responses to periodic questionnaires, issued by each of the supervisors, focussing on inherent risks and the quality of controls in each entity. In terms of inherent risk, supervisors consider factors such as organisation structure, type of customers and products and service offered. This produces an overall inherent risk score, which is overlaid with a quality of controls score derived from previous observations and compliance failures identified through onsite examinations and thematic reviews. A final net risk rating is then produced for each entity based on these two factors (inherent risk and control measures). Each FI or VASP is placed into one of four risk categories based on their overall net rating: high, medium-high, medium and low. The net rating for most FIs and VASPs is reviewed annually or based on trigger events. The risk rating of MSBs and DPI issuers is reviewed quarterly due to their higher frequency of data they submit to the BNM (monthly transactional data submission). Periodic individual risk rating based on questionnaires was initially extended to other financial service providers and NBFIs, however, it was not deemed to be proportionate given the low risk they present.

234. Supervisory authorities are increasingly using supervisory technology solutions and dashboards to automate risk ratings for individual FIs and monitor significant changes in the overall risk environment. This approach has been particularly effective for the MSB sector, given BNM's access to extensive transaction data.

Box 3.3. Technology solutions for supervision of MSB and DPI issuers

The BNM leverages various technology solutions to facilitate its understanding of ML/TF risk on industry, entity and customer level, as follows:

(a) Statistics dashboard: Automated compilation and visualisation of payment statistics to help supervisors monitor industry trends and patterns (i.e., historical trends of transaction value and volume of each MSB and DPI issuer, materiality assessment of different payment products, etc.).

(b) Algorithmic risk profiling: Algorithm-based analysis of the questionnaire submitted by the MSBs and DPI issuers to help supervisors assess inherent risks and control measures.

(c) Audit financial statements analytics: Annual automated computation of financial ratios based on the audited financial statements data extracted with an OCR tool to help supervisors identify abnormal trends and understand the potential vulnerabilities and risk.

(d) Remittance turnover modelling and forecasting: Automated detection of outlier trends in remittance value by comparing daily total value reported by remittance service providers against the forecasted trend using time-series modelling to help supervisors zoom into the outlier periods and identify any suspicious customers contributing to the outliers.

(e) Geospatial analysis: Automated analysis of financial statistics quarterly submitted by MSBs to identify the normal range of gross profit margin for each business model and flag out abnormal entities and outlets by comparing with peers in the same vicinity.

(f) CCTV video analytics: AI-based review of the CCTV footages of the MSB outlets to identify any suspicious activities.

(g) MSB customer anomaly detection: Automated detection of MSB customers with outlier transaction behaviour based on quarterly analysis with machine learning models and rule-based parameters on monthly submitted transactional data to help supervisors monitor MSBs with an appropriate level of focus and refer suspicions to Malaysia's FIU for further investigation and disclosures to other authorities.

Between 2020 and 2024, technology solutions flagged 292 MSB licensees. One case identified through the "Remittance Turnover Modelling and Forecasting" tool revealed poor record-keeping, resulting in non-renewal of the license. In 2022, the "MSB Customer Anomaly Detection" tool flagged two MSBs for facilitating abnormal customer transactions; on-site examinations uncovered weaknesses in ongoing due diligence processes.

235. Nevertheless, the breakdown of individual FI risk ratings within sectors does not always align with overall sectoral risk assessment, which is agreed upon by the supervisory authorities and reflected in the NRA. This is because the data points used for sectoral risk assessment are different and more diverse than those used for individual FI ratings. In addition, the misalignment is likely a result of sectoral risk assessments focusing more on the control measures implemented by Malaysia and not reflecting the control measure deficiencies in individual FIs.

236. Supervisors assign critical ratings for individual FIs to address such deficiencies. As the quality of control rating is reduced based on identified deficiencies, the overall net risk score for the institution is raised. This approach inflates the ML/TF risk ratings of individual FIs and may impact Malaysia's decisions on effectively allocating resources. For example, the latest NRA concludes ML risk of the MSB sector is medium, yet the ML risk of approximately 70% (173 as of 2024) of MSB institutions within it is categorised

as medium-high or high risk. There are 52 supervisors within the BNM, who conduct onsite examinations on medium-high or high-risk firms over a three-to-five-year cycle.

237. By contrast, more than 90% of CMI entities, supervised by the SC, whose sectoral risk is concluded as medium-high, are categorised as having medium or low net risk scores. The remaining 10% of CMIs (14 as of 2024) are categorised either as medium-high or high risk, largely arising from their contribution to more than 80% of market share. There is a total of 99 supervisors within SC and onsite examinations are conducted annually or more frequently for these medium-high or high-risk firms (i.e., much more frequently than medium-high or high risk MSBs supervised by BNM).

238. Although individual FI risk ratings suggest less resources are allocated to the supervision of higher risk MSBs than of lower risk CMIs, Malaysia maintains that this is mitigated by supplementing the shortage of MSB supervisors with supervisory technology solutions, which BNM has embedded within its supervisory framework.

3.2.2. Promoting FI and VASP understanding of ML/TF risks and AML/CFT obligations

239. The BNM, SC and LFSA frequently engage with FIs to promote awareness of ML/TF risks and their AML/CFT/CPF obligations. A significant component of this engagement happens through the Compliance Officer Networking Group (CONG). In addition, supervisory authorities also leverage one-to-one annual engagements conducted with individual institutions to discuss any possible changes to the institution's ML/TF risk profile. This one-to-one engagement is conducted for all onshore banks, but only with higher-risk entities in most other sectors.

3.3. FI and VASP understanding of existing and evolving ML/TF risks

240. Most FIs and VASPs have a good understanding of the level and nature of their ML/TF risk. Risk understanding in larger FIs is more sophisticated and generally well aligned with the main risks identified in the NRA, particularly fraud. Understanding of risk in smaller FIs is less developed, but commensurate with their more limited risk exposure.

241. FIs and VASPs have processes in place to conduct institutional risk assessments (IRAs) periodically. Many of the large banks' IRAs link to group-wide/global risk assessments but also include a focus on the specific risks heavily weighted in Malaysia (e.g., corruption). This is particularly the case in Labuan, where most of the large FIs are branches or subsidiaries of global entities.

242. Most FIs and VASPs take account of factors such as customer, product, transaction channels and STRs as part of their IRAs. Most VASPs also rely on blockchain analytics to complement their understanding. Many of the FIs and VASPs contribute to the NRA, either by direct consultations or indirect data submission through the supervisory authorities. Most of the FIs and VASPs met by the Assessment Team recognised fraud, including money mules, as one of the most material risk factors their businesses face. Corruption was also highlighted to some extent and FIs were aware of the enforcement action taken by the authorities in relation to 1MDB. FIs and VASPs are generally aware of TF risks, but the cases where such risks materialise appear to be limited.

243. Malaysia amended the AMLA guidelines in 2022 to make it mandatory for FIs and VASPs to incorporate NRA findings into their own IRAs. The BNM confirmed that banks and ITOs comply with the guidelines and IRAs are suitably aligned with the NRA. For the other sectors, supervisors usually verify the IRAs are appropriate as a part of onsite examinations and regulatory failings relating to IRAs are low and mainly involved a small number of Labuan FIs, which had not fully aligned their IRAs with the latest NRA.

3.4. FI and VASP understanding and compliance with AML/CFT obligations and mitigating measures

244. FIs and VASPs met during the onsite have AML programmes and frameworks that are appropriately designed to mitigate ML/TF risks, have a solid understanding of their AML/CFT obligations and are committed to ensuring the financial system is not used to facilitate financial crime.

245. Risk mitigation measures are generally integrated into day-to-day operations and include a clear risk appetite in robust customer acceptance policies. Some FIs and VASPs indicated that they do not accept certain categories of customers at all.

246. To combat fraud and money mules, which most FIs and VASPs recognise as the most prevalent financial crime risk, FIs and VASPs generally screen potential customers against the mule account list published by the NSRC as part of their CDD. They also assess customer profiles to identify those likely to be money mules and apply additional due diligence to such individuals. Post-onboarding, FIs and VASPs continue to monitor for fraud and mule activity, using specific scenarios designed to detect transactions linked to these typologies. Furthermore, the banking CONG has led to the developments of industry-wide standard operating procedures for handling mule accounts, as well as responding to LEA requests and orders relating to them.

247. Overall, FIs apply risk-based mitigating measures well and continue to ensure they have appropriate measures in place to mitigate their specific risks. In particular, the BNM has observed an increase in the quality of mitigating measures and a gradual shift from rule-based to risk-based measures, particularly in the MSB sector.

3.4.1. Customer due diligence, record keeping, BO information and ongoing CDD

248. FIs and VASPs generally understand their CDD obligations and record keeping requirements and have implemented appropriate measures. Smaller FIs spend significant time and resources in identification of BOs, particularly when complicated corporate structures are involved. This is less the case for larger FIs, which tend to have more advanced systems, resources or contracts with third-party providers specialising in this area. Although supervisors often find shortcomings in CDD measures during onsite examinations, they suggest these are operational, rather than systemic in nature.

249. FIs and VASPs have effective processes in place for onboarding customers and carrying out CDD, including through online channels. Malaysia's national identity card (NRIC) system includes a population register available to government, which provides a strong element of customer verification during CDD processes. The NRIC is issued for all Malaysians and includes key elements of personal identity, such as biometric identification data, date of birth, gender and photo biometric data. An NRIC number is one of the mandatory data points which FIs and VASPs collect as a part of CDD process. FIs, especially banks, have a system to read NRIC holder's thumbprint and verify customer's identity, which gives direct access to verify the identity of the individual. While this fingerprint reader function is not available in e-KYC, FIs and VASPs verify NRIC holders by checking live pictures of the card taken from several angles. However, address information registered in NRIC is often not current, so FIs and VASPs generally collect secondary information such as utility bills to verify customers' addresses. For non-Malaysian customers, FIs and VASPs generally request submission of passport information to verify their identity.

250. For legal persons or legal arrangements, FIs and VASPs generally demonstrated their ability to identify and verify BO using multiple sources of information. These sources include the mandatory provision of statutory customer documents lodged with CCM and LFSA, validation against commercial databases and customer self-declaration. Commercial databases generally provide FIs and VASPs with basic

information, such as shareholder list and article of incorporation, which is typically sourced from CCM and LFSA. FIs and VASPs generally do not directly access or refer to the BO registries maintained by CCM and LFSA, primarily due to the associated costs and, possibly, the recent establishment of these registries. While larger FIs met during the onsite visit were able to identify BOs without using the registries—including in cases involving foreign or complex ownership structures—some smaller FIs appeared to face challenges in such cases and tended to rely on the assumption that self-declared BO information was accurate.

251. FIs and VASPs assign risk ratings to their customers based on factors such as connections to high-risk jurisdictions, the products and channels used, customer type, and other relevant indicators. The frequency of customer profile reviews is determined by the assigned risk rating. Typically, high risk customers are subject to annual review, medium risk customers every two-to-three-year review period and low risk customers every three to five years or trigger-based (i.e., when new transactions are performed). Where information is requested by FIs and VASPs as part of ongoing CDD, they place limitations on customers' accounts, until the information is received. This helps to ensure that customer information is accurate and up to date.

252. There is limited reliance on third parties to conduct CDD in Malaysia. FIs with international operations leverage their group to gather CDD or BO information for foreign customers but still conduct CDD processes themselves. Labuan banks tend to onboard customers only through referral from their group, but still conduct their own CDD, rather than relying on the CDD performed by another entity in their group.

253. Supervisors have observed an increasing shift to FIs retaining CDD documentation in a digital format, which allows comprehensive record retention beyond the six-year Malaysian requirement and allows greater searchability, including for customers the FIs no longer have relationships with.

3.4.2. Enhanced or specific measures

254. Malaysia has a broad definition of PEPs and their associates. FIs and VASPs identify foreign and domestic PEPs, including their family members and close associates, through self-declaration by the customers and checks against commercial databases. This extends to corporate customers whose BOs are PEPs. In addition, larger FIs maintain their own internal PEPs list containing wide range of domestic PEPs, such as judges, chairman of government-related entities, ex-seniors of military or police, etc. Most of the FIs and VASPs apply EDD measures for PEPs and some smaller FIs and VASPs met during the onsite do not accept PEPs as customers. The phrase "once a PEP, always a PEP" was frequently used by private sector participants during the onsite. Malaysia has issued guidelines that provide flexibility for FIs and VASPs to reassess the status of PEPs, but it appears that FIs and VASPs broadly apply a more stringent practice than required by the authorities. Overall, FIs and VASPs apply strong measures for PEPs considering the significant corruption risks in Malaysia. Nevertheless, the authorities should continue to ensure that FIs are assessing customer risk on a case-by-case basis, to ensure there are no incidences of wholesale de-risking, which is contrary to a risk based-approach.

255. Banks in Malaysia have a good understanding of the risks and mitigating measures related to correspondent banking relationships. Banks generally use questionnaires to conduct due diligence of respondent banks and take enhanced measures if any high-risk factor is identified. In 2022, the AML/CFT Supervision Unit (AMLSUP) of the BNM completed a thematic review to assess the adequacy of control measures to manage correspondent banking relationships, which involved the issuance of survey to the onshore banks and an end-to-end validation review on 10 selected banking institutions. As a result, no major gaps were identified.

256. Many FIs and VASPs have implemented e-KYC, which was accelerated due to the global COVID-19 pandemic. Given the added vulnerability to fraudulent activities from e-KYC, FIs and VASPs generally have

enhanced controls in place including increased verification methods. Typically, FIs and VASPs put in place customer acceptance policies which limit the type of customers that can be onboarded via this channel (i.e., higher risk customers are excluded from this process). The BNM, SC and LFSA all explained that they generally discuss ML/TF risk and necessary mitigating measures relating to significant new technology, as part of ongoing supervision. In addition, the BNM conducted a thematic review for implementation of e-KYC measures in banks in 2023. Overall, FIs and VASPs measures for new technology appear to be effective and there was clear engagement with the supervisors prior to this method of identification and verification being introduced.

257. All wire transfers are facilitated through automated systems, with mandatory fields on information required that are consistent with the regulatory requirements. The systems in banks do not process transfers if any mandatory field is incomplete or any fields trigger sanction screening. Most banks do not provide services to occasional customers, so are able to rely on the CDD information obtained at the account opening phase when processing wire transfers. When the ordering customer is an individual, banks regularly conduct additional due diligence on the transfer requests, such as confirmation of transaction purpose and supporting evidence.

258. All the VASPs met during the onsite clarified they will not transfer VAs to exchanges that do not comply with Travel Rule requirements. In addition, Labuan VASPs only allow VAs to be transferred back to the originating wallet owner and not to a third-party wallet. When the VASPs receive VAs without required Travel Rule information, they request the ordering VASP to provide the information before the transaction can be released. If the response is not provided within three days, VASPs generally return the transfer. VASPs in Malaysia generally use blockchain analytic tools to screen the beneficiary and originator to verify they are not on sanctions lists. Overall, FIs and VASPs generally apply wire and virtual asset transfer rules effectively and are aware of their obligations in this area.

259. FIs and VASPs put in place clear policies for dealing with customers from FATF high risk jurisdictions, including the application of EDD. FIs and VASPs, met during the onsite were able to explain enhanced processes, which included requiring senior management approval to enter commercial relationships with high-risk customers.

3.4.3. AML/CFT reporting obligations and tipping off

260. Overall, FIs and VASPs met by the Assessment Team understood their reporting obligations adequately (see IO.6 for the breakdown of STRs per sector from 2019 to February 2025). However, improvements are needed, especially for non-bank FIs and VASPs, to ensure the measures they have in place enable them to meet their obligations. Onshore banks submit the most STRs, contributing to over 90% of the total, while reporting from other FI sectors, especially CMIs is very low and not in line with the risk profile of these sectors. Between 2019 and 2025, Labuan Money Brokers only submitted 36 STRs in total, which is alarming given the sector's risk profile. Compliance with reporting obligations appears to be a significant focus for most supervisors, especially for other financial service provider supervisors of the BNM who identify a number of STR shortcomings during their onsite examinations. Nevertheless, much more needs to be done by the authorities to ensure the suspicious transaction reporting, other than by banks, is contributing to intelligence and supporting LEA objectives.

261. Most FIs and VASPs (98% of RIs) have access to the FINS system to facilitate timely STR submission. FIs and VASPs generally submit STRs within 24 hours once suspicion is confirmed; confirmation of suspicion can take up to 30 days from being identified.

262. FIs and VASPs generally leverage automated systems to monitor suspicious transactions and activities. The number of monitoring scenarios applied by institutions varies significantly. For example, the number of scenarios implemented by the FIs and VASPs met during the onsite ranges from 9 to 52 and the

Assessment Team observed some large FIs with relatively few basic scenarios in place. Nevertheless, FIs met during the onsite were able to explain how they verify the effectiveness of the scenarios, and the supervisors have not observed issues arising in FIs and VASPs due to limited scenarios.

263. Supervisors have generally observed many FIs and some VASPs starting to expand scenarios to include anomaly detection based on the sector/industry, as well as customer trend or behavioural analysis. These parameters are updated on an ongoing basis in response to changes in ML/TF risk landscape and exposure. Onshore VASPs and established Labuan VASPs generally subscribe to blockchain analytic tools for on-chain transaction monitoring as well as screening. Smaller Labuan VASPs use public source for information on blacklisted and watchlist address.

264. FIs and VASPs understand their obligations regarding tipping-off and can explain processes to prevent this happening in practice. This understanding is consistent with supervisory findings.

3.4.4. Internal controls, procedures and audits to ensure compliance

265. All FIs and VASPs met by the Assessment Team had a positive AML/CFT compliance culture. All confirmed they have established dedicated AML/CFT compliance functions and larger FIs establish separate teams to oversee overall AML/CFT compliance matters and transaction monitoring. Several private sector representatives felt that the quality and experience of senior AML/CFT staff in banks has increased significantly since the 1MDB scandal, with KRPs being recruited from major institutions in international financial centres. KRPs in VASPs have generally developed AML/CFT experience from working in AML/CFT functions in other FI sectors, such as banks, MSBs and money brokers.

266. The BNM's onsite examinations often uncover shortcomings for MSB and DPI issuers' relating to board and senior management oversight. The most common issue is maintaining incomplete records of board meetings. Although there have been some cases where the BNM took enforcement action against banks for boards having insufficient involvement in AML/CFT oversight, this is rare and AML/CFT is a significant item on most executive agendas.

267. FIs and VASPs adopt a range of training initiatives, tailored for different processes and positions, to improve AML/CFT knowledge and awareness of the staff across all levels, including board and senior management. MSBs also have training programmes for their agents on a regular basis. Although training is generally comprehensive, the BNM has found deficiencies in training for some banks, MSBs and DPI issuers.

268. FIs and VASPs put in place independent audit arrangements, either conducted by in-house or external auditors, and submit their audit reports or findings to the supervisory authorities on an annual basis. The CMIs met during the onsite confirmed they conduct AML/CFT specific internal audit annually based on guidance from the SC. Banks determine the frequency of AML/CFT specific internal audit on risk-basis. The fact that BNM often uncovers operational shortcomings in banks, suggests that banks' internal audit and compliance testing may not be functioning effectively enough to capture and resolve such deficiencies themselves.

269. Some other financial service providers apply less robust compliance programmes, such as less frequent training or internal audit, as permitted by the BNM as part of simplified measures. These simplified measures seem to be well founded on risk understanding and commensurate with the risk of these entities.

270. Several of the large banks are part of global financial groups and follow group policies/standards. These large banks, including Labuan subsidiaries/branches met during the onsite, explained they cannot share STR information with their global group firms due to Malaysia's confidentiality rules. As a result, they share typologies of STRs instead, which raises awareness across the group of the risks faced by their Malaysian operations. When their group policies/standards conflict with Malaysian regulations, the banks

seek approval from their headquarter for applying an exemption and document the details of the exception to comply with Malaysian regulations. The sharing of typologies instead of STRs is an example of this type of exception.

3.4.5. Legal or regulatory impediments to implementing AML/CFT obligations and mitigating measures

271. The Assessment Team did not identify any legal or regulatory requirements impeding implementation of AML/CFT obligations and mitigating measures in Malaysia.

3.5. Supervision and monitoring of FIs and VASPs by supervisory authorities using a risk-based approach

272. The BNM, SC and LFSA apply a risk-based approach to supervision respectively following their own supervisory framework. The supervisors produce annual supervision plans, which prioritise the highest risk areas and enable effective allocation of supervisory resources within the authority.

273. Supervision generally consists of a mix of offsite, onsite and thematic inspections, which are well interlinked. Offsite supervision consists of desktop reviews on all FIs and VASPs, including lower-risk institutions, to perform individual FI risk assessments and identify areas of concern. The desktop review is conducted based on information periodically submitted by FIs, which includes quantitative data on risks, qualitative questionnaire on regulatory self-assessment, AML/CFT internal audit reports, etc. Results from offsite supervision are generally fed into onsite inspection plans and used to target specific areas of focus. Onsite supervision focuses on firms' risk assessments, completion of CDD and record keeping, promptness of STR submissions, robustness of AML/CFT compliance programme, including policies and procedures, as well as effectiveness of customer risk profiling, sanction screening and transaction monitoring. There is a particular focus placed on the design of the firm's risk control framework and operational implementation, which enables supervisors to obtain a good understanding of the firm's risk and controls framework.

274. Thematic reviews are carried out by specialist AML/CFT supervisors. They generally include offsite questionnaires to all FIs participating in the reviews and onsite validation for about 10-15 institutions. As a part of annual supervisory plan, the supervisors select themes for the review based on material threats identified from the NRA, emerging threats from recent typologies, and any other material AML/CFT controls. The BNM publishes the outcome of the reviews to enable FIs to benchmark their processes against those identified as best practices in the thematic reviews. This mix of activity (offsite, onsite and thematic reviews) generally enables the supervisors to apply the most appropriate tool based on specific situations, resources available and risk to be addressed.

Box 3.4.Thematic review on anti-bribery and corruption

In 2020, the NRA identified corruption as one of the top high-risk crimes. In response, the Financial Sector Sub-Committee of the NCC included it in its action plan, requiring all financial sector supervisory authorities to conduct a sector-wide thematic review. This review was carried out in 2023 using two approaches: first, a survey was issued to all institutions under the respective sectors; second, on-site validations were conducted on a selected sample of FIs. Prior to the review, supervisors engaged with the MACC to understand its relevant regulations on FIs, risk assessment methodology and approach, as well as MACC's general assessment of FIs' compliance and implementation of control measures.

The thematic review led to various actions and communications undertaken, including:

- Issuance of supervisory letters to FIs identified with gaps
- Issuance of Dear CEO/specification letter (letter to industry) highlighting good practices observed and providing clarity on supervisory expectations
- Sharing of outcomes of the overall ABC thematic review within the sector via industry networking platforms or industry associations
- Sharing of relevant outcomes and observations of the review with MACC.

275. All FI supervisors conduct ad-hoc onsite examinations to respond to emerging risks that surface through enforcement actions by LEAs, adverse news, referrals or ongoing events affecting the FIs and VASPs.

276. The BNM has 241 general supervisors and 15 dedicated AML supervisors for banks and 81 general supervisors and four dedicated AML supervisors for ITOs. The general supervisors oversee overall control functions of the FIs including prudential requirements.

277. For banks, the general supervisors conduct onsite examinations on all the onshore banks through the year, with different intensity applied according to the risk levels as shown in the below table. Through the year, examinations involve business activity reviews and branch reviews. The business activity reviews cover operational management of AML/CFT measures and internal controls while branch reviews cover the former aspect only. While the general supervisors appear to have sufficient knowledge and resources to examine the implementation of AML/CFT obligations, they do not seem equipped with sufficient expertise to carry out examinations of some technical areas, particularly when they require evaluation against industry benchmarks (e.g., transaction monitoring scenarios, sanction screening system rules, customer risk scoring models, etc). The dedicated AML supervisors hold this knowledge and expertise, but their participation in the onsite examinations is limited, generally to annual risk meetings.

Table 3.1. Supervisory Intensity for Onshore Banks

	Institutional Risk Level		
	High	Medium High	Medium
Business Activity Review (average)	5 per year	4 per year	3 per year
Branch Review (minimum)	5 branches every 2 years	2 branches every 2 years	1 branch every 2 years

278. In addition to thematic reviews and ad-hoc onsite examinations, BNM's general supervisors and dedicated AML supervisors do undertake intensified supervisory monitoring on banks with significant AML/CFT deficiencies through a "higher risk programme" where deep dive reviews, including effectiveness

of systems and models, are conducted on specific areas of concern on an annual basis. Nine banking groups have been placed under this programme since 2018, of which, three banking groups have graduated from the programme. The banks met during onsite noted that they had periodically had to challenge some of the findings by general supervisors and raise them with the AML/CFT team. The BNM views it as a valuable control mechanism to ensure supervisory findings are robust and prescribed actions are proportionate.

279. All onshore banks receive onsite examinations at least annually, which is commensurate with the highest risk sector. However, the granularity of onsite inspections for banks, especially those that are not included in the higher-risk programme, should be further improved to ensure they are implementing effective risk-based AML/CFT measures.

280. For ITOs, the frequency of inspections is determined depending on the risk of each institution. Generally, high-risk and medium-high risk institutions are subjected to annual onsite inspections. Nearly all AML/CFT controls are reviewed as part of the annual inspection process over the course of three years. Medium and low risk institutions receive onsite inspections that cover all AML/CFT requirements over three or four-year cycles, but the frequency of the reviews within these cycles is not fixed. The duration of onsite inspections varies but is generally two to three weeks for a team of four to five supervisors. As these inspections could cover all AML/CFT measures during one examination every three to four years, they are inherently less detailed than inspections at higher risk institutions. Nonetheless, the Assessment Team deems this to be appropriate and in line with a risk-based approach, especially when aligned with offsite and other supervisory engagement (e.g., data collection exercises).

281. For MSB and DPI sectors, the BNM has 52 general supervisors without any dedicated AML supervisors. They conduct onsite examinations for high-risk and medium-high risk institutions on a three-to-five-year cycle. As a part of offsite supervision, the BNM relies significantly on technology as an effective way to identify high risk areas and changes in operations that could indicate regulatory issues or heightened risk. The BNM is at an early stage of considering how this technology could be used in other areas and sectors and sees it as an important supervisory approach.

282. For CMIs including VASPs, the SC has 99 general supervisors without any dedicated AML supervisors. Deep dive analysis is conducted onsite for high-risk institutions, where the supervisors examine the specific issues which contributed to the high-risk rating. Often the issues that have raised the risk level are referred to as "gaps" and once addressed, the risk rating is reduced again. The SC conducts AML/CFT specific onsite inspection annually for medium-high risk institutions. For most onshore VASPs, supervision is done offsite, with only seven onsite inspections since 2020 (three of which took place in 2023). This appears to be proportionate given the size of the sector and type of activity conducted by these entities. The SC uses blockchain analytics as part of its supervisory toolkit and monitors compliance with the Travel Rule.

283. The LFSA has 16 general supervisors and four dedicated AML supervisors for Labuan FIs including VASPs. The high-risk institutions are subject to annual onsite inspections and medium-high risk institutions are examined over a three-year timeframe. In addition, pooled resources from both general and AML supervisors conduct cross sector thematic reviews, which are driven by the outcome of the NRA. The number of supervisory inspections grew for the period of 2020 to 2024. Notably, onsite examination for Labuan money brokers increased by 117%, (of which 23% related to VASPs), followed by Labuan fund managers (60%) and Labuan Banks (53%). However, this led to 20 supervisors conducting a total of 74 checklist-based onsite examinations in 2024, suggesting resources could be increased to further support the intensity of supervisory activity.

Table 3.2. Number of general and specialist AML/CFT supervisors allocated to each sector

Supervisor	Registration and licensing team	General Supervision	Specialist AML Supervision
BNM (banks)	35	241	15
BNM (insurance)	15	66	4
BNM (MSBs/DPI issuers)	19	52	-
SC (all sectors including VASPs)	-	99	-
LFSA (all sectors including VASPs)	9	16	4

284. For other financial service providers and NBFIs, supervisory activities are undertaken by DNFBP supervisors of the BNM guided by the DNFBP Risk-Based Supervisory Framework (D'SuRF) and are mostly limited to offsite inspections.

285. The supervisory focus and approach were adjusted during the COVID-19 pandemic. The supervisory authorities issued additional guidance on AML/CFT implementation during the pandemic period and conducted thematic reviews in response to rising trend of online scams, fraud, and mule accounts taking advantage of the shift towards non-face-to-face financial services.

286. While risk-based supervision is generally applied across sectors to ensure FIs and VASPs are complying with their AML/CFT requirements, it could be enhanced to ensure the highest-risk sectors are receiving the highest level of scrutiny. For example, BNM's AML/CFT supervision of banks should be notably more intense than for other sectors, given they are the highest risk sector in the NRA. Furthermore, the allocation of supervisory resources between supervisory authorities can be improved to be fully risk-based. For example, Labuan FIs have approximately one sixth of the number of supervisors of the SC despite supervising sectors that share some features in terms of number of entities and risk. In addition, it is unclear why there are specific AML supervisors for offshore VASPs, but not for onshore VASPs and whether risk was considered when determining this approach.

Table 3.3. Number of onsite examinations and entities by sectors

Sector (no of entities)	Net ML Risk (2023 NRA)	2019	2020	2021	2022	2023	2024
BNM sectors							
Banks (61)	**High**	60	60	60	59	58	61
ITOs (30)	**Medium**	25	21	27	15	19	30
MSB (258)	**Medium**	77	17	2	22	21	20
DPI (53)	**Medium**	2	1	0	8	18	1
Other financial service providers/NBFI (4292)	**Low to Medium**	31	0	9	10	7	6
SC Sectors							
CMIs (174)	**Medium-High**	24	21	22	19	33	38
Non-VASPs (162)	**Medium-High**	24	20	20	19	32	35
VASPs (12)	**Medium-High**	0	1	2	0	1	3
LFSA Sectors							
Labuan Banks (72)	**Medium**	14	14	27	23	20	23
Labuan ITOs (60)	**Low**	9	22	22	17	11	17
Labuan Money Brokers (102)	**Medium-High**	9	12	23	19	25	26
Labuan Fund Managers (49)	**Medium**	6	5	6	1	8	8

Table 3.4. Number of entities covered by onsite examinations

Sector	Number of entities covered by the onsite examinations between 2019 and 2024 (number of entities as of 2024[56])			
	High ML Risk	Medium High ML Risk	Medium ML Risk	Low ML Risk
BNM Sectors				
Banks	14 (14)	21 (21)	26 (26)	0 (0)
ITOs	4 (4)	6 (6)	10 (10)	10 (10)
MSB	39 (13)	125 (160)	25 (73)	0 (3)
DPI	5 (4)	19 (27)	4 (12)	0 (4)
Other financial service providers/NBFIs	1 (1)	2(2)	1 (1)	2(2)
SC Sectors				
CMI	3 (1)	20 (13)	48 (82)	16 (72)
LFSA Sectors				
Labuan Banks	1 (1)	5 (5)	28 (35)	24 (31)
Labuan ITOs	0 (0)	0 (0)	13 (13)	27 (47)
Labuan Money Brokers	2 (2)	8 (8)	30 (35)	46 (57)
Labuan fund managers	1 (1)	2 (2)	14 (26)	7 (20)

3.6. Impact of monitoring, supervision, outreach, remedial actions and effective, proportionate and dissuasive sanctions on FI and VASP compliance

287. Supervisory authorities widely employ remedial actions where they identify failures in compliance in line with their respective enforcement and penalties framework. Although Malaysia has a mechanism to apply formal measures for serious violations, the number of such cases is limited. The lack of formal measures for serious violations could be a result of an inability to effectively identify serious violations, rather than because of disproportionate or non-dissuasive sanctions.

288. Supervisory authorities can impose several types of formal and informal remedial supervisory actions depending on several factors, including whether the breaches constitute criminality; their severity, the constancy and repetitiveness of violations; the compliance history of the FI or VASP; and impact on market and industry. Informal remedial supervisory actions include supervisory letters; warning letters; and Letters of Undertaking. Formal actions include private reprimands; directive orders; Enforceable Undertakings; Directions of Compliance; and license revocations including prior show cause notices. In addition, supervisory authorities can impose enforcement actions in cases of serious misconduct. These include administrative monetary penalties and compounds. Enforcement actions have a punitive character while remedial supervisory actions are remedial in nature. Formal remedial supervisory actions and enforcement actions are largely preceded by informal remedial supervisory actions.

289. When a supervisory authority finds severe AML/CFT failings, it develops an action plan considering the factors mentioned above and, when necessary, relevant committees within the authority determine the actions to be taken. This approach is consistent across all three FI supervisors. Most proposals include imposition of an enforcement action.

290. Supervisory letters with necessary remedial actions are issued to FIs and VASPs after most onsite examinations regardless of their overall control ratings. The supervisory letters require FIs and VASPs to

formulate remedial action plans and to report on progress periodically until satisfactory closure of the issues, which often lasts for more than a year. Remediation is also followed up in subsequent onsite examinations. Some of the FIs met during the onsite were required to employ third parties to assist them in monitoring progress against their remediation plans.

291. Since 2018, Enforceable Undertakings or Letters of Undertaking have been issued for eight banks and subjected them to "higher risk programmes". The BNM observed significant levels of commitment by the Board and senior management to improve their AML/CFT infrastructure in response to these actions. Actions included systems upgrade, competency expansion, process improvement and capacity building. The latest six banks added to the higher risk programme committed to invest up to EUR 157 million in remediation. Between 2018 and 2023, the BNM revoked six MSB licenses and rejected ten renewals of licenses for those found to co-mingle their business with unauthorised activities.

Table 3.5. Supervisory remedial actions and enforcement actions for AML/CFT

Types of actions	2019				2020-2022				2023				2024			
	BNM Bank/ITO	BNM MSB/DPI	SC	LFSA	BNM Bank/ITO	BNM MSB/DPI	SC	LFSA	BNM Bank/ITO	BNM MSB/DPI	SC	LFSA	BNM Bank/ITO	BNM MSB/DPI	SC	LFSA
Supervisory letters	60	18	15	40	74	61	32	202	34	21	28	71	20	46	19	74
Reprimand/ warning letter	-	3	4	-	1	3	3	26	1	1	-	1	5	-	3	5
Letter of Undertaking	1	-	-	-	5	-	-	-	-	-	-	-	-	-	-	-
Direction of Compliance	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-
Directive Order	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-
Enforceable Undertaking	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Show cause for revocation/non-renewal	-	-	-	-	-	-	-	8	-	-	-	-	-	1	-	-
Revocation/non-renewal of license	-	3	1	-	-	8	-	5	-	3	-	1	-	1	-	-
Compound	3	-	-	-	-	1	-	-	-	-	-	-	-	-	-	1
Administrative Fines/Penalties	9	28	2	-	2	22	3	12	-	5	-	4	4	4	2	35

292. As shown in the table above, administrative fines are the second most applied sanction. The supervisory authorities determine the amount of administrative monetary penalties based on the level of adverse effect, the amount of profit gained, or loss avoided, by the misconduct and the amount of subject matter of the breach. For compounds, the consideration of amount starts from 10% of the maximum penalties stipulated in the relevant laws. The authorities adjust these amounts considering aggravating and mitigating factors, such as degree of culpability, post misconduct behaviour, etc., as well as other factors, such as deterrent effect. The Assessment Team considers this approach to be proportionate.

293. The supervisory authorities publish enforcement actions on their respective websites. The FIs and VASPs met during the onsite confirmed they periodically check the website of the authorities and if there is any new information on enforcement actions, they run a test to assure the same issue is not applicable to them. This implies that the publication of enforcement actions has a dissuasive effect to some extent. However, the number of the cases published is generally limited because of the limited number of formal enforcement actions.

294. The BNM pursues criminal prosecution for the most serious contraventions. In 2020, one of the MSB licensees and its two directors were convicted with a total fine EUR 84 045 for failure to record transactions in their system and conduct CDD. The SC and LFSA have not prosecuted or convicted any legal or natural person for AML/CFT failings.

Box 3.5. Enforcement action against a VASP

The SC conducted an ad-hoc review on DAX B, triggered based on information received from the NSRC about an individual suspected of being a mule in a scam in DAX B. During the review, the SC identified three individuals, including the suspected account flagged by the NSRC, whose transactions were inconsistent with DAX B's knowledge of customer profiles, including multiple deposits in Fiat currency, followed by conversions to VA and frequent VA withdrawals to wallet addresses outside of the DAX.

The SC also revealed DAX B had failed to submit STRs on those transactions due to deficiencies in its AML/CFT transaction monitoring controls. Further, it highlighted DAX B's failure to fulfil its ongoing due diligence obligations with the three individuals throughout the business relationship, specifically in reclassifying customer risk profiles in response to changes in transaction patterns.

The SC reprimanded and imposed a total penalty of EUR 118 525 against DAX B, which was also published in SC's website in 2024.

295. The supervisory authorities believe that there have been significant improvements in the AML/CFT compliance and the overall compliance culture of the FIs and VASPs due to enhanced supervisory interventions, particularly follow-up actions conducted. The Assessment Team generally shares this view given the substantial level of FIs and VASPs' understanding, and implementation of ML/TF risks and mitigating measures as described above. FIs and VASPs generally rectify identified gaps satisfactorily with minimal or no recurrence of non-compliance of similar nature. Onsite examinations find less issues for FIs and VASPs with past enforcement records. However, it is unclear what impact supervisory letters—the measure most employed—have on improvements to FIs and VASPs overall AML/CFT frameworks. Although other remedial and enforcement measures are applied in limited numbers, they appear to have a positive impact on compliance in FIs and VASPs.

296. The supervisory authorities undertake a range of outreach activities which cover regulatory breaches and other issues. These activities include seminars, issuing AML/CFT policy documents, newsletters, and engagement with industry associations through CONG. Through these activities, the authorities share information on their expectations and general outcomes. Each industry establishes its own CONG, such as Digital Asset Business Operators CONG, and participants share their own advanced practices. The authorities participate in CONG as an observer.

297. Most of the FIs and VASPs met during the onsite considered CONG as one of the most helpful supervisory outreach activities. The BNM has also recently started to hold AML Clinics for MSBs and DPI issuers and communicates regulatory expectations through these by providing concrete case studies. Over

a hundred compliance officers and CEOs of MSBs and DPI issuers have attended the AML Clinic sessions. FIs and VASPs generally appear to be satisfied with the outreach provided by supervisory authorities.

4 Non-financial sector supervision and preventive measures

The relevant Immediate Outcomes considered and assessed in this chapter is IO.4. The Recommendations relevant for the assessment of effectiveness under this chapter are R.22, 23, 28, 34 and 35 and elements of R.1, 29 and 40.[57]

Key Findings, Recommended Actions and Conclusion and Rating

Key Findings

a) Malaysia has robust licensing, registration and other controls in place to prevent criminals or their associates from being beneficial owners or hold a controlling interest in most DNFBPs. The respective licensing authorities and self-regulation bodies (SRBs) have effective processes to assess the suitability, eligibility and the fitness and propriety of owners, controllers and key responsible persons prior to approving their applications. However, the DPMS sector, which is high risk, is not subject to licensing or registration for AML/CFT purposes.

b) DNFBP supervisors have a good understanding of sectoral risk in line with the findings of NRA 2023. Understanding of risk is generally strong amongst larger DNFBPs, the casino and TCSPs, which is important given their key role as gatekeepers to Malaysia's financial system. However, risk understanding by other DNFBPs is more limited and largely confined to the findings of the NRA.

c) Larger DNFBPs, particularly those that are part of international groups, generally understand their AML/CFT obligations and implement measures to comply with them, including using automated systems to verify BO information and monitor suspicious activity. This understanding is more limited for smaller DNFBPs, and the authorities regularly identify issues relating to the application of enhanced due diligence and STR reporting obligations. Many DNFBPs find it difficult to identify the ultimate BO, particularly when complex structures and foreign legal persons are involved. In addition, supervisors continue to find a significant number of deficiencies relating to internal controls requirements across most DNFBP sectors.

d) DNFBP supervisors monitor AML/CFT compliance in the different DNFBP sectors with close collaboration with the relevant SRBs and industry associations. BNM uses a centralised analytics platform to help identify the highest risk onshore DNFBPs for more intensive supervision. This is a good example of the use of supervision technology, which Malaysia has been embedding

[57] Recommendations. 1, 22, 23 and 28 are under review, see the Technical Compliance Annex.

into its DNFBP supervisory framework since 2019. Nevertheless, the number of firms identified as high risk does not appear to be consistent with the risk of the sectors or the number of RIs within them.

e) Both BNM and LFSA have reasonable supervisory engagement with the identified high-risk RIs and provide guidance to help DNFBPs comply with their obligations. Nevertheless, the frequency of supervision in some sectors (particularly onsite) appears low and not in line with a risk-based approach. Furthermore, some DPMS in East Malaysia (mainly sole traders and small businesses) were only recently included as RIs and are currently in the process of being subjected to supervision (e.g., awareness raising of their obligations and some offsite supervision).

f) All supervisors are guided by respective supervision and enforcement and penalty frameworks, which provide the spectrum of corrective and punitive actions that can be applied in specific circumstances. However, DNFBP supervisors rely on supervisory letters to ensure DNFBPs address AML/CFT deficiencies and improve their frameworks on the basis that they consider all identified breaches to be minor lapses rather than continued or significant AML/CFT failures. Enforcement action (e.g., compounds) is rarely used, despite some serious deficiencies being identified. Furthermore, it is not clear if current sanctions levels are proportionate for general AML/CFT breaches.

Key Recommended Actions (KRAs)

a) BNM and other DNFBP supervisors should utilise the full range of available measures to address the significant number of failures in DNFBPs and reduce the reliance on supervisory letters where significant or ongoing AML/CFT failings are identified.

b) Malaysia should improve its sanction framework to ensure proportionate and dissuasive sanctions are available. Consideration should be given to whether the maximum penalty for general breaches of AML/CFT/CPF obligations is appropriate and whether additional measures could be introduced to ensure dissuasiveness.

c) Malaysia should intensify its efforts to ensure that RIs have a clear understanding of, and comply with, their suspicious transaction reporting obligations, with a view to enhancing reporting across all DNFBP sectors, in accordance with Malaysia's risk and context.

Other Recommended Actions

a) Malaysia should continue to refine its process for assessing the risk of individual DNFBPs to ensure that firms are appropriately categorised and that the number of high-risk entities aligns with the risk and context of each sector.

b) Malaysia should continue to implement risk-based supervision for newly invoked DPMS in East Malaysia to ensure they have appropriate AML/CFT/CPF controls that are commensurate with their risk.

c) Malaysia should continue to provide enhanced guidance and feedback to DNFBPs to strengthen their awareness of ML/TF/PF risks and AML/CFT/CPF obligations, particularly in relation to identifying and verifying BOs, applying enhanced due diligence measures and reporting STRs. The guidance and feedback should be targeted to ensure it meets the needs of the broad range of entities within Malaysia's DNFBP sectors.

d) BNM should ensure that smaller, lower risk DNFBPs in all sectors are subject to some level of supervision on regular basis, commensurate with their risk. This could consist of random sampling or thematic reviews. It should also continue to review and enhance the Data and Compliance Report (DCR) reporting template for specific sectors to enable more specific and accurate reporting.

Overall Conclusions on IO.4

Malaysia generally has good market entry controls, except for the DPMS sector, part of which (small traders in East Malaysia) was only recently incorporated within the AML/CFT regulatory perimeter.

DNFBP supervisors have a good understanding of ML/TF risk in most sectors and participated in the NRA process and development of subsequent action plans.

BNM and LFSA have been increasingly leveraging advanced supervisory technology and improving their tools and approaches, such as technological integration and analytical tools for identifying and understanding risks in different sectors and at the entity level to inform risk-based supervision. This is a positive aspect of Malaysia's approach and recognised as good practice.

DNFBPs broadly understand Malaysia's main ML/TF risks, with larger firms and those belonging to bigger groups demonstrating a more developed risk awareness. Implementation of preventative measures is generally commensurate with entities' risks. However, STR reporting is extremely low and many DNFBPs find it difficult to identify the ultimate BO, particularly in complex structures. Furthermore, supervisors continue to identify a significant number of AML/CFT deficiencies across most DNFBP sectors.

The frequency and depth of supervision, especially onsite inspections, does not appear commensurate with the risks. Even considering the strict measures imposed during the COVID-19 pandemic, onsite supervision of the higher-risk DPMS sector is low across the reporting period and is only now being rolled out for some DPMS in East Malaysia. Malaysia has a dedicated AML/CFT supervisory framework for onshore DNFBPs, with 22 supervisors conducting numerous onsite and offsite examinations. While the resource constraints may limit the depth of assessments of RIs' systems and controls, the use of supervisory technology provides some mitigation. As Malaysia moves to delegate DNFBP supervision to SRBs, it should ensure that the quality, intensity, and frequency of oversight are strengthened, and that progress made through the adoption of supervision technology is maintained.

There are a significant number of deficiencies across all DNFBP sectors, which the authorities consider as minor lapses and not significant AML/CFT deficiencies. Based on this assessment, supervisory letters are used as the primary remediation tool. However, the Assessment Team considers some of the issues addressed through this approach to be more significant than the authorities' characterisation suggests. The use of other tools is limited and, as a result, the effectiveness of these remedial measures is hard to assess, particularly given that non-compliance rates remain high, especially in the DPMS sector and for lawyers. Enforcement action is seldom taken against DNFBPs and only one compound has been imposed during the reporting period. As a result, it is not possible to determine the extent to which enforcement action is effective, proportionate or dissuasive. Nevertheless, the maximum fine for general failings remains low and unlikely to serve as a significant deterrent, an issue first identified in Malaysia's 2015 MER that the Assessment Team considers still relevant.

Malaysia is rated as having a Moderate level of effectiveness for IO.4.

Immediate Outcome 4

298. As with FI supervision, Malaysia has taken steps to strengthen its AML/CFT/CPF framework since its 2015 MER. Most notably this includes the development of a structured risk-based supervisory framework, an enforcement and penalties framework, and the development and implementation of a strategy for supervision technology to help identify the highest risk firms for intensive supervision and to improve supervisory efficiency.

299. Although there are several licencing and registration bodies for DNFBPs, AML/CFT/CPF supervision has until recently been carried out by BNM for onshore DNFBPs and the LFSA for DNFBPs (Trust Companies) operating in the Labuan IBFC. In 2023, the Malaysian Institute of Accountants (MIA) began supervising accountants, the CCM has recently started supervising company secretaries, and the Malaysian Bar Council (MBC) is expected to assume responsibility for the AML/CFT/CPF supervision of lawyers. There is one licensed casino operating within Malaysia and notaries are generally lawyers that provide limited services such as authenticating personal documents. Some DPMS in East Malaysia consists of sole traders were only included as RIs in 2024, despite Malaysia's 2015 MER recommending that they should be subject to AML/CFT/CPF obligations. At the time of the onsite, supervisory activity was being implemented for this group but was limited to awareness-raising of AML/CFT/CPF obligations.

300. For the assessment of the implementation of preventative measures and supervision for DNFBPs, the Assessment Team considered lawyers and DPMS as the most important sectors in Malaysia and weighted these sectors the heaviest. Company Secretaries and Labuan trust companies were also weighted heavily given their important roles as gatekeepers to the financial sector. Casinos, accountants and registered estate agents were weighted moderately important, and trust companies and notaries weighted lower.

4.1. Licensing, registration and controls for DNFBPs preventing criminals and associates from entering the market

4.1.1. Market entry controls

301. Most DNFBPs in the Malaysia are licensed or registered by the relevant competent authorities and SRBs as outlined in "Introduction to Money Laundering and Terrorist Financing Risks and Context". There is no specific AML/CFT licensing requirement for the DPMS sector, although they must be registered as legal persons with CCM or registered as businesses under the relevant legislation.

302. There is only one casino license issued in Malaysia, and this is subject to renewal every three months. The MoF, as the licensing authority, assesses whether there have been any breaches of the terms and conditions by the casino operator during the three-month period before renewing the license application. The casino continues to have a stable ownership by a prominent publicly listed company, which gives a high degree of transparency of its beneficial ownership. The MoF also conducts checks with the MACC on the background of the casino's KRPs, and with BNM supervisors to ensure that the casino continues to comply with its AML/CFT requirements. In the case of changes in directors, the casino conducts a first layer of assessment on the fitness propriety of new applicants, including internal and external character vetting, ahead of final approval by the MoF. Registration and fit and proper assessment of junkets by the casino has also been added to the casino's terms and conditions to ensure better control and monitoring of junkets and ensure they are not operated by criminals or their associates. The casino has strict requirements for the junket operators it works with and reviews these relationships on a regular basis.

303. Onshore trust companies must be incorporated and listed in the CCM register prior to undertaking trust company activities. As part of the registration process, the CCM conducts background checks involving security vetting with relevant authorities. The CCM also conducts security vetting on applicants for key positions (directors and CEO of trust company), through checks with the RMP and its own Enforcement Division.

304. For Labuan trust companies, the LFSA assess the fitness and propriety of persons carrying out key functions. This includes security vetting with the RMP, financial vetting as well as an assessment to ensure they have appropriate expertise for the role they are undertaking within the organisation. The appointment of principal officers and key functionaries is subject to renewal/reassessment every two years when a new fit and proper assessment is conducted. The LFSA also conducts ongoing checks and validation of the fitness and propriety of senior management, directors and key functionaries of Labuan trust companies as part of their onsite examinations. The robust licensing approach for Labuan trust companies is a positive aspect of Malaysia's AML/CFT/CPF framework and is important given the significant role they play in preventing criminals and their associates' involvement in Labuan FIs.

305. Since MER 2015, any individual seeking to act as a company secretary must attain a requisite qualification and become a member of one of seven approved professional bodies. As members, all company secretaries must comply with their respective by-laws, code of ethics, fit and proper procedures and are subject to disciplinary procedures for any failure to do so. Once this step is complete, company secretaries must register with the CCM before they can carry out company secretary activity. Consequently, the CCM serves as the ultimate authority for the registration of company secretaries and has the power to refuse to renew, suspend or revoke a license.

306. All lawyers, notaries, accountants and registered estate agents must be accredited by respective SRBs before they can carry out activity in line with their professions. Laws regulating each of these sectors provide specific criteria for fit-and-proper tests and information required as part of the accreditation process. Most of the focus of these processes relate to the professional suitability of the applicant, but there are some elements relating to AML/CFT/CPF obligations. Fit and proper checks largely involve self-declaration from applicants stating that they have not been convicted of criminal activities. The MBC and MIA require members to submit annual statutory declarations on criminal backgrounds and fitness and propriety as part of reporting obligations and annual practising certificate renewal.

Box 4.1.Revocation of practicing certificate

Two company secretaries submitted false information to the CCM on the address of the foreign directors of legal persons. Local addresses were provided despite the foreign directors having never resided in Malaysia. Upon discovery of this, the CCM revoked the practising certificates of the two company secretaries and blacklisted them in CCM's internal register in January 2025. They were also reported to relevant professional bodies for disciplinary action for false reporting and gross negligence in company secretarial duties.

4.1.2. Detecting and addressing breaches

307. All licensing authorities have established systems for detecting businesses carrying out unlicensed DNFBP activities. This includes processes for reporting suspected unauthorised activity, unethical conduct or potential criminal activity; proactive monitoring of DNFBPs as part of license/registration renewal; and ongoing monitoring to identify any adverse findings on the DNFBPs that may affect their fitness and propriety.

308. In the event of the detection of adverse findings during the application stage or ongoing monitoring, licensing authorities and SRBs are guided by their respective escalation process for further assessment. Over the past five years, there have been several license application or renewal rejections across the DNFBP sectors for failure to meet the application or licensing criteria. For example, over 160 cases of new applications for Accountant Practicing Certificates and over 3 000 registered estate agents licence renewals were rejected since 2019. In addition, there were three refusals of registration for company secretaries due to convictions of criminal offences.

309. The LFSA has not refused any license application, revoked the license of any Labuan trust companies, or refused the renewal of a practicing certificate for trust officers for AML or fit and proper related licensing breaches.

4.2. Actions by the supervisory authorities to identify, understand and promote understanding of TF risks by DNFBPs

4.2.1. Identifying and maintaining an understanding of the ML/TF risks in the different sectors and types of DNFBPs and of individual DNFBPs over time

310. The BNM and LFSA have a good understanding of risk in the DNFBP sectors. This is largely informed through comprehensive involvement in the development of the NRA. Analysis is based on quantitative and qualitative information, including supervisory data and engagement with LEAs on crimes relating to DNFBP sectors.

311. Supervisors have regular engagement with the licensing authorities, SRBs and industry associations on the risks and issues identified through NCC's DNFBP Committees. Topics covered as part of this engagement include outcomes from supervision, NRA findings, thematic risk assessments and AML/CFT/CPF requirements and policy changes, which helps ensure risk understanding is kept up to date.

312. The BNM identifies higher-risk RIs through its DNFBP Supervisory Framework (D'SuRF) process, which has been in operation since 2019. The framework identifies entities from each DNFBP sector that could be more vulnerable to ML/TF risk and warrant closer supervisory attention. The criteria that determine this includes identified/potential criminal links, financial intelligence reports, size and number of branches of the firms, and any public-sourced information on the possible involvement of firms in illegal activities or in facilitating ML/TF transactions. Each DNFBP is then assigned a risk ranking. Firms with higher risk rankings are prioritised for higher supervisory intensity, regardless of their sectoral risk. The list of higher-risk RIs is updated every two years to prioritise supervision, including onsite inspections. Certain RIs are excluded from the high-risk pool based on exclusion criteria, which includes firms that have had an on-site within the past two years. This approach applies to all DNFBP sectors and not only enables the identification of high-risk institutions within sectors but also allows the BNM to have a holistic view of higher risk entities across the DNFBP sector. The D'SuRF supervisory framework also enables the BNM to identify trends across sectors to determine if supervisory intervention is required.

313. LFSA leverages biannual data collection to risk assess the DNFBPs it supervises and is currently developing network analytic tools to generate alerts for any adverse news, to identify BO inter-connectivity and uncover unlicensed business activities.

4.2.2. Promoting DNFBP understanding of ML/TF risks and AML/CFT obligations

314. Supervisors conduct various activities to promote a clear understanding amongst DNFBPs of their ML/TF risks and AML/CFT obligations. This includes: (i) seminars designed for various levels of staff (e.g.,

discussions on the outcomes of the NRA at the NCC's DNFBP Committees, (ii) distribution of self-assessment checklist for all DNFBPs; (iii) distribution of red-flag and typologies indicators; and (iv) e-learning courses.

315. The supervisory authorities, in collaboration with SRBs and industry associations, have developed several training resources and delivered a significant number of awareness raising programmes (physically and online). Nevertheless, some of the smaller entities met during the onsite expressed that more in-person training on AML/CFT obligations would be helpful, particularly for RIs in rural regions with resource constraints.

316. LFSA leverages one-to-one engagements with Labuan trust companies, particularly with higher-risk entities, to ensure they are aware of their AML/CFT obligations. LFSA also conducts semi-annual engagement sessions with the Association of Labuan trust companies and sees this as an important supervisory measure, particularly given the sector's role in company formation and as gatekeepers to the financial services sector.

4.3. Understanding of existing and emerging ML/TF risks by DNFBPs

317. DNFBPs in most sectors met during the onsite generally have a basic understanding of the ML/TF risks they face and recognise the five highest risks identified in the NRA. This understanding is more mature in larger entities and those engaging with the financial services sector.

318. Although it is a regulatory requirement to have an IRA, some of the RIs met during the onsite had not met this obligation. Larger DNFBPs tend to have developed IRAs, which cover risks associated to products/services, customers, delivery channels, jurisdictions, etc. However, many DNFBPs across all sectors, particularly smaller firms, have not fully assessed the risk of their entity due to limited resources and expertise.

319. Labuan Trust Companies generally have robust IRAs and have implemented corresponding control measures to mitigate the identified risks. LFSA has also noted an increasing level of complexity in the IRAs conducted by Labuan Trust Companies in recent years, which is a positive trend.

320. Malaysian authorities recognise the need for ongoing improvements in risk understanding by smaller DNFBPs across all sectors, particularly in terms of conducting IRAs. This is regularly communicated to DNFBPs through onsite examinations, engagement sessions and guidance.

Box 4.2. Good practice in the development of IRA by a lawyer

BNM reviewed the IRA of a lawyer in 2024 and noted several aspects of good practice. These included:

- the IRA framework providing clear guidance on risk factors, identified the firm's higher risk business activities and an analysis of the firm's risk profile and control measures
- the IRA being based on a comprehensive exercise to identify, understand and assess ML and TF risks to the firm based on (i) an assessment of inherent risks; and (ii) an evaluation of the firm's control measures.

In terms of the inherent risks, the lawyer considered four categories:

(i) Sectoral Risk –the latest NRA result (where both sectoral and threat risk assessment are considered).

(ii) Customer Risk – Proportion of higher risk customers as compared to total customer base. Higher risk customers include those who pose sanctions risks, PEPs, and customers exposed to adverse news.

(iii) Product and Services Risk – The nature of services offered and its vulnerabilities to be abused, e.g. nominee services.

(iv) Delivery channel risks – Number of lawyers in the firm providing Gazetted Activities and location of branches, which determines the accessibility to the firm's services.

4.4. Understanding and compliance of DNFBPs with AML/CFT obligations and mitigating measures

4.4.1. Customer due diligence, record keeping, BO information and ongoing CDD

321. Basic CDD requirements are consistently implemented across most DNFBP sectors. RIs met during the onsite indicated that to establish a business relationship, they require the collection of nine data points, as outlined in the BNM guidelines. Most DNFBPs also rely on official identification documents as part of CDD verification, particularly where the national ID number is not available. Nevertheless, supervisors continue to identify numerous cases of non-compliance with CDD requirements across all DNFBP sectors, such as incomplete collection on the nine required datapoints (e.g., occupation type and nature of employment) or other deficiencies in collecting BO information.

322. Most DNFBPs met during the onsite understand their obligations to conduct due diligence and keep records on business relationships and transactions. However, it appears that implementation of these obligations varies in practice, particularly in non-standard situations and relating to BO identification.

323. While most DNFBPs require customers to self-declare their BOs, this is often supplemented by independent checks via external databases or open sources. However, the identification of BO continues to be a challenge, particularly when it involves foreign BOs and complex legal structures. This is supported by supervisory findings.

324. DNFBPs, are encouraged by the authorities to establish manual or electronic systems (or both) for continuous CDD monitoring. In general, DNFBPs met during the onsite rely on a combination. Larger DNFBPs have adopted in-house or commercially developed transaction monitoring system, whereas small

DNFBPs use manual or basic systems to scrutinise transactions, which is commensurate with their reduced risk.

325. Labuan trust companies follow supervisory guidelines to determine the frequency of conducting of ongoing due diligence. This varies from 1-5 years, depending on the risk profile of the customers. For corporate customers, articles of incorporation and shareholder information is collected, as well as BO information on trusts and other similar legal arrangements.

326. Malaysia's sole casino introduced additional electronic table games during the COVID-19 pandemic to meet the needs of its customers. This has allowed it to implement better transaction monitoring and quickly identify suspicious activity. This has improved efficiency and allows the casino to conduct better customer risk profiling.

327. Record keeping requirements are long-established and implementation is closely monitored by supervisors as part of ongoing supervision. DNFBPs appear to generally comply with the minimum six-year record keeping requirements and the authorities suggest that competent authorities can access information upon appropriate request. However, supervisory findings during onsite examinations continue to show record-keeping gaps in all DNFBP sectors, except for the casino and trust company sector.

4.4.2. Enhanced or specific measures

328. DNFBPs met during the onsite generally collect basic due diligence information (national identity, company incorporation and ownership information and address) for all levels of CDD. EDD is performed for high-risk clients and transactions. This includes requesting additional information (e.g., source of wealth) from clients subject to enhanced scrutiny to satisfy the CDD procedures prior to beginning a business relationship or concluding a transaction. Labuan Trust Companies and some other TCSPs collect and verify BO information at a lower threshold than the required 25% shareholding when applying EDD. Some DNFBPs involved in company formation services face challenges in verifying foreign BO information, but explained the additional measures they take for verification, such as obtaining notarised records or information from foreign authorities. In general, supervisors continuously identify failings in the application of EDD, particularly customer risk profiling, and this appears to be a significant issue, despite the authorities suggesting that the majority of the AML/CFT/CPF deficiencies are minor lapses (see table below).

Table 4.1. Number of EDD deficiencies by DNFBPs

EDD deficiencies	2019	2020	2021	2022	2023	2024	2025
PEP-related (all sectors except Labuan trust companies)	-	-	-	-	1	-	-
Other	138	31	31	19	138	93	-
PEP-related (Labuan trust companies)	2	-	-	-	1	-	-
Other (Labuan trust companies)	-	-	-	-	-	3	-
Total for all DNFBP sectors	**140**	**31**	**31**	**19**	**140**	**96**	**-**

329. DNFBPs met during the onsite described the measures in place to identify domestic and foreign PEPs and the EDD measures applied in these cases (including obtaining senior management approval). Large international accounting and law firms in Malaysia have a more developed knowledge of EDD requirements applicable for higher risk situations. Regarding PEPs, these firms tended to adhere to their global policies and procedures and apply EDD once there is a PEP match during CDD onboarding. Larger DNFBPs make use of commercial databases to identify and detect customers who are PEPs, subject to TFS or associated with higher risk jurisdictions identified by the FATF.

330. Most DNFBPs adopt the supervisory guidance as their policy for the identification of PEPs, including the PEP definition. Smaller DNFBPs generally identify PEP associates through self-declaration and

their own knowledge of customers. Malaysian DNFBPs generally cater to domestic PEPs and have rarely encountered foreign PEPs as customers. Given the broad definition of PEPs in Malaysia, and the fact that list changes often, some DNFBPs face challenges in ensuring they are compliant with the requirements, particularly for PEPs at local and state levels.

331. In general, DNFBPs met during the onsite indicated that they would conduct EDD on customers from higher-risk jurisdictions, such as obtaining source of funds and other necessary information, before entering relationships. Other DNFBPs met indicated that they would automatically reject these customers.

4.4.3. AML/CFT reporting obligations and tipping off

332. There is significant variation across sectors in filing STRs and DNFBPs in most sectors do not submit reports in line with their risk profile (see IO.6 for a breakdown of STRs filed by the DNFBP sector). The sole licensed casino contributes the highest proportion STRs amongst DNFBPs. This may reflect the intensive supervisory engagement it receives and the nature of its business. Although measures implemented by the authorities have seen some increase in STR reporting by RIs in the other DNFBP sectors in recent years, the number of submissions remains low even in the higher risk sectors, which raises questions on the level of understanding and application of STRs obligations despite these measures. BNM has recently communicated its expectation to shift from providing awareness and training on STR submissions to taking enforcement action for non-submission. This is an important step in ensuring the weak levels of STR reporting are addressed.

333. Labuan Trust Companies are the second highest sector filing STRs in Labuan IBFC and contribute around 32% of the total number of filed reports. LFSA has conducted regular communications with these entities, outlining its expectations in terms of the quality and quantity of suspicious transaction reporting.

334. Most DNFBPs continue to submit STRs to the FIU manually via secure email, although a small number of larger DNFBPs have access to the FINS system, which facilitates more efficient and timelier STR submissions. Despite the difference in STR submission mechanisms, all DNFBPs have processes in place to ensure confidentiality and avoid tipping-off.

4.4.4. Internal controls, procedures and audits to ensure compliance

335. Internal controls within DNFBPs vary but are generally well established in larger DNFBPs. These include compliance programmes, appointed compliance officers, ongoing AML/CFT training programmes and internal audit reviews. DNFBPs met during the onsite explained that that they review internal procedures regularly and update periodically to ensure their effectiveness. However, supervisors continue to find significant numbers of AML/CFT/CPF failures to comply with internal control requirements across most DNFBP sectors.

336. Company secretaries, law firms, and accounting firms met during the onsite generally have internal control processes and procedures specifically related to their business activities. Some international law and accounting firms apply group-wide AML/CFT controls, which they note may be more stringent than those required in Malaysia.

337. The inadequacy of internal controls in smaller-sized DNFBPs is a concern, even though they are mainly lower risk entities. Notwithstanding, supervisors' findings show an increase in the nomination and notification of compliance officers to BNM in recent years, in line with AML/CFT/CPF requirements. This should have a cascading effect on other AML/CFT controls and generally improve compliance across DNFBP sectors, particularly as only appointed and notified compliance officers can access training and information provided by the authorities through an online platform. This electronic platform is an important supervisory tool and has helped increase awareness on AML/CFT obligations.

338. While larger firms may provide regular training, smaller DNFBPs often lack the resources to implement or attend comprehensive training programs. This can lead to inconsistencies in understanding and compliance with AML/CFT/CPF requirements. However, some SRBs have included AML/CFT/CPF accreditation modules as part of the Continuous Professional Development or Continuing Professional Education programmes and supervisors have provided training and resources to help improve understanding of requirements, particularly for lawyers, accountants, and company secretaries.

4.4.5. Legal or regulatory impediments to implementing AML/CFT obligations and mitigating measures

339. For the purposes of STR obligations under AMLA, any legal or other restrictions on disclosure, including secrecy laws, are overridden.

4.5. Supervision and monitoring of DNFBPs by supervisory authorities using a risk-based approach

340. Malaysia applies a risk-based approach to the supervision of its large DNFBP population. It recognises the importance of supervision technology as a tool to assist in the effective supervision of its approximately 20 000 DNFBPs and has incorporated it into its approach since 2019. For example, when planning for onsite inspections, supervisors use the DNFBP centralised analytics platform (DCAP) to consider the comprehensive profiles of the institutions to be inspected and enables BNM to perform data analytics on a single RI or a particular sector using up-to-date information. The DCAP system is used to produce supervision plans for onsite supervision. DCAP is maintained by BNM and the identification of Higher-Risk Reporting Institutions (HRRI) within each sector for onsite inspections is conducted every two years. Annual supervisory planning determines the entities that will be subject to specific supervisory activity. Plans are developed based on the inherent sectoral and individual ML/TF risk, responses to offsite supervision (DCR and questionnaires), previous supervision findings, complaints and the availability of supervisory resources within BNM and the relevant regulatory/licensing authorities. Higher risk DNFBPs, identified through the DNFBP Supervisory Framework (D'SuRF) process, are generally targeted for the most intensive supervision, including onsite inspections. However, the number of firms identified as higher risk is not consistent with the risk of the sectors, or the number of RIs within them (see table below). For example, in 2020 only 7 out of 1 859 DPMS and 45 out of 8 714 lawyers were identified as HRRIs. In addition, in some cases there were more onsite inspections in lower risk sectors with fewer HRRIs than in higher risk sectors with more HRRIs. For example, in 2020 there were 20 onsite inspections in the medium risk Labuan trust company sector, which identified five HRRIs. In the same year, there were 20 onsite inspections across the high-risk legal sector, which had 46 HRRIs. This suggests that resources are not always allocated to the highest risk areas.

Box 4.3.Technology solutions for DNFBP supervision

"Suptech" plays a pivotal role in the supervision and monitoring the diverse DNFBP sector in Malaysia. The adoption of Suptech in the DNFBP sector began in 2019, guided by a roadmap, and has proven effective in supporting the planning and execution of risk-based supervision. This has enabled more efficient oversight of a large and diverse sector. BNM has continued to integrate enhanced, technology-driven initiatives across various stages of the supervisory process to improve efficiency and strengthen oversight of DNFBPs, as outlined below:

(a) DCAP: Acts as a single source-of-truth through the digitalisation of data and consolidation of modular initiatives into a centralised location. The platform offers multiple features including automated monitoring and dynamic dashboards built upon past supervisory activities to provide oversight of the change in industry trends and vulnerabilities.

(b) HRRI: Analytic-driven identification of firms from each DNFBP sectors that could be more vulnerable to ML/TF risk and subject to most intensive supervision.

(c) DNFBP Portal: An automated portal for DCRs. It contains data analytics, 'live traffic' monitoring, policy query chatbot (to respond on common and general AML/CFT policy queries, and direct to supervisors for additional policy queries) and auto-issuance of compliance report card (contains overview of compliance standing and areas to be improved) to the RIs. Data submitted through the sector-specific DCR questionnaire are analysed via an algorithm and used to facilitate supervisors in assessing control measures of the DNFBPs and for HRRI identification.

(d) Statistics dashboard: Automated compilation and visualisation of payment statistics to help supervisors monitor trends and patterns of casino (i.e., historical trends of transaction value and volume, trends and profiles of customers, materiality assessment of different products, etc.).

(e) Awareness Platform: Centralised platform containing awareness materials and instructional videos on AML/CFT requirements in multiple languages, and sector specific approaches.

341. SRBs do not have access to the DCAP database, but the BNM notifies the MIA and CCM of high-risk RIs within the company secretary and accountant sectors, to plan supervisory activities in a commensurate way. It is not clear how the system will be maintained as more supervision moves to SRBs and whether direct access will be facilitated.

Table 4.2. Number of high-risk DNFBPs (and Higher-Risk Reporting Institutions) per population

DNFBP population in 2024	**Risk**	**2019** HRRI population (onsites)	**2020** HRRI population (onsites)	**2021-2023** HRRI population (onsites)	**2024-2025 Feb** HRRI population (onsites)
DPMS (2,390)	**High**	55 (30)	7 (6)	120 (62)	52 (36)
Lawyers (9,967)	**High**	143 (24)	46 (20)	137 (127)	56 (75)
Company Secretaries (3,652)	**M-High**	0 (0)	2 (0)	11 (25)	68 (11)
Accountants (2,517)	**M-High**	4 (0)	1 (0)	8 (11)	3 (31)
Registered Estate Agent (1,378)	**M-High**	6 (24)	2 (0)	10 (16)	69 (19)

DNFBP population in 2024	Risk	2019 HRRI population (onsites)	2020 HRRI population (onsites)	2021-2023 HRRI population (onsites)	2024-2025 Feb HRRI population (onsites)
Trust Companies (52)	**Low**	3 (0)	0 (1)	0 (0)	1 (7)
Labuan Trust Companies (67)	**Medium**	4 (12)	5 (20)	17 (44)	7 (36)

342. DCAP is largely informed by the DCR template submitted by DNFBPs through a fully automated platform. This enables real-time data analytics and automatic generation of compliance report cards. This is an important way of collecting required information to inform Malaysia's risk-based approach and, at the same time, support the areas that need remediation by RIs. Supervisors have sought feedback and focus group sessions to further enhance the DCR template since 2022, resulting in specific sectoral and firm-based questionnaires and a comprehensive information kit to guide the DNFBPs in responding to the questions. Nevertheless, many DNFBPs met during the onsite noted that the template is general and does not take account of sectoral differences. As a result, questions and responses can be interpreted differently, which may impact its usefulness and overall understanding of risk.

343. The supervision of DNFBPs generally falls under the dedicated DNFBP team within BNM, with a total 22 dedicated AML/CFT supervisors, who are specific sector specialists. For the supervision of LFSA, there is a total 20 supervisors, comprising four dedicated AML/CFT supervisors and five supervisors focused on Labuan trust companies. The CCM and MIA have recently assigned dedicated staff for supervision of company secretaries and accountants, in line with the approach to delegate more AML/CFT supervision to SRBs.

344. Onshore company secretaries and trust companies have historically been subject to supervision by the BNM. Since 2017, BNM and CCM carried out 47 joint onsite inspections on these entities. In 2022, the CCM and BNM signed an agreement to strengthen collaboration on oversight of company secretaries and trust companies. Since then, there have been 11 joint examinations, and the CCM has conducted some independent AML/CFT/CPF supervision of entities in these sectors. The CCM is currently in the process of expanding its resource to fully take on this task in the future. BNM has also conducted approximately 21 joint examinations with MIA since 2023, and the MBC is currently in the process of expanding its resource and building its supervisory capabilities to eventually take on AML/CFT for the legal sector. Onsite inspections across these sectors are complemented by offsite supervision, thematic reviews and engagement and training delivered by the SRBs. While delegating or reallocating supervision to SRB supervisors may deliver certain benefits (e.g., SRB understanding of the sector), Malaysia should ensure that the quality, intensity and frequency of supervision is improved and not reduced, especially in higher risk sectors such as lawyers.

345. Based on the SRA conducted in 2020 and 2024, the casino was assessed as Medium-High ML risk. Consequently, BNM has conducted routine AML/CFT onsite assessments every two years. The casino made notable steps to enhance its preventive measures in recent years, particularly enhancing technology to assist with KYC and transaction monitoring.

346. Due to strict measures implemented during the COVID-19 pandemic, supervision of the DPMS sector was largely conducted through offsite supervision during this period. Although there was an increase in onsite inspections in 2023 (54), the overall number of onsite inspections across this sector has been low even prior to the COVID-19 pandemic and since the lifting of measures. This is a concern given that the net risk has gradually increased from a lower level in 2013 to medium-high, the fact there are weaker market entry controls for the sector and some DPMS in East Malaysia were only invoked as RIs in 2024. The number of onsite inspections in several other sectors (e.g., accountants and trust company sectors) is also very limited and mostly covered by offsite supervision. In addition, it is not clear how intensive the onsite

and offsite inspections in some sectors are, given their annual high numbers and the number of supervisors available (e.g., 73 onsite inspections for lawyers in 2023 and 6 227 offsite examinations for lawyers in 2024). The Assessment Team does recognise that Malaysia's advancements in Suptech have improved the efficiency and quality of supervisory activities, which may help compensate for some of these low numbers.

Table 4.3. Number of onsite and offsite inspections

	2019	2020	2021	2022	2023	2024	2025
Onsite Examination							
Casino	1	-	-	1	-	1	-
DPMS	30	6	6	3	53	24	12
Lawyer	24	20	22	32	73	75	-
Company Secretary[58]	-	-	10	5	10	11	-
Accountant[59]	-	-	1	-	10	31	-
REA	24	-	3	3	13	19	-
Trust Company	-	1	-	-	-	7	-
Labuan Trust Company	12	20	8	13	23	36	-
Offsite Examination							
Casino[60]	2	2	2	2	2	2	-
DPMS	-	334	479	727	4	812	-
Lawyer	-	1 212	3 719	5 540	5	6 227	-
Company Secretary	-	1 060	1 962	3 039	5	3 316	-
Accountant	-	740	1 194	2 323	-	2 808	-
REA	-	419	454	532	-	348	-
Trust Company	-	33	37	-	-	-	-
Labuan Trust Company[61]	305	248	252	256	462	345	67

347. The supervision of Labuan trust companies is part of the overall supervision of Labuan RIs (including FIs) and is a priority for the LFSA. Given the important role of Labuan trust companies in company formation and as gatekeepers to the financial services sectors in Labuan IBFC, these RIs are subjected to more intensive onsite or engagement sessions, including annually.

4.6. Impact of monitoring, supervision, outreach, remedial actions and effective, proportionate and dissuasive sanctions on DNFBP compliance

348. All supervisors have a range of measures to ensure compliance with AML/CFT obligations and ensure regulatory failures are addressed. Supervisory and enforcement interventions are guided by the respective enforcement penalty frameworks. However, the full range of these measures is not consistently used and there is a heavy reliance on supervisory letters to remedy regulatory AML/CFT deficiencies. Malaysia suggests that this is due to most of the issues identified being minor.

349. Report cards are automatically issued after each off-site examination and approximately 37 000 have been issued since 2019. Although report cards are not a remediation measure, they may contain details of identified basic shortcoming and can be used to raise awareness of AML/CFT/CPF obligations.

[58] Includes joint onsite inspections

[59] Includes joint onsite inspections

[60] Includes multiple submissions

[61] Includes multiple submissions

350. Supervisory letters, and warning letters are generally used to HRRIs to address minor compliance deficiencies identified during onsite inspections. These often include follow up action plans and once the issues have been rectified the entities are no longer HRRIs.

351. Where non-compliance is identified that has medium impact/severity, a Directive Order specifying detailed remedial actions is issued. Directive Orders are formal sanctions applied in first time offence cases where entities have higher ML/TF vulnerabilities and materially inadequate implementation of AML/CFT requirements, such as those involving incomplete identification of BOs, not maintaining/updating a database of sanctions lists, lack of processes for STRs reporting or employing compliance officers without necessary skills and knowledge. As set out in the table below, there have been eight Directive Orders (mainly in the DPMS sector), 22 reprimand/warning letters and one compound sanction issued since 2019. This compares to more than 600 supervisory letters during the same timeframe, which does not appear in line with the risk and context of DNFBP sector in Malaysia, or some of the deficiencies described by the authorities.

352. Mandatory referrals to BNM or LFSA's Enforcement Committee take place when failings are found that have: (a) an element of culpability and complicity; (b) the presence of highly irregular transactions; (c) involve repeated AMLA offences; (d) in exceptional circumstances (i.e., the RI refused to be examined, severe non-compliances identified through supervisory or non-supervisory activities); and (e) where there is a failure to comply with Directive Order.

353. Since the approval and adoption of DNFBP Enforcement and Penalty Framework, one DPMS has received a compound of EUR 20 742 in January 2024. At the time of the onsite, other cases were being assessed and potential punitive action considered.

354. Overall, the number of remedial measures imposed shows an upward trajectory with half of all Directive Orders and administrative penalties, plus the only compound, all being issued in 2024. All administrative penalties were imposed by the LFSA.

Table 4.4. Number of remedial measures imposed across all DNFBP sectors

Action taken	2019	2020	2021	2022	2023	2024	Total
Supervisory letter	91	47	50	57	182	199	**626**
Reprimand/warning letter	-	3	9	3	1	6	**22**
Directive Order	-	-	2	2	-	4	**8**
Administrative Penalty	-	-	7	-	9	16	**32**
Compound	-	-	-	-	-	1	**1**
Total	**91**	**50**	**68**	**62**	**192**	**226**	**689**

355. In Labuan, if trust companies fail to comply with a requirement and have significant weaknesses in compliance with rules and regulations, LFSA issues a show cause notice requiring the RI to rectify the gap within 14 days. LFSA will then take further action by issuing a warning letter or applying an enforcement penalty if failure to comply.

356. While the AMLA guidelines and other relevant legislation prescribe sanctions for non-compliance with AML/CFT obligations, some penalties are neither proportionate nor sufficiently dissuasive. For instance, the maximum fine for general breaches of AMLA is RM 1 million (EUR 215 500) per offence, with the possibility of compounding up to 50% of the sanction's value. This level of penalty appears low considering the wide range of violations it may cover. Fines are calculated using the Enforcement and Penalty Framework, which provides clear parameters to determine the amount of the penalty imposed. However, there has only been one compound for a DNFBP to date, which was within the maximum penalty

amount. Most AML/CFT deficiencies in the DNFBP sector relate to implementation of CDD obligations, processes for identifying and reporting suspicious transactions and internal controls.

357. During the onsite, DNFBPs generally reported having good interaction and communication with their supervisors. Supervisors also noted improvements in AML/CFT compliance and in the overall compliance culture of DNFBPs, attributing this to enhanced supervisory interventions. However, while all supervisors have a policy of publishing enforcement actions, their deterrent effect is uncertain, as only one publication relating to the DNFBP sector has been issued in recent years.

5 Transparency and Beneficial Ownership

The relevant Immediate Outcome considered and assessed in this chapter is IO.5. The Recommendations relevant for the assessment of effectiveness under this chapter are R.24-25 and elements of R.1, 10, 22, 37 and 40.[62] [63]

Key Findings, Recommended Actions and Conclusion and Rating

Key Findings

a) Malaysia has a robust understanding of the ML/TF risks associated with legal persons and legal arrangements. This is largely derived from the NRA and two specific risk assessments for legal persons and arrangements in 2021 and 2024. The 2024 risk assessments include comprehensive analysis on risk associated with foreign legal persons and arrangements that have sufficient links to Malaysia. This has broadened its understanding of risk further and reinforces the authorities view in relation to the low inherent risk of foreign legal persons and arrangements with links to Malaysia.

b) Malaysia has some risk-based mitigating measures in place to prevent the misuse of legal persons and arrangements, which include the role of onshore company secretaries, Labuan trust companies, and professional trustees as gatekeepers, the prohibition of bearer shares and bearer share warrants and the publication of basic information of legal persons. For onshore foundations/incorporated trusts for which both risk assessments concluded ML/TF risks are higher, the RMP conducts security vetting on founders and trustees as well as BHEUU publishes a basic and BO information registry.

c) Although nominee arrangements are not common, there have been cases where nominee arrangements for onshore companies were exploited for ML/TF activities. Unlike Labuan, there is no explicit requirement for onshore legal persons to submit information on nominee directors or nominee shareholders with small voting shares to the authorities. It is a positive step that Malaysia is considering amending legislation to address this gap.

d) Malaysia adopts a multi-pronged approach for obtaining adequate, accurate and current BO information for legal persons in a timely manner: (1) through information held by legal persons; (2) information submitted to the CCM and LFSA registries; and (3) information held by RIs.

[62] The availability of accurate and up-to-date basic and beneficial ownership information is also assessed by the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes. In some cases, the findings may differ due to differences in the FATF and Global Forum's respective methodologies, objectives and scope of the standards.

[63] Recommendations 1, 22, 24, 25 and 37 are under review, see the Technical Compliance Annex.

Although the breadth of this approach is a positive aspect of the regime, significant improvements are required to fully meet the needs of the competent authorities. For example:

- checks on the accuracy of information held by onshore legal persons have been minimal (0.3% of the population) with approximately 30% of these found with inaccuracy of information
- the CCM's registry covers less than 90% of onshore legal persons and checks on the accuracy of the information held in the registry have been limited to conducting inspections on a small number of gatekeepers
- some RIs face challenges verifying BO information of legal persons with complex structures or foreign owners, which impacts their ability to provide competent authorities with timely, accurate and up to date information.

e) Malaysia relies heavily on its tax framework for basic and BO information for onshore legal arrangements that are not administered by RIs. The IRBM conducts audits on the trustees and other BOs of legal arrangements. However, they have never identified deficiencies in the accuracy of BO information submitted by legal arrangements, which appears unusual given the number of returns received and audited. Furthermore, there is no mechanism for legal arrangements to update basic and BO information outside the annual tax reporting cycle, meaning a significant amount of time can pass before a change is updated in the IRBM records.

f) Malaysia introduced a new requirement in February 2025 for all trustees, including non-professional trustees, to obtain and hold adequate, accurate and up-to-date BO information. However, given the recency of this measure, the Assessment Team was not able to assess its effectiveness.

g) Malaysia applies a wide range of sanctions, including the issuance of "show cause" notices, administrative penalties and compounds for failure to comply with some basic and BO requirements. For legal persons, most sanctions relate to failure to submit, or late submission of annual information returns rather than inaccuracies, or the submission of false information. The significant number of enforcement actions taken for failure to submit annual returns highlights CCM's and LFSA's commitment to ensuring the availability of legal persons BO information, which served as the primary mechanism for accessing information prior to the implementation of the BO registries. Nevertheless, the Assessment Team does not consider this approach to be effective in ensuring information requirements relating to accuracy of BO information are being met.

Key Recommended Actions (KRAs)

a) Malaysia should continue to ensure the BO registries are populated with accurate information on all legal persons and continue to take steps to ensure that RIs are aware of the new requirement to report discrepancies to improve the accuracy of information held in the registries.

b) Malaysia should ensure that proportionate and dissuasive sanctions are applied to legal persons who submit false or inaccurate BO information.

Other Recommended Actions

a) Authorities should take further steps to ensure the BO information held by legal persons is accurate, and up to date in line with the FATF definition of BO.

b) The CCM should require by law onshore companies to disclose nominee shareholders and directors' information, particularly to address the increasing use of sophisticated business structures for ML as identified in Malaysia's NRA.

c) Malaysia should ensure the BO information of onshore legal arrangements is accurate, up-to-date and available to competent authorities in a timely manner, by strengthening the tax framework and by ensuring implementation of the new requirements stipulated in the Trustee (Amendment) Act 2025 and Trustees (Incorporation) Amendment Act 2025 that require this.

c) Malaysia should ensure that proportionate and dissuasive sanctions are applied to legal arrangements and their trustees that submit false or inaccurate BO information or fail to maintain accurate and up to date BO information.

Overall Conclusions on IO.5

Malaysia has a solid understanding of the risk of domestic and foreign legal persons and arrangements created in the country or with sufficient links to it through standalone risk assessments.

Malaysia has some risk-based mitigating measures in place to prevent the misuse of legal persons and arrangements. However, it is still in the process of enhancing the mechanism for onshore companies to disclose information about their nominee directors and shareholders, leaving opportunities for misuse by criminals.

Competent authorities generally have adequate access to basic information on all legal persons, including foreign-created legal persons that carry out business in Malaysia. For competent authorities to access BO information, Malaysia follows a multi-pronged approach. However, significant improvements are required to ensure this approach is meeting the needs of competent authorities to access accurate and up-to-date information in a timely way. These improvements include ensuring accuracy of BO information held by onshore legal persons (in line with the FATF definition of BO). Fully populating and ensuring the accuracy of BO information in the CCM's registry will also reduce the opportunities for misuse of legal persons.

Although Malaysia has taken steps to strengthen its BO framework, some of these measures were implemented recently (e.g., aligning the definition of BO in legislation with previously published guidelines, enhancing legal framework for trustees of legal arrangements and introducing BO registries). Consequently, the Assessment Team is unable to fully assess their effectiveness over the entire reporting period and has weighted these measures accordingly.

Competent authorities have timely access to basic and BO information of legal arrangements, but the accuracy and currency of the information is not sufficiently verified, particularly in relation to onshore arrangements. Although the IRBM carries out audits on legal arrangements, it is unclear how granular these are in terms of verifying the accuracy of BO information submitted, and legal arrangements are only required to update limited information outside the annual tax cycle. Although the legal arrangement population in Malaysia is not material, addressing this issue would further enhance effectiveness.

Sanctions are generally applied for failure to submit the mandatory annual return of legal persons BO information. Although there have been some sanctions for submission of false information by legal persons and arrangements and their gatekeepers, most of these do not relate to false BO information and effective, proportionate and dissuasive sanctions are not being applied for persons not complying with requirements.

Malaysia is rated as having a Moderate level of effectiveness for IO.5.

Immediate Outcome 5

358. Malaysia has made several enhancements to its regime for legal persons and arrangements since 2015 to address recommendations in its 2015 MER, ensure alignment with changes to the FATF Standards and strengthen its framework to prevent the misuse of legal entities. These enhancements include, amending the MACC Act in 2018 to introduce corporate liability provisions, amending the tax return form in 2017 and 2024 to require the submission of BO information and introducing a requirement in 2025 for trustees to disclose their status to RIs. In addition, Malaysia introduced a BO registry for Labuan legal persons in 2022 and another for onshore legal persons in 2024.

359. As outlined in "Introduction to Money Laundering and Terrorist Financing Risks and Context", Malaysia is not a major international hub for company and trust formation. Nevertheless, due to its risk and context, legal persons and arrangements can be misused by criminals and their associates, as outlined by typologies in the NRA and relevant risk assessments.

360. The CCM is responsible for the establishment of onshore legal persons. There are two types of legal persons that can be created, and which must register with the CCM [companies and limited liability partnerships (LLPs)]:

Table 5.1. Type and number of onshore legal persons

Companies		LLPs	
Companies limited by shares	687 319	Domestic LLPs	37 127
Companies limited by guarantee	2 209	Foreign LLPs	3
Unlimited companies	14		
Foreign companies	1 400		

361. The LFSA is responsible for the establishment of legal persons in Labuan IBFC, of which, three types can be established: Labuan companies, Labuan partnerships and Labuan foundations:

Table 5.2. Type and number of Labuan legal persons

Labuan Companies		Labuan Partnerships		Labuan Foundations	
Companies limited by shares	4 698	Limited Partnerships	62	Foundations	237
Companies limited by guarantee	7	Limited Liability Partnerships	16		
Protected cell companies	18	Recognised Limited Liability Partnerships	0		
Unlimited companies	2				
Foreign companies	60				

362. There are five main types of legal arrangements that can be created onshore, based on the common law principles and relevant statutes:

Table 5.3. Type, administrator and number of onshore legal arrangements

Type	Administered by	Number
Private Trusts	RIs such as onshore trust companies and lawyers; or non-professional trustees	5 988
Commercial Trusts	Onshore FIs	3 188
Testamentary Trusts	RIs such as onshore trust companies and lawyers; or non-professional trustees	7 054
Foundations / Incorporated Trusts	Within the purview of BHEUU	593
Waqfs	Administered by the State Islamic Religious Councils	14

363. The only legal arrangement that can be created in Labuan IBFC is a Labuan trust (Spendthrift/Protective Trusts, Charitable Trust, Purpose Trust or Labuan Special Trust). All Labuan trusts are required by law to appoint a licensed Labuan trust company as one of their trustees. As of December 2024, there were 263 Labuan trusts.

5.1. Identifying, assessing and understanding ML/TF risks of legal persons and arrangements

364. Malaysia has a robust understanding of the ML/TF risks associated with domestic and offshore (Labuan) legal persons and arrangements. This understanding is based on the 2021 Legal Person Risk Assessment and the Legal Arrangements Risk Assessment, which were updated in 2024 to include an assessment of foreign-created legal persons and arrangements with sufficient links to Malaysia. Prior to 2021, Malaysia considered these ML/TF risks as part of its NRA process, which was more limited. The dedicated risk assessments for legal persons and arrangements represent an enhanced process, which provides more detailed understanding of the risks these entities present.

365. Both risk assessments consider the threats (inherent risks) of legal persons and arrangements being misused for ML/TF and the vulnerabilities, or control measures the authorities have put in place to ensure these threats are being managed. These two factors combined provide an overall assessment of the net ML/TF risk, as well as an assessment of the risk posed by specific types of entities.

366. These risk assessments were conducted by the Legal Persons/Legal Arrangements subcommittee of the NCC and included input from public and private sector representatives. A range of qualitative and quantitative inputs were considered including, focus group sessions with authorities, questionnaires, open-source reports, financial intelligence reports and investigations and convictions data. Factors that lead to vulnerabilities include companies with foreign directorships from high-risk countries, or the use of nominee arrangements. For LAs, inherent risks include foreign exposure, value and volume of the arrangement. Control measures for legal persons include whether supervisory activities include consistent oversight and compliance levels of legal persons. For legal arrangements, control measures or vulnerabilities include the AML/CFT regulatory framework and AML/CFT supervisory measures.

367. The current legal person risk assessment concludes that ML risk for onshore legal persons is “medium” and TF risk is “low”. The risk assessment notes cases of legal persons acting as ‘money mules’ facilitating pass-through accounts for corruption proceeds being used as shell and/or shelf companies, and to facilitate bribes, which contributed to the higher rating of ML risk. For offshore legal persons, the risk for ML and TF is low mainly due to their small number compared to onshore legal persons and their robust control measures. In terms of foreign legal persons with links to Malaysia, the authorities deem these to be low risk, mainly based on a low number of STRs concerning these entities and an absence of ML/TF convictions involving foreign legal persons and the small number of these entities in Malaysia (total foreign

incorporated legal persons registered in Malaysia is approximately 0.2% of domestic incorporated legal persons). The 2024 risk assessment also concluded the inherent risk of foreign legal persons with links to Malaysia was low based on several other factors such as high registration costs, low cash intensity and their limited exposure to high-risk sectors, etc.

368. The current legal arrangement risk assessment concludes that the ML and TF risk for onshore and Labuan legal arrangements is medium while onshore foundations/incorporated trusts pose higher ML/TF risk given that the majority of STRs and CTRs related to legal arrangements are connected to the foundations/incorporated trusts formed by political parties. This rating has not changed since the previous 2021 assessment. In 2024, Malaysia considered the risks of legal arrangements with foreign links for the first time. This update did not impact the overall risk rating to any significant extent, due to the very small number of such entities.

5.2. Mitigating measures preventing misuse of legal persons and arrangements

369. Malaysia has implemented several measures during the evaluation period to mitigate the risks of legal persons and arrangements being used for ML/TF purposes. These measures are set out in relevant NCC Action Plans and largely driven by the findings from the various risk assessments and to address deficiencies identified by Malaysia's 2015 MER.

370. Malaysia places significant emphasis on company secretaries and Labuan trust companies as gatekeepers for preventing the misuse of legal persons and Labuan LAs. All legal persons must be created with onshore company secretaries or Labuan trust companies and all Labuan legal arrangements are required to appoint Labuan trust companies as one of their trustees.

371. Company secretaries and Labuan trust companies are both RIs under the AMLA and play a pivotal role in ensuring the integrity and transparency of the legal persons and Labuan legal arrangement sectors. Their primary role is to: maintain accurate records; ensure timely submission of statutory documents; conduct due diligence during the establishment and the appointment of directors; screen legal persons and arrangements and their BOs against sanctions lists; and lodge all necessary information and documents with the CCM or LFSA.

Box 5.1. Rejection of incorporation by a Labuan trust company

Labuan trust company A received an application from a potential foreign Client X to set up two investment holding companies in Labuan IBFC. During the due diligence process under the relevant Guidelines, Labuan trust company A discovered that Client X was allegedly involved in defrauding investors in an illegal investment scheme. Given the increased client risk, Labuan trust company A held a physical meeting with Client X at their office in Labuan. Based on the findings from the due diligence process and information gathered at the meeting, Labuan trust Company A suspected that Client X might be setting up Labuan companies to conduct fraudulent activities. As a result, Labuan trust Company A decided not to proceed with client X's application and filed an STR.

372. Based on the information provided by company secretaries and Labuan trust companies, the CCM and LFSA maintain registries of basic and BO information of legal persons and Labuan LAs. The CCM and LFSA provide competent authorities, including LEAs with direct or indirect access to those registries. The CCM also makes basic information of onshore legal persons publicly accessible via their portals with a payment of fee. While there are considerable number of subscribers to the portals, the RIs met during the onsite relied more on other commercial databases.

373. Bearer shares and bearer share warrants have been prohibited in Malaysia (since 1965 for onshore and since 2022 for Labuan) and such shares or warrants are no longer valid. All Labuan legal persons are required to submit nominee information to the LFSA. In line with their requirements, onshore legal persons submit information on nominee shareholders with 20% or more of voting shares, and information on natural persons that exercise significant control or influence over the directors or the management of the company, to CCM. However, there is no requirement for onshore companies to disclose information on their nominee directors. Partly due to the absence of such disclosure requirements, the CCM and other LEAs have observed some cases where informal nominees were misused for crimes and ML. In response, Malaysia has undertaken enforcement actions, including prosecution and forfeiture of illicit proceeds. To remediate these deficiencies, the CCM proposes to amend the Companies Act to introduce the requirements for every onshore company to maintain a register of nominee shareholders and nominee directors and report such information to the CCM. However, the proposal was still under the discussion at the time of the onsite. Although nominee arrangements are not common in Malaysia, such requirement would further reduce the ability of criminals to use sophisticated business structures for ML, a risk highlighted by the authorities.

374. Onshore legal arrangements can be managed by both professional and non-professional trustees. Professional trustees, such as trust companies and lawyers, are RIs under the AMLA and play a role as a gatekeeper for preventing the misuse of onshore LAs.

375. Trusts managed by non-professional trustees account for approximately 25.7% of the total value of Malaysia's onshore legal arrangements. These legal arrangements, which are not managed by gatekeepers, are expected to engage RIs for any financial and professional services, such as opening bank accounts and having trust deeds prepared by lawyers, to fulfil the purpose of the legal arrangements. The RIs providing services to legal arrangements are required to identify and verify the identity of the legal arrangement clients, including their BOs. Hence, Malaysia believes the basic and BO information of all legal arrangements is consequently maintained by the RIs.

376. In alignment with their medium-high risk nature, BHEUU publishes basic and BO information on onshore foundations/incorporated trusts on their website.[64] Since July 2023, BHEUU started engaging with the RMP to conduct security vetting on all founders and trustees. As of January 2024, 248 individuals have been vetted by RMP, of whom 32 were not deemed appropriate to be founders and trustees, mainly due to past criminal records, resulting in application rejections. Furthermore, a list of dissolved onshore foundations/incorporated trusts is publicly available at BHEUU's website.

377. From 2019 to December 2024, the CCM organised 61 training programmes for company secretaries to enhance awareness and understanding of BO reporting requirements. These sessions were attended by 13 220 participants. For Labuan, an awareness briefing session was conducted in December 2021 on newly created BO guidance. This was attended by 305 participants from multiple sectors, including compliance officers from Labuan trust companies and Labuan foundations.

5.3. Legal persons: Timely access to adequate, accurate and current basic and beneficial ownership information

378. Malaysia's main mechanism to ensure timely access to basic information on legal persons is through the CCM and LFSA registries, which is publicly available. In terms of accessing BO information for legal persons, which is not publicly available, there are three main sources that LEAs can consult: (1) information held by the legal persons themselves; (2) through the CCM and LFSA registries; and (3) by

[64] Semakan Status Yayasan. Government of Malaysia.

requesting information from RIs. While adequate and accurate BO information for Labuan legal persons is generally accessible through the LFSA registry in a timely manner, this is less the case for onshore legal persons. In addition, the Assessment Team does not consider that measures prior to 2024 were sufficient to ensure this information was adequate and accurate.

379. Foreign-created legal persons must register with CCM or LFSA to carry out business in Malaysia. Upon registration with CCM or LFSA, they are subjected to the same basic and BO information reporting requirements as domestic legal persons. Therefore, the basic information databases and the BO registries maintained by the CCM and LFSA include information on foreign legal persons with links to Malaysia.

5.3.1. Basic information

380. Relevant competent authorities generally have access to basic information on all legal persons through the company registries managed by CCM and LFSA. This includes foreign-created legal persons that carry out business in Malaysia.

381. Competent authorities made over 188 000 requests for basic information on legal persons in 2024 through online platforms for the purpose of investigation and prosecution.

Box 5.2. CCM assisting LEAs uncover shell company network

Company X was offering the public a "savings/share-partner" program where interested "investors" could join the scheme with a payment of an annual fee of EUR 50.60 and a 'share-partnership' investment of a minimum capital of EUR 10. The scheme was actively promoted on social media and through seminars held across Malaysia.

BNM issued a Financial Consumer Alert on Company X in 2023 through surveillance activities. During an investigation, multiple shell companies incorporated with minimal or no active operations were found to be linked to the scheme and were used to manage or channel funds, either as collection points or pass-through accounts. To better understand the ownership and control structure, investigators obtained detailed information on the directors, shareholders, and controllers of Company X and its related entities from the CCM.

The CCM data provided essential insights into the corporate structures that underpinned the scheme, revealing connections between seemingly disparate entities. To confirm the identity of the true controllers, investigators performed a meticulous bank statement analysis. They scrutinised the flow of funds related to the bank accounts of the main scheme company as well as those of the shell companies. This financial trail analysis allowed investigators to map the movement of money, highlighting irregularities and patterns that pointed toward a central control.

A total of 12 premises were raided in 2024. All relevant items needed to assist the joint investigation were seized, along with assets comprising gold, cash amounting to more than EUR 1 045 175, including foreign currencies, cryptocurrency, and luxury vehicles and items. In addition, 92 bank accounts amounting to EUR 5.47 million and a safe deposit box were frozen. The investigation is ongoing.

5.3.2. Beneficial ownership information – (1) information held by legal persons

382. Since 2017, onshore legal persons have been required to obtain, maintain and update their BO information at entity level in a way that can be accessed by competent authorities in a timely manner. However, prior to 2020, the definition of a BO for onshore legal persons in Malaysia was not in line with

the FATF Standards and was limited to ultimate direct owners of voting shares. This definition did not refer to natural persons on whose behalf a transaction was being conducted, or indirect control of shares such as nominee shareholders.

383. In 2020, the authorities issued guidelines to expand the definition of a BO to align it with the FATF Standards (i.e., to extend it beyond the definition of BO in the Companies Act), but the legislation continued to contain the previous partial definition.

384. To ensure the accuracy of BO information held at entity level, the CCM conducted inspections of 1 743 onshore companies between 2022 and 2024. These companies were selected on the following criteria:

- Active companies that have failed to lodge annual returns and financial statements;
- Company secretaries managing more than 200 companies simultaneously;
- Company secretaries with the highest number of non-compliant companies under their management; and
- Active companies and company secretaries which have complaints lodged against them.

385. This accounts for less than 0.3% of the total population of onshore legal persons. Malaysia stated that these inspections confirmed that approximately 70% of the sample were maintaining BO information at their premises in line with the guidelines (i.e., in line with the FATF definition of BOs). Nevertheless, it also suggests that approximately 30% were not following the requirements and definition of BO in the guidelines. The CCM issued reminder notices to the non-compliant entities. Although this compliance rate is for a small sample of higher risk companies and does not necessarily apply to all onshore legal persons, it suggests that a significant number of entities could have had inaccurate BO registers during this period. This may be a result of the differences in understanding of BO, due to inconsistent definitions in the Companies Act and guidance provided by the authorities.

386. Malaysia amended the Companies Act in 2024, so that the definition of BO aligns with the FATF definition and the 2020 guidance.

5.3.3. Beneficial ownership information – (2) registries

387. Since 2017, onshore legal persons have been required to lodge BO information with the CCM through the submission of an annual return. Malaysia conducts ongoing desk-based monitoring on the submission of annual returns and financial statements, but the focus of this exercise is to identify related late submissions, rather than test the accuracy of the BO information being submitted.

388. In April 2024, Malaysia introduced a new requirement for company secretaries of onshore companies to submit BO information on their companies to CCM via the electronic platform called e-BOS. This new measure enables any changes in BO information between annual returns (within 14 days from the date of the changes) to be submitted in a timely manner. Onshore companies were required to submit their latest BO information via e-BOS by September 2024. As of 31 January 2025, 87.5% of onshore companies had done so.

389. The accuracy of the BO information registered in e-BOS relies heavily on company secretaries as gatekeepers who are required to identify, verify and lodge with the CCM the BO information of onshore companies. While the CCM conducts joint onsite inspections with the BNM on company secretaries to ensure they comply with AML/CFT requirements, including CDD, the number of the inspections is very limited (11 in 2024).

390. At the time of the onsite, e-BOS did not include the BO information of LLPs, but their presence is not material and constitutes less than 5% of the total domestic population. Malaysia amended legislation in 2024 to introduce a new BO reporting framework for LLPs requiring them to submit BO information to the CCM by October 2025. This should further enhance the effectiveness of the registry and make it easier for competent authorities to access BO information on LLPs in a timely manner.

391. While competent authorities do not have direct access to e-BOS, the CCM generally provides requested information within three business days. However, currently there are limited cases where e-BOS has enabled the authorities to swiftly investigate ML/TF cases involving onshore legal persons, which reflects the nascency of this aspect of Malaysia's BO information framework.

392. Since 2022, Labuan legal persons and arrangements are obliged to have their respective Labuan trust companies submit and update the BO information to the LFSA through an online platform called PEARL. The coverage ratio of PEARL reached 99.9% in November 2024, with only four companies remaining unregistered. The LFSA also requires Labuan trust companies to submit annual returns for the Labuan legal persons and arrangements they represent; 80% of Labuan trust companies comply with this obligation. From 2020 to 2024, LFSA received 53 requests for BO information from foreign authorities, but only eight from domestic authorities. The average time taken for the LFSA to respond to information requests is one to two business days.

393. The LFSA also conducts network analysis to establish links between BOs in multiple companies, based on the information held in its registry. This has helped supervisors uncover nested relationships, conduct risk-based sampling and identify possible ultimate BOs.

Box 5.3. Network analysis on Labuan legal persons

LFSA employs network analysis to identify Labuan entities that are connected, including indirectly linked through sharing common directors and to high-risk entities for which incorporation applications were rejected or enforcement actions were taken. This helps the LFSA to pay adequate levels of attention to entities during regular monitoring and the process of license application/renewal. It also helps the LFSA to select high risk client samples to conduct onsite examination. The network analysis also allows the LFSA to trace ownership structures to identify possible UBOs using information held in the corporate registry and PEARL database.

394. As part of its ongoing AML/CFT supervision, the LFSA conducted 112 onsite inspections across 56 Labuan trust companies between 2019 and 2024, covering 84% of the sector. Deficiencies related to BO compliance were identified in 18 companies. The LFSA selects inspection subjects based on institutional risk factors, such as the number of companies for which they act as secretaries.

395. Since 2022, the LFSA has not observed any instances where the BO information in the annual returns submitted by Labuan trust companies did not match the existing information in PEARL. This is because the BO information submitted in the annual returns is automatically populated on PEARL and verified for accuracy by the Labuan trust companies prior to submission. In cases where the automatically populated BO information is incorrect, Labuan trust companies are required to update the BO information in the PEARL registry before proceeding with the annual return submission. This process provides an opportunity for Labuan trust companies to annually verify PEARL BO information for the legal persons and arrangements they provide secretary services for or act as trustees.

396. While not a mandatory requirement under the FATF Standards, in January 2025, a new obligation was introduced for designated RIs to report discrepancies found between the BO information they hold

and the information in the CCM or LFSA registries. The Assessment Team was not able to assess the effectiveness of this obligation due to its recency. Nevertheless, none of the RIs met during the onsite had submitted reports, including large FIs. Given that RIs do not have direct access to the BO registries maintained by the CCM or LFSA and typically rely on commercial databases for BO information during CDD, the effectiveness of this newly introduced measure remains unclear and should not replace verification checks by authorities.

397. The introduction of PEARL has reduced the time it takes for LFSA to retrieve and provide BO information for Labuan legal persons to the competent authorities. Nevertheless, the CCM BO registry was only recently introduced, it was not fully populated at the time of the onsite and mechanisms to ensure the accuracy of the information within it (e.g., discrepancy reporting) are nascent.

5.3.4. Beneficial ownership information – (3) RIs

398. When legal persons seek to establish a business relationship with RIs, such as opening a bank account, the RIs are required to conduct CDD, including identifying the BOs. Malaysia has published clear guidelines for RIs on how to identify BO information. As set out in IO.3 and 4, supervisory activities are undertaken to ensure that RIs are fulfilling these requirements and are meeting their CDD obligations in line with the guidelines. The findings from these inspections and discussions with RIs during the onsite show that some RIs continue to face difficulties in identifying the BOs of companies with foreign owners or those that are part of complex structures. In particular, it is time consuming for RIs to identify and verify BO information due to a reliance on statutory documents provided by legal persons, basic information obtained through authorities or commercial databases and self-declaration. While this could impact availability of BO information for competent authorities, Malaysia notes that this has not been the case during the assessment period. Although 95% of domestic (onshore) legal persons and 94% of Labuan legal persons have single layer individual shareholders, for which RIs are not expected to have material difficulties with identifying BO, the Assessment Team is concerned about the increasing number of cases where complex business structures including shell companies are misused for ML, as described in the latest NRA.

399. FINS serves as a direct communication and information exchange hub among the FIU, RIs, and LEAs. Through FINS, LEAs make information requests to RIs, such as whether a company has a business relationship with the RI. Responses are generally received from FIs with positive matches within three business days (see IO.6 for additional information on FINS). The Assessment Team considers this to be a good mechanism for information exchange.

400. Authorities also presented a case example demonstrating that LEAs can identify BOs of the legal persons conducting suspicious activities referring to the basic information provided by the CCM and the BO information provided by company secretaries. However, it is not clear how accurately competent authorities can identify BOs of entities that have complex structures or have foreign owners based on the CDD information held by FIs.

5.4. Legal arrangements: Timely access to adequate, accurate and current basic and beneficial ownership information[65]

401. Competent authorities have a timely access to basic and BO information of LAs, but the quality of the information is not sufficiently verified for accuracy.

[65] See the Methodology for Recommendation 25 regarding beneficial ownership information for legal arrangements.

402. All legal arrangements in Malaysia, including foreign trusts that have income accruing in, derived from or received in Malaysia, are required to have their respective trustees submit annual tax returns to the IRBM. Each return includes the LA's basic and BO information. Details pertaining to the settlors, protectors, auditors and tax agents are also included in the annual tax returns. However, as of June 2024, there were 10 353 active tax files registered with the IRBM, which is only 86% of the total number of legal arrangements in Malaysia. This suggests there could be a number of legal arrangements the IRBM does not have basic and BO information on. Furthermore, based on interviews with the private sector during the onsite, it is questionable whether all the trustees are aware of the legal requirement to report the BO information of legal arrangements as part of their tax returns.

403. Although IRBM conducts audits on the BOs of legal arrangements by examining financial statements, accounting records, tax returns, and other relevant documents, it does not generally detect any deficiencies in the submitted BO information. This raises questions over the granularity of the audits in terms of verification of the accuracy of BO information submitted. Furthermore, there is no mechanism for legal arrangements to update basic and BO information, except for address, or additional tax payable, outside the annual tax reporting cycle, meaning a significant amount of time can pass before a change is updated in the IRBM records. Malaysia does not consider this as a major gap in its framework as onshore legal arrangements only make up 2.3% of the population of onshore legal persons and arrangements and BO information of Labuan trusts is maintained in the LFSA's PEARL together with records of Labuan legal persons. Nevertheless, enabling legal arrangements to update their information to IRBM in real time would further enhance the accuracy of BO information available to competent authorities.

404. LEAs can obtain the basic and BO information managed by the IRBM when conducting joint analysis. In 2024, five joint analyses were carried out between relevant LEAs and the IRBM. In addition, the RMP makes frequent information requests for information on legal arrangements to the respective IRBM state offices.

405. Malaysia amended legislation in February 2025, requiring trustees including non-professional trustees to obtain and hold adequate, accurate and up-to-date BO information. However, given the recency of this change, the Assessment Team was not able to assess the effectiveness of these new requirements.

406. RIs hold basic and BO information for the legal arrangements for which they act as a trustee. This includes CDD information on their customers who act as trustees of legal arrangements and information on the assets of the legal arrangements of which they hold or manage on behalf. RIs also conduct ongoing due diligence on their legal arrangement customers to update their CDD information within the risk-based cycles set by themselves. Competent authorities can request this information from RIs via FINS for onshore legal arrangements and via the LFSA for Labuan trusts. However, prior to February 2025, there was no obligation for trustees of legal arrangements to update basic and BO information, meaning that the RIs could only provide the latest CDD information they held, which may have been out of date.

407. Labuan trust companies, acting exclusively as trustees of Labuan trusts, keep basic and BO information of all Labuan trusts in their register and report it to the LFSA. Basic information on Labuan trusts is directly available to competent authorities through the LFSA's online platform. Between 2020 and 2024, the LFSA inspected 20 Labuan trust companies specifically focussing on their compliance with their trustee obligations. Although supervisory letters were issued for all 20 Labuan trust companies to communicate areas of improvement, none related to BO information requirements.

408. Onshore foundations/incorporated trusts are required to notify any changes to their name, trust deed and trustees to the BHEUU within 14 days from the changes. BHEUU has basic and BO information of onshore foundations/incorporated trusts publicly accessible in their website. Competent authorities can request further information on onshore foundations/incorporated trusts from BHEUU, who generally respond within three business days. Eight requests were made in total between 2020 and 2024. This

information led to one prosecution. BHEUU generally conducts onsite inspections on two foundations/incorporated trusts per month to ensure they comply with the BO information requirements. This appears commensurate with the higher risk presented by this type of legal arrangement.

409. The State Islamic Religious Council (SIRC) holds the exclusive mandate to act as the sole trustee for all waqf properties, and all waqf-related activities must be carried out under the auspices of the SIRC. The SIRC facilitates access to basic and BO information, which includes details about the endowed property, the waqif (settlor), the waqf recipient (beneficiary), the waqf administrator (trustee) and other SIRC parties in exercising ultimate effective control over the waqf. The average time taken for the SIRC to respond to information requests from competent authorities is approximately one to two weeks. Requests for information to the SIRC are very limited, in line with the low risk profile of waqfs.

5.5. Effectiveness, proportionality and dissuasiveness of sanctions

410. The CCM has initiated 38 prosecutions between 2019 and 2024 for giving false information to the registrar, based on complaints received. Most of these cases did not relate to BO information. 19 of these cases led to sentences including fines of up to RM 50 000 (approximately EUR 10 775), while the other 19 cases are ongoing. Nevertheless, most of the sanctions imposed by CCM relate to failure to lodge annual returns (as shown in the table below), for which the CCM and LFSA have imposed compounds or administrative monetary penalties. In cases where the legal persons fail to lodge returns after several consecutive years and meet specific criteria such as no existence of corporate shareholder, the CCM and LFSA strike them off. In 2024, the CCM and LFSA struck off approximately 6 000 dormant legal persons. This contributes to the high submission rate of annual returns (more than 90%). While the substantial number of enforcement actions—particularly the striking off of entities—undertaken by CCM and LFSA for non-compliance with annual return submission requirements reflects a commitment to maintaining the availability of BO information, the Assessment Team assesses that sanctions applied to individuals who fail to comply with BO disclosure obligations, or who submit inaccurate or false information, are not sufficiently effective, proportionate, or dissuasive.

Table 5.4. Sanctions imposed for the basic and BO information

Type of sanctions	No. of sanctions imposed					
	2019	2020	2021	2022	2023	2024
CCM						
Striking off	31 449	36 091	11 344	30 785	12 356	5 864
Monetary penalty/fine (imposed by Court) for failure to lodge Annual Return	123	187	139	348	87	358
Compound for failure to lodge Annual Return	17 434	4 543	13 465	40 621	13 333	35 075
Prosecution for failure to lodge Annual Return	5 144	4 547	5 825	7 345	6 599	9 129
Warning Letter / Show Cause Letter for failure to lodge Annual Return	12	14	13	12	11	1
Prosecution for providing false information to CCM (out of which convicted)	4 (4)	5 (5)	6 (0)	6 (0)	9 (7)	8 (3)
LFSA						
Striking off	782	952	997	732	560	568
Monetary penalty / fine (imposed by Court) for late/non-submission of Annual Return	288	321	248	232	529	373
Others						
IRBM - compound for non-submission of tax return	11	1	1	3	0	1
BHEUU - revocation for failure to rectify the issues	4	19	35	38	22	-

411. The IRBM issued compounds to 17 legal arrangements between 2019 and 2024 for non-submission of tax returns. This figure appears small given there are more than 10 000 legal arrangements required to submit annual tax returns in Malaysia.

412. BHEUU takes a proportionate approach in issuing show cause notices[66] and revoking certificates of incorporation for the onshore foundations/incorporated trusts that do not notify changes in their basic or BO information. From 2019 to 2024, the certificates for 118 onshore foundations/incorporated trusts were revoked, which demonstrates a robust response to non-compliance in this sector.

413. As noted under IO.4, remedial actions have been applied for gatekeepers, such as company secretaries and Labuan trust companies, including for failure in their CDD measures (including identification of BOs). Nevertheless, these are mainly limited to supervisory letters, rather than formal sanctions.

[66] A show cause notice is a formal legal order requiring an individual or organisation to explain their position. It is sent when an action or incident is deemed unacceptable, violates rules and regulations, or results in a breach of contract.

6 Financial intelligence

The relevant Immediate Outcomes considered and assessed in this chapter is IO.6. The Recommendations relevant for the assessment of effectiveness under this chapter are R.29-32 and elements of R.1, 2, 4, 8, 9, 15, 34, and 40.[67]

Key Findings, Recommended Actions and Conclusion and Rating

Key Findings

a) Malaysia's AML/CFT regime benefits from well-established domestic cooperation mechanisms. Competent authorities actively leverage financial intelligence and information through inter-agency collaboration, particularly with the FIU. Since 2019, the FIU has received approximately 1.39 million STRs—predominantly from the banking sector—and over 37 million CTRs, enabling timely analysis through direct and indirect database access. Reasonable and adequate measures have been deployed to ensure the security and confidentiality of financial intelligence held by the FIU.

b) Malaysia's FIU, consisting of the tactical and strategic analysis divisions, is adequately staffed. Malaysia's FIU uses a technology-based STR screening and review process supported by clustering algorithms. The algorithms are reviewed internally on a regular basis to capture the latest risk landscape but are not currently enhanced by inputs from other stakeholders or users.

c) Competent authorities have access to a wide range of reports and databases, including FINS and other law enforcement and government sources. Direct electronic access facilitates timely and up-to-date intelligence gathering by the FIU and LEAs. Malaysia continues to strengthen data integration, and FIU disclosures generally align with the risk profiles outlined in NRA 2023. However, challenges in ensuring accurate and up-to-date BO information can limit the availability of critical data needed by the FIU and LEAs. Numerous case studies were provided on how financial intelligence is being translated into concrete enforcement actions, not just for ML, but for predicate offences and TF activities in line with the risks identified.

d) Competent authorities are making use of FIU data and other information to support investigations and enforcement activities. Agencies such as the RMP, MACC and IRBM are systematically using FINS, reflecting an increased demand for financial intelligence. However, the use of CBNI information remains unclear. The FIU actively monitors the quality of its disclosures by seeking feedback, and competent authorities consistently report that the information is both timely and valuable in supporting their functions. The FIU has proactively produced practical strategic analysis reports.

[67] Recommendations 1, 2, 3, 8 and 15 are under review, see Technical Compliance Annex.

Recommended Actions

a) Malaysia should continue reviewing the effectiveness, use, and quality of FIU's disseminations and other financial intelligence reports, including cross-border CBNI data, to support the operational needs of LEAs in line with evolving ML/TF risks.
b) Malaysia should continue to enhance its STR triage algorithm, by considering inputs from stakeholders and users, such as reporting entities, LEAs and other experts to ensure that all relevant intelligence is surfaced adequately and efficiently.

Overall Conclusions on IO.6

Malaysia's AML/CFT regime benefits from well-established domestic cooperation mechanisms. Competent authorities actively leverage financial intelligence and data through inter-agency collaboration, particularly with the FIU. Since 2019, the FIU has received approximately 1.39 million STRs—predominantly from the banking sector—and over 37 million CTRs, enabling timely analysis through both direct and indirect database access. Despite efforts of the Malaysian authorities, reporting by some FI sectors and most DNFBP sectors remains low.

FIU disclosures are a significant source of intelligence for both predicate offence and ML investigations. Competent authorities make use of FIU data and other information to support investigations and enforcement activities. Agencies such as the RMP, MACC and IRBM are systematically using FINS, reflecting an increased demand for and dissemination of financial intelligence.

The country continues to strengthen data integration, and FIU disclosures generally align with the risk profiles outlined in the 2023 NRA. While the FIU's clustering algorithms are reviewed internally on a regular basis to capture the latest risk landscape, they are not currently enhanced by inputs from other stakeholders or users. Moreover, challenges remain related to the availability and accuracy of BO information.

Malaysia is rated as having a Substantive level of effectiveness for IO.6.

Immediate Outcome 6

414. Since its 2015 MER, Malaysia has undertaken various initiatives to expand data access and improve the efficiency of financial intelligence production. A key development is the update of the Financial Intelligence System (FINS), designed to serve as a dedicated platform for accessing financial intelligence by facilitating communication between the FIU, competent authorities, and RIs. Additionally, as noted in "Introduction to Money Laundering and Terrorist Financing Risks and Context", multiple interagency bodies and platforms were established after 2015 to enhance collaboration and use of financial intelligence.

6.1. Timely access to relevant, accurate and up-to-date information

415. Malaysia's FIU, the Financial Intelligence and Enforcement Department (FIED), is the country's central authority for the receipt, analysis and dissemination of STRs (and CTRs). The FIU is set up as an independent and autonomous function within the BNM. The FIU has access to a wide range of financial

intelligence and other relevant information via direct access or indirectly upon request, to conduct its operational and strategic analysis.

416. Malaysia's FIU primarily relies on the FINS system, which was upgraded in December 2022 to FINS 2.0 (hereafter referred to as "FINS") to receive and disseminate intelligence and other information. This electronic platform enables direct interaction between the FIU, RIs, and competent authorities. Through FINS, RIs submit STRs and CTRs, while financial intelligence can be shared between RIs, LEAs, and the FIU. The system also facilitates the dissemination of financial intelligence, enhancing coordination and information exchange amongst relevant entities. While not a legal requirement, Malaysia's FIU notes that most FIs have FINS accounts. Larger DNFBPs, such as the casino, have access to the FINS system while most other DNFBPs submit STRs to the FIU manually via secured email. Additionally, information from supervisory authorities, obtained through onsite and offsite examinations is received by the FIU from the relevant supervisor and uploaded directly into FINS. From 2019 to February 2025, there were a total of 170 reports received by the FIU from supervisory authorities.

417. Since 2019, Malaysia's FIU has received approximately 1.39 million STRs from FIs and DNFBPs, with most emanating from the banking sector (approximately 93%). In terms of quality, Malaysia's FIU states that most STRs contain sufficient information to support their analytical functions. When STRs lack sufficient information, the FIU uses its powers to request additional information from RIs to support its analysis. STRs from FIs are generally more comprehensive and of higher quality due to the use of automated monitoring systems to detect suspicious transactions. The below table provides an overview of the STRs received from RIs since 2019.

Table 6.1. STRs reported by FIs and DNFBPs by sector

Sector	Net ML Risk (NRA 2023)	2019	2020	2021	2022	2023	2024	2025 (Feb)	TOTAL
FIs									
Banking Institutions	**High**	94 966	120 951	178 214	229 380	301 369	321 321	45 108	**1 291 309**
Non-Bank Designated Payment Instrument (DPI) Issuers	**Medium**	687	1 167	1 669	2 170	4 061	2 868	883	**13 505**
Money Services Businesses	**Medium**	8 106	6 045	5 763	3 986	5 070	7 027	832	**36 829**
Insurance and Takaful Operators	**Medium**	1 108	1 197	1 036	949	957	895	134	**6 276**
Capital Market Intermediaries	**Medium-High**	229	352	875	584	510	887	98	**3 535**
Digital Asset Exchanges	**Medium-High**	26	119	308	488	355	399	44	**1 739**
Non-Bank FIs	**Medium**	2 542	515	1 892	1 203	534	2 454	462	**9 602**
Money-lenders	**Medium**	4	5	12	9	14	43	5	**92**
Pawnbrokers	**Low**	1	2	7	1	6	10	2	**29**
Leasing and Factoring Companies	**Medium**	7	5	5	3	10	27	6	**63**

Sector	Net ML Risk (NRA 2023)	2019	2020	2021	2022	2023	2024	2025 (Feb)	TOTAL
Labuan FIs	Low to Medium-High	27	31	51	25	35	44	16	**229**
FI Sub-total		**107 703**	**130 389**	**189 832**	**238 798**	**312 921**	**335 975**	**47 590**	**1 363 208**
DNFBPs									
Casino	Medium-High	5,460	3,480	1,438	4,217	4,204	5,312	669	**24 780**
DPMS	High	5	9	29	14	57	118	9	**241**
Lawyers	High	16	17	26	34	48	81	7	**229**
Company Secretaries	Medium-High	5	21	9	3	31	113	1	**183**
Accountants	Medium-High	5	-	-	2	1	2	-	**10**
Registered Estate Agents	Medium-High	1	-	-	2	2	4	1	**10**
Licensed Gaming Outlets	Low	85	48	42	89	131	90	15	**500**
Trust Companies	Low	5	2	2	1	2	4	-	**16**
Labuan Trust Companies	Medium	17	12	10	17	39	13	1	**109**
DNFBP Sub-total		**5 599**	**3 589**	**1 556**	**4 379**	**4 515**	**5 737**	**703**	**26 078**
Grand Total		**113 302**	**133 978**	**191 388**	**243 177**	**317 436**	**341 712**	**48 293**	**1 389 286**

418. The number of STRs received are generally in line with the findings of the NRA. However, all DNFBP sectors (except for the casino) consistently file a low number of STRs. This raises concerns about the understanding of ML/TF risks and the STR obligations within these sectors (see IO.4 on AML/CFT reporting obligations).

419. When submitting STRs, RIs can indicate the suspected underlying offence. As summarised in IO.1, Malaysia identifies fraud, corruption, illicit drug trafficking, smuggling, and organised crime as the predicate offences posing the highest ML threat. These are followed by tax crimes, forgery, human trafficking/migrant smuggling, sexual exploitation, and environmental crime. Malaysia assesses TF risk as medium risk and its PF risks as medium-low. As outlined in the below table, the majority of STRs reported by RIs were denoted as possibly corresponding to ML, fraud, tax offences and organised crime. This aligns to some extent with Malaysia's risk understanding.

Table 6.2. Breakdown of STRs by possible underlying offence

Suspected offence	Risk profile	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total	% of Total
ML		39 599	43 902	68 076	113 433	152 522	167 489	23 449	**608 470**	43.80%
Others[68]		28 777	31 803	49 954	46 403	56 532	30 724	2734	**246 927**	17.77%

[68] "Others" primarily refers to cases where RIs identified red flags that could indicate multiple offences or were unable to determine a specific predicate offence due to limited information available at the time of submitting the STR.

Suspected offence	Risk profile	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total	% of Total
Fraud	High	25 136	30 299	37 321	47 525	73 304	99 440	15 584	**328 609**	23.65%
Tax Offences	Medium -High	9 927	12 943	21 343	20 171	17 674	20 671	2 731	**105 460**	7.59%
Organised Crime	High	7 115	13 259	12 603	13 401	15 880	20 630	3 509	**86 397**	6.22%
Corruption	High	1 603	973	1 263	1 022	739	1443	144	**7 187**	0.52%
Drug Trafficking	High	222	246	241	485	157	239	19	**1 609**	0.12%
Smuggling	High	427	204	289	225	355	251	36	**1 787**	0.13%
Terrorism/TF	Medium	334	194	130	246	207	404	68	**1 583**	0.11%
Human Trafficking/ Migrant Smuggling	Medium -High	51	91	141	224	53	174	5	**739**	0.05%
PF	Medium -low	111	64	27	42	13	247	14	**518**	0.04%
Total		**113 302**	**133 978**	**191 388**	**243 177**	**31 7436**	**341 712**	**48293**	**138 9286**	

420. CTRs are also submitted by relevant RIs into FINS.[69] In 2019, due to the extensive use of cash in Malaysia, the CTR reporting threshold was reduced from RM 50 000 to RM 25 000 (approximately EUR 10 775 to EUR 5 388). From 2019 to February 2025, Malaysia received over 37 million CTRs from relevant RIs. Malaysia notes that this information has been invaluable for developing and enriching financial intelligence products and investigations. CTRs contain account and transaction information that help the FIU match data with records from other accessible databases. They are one of the key data sources used by FIU analysts to prioritise cases for review. For example, in analysing networks involved in illicit money flows, those with more recent CTRs and larger transaction amounts are typically assigned higher priority.

421. Other major data sources available to the FIU (either directly or indirectly) are outlined in the below table.

Table 6.3. Direct and indirect information available to the FIU

Information/Data	Access Type
FINS – various types of reports, including: • STRs and CTRs • Requests from LEAs • Investigation orders under s.48 of AMLA and s.21 of DDFOPA • Informal reports/public tip-off • Reports from supervisory authorities arising from on-site/off-site examinations of RIs	Direct
Cash Declaration System - Reports on cross-border movements of cash and BNIs	Direct
Money services businesses transactions (money changing and remittance)	Direct
Registry of companies or businesses	Direct/Indirect
Additional records e.g. • CDD information • Account statements • Fund transfers – international and domestic	Indirect
Foreign financial intelligence, incl. spontaneous sharing	Direct/Indirect

[69] As of February 2025, the CTR obligation of RM 25 000 and above in a day, pursuant to section 14(1)(a) of the AMLA, is applicable to banking institutions, prescribed development FIs, Lembaga Tabung Haji and the licensed casino.

Information/Data	Access Type
Fraud/scam reports from NSRC	Direct
Suspected mule accounts	Direct
National Financial Crime Intelligence System (NFIS)	Direct
Sanctions/ PEPs/Adverse news	Direct
Cryptocurrency transactions	Direct
Criminal records	Direct/Indirect
Registry of natural persons	Indirect
Immigration information and travel records	Indirect
Tax records	Indirect
Owners of phone numbers and call information	Indirect
Registry of vehicle owners	Indirect

422. For databases to which the FIU has direct access, information can be retrieved instantly. For databases with indirect access, receipt typically takes six days on average. The FIU aims to improve the timeliness of data collection through inter-agency collaboration. For example, the secondment of IRBM officers to the FIU has streamlined access to tax-related records, allowing requests to be fulfilled within the same day via secure email.

6.1.1. By other competent authorities

423. Competent authorities have access to a wide range of data and information, including FINS and other records maintained by LEAs and government agencies, to support their intelligence and investigative functions. Most LEAs have direct access to FINS, allowing them to conduct searches off-site and retrieve timely and up-to-date financial intelligence. In this platform, LEAs can conduct searches and download results pertaining to STRs or CTRs using a subject's name and identification details. At the time of Malaysia's 2015 MER, only three LEAs were active users with direct access to FINS. As of February 2025, direct access has expanded to 11 agencies (where some agencies such as the RMP, MACC, RMCD, IRBM and SC have multiple departments with direct access).

424. Additionally, the "Request for Information" feature in FINS serves as a valuable tool enabling LEAs to request information from RIs through the FIU. During onsite discussions, LEAs provided positive feedback on their access to FINS, highlighting how it enables timely access to valuable financial information for intelligence development and investigative support.

Box 6.1. LEAs requests for information via FINS

LEAs can request intelligence from RIs by making requests through FINS. Information such as account opening documents transaction records, etc. would be provided by the RI to the FIU and subsequently disseminated to the requesting LEA via FINS for *intelligence purposes only*. The FIU reviews each request to ensure that it is aligned with this requirement before it is sent to the relevant RI. This enables LEAs to obtain intelligence from RIs in a swift manner to further support their investigations.

Additionally, LEAs can quickly obtain financial information from RIs by issuing investigation orders through FINS. LEAs can directly issue these orders to relevant RIs under Section 48 of the AMLA and Section 21 of the DDFOPA, provided the Public Prosecutor deems it necessary for investigating ML or TF offences without the need for a court order. Since 2019, 4 788 such orders have been published to RIs via FINS.

425. The National Financial Crime Intelligence System (NFIS), managed by the NFCC, is another important information portal available to support LEAs in conducting investigations and integrated operations on financial crime, ML and TF cases. NFIS provides a platform for LEAs and the FIU to gather information from various data sources in a timely manner. Since its inception in 2023, the NFIS has supported multiple joint operations coordinated by the NFCC. As of February 2025, NFIS has 56 data sources. The below box outlines the types of reports generated by the NFCC based on the NFIS.

Box 6.2.Types of intelligence reports provided by the NFCC

There are currently six analysts in NFCC, with the role of disseminating NFIS information upon request by the FIU and LEAs, through two types of reports:

1. **Profiling Report**: consists of information on the subject (individual/entity) obtained from various data sources linked to NFIS. The information includes personal data, family tree, assets, e.g., vehicle, involvement in companies and associations, phone number, addresses, past criminal records, holder of licence/special permit.
2. **Analysed Report**: consists of linked data on the subjects obtained from (1) NFIS, (2) subscribed databases and (3) open-source intelligence obtained by analysts. The analysts enrich the report by providing their observations comments and recommendations in the report.

426. LEAs also have access to external databases and resources to obtain information to strengthen investigations alongside open-source intelligence. This includes direct access to the Cash Declaration System (CADS), which includes declarations and other information related to the cross-border CBNI. Since 2019, Malaysia received approximately 20 000 cash/BNI declarations. However, with the low enforcement response in relation to cross-border CBNI (see IO.8), it is not clear the extent to which LEAs use this information to support their investigations.

427. As noted in IO.5, LEAs generally have access to basic information on all legal persons including foreign-created legal persons that carry out business in Malaysia. The CCM and LFSA maintain BO information registries (e-BOS and PEARL). While LEAs do not have direct access to the registries, the CCM and LFSA provide them with BO information upon request, generally within three business days. Moreover, LEAs have timely access to basic and BO information of legal arrangements, but the quality of the information is not sufficiently verified for accuracy. The challenges related to accurate and up-to-date BO

information can hinder the ability of the FIU and LEAs to conduct effective investigations. The FIU and LEAs can leverage and CDD information held by RIs to access BO information. Nevertheless, incomplete or outdated BO records can obstruct efforts to trace illicit financial flows, identify the true owners of assets, and uncover complex ML/TF/PF networks.

428. Overall, Malaysia's FIU and competent authorities have access to a wide range of reports, data, and information to investigate ML/TF and predicate offenses. The country demonstrates great effort in enhancing data integration. Direct electronic access has enabled the FIU and competent authorities' timely access to most data in a consistent and up-to-date manner from the data sources of the FIU and competent authorities. Nevertheless, areas for further improvement remain, particularly in relation to the availability of BO information and the use of cross-border CBNI information.

6.2. Production and dissemination of financial intelligence

6.2.1. Production of financial intelligence

429. Malaysia's FIU consists of two divisions: (1) the Tactical Analysis and Intelligence Division; and (2) the Strategic Analysis, Data Science and Systems Division. The former has 33 staff collectively responsible for conducting case reviews, operational analysis, and responding to domestic and international requests. The latter has 17 staff responsible for developing strategic analysis (typologies, risk/threats assessments, etc.) and managing the various financial intelligence databases (e.g., FINS, CADs, etc.). In total, the FIU has a staff of 50 (as compared to 11 in Malaysia's 2015 MER).[70] The FIU also leverages data scientists from the BNM.

430. Prior to April 2024, STRs received by RIs were reviewed by FIU analysts based on rule-based prioritisation criteria. At that time, the FIU aimed to review and analyse all individual STRs. Given the increase in STRs over the years, the sustainability of this process was reviewed, which led to a new model of STR prioritisation and analysis within the FIU that was launched in April 2024. Under this updated triage mechanism, instead of reviewing STRs individually, incoming reports are automatically grouped with related STRs and entities into a networked "case". This approach provides a more comprehensive view of subjects and their connections. Cases that meet the distribution criteria are assigned to analysts daily. Distribution is guided by pre-defined priority indicators, which include: (1) qualitative concepts, using various indicators to identify the underlying offence linked to the case; and (2) a weighted score, assessing the case's significance based on factors such as size, complexity, financial impact, and the recency of reports.

431. According to statistics provided, approximately 72% of STRs are assigned to analysts (see table below). This enhanced triage process has led to a more comprehensive view of subjects and their connections, resulting in more STRs disseminations since 2024. The scoring and tagging parameters used in STR triage, along with their respective weights in the algorithm, are determined internally by the FIU. This algorithm is reviewed on a bi-monthly basis via the Fintel Forum chaired by the Head of FIU and attended by Deputy Directors and managers from the tactical and strategic analysis and data science teams. While the algorithm is reasonable, the review process could be improved by incorporating input from other STR stakeholders and users—such as LEAs, RIs, and experts—particularly on aspects like parameters, weightings and the deployed model. This would help ensure the algorithm remains robust and aligned with the evolving risk landscape.

[70] Malaysia reports that, following a completed manpower audit in 2024, 15 additional vacancies have been identified and are currently in the process of being filled.

Table 6.4. STRs received, analysed and disseminated

	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
STRs received	113 302	133 978	191 388	243 177	317 436	341 712	48 293	**1 389 286**
STRs distributed to analysts	113 302	106 954	135 683	160 091	220 418	240 311	26 284	**1 003 043**
% of all STRs	100.0%	79.8%	70.9%	65.8%	69.4%	70.3%	54.4%	72.2%
STRs disseminated to LEAs and foreign FIUs	12 900	17 058	10 614	17 062	24 248	84 630	9 196	**175 708**
% of all STRs	11.4%	12.7%	5.5%	7.0%	7.6%	24.8%	19.0%	12.6%

432. The FIU's standard operating procedure followed by all analysts, details the report review and financial intelligence production process. A standardised STR case review form is used to ensure analysts conduct reviews systematically and consistently. STRs or cases that meet high-priority indicators are typically reviewed within five working days. Analysts assess the available information to determine the level of analysis needed to establish suspicion or address time-sensitive matters. In practice, RIs also informally notify the FIU of urgent STRs submitted in FINS, allowing analysts to take immediate action when necessary. Progress of STR handling is monitored and discussed via the Fintel Forum. Malaysia's FIU conducts an annual stocktake of outstanding cases to improve efficiency of STR analysis before dissemination, which is complemented by an annual internal audit by the BNM. Increase of data requests from LEAs through FINS and enhanced prioritisation of STR analysis have contributed to the recent increase in the percentage of the STRs disseminated to LEAs and foreign FIUs (see Table 6.4 above).

433. From a sample review of the STR review forms and strategic analysis products, the Assessment Team observes that FIU analysts have made use of various databases available and other information sources to identify patterns and trends, as well as collaborate with LEAs to gather case studies that demonstrate a variety of crime typologies.

6.2.2. Dissemination of financial intelligence

434. Malaysia's FIU primarily produces two types of intelligence products: (a) spontaneous disclosures—cases identified and developed based on the FIU's review (as outlined above); and (b) reactive disclosures–disseminations as a response to requests from LEAs and foreign counterparts. Each disclosure, whether spontaneous or reactive, may contain multiple STRs and CTRs, including reports submitted by RIs from previous years which are related to the subjects of the case.

435. Malaysia's FIU proactively conducts strategic analysis to address emerging risk areas, such as corruption, the legal profession, and telecommunication scams. This analysis is supported by both qualitative and quantitative data. It includes guidance on red flags and indicators, providing stakeholders with practical tools to detect and mitigate potential risks.

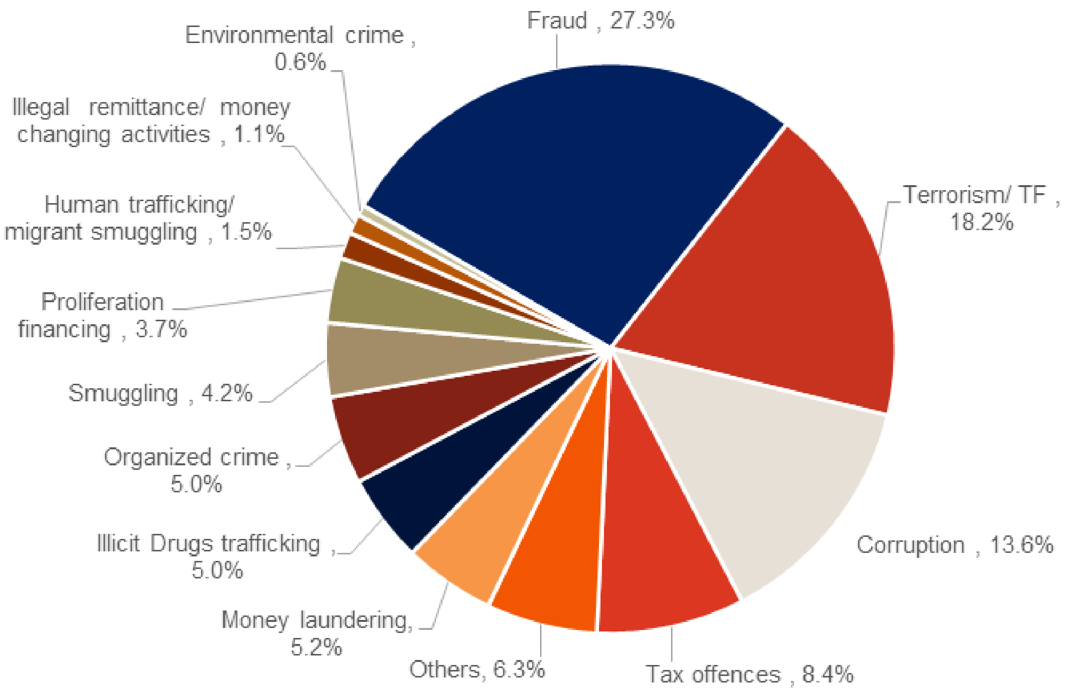
436. Strategic analysis reports and thematic disclosures are shared with RIs—including those in the banking, MSB, and insurance and takaful operator sectors—as well as with LEAs and supervisory bodies through FINS and other channels. These reports aim to improve understanding of emerging risks and support the development of red flag indicators.

437. As a member of the Egmont Group, Malaysia's FIU also exchanges and disseminates information with counterpart FIUs (see IO.2 for additional information).

438. FIU disclosures are broadly in line with NRA 2023 (see Figure 6.1 below). Most disclosures (including spontaneous and reactive) pertain to fraud and corruption (approximately 40%), which are considered as high-risk crimes for ML. However, the disclosures related to some high-risk ML predicate offences [e.g., smuggling (4%) and organised crime (5%)] are relatively small. Approximately 18% of all

disclosures relate to terrorism and TF. The relatively high percentage of terrorism/TF disclosures, compared to those for high-risk ML crimes, is due to the prioritisation given to terrorism/TF and PF cases, as well as the active use of financial intelligence in related surveillance and investigations. The FIU also explained that the number of disclosures related to tax offences (8%) is attributed to the secondment of IRBM officers.

Figure 6.1. Breakdown of FIU dissemination by offence (2019-February 2025)



6.2.3. FIU financial intelligence supporting needs of competent authorities

439. As summarised in the below table, between 2019 and February 2025, the main agencies that received disclosures from the FIU are RMP (59%), MACC (16%) and IRBM (11%). In terms of requests for data, the IRBM systematically seeks data from FINS to carry out its functions related to enforcing tax laws in Malaysia, amounting to 56% of all FINS data requests. Other competent authorities have shown an increasing use of FIU data and other information sources to produce financial intelligence to support their needs.

Table 6.5. FIU disseminations to domestic agencies (2019-February 2025)

Domestic Agency	Spontaneous Disclosures	Reactive Disclosures	Total Disclosures (% Agency)	FINS Data Request (% Agency)
Inland Revenue Board of Malaysia (IRBM)	129	121	250 (10.7%)	53 321 (56.4%)
Malaysian Anti-Corruption Commission (MACC)	171	202	373 (16.0%)	23 761 (25.1%)
Royal Malaysia Police (RMP)	616	760	1376 (59.1%)	14 577 (15.4%)
Royal Malaysian Customs Department (RMCD)	57	56	113 (4.8%)	740 (0.8%)
Ministry of Domestic Trade and Cost of Living (KPDN)	23	4	27 (1.2%)	1 487 (1.6%)
Companies Commission of Malaysia (CCM)	11	8	19 (0.8%)	318 (0.3%)
Securities Commission (SC)	43	4	47 (2.0%)	157 (0.2%)
Labuan Financial Services Authority (LFSA)	11	3	14 (0.6%)	93 (0.1%)
BNM Investigation	50	18	68 (2.9%)	51 (0.1%)
Immigration Department of Malaysia (IDM)	10	11	21 (0.9%)	13 (0.0%)
Others (PERHILITAN, MMEA, DOF, MTIB)	4	18	22 (0.9%)	36 (0.0%)

Note: 'FINS Data Request' is the number of subjects.

440. Disclosures on terrorism/TF are primarily disseminated to or requested by the RMP's Special Branch (which accounts for 80% of all total terrorism/TF disseminations), followed by foreign counterparts. The SB regularly seeks information from the FIU and makes multiple requests on the same subjects to get updated information, which are promptly responded to by the FIU. In 2023, the SB was given direct access to FINS and is systematically using the system to access STR information when gathering intelligence or during investigations. The below case study highlights the timely dissemination of intelligence on urgent terrorism cases.

Box 6.3. Prompt analysis of terrorism suspects

In the May 2024 terrorism attack on the Ulu Tiram police station, the FIU provided preliminary findings on all suspects shared by the SB on the same day the incident occurred. A detailed analysis containing additional information from checks done with PPP members was provided to the SB within four days after their request. The information was used to cross-check with their foreign counterparts to establish any links with terrorism/TF activities.

441. Malaysia's FIU monitors the quality of its intelligence products by proactively seeking feedback from LEAs. The FIU gathers feedback on its disseminations through the channels such as: (i) providing a QR code linking to a feedback form in every dissemination report; (ii) biannual surveys; (iii) formal and informal engagement with LEAs; and (iv) follow-up correspondence between LEAs and analysts regarding cases. Overall, the FIU has received positive feedback on the quality and usefulness of the FIU's disclosures, as per the feedback statistics provided by Malaysia. During the onsite, all competent authorities noted the utility in the FIUs disseminations to perform their functions, particularly in supporting ongoing investigations.

442. There are designated liaison officers within the FIU for all LEAs to foster close collaboration and relationship with LEAs. There are frequent bilateral meetings to discuss cases, create awareness about the FIU's role and sharing of information to support LEAs' intelligence and investigations. Such interactions provide an avenue for LEAs to share feedback (see IO.1 for a list of the secondments in place at the FIU).

6.3. Cooperation and exchange of information/financial intelligence

6.3.1. Cooperation and exchange

443. As noted in IO.1, the establishment and use of robust domestic cooperation mechanisms is a key strength in Malaysia's AML/CFT regime. Competent authorities have explored useful ways to cooperate and leverage financial intelligence and information to enhance investigations and AML/CFT compliance.

444. Malaysia's FIU has leveraged the NFCC—a coordination platform for LEAs conducting joint investigations on high-impact financial crimes—to share relevant financial intelligence on joint operations. The financial intelligence shared by the FIU often supports the decision on whether to commence a joint operation. In the post-operations stage, the FIU works closely with the NFCC, and the LEAs involved to conduct further profiling and financial analysis, to identify accounts or assets to be seized. The below case study highlights the domestic cooperation and exchange of information within the NFCC.

Box 6.4. Case study - Information exchange within the NFCC

In 2024, a joint analysis team (comprising the RMP, FIU of BNM, IRBM, MCMC and NFCC) was established to gather and develop intelligence from various sources related to a fraudulent investment scheme. The team shared information from the FIU, tax and assets information from IRBM as well as monitoring of accounts by the FIU, which led to the opening of an investigation paper. The financial intelligence developed by the FIU was used by the analyst team in NFCC to further profile other subjects using NFIS open-source intelligence and a subscribed database/tool. In this case, 38 bank accounts were frozen totalling EUR 23 311. As of 21 February 2025, a total of 20 seized bank accounts have been successfully forfeited, amounting to EUR 49 148. Meanwhile, the total value of seized assets, including cash, cars, and jewellery, is EUR 218 827.

445. Supervisory authorities also regularly cooperate with the FIU to exchange information and financial intelligence. For example, supervisors use financial intelligence to support their risk-based supervision on RIs' compliance to AML/CFT/CPF requirements, increase RIs' awareness and drive improvements in the quantity and quality of STR submissions. In another example, the FIU conducted STR quality review on banking sector in cooperation with the BNM supervisors. Observations of the review fed into the STR Best Practices Guidance issued in June 2024. These findings were shared with RIs at various occasions such as Compliance Conferences, AML/CFT Workshops and industry-wide engagements with various sectors.

446. As the administrator of CADS, Malaysia's FIU is also a member of the Subcommittee on Implementation and Enforcement of Cross Border Cash and Negotiable Instruments (see IO.8). During each meeting, Malaysia's FIU presents statistics of currency and BNI declarations to improve members' understanding and identify trends. In addition, the FIU has conducted several in-depth analyses of the declarations, which was shared with relevant competent authorities, as outlined below.

Box 6.5. Analysis on currency and BNI declarations

In 2024, the FIU conducted analysis focusing on currency and BNI declarations exceeding RM 1 million (EUR 215 500), which represented about 84% of total amount declared by travellers from 2019 to June 2024. The assessment showed the top declarations in a single currency exceeding RM 1 million was in Singapore Dollar, which mainly involved money changers, while declarations in Brunei Dollars were mainly by travellers departing Malaysia.

447. To strengthen PPP initiatives, Malaysia's FIU set up the Malaysia Financial Intelligence Network (MyFINet) in 2017. There are six thematic working groups classed by crime type (Corruption, Smuggling, Securities Offences, Tax, TF and PF) under MyFINet. The main purpose of MyFINet is to facilitate a more systematic intelligence sharing on specific crime cases and topical issues between the FIU, LEAs and FIs. Between 2019 and February 2025, 61 cases were presented in the working groups meeting of MyFINet, and 44 disclosures by the FIU of financial intelligence information. The below case study provides an example of a case using MyFINet.

Box 6.6. MyFINet case study

In 2024, IRBM convened a MyFINet meeting by inviting Digital Asset Exchanges (DAXs) service providers to share information on subjects who were suspected to be depositing large sums of funds into their cryptocurrency accounts, which was not commensurate with their declared incomes. After the meeting, the DAXs reported information to the FIU, such as profile of customers, wallet details, summary of transactions and analysis of gains and losses for the period of interest.

From the STR/CTR analysis, the FIU identified the subjects' activities, including suspicion of trading cryptocurrencies without licence and using their cryptocurrency wallet to store funds from scamming activities. The FIU disseminated this information to IRBM, which expanded the scope of its investigation and helped identify the flow of illicit proceeds. As of the on-site, IRBM has identified undeclared income of EUR 1.8 million and recovered total taxes and penalties amounting EUR 575 780 from one subject. Investigations are still ongoing on the remaining subjects.

448. The National Scam Response Centre (see IO.1 for details) has also been utilised as a platform to convene the FIU, relevant competent authorities and private sector entities (FIs and telecommunication companies) to exchange financial intelligence, such as the information about mule account holders and transaction data.

6.3.2. Security and confidentiality

449. Malaysia's FIU office resides within BNM premises, which is gazetted as a protected location and inaccessible to the public. It is also listed as critical national infrastructure by the MoHA. The FIU's office is secured and restricted to FIU staff. Physical access into the office is subject to strict security requirements, which was confirmed by the Assessment Team.

450. The FIU adheres to BNM's policies and procedures, including the Information Security Management Policy, IT and Risk Management Policies in preserving the data security and confidentiality of all financial intelligence received and maintained.

451. STRs and CTRs are submitted online via FINS and are kept in a secured environment, which can only be accessed by FIU analysts. Information stored in FINS is regulated by different access levels, depending on the role of the FIU analyst. Physical reports are classified accordingly and kept in a secured area and only accessible to FIU analysts. In September 2024, BNM implemented enhanced information technology solutions to further protect and safeguard the financial intelligence and data from any potential leaks or cyber-attacks.

6.4. Use of financial information/intelligence

6.4.1. Use of financial information/intelligence for investigations and developing evidence

452. Malaysia's LEAs use financial intelligence and other relevant information to investigate ML, associated predicate offences and TF. LEAs have consistently provided positive feedback on the quality of financial intelligence disseminated by the FIU or accessed directly via FINS. Supporting documents, such as bank statements that accompany the FIU's main disclosure allow LEAs to perform initial analysis to develop an investigation, before obtaining an order to produce documents, records and other information from FIs. Information from FINS has also allowed LEAs to develop profiles of subjects under investigation, including their associates, employer and current location.

453. Between 2019 and February 2025, 894 or 79% of cases that were spontaneously disseminated by the FIU to competent authorities resulted in formal enquiries by the LEAs, also known as Enquiry Papers (EP).[71.] In the context of Malaysia, EPs already involve the use of investigation powers, as practiced by certain agencies such as the MACC. Of these, 368 or 33% of total FIU spontaneous disseminations resulted in the opening of an Investigation Papers, which indicates the start of a formal investigation into a suspected offence. As shown in the below table, the FIU's disclosures are a significant source of intelligence for both predicate offence and ML investigations. While most investigations triggered by spontaneous disclosures were initiated by RMP, MACC and IRBM have also been utilising spontaneous disclosures to trigger investigations on corruption and tax-related offences, respectively.

Table 6.6. Actions taken on spontaneous disclosures

	No. of disclosures	No. EPs	% of EP opened/ total disclosures	Investigation Paper (IP)				% of IP opened/ total disclosures
				Predicate	ML	Parallel	Total	
2019	267	238	89%	53	18	7	78	29%
2020	178	153	86%	33	7	15	55	31%
2021	132	103	78%	30	0	22	52	39%
2022	130	105	81%	38	3	18	59	45%
2023	168	121	72%	47	7	5	59	35%
2024	222	156	70%	32	12	18	62	28%
2025 (Feb)	28	18	64%	0	1	2	3	11%
Total	**1 125**	**894**	**79%**	**233**	**48**	**87**	**368**	**33%**

[71] An enquiry paper is used at the early stage of an investigation, particularly when authorities are gathering further intelligence or surveillance to assess whether there is sufficient basis to open a formal investigation. If the enquiry leads to sufficient evidence or justification, an Investigation Paper may be initiated.

454. Financial intelligence plays a central role in the investigation of terrorism/TF activities. Disclosures from the FIU to the SB includes data from MSBs, which enable it to follow the money trail, and further support ongoing investigations. The FIU's analysis products have also helped to broaden and expand the financial network involved, allowing the SB to identify other individuals linked to the network. This information has had material results, as outlined in IO.9.

6.4.2. Use of financial information/intelligence to assist in identifying and tracing criminal proceeds or instrumentalities

455. LEAs use financial intelligence to identify and trace criminal proceeds and instrumentalities. FINS is the primary tool for LEAs to issue investigation orders pursuant to the AMLA and DDFOPA to require all FIs, to identify and provide information on accounts or assets belonging to subjects of interest (without court order). Other PPP platforms have been also utilised. For example, when the FIU wants to gather information on criminal proceeds, it shares case information with selected RIs through PPP meetings to request reporting and disclosure of STRs. These mechanisms have enabled identification of illegal proceeds that could be subject to freezing and seizure measures, prior to the formal investigation commencing. The below case study highlights how various competent authorities used information and financial intelligence to assist in tracing criminal proceeds.

Box 6.7. Using information/intelligence to trace proceeds in major scam operation

In 2019, a syndicate began promoting fake investment portfolios through social media and phone calls. It successfully defrauded victims in Australia and the United Kingdom, amassing nearly EUR 40 million. Investigations later revealed that the syndicate was headquartered in Thailand and operated as part of a larger international scam network that had targeted over 69 000 victims across multiple countries.

In the ML investigation, various methods and tools were used for operational cooperation. The Intelligence Division of MACC played a central role for intelligence-led investigation. The FIU assisted MACC in information requests from foreign FIUs in addition to network analysis. The case information was shared with selected RIs at a PPP meeting to prompt further reporting and disclosure of STRs, which the FIU subsequently shared with MACC. As a result, a total of 25 STRs were shared.

In February 2024, four foreigners were charged with cheating and sentenced in Malaysia to six months imprisonment and a fine of EUR 112 070. 74 accounts (comprising 64 individual accounts and 10 companies' accounts) were frozen, amounting to EUR 2.51 million and multi-denomination cash of RM 2.3 million, USD 35 100 and GBP 940 were seized. Forfeiture proceedings are ongoing.

456. To trace and recover assets in the 1MDB case, Malaysia's FIU supported LEAs by providing financial analysis on relevant transactions and bank account details, helping to uncover complex misappropriation schemes. Malaysia also presented several other case studies demonstrating how competent authorities use financial intelligence to identify and trace criminal proceeds or instrumentalities.

7 Money laundering investigations and prosecutions

The relevant Immediate Outcomes considered and assessed in this chapter is IO.7. The Recommendations relevant for the assessment of effectiveness under this chapter are R. 3, 30, 31 and elements of R.1, 2, 15, 32, 37, 39 and 40.[72]

Key Findings, Recommended Actions and Conclusion and Rating

Key Findings

a) In general, Malaysia identifies domestic predicate offences and initiates parallel financial investigations that lead to ML investigations, particularly in relation to corruption, fraud and drug trafficking. However, the number of ML investigations linked to Malaysia's other identified high-risk predicate offences (i.e., organised crime and smuggling), remains low. Similarly, there are few ML investigations related to medium-high risk predicate offences, namely tax crimes, forgery, human trafficking and migrant smuggling, sexual exploitation, and environmental crimes. The increase in ML investigations to 2 648 cases, approximately three times the number reported in Malaysia's 2015 MER (821), is a positive development. Notably, the complex ML investigations related to 1MDB are a significant achievement and demonstrate enhanced coordination between various LEAs, BNM, the FIU and the AGC. Nonetheless, despite these efforts, the overall proportion of ML investigations in relation to the number of predicate investigations (767 000) remain low.

b) Between 2019 and February 2025, Malaysia recorded 234 prosecutions and secured 52 convictions, despite a high number of investigations. This reflects serious shortcomings in translating investigations into outcomes. Issues such as evidence collection challenges, legislated time limits to investigate, lack of training of and experience for prosecutors, and a preference for compounds and tax-based asset recovery continue to limit the effectiveness of criminal enforcement. Moreover, while there has been success in self-laundering prosecutions, there are very few prosecutorial results for stand-alone, third-party ML, and ML involving legal persons or foreign predicate offences. ML prosecutions and convictions are not fully in line with Malaysia's risk profile, particularly relating to high and medium-high risk predicate offences.

[72] Recommendations 1, 2, 3, 15, and 37 are under review, see Technical Compliance Annex.

c) Overall, the Assessment Team is concerned by the low level of ML sentences imposed in practice. While there are some cases where the sentencing imposed was high (e.g., SRC International case related to 1MDB), the actual average of prison sentences imposed is low. Furthermore, the application of fines to natural and legal persons appears inconsistent and may undermine the overall dissuasiveness of the sanction regime. Of the 52 convictions recorded during the assessment period, fines were imposed in only 20 cases. While the average fine amongst those 20 cases (applied to 21 natural persons and five legal persons) was approximately EUR 1.78 million, this figure is heavily skewed by two exceptionally large fines.

d) Malaysia often applies alternative measures (primarily compounds) with significant success; however, there is concern that these measures are disproportionately applied in lieu of ML prosecutions. There is no clear evidence that alternative measures are systematically reserved for cases where an ML prosecution was attempted but could not proceed for legitimate reasons, such as lack of admissible evidence or unavailability of key witnesses.

Key Recommended Actions (KRAs)

Malaysia should:

a) Malaysia should augment capacity and capabilities to investigate ML associated to medium-high risk predicate offences and build upon recent enhancements to its prosecutorial approach to better target the breadth of ML offences to more effectively translate investigations into prosecutorial results in line with its high and medium-high risk predicate offences.

b) Malaysia should demonstrate a sustained increase in prosecutions and convictions of ML, including on stand-alone, third party and complex ML cases (e.g., involving legal persons and TBML), consistent with its ML risk profile

c) Regarding sanctions, Malaysia should demonstrate that effective, dissuasive and proportionate sanctions are applied to persons convicted of ML.

Other Recommended Actions

a) Malaysia should enhance its training of investigators, prosecutors, and judges regarding ML typologies and processes. Training should also be provided to LEAs and prosecutors on the ML risks related to Malaysia's risk profile, including its medium-high risks for ML (i.e., tax crimes, forgery, human trafficking/migrant smuggling, sexual exploitation, and environmental crime).

b) Malaysia should enhance its capacity to target higher-level transnational organised crime syndicates and international ML facilitators, particularly those involved in stand-alone or third-party ML. Additionally, as a transit country, Malaysia should develop and implement the ability to investigate TBML, thereby improving its capability to detect and investigate specific ML typologies.

c) Malaysia should formally review sentencing in ML cases and take actions as appropriate, such as training, awareness-raising for judges and prosecutors, and implementing sanctioning guidelines for ML cases to ensure consistent and effective penalties that reflect the severity of the offence and deter future crimes.

d) Malaysia should reassess its prioritisation process to better allocate and assign investigative resources and specialised capabilities to target the highest-level threats across the breadth of the identified high-risk and medium high-risk predicates.

e) Given the risk and context of Labuan IBFC, the lack of ML prosecutions, and convictions stemming from Labuan, and the minimal sanctions against legal persons throughout Malaysia's AML/CTF regime, Malaysia should consider measures to improve ML detection in Labuan.

Overall Conclusions on IO.7

In general, Malaysia identifies domestic predicate offences and initiates parallel financial investigations that lead to ML investigations, particularly in relation to corruption, fraud and drug trafficking. However, the number of ML investigations linked to Malaysia's other identified high-risk predicate offences (i.e., organised crime and smuggling) and its medium-high risk offences, remains low. The complex ML investigations related to 1MDB are a significant achievement and demonstrative of the coordination between various LEAs, BNM, the FIU and the AGC. Nonetheless, the overall proportion of ML investigations in relation to the number of predicate investigations remain low.

Malaysia faces difficulties in converting ML investigations into prosecutions and convictions. This is due to several factors, including evidence collection challenges, legislated time limits to investigate, lack of training of and experience for prosecutors, and a tendency to pursue asset recovery over criminal sanctions and forfeiture. Moreover, while there has been success in self-laundering prosecutions, there are almost no prosecutorial results for stand-alone, third-party ML, and foreign predicate ML. ML prosecutions and convictions are not fully in line with Malaysia's risk profile. Overall, sanctions for ML, when a prosecution is successful, are not fully dissuasive or proportionate.

Malaysia often applies alternate measures (primarily compounds) with significant success; however, the Assessment Team is concerned that these measures are disproportionately applied in lieu of ML prosecutions. It does not appear that these alternative measures are limited to the situations where a ML investigation has been pursued but where it was not possible, for justifiable reasons, to secure a ML conviction.

Malaysia is rated as having a Moderate level of effectiveness for IO.7.

Immediate Outcome 7

7.1. ML activity identified and investigated

457. Malaysia has a comprehensive legal and institutional framework to investigate and prosecute ML and the authorities identify and investigate ML cases to some extent. There are 12 LEAs with the authority to investigate predicate offences and ML.[73] Their resourcing and remit vary, along with their enabling legislation. Most ML investigations are carried out by the RMP and MACC, the latter of which investigates ML cases related to corruption. ML investigations are commenced based on suspicion, and where these are re-enforced, it will lead to criminal prosecution, as well as to detect and confiscate criminal proceeds. LEAs have a strong understanding of the NRA and work collaboratively towards progressive outcomes,

[73] RMP, MACC, RMCD, KPDN, BNM, SC, LFSA, CCM, IRBM, IDM, MMEA, and PERHILITAN.

including the increase of ML prosecution from MER 2015 (132 cases reported from 2009-2013 vs. 234 reported from 2019-February 2025). It should be noted that these results were attained within the context of the 1MDB scandal. Due to its scale and complexity, 1MDB has demanded significant attention from Malaysian law enforcement and judicial bodies, becoming a priority case that necessitated the reallocation of resources from other ML investigations.

458. Frequent and ongoing communications between predicate offence and ML investigators, as well as direct access to financial intelligence (including FINs) means that ML investigations are regularly commenced. ML investigations are pursued collaboratively, and joint investigations (between two or more LEAs) are frequently used to maximise investigative resources.

459. Malaysia asserts that its current resources are sufficient to conduct ML investigations in line with its risk profile and operational context. Malaysia has equipped its LEAs with financial expertise, ensuring that officers receive training to enhance their capabilities in ML investigations, including forensic accounting. However, during discussions with the Assessment Team, all LEAs recognised the need for additional training, to align with evolving risks and increasing complexity of ML cases.

460. The table below outlines the resources available across the 12 LEAs responsible for conducting ML investigations. Despite Malaysia's recognition in the NRA 2023 that fraud, corruption, illicit drug trafficking, smuggling, and organised crime present the highest ML threats—followed by tax crimes, forgery, human trafficking/migrant smuggling, sexual exploitation, and environmental crime—there appears to be a resource imbalance in key enforcement bodies. Notably, the IDM, MMEA, and PERHILITAN have a low number of ML investigators, which may contribute to the limited number of ML investigations related to human trafficking, migrant smuggling, sexual exploitation, and environmental crime. Malaysia notes that the RMP is the primary enforcement body, and in practice, investigations are often conducted through interagency collaboration, which allows agencies to pool resources, share expertise and overcome individual capacity constraints. These joint efforts have led to tangible enforcement outcomes, primarily related to fraud, drug trafficking and corruption, despite apparent resource limitations within a single agency. Nevertheless, addressing resource challenges and potential imbalances between LEAs through enhanced training and prioritisation is crucial to ensuring Malaysia's ML enforcement efforts align with its identified risk areas.

Table 7.1. ML investigative resources

LEA with ML Investigative Powers	FTE Resources Dedicated to ML Investigations (as of February 2025)
RMP	AML Division: 23 ML investigators (out of 124 officers) Narcotics Crime Investigation Department (NCID): 51 investigators
MACC	AML Division: 55 ML investigators and 7 prosecutors
RMCD	23 ML Investigators (out of 227 investigators)
KPDN	12 ML investigators (out of 148 investigators)
BNM	27 financial investigators
SC	43 investigating officers to investigate securities offenses and ML.
CCM	16
LFSA	3
IRBM	17 ML investigators (out of 268 investigators)
Immigration Department of Malaysia	6 ML investigators (out of 27 officers)
MMEA	1 ML investigator (out of 24 investigators)

Department of Wildlife and National Parks Peninsular Malaysia	1 ML investigator (out of 16 investigators)

461. Malaysia identifies ML through a variety of means and sources, including predicate offence investigations and parallel financial investigations, financial intelligence from the FIU (spontaneous and reactive disclosures as outlined in IO.6), LEA intelligence, foreign counterparts, open-source information, and public complaints to LEAs. ML cases are most commonly identified during investigations into the underlying predicate offenses.

462. As outlined in IO.6, LEAs regularly use financial intelligence from the FIU to detect ML and trace illicit proceeds. This intelligence is used in the early detection and initiation of both predicate offence and ML investigations, as well as to support and expand ongoing investigations.

463. LEAs have direct access to the FIU's FINS system where they can obtain financial intelligence to support their investigations. Through FINS, LEAs can obtain financial intelligence from FIs and other RIs, as well as from foreign jurisdictions. This is supported by the statistics provided in IO.6 on the use of FIU disclosures and FINS data requests by LEAs during their investigations. LEAs reported that their access to financial intelligence is relatively easy, especially within FINS, which has improved the timeliness and availability of intelligence and information to support their investigations.

464. Malaysia states that the selection of cases for ML investigation is guided by a "top-down approach", which outlines specific criteria/thresholds to open ML investigations (such as financial thresholds[74], complexity, nature/seriousness, loss of revenue, and evidentiary standard). As outlined in R.31, LEAs have a broad range of powers and authorities to investigate ML. All LEAs investigate ML offences based on the legislation associated with their remit (e.g., tax, securities, customs) and will collaborate with other LEAs based on the circumstances and evidence of the case. The AGC is also engaged at an early stage, which helps to augment the investigative process with appropriate legal advice and guidance. LEAs follow their own prioritisation processes, which are aligned with the NRA. These processes consider factors such as case complexity, the number of suspects, potential witnesses and required statements, the use of advanced laundering techniques, and any cross-border implications. As Malaysia emerges from 1MDB and the effects of COVID-19, which necessitated reallocation of resources across several years, especially during the assessment period, the Assessment Team sees an opportunity for Malaysia to re-assess its prioritisation process. This would help demonstrate progress in addressing key challenges identified in this report, such as pursuing stand-alone and foreign predicate ML prosecutions, and tackling Malaysia's role as a transit point for illicit activity and ML (i.e. TBML).

465. Malaysia's structure to combat ML was strengthened in the last several years by the addition of new coordination bodies as outlined in IO.1. For example, in 2020, Malaysia built on the National Revenue Recovery Enforcement Team (NRRET) by creating the NFCC, to act as a force multiplier through the coordination of joint analysis, communications, and investigations. Since its establishment, the NFCC has brought together multiple LEAs and the AGC to conduct joint investigations into ML associated with high-risk predicates, as well as lower risk criminal activity such as tax evasion and illegal investment schemes. Since its creation, the NFCC has coordinated 19 joint operations.[75] During the onsite, LEAs remarked on the NFCC's positive effect on collaboration. The below case studies (Box 7.1) provide a summary of these joint investigations.

[74] The financial thresholds were reviewed by the Assessment Team but omitted from this report due to their sensitivity.

[75] As of 21 February 2025, Malaysia reports that new legislation is pending which will further empower the NFCC, as it will transition to becoming the centralised asset management body.

Box 7.1. NFCC joint operation case studies

Ops Reward

This case was coordinated by the NFCC, with KPDN, BNM, and RMP, involving a company suspected of promoting pyramid schemes through online applications and package sales from 2019 to 2022. The company operated without a valid licence, offering commissions for recruiting new members and selling membership packages. They also promoted an e-wallet app with RM denominated vouchers, promising users that they could withdraw unused vouchers. Complaints arose when the company stopped allowing voucher withdrawals. Based on the spontaneous disclosure by the FIU, and the subsequent joint investigation, nine luxury vehicles, various luxury handbags and EUR 208 550 were seized. Following the investigation, seven individuals were arrested. The legal person and individuals were charged with ML and the predicate offence in October 2023. The cases are currently undergoing joint-trial.

Ops Coin

A multinational corporation operated a pyramid scheme that required members to invest and recruit new participants to earn returns. The company's directors allegedly laundered the illicit proceeds through corporate bank accounts. Investors began filing complaints about unfulfilled returns. In July 2018, a joint task force—led by what was then the NRRET (now the NFCC)—raided 16 premises. In September 2020, the corporation was sentenced to a fine of EUR 1.51 million by the Sessions Court on three charges of ML offence. The directors were also charged with three counts of using the corporation's bank accounts as instruments for ML. The cases are currently under trial.

7.1.1. ML investigations

466. The NFCC follows a two-phase approach to operational coordination. First, LEAs present potential cases to the NFCC, guided by the NRA. These cases are typically complex or involve multiple agencies, forming an initial broad list of investigations. In the second phase, the NFCC, in collaboration with relevant LEAs, the AGC and FIU, refines this list through criminal analysis, assessment, and discussion—ultimately developing a structured case pipeline. The NFCC is also guided by its standard operating procedure that outlines specific criteria to prioritise its integrated operations (i.e., cases with significant impact on national finances, public interest, etc.) While individual LEAs continue to cooperate on numerous joint investigations, there is an opportunity for improvement in ensuring other types of ML, including stand-alone and foreign predicate ML offences receive the force multiplier effect that is required to investigate these types of offences.

467. In addition to the NFCC, Malaysia established the National Scam Response Centre (NSRC) in 2022 to coordinate and respond to online scams and the MATF in 2023 to coordinate joint operations on high-risk predicate crimes. Since established, the NSRC has initiated 89 ML investigations related to online scams, with one case currently being prosecuted in court, and EUR 4.4 million have been forfeited. Since January 2023, the MATF has initiated five ML investigations, mostly pertaining to corruption, fraud and smuggling syndicates, and recovered proceeds under the AMLA and tax penalties totalling more than EUR 5.8 million.

468. As shown in the table below, LEAs regularly identify predicate offences, with nearly half of the investigations linked to high-risk predicate crimes for ML, as identified in the NRA (i.e., fraud, corruption, organised crime, smuggling, and drug trafficking). Between 2019 and 2025, LEAs opened approximately 488 682 investigation papers related to the high-risk predicates, and another 278 202 investigations into "other" predicate offences, primarily related to robbery. While these figures are high, the RMP confirms

that its resources are sufficient to initiate predicate investigations, as well as an emerging capacity to conduct parallel financial investigations, which can lead to ML investigations.

Figure 7.1. Investigations into High-Risk Predicate Offences

	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
Fraud	38 759	44 558	60 901	60 055	79 494	47 110	399	**331 276**
Organised Crime	21 186	20 523	25 335	23 101	21 061	10 105	0	**121 311**
Drug Trafficking	3 973	3 803	4 203	4 300	3 999	4 137	0	**24 415**
Smuggling	685	1 324	1 338	1256	1 471	630	1	**6 705**
Corruption	890	755	708	737	888	980	197	**5 155**
Total	**65 493**	**70 963**	**92 485**	**89 449**	**106 913**	**62 962**	**597**	**488 862**

469. When an ML case is identified during a predicate offence investigation, the LEA investigating ML obtains an initial briefing from the predicate offence investigator to understand the nature of the case and the property that might be involved, to conduct a parallel investigation. This initial briefing is a positive feature and sets the tone for future collaboration. The 2015 MER noted that there was insufficient coordination between predicate and ML investigators when conducting parallel investigations. However, authorities now report significant improvements in communication and collaboration, leading to more effective ML investigations. LEAs and the AGC emphasised that due to the strategy to bring joint (predicate and ML) cases to trial, it is beneficial for both the predicate and ML investigators to be engaged throughout the course of the investigation. According to Malaysia, approximately 700 officers have taken the Certified Financial Investigators Course, which is an encouraging sign that predicate investigators can initiate a parallel financial investigation early and can effectively brief the ML investigator.

470. The below high-profile case highlights the extensive use of parallel investigations in relation to 1MDB and SRC International, a 1MDB subsidiary (Box 7.2).

Box 7.2. 1MDB and SRC International

1Malaysia Development Berhad (1MDB)

1MDB is a sovereign wealth fund incorporated in 2009. 1MDB case is a large-scale scandal where the former Prime Minister and Minister of Finance [Dato' Sri Mohd Najib bin Abd Razak (DSN)], his family, co-conspirators and other relatives and entities were charged with misappropriation of 1MDB funds. Investigations were initiated in 2015 by the Malaysian authorities concerning monies raised by 1MDB via its subsidiaries through debt financing between 2009 and 2014 totalling EUR 8.5 billion. These investigations are overseen by the 1MDB Taskforce, which coordinates efforts across multiple LEAs, including the MACC, RMP, BNM and the AGC. The investigations cover both corruption and ML offences, involving parallel investigations that require forensic accounting and international cooperation to track the movement of funds across multiple jurisdictions. Due to the global nature of the scandal, authorities are working closely with foreign financial regulators and enforcement agencies.

DSN is alleged to had played a role in using his position to receive gratification into his personal bank accounts as well as by taking part in the decision making on behalf of the Government of Malaysia to provide the Malaysian government's guarantee or support for 1MDB to secure financing. Trial proceedings are on-going at the Malaysian High Court and involve four corruption and 21 ML charges against DSN. Investigation against his co-conspirators and other involved entities are also on-going.

SRC International

The two SRC International cases relate to the misappropriation of approximately EUR 9 million and EUR 6 million from SRC International, a former subsidiary of 1MDB. In one of the cases, Malaysian authorities discovered that DSN had received funds into his personal accounts from this subsidiary, traceable to the debt raised by SRC amounting to approximately EUR 0.83 billion from the Retirement Fund Incorporated (or known as "Kumpulan Wang Persaraan (Diperbadankan), KWAP" - the civil servants pension fund to pursue strategic investment plans). In 2020, DSN was convicted in court of three ML charges and four corruption offences and sentenced to 12 years in prison and fined EUR 45.3 million. His conviction was upheld by Malaysia's Court of Appeal (2021) and Federal Court (2022). In February 2024, Malaysia's Pardons Board commuted this sentence from 12 years to six years, and the fine was reduced from EUR 45 million to EUR 10.5 million. This case is the first 1MDB-related trial to reach a verdict, as the other cases are ongoing and involve numerous ML and corruption-related charges, which require complex parallel investigations.

For information on asset recovery efforts in relation to these cases, see Case Study Box 8.1 in IO.8.

471. Since 2019, Malaysia has initiated 2 648 ML investigations,[76] with 2 331 relating to Malaysia's five high-risk predicate offences and 317 for all other ML investigations (see below table). As a point of comparison, this is approximately triple the number of ML investigations reported in Malaysia's 2015 MER (i.e., 821 ML investigations between 2009-2013). This demonstrates that authorities have taken a more proactive approach to identifying ML offences with the goal for criminal prosecution, as well as detection and confiscation of criminal proceeds. During the assessment period, most ML investigations related to drug trafficking, fraud and corruption (approximately 80%), in line with Malaysia's assessment of risk. However, only 200 ML investigations are related to organised crime and smuggling, and four related to foreign predicate offences, which does not correspond to Malaysia's assignment of "high-risk" to these

[76] Investigations refer to the submission of Investigative Papers (as opposed to Enquiry Papers). An investigation paper signifies the start of a formal investigations.

offences and particularly given its risk and context as a stated transit country. This may suggest a need to reassess the prioritisation process.

472. Only a limited number of ML investigations have been initiated during the assessment period concerning medium-high risk predicate offences, including tax crimes (101), forgery (11), human trafficking and migrant smuggling (16), sexual exploitation (2), and environmental crime (2). This low volume of ML investigations may stem from a combination of factors, including the allocation of resources, training and specialised expertise necessary to effectively pursue such cases. The complexity and cross-border nature of several of these offences, particularly human trafficking, migrant smuggling, and environmental crime, further exacerbate investigative challenges. Strengthening investigative capabilities through targeted training, enhanced and focused inter-agency collaboration, and increased resource allocation could improve the effectiveness of ML enforcement in these areas.

473. The overall number of ML investigations (2 648) compared to predicate investigations (approximately 767 000) conducted between 2019 and February 2025 is low (0.4%). This significant gap suggests persistent shortcomings in the ability or willingness to pursue ML cases in parallel with predicate offenses. While factors such as case complexity, limited resources, and prioritisation of high-risk crimes may contribute, they do not fully explain the underutilisation of Malaysia's financial investigation tools.

Table 7.2. ML Investigations Related to High-Risk Predicate Offences

	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
Fraud	96	128	146	163	152	146	49	**880**
Drug Trafficking*	58	67	181	179	177	103	16	**781**
Corruption	140	35	43	49	75	67	24	**433**
Other[77]	74	49	49	42	44	49	10	**317**
Smuggling	31	21	16	10	18	34	6	**136**
Organised Crime	21	19	19	9	22	11	0	**101**
Total	**420**	**319**	**454**	**452**	**488**	**410**	**105**	**2 648**

Note: Drug trafficking investigations are conducted under AMLA and DDFOPA.

474. Furthermore, the identification of ML cases related to Labuan IBFC are extremely limited, with only two cases related to Labuan IBFC since 2019. This narrow case base does not adequately reflect or capture the potential risk profile and operational context of an offshore financial centre. The limited number of cases raises concerns about the comprehensiveness of detection efforts. As highlighted in IO.1, the understanding of ML risks associated with Labuan IBFC could be improved. A more robust risk assessment should incorporate an analysis of specific criminal threats, typologies, and predicate offenses that are likely to exploit offshore structures such as Labuan IBFC.

475. Malaysia has equipped its LEAs with financial expertise, ensuring that officers receive training to enhance their capabilities in ML investigations, including forensic accounting. The Assessment Team acknowledges that joint ML investigations, including those coordinated by the NFCC, showcase a high level of financial investigative expertise, particularly in forensic accounting. Additionally, some LEAs have access to specialised tools that improve their ability to analyse large volumes of electronic financial data efficiently. Notably, the RMP houses a Cryptocurrency Analysis Lab, which enhances the tracing and analysis of cryptocurrency-related transactions.

7.2. Prosecuting and convicting different types of ML activities[78]

476. While authorities have the tools in place to identify and investigate ML activity, the outcomes of these investigations often result in a prosecution of the predicate offence and alternative measures as opposed to the prosecution of ML. Although there have been notable advances since 2015, including in the number of ML investigations, the overall results still reflect the findings of Malaysia's 2015 MER, which highlighted persistent challenges in securing ML prosecutions and convictions. The 2015 report noted difficulties in building strong ML cases, including issues related to evidence collection, legal complexities, and the need for better coordination between relevant authorities. While progress has been made with legislative tools, enhanced technology and improved inter-agency coordination, sustained challenges bringing ML cases to prosecution underscore the importance of continued efforts to enhance investigative techniques, build on inter-agency collaboration best practices, and maximise the use of financial intelligence to improve outcomes.

477. The AGC, which is responsible for prosecutions in Malaysia, employs a total of 722 Deputy Public Prosecutors (DPPs) across the country. Several DPPs are specialised ML prosecutors, including eleven located centrally. Given the volume of cases and the complexity of investigations and prosecutions involving high-risk predicate offences, the AGC recently launched an initiative to reallocate ML prosecutions to the regional level. The AGC has also developed a strategy to focus on improving prosecutorial capacity with respect to ML. A key feature of this initiative is a comprehensive training program for regional DPPs. As this initiative was launched in 2024, it is too early to assess its results, but it is an encouraging development.

478. In addition to central and regional DPPs, some LEAs have embedded prosecutors. MACC, SC, and BNM rely on in-house prosecutors to provide prosecutorial support from the initiation of an investigation. During the on-site interviews, both the AGC and the LEAs where prosecutors are embedded reported enhanced coordination across all stages of the investigative process. While this initiative has improved coordination, including some ongoing progress on the prosecutorial front, there is limited evidence to indicate that it has significantly improved prosecutorial results overall. Moreover, in LEAs without embedded prosecutors, prosecution and conviction rates for fraud, organised crime, smuggling and drug trafficking remain low, indicating room for improvement.

479. Between 2019 and early 2025, Malaysian authorities have conducted 2 648 ML investigations (cases), leading to 234 prosecutions (cases)—a conversion rate of approximately 10%. Of these 234 prosecutions, 213 involved high-risk predicate offences. During the same period, Malaysia secured 52 convictions in ML cases (resulting in 62 natural persons and five legal persons convicted of ML). Most of these prosecutions related to drug trafficking, fraud and corruption, which corresponds to three of the five high risk predicate offences for ML. However, between 2019 and 2025, there were only two ML prosecutions each for smuggling and organised crimes. Moreover, few convictions correspond to Malaysia's medium-high ML risks (tax crimes, forgery, human trafficking/migrant smuggling, sexual exploitation and environmental crimes). These prosecutions are not in line with Malaysia's risks.

480. Regarding convictions, most related to corruption. Notably, there were 24 ML convictions related to corruption, 18 related to fraud, three related to drug trafficking, and seven related to "other". No ML convictions were reported on two of the high-risk predicate offences for ML, namely smuggling and organised crime. These conviction numbers are low in absolute terms, particularly when weighed against the assessed risk and prevalence of corruption and fraud during the period. For example, the 24 corruption-related ML convictions average to only four per year. Thus, Malaysia's overall ML convictions do not align with its assessed high and medium-high risks for ML.

[78] See Methodology, IO.7, Note for evaluators 2 and associated footnotes.

Table 7.3. ML Prosecutions[79] and Convictions

	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
Drug Trafficking*								
Prosecutions	23	9	30	10	1	5	3	**81**
Convictions	1	1	1	0	0	0		**3**
Corruption								
Prosecutions	9	9	13	10	19	2	3	**65**
Convictions	4	4	4	1	11	0	0	**24**
Fraud								
Prosecutions	15	7	10	16	7	6	2	**63**
Convictions	8	2	2	2	3	1	0	**18**
Organised Crime								
Prosecutions	0	0	0	1	0	1	0	**2**
Convictions	0	0	0	0	0	0	0	**0**
Smuggling								
Prosecutions	0	2	0	0	0	0	0	**2**
Convictions	0	0	0	0	0	0	0	**0**
Other								
Prosecutions	5	2	6	4	3	1	0	**21**
Convictions	5	1	0	0	1	0	0	**7**
Total Prosecutions	**52**	**29**	**59**	**41**	**30**	**15**	**8**	**234**
Total Convictions	**18**	**8**	**7**	**3**	**15**	**1**	**0**	**52**

Note: Drug trafficking convictions pursuant to DDFOPA.

481. Compared to Malaysia's 2015 MER, ML prosecutions have increased (132 cases reported from 2009-2013 vs. 234 reported from 2019-February 2025). However, ML convictions have remained relatively stable, decreasing slightly from 56 in Malaysia's 2015 MER to 52 between 2019-2025. The prosecution-to-conviction conversion rate for this period is 22%, similar to the rate reported in the 2015 MER. Between 2019 and 2025, there were also nine acquittals, and 798 cases classified as "no further action." While the significant effort and resources invested in the 1MDB case—and its resulting outcomes as outlined in Box 7.2 and Box 8.1—are duly acknowledged, the overall low level of ML prosecutions and convictions remains a concern.

482. Rather than relying on the AMLA when prosecuting ML related to drug trafficking, Malaysian authorities also use the DDFOPA. Noting that in the 2015 MER there were zero drug trafficking/ML investigations or prosecutions, Malaysia has made progress with 81 ML prosecutions under the DDFOPA. However, only three cases have resulted in ML convictions to date.[80] While the challenges faced during the assessment period—including COVID-19 measures and 1MDB prioritisation—are acknowledged, the low number of ML convictions related to drug offences, organised crime, and smuggling, as well as other medium- to high-level threats (e.g., human trafficking and environmental crimes), does not appear to align with Malaysia's risk profile.

483. During the on-site, Malaysian authorities consistently expressed the overarching national strategy to deprive criminals of their proceeds of crime. Malaysian authorities indicate that ML investigations are commenced with the goal of criminal prosecution, as well as asset recovery. Civil asset recovery was frequently cited as a more expedient and effective tool than prosecution for deterring criminal activity. While Malaysian authorities acknowledged the relative efficiency of asset recovery (and compounds), they emphasised that prosecution and criminal conviction remain the default objectives. Nonetheless, the

[79] As of September 2025, Malaysia report that there are 133 cases at the prosecution stage.

[80] Malaysia notes that there are 67 cases still pending in court.

evidentiary threshold for civil recovery is lower than that required for ML prosecution. In discussions with the AGC, authorities described how they assess the balance of probability of success in any given prosecution, noting that if they do not feel as though there is a prospect of a ML conviction, they will seek NCBF rather than prosecution (see IO.8 for results related to NCBF). While the value of NCBF in depriving criminals of the proceeds of crime is recognised, there is concern about its potential over-reliance. ML prosecutions not only serve a punitive function but also play a critical role in reinforcing the seriousness of financial crimes, establishing criminal accountability, and upholding the rule of law. Securing ML convictions sends a clear deterrent message that the abuse of the financial system will be met with meaningful legal consequences. Furthermore, the FATF Methodology underscores that "ultimately, the prospect of detection, conviction and punishment dissuades potential criminals from carrying out proceeds-generating crimes and money laundering."

484. During onsite discussions, the Assessment Team queried Malaysian authorities regarding the low number of ML convictions (i.e., nearly nine ML convictions per year). Beyond the articulated national strategy regarding asset recovery, authorities also noted the legislative timeframes imposed on investigations. The timeframe for charges to be laid and forfeiture proceedings following seizure of property is 12 months under the AMLA. If this timeframe is not met, the property must be released to its original owner. This contrasts with the DDFOPA, where there is no stipulated time frame for seizure or the commencement of forfeiture proceedings. However, the DDFOPA only targets proceeds and property derived from drug-related offences. As such, LEAs are under pressure to balance the risk of dissipation of property versus collection of evidence. While Malaysian authorities have developed strategies to manage these types of legislative hurdles, including expediting charges and early inter-agency coordination, which are reflected in prosecutorial successes (notably 1MDB), the Assessment Team is concerned that the pressures associated with the timeframes may affect aggregate outcomes.

485. Linking the predicate to ML was also cited as a challenge from several agencies, prosecutors, and the judiciary. Malaysia's legislation states that a conviction for the predicate offence is not required to pursue an ML conviction. The judiciary has also affirmed that it is unnecessary to prove who committed the predicate offence or whether anyone had been charged or convicted. However, in practice, judges have ruled that the predicate offence must still be proven to a *prima facie* standard. This practice stems more from judicial prudence or conservative interpretation, rather than a legal requirement. LEAs frequently lack sufficient evidence to establish a clear link between the proceeds of crime and the predicate offence. This further complicates ML prosecutions. Nevertheless, Malaysia has had some cases in which ML has been the stand-alone charge, including one recent case (i.e., the Sabah Water Case). As outlined below in Box 7.3, this case includes the prosecution of an individual for the possession of proceeds of crime even though this individual had no link to the predicate offence.

Box 7.3. Sabah Water

In October 2016, an investigation was carried out on the Sabah State Water Department (SSWD) involving federal project funds worth more than EUR 0.71 million. This fund is for the construction of basic infrastructure related to the distribution of clean water supply for Sabah. There was suspicion of abuse of power and misappropriation of funds for the project, involving the former Director and Deputy Director of SSWD.

From 2016 to 2017, the FIU received spontaneous disclosures from foreign counterparts, on one of the subjects in the case and his spouse. This information was further disclosed to MACC. Information from the foreign FIUs helped in the tracing and seizure of assets, as well as financial analysis on layering of funds from illicit proceeds by the subjects.

In 2016, MACC arrested a former Deputy Director of SSWD and seized assets belonging to the Director of SSWD and two others. In December 2016, charges were laid in the Sessions Court for eight charges for possession of money amounting to EUR 12.28 million in cash and four bank accounts, one charge for possession of six luxury cars, one charge for possession of 86 pieces of luxury watches and one charge involving transaction of EUR 3 000.

In December 2016, the wife of the former Director was charged in the Sessions Court with 18 charges for possession of money amounting to EUR 0.48 million in 18 bank accounts and one charge for possession of 93 handbags. This person was not involved in the predicate offence of corruption but was charged for ML due to the possession of proceeds of crime.

In December 2017, the former Deputy Director was charged in the Sessions Court with a total of 146 charges comprising 42 charges for possession of 78 pieces of land valued at EUR 2.54 million, 42 charges for possession of money in cash amounting to EUR 1.71 million and 62 charges involving a bank account amounting to EUR 2.65 million. In February 2022, the former Deputy Director was acquitted of all 146 charges. However, MACC issued a EUR 6.47 million compound. The trial for the other accused is ongoing.

In this case, the investigation was completed, and the suspects were prosecuted within 90 days of the operation's launch. However, due to multiple applications filed by the defendants' lawyers, as well as delays caused by the COVID-19 pandemic and the volume of evidence, the trial has been prolonged.

486. Evidence collection, analysis and prosecutorial expertise were cited by the authorities as other possible reasons for not pursuing ML prosecutions, particularly with respect to drug trafficking, smuggling, and organised crime where pursuing administrative forfeiture is much easier (as the burden shifts to the property owner). The AGC will not proceed with prosecution if the predicate offence has not been sufficiently investigated or if there is no clear path to securing a conviction. This underscores the need for LEAs to strengthen the quality and comprehensiveness of the evidence presented in support of ML cases. While acknowledging the improvements in investigative tools and resources since the 2015 MER, the Assessment Team concludes that ongoing improvements of the evidentiary foundation of ML prosecutions is critical to achieving higher conviction rates. As highlighted earlier, LEAs must ensure that investigations focus on gathering evidence to establish all elements of the ML offence, including proving the illicit origin of funds, the intent to conceal, and the link between the predicate crime and ML activities. Strengthening these aspects will enhance the likelihood of successful prosecutions and reinforce Malaysia's enforcement efforts against financial crime.

487. The AGC's role is key to prosecutorial success. In discussions with the judiciary, they indicated that in their experience, the charges presented to the court are often insufficient to secure a conviction. This could be due to inexperience or the complexity of ML investigations and evidence. The judiciary also indicated its expectation that ML charges are directly linked to a predicate offence, despite acknowledgement that Malaysian law allows for stand-alone ML charges. It was not clear to the Assessment Team the reason behind this judicial prudence or conservative interpretation of the law. However, AGC has demonstrated a willingness to appeal decisions related to the ML offence which indicates a proactive approach is being taken. Although the AGC has experienced significant challenges with respect to volume, capacity and experience in securing convictions over the assessment period, the move to regionalise some prosecutors (to provide necessary experience) and to provide more training is a positive step. Nevertheless, authorities noted the need for and would welcome more training for prosecutors and the judiciary.

488. Although there have been successful prosecutions, LEAs should continue to enhance and upgrade financial tracing skills and focus on gathering evidence of all elements of ML using all necessary powers including controlled operations, physical and electronic surveillance, search warrants, and other investigative powers to better establish the links between predicate offences and ML. These specialised investigative resources should also be better prioritised to the highest ML threats.

7.2.1. Types of ML cases prosecuted and convicted

489. Of the 234 ML prosecutions achieved between 2019 and 2025, 94% related to self-laundering, and no prosecutions were reported for standalone ML (see table 7.4 below). Malaysia conducted only four ML investigations related to foreign predicate offences between 2019 and 2025, with zero prosecutions or convictions. This demonstrates a lack of focus and resource allocation towards identifying and addressing ML linked to foreign predicates. While Malaysia has assessed that it is generally not a destination point for illegal proceeds but is a transit point for illegal drugs and other contraband, the Assessment Team has a significant concern that the lack of emphasis on stand-alone ML, third-party ML, TBML and foreign predicate offences suggests a disconnect that undermines the country's ability to effectively combat transnational financial crime considering its risk and context.

Table 7.4. ML investigations, prosecutions and convictions by type of laundering

Types of ML	2019	2020	2021	2022	2023	2024	2025 Feb	Total
Self-Laundering								
Investigation	343	309	371	348	352	281	63	**2 067**
Prosecuted	52	24	58	38	28	12	8	**220**
Convicted	18	7	7	3	15	1	0	**51**
Acquitted	4	4	3	4	1	0	0	**16**
On-going Prosecutions	25	10	40	21	12	11	8	**127**
Third Party ML								
Investigation	75	7	77	101	135	122	41	**558**
Prosecuted	0	5	1	3	2	3	0	**14**
Convicted	0	1	0	0	0	0	0	**1**
Acquitted	0	1	0	1	0	0	0	**2**
On-going Prosecutions	0	0	1	1	2	2	0	**6**
Standalone ML								
Investigation	2	0	6	3	1	6	1	**19**
Prosecuted	0	0	0	0	0	0	0	**0**
Convicted	0	0	0	0	0	0	0	**0**
Acquitted	0	0	0	0	0	0	0	**0**
On-going Prosecutions	0	0	0	0	0	0	0	**0**
Foreign Predicate ML								
Investigation	0	3	0	0	0	1	0	**4**
Prosecuted	0	0	0	0	0	0	0	**0**

Types of ML	2019	2020	2021	2022	2023	2024	2025 Feb	Total
Convicted	0	0	0	0	0	0	0	**0**
Acquitted	0	0	0	0	0	0	0	**0**
On-going Prosecutions	0	0	0	0	0	0	0	**0**

490. Moreover, the above figures do not align with the scale of investigations occurring per type of ML activity. For example, in over 500 investigations of third-party ML, there have only been 14 prosecutions and one conviction since 2019. This discrepancy suggests challenges in gathering sufficient evidence and that prosecutorial strategies require further improvement towards securing successful ML convictions.

491. Some LEAs have sought assistance from their foreign counterparts for ML investigations involving foreign predicates. For example, the RMP, MACC and RMCD_have conducted joint operations and information exchanges with their foreign counterparts which resulted in positive outcomes. However, as noted under IO.2, Malaysia makes minimal use of outgoing MLA requests, which may further limit its ability to pursue ML cases linked to foreign offences or gather evidence outside of Malaysia.

492. Moreover, since 2019, Malaysia reports that only seven legal persons have been prosecuted for ML with five convictions, all taking place in 2019. This does not align with Malaysia's risk profile, which includes exposure to corporate structures being misused for financial crime, particularly in areas such as fraud and corruption. While some cases involving legal persons were provided to the Assessment Team, the low prosecution and conviction rate for legal persons raises concerns about enforcement gaps and whether authorities are effectively holding corporations accountable for their role in ML schemes.

7.3. Effectiveness, proportionality and dissuasiveness of sanctions

493. Malaysia's approach to sanctions for ML involves a combination of criminal penalties and civil measures. In practice, criminal sanctions may be imposed in the form of a fine and/or imprisonment, notwithstanding the conjunctive "and" used in the AMLA, which legally requires cumulative application of imprisonment and fines. Accordingly, this underscores the need for enhanced training for prosecutors and the judiciary on ML sanctions and sentencing.

494. The maximum penalty for ML is a term of imprisonment of 15 years. Fines can be up to five times the values of the proceeds of crime or RM 5 million (EUR 1.08 million), whichever is more. Malaysia has demonstrated instances where severe financial penalties had been imposed, particularly in high-value ML cases involving serious predicate crimes (such as fraud and corruption). For legal persons, the fine can increase up to a maximum 10% of the annual revenue. Sentences can be concurrent or consecutive, but consecutive sentences are rarely imposed. In concurrent cases, the judiciary will acknowledge the separate offences and the relative sanction for each offence, as well as the fine imposed.

495. Overall, the Assessment Team is concerned by the low level of ML sentences imposed in general (see below table). While there are some cases where the sentencing imposed was on the higher end but below the maximum (e.g., see SRC International case in Box 7.2), in general, the actual average of sanctions (sentences and fines) imposed to natural and legal persons is low. Since 2019, the average prison sentence imposed is one year and eight months. While this average can be partly explained by the higher volume of simple ML cases, the review of the case studies provided confirms that sanctions imposed in many complex and mixed cases are generally on the lower end of the scale and not necessarily dissuasive.

496. Furthermore, the application of fines to natural and legal persons may undermine the overall dissuasiveness of the sanction regime. Of the 52 convictions, fines were imposed in only 20 cases (applied to 21 natural persons and five legal persons). While the average fine was approximately EUR 1.78 million, this figure is heavily skewed by two exceptionally large fines of approximately EUR 66 million and

EUR 33 million. These outliers suggest that most fines imposed were significantly lower. As a result, despite a few high-profile penalties, the limited use of fines—particularly when imposed as the sole sanction—may reduce the deterrent effect of enforcement outcomes overall.

497. Finally, of all the high-risk predicates where there were convictions, fines were only imposed in fraud and corruption cases, with a very small portion associated with "other" predicates. The Assessment Team also notes that in many cases provided by the authorities, many are still proceeding at the prosecutorial stage, and as such, sentencing had not been determined at the time of the on-site. Malaysia attributes these prosecutorial and trial delays to the impacts of the COVID-19 pandemic and the reallocation of resources to 1MDB investigations and prosecutions.

Table 7.5. Fines and imprisonment terms imposed for ML convictions

Year	ML Convictions Cases	# of Natural Persons Convicted	# of Legal Persons Convicted	Average Imprisonment Terms	Fines Imposed (EUR millions)
2019	18	26	5	< 5 years	65.92
2020*	8	8	0	< 10 years	32.69
2021	7	8	0	< 5 years	0.11
2022	3	3	0	< 5 years	1.08
2023	15	16	0	< 5 years	1.51
2024	1	1	0	< 1 year	0.09
2025 (Feb)	0	0	0	n/a	n/a
Total	**52**	**62**	**5**	**Avg. 1 year 8 months**	**101.4**

Note: 2020 figures include the fines related to the SRC case summarised in Box 7.2.

498. For the judiciary, there are no sentencing guidelines for ML, however, they exist for other offences (e.g., wildlife crimes). While the AGC does not propose sentencing recommendations to judges, it does provide data and sentencing trends to aid the judiciary in its sentencing discretion. Thus, presiding judges are supported in exercising their discretion and making the best-informed and consistent decision on each case, based on its common law framework. During the on-site discussions with representatives from the judiciary, it was clear that they understood the complex nature of ML and stressed that there was a limited capacity at the prosecutorial level in terms of the presentation of the ML charges. The judiciary, however, recognised that the AGC is in a transitional process by transferring some ML prosecutorial authorities to the regional level to increase the knowledge and capacity of prosecutors.

499. Overall, Malaysia's ML sanctions appear neither sufficiently dissuasive nor effective in combating ML, given their low application. Despite the 2014 amendments to the AMLA, which introduced maximum penalties of 15 years in prison and fines up to five times the laundered amount, there has been no corresponding increase in the severity of imposed sanctions. The frequent use of alternative measures, while expedient, further weakens overall deterrent effects. Sanctions would also be expected to increase if Malaysia pursued larger and more complex ML cases. However, as noted in IO.8, authorities often rely on NCBF, tax recovery or impose criminal and administrative penalties tied to predicate offences instead of securing ML convictions. While some of these measures have a deterrent effect, the overall criminal sanctions regime lacks dissuasiveness.

7.4. Use of alternative measures

500. Malaysia often applies alternate measures with success; however, the Assessment Team is concerned that these measures are being applied disproportionately and that alternative measures are not only applied in cases where a ML investigation has been pursued but where it was not possible, for justifiable reasons, to secure a ML conviction. According to the FATF Methodology, "alternative measures should not…be a substitute for prosecutions and convictions for ML offences". However, as outlined below, Malaysia regularly pursues out of court settlements (i.e., application of a compound), NCBF and other administrative penalties. Tax remedies are also heavily pursued as outlined below and in IO.8. Due to the low ML conviction rates and the disproportionate use of alternative measures, this leads the Assessment Team to consider that there are barriers (outlined elsewhere in IO.7) to achieving criminal prosecution, convictions, and sanctions.

501. This leads the Assessment Team to consider that there are systemic barriers to achieving criminal prosecution, convictions and sanctions. As noted above, the decision to prosecute ML lies with the AGC. The AGC, in the presence of an identified predicate offence, can opt to prosecute the underlying offence, despite the suspicion of ML, with appropriate justification. In addition, the AGC can also decide to settle a case out of court. An out of court settlement in the form of a compound establishes certain conditions for the suspect, such as the imposition of a monetary penalty in exchange for the dropping of ML and/or other charges. In discussions with authorities, there were mixed views regarding the use of this out of court settlement power. Some authorities see it as a means to apply an administrative penalty when a criminal penalty cannot be achieved. It is viewed as an efficient method of concluding a case in which some type of monetary penalty is applied. Moreover, since some proceeds are recovered directly to the government, it is seen by authorities as a financial benefit for Malaysia. Even though many compound payments are significant in monetary value, the offender does not receive a formal criminal record, but the outcome of the settlement is made public through the respective LEAs' websites and press releases. This is done either at the point of initiating an action or upon settlement/payment.

502. Malaysian authorities use compounds (and NCBF, see IO.8) because they are relatively expedient and require a lower burden of proof than criminal prosecution. However, authorities have shown an overreliance on compounds as an alternative to prosecution rather than using them as a complementary tool. This approach is inconsistent with the FATF Standards, as countries are expected to be able to successfully prosecute ML cases and apply proportionate and dissuasive sanctions for those convicted of the offence. Compounds are used extensively across all high-risk predicate offences and typologies, particularly in corruption cases (see table 7.6 below). Since 2019, Malaysia has secured approximately EUR 42 million in compounds related to ML. However, it is notable that no such settlements have been reached in organised crime, drug trafficking or for stand-alone ML cases, or ML cases involving foreign predicate offences. Based on the heavy use of compound in self-laundering cases, relative to the number of investigations and prosecutions, the Assessment Team has a concern that compounds are often used in lieu of criminal sanctions in such cases.

Table 7.6. Compound Imposed (EUR millions)

ML Risk Type	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
Corruption	0	14.70	2.42	6.12	1.49	1.39	0.01	**26.13**
Fraud	0	0.15	10.82	0.04	0.28	0	0	**11.29**
Other	0	0.78	0.45	1.86	0.99	0.06	0	**4.14**
Smuggling	0	0.16	0.01	0.03	0.13	0.13	0	**0.46**
Drug Trafficking	0	0	0	0	0	0	0	**0**
Organised Crime	0	0	0	0	0	0	0	**0**
Total	**0**	**15.79**	**13.69**	**8.05**	**2.89**	**1.58**	**0.01**	**42.01**

503. During the assessment period, the IRBM has actively pursued tax recovery by exercising its powers to reclaim lost tax revenue from illicit proceeds. As noted in IO.8, this process has achieved significant results and can be carried out either in parallel with or independently of a criminal prosecution.

504. While the reasons for not pursuing ML cases were not always "justifiable" as required by the FATF Methodology, Malaysia's use of alternative measures cannot be overlooked, particularly the significant amount collected as compounds. However, the relatively low number of ML prosecutions and convictions, compared to the use of alternative measures and other asset recovery techniques (as outlined in IO.8), indicates that the challenges in converting ML investigations into successful prosecutions and convictions are significant. These challenges point to systemic issues that must be addressed to make Malaysia's ML regime truly punitive and dissuasive moving forward.

8 Confiscation

The relevant Immediate Outcomes considered and assessed in this chapter is IO.8. The Recommendations relevant for the assessment of effectiveness under this chapter are R. 1, 4, 32 and elements of R. 15, 30, 31, 37, 38 and 40.[81]

Key Findings, Recommended Actions and Conclusion and Rating

Key Findings

a) At a policy and operational level, Malaysian authorities place a clear emphasis on asset recovery, especially through civil processes. Pursuant to the NCC Roadmap, LEAs have targeted action plans in relation to seizure and confiscation. LEAs and the AGC have specialised teams dealing with confiscation. Asset recovery is a clear national priority and objective of all relevant authorities. Malaysia's commitment to asset recovery is evident from its significant efforts and success in recovery of 1MDB assets, including the recovery of over EUR 6 billion in misappropriated funds. Malaysia notes that its efforts in relation to 1MDB asset recovery has diverted resources away from other cases given its importance and transnational complexity.

b) Between 2019 and February 2025, Malaysia recovered a total of EUR 8.11 billion in assets, with EUR 6.08 billion (75%) linked to the 1MDB case. The majority of these 1MDB-related assets were repatriated through foreign civil forfeiture actions and settlements. However, the remaining 25% of asset recoveries, which are unrelated to 1MDB, raise concerns. 88% of these were achieved through IRBM tax remedies, indicating a heavy reliance on administrative recovery mechanisms rather than pursuing criminal confiscation. Malaysia also demonstrates a tendency to use NCBF over CBF, which accounts for 88% of all forfeiture outcomes. While the FATF Methodology does not favour one form of recovery over another, the low rate of CBF reflects broader challenges as outlined in IO.7 related to effectively prosecuting and convicting ML offences.

c) There is a low conversion rate from initial seizure to final forfeiture and actual recovery. While the most significant results are seen in corruption and fraud, forfeiture outcomes for drug trafficking, organised crime, and smuggling are not proportionate to Malaysia's risk profile, particularly given their transnational nature and designation as high-risk threats in the NRA. Beyond the 1MDB case, Malaysia makes limited use of asset recovery linked to foreign predicate offences or overseas assets. Overall, current efforts are not fully aligned with the country's identified risk exposure, particularly for high- and medium-high-risk predicate offences.

d) Malaysia has made some improvements in its system for the declaration and identification of cross-border movements of currency and BNIs, such as an increase in declaration forms submitted compared to the 2015 MER. However, Malaysia is not confiscating falsely declared or

[81] Recommendations 1, 4, 15, 37 and 37 are under review, see Technical Compliance Annex.

undeclared CBNI in line with its risk profile. Moreover, the sanctions for violations of declaration requirements are not effective, proportionate and dissuasive.

Key Recommended Actions (KRAs)

a) Malaysia should increase the use of criminal and non-conviction-based forfeiture to ensure a stronger judicial response to financial crime in line its high and medium-high risk predicate offences, including enhancing forfeiture efforts in relation to illicit proceeds moved abroad.

b) Malaysia should ensure that illicit cross-border movements of currency and BNIs are identified, seized and forfeited to a greater extent, consistent with its risk profile.

Other Recommended Actions

a) Malaysia should enhance the resources, expertise, and inter-agency coordination of prosecutorial bodies to pursue more complex asset recovery cases through criminal confiscation, including cross-border cooperation where relevant.

b) Malaysia should enhance its resources to better detect undeclared and falsely declared cross-border currency and BNIs and apply proportionate and dissuasive penalties for non-compliance.

Overall Conclusions on IO.8

Malaysian authorities place a clear emphasis on asset recovery, especially through civil processes (tax recovery, NCBF and SC disgorgement). Pursuant to the NCC Policy Roadmap, LEAs have targeted action plans and dedicated teams in relation to asset seizure and forfeiture.

Between 2019 and February 2025, Malaysia achieved a robust asset recovery outcome, securing EUR 8.11 billion through a comprehensive, multi-pronged strategy that effectively leveraged asset repatriation related to 1MDB (75.1%), tax and duty recovery by IRBM and RMCD (22.2%), conviction and non-conviction-based forfeiture (2.6%), and disgorgement and restitution mechanisms (0.2%).

Excluding the 1MDB case, Malaysia's asset recovery outcomes (EUR 2.03 billion) is a strong improvement from the country's 2015 MER, while relatively modest compared to the total assets recovered in relation to 1MDB and given the country's risk and context. While the overall asset recovery figure (EUR 8.11 billion) reflects some success in pursuing illicit assets, it underscores a reliance on a single, high-profile case (1MDB) to drive overall recovery results. This suggests that while Malaysia has demonstrated capacity in complex, large-scale cases, there may be a need to strengthen systemic asset recovery efforts across a broader range of cases to ensure more consistent outcomes. Moreover, Malaysia's asset recovery framework is not fully aligned with its risk profile, particularly the full range of high and medium-high risk predicate offences.

The Assessment Team acknowledges some improvements in Malaysia's system for the declaration and identification of CBNIs since 2015. However, Malaysia is not confiscating falsely declared or undeclared CBNI in line with its risk profile. Moreover, the sanctions for violations of these declaration requirements are not effective, proportionate and dissuasive.

Malaysia is rated as having a Moderate level of effectiveness for IO.8.

Immediate Outcome 8

8.1. Confiscation of proceeds, instrumentalities and property of equivalent value as a policy objective

505. At a policy and operational level, Malaysian authorities place a clear emphasis on asset recovery, especially through civil processes. This conclusion is based on the consideration of strategic documents, statistics, operational initiatives undertaken by the authorities in recent years, and interviews with relevant stakeholders during the onsite visit.

506. As noted under IO.1, a key strength of Malaysia's AML/CFT system lies in its domestic cooperation and coordination, which extends to the tracing, seizure and recovery of assets. Pursuant to the NCC Roadmap, LEAs have targeted action plans in relation to seizure and forfeiture. LEAs and the AGC have specialised teams dealing with confiscation and asset recovery is a clear national priority and objective of all relevant authorities. Malaysia's legal framework supports this priority through a solid foundation and a flexible set of tools, including CBF, NCBF, and administrative measures such as tax recovery.

507. Malaysia's commitment to asset recovery is evident from its successful 1MDB asset recovery efforts. Since the 2015 MER, Malaysia has recovered approximately EUR 5.72 billion in misappropriated funds related to 1MDB (see Box 8.1 below for more information). While a significant portion of these assets was recovered through *foreign* civil forfeiture actions, international settlements, and repatriation efforts, these outcomes also underscore Malaysia's ability to actively engage and cooperate with international partners in pursuing complex cross-border asset recovery.

508. The 1MDB Asset Recovery Task Force was established in 2023 to assist with confiscation and repatriation of illicit funds linked to the 1MDB investigations. This Task Force has been integral to the extensive collaboration with international partners to trace and repatriate stolen assets while pursuing civil and criminal cases against those involved. As of February 2025, efforts are ongoing, and the Task Force is actively pursuing the remaining misappropriated funds.

Box 8.1. 1MDB Asset Recovery

As of February 2025, Malaysian authorities have recovered approximately EUR 5.72 billion, as well as EUR 362.72 million in tax recovery on criminal proceeds. Malaysia is actively pursuing the remaining assets via a dedicated task force focusing on asset recovery.

About 4.7% (EUR 252 million) of the total 1MDB-related assets recovered were executed under the AMLA (and related to domestic illegal proceeds). Most of these assets were forfeited via NCBF under the AMLA and related to domestic illegal proceeds.

Malaysia has also entered into multiple settlement agreements with several entities. As certain settlements are still in progress, related information has been omitted from this report. Malaysia states that these settlements account for the large majority of all assets recovered related to 1MDB.

As for foreign illegal proceeds, Malaysia has engaged international counterparts on various measures to repatriate the assets identified. This includes various arrangements, including formal and informal measures to seize, confiscate and repatriate such funds.

In addition to the return of misappropriated funds, a superyacht purchased using 1MDB proceeds amounting to EUR 250 million was confiscated by Malaysia with the assistance of Indonesia. This superyacht was later successfully sold at EUR 116 million. The sale was part of the asset management effort, whereby EUR 3.12 million was incurred to maintain the vessel.

509. The extensive efforts to repatriate 1MDB assets transferred abroad has established a strong commitment to asset recovery amongst all Malaysian LEAs. During the onsite discussions, Malaysian competent authorities emphasised that asset recovery is a priority in criminal investigations. Despite the challenges faced by competent authorities in relation to ML prosecutions and convictions (see IO.7), Malaysia has prioritised asset recovery as a policy objective, making significant progress in areas such as corruption and fraud.

510. Asset recovery is prioritised as evidenced by the detailed SOPs and dedicated units established to achieve this goal. For example, the MACC has a dedicated unit to conduct investigations related to asset tracing, seizure, forfeiture and asset management related to corruption cases. The NCID of the RMP also has specific SOPs related to the tracing, seizure and forfeiture of assets, including cryptocurrency. The RMP has a dedicated Crypto Unit, and Malaysia provided several case studies demonstrating the effective seizure of VAs by this Unit. The NCID also has powers pursuant to the DDFOPA, enabling the swift seizure and forfeiture of criminal proceeds.

511. Malaysia has established several intra- and inter-agency structures and frameworks that build on the strong cooperative and collaborative elements of Malaysian law enforcement (see "Introduction to Money Laundering and Terrorist Financing Risks and Context" and IO.1).

512. The AGC, in collaboration with Malaysian LEAs, also prioritises asset recovery and leads asset recovery efforts for the country. During interviews, the AGC indicated that asset recovery is pursued based on a hierarchy of factors. The primary goal of asset recovery is to seek criminal forfeiture of assets, but the low number of ML prosecutions provides limited opportunity for this approach in ML cases (see IO.7 for additional information related to challenges related to ML prosecution). When criminal forfeiture is unlikely, the AGC's second choice is civil forfeiture. In such cases, authorities employ a cost benefit calculation. If the amount is substantial, the AGC carefully considers the investigation's findings before initiating a civil forfeiture process. Conversely, if the amount is relatively small, the AGC conducts an assessment to determine whether the cost of pursuing civil forfeiture outweighs the value of the assets. Ultimately,

decisions are based on the material facts of the case, and the AGC pursues NCBF to a certain extent. To effectively manage the criminal justice system, Malaysian authorities frequently resort to the imposition of compound, which is a form of out-of-court settlement resulting in the application of non-criminal based monetary penalty (see IO.7 for additional information on compounds). During the onsite, Malaysia noted that compound penalties are often the more straightforward and effective method for funds, which may or may not represent illicit proceeds. While compounds may expedite resolution and resource management, their frequent use raises important concerns about whether they are being used disproportionately relative to more robust and punitive measures, such as criminal prosecution.

513. Furthermore, Malaysia places significant emphasis on tax recovery efforts led by the IRBM, alongside disgorgement actions pursued by the SC.[82] By integrating a combination of tax enforcement, regulatory disgorgement, and criminal and civil confiscation, Malaysia has established a robust and flexible asset recovery framework. This multi-agency approach reflects the country's commitment to using both criminal and civil tools to combat financial crime and allows authorities to tailor their enforcement strategy based on the nature of each case, thereby enhancing the effectiveness of confiscation efforts. The use of the different powers is discussed below.

8.2. Confiscation of proceeds instrumentalities and property of equivalent value from foreign and domestic predicates, and proceeds located abroad

514. Asset freezing, seizure and forfeiture are carried out under various legal provisions. AMLA allows authorities to quickly trace, freeze (for 90 days), seize (for 12 months or beyond if prosecution has been brought), and forfeit assets linked to a wide range of criminal activities, including ML and TF. Regarding forfeiture, s.55 governs CBF, and s.56 governs NCBF. An investigation officer from an enforcement agency can issue a freezing or seizure order on movable property without court approval or a directive from the DPP. In contrast, the seizure of bank accounts or immovable property requires DPP involvement, enabling swift asset preservation.

515. In addition, Malaysia exclusively uses the DDFOPA for asset recovery related to drug offences. The DDFOPA also provides for both NCBF and CBF mechanisms. Other legislation with provisions for asset seizure and forfeiture include the MACC Act 2009 and the Customs Act 1967, which contain both provisional measures and forfeiture powers to support asset recovery.

516. Overall, Malaysia recovered a substantial amount—approximately EUR 8 billion—between 2019 and February 2025. The below table compares Malaysia's seizure and asset recovery outcomes under all applicable legal procedures between the previous assessment period (2009-2013) and the current period (2019-2025). As indicated below, most of Malaysia's asset recovery results during the current assessment period relate to 1MDB (approximately 75% of all recovery efforts), including tax recovery related to this case.

517. For asset recovery efforts excluding 1MDB, Malaysia makes regular use of tax remedies (88% of all asset recovery), as compared to NCBF or CBF mechanisms. Furthermore, there is a strong tendency for using NCBF over CBF, primarily to overcome the prosecutorial challenges identified in IO.7 (i.e., 88% of all forfeitures are NCBF).

[82] Disgorgement by the SC is a civil remedy used to strip wrongdoers of unlawful gains obtained through violations of securities laws, such as insider trading, market manipulation, or misrepresentation. The SC can either bring a civil suit to the High Court or settle out of court, where disgorgement is negotiated as part of a regulatory settlement.

Table 8.1. Overall IO.8 results compared to MER 2015

	MER 2015 (2009-2013)	2019-2025 (February)	% of Recovery Total
1. Total Value Seized	EUR 163.92 M	**EUR 724.53 M**	
2. Total Forfeiture (with 1MDB)	EUR 61.64 M	**EUR 660.08 M**	
2.1. Total NCBF (AMLA, DDFOPA and others)	(data unavailable)	EUR 172.52 M	
2.2. Total CBF (MACCA, Customs Act, etc.)	(data unavailable)	EUR 23.82 M	
2.3. Total Forfeiture for 1MDB	(data unavailable)	EUR 463.74 M	
3. Total Recovery*		**EUR 8.09 B**	
3.1. Total Forfeited Assets Recovered (AMLA and other laws)	(data unavailable)	EUR 207.42 M	2.6%
3.2. IRBM: Tax Recovery (Tax offences including civil)**	EUR 409.48 M	EUR 1.78 B	22.2%
3.3. RMCD: Smuggling Predicate (Realised Commodities)	EUR 148.99 M	EUR 22.34 M	
3.4. 1MDB asset recovery	n/a	EUR 5.72 B[83]	75.1%
3.5. 1MDB assets recovery via IRBM's Tax Recovery (Tax offences including civil)	n/a	EUR 362.72 M	
4. Restitution (AMLA, CPC and SC's disgorgement measures under CMSA)	EUR 2.16 M	**EUR 18.59 M**	0.2%
Asset Recovery Results (without 1MDB) (Item 3.1-3.3 and 4 only)	EUR 560.63 M	**EUR 2.03 B**	
Grand Total of Asset Recovery Results (with 1MDB) (Item 3 and 4)	n/a	**EUR 8.11 B**	

Note: The total amounts seized excludes 1MDB figures as it occurred prior to 2019. Items 3.2 and 3.4 captures the value of recovery of 1MDB related cases.
*Note: Total amount recovered is the value recovered from the execution of the forfeiture orders to which monetary funds, ownership or titles have been transferred to the Government.
**Note: Tax recovery figures exclude fines/penalties.

518. While no official estimate of the total proceeds of crime in Malaysia is available, the UNODC estimates that globally, 2–5% of GDP is laundered annually (equivalent to about USD 2.1 trillion globally at 2% in 2023). Based on Malaysia's nominal GDP of EUR 380.6 billion in 2023, 2% equates to roughly EUR 7.61 billion. From 2019 to February 2025, Malaysia recovered EUR 2.03 billion (about EUR 0.34 billion per year on average) excluding 1MDB-related efforts. This represents around 4.5% of the estimated 2% GDP laundering proxy per year. Including 1MDB, total recoveries of EUR 8.11 billion average about EUR 1.35 billion annually, or 17.7% of the proxy figure.

8.2.1. Tax Recovery

519. While these above overall results are positive, the Assessment Team is concerned about the reliance on tax recovery in contributing to the total amount recovered.

520. Any income, whether legally or criminally generated, is taxable in Malaysia. As noted above, the IRBM is empowered to use its tax assessment procedures and civil recovery mechanisms to recover proceeds linked to other criminal activities (beyond tax offences). This includes cases where illicit income has not been declared or where false information has been provided to conceal the origin of criminal

[83] As noted in Case Study Box 8.1, 4.1% (EUR 252 million) of the total 1MDB-related assets recovered were executed under the AMLA. Most of these assets were forfeited via NCBF under the AMLA and related to domestic illegal proceeds.

proceeds. The IRBM assesses tax liabilities on illicit income discovered during criminal investigations (and proceeds seized by other LEAs during their criminal investigations). Where evidence suggests a link to criminal activity, the IRBM—acting under sections 112, 113, and 114 of the Income Tax Act—can assess tax liabilities on illicit income, impose tax assessments on undeclared earnings, investigate wilful evasion, and pursue civil action to recover unpaid taxes, including those related to criminal conduct. This approach allows the IRBM to contribute to asset recovery in parallel to criminal forfeiture, as well as in situations where criminal prosecution may be challenging due to evidentiary limitations or other procedural constraints (see IO.7).

521. Malaysia's emphasis on tax recovery as an asset recovery tool raises concerns, particularly in light of its limited reliance on NCBF mechanisms. Both tax recovery and NCBF can be pursued without securing a criminal conviction and operate under similarly flexible evidentiary standards. While authorities indicated that there is a provision to use tax recovery for restitution, the use of this mechanism is at the discretion of the government and authorities did not provide examples of its implementation. Further, tax recovery does not allow for the seizure of instrumentalities of crime, or the full recovery of illicit gains—often capturing only a fraction of the proceeds, typically in the form of unpaid taxes. This imbalance suggests that Malaysia may not be fully leveraging the breadth of legal tools available.

522. The below case study (Box 8.2) illustrates the sequencing and application of Malaysia's tax recovery mechanism.

Box 8.2. Tax recovery example (Ops Pharma)

In December 2023, a joint operation involving multiple LEAs was launched under the Trademarks Act and AMLA. The operation targeted a criminal syndicate involved in the distribution of suspected counterfeited and unregistered cough medicines. The joint operation was led by KPDN, coordinated by the NFCC and supported by the IRBM.

As a result of the joint investigation, 56 bank accounts totalling EUR 2.25 million were frozen. Further investigation led to the seizure of 18 bank accounts amounting to EUR 1.70 million. In addition, two properties valued at EUR 560 300, along with movable assets located within the premises, were also seized.

In December 2024, the owner and director of the company were charged under Section 4(1)(b) of the AMLA for receiving proceeds of unlawful activity. This charge related to three of the 18 seized bank accounts. The suspect was also charged under Section 4(1)(a) of the AMLA for directly engaging in transactions involving instrumentalities of an offence, specifically the two seized properties. The case is currently under trial.

During the criminal investigation, the IRBM identified that illicit income generated from the counterfeit medicine operations had not been declared. Consequently, tax recovery proceedings were initiated, resulting in the recovery of EUR 1.08 million from the seized funds.

This case illustrates the sequencing and combining powers under the AMLA and the Income Tax Act, enabling substantial recovery of proceeds as the remaining seized assets may still be subject to confiscation through CBF proceedings.

523. Tax recoveries are being achieved to a high extent, with a total of EUR 2.14 billion recovered between 2019 and 2024, including 1MDB tax recovery (or EUR 1.78 billion excluding 1MDB). Malaysia advises that all tax recoveries relate to tax or smuggling criminality, as opposed to administrative oversights

or general tax debts.[84] The table below provides an annual breakdown of the reported figures. On average, the tax cases pursued by the IRBM involved amounts of approximately EUR 1.60 million per case (excluding penalties[85]), indicating that the underlying offences were of a significant scale. These tax recovery efforts target both natural and legal persons, with approximately 62% of total recoveries applying to legal persons.

Table 8.2. IRBM Tax Recovery by Year (EUR) (excluding 1MDB)

	2019	2020	2021	2022	2023	2024	Total
IRBM	367.05 M	384.01 M	289.42 M	345.08 M	150.94 M	243.23 M	**1.78 B**
# of cases	205	184	183	203	199	137	**1 111**

524. The below case study demonstrates tax recovery efforts related to the proceeds and instrumentalities of crime.

Box 8.3. Additional tax recovery case study

Ops Renjat, conducted in October 2022 and coordinated by NFCC with the Energy Commission, RMP, and IRBM, targeted illegal VA mining operations bypassing electricity meters in five unoccupied premises in Kajang, Selangor. The raids uncovered 349 mining machines operating on illicit electrical connections, resulting in estimated utility losses of EUR 280 150 and assets valued at over EUR 431 000.

Enforcement teams seized mining rigs, including power supplies, wiring, fans, hard drives, and meter-tampering equipment, which were inventoried for evidence and disposal. Investigations remain ongoing, while tax recovery actions under sections 112 and 113 of the Income Tax Act have led to the collection of EUR 134 343 from illicit profits linked to the illegal VA mining activities.

525. In addition to the IRBM, the RMCD is empowered by the Customs Act 1967 and Excise Act 1976 to recover customs duties or tax owed on uncustomed or prohibited goods (i.e., goods imported or exported without approval or without payment of customs duty) through criminal investigations. During the current assessment period, the RMCD recovered EUR 22.34 million, primarily from the sale of auctioned vehicles whose owners had failed to obtain the required permits. This is a significant decrease from the EUR 148.99 million recovered in the previous MER, which Malaysia attributes to the movement restrictions imposed during the COVID-19 pandemic.

8.2.2. Conviction and Non-Conviction-Based Forfeiture

526. While the FATF Methodology does not prescribe a preference for one form of asset recovery—civil or criminal—over another, compared to tax recovery, Malaysia uses NCBF and CBF to a lesser extent. Of the total forfeitures obtained during the assessment period, the majority are derived from NCBF cases. Based on discussions onsite, it was highlighted that NCBF not only serves as a method to deprive criminals of illicit proceeds when a conviction is not achievable but is also viewed as a strong mechanism to return lost revenue to the Malaysian government. Given the limited number of ML convictions, the Assessment Team has concerns about the overreliance on civil asset recovery mechanisms in place of robust evidence

[84] Malaysia reports that the IRBM collected nearly EUR 215 billion in direct taxes from 2019 to 2024. Tax recovered for the purpose of IO.8 (limited to tax recovered from assets tied to illicit activities during criminal investigations) is estimated to be 0.86% of this overall tax collection.

[85] In Malaysia, a 15-45% penalty is imposed on tax recoveries for offenders (excluding civil settlements). This penalty is not reflected in the table above, as it is not considered 'proceeds'.

collection and prosecutions leading to ML convictions; however, this issue is assessed as a deficiency under IO.7.

527. Since 2019, Malaysia has recovered approximately EUR 150.46 million in relation to NCBF pursuant to the AMLA, across 545 cases. To prevent distortion of aggregate recovery figures, this amount excludes 1MDB data. CBF pursuant to the AMLA is pursued significantly less than NCBF. Since 2019, Malaysia has forfeited approximately EUR 8.79 million in CBF pursuant to the AMLA, of which EUR 34.57 million was recovered to the Government of Malaysia during the same assessment period.[86] Corruption and fraud were the most common predicate offences underlying both CBF and NCBF cases, which corresponds to Malaysia's risk profile to some extent.

528. As noted in the TC Annex, Malaysia can confiscate direct instrumentalities of crime (for both CBF and NCBF), as well as property of equivalent value when the original assets cannot be located, have been transferred, or are otherwise unavailable. Malaysia provided case studies demonstrating the effective use of these powers.

529. The below table summarises all seizure, forfeiture and recovery figures pursuant to AMLA between 2019 and February 2025.

Table 8.3. Forfeiture Results Pursuant to the AMLA (EUR in millions)

AMLA	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
Overall Value Frozen (up to 90 days)	**118.03**	**372.23**	**174.13**	**160.22**	**170.67**	**90.03**	**8.74**	**1 094.05**
Overall Value Seized	**102.80**	**76.79**	**115.65**	**86.98**	**73.79**	**26.98**	**2.83**	**485.82**
NCBF								
Total Amount Forfeited (NCBF)	**18.31**	**105.35**	**4.84**	**18.30**	**2.63**	**1.03**	**0**	**150.46**
Fraud	13.20	4.99	1.56	8.09	0.15	0.05	0	28.05
Corruption	4.76	99.78	2.29	5.48	1.19	0.60	0	114.10
Drugs Trafficking*	-	-	-	-	-	-	-	-
Organised Crime	0.22	0.34	0.56	4.47	1.23	0.04	0	6.85
Smuggling**	0	0	0.08	0.26	0.01	0	0	0.34
Other	0.14	0.24	0.35	0	0.04	0.34	0	1.12
Total Amount Recovered (NCBF)	**17.58**	**105.31**	**3.27**	**13.18**	**5.66**	**0.19**	**0.20**	**145.39**
CBF								
Total Amount Forfeited (CBF)	**0.12**	**0.32**	**0.64**	**2.91**	**4.75**	**0.04**	**0**	**8.78**
Fraud	0	0	0.07	0	2.31	0	0	2.38
Corruption	0.02	0.32	0.55	2.91	0.14	0.04	0	3.97
Drugs Trafficking*	-	-	-	-	-	-	-	-
Organised Crime	-	-	-	-	-	-	-	-
Smuggling**	-	-	-	-	-	-	-	-
Other	0.11	0	0.02	0	2.31	0	0	2.44
Total Amount Recovered (CBF)	**11.93**	**3.60**	**0.10**	**11.68**	**0.23**	**7.02**	**0.06**	**34.62**
Grand Total Recovered (NCBF and CBF)	**29.51**	**108.91**	**3.37**	**24.87**	**5.89**	**7.21**	**0.27**	**180.02**

*Note: Confiscation measures for drug offences is pursued pursuant to the DDFOPA (see below table for results).

[86] The number of forfeiture orders does not directly correspond to the amounts restrained or recovered as a forfeiture order is not necessarily realised in the same year it is made. The amount recovered was due to intensified execution of forfeiture orders (approximately 100 orders) obtained prior to COVID-19.

**Note: Confiscation measures for smuggling is pursued pursuant to the Customs Act as predicate offences.
Note: The number of forfeiture orders does not directly correspond to the amounts restrained or recovered as a forfeiture order is not necessarily realised in the same year it is made.
Note: The spike in 2022 was due to the execution of forfeiture orders (102) obtained prior to COVID-19.
Note: Total amount recovered is the value recovered from the execution of the forfeiture orders to which monetary funds, ownership or titles have been transferred to the Government.

530. The overall recovered amount (EUR 180 million) is positive for all AMLA forfeitures (approximately EUR 159 million). While it is difficult to determine whether all forfeiture orders are fully enforced—since restrained or recovered amounts are not always realised in the same year—this does not appear to be a significant issue. Nevertheless, there is a gap between the value seized (EUR 486 million) and the final amount recovered (EUR 180 million), which suggests potential challenges pertaining to evidence collection, case processing, and meeting legislated time limits for investigating seized assets.

531. Instead of using the AMLA to seize and confiscate for drug-related offences, Malaysia exclusively uses the DDFOPA (for both NCBF and CBF). Similarly, Malaysia uses other laws beyond the AMLA to seize, forfeit and recover assets related to other crimes. The below table summarises Malaysia's seizure, forfeiture and recovery results related to the DDFOPA (and all other laws beyond the AMLA) since 2019.

Table 8.4. Forfeiture Results Pursuant to Other Laws (EUR in millions)

Other Laws, including DDFOPA	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
Overall Value Seized	**21.82**	**108.23**	**36.17**	**26.94**	**22.42**	**12.40**	**10.67**	**238.65**
NCBF								
Total Amount Forfeited (NCBF)	**2.87**	**3.23**	**4.69**	**6.18**	**3.18**	**1.07**	**0.82**	**22.05**
Corruption	-	-	-	-	-	-	0.18	0.18
Drugs Trafficking*	2.87	3.23	4.68	6.17	3.18	1.07	0.64	21.85
Others	-	-	0.01	0.01	-	-	-	0.02
Total Amount Recovered (NCBF)	**2.87**	**3.23**	**4.68**	**6.18**	**3.18**	**1.07**	**0.64**	**21.86**
CBF								
Total Amount Forfeited (CBF)	**0.09**	**3.10**	**4.10**	**3.59**	**4.06**	**0.08**	**0.01**	**15.04**
Corruption	0.00	1.78	2.14	2.53	3.98	0.00	0.01	10.44
Drugs Trafficking*	-	-	-	-	-	-	-	-
Others*	0.09	1.32	1.96	1.06	0.08	0.08	0.00	4.60
Total Amount Recovered (CBF)	**0.11**	**1.36**	**2.03**	**1.45**	**0.46**	**0.12**	**0.00**	**5.53**
Grand Total Forfeited (NCBF and CBF)	**2.96**	**6.33**	**8.79**	**9.77**	**7.24**	**1.15**	**0.83**	**37.09**
Grand Total Recovered (NCBF and CBF)	**2.98**	**4.59**	**6.71**	**7.64**	**3.64**	**1.19**	**0.64**	**27.39**

*Note: "Other" in CBF relates to illegal remittance and piracy of products.

532. As indicated in the above table, the total value of assets seized pursuant to all laws other than the AMLA is significantly higher (EUR 238.65 million) than the amounts forfeited (EUR 37.09 million) and recovered (EUR 27.39 million). This suggests that while the authorities are effective at identifying and seizing suspect assets, a smaller portion of these assets successfully progresses to formal forfeiture and recovery. The relatively lower figures for forfeiture and recovery compared to seizures may indicate challenges in legal processes, such as proving ownership or criminal linkage, or procedural delays that impact final asset disposition. According to statistics provided by Malaysia, most assets seized in connection with drug offences—including buildings, bank accounts, jewellery, and vehicles—are not ultimately forfeited. Only about 16% of these seized assets are successfully forfeited, raising concerns about

the effectiveness of asset recovery efforts, particularly given that drug trafficking is assessed as a high-risk predicate in Malaysia.[87]

533. Moreover, for all legal frameworks outside of the AMLA, Malaysia continues to place a greater emphasis on NCBF, with recoveries totalling EUR 21.86 million, compared to just EUR 5.53 million through CBF. This disparity is particularly noteworthy given that no CBF outcomes were recorded for drug-related offences between 2019 and 2025. The absence of CBF in such cases—despite the known scale and proceeds of drug trafficking—raises concerns about the underutilisation of criminal asset recovery mechanisms for high-risk predicate offences.

534. The below table summarises total figures (AMLA and all other laws) for seizure, forfeiture and recovery, excluding 1MDB recovery. As indicated below, Malaysia's overall figures have declined since 2020, which Malaysia attributes to COVID-19. Asset seizure, forfeiture, and recovery peaked in 2020 but have steadily declined through 2024. The significant gap between seized amounts and actual recoveries or forfeitures highlights ongoing challenges in converting enforcement actions into final asset recovery outcomes.

Table 8.5. Results pursuant to the AMLA and Other Laws (EUR in million)

All Seizure, Forfeiture and Recovery (all laws)	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
Seizure	124.62	185.02	151.82	113.93	96.21	39.38	13.5	**724.48**
Forfeiture (NCBF/CBF)	21.40	112.00	14.27	30.98	14.63	2.22	0.83	**196.33**
Recovery	32.49	113.50	10.09	32.50	9.53	8.40	0.90	**207.41**

535. Regarding overall results in line with Malaysia's five high-risk predicate offences (fraud, corruption, drug trafficking, smuggling, organised crime), the highest value of asset forfeiture has been achieved in corruption cases (EUR 128.69 million)[88], followed by fraud (EUR 30.43 million), drug trafficking (EUR 21.85 million), organised crime (EUR 6.85 million) and smuggling (EUR 0.34 million). While these figures demonstrate that Malaysia has made measurable progress in pursuing asset forfeiture since 2015, the relatively low forfeiture values for drug trafficking, organised crime, and smuggling are not commensurate with the country's assessed risk exposure in these areas. Given that drug trafficking and organised crime are identified as major threats in Malaysia's NRAs—and considering the transnational nature of many of these crimes—the modest forfeiture results raise concerns about the effectiveness and reach of asset recovery efforts in these high-risk sectors.

8.2.3. Foreign predicate offences

536. Confiscation for foreign predicate offences is not pursued at a level commensurate with Malaysia's risks and context. Malaysia rates the risks relating to the laundering of proceeds of foreign offending as low, however the risks associated with smuggling, illegal drug trafficking and fraud are relevant, as is Malaysia's geographical context. Malaysia's NRA positions the country as a transit point for some illicit commodities such as drug smuggling from the Golden Triangle. While Malaysia is generally not a transit point for proceeds of crime, transnational proceeds laundering does exist, albeit less prevalent and in isolated cases. As such, the Assessment Team considers that Malaysian authorities should focus more efforts on confiscation related to foreign predicates.

[87] Malaysia provided case studies demonstrating possible future forfeiture outcomes, but this could not be considered as the cases are ongoing.

[88] This figure excludes 1MDB results.

537. Notwithstanding, Malaysia submitted eight case studies evidencing the identification, restraint, and forfeiture of assets—including bank accounts, vehicles, and high-value luxury items such as handbags and watches—with subsequent repatriation of proceeds to foreign fraud victims, in instances where illicit funds were laundered through Malaysia. In one case, involving a business email compromise scheme, a corporate victim was defrauded of EUR 0.91 million; the full amount was recovered and repatriated. In another 2023 case, LEAs initiated a parallel fraud and ML investigation linked to a foreign cryptocurrency investment scam, resulting in the seizure of 33 bank accounts, 18 vehicles, 67 luxury watches, and cryptocurrency assets with an aggregate value of EUR 0.73 million. This case remains ongoing; thus, no forfeiture or repatriation was reported. While these cases demonstrate that Malaysia possesses the legal and operational capability to trace, seize, and return assets linked to foreign predicate offences, confiscation in such cases is not pursued at a scale proportionate to the country's exposure to transnational financial crime risks and its strategic position as a regional financial hub.

8.2.4. Illegal proceeds moved abroad

538. Malaysian authorities 'follow the money' offshore to some extent but they have not demonstrated that it is done sufficiently in line with risk and context. Between 2019 and February 2025, Malaysia sent nine MLA requests to trace, seize, confiscate and repatriate illicit assets that had moved abroad. Three were completed and funds repatriated (one related to 1MDB for EUR 929 218 through a voluntary return process, one related to ML and fraud for EUR 699 286 and one related to ML and cheating for EUR 736 088). There are six ongoing MLA requests all related to 1MDB, which are pending with the requested jurisdictions.

539. While there are some positive cases of Malaysia LEAs utilising international cooperation to assist with investigations and prosecutions (e.g., 1MDB), these efforts do not reflect the risk and context of Malaysia. For instance, there is only one asset recovery-related request for fraud and no requests for other high-risk crimes (drug trafficking, organised crime or smuggling) or medium-high risk crimes (tax crimes, forgery, human trafficking/smuggling, environmental crimes and sexual exploitation) where there is likely an international element. In general, Malaysian authorities downplay the risks of illicit proceeds being moved offshore, asserting that Malaysia primarily serves as a transit country for illicit goods and funds. However, this assessment appears contradictory—if Malaysia is a transit point, then, illicit proceeds are likely to have foreign links and be moved across borders. Furthermore, several case studies provided by authorities demonstrate that property has, in fact, been transferred offshore, including, notably, in 1MDB itself.

540. While LEAs have the capacity to trace and recover assets moved abroad—and have demonstrated their ability to do so in relation to assets seized in the 1MDB scandal—they continue to face significant limitations. For example, in addition to the number of outgoing MLA in this regard, Malaysia has not assisted any foreign country in confiscating illicit assets originating from Malaysian crimes. The limited engagement in international cooperation, particularly through MLA, raises concerns about Malaysia's effectiveness in pursuing cross-border asset recovery and a lack of proactivity.

541. Malaysian LEAs indicated that while there is no specific policy in place with respect to the confiscation of proceeds, instrumentalities and property of equivalent value of illicit proceeds located abroad, they are engaged in discussions on how to increase efficiency. During the onsite, LEAs stated that more sophisticated tools are required to trace assets internationally, coupled with the ability to quickly freeze assets outside of Malaysia. While MLA has been used in limited cases to locate and recover assets moved abroad, the process is challenging and slow. Improvements in the MLA process, such as better prioritisation, could improve the tracing and seizing of criminal assets located abroad. Overall, aside from a few high-profile cases, Malaysia has shown limited outcomes in pursuing assets moved offshore, with one notable exception (see case study below, Box 8.4). Criminals who move their proceeds out of Malaysia

do not appear to have been at serious risk of having it confiscated, which is not making crime unprofitable in these circumstances and is a vulnerability given the country's risk profile.

Box 8.4. Illicit proceeds moved abroad case study

In November 2021, a foreign FIU shared information with Malaysia's FIU regarding three Malaysian individuals. A foreign currency exchanger had raised concerns that VAs in the clients' accounts were linked to a Ponzi scheme, citing significant transaction flows to a gambling website and involvement in a cryptocurrency investment scam. Following this disclosure, the RMP opened an investigation paper. Acting swiftly, the RMP submitted an MLA request and secured a court order to prohibit dealings with the properties under investigation. As a result, funds amounting to EUR 42.05 million were frozen in October 2021.

RMP investigations confirmed that the VAs reported by the foreign FIU were connected to a fraudulent Ponzi scheme that had previously operated in Malaysia. The scheme was promoted via social media platforms, promising investors a daily return of 1%, along with a 10% referral commission for recruiting new participants. In June 2021, the RMP successfully confiscated assets worth EUR 1.06 million including bank accounts, vehicles, and bank drafts. However, at that time, no VAs were successfully seized. In May 2023, Malaysia submitted an MLA request seeking both the restraint of property dealings and the production of related documents. The foreign central authority for MLA subsequently informed Malaysia that the targeted properties had been restrained, and the requested documents had been transmitted. In November 2023, the foreign country enforced a Malaysian court order. The case led to an application for NCBF under AMLA. The VAs are currently the subject of a forfeiture application.

8.2.5. Repatriation, sharing and restitution

542. Under Malaysia's confiscation regime, confiscated assets can either be returned to the victim or *bona fide* third party or vested in the Government of Malaysia, depending on the circumstances of the case. Assets may be repatriated to the rightful owners at any stage of a ML investigation (e.g., freezing, seizing or conclusion of ML investigation), if there is clear evidence of their ownership and the assets are not connected to the ML offence. If repatriation is not feasible (if illegal proceeds are co-mingled with legal assets, the rightful owners are unable to be identified, or claims exceeds the seized assets' value) forfeiture will only proceed after third-party proceedings, to allow claimants to establish their legitimate rights against the assets in court. Should an asset be forfeited and vested in the Government of Malaysia, AMLA provides a legal avenue for *bona fide* third parties, who acted in good faith and were unaware of the asset's illicit connection, to challenge the forfeiture in court. There are no statistics available regarding third-party remediation.

543. Malaysian authorities have established specific structures dedicated to asset recovery and repatriation of funds to victims. The NSRC is a joint effort between the NFCC, RMP, BNM, MCMC, supported by FIs and telecommunications companies, to address the growing number of cyber fraud cases in the country, including online financial fraud (phishing scams, phone scams, malware attack scams, parcel scams and love scams). Established in October 2022, the NSRC has achieved favourable results, including actions taken on 130 721 suspected mule accounts, 18 749 investigations opened on fraud with EUR 1.97 million seized under the Criminal Procedure Code and EUR 576 000 returned to victims, and 89 ML investigations, with EUR 16.93 million frozen and EUR 7.88 million seized.

544. Furthermore, between 2019 and June 2024, the SC disgorged (i.e., recovered) EUR 29.89 million—representing up to three times the value of illicit gains—pursuant to Sections 200 and 201 of the CMSA.

Of these surrendered proceeds, EUR 2.37 million was allocated for restitution to 2 367 affected investors (primarily related to insider trading).

545. Since 2019, approximately EUR 18.59 million has been restituted to victims. From the data provided, the vast amount of restitution relates to fraud (including scams) within Malaysia and throughout the region. While Malaysia has recovered significant sums for victims of fraud, restitution has also been secured for various other crimes such as robbery and forgery. Despite some uneven results, the Assessment Team sees the implementation of the NSRC and the NFP as positive steps in continuing improvement of restitution results for victims of fraud/scams. Table 8.6 provides an overview of restitution since 2019.

Table 8.6. Total Restitution by Year (EUR in Millions)

	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
AMLA								
Fraud	1.80	6.74	2.77	2.53	0.26	0.37	0.03	**14.50**
Organised Crime	-	-	-	0.01	-	-	0.00	**0.01**
Other	0.01	0.56	0.97	0.00	-	-	0.00	**1.54**
Capital Markets and Services Act (i.e., SC Disgorgement)								
Other (Insider Trading)	0.27	0.83	0.59	0.33	0.06	0.40	0.05	**2.54**
Grand Total	2.07	8.13	4.33	2.87	0.33	0.78	0.08	**18.59**

8.3. Confiscation of falsely or undeclared cross-border transaction of currency/BNI

546. Malaysia has a sound legal framework for the declaration and identification of cross-border movements of currency and BNIs (CBNIs). As outlined in R.32, residents and non-residents are required to declare incoming and outgoing CBNI exceeding USD 10 000 or its equivalent through a declaration form to RMCD. Notices are placed at all entry and exit points to give warning to travellers of their obligation to make a declaration. In the 2015 MER, it was noted that there was a low number of declarations, seizures, forfeitures and penalties imposed in relation to Malaysia's CBNI declaration system.

547. Based on a review of the statistics and case studies from 2019-2025, the Assessment Team notes some improvements in Malaysia's system, such as a comparatively higher number of declaration forms submitted to RMCD as compared to the 2015 MER (e.g., approximately 20 000 vs. 4 000). It should be noted that these activities cover the period of the COVID-19 pandemic when the Government of Malaysia imposed border restrictions for more than two years. However, overall, the Assessment Team finds that Malaysia is not confiscating falsely declared or undeclared cross-border currency and BNI in line with its risk profile. Moreover, the sanctions for violations of these declaration requirements are not effective, proportionate and dissuasive.

548. Malaysia's 141 ports of entry (POE) vary in terms of legal requirements (71 international POEs are gazetted areas administered by RMCD for the purpose of CBNI declaration), size, risk and traffic volume, including some low-volume or low risk POEs such as minor jetties or rural land crossings. The RMCD is responsible for administering and enforcing customs laws and the CBNI reporting requirements and for investigating predicates and associated ML. In total, the RMCD has 400 officers at all 71 POEs, employs various resources and technologies at Malaysia's POE and allocates a higher number of enforcement officers to POE with higher traffic (e.g., Kuala Lumpur International Airport 1 and 2, Johor-Singapore land crossings, northern land crossings). All checked luggage and parcels (courier) undergo screening, with random checks based on profiling and indicators as explained in RMCD SOP for Detection of CBNI cases.

549. In late 2024, Malaysia brought into operation legislation to establish the Malaysia Border Control and Protection Agency, to coordinate the functions of various enforcement agencies currently stationed at POE and to oversee the 141 POE. While it is expected that this new agency will help to improve the confiscation of falsely declared or non-declared CBNI, it was not yet fully operational as of the onsite visit.[89]

550. In May 2016, Malaysia established the NCC Sub-Committee on Implementation and Enforcement of CBNIs (SCBNI), which is composed of key agencies with border enforcement responsibilities, including RMCD, RMP, BNM, Immigration, AGC, and MMEA. The mandate of the SCBNI is to: (i) strengthen operationalisation of the CBNI declaration regime at border points; (ii) ensure effective use of CADS for record keeping and as a data source for profiling and risk assessment; (iii) enhance cooperation and information sharing for effective targeting in the prevention of ML and TF; and (iv) develop appropriate recommendations or measures to mitigate cash smuggling.

551. The establishment of the SCBNI has led to positive improvements to the cross-border coordination and information sharing amongst authorities. Notably, CADS, the system that logs and tracks CBNI declarations is in the process of being integrated with other systems such as FINS and the NFCC's National Crime Intelligence System, which will improve tracking and identification of ML and TF threats. Nevertheless, as noted under IO.6, LEAs already have direct access to CADS. Authorities also reported that the SCBNI meets twice per year and these meetings take place at POE. The meetings provide an opportunity to conduct an audit of the ports of entry and to ensure compliance with policies and procedures. While this is a positive measure, the Assessment Team finds it insufficient given Malaysia's numerous POE. A more robust and comprehensive audit function is necessary to effectively monitor and enforce compliance across all entry points. This need is further underscored by Malaysia's ML/TF/PF risks, particularly due to its cash-intensive economy and strategic regional position, which make it vulnerable to illicit financial flows.

552. Despite the above improvements introduced since Malaysia's last MER, results related to the confiscation of falsely declared or non-declared CBNIs are not in line with Malaysia's risk and context. Specifically, Malaysia's reliance on cash and role as a key regional transit point make it vulnerable to illicit financial flows and criminal activity. It serves as a gateway for smuggling illicit goods, as well as the movement of illicit funds tied to criminal syndicates.

553. Based on the number of cross-border cash declarations reported between 2019 and 2025 (20 439), asset forfeitures are disproportionately low relative to both the volume of declarations and the value involved (see Table 8.7 below). For instance, during this period, EUR 16.58 billion worth of CBNI was declared. However, only EUR 3.84 million (or just 0.023%) was seized, and an even smaller amount—EUR 313 456 (just 0.002%)—was ultimately forfeited. This extremely low forfeiture rate raises concerns about the effectiveness of Malaysia's border controls and enforcement mechanisms. It suggests that, despite the substantial volume and value of cross-border declarations, very few suspicious or undeclared CBNI are identified, investigated, and subjected to recovery. While authorities indicated during the onsite that the volume of cash declarations can partly be attributed to money changers moving large amounts of cash legitimately across the border, the low number of investigations, seizures and forfeitures indicates a systemic issue.

[89] Malaysia notes that the Malaysia Border Control and Protection Agency will be subsuming some resources and mandates from other agencies to achieve full implementation by 2028.

Table 8.7. Cross-border declarations and enforcement action (EUR)

Year	# of Declarations	Value of Declarations (Billion)	Cash Seized	Cash Forfeited	Investigations (Prosecutions)	Fines	Compounds	# of Compound Cases
2019	6 853	5.17	1 969 534	278 930	10 (2)	64 650	6 681	7
2020	1 628	1.64	226 999	34 528	5 (0)	-	87 718	3
2021	120	0.65	19 914	-	1 (0)	-	7 974	1
2022	2 935	2.94	147 125	-	5 (0)	-	48 272	5
2023	5 450	4.16	774 424	-	8 (0)	-	45 255	3
2024	5 671	3.07	682 766	-	12 (0)	-	63 282	6
2025 (Feb)	784	0.43	21 551	-	1(0)	-	-	0
Total	**23 441**	**18.06**	**3 842 313**	**313 456**	**42 (2)**	**64 650**	**259 182**	**25**

554. As illustrated in the table above, 42 investigations have been initiated since 2019 in response to violations of Malaysia's CBNI declaration requirements.[90] However, enforcement outcomes have been limited: only one case (from 2019) has resulted in a criminal conviction, involving a EUR 64 650 fine and a one-year prison sentence (related to fraud). In addition, 25 cases have been resolved through the application of compounds totalling EUR 259 182. While this reflects a modest improvement compared to the 2015 MER, the scale of enforcement remains inadequate, particularly when viewed against Malaysia's elevated risk exposure. The limited number of sanctions, especially the fact that only one criminal fine has been imposed in over five years, suggests that the current system lacks effective deterrence.

555. Malaysia notes that it is working with regional and international partners to share information and improve CBNI declaration results. There are MOUs in place between the FIU and AUSTRAC and the Brunei Darussalam FIU regarding cross-border information sharing. Authorities report that there are ongoing efforts to establish MOUs with other regional partners, including Singapore, Thailand and Indonesia. Outside of MOU arrangements, Malaysia shares financial intelligence with Lao PDR, Vietnam and Thailand, including in relation to cross border CBNI.

556. While Malaysia has established the legal and institutional framework necessary to implement a CBNI declaration regime, the actual outcomes in terms of seizures, forfeitures and sanctions remain disproportionately low. This enforcement response does not align with the scale of Malaysia's cash-based economy, the volume of cross-border movements of people and capital, nor the country's elevated risk profile as a regional financial centre and transit hub for illicit flows. Although operational coordination and enforcement efforts have shown improvement since the 2015 MER, these gains appear to be incremental rather than transformative, and fundamental improvements are needed with respect to both the investigation of declared and undeclared CBNI.

8.4. Consistency of confiscation results with ML/TF risks and national AML/CFT policies and priorities

557. According to NRA 2023, Malaysia identifies fraud, corruption, illicit drug trafficking, smuggling, and organised crime as the predicate offenses posing the highest ML threat. These are followed by tax crimes, forgery, human trafficking/migrant smuggling, sexual exploitation, and environmental crime. Malaysia's overall recovery results for corruption, fraud and drug trafficking reflect to some extent Malaysia's risk and

[90] Malaysia notes that 10 investigations are still ongoing.

context, but for the other high-risk predicate offences, the results indicate room for improvement. This may be due to the overwhelming focus on fraud (including scams), which remains deeply pervasive in the country and the Southeast Asian region. Additionally, Malaysian authorities have been heavily burdened by the 1MDB case and the critical priority of repatriating public funds, which may have diverted limited resources from other areas.

558. Overall, Malaysia has improved its confiscation results since the 2015 MER. The 1MDB case is a remarkable example of the country's dedication and focus on asset recovery, as well as a positive example of international cooperation to repatriate misappropriated assets. In addition to 1MDB, Malaysia provided several other examples where authorities (i.e., MACC) have successfully recovered corruption-linked assets. Therefore, Malaysia's asset recovery efforts in relation to corruption is in line with the country's risk profile.

559. Moreover, Malaysian authorities have effectively targeted fraud, with asset recovery playing a key role in these efforts. The work of the NSRC and NFP in tracing criminal proceeds and recovering stolen assets is noteworthy, especially considering the recent establishment of these initiatives.

560. However, as noted above, forfeiture results for smuggling and organised crime remain low, despite the severity and impact of these crimes. The lack of substantial asset recovery in these areas raises concerns about whether law enforcement efforts are effectively addressing the full spectrum of Malaysia's ML threats. With respect to organised crime, which Malaysian authorities indicate includes illegal gambling and loan sharking, seizures and forfeitures are executed under AMLA. Between 2019 and February 2025, assets worth EUR 6.85 million were forfeited, of which EUR 6.43 million was successfully recovered by the Malaysian government, averaging approximately EUR 1.2 million per year. Considering that organised crime is one of Malaysia's highest-risk predicate offences, this amount is relatively low. The figures reflect Malaysia's predominant focus on corruption and fraud investigations, often at the expense of other high- and medium-high-risk crimes. Furthermore, case examples suggest that enforcement efforts are concentrated on relatively small-scale offences, leading to limited forfeitures and raising concerns that Malaysia is not effectively targeting major organised crime networks.

561. Malaysia has made some progress in confiscating proceeds from drug offences under the DDFOPA. Since 2019, authorities have forfeited approximately EUR 21.85 million in assets linked to drug-related crimes. However, this amount appears low in absolute terms—averaging EUR 3.64 million per year—especially considering Malaysia's risk profile and proximity to the Golden Triangle region. As previously noted, a significant gap remains between the value of assets seized and the final amount successfully confiscated.

562. Moreover, the Assessment Team has concerns about the disproportionately low levels of asset seizure, forfeiture, and recovery associated with predicate offences assessed as medium-high risk, including tax offences, forgery, human trafficking and migrant smuggling, sexual exploitation, and environmental crime. Despite the recognised threat level of these offence types in Malaysia's NRA, the quantum restrained and ultimately forfeited in connection with these crimes appears statistically insignificant when compared to overall asset recovery figures. This suggests a potential misalignment between risk and operational focus and may point to challenges in the initiation or progression of financial investigations, identification of assets, or the application of available forfeiture tools.

563. Finally, confiscation results for falsely declared or undeclared CBNIs are not aligned with Malaysia's risk profile. Given Malaysia's cash-intensive economy, its regional positioning, and the ease of transporting CBNIs across its borders, asset recovery efforts must be significantly strengthened. Each year, billions worth of currencies flow across Malaysia's borders, and while seizures are substantial, the amount forfeited remains minimal.

9 Terrorist financing investigations and prosecutions

The relevant Immediate Outcomes considered and assessed in this chapter is IO.9 The Recommendations relevant for the assessment of effectiveness under this chapter are R. 5, 30, 31 and 39 and elements of R. 1, 2, 15, 32, 37 and 40.[91]

Key Findings, Recommended Actions and Conclusion and Rating

Key Findings

a) Malaysia has a reasonably sound understanding of its TF risks, informed by five NRAs and various other assessments, including thematic and regional assessments. The NRA 2023 states that Malaysia is not a destination for TF. Most TF cases are often self-financed or perpetrated by sympathisers or supporters who are influenced by terrorist groups ideologies.

b) Since its 2015 MER, Malaysia has centralised TF investigatory responsibilities exclusively within the SB of the RMP. The SB systematically considers the financial component of terrorist activities, which has led to the detection, investigation and prosecution of TF. These organisational changes have had a positive impact on Malaysia's effectiveness in combating TF.

c) Since 2019, Malaysia has investigated 12 individuals for TF and prosecuted four. The overall number of TF investigations and prosecutions is in line with Malaysia's risks. Most TF investigations and prosecutions relate to ISIL, which does not fully reflect the regional TF risk profile of Malaysia, for example the risks related to the Abu Sayyaf Group and Jemaah Islamiyah.

d) Between 2019 and February 2025, Malaysia convicted seven individuals of TF, with sentences of imprisonment ranging from 1.5 to six years. The Assessment Team has concerns related to the dissuasiveness of TF sanctions imposed in practice by the High Court, as there have been several appeals (occurring between 2016-2017) resulting in significant increases in the initial TF sentences imposed by the Court.

e) Information related to the investigation, prosecution and conviction of TF are used in the formulation of national counterterrorism strategies, including Malaysia's NCC Roadmap 2024-2026. Information and intelligence obtained in TF investigations, prosecutions and convictions

[91] Recommendations 1, 2, 6, 7, 8, 14, 15, 16, 32, 38 and 40 are under review; see Technical Compliance Annex.

is also used to support national counterterrorism activities, including domestic terrorist designations to the MoHA list and de-radicalisation efforts.

f) In cases where it is not practicable to secure a TF conviction, LEAs can implement alternative measures to disrupt TF activities. These measures include pursuing prosecutions for other related criminal offenses, such as terrorism and firearms-related crimes. Additionally, when TF elements are identified but convictions are unattainable, the SB uses various preventive measures, including the enforcement of preventive laws, immigration regulations and TFS.

Recommended Actions

a) The Special Branch and FIU should more proactively examine possible financing activities related to regional terrorist groups, including Abu Sayyaf Group, Jemaah Islamiyah and the evolving threat of terrorism from international conflicts that could potentially impact TF in the region.

b) Malaysia should develop sentencing guidelines for TF cases, by examining existing laws, best practices and case law.

Overall Conclusions on IO.9

Malaysia has a reasonably sound understanding of its domestic and international terrorism threats and the TF risks associated with those threats. The country also has a robust legal framework and combatting TF is assigned a high priority. The SB systematically considers the financial component of terrorist activities, which has led to the detection, investigation and prosecution of TF. Since 2019, the SB has investigated a total of 12 TF cases and secured 18 TF prosecutions and seven convictions. Most TF investigations and prosecutions relate to ISIL and do not fully reflect the regional TF risk profile of Malaysia, specifically the risks related to the Abu Sayyaf Group and Jemaah Islamiyah. This shortcoming is notable given the regional risks and Malaysia's role as a source and transit country for TF.

The sanctions applied to the seven individuals convicted since 2019, range from 1.5 to six years; however, six of the seven convictions are below three years. While low, these sanctions appear proportionate to the scale of the TF activity. Nevertheless, the Assessment Team has concerns related to the dissuasiveness of TF sanctions imposed in practice by the High Court, as there have been several appeals by the prosecution to increase TF sentences imposed.

Malaysia is rated as having a Substantive level of effectiveness for IO.9.

Immediate outcome 9

564. As noted in IO.1, Malaysia has a reasonably sound understanding of its TF risks, informed by five NRAs and various other assessments, including thematic and regional assessments. Since its 2015 MER, Malaysia's TF risk profile has declined, particularly with the fall of ISIL influence globally and on extremist groups regionally. Additionally, Malaysia's strict movement restrictions implemented during COVID-19 from 2020 to 2022 further reduced the risk of TF by limiting the movement of people. Prior to 2020, Malaysia was used as a source of TF and recruitment for foreign terrorist groups, including several cases where Malaysians were recruited to travel to Syria to join ISIL. ISIL successfully launched an attack in Malaysia in mid-2016 at a nightclub, where eight individuals were injured (the Movida Bar bombing). After 2020, Malaysia assessed its TF risk as "Medium High" given the return of FTFs and the potential spread of

associated radical ideologies and influence on terrorist-linked groups and sympathisers in the South-East Asian region. In 2023, Malaysia reduced its TF risk assessment to "Medium" due to an observed downward trend of terrorism and TF cases; the further weakening of Islamic State in Syria, the Philippines and Indonesia; its shifting influence towards Africa; and the emergence of lone-wolf and self-radicalised terrorist fighters.

565. In line with a Recommended Action contained in its 2015 MER, Malaysia has centralised TF investigative responsibilities exclusively within the Special Branch (SB) of the RMP, assigning 11 commissioned officers (and 11 non-commissioned officers) dedicated solely to TF investigations. Previously, TF investigations were conducted by the RMP's AMLA Unit, which specialises in ML investigations. The SB is the intelligence unit of the RMP and is responsible for national security and counterterrorism. This structural change—along with SB's close engagement with the FIU, the private sector and regional partners—has resulted in improvements to Malaysia's effectiveness in CFT since 2015.

9.1. TF activity identified and investigated

566. TF activity is primarily identified through three main sources in Malaysia: (1) as a result of the SB's consideration of the financial aspects of its terrorism investigations; (2) intelligence provided through the PPP established by the SB and the FIU; and (3) information sharing from domestic (e.g., FIU and LEAs) and foreign counterparts.

567. First, as Malaysia's primary counterterrorism authority, the SB is well-equipped to assess and identify TF components in all terrorism investigations. Consequently, this is the most common method of detecting TF activity in the country.

568. Second, the TF PPP—established in January 2017—enables the SB to share privileged tactical information with Malaysia's FIU and selected major banks and money services business with a higher risk of terrorism and TF. This has resulted in FIs submitting higher-quality and more targeted TF-related STRs while also providing strategic intelligence from the FIU on modus operandi, red flags, and intelligence reports to enhance the identification of TF transactions. Since 2017, the PPP has yielded several notable outcomes, including: (i) the arrest and prosecution of 21 individuals for TF activities, (ii) the arrest and deportation of two foreign nationals; and (iii) significant increase in the number of STRs related to TF. Case study box 4.3 demonstrates the successful use of the TF PPP.

569. Third, Malaysia identifies TF cases through domestic counterparts, including the FIU and other LEAs. Collaboration between the SB and FIU has been effective, enabling the SB to successfully trace funding activities linked to terrorism. The below table highlights the frequent requests and information the SB receives from the FIU to support its terrorism and TF investigations. The notable high number of formal requests in 2020 and 2021 is attributed to heightened monitoring of potential terrorism or TF activity arising from FTFs, plots by ISIL sympathisers, and the release of a Jemaah Islamiyah leader from imprisonment in Indonesia. Since 2023, the SB has direct access to FINS to inform its investigations. With direct access to STR and CTR information through FINS, the SB immediately obtains a suspect's profile and performs an immediate assessment of a potential financing element in terrorism investigations.

Table 9.1. Financial Intelligence Requested and Received by the SB from the FIU

Information Requested/Received	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
Formal Requests from SB to FIU	61	103	117	32	31	51	5	**400**
FINS Data Requests	-	-	-	-	30	222	21	**273**
Proactive Disclosures on T/TF from FIU to SB	47	27	8	10	21	19	4	**136**

570. As noted in the table above, since 2019, Malaysia's FIU has sent 136 proactive disclosures to the SB related to terrorism and TF. Such disclosures contain comprehensive analyses of STRs, CTRs, remittance and money-changing records, cross-border cash declarations, other financial and background information and supporting documents (e.g. CDD document and bank statement). For analysis of complex terrorism or TF cases, the disclosure may also include network analysis. Generally, the FIU's disclosures have helped to expedite terrorism and TF investigations, especially in the identification of sympathisers, financiers, facilitators, overseas recipients and the expansion of networks.

571. Regarding international cooperation, the SB frequently uses formal or informal channels to request and share information with foreign counterparts to identify and investigate terrorism and TF cases. These requests include information exchanged through INTERPOL channels. Most formal requests received or sent relate to tracing, profiling and transaction records. Where foreign elements are detected, the SB shares the information with relevant foreign counterparts between 24 hours to five working days via formal or informal channels. In practice, the response time from foreign counterparts vary depending on the available data. The below table (9.2) summarises the formal international requests received and sent by the SB in relation to terrorism and TF.

Table 9.2. Formal information sharing between SB and foreign counterparts

Year	No. of Request Received	No. of Request Sent
2019	289	66
2020	138	51
2021	220	65
2022	164	54
2023	161	45
2024	168	24
2025 (Feb)	6	21
Total	**1 146**	**326**

572. In addition to formal cooperation, the SB frequently exchanges information with counterterrorism authorities from neighbouring countries and regional partners through informal channels. The SB has close contacts with key personnel from other jurisdictions and leverages on the contacts, especially during time-sensitive investigations when rapid information exchange is necessary. For instance, the SB's strong relationship with Indonesia's Densus 88 has enabled information gathering for each terrorism and TF case involving Indonesia. The below case study outlines an example related to informal cooperation between Malaysia and foreign counterparts to conduct joint analysis, leading to the arrest and prosecution of the main subjects in the Philippines in 2023 and 2024.

Box 9.1. Informal international cooperation on TF

Since 2016, several regional FIUs participated in an analyst exchange programme. In 2018, a case was initiated by this programme where financial intelligence analysts from Malaysia, the Philippines, Indonesia and Australia jointly analysed a TF network involving Malaysian subjects remitting funds to ISIL in the Philippines.

In Malaysia, the case was discussed during in the PPP between the SB, FIU, and several RIs, including major banks and remittance service providers. Following the meeting, RIs submitted more than 70 STRs on the subjects. Malaysia's FIU also produced proactive disclosures to the SB and the FIU in Philippines.

The joint analysis resulted in the arrest and prosecution of the main subjects in the Philippines in 2023 and 2024, domestic designation of the two main subjects on Malaysia's MoHA list, and the freezing of approximately EUR 112 000. Following prosecution of the main subjects in the Philippines, Malaysia arrested and prosecuted one of the listed subjects in Malaysia in 2024.[92]

573. In terms of the stages on TF investigations, a general file is opened followed by an investigation paper after assessing that the subject poses a security threat based on intelligence sources and security vetting, and when multiple reports indicate the same subject. Once sufficient intelligence has been gathered, an investigation paper is initiated. As noted above, the SB systematically initiates TF investigations when any financing element is identified during the investigation of terrorism. Therefore, most TF investigations arise from the network, connection and transaction tracing conducted on terrorism cases investigated, especially pertaining to financial intelligence gathered on immediate family members and associates of terrorism subjects.

574. Since Malaysia's 2015 MER, there were a total of 33 TF cases investigated by the SB (and 179 terrorism investigations). As indicated in the table below, more recently, there have been 12 TF investigations (and 58 terrorism investigations) since 2019. For reference, the 2015 MER noted 40 TF investigations between 2010 and 2014.

Table 9.3. Terrorism and TF Investigations

Investigation Paper opened	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
TF	2	1	2	-	7	-	-	**12**
Terrorism	30	4	1	1	4	18[93]	-	**58**

575. The number of TF investigations opened corresponds to the risks associated with the rise and subsequent decline of ISIL. Malaysia also faces regional TF risks linked to groups such as the Abu Sayyaf Group and Jemaah Islamiyah. Despite these risks, of the 12 TF investigations carried out since 2019, none pertain to Jemaah Islamiyah. Seven TF investigations conducted since 2019 relate to Abu Sayyaf (when not affiliated with ISIL) and five correspond to returning FTFs with ISIL links. Malaysia notes that other measures are used more often to disrupt terrorism and TF linked to regional groups (see the section below on alternative measures and IO.10 on use of TFS).

[92] The case was successfully convicted in March 2025, with 15 TF charges and one terrorism charge.

[93] The surge in investigations in 2024 is linked to a lone-wolf attack on a police station in May, which resulted in the deaths of two police officers and the assailant.

9.1.1. Investigations identifying the specific role of terrorist financier

576. In terms of the role of TF financiers, investigations opened since 2016 largely involved individuals affiliated with ISIL as financiers. One individual was found to be both the financier and the recipient. To date, there have been no TF cases related to legal persons and the misuse of NPOs.

9.2. Prosecuting and convicting different types of TF

9.2.1. TF prosecutions

577. Prosecution of TF (and terrorism) offences in Malaysia is the responsibility of the AGC, particularly the Serious Crimes Unit under the Prosecution Division due to their high profile, sensitive nature and need for security measures during trial. This contrasts with many other serious crimes such as drugs and other cases (with punishment of 10 years or more of imprisonment), where such cases are handled by the DPPs stationed across the country.

578. The Serious Crimes Unit currently has 12 DPPs and two support staff who are specialised in prosecuting serious crime cases, including terrorism and TF. The Unit provides legal advice to the SB to strengthen evidence for terrorism and TF prosecutions. The Unit collaborates with the SB before the suspect's apprehension through to prosecution, ensuring a well-coordinated prosecution strategy.

579. In 2015, Malaysia's MER reported no prosecutions or convictions for TF, and therefore, no sanctions were applied for the offense. However, in the years since, Malaysia has identified TF cases, conducted investigations, and successfully prosecuted and convicted offenders. Malaysia attributes this success to the centralisation of TF investigative responsibilities exclusively within the SB, which took place in 2016.

580. Since 2016, Malaysia has prosecuted 21 individuals for TF (and 177 individuals for terrorism). More recently, Malaysia has prosecuted four individuals for TF (and 48 individuals for terrorism).

Table 9.4. TF and Terrorism Prosecutions

Prosecutions	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
Terrorism Financing								
Individuals Charged	2	-	-	1	-	1	-	**4**
No. of Charges*	2	-	-	1	-	15**	-	**18**
Terrorism								
Individuals Charged	21	4	-	1	-	21	1	**48**
No. of Charges*	45	-	-	-	-	49	1	**95**

*Note: One individual may have multiple charges.
**Note: One individual prosecuted in 2024 was convicted in March 2025 (after onsite).

581. As indicated in the above table, there were no TF prosecutions in 2020 and 2021 during the COVID-19 pandemic, which Malaysia attributes to the restriction on movement and activities; limited international cooperation and information-sharing mechanisms; and unintended delays and disruptions in judicial processes, including reduced court operations, and postponements of trials.

582. Prosecution of TF activities primarily focussed on the collection stage conducted directly by sympathisers, as well as by third parties. Information from the investigations into fund movements and

usage was used as supporting evidence in the prosecutions. Key individuals in more complex networks were monitored, identified and prosecuted. Individuals charged for TF and terrorism were usually Malaysian citizens or permanent residents as the foreign nationals were deported or extradited. There were no TF prosecutions of natural persons that involved NPOs or legal persons. Of the 18 TF prosecutions secured since 2019, all related to the offence of dealing with terrorist property. Nearly all TF prosecutions relate to the financing of ISIL and for travel of FTFs to Syria. Those charged and convicted are supporters and sympathisers of FTFs located in Syria and Iraq, mainly in the form of family members in Malaysia sending small amounts through money remitters, in line with Malaysia's key TF risk profile. Malaysia also faces regional TF risks linked to active terrorist groups in Indonesia and the Philippines where this is active engagement with regional LEAs on terrorism and other disruption efforts. The nature and number of TF prosecutions has not reflected Malaysia's role as a source and transit country for TF.

9.2.2. TF Convictions

583. In Malaysia's 2015 MER, the country had no TF convictions as there were no prosecutions recorded during the assessment period. Since 2016, Malaysia reports 48 TF prosecutions, resulting in 20 individuals convicted for TF (including 33 TF charges). More recently, since 2019, there have been 18 TF prosecutions and seven TF convictions (compared to 33 convictions for terrorism). The below table (9.5) provides a yearly breakdown of TF and terrorism convictions secured since 2019.

Table 9.5. TF and Terrorism Convictions

Convictions	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
Terrorism Financing								
Individuals Convicted	4	-	2		1	-	-	**7**
Terrorism								
Individuals Convicted	21	4		1		3	4	**33**

584. All TF cases prosecuted have resulted in successful convictions. Malaysia indicates that no acquittals were granted since 2019, and the high conviction rate is a result of robust evidentiary collection and inter-agency cooperation. A 100% conviction rate on TF could confirm the thorough work of the SB in gathering evidence and of prosecutors in presenting only persuasive cases. The Assessment Team could not determine any substantive reasons for the difference between the ML and TF conviction rates.

9.3. Effectiveness, proportionality and dissuasiveness of sanctions

585. According to Malaysia's legal framework, TF is punishable by a term of imprisonment of up to 30 years, and where the TF-related offences resulted in death, the death penalty may be applied. In addition to sentences of imprisonment, fines may also be applied. These sanctions are assessed as proportionate and dissuasive (see R.5). As a point of comparison, terrorism offences are punishable by the death penalty, life imprisonment, or up to 30 years of imprisonment. However, in practice, Malaysia has provided case studies where terrorism convictions resulted in sentences as short as 10 years.

586. In practice, since 2016, those convicted of TF have received a sentence of imprisonment ranging from less than three years to 10 years. The highest sentence during the assessment period (2019-2025) was applied in 2019, when the individual was sentenced to six years of imprisonment; however, the average sentence was 2.5 years imprisonment. The most recent TF conviction was secured in 2023, when the

perpetrator was sentenced to 1.5 years of imprisonment. The below table (9.6) summarises the seven TF sentences secured during the assessment period.

Table 9.6. TF Sentences (2019 to February 2025)

Individual #	Year of Conviction	TF Sentences	Parallel Terrorism Sentence
1	2019	6 years	10 years
2	2019	3 years	
3	2019	1 year	3 years
4	2019	2 years	1 year
5	2021	2 years	
6	2021	2 years	
7	2023	1 year 6 months	
Average TF sentence		**2.5 years**	

587. The below case study box (9.2) summarises the facts of five of the TF convictions secured since 2019.

Box 9.2. Case Studies of TF Convictions since 2019[94]

2019 Conviction

A former taxi driver was charged and found guilty on three counts of supporting a terrorist group (ISIL). He was charged under subsection 130J(1)(a) of the Penal Code for lending support to ISIL via Telegram and was sentenced to 10 years imprisonment. He was also charged under subsection 130JB(1) of the Penal Code with possessing 21 video clips and 10 still images relating to a terror group and sentenced to three years imprisonment. The individual was convicted of the TF offence (section 130Q) and sentenced to six-year imprisonment. The individual ultimately served a ten-year imprisonment term for the concurrent sentence with other terrorism-related conviction (i.e. subsection 130J(1)(a)).

2019 and 2021 Convictions

In 2018, an individual deposited approximately EUR 42 into a bank account belonging to a Malaysian ISIL member and recruiter based in Syria. Nine STRs were filed on this individual by four banks from 2017 to 2022 based on sharing information as part of the PPP. As a result of the PPP initiative, the SB expanded the network from the remittance transactions and counterparties provided by the MSBs, which had led to further disclosures to foreign counterparts on additional subjects identified. The related foreign accounts were believed to be involved in the distribution of funds for terrorist purposes in a neighbouring country. As part of the PPP, the SB collaborated with the FIU and a bank to profile, locate and arrest the suspect in October 2018. In 2019, the individual was convicted for TF and sentenced to three years' imprisonment for TF.

Based on intelligence sharing from Indonesian authorities, it was discovered that three Malaysians transferred approximately EUR 62 to an Indonesian who was arrested for planning to carry out a terrorist attack at a nearby police station. The funds were believed to be used to purchase materials for manufacturing homemade firearms. The information was shared with the FIU to assist in identifying financial links and patterns. In June 2018, the SB arrested the suspect and confirmed the involvement of two other Malaysians in providing financial support to the Indonesian terrorist network. The SB also

[94] Malaysia secured an additional conviction in March 2025, after the onsite visit. The convicted person was sentenced to five years in prison on 15 TF charges and three years for a terrorism charge (to be served concurrently for a total of five years).

uncovered that the suspects were committed to carry out terrorist attacks in Indonesia and had travelled to a city in Central Java to conduct reconnaissance on their intended target. The Malaysian suspect was sentenced to two years imprisonment in 2019 under both terrorism and TF charges, while the other two Malaysians were later sentenced to two years imprisonment in 2021.

2023 Conviction

The SB received intelligence on a Malaysian who was suspected of sending money to a financial facilitator for ISIL who was based in Country X and listed by the United States' Office of Foreign Assets Control. The Malaysian individual was charged on 7 November 2022, for indirectly facilitating the channelling of funds amounting to approximately EUR 1 099 via a remittance agent to benefit ISIL. Following the collaborative efforts between the SB and United States counterparts, in November 2022, crucial evidence was unveiled regarding the receiver's history of involvement in TF activities. This information led to the successful conviction in May 2023, when he was sentenced to one year and six months imprisonment.

588. As indicated above, six out of the seven sentences imposed for TF convictions secured since 2019 have all been for less than three years. While low, these sanctions appear proportionate to the scale of the TF activity. In determining the sentences, the High Court considered various factors, including the defendants' level of cooperation (such as whether they pleaded guilty) and the extent of their radicalisation. Malaysia authorities also complement the punishment with de-radicalisation, rehabilitation and reintegration programs. Three of the TF cases from 2019 also included terrorism charges in addition to TF, and the sentences were served concurrently.

589. Malaysia notes that there has been no intention to appeal any convictions secured since 2019, as the sentencing decisions were considered proportionate to the gravity of the offences, considering their nature, the evidence, and the facts of each case.

590. Nevertheless, the Assessment Team questions the dissuasive nature of TF sentences imposed by the High Court. In particular, the Assessment Team notes three instances (two in 2016 and one in 2018) where the Court of Appeal ruled in favour of the prosecution and increased TF sentences from five years to 12 years; three to 15 years; and four to eight years of imprisonment. While the final sentences imposed were substantial, the disparity between initial sentences and the significantly longer sentences imposed by the Court of Appeal suggests a potential underestimation of the severity of TF crimes at the High Court level. This inconsistency may weaken the deterrent effect of TF-related penalties and create uncertainty around judicial sentencing. However, it also reflects the checks and balances within Malaysia's judicial system, particularly the appellate process, which allows higher courts to overturn lower court decisions.

591. The Court of Appeal's decisions to substantially increase sentences during appeal indicates a recognition of the serious threat posed by TF and the need for stricter penalties to align with Malaysia's counterterrorism efforts. This raises concerns about whether the High Court is consistently applying deterrent and proportionate sentencing that reflects the gravity of TF offences. According to Malaysia, the outcomes from the Court of Appeal can set clear sentencing precedents that serves as reference points for future TF cases.

592. To mitigate TF recidivism, the SB regularly conducts awareness programmes and engagement to those who have been convicted of TF and terrorism (as well as to their family members). Some of the rehabilitated individuals are now actively involved in public awareness efforts, sharing real life perspectives from their experiences on the dangers of radicalisation, and offering practical advice to educate and inform the public. For example, one individual convicted of TF in 2019 now participates in CFT outreach activities.

9.4. National counter-terrorism strategies and activities

593. Malaysia's CFT strategy is integrated with its overall counterterrorism strategy. The counterterrorism measures are intended to counter three main elements of terrorism, namely:

i) the terrorist/terrorist organisation (addressed through enforcement and disruption operations underpinned by laws);

ii) terrorist ideologies (countered through rehabilitation and de-radicalisation processes, including social media monitoring and counter-narrative efforts); and

iii) financial capabilities (including TFS).

594. Malaysia has developed a set of national policies and strategies aimed at addressing terrorism and TF. First, Malaysia's counter-terrorism strategy is anchored in a broad policy framework established by the National Security Council (NSC), which sets the direction for national security and counterterrorism efforts. The overarching National Security Policy 2021-2025 seeks to address security threats and emphasises a coordinated response across government levels and public engagement. This high-level policy is translated into actionable strategies for LEAs, which includes strengthening bilateral and multilateral partnerships to bolster international cooperation in countering terrorism and TF. Second, Malaysia has developed a national strategy to address TF through the establishment of the NCC (see IO.1). In August 2024, the NCC endorsed the new NCC Roadmap 2024-2026, which outlines a series of targeted initiatives to address and mitigate specific ML/TF risks, as identified by the NRA. As summarised in IO.1, the NRA is informed by TF investigations, prosecutions and convictions, as well as other information, including regional-level risk assessments. This Roadmap covers several key action plans related to CFT, as follows:

Action Plan (AP)	Description
Enforcement	
[AP 3] Continue to investigate and prosecute TF in parallel with terrorism offences and preventive actions where practicable, aiming for successful conviction	This initiative focuses on continuing and intensifying the enforcement of TF cases through enhancement of end-to-end investigation process, utilization of PPP, early-stage coordination with AGC to enhance prosecution and conviction rates.
[AP 6] Continue to strengthen international cooperation in combatting transnational crimes, particularly in making active use of formal international cooperation	This initiative seeks to institutionalize the use of formal channels, such as MLA, extradition or backed warrant as a standard practice for TF and other high risk crimes' investigations.
Preventive	
[AP 15] Continue to strengthen risk-based oversight on NPOs, including sharing of TF risks among regulators, LEAs and FIs leveraging on SCONPO platform	This initiative aims to implement and reinforce preventive measures to deter abuse of NPOs for TF activities. It involves expanding the scope of oversight activities to include TF elements, increasing awareness and sharing between NPO regulators and promoting best practices.

595. Third, Malaysia's Action Plan on Preventing and Countering Violent Extremism, covering the period 2024-2028, is a strategic initiative to address the complex and evolving threats of violent extremism. The plan focuses on broader extremism risks and the rise of non-traditional extremism, for example, ethnically or racially motivated terrorism by lone-wolf actors. Details from past cases shape the Plan's four pillars on prevention, enforcement, rehabilitation and reinforcement. This includes insight on recruitment patterns (e.g., gaming platforms, social media), radicalisation touchpoints and financial conduits used, as well as understanding of what motivates individuals to radicalise or be radicalised.

596. Malaysia also utilises TF intelligence to support multi-agency threat profiling and risk assessment. Intelligence gathered from TF investigations, prosecutions, and convictions—such as fund flows, payment

platforms, and transactional anomalies—is shared across relevant agencies. These insights are systematically used to update the NRA, the national counter-terrorism framework, and responses to FTFs.

597. For example, Malaysia's approach to managing returning FTFs involves a comprehensive strategy that includes assessment, rehabilitation, prosecution, and reintegration. The process aims to address the legal aspects of their actions abroad, and their rehabilitation into Malaysian society. This involves a psychological assessment, de-radicalisation programmes, and ongoing monitoring to prevent recidivism. In terms of repatriation, Malaysia allows citizens who left the country to join ISIL to return, conditional upon compliance with checks, enforcement actions and a requisite prison sentence, followed by requirements to be placed under de-radicalisation and rehabilitation programmes. This policy is informed and tailored by TF investigations, prosecutions and convictions. Since implementation, eight returning Malaysians have been arrested and convicted of terrorism-related offences. 18 Malaysians were repatriated from Syria and Iraq, including five women and 11 children, all of whom have been enrolled in rehabilitation programmes.

9.5. Alternative measures used where TF conviction is not possible (e.g. disruption)

598. In cases where it is not practicable to secure a TF conviction, LEAs can implement alternative measures to disrupt TF activities. These measures include pursuing prosecutions for other related criminal offences, such as terrorism and firearms-related crimes. Additionally, when TF elements are identified but convictions are unattainable (e.g., difficulty converting intelligence into evidence), the SB can use various preventive measures, including the enforcement of preventive laws, immigration regulations and TFS.

599. Malaysia does not retain statistics on the use of other criminal offences where a TF conviction was not possible. However, the below case studies outline Malaysia's TF disruption efforts using the terrorism offence and deportations.

Box 9.3. Case studies of alternative measures

Case Study on Alternative Criminal Offence (Terrorism Charges)

An Indonesian financial facilitator (Individual A) was arrested by the SB based on intelligence of his involvement in 2019 church bombing plan. Individual A was believed to have transferred funds to members of IS-affiliated Daulah Islamiyah group in the Philippines via a remittance agent in Malaysia. However, due to a lack of information on the purported fund transfers and missing transaction link between Individual A and the ISIL militant, the SB pursued terrorism charges. The individual was convicted under Section 130JB of Penal Code and sentenced to two years imprisonment.

Case Study on Deportations

A foreign national based in Malaysia, was investigated for TF by providing funds to an ISIL militant. Malaysian authorities arrested the subject in 2018 and handed him over to his native country in 2019, where he was detained and later charged with TF in 2021.

600. The SB leverages the Prevention of Terrorism Act (POTA) as a preventive law to arrest and detain terrorism and TF offenders with sufficient allegation of facts but insufficient evidence to mount a charge in court. POTA allows for detention without trial for up to two years, and supervisory control over an individual's liberties for up to five years under specific conditions. These conditions may include travel/movement restriction, limited internet access, mandatory participation in rehabilitation programmes,

regular check-ins at a police station, and the requirement to wear an electronic monitoring device. This preventive law is aimed to prevent the commission or support of terrorist acts. Malaysia notes that POTA prescribes the grounds and procedures for detention and there are mechanisms in place to apply for a *habeas corpus* to the High Court to challenge unlawful detention at the point of arrest. Nonetheless, the Assessment Team notes that aspects of this law (i.e., prolonged detention without a trial) could be used in a manner that is inconsistent with international human rights law.[95]

601. Since 2016, POTA was used for 30 individuals. More recently, since 2019, POTA was used for five individuals who were returning family members of FTFs and underwent de-radicalisation and rehabilitation programs. As of February 2025, there are no individuals in detention pursuant to POTA.

602. Malaysia also pursues immigration-related measures (i.e., deportation) for cases involving foreigners involved in terrorism and TF or suspected to be involved. As indicated in the below table, since 2019, 16 individuals were deported from Malaysia who were considered suspects in terrorism and TF cases. All deportations are executed based on the agreement of foreign counterparts and used as a pragmatic disruption measure when the evidentiary threshold for prosecution cannot be met, or the suspect is wanted by the home country for prosecution.

Table 9.7. Statistics on deportation of terrorism suspects

	2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025 (Feb)**	**Total**
Individuals deported for Immigration Offences	8	0	0	1	5	2	-	**16**

603. Finally, as noted under IO.10, Malaysia also actively uses its domestic TFS designation regime pursuant to UNSCR 1373 (i.e., the MoHA list) to swiftly disrupt TF activities, especially when it was not feasible to pursue prosecution. The most recent designation of January 2025 included two Malaysians and one Yemeni national, which were assessed by the SB to be the financial and logistical facilitators of terrorism activities. This tool was also used in 2016 in place of prosecution, as the individual was outside Malaysia.

[95] Recommendation 5 requires criminalisation of TF consistent with the International Convention for the Suppression of the Financing of Terrorism, which contains several provisions relating to fair treatment guarantees, notably Article 17: "Any person who is taken into custody or regarding whom any other measures are taken or proceedings are carried out pursuant to this Convention shall be guaranteed fair treatment, including enjoyment of all rights and guarantees in conformity with the law of the State in the territory of which that person is present and applicable provisions of international law, including international human rights law."

10 Terrorist financing preventive measures and financial sanctions

The relevant Immediate Outcomes considered and assessed in this chapter is IO.10. The Recommendations relevant for the assessment of effectiveness under this chapter are R. 1, 4, 6 and 8 and elements of R.14, 15, 16, 26, 30, 31, 32, 35, 37, 38 and 40.[96]

Key Findings, Recommended Actions and Conclusion and Rating

Key Findings

a) Malaysia has a sound legal framework for TF TFS pursuant to UNSCRs 1267/1988 and 1373, and their successor resolutions. As compared to its 2015 MER, Malaysia now actively utilises its domestic designation regime alongside TF investigations and prosecutions. This is in line with Malaysia's evolving TF risk profile. Since 2020, Malaysia has domestically designated over 100 individuals and entities to its domestic TF list (i.e., the MoHA list). Further collaboration with foreign counterparts could be sought to cross-designate individuals/entities designated by Malaysia domestically. Malaysia has not submitted any designation proposal (nor co-sponsored designations) to the relevant UN Committees during the review period.

b) Malaysia actively identifies and freezes terrorist funds and other related assets without delay, including those owned, controlled, or held by individuals acting as directors, representatives, or on behalf of designated entities. Malaysia has frozen a total of EUR 997 900 in relation to its implementation of both UNSCR 1373 and 1267/1988. Frozen assets include bank accounts, insurance, and e-wallets. Most assets frozen relate to Malaysia's implementation of UNSCR 1373, which is in line with its risk profile and active use of its domestic designation regime. The Assessment Team notes that the freezing of financial accounts or assets of FTF family members may lead to unintended consequences and should continue to be used only where alternative interventions would be ineffective.

c) Malaysia effectively identifies NPOs that fall within the FATF's functional definition and has assessed which amongst them face the highest risk of TF abuse. While Malaysia generally applies risk-based oversight to these high-risk NPOs, monitoring measures (such as onsite inspections)

[96] Recommendations 1, 2, 8, 15 and 38 are under review; see Technical Compliance Annex.

could be more targeted to ensure that limited resources are concentrated on the most vulnerable subset of high-risk NPOs, maximising the effectiveness of mitigation efforts.

d) Malaysia implements TFS obligations without delay based on a sound legal basis and guidelines established by competent authorities. Large and medium sized FIs have a sound understanding of their TFS obligations, including their obligation to freeze funds and other assets without delay. VASPs understand their TF TFS obligations with a varying degree of sophistication in implementation. In general, DNFBPs place greater emphasis on detecting positive matches of listed individuals pursuant to the UN and MoHA lists, and less attention to the obligation to detect and freeze assets of those acting on behalf or at their direction of designated persons and entities. Despite available notification systems, some RIs still rely on manual checks in updating its sanctions database, which can be less effective, particularly given Malaysia's active use of domestic designations.

e) Supervisory authorities actively assess the compliance of their respective RIs with TF TFS obligations using various tools, including onsite and offsite examinations. In response to TF TFS failures, supervisors have imposed a range of measures, from remedial actions to punitive sanctions. Efforts to enhance understanding of TF TFS obligations have been carried out through multiple communication channels. However, the consistently high number of TFS-related deficiencies in certain sectors suggests the need for enhancing the effectiveness of remedial actions and the overall impact of outreach and compliance monitoring.

Recommended Actions

a) Malaysia should take appropriate measures to enhance TFS compliance of RIs, including promoting the use of available notification mechanisms to ensure the timely implementation of TF TFS.

b) Malaysia should periodically review existing safeguards for designations pursuant to UNSCR 1373 to avoid unintended consequences that can be caused using domestic designations for FTF family members and to ensure this approach is used rarely and only where other measures would be ineffective or have been exhausted.

c) Malaysia should collaborate with foreign counterparts to further mitigate the TF risks at regional level and consider proposing designation requests to countries in the region or sponsoring requests to the relevant UN Committees as appropriate.

d) Malaysia should refine its risk-based oversight of NPOs to better concentrate limited resources on the more vulnerable subset of high-risk NPOs (particularly when using more intensive measures, such as onsite inspections) and to ensure that mitigation efforts align with the specific vulnerabilities identified in its TF risk assessment.

Overall Conclusions on IO.10

Malaysia implements TFS obligations without delay based on a sound legal basis and guidelines established by competent authorities. Malaysia has actively used domestic designations pursuant to UNSCR 1373 as a tool to identify terrorist financiers and their sympathisers. This is generally in line with Malaysia's TF risk profile. Given its risk profile, Malaysia could increase collaboration with foreign counterparts to cross-designate individuals/entities designated by Malaysia domestically and should consider submitting designation proposals (or co-sponsoring designations) to the relevant UN

Committees. The Assessment Team notes that the freezing of financial accounts or assets of FTF family members may lead to unintended consequences and Malaysia should ensure this approach is used rarely and continues to be used only where were other measures would be ineffective or have been exhausted.

RIs have identified and frozen terrorist funds and other related assets without delay, including those owned, controlled, or held by individuals acting as directors, representatives, or on behalf of designated entities. This is indicative of RIs' understanding of their TFS obligations. While supervisors provide guidance and supervision on TFS compliance, a consistent high number of deficiencies identified in certain DNFBP sectors suggests the need for more targeted and effective outreach and compliance monitoring. In addition, the heavy reliance on supervisor letters to remedy deficiencies in the DNFBP sector may be proportionate and be impacting compliance outcomes. Despite the existence of various notification mechanisms, some RIs still rely on manual checks on designation lists, which can be less effective, particularly given Malaysia's active use of domestic designations. Accordingly, Malaysia should better promote the use of available notification measures.

Malaysia effectively identifies NPOs that fall within the FATF's functional definition and has assessed which amongst them face the highest risk of TF abuse. While Malaysia generally applies risk-based oversight to these high-risk NPOs, it could further refine its approach to ensure that limited resources are concentrated on the most vulnerable subset of high-risk NPOs, maximising the effectiveness of mitigation efforts.

Malaysia is rated as having a Substantive level of effectiveness for IO.10.

Immediate outcome 10

604. While Malaysia's legal and coordination framework for TF TFS pursuant to UNSCR 1373 have remained largely unchanged since the 2015 MER, Malaysia is now actively utilising these designations alongside TF investigations and prosecutions. As Malaysia's TF risk profile has evolved since its 2015 MER, and particularly during the peak of ISIL activity, the country prioritised TF TFS domestic designations as a tool to mitigate TF.

605. Regarding risk-based measures to protect the NPO sector from potential TF misuse, Malaysia has made new efforts to promote risk-based mitigation measures based on its revised assessment of TF risks in the sector. Malaysia has not identified any cases of NPO misuse for TF purposes. Malaysia has four NPO regulators: the Registrar of Societies (ROS), CCM, LFSA, and the Legal Affairs Division of the Prime Minister's Department (BHEUU). These regulators oversee approximately 91 000 NPOs, with ROS regulating 96% of them. The total number of NPOs has grown significantly given the maturing sector and as a result of more NPOs for social welfare being established since the COVID-19 pandemic, rising from 47 042 at the time of the 2015 MER.

10.1. Implementation of TF-related targeted financial sanctions without delay

10.1.1. Designations under UNSCR 1267/1988

606. Targeted financial sanctions related to UNSCR 1267 and its successor resolutions are immediately enforceable in Malaysia upon a UN designation. The legal obligation to freeze assets takes effect automatically when the UNSCR 1267/1988 lists are updated, without the need for authorities to issue a separate domestic order to effectuate the freezing and prohibition requirements. Once a listing or update

occurs, natural and legal persons in Malaysia (including RIs) are required to freeze and prohibit funds from benefiting the designated entities, directly or indirectly. RIs are then required to perform screening checks and report to the FIU, RMP and their supervisory authorities (who then report to MoHA) when a freeze of an account or a positive match occurs. RIs are required to report to MoHA the status of frozen funds or properties periodically at six-month intervals following any freezing measure.

607. The MoHA is the competent authority responsible to propose individuals or entities to the 1267/1989 and 1988 Committees for designation. During the review period, Malaysia did not submit any designation proposals to the relevant UN Committees or co-sponsor any designations. Nor has Malaysia sought or received a request for co-designation pursuant to UNSCR 1267/1989 and 1988.

10.1.2. Domestic designations pursuant to UNSCR 1373

608. Malaysia has a robust framework and process for listing individuals and entities to their domestic designation list (the MoHA list), which has been in place since 2014. The MoHA coordinates and chairs the Committee for TF TFS, the interministerial process tasked with decisions on listing. The committee gathers when necessary and at least once every six months. All procedures and criteria for designation and de-listing are outlined in a single TF TFS guideline.

609. The Counter Terrorism Division of RMP's Special Branch is responsible for identifying entities for potential listing if they commit, participate in, act on behalf of, or facilitate terrorist activities. The Committee for TF TFS reviews the SB's recommendations with the final decisions made by the Minister of Home Affairs. Criminal proceedings are not required as a prerequisite for listing. If the proposal meets the legal threshold of "reason to believe," the entity is designated as a "specified entity" and published in the Gazette. During this process, authorities engage closely with the private sector through the PPP platform to share information with the FIU and FIs to identify and preserve any assets before a designation is made public.

610. Malaysia has frequently used this tool to target financiers as a preventive measure against TF and terrorism. As of February 2025, Malaysia has listed over 100 names to their domestic list of specified entities of which 77 are individuals and 24 are groups. The most recent listings occurred in January 2025, demonstrating that Malaysia is actively utilising this tool to identify terrorist financiers and their supporters. Malaysia has mostly identified individuals located in Malaysia as well as foreign individuals from countries posing regional terrorism risks, including the Philippines, Indonesia and Syria. Malaysian authorities have proactively leveraged domestic designations as a tool to disrupt terrorist financiers and their supporters, enabling swift action to prevent terrorism and TF. This approach aligns closely with Malaysia's evolving TF risk profile, ensuring a timely and effective CFT response.

611. Malaysia has not requested a foreign jurisdiction to cross-designate an individual/group in relation to its domestic list, but the FIU notifies their relevant foreign counterparts when a foreign national is designated to the MoHA list. There have been instances of the RMP receiving informal requests from a neighbouring country for information relating to designations, but Malaysia has not received a formal request for cross-designation pursuant to UNSCR 1373. Considering the regional risk and the cross-border nature of TF in Malaysia, collaboration with foreign counterparts on cross designations should be prioritised.

10.1.3. Communication of designations

612. The AML/CFT/CPF Guidelines stipulate that sanctions screening, and the subsequent freezing of funds and assets should take place immediately when the Order is gazetted (for UNSCR 1373), or when the list is published on the UN website (for UNSCR 1267/1989, 1988 and their successor resolutions).

613. Domestic designations pursuant to UNSCR 1373 (the MoHA list) are communicated in several ways. The listing is published on the websites of the MoHA and BNM. New listings are also communicated to RIs through email notifications (RSS) by MoHA. While MoHA was unable to provide an estimate of the number of RIs that have subscribed to the RSS notifications, records show that the RSS feed was accessed more than 25 000 times in one month (mid-January to mid-February 2025). RIs are required to ensure their customer database is screened without delay once the listing is publicised and Malaysia's guidance sets out the supervisory expectation that RIs proactively access the list directly. In practice, this process occurs consistently for most FIs and VASPs that utilise commercial software and automatic screenings procedures.

614. While direct notification processes exist, some RIs, particularly a significant number of smaller DNFBPs, rely on manual checks of the UN and MoHA websites. This can create challenges in ensuring their sanctions databases are updated in a timely manner. While notifications from the FIU (e.g., FINS notifications) and supervisors (e.g., BNM Newsletters) can serve as complementary tools to highlight listed persons, these are distributed on an *ad hoc* basis. For example, Labuan supervisory authority's communication to its RIs in one instance was issued several weeks after a MoHA listing. Some RIs explained that they had staff manually check the UN and MoHA websites once or twice a day, to make sure no listings were missed. Nevertheless, RIs could make better use of the notification measures available (e.g., the MoHA RSS feed).

10.2. Identification and deprivation of terrorist funds or other assets

615. Malaysia has made use of its TF TFS framework to mitigate its TF risks, which was assessed as medium-high in its 2020 TF risk assessment and reassessed to medium in the 2023 TF risk assessment. Malaysia has identified a common trend in its TF activities, where lower-income sympathisers and family members provide small monetary contributions to FTFs in conflict zones, primarily in Syria.

616. Over the review period, Malaysia added over 100 new designations pursuant to its domestic designation regime (UNSCR 1373) with 85 individuals added in 2022 alone, while there were no new designations in 2020-2021. The large number of designations in 2022 were the result of RMP uncovering a significant TF network. The below case study provides a summary of designations made to the MoHA list following a regional TF investigation.

Box 10.1. Case study of domestic designation

The case involves five Malaysian subjects who were alleged to have remitted funds to an individual in the Philippines to finance IS activities in the Southern Philippines ("Islamic States Philippines" or "ISIS-P"). This case arose from the joint work of TF networking analysis of FIUs in Malaysia, the Philippines, Indonesia and Australia. Upon identification of the subjects, Malaysian authorities worked with the Philippines to gather financial intelligence of remittance records and other money trails. The individual in the Philippines was listed on the MoHA list in 2022 and five Malaysian subjects were listed in 2023. These domestic designations resulted in all their accounts and financial instruments being frozen (totalling over EUR 100 000). Malaysia is also pursuing a TF investigation in this case alongside the Philippines.[97]

617. A significant portion of the designated individuals on the MoHA list are Malaysian (34 out of 77), with a large number of individuals from Southeast Asian countries. There are also names of citizens from

[97] In March 2025, one individual was convicted of TF and terrorism and sentenced to five years' imprisonment. Investigations are ongoing for the remaining individuals.

conflict zone countries that were identified as recipients of frequent transfers, likely due to their role as informal agents or hawaladars facilitating the movement of funds destined for Malaysian FTFs in such areas.

618. MoHA has domestically designated family members of FTFs (13 out of 77 listed persons) to prevent the financing of FTF activities that lack a humanitarian purpose.

619. Malaysian authorities concluded that designating FTFs alone would have limited practical impact, as they are not always directly named as beneficiaries or parties in financial transactions and are therefore unlikely to be detected by RIs. Instead, FTFs typically receive funds through intermediaries such as middlemen or hawaladars. While publicly identifying and designating FTF family members can act as a strong deterrent, freezing all their financial accounts and assets may lead to unintended consequences, including undue financial hardship. As a result, the Assessment Team has concerns about Malaysia's use of this measure but note that Malaysian authorities view it as a last resort and relevant safeguards and due processes are in place. The AMLA sets out provisions including for allowing access to frozen assets and revocation of the designations by the review of the Committee for TF TFS at least every six months if there are no reasonable grounds to continue to apply the sanctions. According to the RMP, 90% of FTF family members belong to low-income groups, and their designation could undermine de-radicalisation efforts. Malaysia should periodically review existing safeguards to avoid unintended consequences and ensure that this approach continues to be used only where other measures would be ineffective or have been exhausted and should ensure this measure is used rarely.

620. As of February 2025, Malaysia has frozen a total of EUR 997 900 in relation to TFS implementation. These frozen assets include bank accounts, insurance, and e-wallets, as outlined in the below table. Most frozen assets relate to Malaysia's implementation of UNSCR 1373 (EUR 965 800). Assets frozen in relation to UNSCR 1267 is EUR 32 100.

621. Malaysia's efforts to identify assets have resulted in the freezing of accounts and assets not only owned directly by designated individuals, but those that are controlled by the designated individual, adding an additional value of EUR 14 800. These are accounts or assets belonging to the spouse or a minor of the designated entities and accounts of companies in which the designated entities are appointed as a signatory.

622. Overall, the Assessment Team finds that the total value and type of assets frozen in relation to TF TFS is in line with Malaysia's risk profile.

Table 10.1. Status of frozen assets as of February 2025

Sanctions Regime	Type of Assets	Owned by designated individuals/entities		Controlled by designated individuals/entities	
		No.	Value (EUR'000)	No.	Value (EUR'000)
UNSCR 1373	Bank accounts	277	83.0	11	2.2
	Insurance*	336	842.2	7	10.6
	Pilgrimage fund accounts	24	15.5	2	<0.1
	Investment/shares accounts	24	10.7	-	-
	Prepaid cards, e-wallets	58	1.7	-	-
	Sub-total	**719**	**953.0**	**20**	**12.8**
UNSCR 1267 & 1988	Bank accounts	7	1.9	1	0
	Insurance*	19	28.2	1	2.0
	Pilgrimage fund accounts	4	0.1	-	-
	Prepaid cards, e-wallets	19	0	-	-
	Sub-total	**49**	**30.1**	**2**	**2.0**

Sanctions Regime	Type of Assets	Owned by designated individuals/entities		Controlled by designated individuals/entities	
		No.	Value (EUR'000)	No.	Value (EUR'000)
	Total	**768**	**983.1**	**22**	**14.8**
Grand Total		**790 accounts, EUR 997 900**			

*Note: Insurance values consist of the sum assured/cash surrender value.

623. As for the requirements for access to funds and assets that are frozen, the process is outlined on MoHA's website and in guidelines. Between 2019 and February 2025, Malaysia received 15 requests for access to frozen assets. Eight were directly from designated persons and seven from family members or related parties linked to the designated persons. MoHA has not approved any of these requests, stating that they did not fall within the category of basic expenses and were instead related to business or travel.

10.3. Targeted application of focused and proportionate mitigation measures to at-risk non-profit organisations

624. As of February 2025, Malaysia has approximately 91 000 NPOs registered that meet the FATF's functional NPO definition. Under the NCC, the Sub Committee on NPOs is the main platform for NPO regulators to discuss issues and share information. Within this framework, Malaysia conducted NPO risk assessments in 2018 and 2024, during which time the number of NPOs doubled. The risk assessment methodology is reasonably sound and leverages quantitative and qualitative information, including input from NPO representatives. Malaysia has produced an executive summary of the 2024 NPO Risk Assessment which was shared with the Assessment Team.

625. There are four NPO regulators in Malaysia with the vast majority of all NPOs (about 88 000; 96%) falling under the Registrar of Societies (ROS). The CCM has around 2 974 NPOs (for companies limited by guarantee – CLBG), while the BHEUU oversee 593 (trust and foundations) and LFSA has 24 NPOs (charitable trusts and foundations located in Labuan). All four regulators were involved in the development of the NPO risk assessment and have developed their own separate internal criteria to identify NPOs most vulnerable to TF misuse, which includes checking adverse reporting from authorities or media.

626. During the assessment period, there were no cases of NPOs being misused for TF. Malaysia's 2024 NPO Risk Assessment assesses NPO's inherent risk for TF abuse as low, which is a reduction from the medium level assigned in 2018. Malaysia attributes the lower rating mainly due to a declining risk in terrorism and TF facing the country. Furthermore, Malaysia points to prevention measures by the RMP, as well as regulatory measures and oversight that mitigate TF risk.

627. Within this context, Malaysia acknowledges that certain types of NPOs—specifically those operating in the charity and religious sectors—are more vulnerable to the risk of TF abuse. There are eight other NPO sector types (e.g., professional, trade, recreation, cultural) classified as low risk. Not all NPOs that fall under the charity or religious sectors are considered higher risk for TF abuse. Malaysia focuses on a further subset of NPOs that are cash intensive, have presence or conduct overseas activities and are involved in fundraising or disbursing large donations from/to overseas including higher risk areas. Malaysia has determined that approximately 10 000 NPOs (across all sector types) demonstrate one or more of these risk characteristics. From this pool, each NPO regulator then undertakes a more granular risk assessment. In total, over 4 700 NPOs have been identified as posing a higher risk for TF abuse, as they exhibit multiple inherent at-risk characteristics.

10.3.1. NPO registration

628. All persons setting up NPOs are subject to market entry control measures by the regulators based on their respective legal framework. Malaysia noted that these rigorous onboarding processes help safeguard the sector by ensuring that only legitimate and credible NPOs are established. The standard documentation and application forms for the establishment of any NPO requires a minimum of seven founding members, minimum financial capital, organisational name verification, mission of the organisation, meeting minutes and procedures, amongst others. Verification of the paperwork includes due diligence by the supervisory authorities on screening names against commercial and public databases. The approval for an NPO application can range from five days to as long a month when circumstances include obtaining information from other agencies. For example, there are times where the BHEUU may seek information from the Immigration Department if the trustee is a foreigner or seeks confirmation with the religious body (e.g., Islamic Council) if the NPO serves a religious function.

629. NPO applications are typically subject to additional vetting which varies depending on the regulator and, for most NPOs, the level of risk.[98] Applications to ROS are subject to RMP vetting where the NPO has particular risk characteristics (e.g., category of NPO, foreign office bearers, international presence, etc.). Malaysia has also determined that any NPO application from the Sabah region, which has a history of terrorist attacks, is subject to security vetting by the RMP, regardless of the type of NPO. RMP checks their databases for any criminal records as well as reviewing domestic and financial intelligence and external sources (e.g., sanctions lists). For higher risk situations (e.g., operations in conflict zones or higher-risk countries), more detailed screening can occur.

630. Between 2019 and February 2025, Malaysia received over 94 000 NPO applications and 2 628 were subject to RMP vetting. The examples provided to the Assessment Team show the RMP responding to supervisors' vetting requests within five days to over a month for more complex requests (e.g., involving many persons). The 646 rejections by RMP vetting include applications that failed security screening, as well as other reasons such as potential misuse of NPO registrations. This includes applications using sensitive or misleading NPO names, or submissions with incomplete information—particularly those with unclear objectives or names that could mislead the public. Overall, the screening and vetting process conducted by NPO regulators and the RMP is generally effective in ensuring the legitimacy of NPO activities.

Table 10.2. Number of applications sent for RMP vetting

From 2019-February 2025	All regulators
No. NPO applications (also undergo basic checks by regulators)	94 020
Sent to RMP for vetting given higher risk (% of total application)	2 628 (2.8%)
No. rejected after RMP vetting	646

631. All NPO regulators conduct offsite and onsite inspections focusing on the higher risk NPOs. ROS, which regulates about 96% of NPOs, has refined its internal criteria to consider adverse reporting from authorities or the public, cash intensity, location or geographic area of the NPO's operation and compliance history. Offsite inspections include conducting a desk-based review of information submitted and annual returns. From 2019 to February 2025, ROS conducted 7 548 onsite inspections with most resources focused on the charitable and religious sectors (see below table). This amounts to inspections of approximately 8% of NPOs monitored by ROS. All but one of the NPOs the Assessment Team engaged with during the onsite

98 For applications to CCM, BHEUU and LFSA, the application is subject to mandatory, statutory screening and due diligence on directors/trustees/founders/etc.

visit had been subject to onsite monitoring by ROS. Malaysia advised that the NPO that had not had an onsite inspection had been subjected to offsite monitoring; this decision was based on the NPO's voluntary internal controls, which were deemed sufficient to mitigate its inherent risks. Noting the large number of inspections, Malaysia could further refine its risk-based oversight activities to ensure they are specifically targeted at mitigating higher TF risks.

Table 10.3. Oversight activities on NPOs (by all regulators)

	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
Onsite	**1 049**	**1 062**	**1 513**	**1 094**	**1 252**	**1 756**	**235**	**7961**
Charitable	532	535	683	546	439	320	76	3 131 (39%)
Religious	267	268	429	272	259	153	35	1 683 (21%)
Recreational	220	220	381	203	258	145	30	1 457 (18%)
Social	5	5	1	26	259	193	48	537 (7%)
Others	25	34	19	47	37	945	46	1 153 (14%)
Off-site (all categories)	**1 434**	**283**	**540**	**789**	**785**	**12 696**	**922**	**17 449**

632. The regulators have utilised a range of remedial actions against the NPOs from dealing with minor non-compliance through administrative measures to punitive actions for prolonged failures, such as failure to submit audited financial statements. Between 2019 and February 2025, ROS issued approximately 116 000 reminders and notices to encourage submission of annual returns. Most administrative actions imposed by regulators relate to inactive NPOs.[99]

633. Regulators have also considered intelligence shared by the RMP and public complaints to guide both onsite and offsite inspections. The case study below (Box 10.2) demonstrates how the ROS closely monitored and ultimately deregistered NPOs suspected of posing potential TF risks. The Assessment Team highlights this case as an example of administrative action, where the NPO regulator worked in close cooperation with investigative authorities to address a potential TF connection.

Box 10.2.NPO deregistration

In 2022, three registered NPOs in Sabah were suspected of having links to terrorist groups in a neighbouring country. The RMP and ROS conducted joint onsite inspections to monitor and investigate the NPOs. Although no TF activities were identified, the NPOs were found to be noncompliant with the Societies Act, particularly regarding registration requirements. After being given opportunities to respond, their violations—including failure to submit annual reports and provide requested documentation—led to their deregistration in 2022 and 2023. Individuals who held positions in these deregistered NPOs are now barred from serving in any other NPOs.

634. Regarding outreach activities, awareness raising events and trainings have been conducted for wide audiences of NPO sectors to enhance general compliance and governance including the aspects of TF risk understanding and risk mitigation measures. Malaysian authorities informed that religious and charitable NPOs are prioritised for outreach while representatives from all other NPOs are also considered. Following the adoption of the 2024 NPO risk assessment, a Red Flags and Typologies report on TF prevention for NPOs was developed in February 2025. While this document is too recent for the Assessment Team to adequately assess its effectiveness, Malaysia has undertaken other engagements on risk within

[99] ROS deems NPOs which have failed to submit annual returns for consecutive number of years and whose office bearers are uncontactable as inactive.

the broader NPO sector, which are commendable. In order to apply more targeted and risk-based outreach, Malaysia should further target those NPOs that are most at risk within the high-risk categories of religious and charitable NPOs.

10.4. FIs, VASPs and DNFBPs understanding of and compliance with obligations

10.4.1. FIs and VASPs

635. Large and medium sized FIs and VASPs have a sound understanding of their TFS obligations, including their obligation to freeze funds and other assets without delay (i.e., within 24 hours). Detailed guidance on TFS obligations in the AML/CFT/CPF Guidelines and outreach documents have supported FIs and VASPs' understanding. In addition, as outlined above, FIs have demonstrated a good level of understanding of TFS obligations that extends to assets owned or controlled by designated entities. Screening against sanctions lists at the onboarding stage and as part of ongoing due diligence is a standard aspect of CDD processes and extends to BOs of legal persons and arrangements.

636. In the context of processing wire transfers, FIs and VASPs comply with prohibitions on conducting transactions with designated persons and entities. Banks generally facilitate wire transfers through automated systems that do not process transfers if any fields trigger sanction screening hits. VASPs generally use blockchain analytic tools to screen the beneficiary and originator to verify they are not on sanctions lists. Procedures for dealing with positive hits are generally clearly established and FIs and VASPs met by the Assessment Team during the onsite were able to describe these in detail.

637. As outlined above on the communication of designations, concerns arise in the timely implementation of TFS obligations for FIs and VASPs that do not use commercial databases that automatically update sanctions lists. While this is likely a small minority of FIs and VASPs, the lack of systematic updates can cause delays in TFS compliance.

10.4.2. DNFBPs

638. DNFBPs generally have a less mature understanding of their TF TFS screening obligations. In general, DNFBPs place greater emphasis on detecting positive matches of listed individuals pursuant to the UN and MoHA lists, and less attention to the obligation to detect and freeze assets of those acting on behalf or at their direction of designated persons and entities. This may reflect the lower risks in the DNFBP sectors and the fact that none of the DNFBPs met during the onsite had detected a designated person either at the onboarding stage or as part of ongoing due diligence. Malaysia and the Assessment Team have not identified TF risks associated with specific products or businesses of DNFBPs.

10.5. Competent authorities monitoring and ensuring compliance with TF targeted financial sanctions

639. Supervisory authorities generally ensure compliance with TF TFS as part of onsite and offsite inspections, including by reviewing data submissions from RIs. Supervisors generally observe that TFS implementation is a key component of the institutional risk assessment of RIs, particularly those that operate cross-border or are subject to specific inherent TFS risk. The general approach of competent authorities' monitoring for TFS should be considered alongside the analysis of IO.3 and IO.4.

10.5.1. FIs and VASPs

640. Competent authorities monitor TF TFS obligations of RIs, which includes reviewing sanctions screening, alerts, freezing/blocking requirements, transaction monitoring and reporting of positive matches. Supervisors also conduct sampling tests of sanctioned persons in the RIs' system to review whether the system can detect sanctioned persons effectively.

641. Supervisory authorities have implemented a range of actions in response to failures in TF TFS compliance. A Supervisory Letter is usually issued communicating all supervisory concerns following an onsite examination of RIs. Between 2019 and 2025, supervisors issued 211 supervisory letters to FIs and VASPs that addressed issues related to TF and/or PF TFS obligations. Malaysian authorities indicated that the most common TF TFS deficiencies highlighted in supervisory letters relate to lapses in the robustness of screening systems and adequacy of sanctions alert management, although several cases involved dealing with sanctioned individuals.

642. In the event of a more severe breach of TFS obligations, elevated enforcement action is applied. Between 2019 and February 2025, BNM and LFSA imposed administrative monetary penalties on 41 entities of which 32 entities were Labuan Bank and Labuan Money Brokers. Amongst these, there were four instances of FIs onboarding TF-related designated entities. These involved three RIs in the MSB/DPI sector and one RI in the insurance sector. The incidences were either self-declared to the supervisor or detected through the RI's periodic reporting or suspicious transactions reporting, upon identifying a breach. The RIs involved were subject to administrative penalties, the level of which took into account that there was no evidence of TF activities by the sanctioned individuals in these transactions.

643. In all cases, when a supervisory authority identifies AML/CFT compliance failures, the RIs are required to provide periodic updates on their progress in rectifying the issues, until the findings are satisfactorily addressed, or an independent auditor is appointed to validate the remedial measures. There is room for improvement in certain sectors, such as insurance, MSB/DPI and Labuan banking/money broker, where a higher number of deficiencies or non-compliance cases have been observed. Smaller RIs, which do not rely on advanced commercial databases for sanctions screening, appear to face challenges in updating their own databases, particularly in relation to the MoHA sanctions list.

Box 10.3.Case of enforcement action for failures of TFS obligations

On 26 June 2020, upon the determination of a positive name match, Insurer F had reported to BNM that a motorcycle insurance policy had been accidentally issued to a person designated on the MoHA list. This was detected following the sanctions screening conducted by Insurer F one day after the insurance policy was issued on 24 June 2020. Upon detection of the positive name match, Insurer F froze the policy, without making any refunds to the designated person and submitted a STR to the FIU.

As the lapse in sanctions screening had resulted in the on-boarding of a designated person, BNM had imposed an administrative monetary penalty of EUR 56 030 on Insurer F. To remediate failures of TFS compliance, Insurer F undertook a comprehensive review of its sanctions screening processes and enhanced its systems to put in place real-time screening to prevent further recurrence.

10.5.2. DNFBPs

644. Efforts to enhance DNFBP's understanding of TF TFS obligations have been actively carried out through the NCC's DNFBP Working Committee and DNFBPs Sub Committee, as well as training sessions and seminars that leverage supervisory guidelines and typology information. In addition, supervisors

regularly engage with RIs through their main liaison officers, facilitating communication between RIs and supervisors and helping to clarify regulatory expectations regarding compliance with sanction requirements.

645. Nevertheless, the Assessment Team has concerns regarding the high number of TFS compliance lapses observed in certain DNFBP sectors. As a result of onsite examinations of DNFBPs between 2019 and February 2025, supervisors issued 260 supervisory letters addressing both TF and PF TFS obligations.

646. DPMS and lawyers accounted for around 70% of all TF TFS-related supervisory letters issued to DNFBPs. Between 2020 and February 2025, 19 administrative monetary penalties totalling EUR 51 290 were imposed in the DNFBP sector, all on Labuan trust companies, related to TFS lapses of the late or non-submission of report on sanctions screening reports. Malaysia notes that the deficiencies in the DNFBP sectors are improving (e.g., supervisory findings show shortcomings moving from 'weak' to 'marginal'). However, while these sectors are not identified as high-TF risk in the NRA 2023, the consistent identification of TFS lapses raises concerns about the effectiveness of outreach and remediation actions.

11 Proliferation financing financial sanctions

The relevant Immediate Outcomes considered and assessed in this chapter is IO.11. The Recommendations relevant for the assessment of effectiveness under this chapter are R. 7 and elements of R.1, 2 and 15.[100]

Key Findings, Recommended Actions and Conclusion and Rating

Key Findings

a) Malaysia has a comprehensive legal and regulatory framework in place for PF TFS pursuant to UNSCR 1718 and its successor resolutions, which requires all natural and legal persons within the country to freeze without delay the funds or other assets upon designation by the Security Council Committee pursuant to UNSCR 1718. Malaysia has ceased economic, political and diplomatic ties with DPRK which lowers some exposure for PF TFS.

b) The NCC is the coordination body responsible for the development of national AML/CFT/CPF policies. The Strategic Trade Action Committee (STAC) provides a sound platform for competent authorities to collaborate on action to implement measures relating to CPF and PF TFS at an operational level, and to update CPF national policies.

c) PF risk understanding of competent authorities and RIs are supported by multiple resources. Malaysia has assessed its PF risks through two risk assessments, which provide an overview of key findings, including the analysis of DPRK-related PF activities with the information on potential breaches, non-implementation, or sanctions evasion techniques. Malaysia has identified a case that demonstrates positive understanding of a recent PF typology known to generate revenue and contribute to DPRK's nuclear weapons and ballistic missile program involving potential sanctions evasion. Malaysia has implemented several PF risk mitigation measures, including recent updates to the PF Red Flags and Typologies Report and ongoing institutional risk assessments by RIs. These tools can be leveraged to enhance both risk understanding and mitigation efforts.

d) Supervisors demonstrated a good understanding of laws and relevant guidelines related to PF TFS. RIs are required to identify funds or assets held by UNSCR 1718 designated individuals/entities as well as those acting on their behalf or at their direction. Amongst RIs, DNFBPs' understanding appears to be limited to the basic requirement of detecting positive matches against sanctioned individuals and entities, and less attention to the obligation to detect and freeze assets of those acting on behalf or at their direction of designated persons

[100] Recommendations 1, 2, and 15 are under review; see Technical Compliance Annex.

and entities. Some RIs still rely on manual checks in updating its sanctions database, which may cause issues in the timely implementation of asset freezing. The consistently high number of TFS compliance deficiencies identified in certain sectors suggests the need for enhancing the effectiveness of outreach and remedial actions by supervisors.

Recommended Actions

a) Malaysia should continue to deepen its PF risk understanding of PF activities, particularly regarding advanced sanctions evasion techniques, such as third-party intermediaries and new typologies (e.g., virtual assets).
b) Malaysia should take appropriate measures to enhance RIs compliance with their PF TFS obligations, including by improving the notification process for updates to the UNSCR list and promoting the updated information on red flag and typologies to effectively prevent or mitigate PF risks.

Overall Conclusions on IO.11

Malaysia has a comprehensive legal and regulatory framework for PF TFS pursuant to UNSCR 1718 and its successor resolutions. To date, Malaysia has not frozen any funds or other assets pursuant to UNSCR 1718, however it has demonstrated multiple instances where competent authorities and RIs detected cases of potential PF sanctions evasion. Malaysia has the functional framework for coordination and cooperation of CPF policy development and implementation.

PF risk understanding by competent authorities and RIs are supported by multiple sources. Malaysia conducted PF risk assessments in 2021 and 2024. These assessments provide an overview of key findings, including an analysis of DPRK-related PF activities, highlighting potential breaches, non-implementation, and sanctions evasion techniques. Competent authorities have also undertaken efforts to deepen PF risk understanding through outreach activities. However, challenges remain for RIs in identifying BOs and accessing accurate, up-to-date BO information (see IO.5), which weakens Malaysia's ability to detect and prevent sanctions evasion schemes.

The ongoing implementation of institutional PF risk assessments by RIs is an important positive step in increasing awareness of PF TFS obligations. However, as noted in IO.10, some RIs still rely on manual checks in updating its sanction database, which may cause issues in the timely implementation of asset freezing. The consistently high number of TFS compliance lapses in certain sectors also suggests the need for further enhancing RI's compliance.

Malaysia is rated as having a Substantial level of effectiveness for IO.11.

Immediate Outcome 11[101]

647. Malaysia's legal framework for TFS related to PF (PF TFS) was amended to address the deficiencies identified in its 2015 MER. The Strategic Trade Act (STA) Order and Regulations were amended in 2016,

[101] The TFS relating to the Islamic Republic of Iran set out in UNSCR 2231 ceased to apply on 18 October 2023 and are therefore not assessed in this report. The TFS provisions of UNSCR 1737 and successor resolutions have subsequently been re-applied (on 27 September 2025), but they are not covered in this assessment as this occurred after the end of the on-site period in February 2025.

which now automatically requires all natural persons and legal persons within the country to freeze, without delay and without prior notice, the funds or other assets of designated persons and entities, upon their designation by the Security Council Committee pursuant to UNSCR 1718.

648. Malaysia completed its first PF risk assessment (PFRA) in 2021 (prior to the FATF requirement to do so). The PFRA was subsequently updated in 2024, and the Assessment Team received an executive summary and a detailed slide presentation. Since 2021, Malaysia assesses its PF risk as medium-low.

649. Malaysia uses the same approach to monitor and ensure that FIs, DNFBPs, and VASPs comply with their obligations related to PF TFS as it does for TF TFS (see IO.10). In 2024, Malaysia revised its AML/CFT/CPF Guidelines for RIs to incorporate new CPF requirements and supervisors have incorporated CPF into their supervisory frameworks.

11.1. Competent authorities co-operation and co-ordination to combat PF financing

11.1.1. Co-operation and co-ordination to develop and implement policy

650. The STA governs Malaysia's compliance with UNSCR 1540 on the non-proliferation of weapons of mass destruction. The STA and its implementing orders also provide the legal basis for the implementation UNSCR 1718 and its successor resolutions and is Malaysia's primary legislation for export, transit, transhipment and brokering of controlled technologies (i.e., export control).

651. The NCC is the coordination body for the development of national policies, including PF. NCC's mandate includes the development and implementation of national strategies, policies and measures to counter risks of ML, TF and, since 2012, PF (see IO.1).

652. The National AML/CFT Strategic Plan (2015-2020) included a direction across the government to strengthen PF risk understanding and awareness for PF TFS. In 2021, the NCC Roadmap 2021-2023 built upon this Plan to further CPF efforts by setting out action items such as improving compliance of PF TFS, assessing PF risk at RIs' institutional level, and enhancing understanding of dual-use goods and PF trends. In 2024, the NCC Roadmap was updated for 2024-2026 based on the findings of Malaysia's latest risk assessment. The 2024-2026 Roadmap includes a CPF item to target illegal and overstayed foreigners with PF risk exposure as well as assessing emerging ML/TF/PF risks. These three plans/roadmaps provide the basis for regular and consistent interagency cooperation by the NCC and Strategic Trade Action Committee (STAC)to monitor operational progress of the NCC Roadmap and ensure the CPF national policies are updated.

653. For example, the CPF item in the latest NCC Roadmap, which targets illegal and overstayed foreigners with PF risk exposure, reflects Malaysia's strategy to address an emerging risk posed by dual nationals who may evade sanctions through third-party intermediaries or complex corporate structures. This demonstrates Malaysia's evolving understanding of PF risks, based on the recommendations of the 2024 PFRA.

11.1.2. Co-operation and, where appropriate, co-ordination for operational purposes

654. The STAC, established in 2011, is chaired by the MITI, the authority responsible for the implementation of the Strategic Trade Act. In 2017, the STAC formally added PF TFS to the responsibilities of the STAC with the supervisory authorities: BNM, SC and LFSA being added as members, bringing the total membership to 13 authorities covering policy making, licensing, supervisory and enforcement (see

Figure 11.1). STAC is mandated to meet twice a year and convenes as needed to discuss ongoing investigations, enforcement actions and developments on counter-proliferation and PF TFS.

Figure 11.1. Structure of STAC

655. There is a complementary relationship between the STAC and NCC to ensure effective PF TFS implementation. The NCC focuses on illicit financial flows while the STAC has specialised knowledge and expertise of counter-proliferation and CPF issues. The 2021 and 2024 PFRAs were developed by the STAC members, and the outcomes were reported and discussed at the NCC for endorsement.

656. The SB is the primary authority responsible for investigation of PF, by gathering intelligence and information on individuals or entities suspected of involvement in PF activities. The BNM, SC and LFSA generally coordinate on CPF issues and PF TFS as members of the STAC and NCC. For example, in June 2024, the MITI issued a Directive on PF TFS, which provides guidance to RIs on PF TFS obligations and instructive measures that no funds or other assets and economic resources are made available. This Directive was developed in close cooperation with supervisory authorities. Overall, the cooperation amongst the NCC and the STAC bodies is positive and there are no legal or practical impediments to cooperating on PF.

657. All RIs in Malaysia are required to file STRs to the FIU if they identify transactions that could be linked to PF, not just risk tied to DPRK. This is in addition to the reporting of positive matches for PF TFS against the UN list (see the section below on the identification of funds held be designated persons). The following table illustrates information gathered by the FIU and RMP on possible PF-related activities. Between 2019 and February 2025, the FIU received 518 STRs linked to suspicious PF activities, with 23 linked to DPRK including instances where DPRK nationals or Malaysian person/entity were involved (see also Table 6.2 in IO.6). The Assessment Team observes that the spike in total STRs in 2024 of suspicious PF activities can be attributed to the amended Directive on PF TFS issued in 2024 and corresponding updates to supervisory Guidelines, coupled with the publication of the PFRA 2024, which increased awareness amongst RIs for PF related activities that could be DPRK-related or non-DPRK (i.e., unilateral sanctions).

Table 11.1. Information gathering and actions taken by FIU and RMP on DPRK-related PF

	2019	2020	2021	2022	2023	2024	2025 (Feb)	Total
RMP								
Receiving Tip-off	12	7	8	4	1	0	0	**32**
Receiving Intel/Information sharing	8	6	8	3	1	0	1	**27**
Open Enquiry Paper	7	4	5	2	1	0	1	**20**
FIU								
STRs linked to PF	111	64	27	42	13	247	14	**518**
Of which DPRK-related reporting								
- DPRK-TFS related (Designated DPRK person/entity)	0	0	0	0	0	0	0	**0**
- DPRK-related (Non-designated DPRK person/entity)	11	0	0	0	0	1	0	**12**
- Local/Malaysian-related person/entity linked to DPRK	2	1	1	0	2	5	0	**11**

658. Malaysia shared several cases to highlight how LEAs and the FIU collaborate to identify the subjects and funds flows of possible PF activities. The MyFINet PPP also supports investigations of PF networks. The main purpose of MyFINet is systematic intelligence sharing on specific cases to prompt further STRs filings by targeted FIs (see IO.6). One of the six thematic working groups under MyFINet is for PF. Information shared through the MyFINet platform helps raise awareness amongst FIs and, in some cases, leads to additional disclosures or STR filings for authorities to analyse. Also, the FINS (see IO.6) is one of the channels for authorities to share publicly available information on PF, including sanctions issued by other countries to assist FIs in identifying PF risk and trends.

Box 11.1. Case of PF-related investigation

Person 1, a DPRK national, was suspected of moving funds related to front companies of two DPRK entities designated under UNSCR 1718. These entities allegedly used an extensive network of individuals, complex corporate structures, and offshore bank accounts in several countries, including Malaysia, to procure and market arms and related materials.

In 2014, Malaysia arrested three DPRK nationals attempting to smuggle cash out of Malaysia. These suspects claimed that the funds belonged to the DPRK embassy in Malaysia. Malaysia undertook further surveillance and identified bank accounts related to the network. In 2019, Malaysia's AGC received a request from the United States for the arrest and extradition of Person 1. Intelligence and banking information shared via MyFINet was instrumental in pinpointing Person 1's location, ultimately leading to a successful arrest in Malaysia. Despite Person 1 challenging the arrest and applying for acquittal, Person 1 was successfully extradited in 2021.

659. Malaysia also cited an additional case study related to disrupting potential PF activities in the form of export control violations (see Box 11.2 below).

Box 11.2. Investigation for violation of export controls

The RMP received intelligence from Country A regarding a front company, acting on behalf of an agent of a procurement network, attempting to move a crew vessel located in Malaysian waters to Country B, before sending it to Country C for military use.

Upon receiving the investigation outcome from RMP, the Strategic Trade Controller decided that the vessel should be prevented from moving. With the assistance from other STAC members including the Strategic Trade Secretariat, STRIDE, and MMEA, RMP conducted an inspection of the vessel. After its inspection, RMP issued a notice to the owner in October 2023, to prevent the vessel from being moved to Country B.

During the investigation, RMP identified the modus operandi used by the procurement agent hiding behind the company in Country B and the risk of the vessel being diverted to Country C for military use, as well as in affirming the flow of funds channelled from the front company in Country B to the ship owner in Malaysia.

11.2. Understanding and mitigating the risks of breach, non-implementation or evasion of PF-related targeted financial sanctions

660. As noted in "Introduction to Money Laundering and Terrorist Financing Risks and Context", Malaysia ended trade relations with DPRK in 2018 and imposed visa restrictions on DPRK nationals entering Malaysia. The extradition of a DPRK citizen to the United States in 2021 (see Box 11.1 above) resulted in the cessation of diplomatic relations with DPRK. As of June 2024, there were 12 remaining DPRK customers in Malaysia's financial system, all of which are natural persons. These accounts were opened before the cessation of diplomatic ties and involved parent-child e-wallets for basic expenditures such as school, and vehicle insurance policies. By December 2024, Malaysia reports that there were only two DPRK customers remaining in the insurance and takaful sectors, both of which are currently inactive.

11.2.1. PF risk understanding

661. Malaysia conducted its first PFRA in 2021, which concluded that Malaysia's exposure to proliferation activities and PF risks is medium-low. The second 2024 PFRA, an update to the 2021 version, maintained the medium-low risk rating.

662. Both PFRAs used a wide array of quantitative and qualitative data from ministries, LEAs, the FIU, supervisory authorities, private sector entities, and internal and external reports. The assessments took into consideration inherent risks and control measures to derive the final net risk. The analysis of inherent risks encompassed an assessment of threats and vulnerabilities, while the analysis of control measures covered legal infrastructure, coordination and cooperation, sectoral oversight, and supervisory and enforcement actions.

663. PF risk understanding of competent authorities and RIs are supported by multiple resources. PFRAs provide overview of key findings including the analysis of DPRK-related PF activities with the information on potential breaches, non-implementation, or sanctions evasion techniques. Malaysian authorities have also undertaken efforts to deepen their understanding of PF trends and risks by actively hosting and participating in international conferences. Outreach activities and guidance have included cases in which DPRK entities used complex corporate structures to conduct PF activities.

664. Malaysia is currently investigating a case that demonstrates its awareness of increasingly complex PF sanctions evasion schemes used by DPRK IT workers known to generate revenue that possibly contributes to the DPRK's nuclear weapons and ballistic missile programs. The other case demonstrates a Malaysian RI identifying a potential client with indirect connections to a known DPRK entity identified in a UN Panel of Experts report but not listed by the UN. This demonstrates that Malaysian RIs cast a wider net beyond UNSCR 1718 listings based on the country's PF risk profile.

Box 11.3. RI detection of possible DPRK sanction evasion activity

Remote IT Workers

In 2024, Malaysia's FIU received a suspicious report from a RI on a Malaysian individual facilitating remote IT workers with possible linkages to DPRK. Fund analysis conducted by the RI found that the Malaysian received funds from multiple IT companies mostly based in the Country Z, and the funds were subsequently sent to individuals with names originating from Country X and Country Y, bearing similarity to the modus operandi employed by DPRK remote IT workers' scheme. Additionally, the report highlighted that the Malaysian individual was receiving money for employment by multiple companies. However, the deposits from the payroll provider had recipient name mismatches, leading to suspicion that the deposits were intended for another third party. This information also corroborates with a known PF typology highlighted in the UN Panel of Experts report, warning that DPRK IT workers tend to pose as non-DPRK nationals to obtain employment, with thousands of IT workers dispatched by the DPRK government to live primarily in Country X and Country Y. The FIU also received reports on the individual from other sectors which identified the shareholdings/ownerships of the Malaysian in multiple companies. This case is currently under investigation.

E-wallet Application

In January 2025, an RI received an online application to open an e-wallet account. During screening, the applicant's name matched that of a director of a company mentioned in the UN Panel of Experts report on the DPRK in 2018. While the company and the individual are referenced in the report, neither is currently designated by the UN. The application was rejected, and the case was reported to the relevant supervisor and FIU. The RI was previously subject to supervisory TFS enforcement action in 2023.

665. According to the 2024 PFRA, the country's strategic geographic location as a major transit hub with important shipping and port facilities, its ease of onsite and offsite corporate infrastructure both onshore and offshore, and weaknesses in BO compliance are specifically identified as posing vulnerabilities. Malaysia notes that these inherent vulnerabilities are mitigated to some extent. For example, the visa restrictions imposed on DPRK nationals and prohibitions on them holding a position of director or shareholder of a corporate entity in Malaysia (since 2018) has reduced the overall net PF risks faced by the country. Nonetheless, Malaysia's strategic geographical position as a regional trade and transit hub significantly heightens its exposure to PF risks, particularly through sanctions evasion schemes that exploit legal persons and corporate structures. The misuse of front and shell companies, coupled with layered ownership and management structures, allow sanctioned entities to obscure their involvement in trade, financial transactions, and supply chains, making detection more challenging. This underscores the critical importance of improving access to timely and accurate access to BO information as highlighted in IO.5.

11.2.2. PF risk Mitigation

666. Malaysia has adopted some PF mitigation measures. CPF guidance has been issued to RIs with references to common schemes and transaction patterns associated with WMD proliferation and PF

scenarios. For example, a 2018 FIU report provided information on emerging PF typologies and broad red flag indicators (e.g., presence of directors from PF TFS countries).

667. Malaysia has adopted certain other requirements that help mitigate PF. RIs are required to report STRs where PF is suspected. This requirement extends to PF suspicions more generally, beyond those linked to UNSCR breaches. When implementing PF TFS, RIs are required to consider not only designated persons or entities, but also whether funds or assets are held by related parties.

668. On 2 April 2018, CCM issued a circular prohibiting any nationals, individuals, or entities from the DPRK from becoming directors or shareholders of a company. This serves as an additional preventive step to help control DPRK-related financial activities in Malaysia. In addition, those engaging in export, transhipment, transit or brokering activities are subject to additional sanctions screening by MITI when they apply for necessary permits.

669. Considering Malaysia's PF risks, it is important that authorities continue to raise awareness of specific red flags and PF typologies to strengthen risk understanding and mitigation. The finalisation of a red flags and typologies report in February 2025 marks a positive step forward. In the past, Malaysian companies have been misused for procuring dual-use goods under previous PF TFS regimes (e.g., Iran). While these regimes are no longer in force, this suggests RIs would benefit from stronger mitigation measures to ensure similar schemes are not used to evade current PF sanctions. Malaysia expects the PF risks emanating from DPRK to further decline based on the cessation of diplomatic relations, lack of presence of DPRK nationals in the financial system and the overall decrease of DPRK nationals in the country. The lack of trade between the two jurisdictions and the prohibition of DPRK nationals holding director or shareholder positions in Malaysian companies are additional considerations. The view that Malaysia's PF risk is expected to decrease is understandable, however given the complexity of the PF risk involving DPRK, and the techniques employed by sanctions evaders, Malaysia should keep RIs' understanding of PF sanctions evasion techniques current to ensure greater mitigation.

11.3. Implementation of PF-related targeted financial sanctions without delay

670. Similar to the implementation of TF TFS, Malaysia has a comprehensive legal and regulatory framework in place for PF TFS. The STA Order, amended in 2016, automatically applies the legal requirements to freeze (and prohibit) upon designation at the UN level. No transposition or additional action is needed for the freeze and prohibition to take immediate effect. The MoHA RSS feed outlined in IO.10 does not provide updates on the PF TFS regime under the UNSCR 1718. Nevertheless, RIs may subscribe to the UN RSS feed. Unfortunately, not all RIs are aware of or take advantage of these mechanisms, with a significant number of smaller DNFBPs still relying on manual checks.

671. PF TFS screening is conducted on potential or new customers at the time of on-boarding and before the provision of any services or undertaking transactions for the customer. On-going screening is conducted on existing customers upon updates to the 1718 list. Most RIs have appropriate screening systems and mechanisms in place. In practice, most FIs, VASPs and larger DNFBPs, use commercial databases for their screening processes. As noted in IO.10, some RIs—including a significant number of smaller DNFBPs that manually check UN websites—appear to face challenges in ensuring their sanctions databases are promptly updated.

672. At the time of the on-site visit, Malaysia had not proposed nor co-sponsored any proposals for designation pursuant to UNSCR 1718, and its successor resolutions. This is consistent with Malaysia's identified risks.

11.4. Identification of assets and funds held by designated persons/entities/those acting on their behalf and prohibitions

673. All RIs are required to identify funds or assets held by designated individuals/entities as well as those acting on their behalf or at their direction. This requirement is further outlined in the PF TFS Directive issued by the Strategic Trade Secretariat of the MITI. As of February 2025, RIs have not frozen funds or other assets pursuant to UNSCR 1718, and its successor resolutions. Malaysia considers that this is consistent with its risks as assessed in its PFRAs. The Assessment Team finds it reasonable that no matches to UNSCR 1718 have resulted in asset or fund freezes by RIs. Given risk profile and context, it is conceivable that Malaysia has assets or funds of persons or entities designated by the UN or indirectly involved in complex PF structures that have not been identified.

674. As highlighted in IO.3 and IO.4, smaller FIs and DNFBPs face challenges in identifying BO, particularly involving complex structures or foreign ownership. This weakens Malaysia's ability to detect and prevent sanctions evasion schemes, particularly those involving individuals acting on behalf of or exerting indirect control over designated persons or entities. The lack of accurate and up-to-date BO information enables sanctioned actors to exploit opaque corporate structures, such as layered ownership, nominee directors, and front companies, to disguise their involvement in financial transactions. This undermines the overall effectiveness of Malaysia's CPF measures, particularly given the DPRK's sophisticated sanctions evasion techniques as outlined in the final UN Panel of Experts Report of March 2024.

11.5. FIs, VASPs and DNFBPs understanding of and compliance with obligations

675. RIs' level of understanding and compliance with PF TFS obligations are largely the same as that for TF TFS. The Guidance issued by the STAC and supervisory authorities support RIs to understand their obligation to freeze funds and other assets without delay. Screening against sanctions lists at the onboarding stage and as part of ongoing due diligence is a standard aspect of CDD processes and extends to BOs of legal persons and arrangements.

676. In the context of processing wire transfers, FIs and VASPs comply with prohibitions from conducting transactions with designated persons and entities. Banks generally facilitate wire transfers through automated systems which do not process transfers if any fields trigger sanction screening hits. VASPs generally use blockchain analytic tools to screen the beneficiary and originator to verify they are not on sanctions lists.

677. From 2024, RIs were required to conduct an institutional risk assessment on PF. This has enhanced the understanding on PF TFS implementation for those that have complied with this requirement. In these cases, supervisors have noted some enhancements to refine specific PF red flags and/or parameters for transaction monitoring systems. Many smaller FIs and DNFBPs are still in the process of conducting these risk assessments.

678. In addition to publicly available sources (e.g., the executive summary of the 2024 PFRA), supervisory authorities have actively disseminated useful guidance through the PPP platforms, such as the Compliance Officers' Networking Group. The relevant PPP platforms provide opportunities for compliance officers of different RIs to exchange information about best practices and common challenges, including in relation to PF and PF TFS.

11.5.1. FIs and VASPs

679. FIs and VASPs implement measures to comply with their PF TFS measures in a similar way to TF TFS obligations, particularly in terms of the data infrastructure that supports sanctions screening (see IO.10). Larger FIs that use commercial screening systems have basic PF TFS controls in place, and implementation is generally occurring. There are some breaches identified related to record keeping on screening documentation (Labuan IBFC). For the VASPs that the Assessment Team met, they had subscription software and blockchain analytic tools to pre-screen all VA transactions including for PF TFS.

11.5.2. DNFBPs

680. DNFBPs are aware of their PF TFS screening requirements, although they are generally more aware of the obligation to detect a positive match of listed individuals, rather than obligations related to the detection of those acting on behalf, or at their direction of, designated persons and entities. As discussed in IO.10, a significant number of smaller DNFBPs rely on manual checks of the lists rather than using available notification measures. There is room for improvement for proactive awareness of updates to sanctions lists as the lack of systematic updates can cause failures of compliance of TFS obligations.

11.6. Competent authorities monitoring and ensuring compliance with PF-related targeted financial sanctions

681. The approach of monitoring and ensuring PF TFS compliance mirrors the approach for TF TFS (see IO.10). The review of RIs' compliance with PF TFS obligations is integrated into the overall scope of supervisory onsite and offsite examinations. Supervisors conducted a thematic review on PF in 2019 involving all banking institutions through questionnaires, followed by on-site reviews of 22 selected banks, and a thematic review in 2024 of TF and PF TFS (although with different scopes for each). These reviews resulted in recommendations on PF-specific issues, including improving due diligence on dual use goods and trade supply chains. PF TFS implementation is also covered in the scope of the institutional risk assessment of RIs.

682. The overall outcomes of supervisory examinations regarding PF TFS compliance are similar to that for TF TFS (see IO.10). Supervisors identified deficiencies in RIs' CPF measures, including issues with screening policies and procedures, as well as lapses in maintaining sanctions databases. A higher number of issues were observed and elevated enforcement actions (e.g., administrative penalties) were applied in certain FI sectors (e.g., insurance, Labuan banking/money broker) and continued compliance lapses have been identified in some DNFBP sectors (DPMS, lawyers and real estate agents). Supervisors have not yet identified any onboarding of designated individuals or entities as a failure of RIs' sanctions screening. Nevertheless, the consistently high number of TFS compliance lapses in certain sectors raises concerns about the effectiveness of outreach and remediation actions.

683. Regarding outreach activities, the main platforms for engagement between the RIs and supervisors are the networking groups of compliance officers for the various sectors (such as the Compliance Officers' Networking Group for banking institutions and the Group of Compliance Officers for MSBs). These PPP platforms provide a useful avenue for wider outreach to RIs to enhance PF risk understanding and PF TFS compliance. Examples of recent materials used at these PPP meetings covered key components related to PF TFS.

Annex A. Technical compliance[102]

This section provides detailed analysis of the level of compliance with the FATF 40 Recommendations. It does not include descriptive text on the country situation or risks and is limited to the analysis of technical criteria for each Recommendation. It should be read in conjunction with the Mutual Evaluation Report.

In accordance with the FATF's 5th Round Procedures, this Technical Compliance Annex only covers Recommendations where the country has made legal, regulatory or operational framework changes since its September 2015 mutual evaluation or October 2018 follow-up report (R.3, 11, 12, 13, 17, 22, 23, 26, 28, 36, 37, 38), and Recommendations where there has been a change in the FATF Standards for which the country has not previously been assessed (R.1, 2, 8, 15, 24, 25).[103] Recommendations under review are identified with the Recommendation heading in green text.

For Recommendations not under review, pre-existing information from the country's most recent assessments has been compiled for inclusion in this annex. Such Recommendations are marked with a footnote cross-referencing the date and source of the information.

Recommendation 1[104] – Assessing risks and applying a risk-based approach[105]

In its 2015 MER, minor gaps were noted in the level of detail in the assessment of TF risk and foreign sourced threats and minor doubts about connection between NRA findings and MSB's enhanced measures for high-risk scenarios. The previous MER did not assess compliance in relation to understanding and mitigating risks related to proliferation financing.

Countries' Obligations and Decisions

Assessment of ML/TF risks

Criterion 1.1 – Malaysia has identified and assessed its ML/TF risks through five separate NRAs, with the most recent iteration adopted in 2023. These risk assessments are of high quality and together reasonably identify and assess Malaysia's ML/TF risks. The 2017, 2020 and NRA 2023 methodologies were developed by the NCC. The NRA consists of a threat risk assessment and sectoral risk assessment. The threat risk assessment also considers the effectiveness of AML/CFT enforcement measures in addressing the ML/TF risks. The sectoral risk assessment assesses the vulnerabilities of RIs in the financial and non-financial sectors to ML/TF abuse, based on net risks. In addition to its NRA, Malaysia identifies its ML/TF risks through

[102] In accordance with the 5th Round Methodology, Recommendations under review, which have been analysed for this mutual evaluation, are in green.

[103] Malaysia was assessed against the Methodology as of 17 June 2024. As such, Malaysia has not been assessed against the revised FATF Standards for Recommendations 4, 30, 31, 38 and 40 or consequential revisions to IOs 2 and 10. Compliance with the revised Standards will be assessed as part of the follow-up process."

[104] While this assessment uses the Methodology of April 2024, the numbering of criterion under R.1 was adjusted to be consistent with subsequent Methodology to ease cross comparison.

[105] Recommendation 1 is newly assessed due to changes to the FATF Standards for which Malaysia has not previously been assessed.

thematic risk assessments (e.g., risk assessment of legal persons, legal arrangements, NPOs, VAs and Labuan IBFC).

Criterion 1.2 –Malaysia has designated the NCC with the responsibility to assess ML/TF/PF risks [NCC Terms of Reference, paragraph 5(ii)]. The NCC is an inter-agency grouping established in 1999. The Chair and lead agency of the NCC is the competent authority appointed by the Minister of Finance under the AMLA, and decisions are made by consensus of member agencies (NCC Terms of Reference, paragraph 6-7). See c.2.2 for detail discussion of NCC.

Criterion 1.3 –Malaysia regularly updates its assessment of risk. Since 2012, Malaysia issued five ML/TF NRAs and several thematic risk assessments (e.g., risk assessment of legal persons, legal arrangements, Labuan IBFC, NPOs and VAs, all of which were updated in 2024).

Criteria 1.4 –The NRA outcomes are made publicly available through high-level executive summaries. The detailed NRA report is shared with all NCC members and public authorities, and the findings of the NRA are communicated to RIs through sector specific industry events. All NCC agencies receive the complete NRA, and discussions during NCC briefings are focused on agency-specific issues, including risk mitigation plans. Findings of regional TF risk assessments and red-flag indicators are also publicly accessible.

Assessment of PF risks

Criterion 1.5 –

- **a)** Malaysia identifies and assesses PF risks through its proliferation financing risk assessment (PFRA), which is separate from the ML/TF NRAs. The first iteration of the PFRA was issued in 2021, with a subsequent iteration issued in 2024.
- **b)** The NCC is responsible for assessing PF risks (NCC ToRs).
- **c)** Malaysia keeps its PF risk assessments up-to-date. The first PF risk assessment was published in 2021; this was reviewed and updated in 2024.
- **d)** Detailed findings from the PFRA were presented to the NCC members and findings of the PFRA were also discussed at the Strategic Trade and Action Committee, which consists of 21 agencies with responsibilities ranging from pesticide control to maritime enforcement. A sanitised executive summary is also publicly available and is shared with RIs and SRBs.

Measures to mitigate ML/TF risks

Criteria 1.6 –Malaysia has taken steps to apply a risk-based approach to allocating resources and implementing measures to prevent or mitigate ML/TF risks based on the NRA and other assessments. More intensive resource allocation for intelligence/investigation/prosecution activities against priority risk areas is achieved through a number of multi-agency task forces focusing on certain areas (e.g., corruption, online financial scams, fraud). This is undertaken under the NCC and other policy structures.

The frameworks for risk-based supervision of all sectors, including the allocation of supervisory resources, are adjusted to consider risk assessment findings. For example, in 2021, BNM strengthened supervision on DPI issuers and MSBs by merging both supervisory departments with increased resources. Another example is on VASPs, the SC has strengthened its supervisory resources by establishing a dedicated supervision team in 2019.

Criterion 1.7 – Malaysia applies preventive measures to all categories of FIs and DNFBPs except custodian services in relation to capital markets which is limited to those defined in section 121 of the Capital Market and Services Act 2007 (CMSA). This limitation includes banks, subsidiaries of banks and trust companies. Malaysia assesses these custodians to be low risk for ML/TF purpose due to the financial activity being limited to clients of fund managers which are subjected to AML/CFT requirements. Additionally, custodians' functions under CMSA do not have direct interactions with the client of the fund managers, as their role is limited to the safekeeping of cash and liquid securities. Fund managers are expected to conduct CDD on individual investors who invest with fund managers.

Criteria 1.8 –

- **a)** FIs and DNFBPs must take enhanced measures where higher risks are identified (paragraph 14A.12.1 and 14.11.1 BNM FI and DNFBP Guidelines; paragraph 8.3 SC Guidelines; paragraph B.5.4 LFSA KRI Guidelines; paragraph 13.5 LFSA Guidelines on Capital Markets Guidelines).

- **b)** FIs and DNFBPs are obliged to assess their ML/TF risks and conduct additional assessment as and when required by the supervisor and such instructions have been given to all RIs based on NRA findings (paragraph 10.2.4 BNM FI and DNFBP Guidelines; paragraph 7.1.3 and Appendix A of SC Guidelines; paragraph 6.7 of LFSA KRI Guidelines; paragraph 12.2.4 LFSA Guidelines on Capital Markets).

Criterion 1.9 – Malaysia allows RIs to apply simplified measures where ML/TF risks are assessed as low. Currently, e-money accounts with a limit below RM 3 000 (EUR 647) may be offered with simplified CDD; however, this applies to domestic purchases only, with no cash withdrawal or fund transfers functionality. Simplified CDD can also be applied to e-money with account limits between RM 3 000 (EUR 647) and RM 4 999 (EUR 1 077) when certain conditions are met (paragraph 14A.11.6 and 14D.12.2 BNM FI Guidelines). MSBs offering money-changing and currency services below RM 3 000 (EUR 647) may apply simplified CDD.

Moreover, in line with the financial inclusion agenda in Malaysia, RIs that are agent banks serving the unbanked/underbanked population are allowed to facilitate the opening of bank accounts with limited features without visiting bank branches (i.e., delayed completion of CDD where limits are placed on the numbers, types and/or amount of transactions that can be performed) (BNM FI Guidelines, paragraph 14A.10.5-10.9).

Criterion 1.10 – Supervisory authorities in Malaysia are empowered to ensure RIs assess their risks and apply risk-based measures and implement their obligations in line with respective guidelines (AMLA).

Measures to mitigate PF risks

Criterion 1.11 –

Malaysia has implemented measures and allocated resources to mitigate PF risks:

- **a)** Malaysia's PF risk mitigation measures extend to all FIs and DNFBPs and no exemptions are granted.

- **b)** Malaysia has taken measures to counter identified PF risks, for example, conducting joint operations targeting illegal and overstayed foreigners with PF risk exposure, and not permitting DPRK nationals to hold company director or shareholder roles. FIs and DNFBPs are required to take enhanced measures to manage and mitigate PF risks (paragraph 10.5.1 BNM FI and DNFBP Guidelines; paragraph 7.3.5 SC Guidelines; paragraph 6.16 LFSA KRI Guidelines).

- **c)** Measures taken are proportionate where lower risks are identified. For example, lower risk entities receive less supervisory engagement and outreach. Malaysia allows RIs to apply simplified measures where PF risks have been identified as low (paragraphs 14A.10, 14B.12, 14C.11 and 14D.11 BNM FI Guidelines; paragraph 7.3.5

SC Guidelines; and paragraph B.5.2 LFSA KRI Guidelines). However, all RIs are required to comply with the requirement of PF TFS in all situations regardless of risk level (paragraph 28 of the BNM FI Guidelines, paragraph 24 BNM DNFBP Guidelines, paragraph 7.4, 16, 17, 18, and 19 of the SC Guidelines and paragraph B.17 of the LFSA KRI Guidelines.

d) The Strategic Trade Act 2010 (STA 2010) enables supervisory authorities in Malaysia to ensure RIs assess their risks and apply risk-based measures and implement their obligations regarding PF risk.

Obligations of financial institutions and designated non-financial businesses and professions

Assessment of ML/TF risks

Criterion 1.12 –FIs and DNFBPs are required to:

a) document their risk assessments (paragraph 10.2.1 BNM FI and DNFBPs Guidelines; paragraph 7.1.2 SC Guidelines; paragraph 6.4 LFSA KRI Guidelines; paragraph 12.2.1 LFSA Guidelines on Capital Market).

b) consider all the relevant risk factors before determining what is the level of overall risk and the appropriate level and type of mitigation to be applied (paragraph 10.2.2 BNM FI and DNFBP Guidelines; paragraph 7.1.2 SC Guidelines; paragraph 6.5 of LFSA KRI Guidelines; paragraph 12.2.2 LFSA Guidelines on Capital Market).

c) keep these assessments up to date (paragraph 10.2.2 BNM FI and DNFBP Guidelines; paragraph 7.1.2 SC Guidelines; paragraph 6.5 of LFSA KRI Guidelines; paragraph 12.2.2 LFSA Guidelines on Capital Market).

d) have appropriate mechanisms to provide risk assessment information to competent authorities and SRBs (paragraph 10.2.2 BNM FI and DNFBP Guidelines; paragraph 7.1.2 SC Guidelines; paragraph 6.5 of LFSA KRI Guidelines; paragraph 12.2.2 LFSA Guidelines on Capital Market).

Measures to mitigate ML/TF risks

Criterion 1.13 –FIs and DNFBPs are required to:

a) have policies, controls and procedures, which are approved by senior management, to enable them to manage and mitigate the risks that have been identified (paragraph 10.3 BNM FI and DNFBP Guidelines; paragraph 7.2.1 SC Guidelines; paragraph B.1.3 LFSA KRI Guidelines; paragraph 12.3 LFSA Guidelines on Capital Market);

b) monitor the implementation of those controls and to enhance them if necessary (paragraph 10.3 BNM FI and DNFBP Guidelines; paragraph 7.2.1 SC Guidelines; paragraph B.1.3 LFSA KRI Guidelines; paragraph 12.3 LFSA Guidelines on Capital Market); and

c) take enhanced measures to manage and mitigate the risks where higher risks are identified (paragraph 10.3 BNM FI and DNFBP Guidelines; paragraph 7.2.1 SC Guidelines; paragraph B.1.3 LFSA KRI Guidelines; paragraph 12.3 LFSA Guidelines on Capital Market).

Criterion 1.14 – Simplified measures are not permitted in circumstances where there is a suspicion on ML or TF (paragraph 14A.10, 14B.12, 14C.11 and 14D.11 BNM FI Guidelines; paragraph B.5.2 LFSA KRI Guidelines; B.4.2 Guidance note Labuan specified entities). Simplified measures are not applicable to DNFBPs.

Assessment of PF risks and measures to mitigate them

Criterion 1.15 –FIs and DNFBPs are required to:

a) identify and assess their PF risks (paragraph 10.4.1 BNM FI and DNFBP Guidelines; paragraph 7.3.1 SC Guidelines; paragraph 6.11 LFSA KRI Guidelines), including:

i. documenting their PF risk assessments (paragraph 10.4.4 BNM FI and DNFBP Guidelines; paragraph 7.3.3 SC Guidelines; paragraph 6.14 LFSA KRI Guidelines).

ii. Keeping these assessments up to date (paragraph 10.4.4 BNM FI and DNFBP Guidelines; paragraph 7.3.3 SC Guidelines; paragraph 6.14 LFSA KRI Guidelines).

iii. have appropriate mechanisms to provide PF risk assessment information to competent authorities and SRBs (paragraph 10.4.4 BNM FI and DNFBP Guidelines; paragraph 7.3.3 SC Guidelines; paragraph 6.14 LFSA KRI Guidelines).

b) have policies, controls and procedures, which are approved by senior management and consistent with national requirements and guidance from competent authorities and SRBs, to enable them to manage and mitigate the PF risks that have been identified (either by the country or by the financial institution or DNFBP) (paragraph 10.5.1 BNM FI and DNFBP Guidelines; paragraph 7.3.5 SC Guidelines; paragraph 6.16 LFSA KRI Guidelines).

c) monitor the implementation of those controls and to enhance them if necessary (paragraph 10.5.1 BNM FI and DNFBP Guidelines; paragraph 7.3.5 SC Guidelines; paragraph 6.16 LFSA KRI Guidelines).

d) take commensurate measures to manage and mitigate the risks where higher PF risks are identified (paragraph 10.5.1 BNM FI and DNFBP Guidelines; paragraph 7.3.5 SC Guidelines; paragraph 6.16 LFSA KRI Guidelines).

e) where the PF risks are lower, ensure that measures to manage and mitigate the risks are commensurate with the level of risk, while still ensuring full implementation of the TFS as required by R.7 (paragraph 10.5.1 BNM FI and DNFBP Guidelines; paragraph 7.3.5 SC Guidelines; paragraph 6.16 LFSA KRI Guidelines).

Weighting and conclusion – All criteria are met. **Malaysia is rated compliant with R.1.**

Recommendation 2[106] – National cooperation and coordination[107]

In its 2015 MER, Malaysia was rated compliant for R.2.

Criterion 2.1 – The NCC is mandated to develop and implement national strategy, policies and measures to effectively counter ML/TF/PF risks, and to ensure that Malaysia's AML/CFT/CPF framework is consistent with international standards. These strategies, policies and measures are informed by risks identified by the NCC, including through the NRA. The NCC is also responsible in providing an advisory role to authorities, based on the annual review of the development of AML/CFT/CPF regime and emerging threats, and monitoring the implementation and effectiveness of the AML/CFT/CPF measures.

The NCC is mandated to develop periodic national AML/CFT CPF roadmap and conduct regular review. Malaysia has adopted several national strategies since its last MER in 2015, namely the National Strategic Plan 2015-2020, the NCC Roadmap 2021-2023, and the NCC Roadmap 2024-2026.

The AML/CFT National Strategic Plan and NCC Roadmaps were developed as part of an overarching framework to address ML/TF risks identified by the NRA. For example, the NCC Roadmaps are anchored upon five strategic focus areas: (a) Legal, Regulatory and Coordination, (b) Risk, (c) Preventive, (d) Capacity Building and Awareness, and (e) Enforcement. Action plans outlined in the NCC Roadmap 2021-2023 were crafted to address and mitigate the risks identified in the NRA 2020 and thematic risk assessments.

Criterion 2.2 – The NCC—Malaysia's primary inter-agency coordinating body made up of 17 ministries and government agencies, including the FIU, supervisors and LEAs—serves as the overarching domestic framework for national cooperation, coordination and exchange of information for the development and implementation of AML/CFT/CPF policies (paragraph 5 NCC Terms of Reference). Specialised sub-committees also exist within the NCC. These sub-committees, such as the Financial Intelligence, Law Enforcement, and Prosecution Sub-Committee, the Financial Sector Sub-Committee, and the DNFBP Sub-Committee, are also actively engaged in policy discussions, provide policy feedback and propose policy enhancements, as well as focusing on the implementation of policies and relevant action plans, and the exchange of best practices. In 2019, Malaysia also established the NFCC, which is coordinating platform for LEAs on policy and operational matters (Section 3, NFCC Act). Other inter-agency taskforces also exist with Malaysia, including on high-risk predicate offences such as the Special Committee on Corruption and the Cabinet Committee Combating Drug Abuse. In addition to the NCC, PF policy and operational coordination takes place in the STAC.

Criterion 2.3 – The NCC is the designated coordination body responsible for setting national AML/CFT/CPF policies and ensuring co-operation and co-ordination amongst relevant authorities (paragraph 5, NCC ToR; paragraph 7, AMLA).

Criterion 2.4 – As noted under c.2.2, the NCC (including its sub-groups) and NFCC are inter-agency bodies that cooperate on policy and operational matters including on proliferation financing. The NFCC has also established NFIS to facilitate data gathering and analysis by LEAs (e.g., personal information on targets, company details, criminal record information). Bilateral MoUs also exist to enable cooperation and the exchange of information between domestic competent authorities on AML/CFT/CPF matter and there is also a legal basis for information to be exchanged between competent authorities and Malaysia's FIU (paragraph 8, AMLA).

[106] While this assessment uses the Methodology of April 2024, the numbering of criterion under R.2 was adjusted to be consistent with subsequent Methodology to ease cross comparison.

[107] Recommendation 2 is newly assessed due to changes to the FATF Standards for which Malaysia has not previously been assessed.

In 2017, Malaysia also established a public-private partnership, Malaysia Financial Intelligence Network (MyFINet), aimed to encourage intelligence sharing between LEAs and FIs to fight ML/TF/PF and other serious crimes.

Criterion 2.5 – The NCC is the primary cooperation and coordination platform between Malaysian authorities and is responsible for ensuring the compatibility of AML/CFT/CPF requirements with the Personal Data Protection Act 2010 (PDPA 2010). Any data compatibility issues can be addressed at NCC meetings, and the Department of Personal Data Protection can be invited to attend NCC meetings under the Committee's terms of reference if such issues need to be discussed.

The Malaysian data protection law provides exemptions for competent authorities to process personal data the prevention or detection of crime or for the purpose of investigations, subject to certain protections (s.45, PDPA 2010).

Weighting and conclusion – All criteria are met. **Malaysia is compliant with R.2.**

Recommendation 3 – Money laundering offence[108]

In its 2015 MER, Malaysia was rated largely compliant with R.3 due to minor shortcomings in the ML offence related to the criminalisation of predicate offences.

Criterion 3.1 – Malaysia criminalises ML in Part II of AMLA in line with the Vienna and Palermo Conventions.

Criterion 3.2 –Malaysia adopts a list approach for predicate offences, which includes 437 serious offences from 53 laws as listed under the Second Schedule to the AMLA. This encompasses the full range of offences in the 21 categories of designated predicate offences and more.

Criterion 3.3 – *(Not applicable)* Malaysia does not apply a threshold approach or combined threshold approach.

Criterion 3.4 – The ML offence extends to property, defined consistent with the FATF standards, that directly or indirectly represents the proceeds of a serious offences (s.3(1), AMLA).

Criterion 3.5 – To prove that property is the proceeds of crime, it is not necessary that a person be convicted of a predicate offence (s.4.4, AMLA).

Criterion 3.6 – Predicate offences include foreign serious offences, which constitutes an offence in the foreign country and would constitute a serious offence in Malaysia (s.3(1), AMLA).

Criterion 3.7 – The ML offence extends to any person who commits the act of converting or transferring proceeds from illegal activities to disguise their origin (s.4.1, AMLA). The legal provisions do not limit the scope of ML to third-party ML, and there is a court case [Azmi bin Osman v Pendakwa Raya and another appeal (2015) MLJU 1289] inferring that cases in which the person laundering the money is the same person who committed the predicate crime (self-laundering) constitutes an ML offence.

Criterion 3.8 – It is possible for the intent and knowledge for the offence to be inferred from objective factual circumstances (s.4(2), AMLA).

Criterion 3.9 – The sanctions for natural persons convicted of ML is imprisonment for a maximum of 15 years and RM 5 million (EUR 1.08 million) or a fine not less than five times the value of the offence, whichever is the higher (s.4(1), AMLA). These sanctions are both proportionate and dissuasive, aligning with those for other serious economic offences such as fraud, which carries a maximum imprisonment 10 years or a fine

[108] Recommendation 3 is newly assessed as Malaysia has made legal, regulatory or operational framework changes since its last mutual evaluation.

up to RM 50 million (EUR 10.8 million), and corruption, which is punishable by up to 20 years of imprisonment or a fine of at least ten times the value of the offence (if applicable) or RM 1 million (EUR 215 500), whichever is greater.

Moreover, Malaysian law allows for 'compounding' the offence under s.92 AMLA, provided there is no prosecution pending and with the written consent of the Public Prosecutor. In such cases, the person can be fined up to 50% of the maximum fine instead of facing prosecution. The decision to impose a compound is made on a case-by-case basis, taking into account factors such as limited prospects of securing a conviction due to evidentiary weaknesses, challenges in fully prosecuting the offenders, or situations where the ML offender cooperates, and parallel civil forfeiture actions are pursued. This approach does not compromise the proportionality or deterrent effect of criminal sanctions.

Criterion 3.10 – The same ML criminal liability and sanctions are applicable to legal persons as natural persons (s.86A, AMLA). The applicability of the provisions of the AMLA on legal persons and natural persons is supported by a court case, where a corporation was sentenced to a fine of RM 9 million (EUR 1.94 million) on three charges, namely conducting direct sales business without a license, promoting pyramid schemes and conducting ML. In this court case, directors of the corporation were charged with three counts of using the corporation's bank accounts as instruments for ML. This case demonstrates that criminal liability and sanctions apply to both natural and legal persons and sanctions for legal persons are proportionate and dissuasive. Additionally, these sanctions do not prevent concurrent civil or criminal proceedings against natural persons. Individuals behind the legal entities can be held responsible for ML committed on behalf of the legal entity. Even if a corporate body or association is not convicted, any natural person involved may still be prosecuted for offenses committed by the legal person (s.87, AMLA).

Criterion 3.11 – There are appropriate ancillary offence to the ML offence, including; attempts; act preparatory; facilitating; abetting; and conspiracy to commit. (s.86A, AMLA).

> ***Weighting and conclusion*** – All criteria are met. **Malaysia is rated compliant with R.3.**

Recommendation 4 – Confiscation and provisional measures[109]

In its 2015 MER, Malaysia was rated largely compliant with R.4. Two minor deficiencies existed where property of corresponding value to instrumentalities for predicate offences could not be confiscated unless a person was prosecuted for ML or TF; and a question was posed in relation to managing and controlling immoveable property during the restraint phase.

Criterion 4.1 – The AMLA provisions provide an enhanced regime that applies to all types of property for ML, TF and predicate offences. This includes conviction and non-conviction-based confiscation and pecuniary penalty orders (s.55, 56 and 59, AMLA respectively). A very minor deficiency exists in AMLA whereby property of corresponding value to instrumentalities for predicate offences cannot be confiscated unless a person is prosecuted for ML or TF (s.55(2), noting s.59 applies to benefits derived from the commission of an offence under subsection 4(1) or a terrorism financing offence, terrorist property, the proceeds of an unlawful activity; or the instrumentalities of an offence); this deficiency cannot be overcome by the general provision in the Criminal Procedure Code (s.407). The DDFOPA and the Malaysian Anti-Corruption Commission Act 2009 (MACCA) provide comprehensive schemes in relation to drugs and corruption matters. All regimes apply to property that is held by criminal defendants or by third parties. Other than for terrorism, instrumentalities intended to be used in the commission of an offence are not

[109] This Recommendation was not under review. Therefore, the text for the Recommendation is copied from MER 2015, with minor non-substantive edits included from Malaysia.

expressly covered by any of the laws. As noted in the 2007 MER, in some cases they may be covered if an attempt offence applies, but this will not suffice in all cases.

Criterion 4.2 – The AMLA provides a comprehensive scheme to carry out provisional measures and take steps that will prevent or void actions that prejudice Malaysia's ability to freeze or seize or recover property that is subject to confiscation. This applies to ML, TF and all predicate offences identified under R.3. The AMLA provides comprehensive measures to identify, trace and evaluate such property and take any appropriate investigative measures in relation to ML and TF. These powers can also be used for predicate offences where an investigating officer has a suspicion regarding an offence under the AMLA. The DDFOPA and the MACCA 2009 provide comprehensive investigative measures in relation to drugs and corruption offences.

Criterion 4.3 – Measures are in place to protect the rights of *bona fide* third parties (s.61, AMLA).

Criterion 4.4 – Malaysia's laws set out mechanisms for basic asset management, which include provisions for authorities to take custody and control in certain cases, the sale of frozen and movable property, processes for registration on land titles, management, and closure of seized businesses and for records to be kept. There are no provisions to sell or take custody and control of immoveable property during the restraint phase; Malaysia takes the view that this is not 'necessary' given dealings can be prevented on the title of the property and because of the nature of the property and duration of restraining orders. This may pose issues if the real estate market is in decline or if the property owner is no longer willing or able to manage the property appropriately, however Malaysia advises such property could be sold by consent or be subject to early civil forfeiture proceedings.

Asset management is handled administratively by respective law enforcement agencies (LEAs). Each LEA has their own standard operating procedures to guide management of assets. BNM has an asset management guide for AMLA matters, which is a short summary of action to be taken for each property type. It is not comprehensive but is a good starting point that should be built upon. However, with respect to the sale of restrained property the BNM Guide relies heavily on consent to sale which may not always be forthcoming and therefore may be problematic. RMP's guide for disposing of property under DDFOPA is the most detailed.

Weighting and conclusion – Malaysia's confiscation laws are relatively advanced and provide good coverage of the vast majority of the requirements, with only minor deficiencies remain. The investigative powers are broad, and laws provide a good basic asset management framework. However, LEAs' asset management guidelines should be enhanced. **Malaysia is rated largely compliant with R.4.**

Recommendation 5[110] – Terrorist financing offence[111]

In its 2015 MER, Malaysia was rated largely compliant with R.5 and re-rated to compliant in the FUR 2018.

Criterion 5.1 – Terrorism financing offence are set out in section 130N, 130O, 130P, and 130Q of the Penal Code and is compliant with the TF Convention.

[110] While this assessment uses the Methodology of April 2024, the numbering of criterion under R.5 was adjusted to be consistent with subsequent Methodology to ease cross comparison.

[111] This Recommendation was not under review. Therefore, the text for the Recommendation is copied from MER 2015 and FUR 2018, with minor non-substantive edits included from Malaysia.

TF prosecutions cases presented for the FUR 2018, demonstrate no deficiency in the scope of the TF offence in relation to the conduct set out in the treaties annexed to the TF Convention.

Criterion 5.2 – The offence of providing property to or collecting property for a terrorist organisation(s) or individual terrorist(s) is indirectly criminalised in section 130G, 130Q, and 130O of the Penal Code. The offences apply even in the absence of a link to a specific terrorist act or acts.

Criterion 5.3 – The Penal Code (Amendment) Act 2015 [Act A1483] criminalises the financing of the travel of individuals who travel to a State other than their States of residence or nationality for the purpose of the perpetration, planning, or preparation of, or participation in, terrorist acts or the providing or receiving of terrorist training. Specifically, section 130O(1) makes it an offence to, directly or indirectly, provide or make available, financial services or facilities: (a) intending that the services or facilities be used, or knowing or having reasonable grounds to believe that the services or facilities will be used, in whole or in part, for the purpose of committing or facilitating the commission of a terrorist act, or for the purpose of benefitting any person who is committing or facilitating the commission of a terrorist act; or (b) knowing or having reasonable grounds to believe that, in whole or in part, the services or facilities will be used by or will benefit any terrorist, terrorist entity or terrorist group. Section 130Q makes it an offence to deal with terrorist property. These apply to the financing of the activities of providing and receiving terrorist training and instruction, attendance for terrorist training, and travelling to foreign country for the purpose of commission or the preparation for the commission of a terrorist act (sections 130F, 130FA, 130FB and 130JA of the Penal Code).

Criterion 5.4 – The offences in the Penal Code apply to 'any property (s.130J, 130N, 130P, 130Q,)', 'financial services or facilities (s.130O)' and 'any terrorist property (s.130Q)'. The definitions of property and terrorist property are broad enough to cover both legitimate and illegitimate property. The phrase 'financial services or facilities' is not defined however it is used broadly enough to apply to legitimate and illegitimate property.

Criterion 5.5 – The MER 2015 concluded that the offences do not require that the funds were actually used to carry out or attempt a terrorist act(s). There is nothing in the law that requires the funds to be linked to a specific terrorist act.

Criterion 5.6 – The provisions of the offences and the Evidence Act 1950 confirm that intent and knowledge can be inferred from objective factual circumstances.

Criterion 5.7 – The MER 2015 concluded that proportionate and dissuasive criminal sanctions apply to natural persons convicted of TF. The judiciary has the discretion to impose an appropriate sentence up to the maximum based on proportionality considerations.

Criterion 5.8 – The MER 2015 concluded that the TF offences apply to both natural and legal persons and that this does not preclude parallel criminal, civil or administrative proceedings. It found that the penalties were proportionate and dissuasive. It did not expressly address whether such measures are without prejudice to the criminal liability of natural persons, however they appear to be.

Criterion 5.9 – The MER 2015 concluded that the ancillary offences are appropriately covered.

Criterion 5.10 – The MER 2015 concluded that TF offences are predicate offences for ML.

Criterion 5.11 – The MER 2015 concluded that the TF offences apply where the act of financing takes place in a different country to the one in which the terrorist group is located, or the terrorist act will occur. The TF offences do not require the person to be in the same country as the terrorist(s)/terrorist organisation(s) or where the terrorist act(s) occurred/ will occur.

Weighting and conclusion – All criteria are met. **Malaysia is rated compliant with R.5.**

Recommendation 6 – Targeted financial sanctions related to terrorism and terrorist financing[112]

In its 2015 MER, Malaysia was rated compliant with R.6.

Criterion 6.1 – MoHA is the competent authority responsible to propose persons or entities to the 1267/1989 and 1988 Committee for designation. Any proposal for designation will be made by MoHA through the Ministry of Foreign Affairs (MoFA) and Malaysia's Permanent Representative to the United Nations (UN). Malaysia has used the procedures to co-sponsor an Al Qaeda designation at the UN.

The mechanism for identifying targets for designation involves the RMP providing information on entities or persons who meet the criteria for designation set out in the relevant UNSCRs to MoHA. MoHA has a role in reviewing the information and consulting with the other relevant authorities, if necessary. If MoHA finds that the target meets the designation criteria, the proposal is provided to MoFA for deliberation at the Cabinet level before the designation is forwarded to the UNSC Committee.

The evidentiary standard that RMP applies is a 'reasonable basis' to believe that the target is involved in any of the activities listed under UNSCR 1267 and the relevant successor resolutions. The process is not conditional on the existence of a criminal proceeding.

RMP submits any proposals for designating targets using standard forms that Malaysia has prepared to support the mechanism for review. The forms call for as much relevant information as possible to be included.

Criterion 6.2 –

(a, c & e) The MoHA is the competent authority responsible and empowered for designating persons or entities, including non-Malaysians, that meet the specific criteria for designation as stipulated in UNSCR 1373, whether the designation is made following a domestic process initiated by Malaysian authorities or is based on a foreign request. Any request by foreign countries to designate any person in accordance with the UNSCR 1373 must be made through MoFA which will then forward the request made by the foreign country for MoHA's consideration. The MoFA would pass on any request to foreign partners supported by information obtained by MoHA.

(b & d) The RMP may submit a proposal for designation to the MoHA, if there is a 'reasonable basis' to believe that the target meets the designation criteria under UNSCR 1373. The competent authority will determine the designation in the case where s/he 'is satisfied on information given to him by a police officer' that the entity meets the designation criteria. Any proposal for designation or the designation itself is not conditional upon the existence of a criminal proceeding.

Criterion 6.3 (a & b) – The RMP may use powers of investigation and compulsion to produce documents and other things provided in the Criminal Procedure Code (CPC) to collect or solicit information to identify persons and entities that meet the criteria for designation. Collection of information and the proposal for designation against a person or entity by MoHA is conducted without involvement of or prior notice to the person or entity identified for designation.

Criterion 6.4 – The 2014 amendments to the AMLA (s. 66C(2)) establish a system of automatic domestic designation in Malaysia upon UN designation, which brings the freeze and prohibition obligations immediately into force. There is no longer a requirement for the Minister to make an order or decisions in relation to persons and entities designated under UNSCR 1267/1988 and 1989.

[112] This Recommendation was not under review. Therefore, the text for the Recommendation is copied from MER 2015 and FUR 2018, with minor non-substantive edits included from Malaysia.

Criterion 6.5 –

(a) The freezing obligations, property subject to a freeze and prohibitions on providing funds or financial services to entities designated under UNSCR 1267 and 1373 are set out under section 66B(3) of the AMLA and the Penal Code. The freezing obligations apply ex-parte. The freezing obligation set out in section 66B(3) covers citizens of Malaysia and bodies incorporated in Malaysia. This includes all licensed RIs in Malaysia, as licensed or registered FIs and DNFBPs are required to incorporate in Malaysia as part of the market entry controls. The freezing obligations for foreign corporates and non-citizens who are not RIs are contained in the Penal Code prohibition on dealing with property of a designated entity (s.130Q). The effect of this prohibition is a mandatory freeze as it extends to anyone who 'deals in' the property, which is broadly cast to cover acquiring, possessing, converting, concealing, transacting, etc.

(b) The scope of property subject to freeze and the prohibitions on dealing in the AMLA (s.66B) extends to assets of every kind and legal documents or instruments in any form that are owned or controlled directly or indirectly by the designated individuals or entities. This would cover funds that are wholly or jointly owned or controlled by the designated persons and those acting on behalf or at the direction of such persons. The Penal Code prohibitions and freeze obligations extend to funds derived or generated from property owned or controlled by or on behalf of the designated entity, including funds derived or generated from such property.

(c) Comprehensive prohibitions on dealing with property of designated entities and providing financial services are set out in the Penal Code and apply to all persons (including legal persons) within Malaysia and Malaysian nationals outside of the territory. Equivalent prohibitions are set out at section 66B(3) of the AMLA to cover all Malaysian citizens and bodies incorporated in Malaysia.

(d-f) The AMLA and related mechanisms include processes for communicating designations (MoHA and relevant regulators), guidance for RIs, obligations on RIs and other entities to report freezing actions and measures which protect the rights of bona fide third parties.

Criterion 6.6 –

(a) The MoHA's website makes available forms for listed persons to submit de-listing requests. The AMLA provides for the Minister to consider applications before submitting them to the UN Sanctions Committees. These procedures, including the role of the UNSCR 1988 Focal Point mechanism and the role of the UNSCR 1989 Office of the Ombudsperson are on the MoHA website.

(b) The AMLA includes procedures and legal authorities to delist and unfreeze funds of entities designated pursuant to UNSCR 1373. This may occur within the first 60 days if there is evidence that the basis for listing was not present or arising out of review every six months or legal protections to allow court-sanctioned procedure to review listing.

(c) A listed individual or entity aggrieved with MoHA or other authorities' decision, action or omission in relation to the exercise of their duties or functions may make an application for judicial review. An application for judicial review can only be filed if the High Court grants leave to commence judicial review proceedings. Having obtained leave to commence judicial review proceedings, the aggrieved person can institute a substantive application for judicial review.

(d & e) Any request for de-listing to the Focal Point and Ombudsperson needs to be submitted through the MoFA. Information pertaining to procedures for delisting requests to the UN as published on the UN website is linked on MoHA's website.

(f) An individual or entity inadvertently affected by a freezing mechanism due to 'false positives' may seek clearance from MoHA to verify that they are not the designated individual or entity. After considering the claim, MoHA informs the relevant regulatory and supervisory authorities and other agencies regarding its verification (or not) of a false positive. The relevant regulatory and supervisory authorities will notify the RI to unfreeze the property without delay.

(g) The MoHA (via its website) and individual regulators have mechanisms for communicating de-listing actions and to guide those entities which may have frozen funds on their obligations to unfreeze funds and other property.

Criterion 6.7 – Access to funds or other assets is regulated by the AMLA (s.66B(10)) and is at the discretion of the MoHA in cases where the Minister deems it is necessary for basic or extraordinary expenses. The implementation procedures of Part VIA of the AMLA provide that the MoFA should seek approval by the UN sanctions committees for access to frozen funds for basic expenses. The implementation procedures do not explicitly address the issue of extraordinary expenses, though Malaysia notes that the procedure is the same and would reflect UNSCR 1452.

> ***Weighting and conclusion*** – All criteria are met. **Malaysia is rated compliant with R.6.**

Recommendation 7 – Targeted financial sanctions related to proliferation[113]

In its 2015 MER, Malaysia was rated partially compliant with R.7 and received a re-rating to compliant in its 2018 FUR.

Criterion 7.1 – TFS related to financing the proliferation of WMD are set out under Malaysia's Strategic Trade Act (STA) 2010, Strategic Trade (United Nations Security Council Resolutions) Regulations (STA Regulations) 2010 and the Strategic Trade (Restricted End-Users and Prohibited End-Users) Order (STA Order) 2010. The STA provides for control over the export, transshipment, transit and brokering of strategic items, and other activities that may be related to proliferation of WMD consistent with Malaysia's international obligations. The operative provisions related to TFS are set out in subsidiary legislation issued as a Regulation under section 55 of the STA, which provides a broad basis to issue regulations as subsidiary legislation, including sanctions for non-compliance.

The STA Order was amended in June 2016 by MITI to change the domestic transposition process to direct adoption of the UNSC Consolidated List by referencing the relevant UNSC website. With the amended legislation, Malaysia is transposing the relevant UNSCRs and applying TFS without delay. Further amendments were made to the Strategic Trade Regulations in March 2018, where the obligations now apply in relation to all persons in Malaysia, including foreign individuals and entities.

In addition, several on-going initiatives have been undertaken by various authorities (MITI, BNM, LFSA and SC) to increase awareness and provide guidance to the reporting entities on their obligations in relation to PF TFS. Apart from designations, information on individuals and entities that are suspected to be involved in activities related to PF, other countries' unilateral sanctions and related news or publications on PF have also been published in FINS to alert RIs on new developments on PF sanctions and for RIs to manage their risk accordingly.

In February and June 2024, BNM, MITI and SC have reflected the cessation of UNSC Resolution 2231 which includes the TFS by removing reference to UNSCR 2231 in respective agencies' legally binding directive/guidelines.

[113] This Recommendation was not under review. Therefore, the text for the Recommendation is copied from MER 2015 and FUR 2018, with minor non-substantive edits included from Malaysia.

Criterion 7.2 –

(a-c) Regulation 3(2) of the STA Regulations sets out the measures to be taken for freezing of funds and other assets of and persons and entities designated under the STA Order. There is nothing in the mechanism which requires prior notice.

(d) MITI, BNM, SC and LFSA have amongst others issued legally binding directive/guidelines as well as typology report and guidance to enhance awareness and provide guidance to RIs on PF TFS obligations.

(e) The STA Regulations require all persons to report to the Strategic Trade Controller in case assets are frozen. BNM, SC and LFSA have instructed their regulated entities to submit a parallel report to them in case of a freeze.

(f) STA 2010 (STA and STA Regulations) includes measures which protect the rights of *bona fide* third parties acting in good faith when implementing the obligations for freezing property. Sections 52, 53 and 54 of the STA and Regulation 3(4) of the STA Regulations establish protections from any legal proceedings.

Criterion 7.3 – BNM, LFSA and SC supervise compliance with the STA obligations for asset freezing. Sanctions are clearly available in the STA Regulation for non-compliance.

Criterion 7.4 –

(a) Malaysia issued procedures for de-listing, unfreezing funds, accessing funds and communicating de-listing on 4 November 2014. These were prepared by the Strategic Trade Secretariat (STS), MoFA and other relevant authorities to address the due process aspects of PF TFS. Any application for de-listing to the UN Security Council will be submitted through the MoFA to the Focal Point/UNSC Committee based on information provided by STS and other authorities.

MITI has made available on its website the procedures for listed persons to apply for de-listing, unfreezing of property and access authorization to frozen property from the United Nations Security Council Committee and the Strategic Trade Controller, respectively.

(b) Individuals or entities affected by a freezing mechanism due to 'false positives' may seek clearance from the STS to verify that they are not the designated individual or entity. STS will seek assistance from BNM, SC and LFSA. After considering the claim, STS informs the relevant regulatory and supervisory authorities and other agencies regarding its verification (or not) of a false positive. The relevant regulatory and supervisory authorities will notify the RI to ensure it can unfreeze the property without delay.

(c) Access to funds or other assets is regulated by the November 2014 procedures and is at the discretion of the Minister in cases where the Minister deems it is necessary for basic or extraordinary expenses. This is in keeping with the exemption conditions set out in UNSCRS 1718.

(d) The MITI website and individual regulators have mechanisms for communicating delisting actions and to guide those entities which may have frozen funds regarding their obligations to unfreeze funds and other property.

Criterion 7.5 – In accordance with the Procedures on Freezing, Seizure and Forfeiture of Property under the AMLA, RIs are permitted to continue collecting or receiving payments from the customer, however the account will continue to remain frozen. Malaysia has also indicated that funds may be credited to a frozen account, however the funds will become frozen once received.

Weighting and conclusion – All criteria are met. **Malaysia is rated compliant with R.7.**

Recommendation 8 – Non-profit organisations (NPOs)[114]

In its 2015 MER, Malaysia was rated largely compliant with R.8. Deficiencies existed in relation to monitoring on a risk- sensitive basis, public access to records on NPOs, and range of sanctions available.

Criterion 8.1 – Since not all organisations working in the not-for-profit realm in Malaysia are inherently high risk, Malaysia has:

(a) Identified the subset of organisations falling within the FATF's definition of NPO. As of February 2025, 91 000 organisations meet the FATF's definition of NPO in Malaysia.

(b) Conducted risk assessments of these NPOs to identify the nature of TF risks posed to them through periodic risk assessments. The last iteration of the NPO Risk Assessment (NPORA) was conducted in 2024 and was a follow-up of the NPO sectoral assessment and the NPO TF Risk Assessment conducted in 2013 and 2018, respectively. The 2024 NPORA was conducted jointly by NPO regulatory authorities, BNM and relevant stakeholders.

The 2024 NPORA assesses the risk for possible TF abuse of the NPO sector as medium risk. NPOs which are cash intensive, have presence or overseas activities in conflict-prone areas and are often involved in raising or disbursing large donations from/to higher risk areas were assessed to be higher risk to potential TF abuse. The 2024 Assessment notes that many NPOs are low risk to TF abuse due to the nature/objectives which limit exposure to TF activities (e.g., recreational clubs, chambers of commerce or residents' associations).

(c) The outcomes of the NPO risk assessments were used by NPO regulators to develop the extent, scope and intensity of oversight activities. The Registry of Societies (ROS) conducts risk-based examination of registered NPOs targeting approximately 1 400 NPOs per year. The ROS also submits security vetting requests to the RMP for new applications with heightened risk (e.g., charity and religious NPOs, NPOs with overseas activities, and NPOs receive donations). CCM conducts regular risk-based data analysis and physical inspections of Companies Limited by Guarantee (CLBGs) to ensure compliance with the CA 2016. In line with the findings of the NPORA, the CCM focuses on CLBGs carrying out charitable and religious objects. LFSA adopts a systematic and structured supervisory approach to identify, assess, and understand the ML/TF/PF risks of Labuan Foundations and Labuan Trusts. In general, Malaysian authorities have in place a risk-based approach, although the level of oversight and monitoring in place could be more targeted and proportionate given the overall low risks in the sector.

Criterion 8.2 –

(a) The transparency and integrity of and public confidence in NPOs is facilitated by Malaysia's legal and supervisory framework. The public can inspect any documents (except for accounts) submitted by NPOs under the SA 1966 (including electronically through the Registry of Societies Electronic System (eROSES)). Information submitted to CCM by CLBGs is accessible by the public on-line and onsite. CLBG fundraising activities involving the public require ministerial approval (s. 45(4), CA 2016). NPOs supervised by BHEUU are required to supply relevant information when applying to incorporate a trustee under TIA. These records are available publicly where basic information is made public, such as settlors, trustees and address. The records can be found in BHEUU's official portal. However, additional information can only be obtained by the public upon request to BHEUU. RMP implemented a system of licensing charitable collection agents, which is done at a local level to ensure effective oversight and accountability. Moreover, the ROS prohibited house-to-house fundraising and street collections by NPOs in 2012, unless a specific license is granted by the RMP. All Labuan foundations are required to have a secretary in the form of a Labuan trust company. Similar requirements apply to Labuan Islamic trusts. As trust companies are RIs under the AMLA, record-

[114] Recommendation 8 is newly assessed due to changes to the FATF Standards for which Malaysia has not previously been assessed.

keeping and CDD requirements apply to them. LFSA also makes available and regularly updates the list of Labuan charitable foundations that may solicit public donation on their website.

(b) Malaysia undertakes outreach and educational programmes to raise and deepen awareness amongst NPOs as well as the donor community about the potential vulnerabilities of NPOs to TF abuse and TF risks, and the measures that NPOs can take to protect themselves against such abuse. Between 2019 and December 2024, Malaysia also conducted 912 outreach programmes for NPOs.

The ROS also conducts courses and outreach to NPOs on TF risks facing the sector. A total of 168 outreach programmes are planned yearly for all NPOs, although ROS has consistently conducted more than 200 programmes every year since 2021.

LFSA conducts annual outreach programs to educate Labuan Foundations and Labuan Trusts on regulatory requirements, including on understanding TF risks, vulnerabilities, and threats associated with NPOs. From 2019 to June 2024, LFSA conducted 29 on-site examinations, six supervisory engagements and six outreach programmes, aimed at increasing awareness and understanding of AML/CFT/CPF requirements.

(c) Malaysia issued a best practices document to NPOs in 2014. Following the adoption of the 2024 NPO risk assessment, Red Flags and Typologies report of TF prevention for NPOs was developed in February 2025. Malaysian authorities have collected feedback from NPOs through regular engagements/interactions (e.g., on-site/off-sites, ad hoc engagements) between the NPO regulators and NPOs and utilised the feedback in developing the Red Flags and Typologies report.

(d) Malaysia encourages NPOs, in its formal outreach activities, to conduct transactions via regulated financial and payment channels, wherever feasible. In the outreach activities of the ROS, it has provided best practices that NPOs could implement to mitigate or protect against abuse including through the use of regulated channels. The NPORA also recommends that regulators continue to encourage the use of formal channels, in view that the use of cash by NPOs has been identified as a TF risk exposure, among others. In addition, NPOs are also encouraged at the registration stage to use banks for their financial transactions. For example, NPOs intending to register with the ROS must use the sample constitution set by the ROS. The constitution contains clauses, to encourage sound financial management including the setting of appropriate thresholds for maximum cash holding. There is also a clause that expressly states that any excess must be placed into a bank account maintained under the NPO's name.

Criterion 8.3 –

(a) As the largest regulator of NPOs, on average, ROS implements risk-based oversight and monitoring of 1 400 higher risk NPOs per year. Selection of high risk NPOs is based on the categorisation of NPOs in the NPORA, adverse reporting from authorities and public, the cash-intensity of an NPO's charitable activities, geographic areas of operations, and compliance with the SA 1966. In line with TF risks, NPOs with charitable and religious purposes received most oversight activities (including offsite and onsite examinations). Given the overall risks in the sector, the level of oversight and monitoring could be more targeted.

(b) The ROS (as well as other NPO regulators) applies market entry controls for those operating and managing NPOs in Malaysia, including RMP vetting on higher risk NPOs and their office bearers, as well as UN sanctions list screening. The standard requirements to all NPOs serve as baseline of the minimum requirements for setting up an NPO. For example, upon receiving an application for registration from an NPO, ROS may request further information from the applicant (s.6A, SA 1966) to judge whether registrar may refuse the application in light of historical record of cancellation of registration, compliance with the Act, or an existing dispute in the court. These entry/registration measures apply to all NPOs in Malaysia, regardless of the risk-rating. NPOs categorised as higher risk are subject to additional security vetting by RMP. Out of the 76 262 applications (98.8% of which were received by ROS) from 2019 to June 2024, 1 716

(2.2% of the NPO sector applications) were sent to RMP for additional security vetting, which is in line with TF risk level of NPOs sector of Malaysia.

The NPO risk assessment identifies charitable, religious, recreational and social NPOs as those subject to higher TF risks. Approximately 90% of oversight and monitoring activities (6 392 out of 7 070 inspections) carried out by the NPO regulators focussed on entities in these four subsectors. Additional reporting measures also apply to NPOs involved in the cross-border transfer of funds cross-border, or conducting activities in conflict zones.

Criterion 8.4 –

(a) All regulators monitor NPOs' compliance with the risk-based measures through a combination of on-site and off-site measures as noted in c.8.3. All regulators have the legal authority to conduct onsite risk-based monitoring (ROS: s.63, SA 1966; CCM: s.27C, CCMA 2001; LFSA: s.28C, LFSAA 1996), and offsite monitoring, including requesting relevant information and annual reports. (ROS: s.14, SA 1966; CCM: ss.68(1), 259, CA 2016; BHEUU: s.15, TIA 1952; LFSA: s.17, LFA 2010).

(b) Malaysia has effective, proportionate and dissuasive sanctions in place for violations by NPOs or persons acting on behalf of these NPOs. An NPO can be de-registered for several reasons, including fraud, likely to be used for unlawful purposes, pursuing objects other than for which it is registered, wilful contravention of the law; and ceasing to exist (s.13, SA 1966; ss. 465 and 549, CA 2016; s.17, TIA 1952, s20, LFA 2010). Beyond deregistration and suspension, the following additional sanctions can be imposed:

- For an office-bearer or any person managing or assisting in the management of a society who fails to comply with suspension order to the NPO, a fine not exceeding RM 5 000, and where the offence is continuing, an additional daily fine not exceeding RM 500 per day for violations of section 13(2C) of the SA 1966 until the offence ceases.
- The LFSA can impose administrative penalties to Labuan NPOs of RM 500 per day and RM 10 000 in total after issuance of a show cause notice (s.78, LFA 2010) if a satisfactory explanation is not received within the period specified in the written show cause notice issued against any person who fails to comply with any provisions of the LFA. The CCM may impose an administrative penalty not exceeding RM 500 000 against a person who has committed a breach and direct the person to take necessary steps to remedy the breach (s. 20E, CCMA 2001). Administrative sanctions can also be undertaken by BHEUU pursuant to the TIA 1952, including the disqualification of the trustees convicted of any offence and suspending NPO's activities.
- The CCM can impose an any offence committed by any person suspected to have committed an offence under CCMA 2001 or any laws prescribed under the First Schedule of the same Act of an amount not exceeding 50% of the maximum fine for that offence (s.38A, CCMA 2001). The LFSA can impose compound any offence under LFA 2010 up to 50% of the amount of maximum fine with the consent of the Public Prosecutor (s.77, LFA 2010).

Criterion 8.5 –

(a) Coordination and cooperation amongst NPO regulators and other competent authorities (including LEAs) are undertaken largely via the NCC sub-committee on NPOs (referred to as SCONPO), which was established in May 2008. SCONPO is comprised of CCM, ROS, IRB, BNM, LFSA and BHEUU. As part of the

NCC, SCONPO does not require formal legal arrangements or MoUs for domestic cooperation. Furthermore, the RMP has seconded 11 staff to the ROS Enforcement Division.

Since 2016, RMP and ROS have an agreement, allowing direct access to eROSES for RMP's counter-terrorism unit. This provides the RMP with direct access to information on 97% of the NPOs registered under the ROS to assist in their TF monitoring and surveillance, while providing additional indicators of TF risk to ROS for oversight and regulatory intervention as needed. The information accessible to RMP through eROSES includes registration information, such as details of office bearers, etc. For the remaining 3% of NPOs registered with other NPO regulators, sharing of information is done either via request or publicly available information maintained by CCM, LFSA or BHEUU.

(b) The RMP is the investigation agency responsible investigating the possible misuse of NPOs for TF purposes. The investigative powers of the RMP are outlined in R.31 and are applicable here.

(c) The ROS has the authority to compel any society to furnish in writing any information deemed required (s.14(2), SA 1966), and the Registrar may enter, search, seal and confiscate any documents relevant to the search, as well as taking statements for further proceedings (s.64, SA 1966). As noted above, the ROS and RMP also have direct communication via eROSES. The Registrar may also request information or documents related to the laws under the CCM's responsibility (s.27B, CCMA 2001). LFSA can compel RIs to submit any information on the identity, affairs or accounts of any of its customers (s.28B, LFSAA 1996). Apart from above, general provisions allowing authorities to request and access information are applicable to obtaining information from NPOs (see c.31.1).

(d) The ROS can promptly share information with LEAs, such as the RMP and the MACC pursuant to Regulation 17 of the Societies Regulations 1984. LEAs also have direct access to the CCM database (see R.24). As noted in c.8.5, the RMP's special counter-terrorism unit has direct access to eROSES. This provides the RMP with direct access to information on 97% of the NPOs in Malaysia to assist in their TF monitoring and surveillance. The LFSA is able to disclose relevant information to LEAs where there is a reasonable suspicion that a criminal offence has been, is being or is about to be committed (s.17A and 28B(6), LFSAA 1996;). BHEUU can share information, upon request, to any person in exchange for a fee (s.8, TIA 1952). Since this fee can be waived for official requests by NPO regulators and other authorities, there is no impediment for competent authorities to take preventive or investigative action. Basic information related to NPOs such as settlors, trustees and others is also made available in BHEUU's official portal.

Criterion 8.6 – Malaysia has identified points of contact to respond to international requests for information regarding NPOs suspected of terrorist financing or involvement in other forms of terrorist support (Appendix I, Terms of Reference of the Sub-Committee on NPO Sector). This is updated by the SCONPO, which is a sub-committee of the NCC. Moreover, ROS, LFSA and BHEUU also have relevant contact points available on their public websites.

In addition, ROS has established contact points to deal with international information requests. LFSA has procedures in place for receiving and vetting requests. LFSA's investigation and exchange of information unit handles all requests for information, either formally through the MLA requests or under an existing MoU/legal agreement. Should BHEUU receive any international request, BHEUU will respond accordingly depending on the information requested through engagement with relevant agencies such as MoFA, RMP, FIU and AGC. The CCM's Prosecution and Litigation Division handles all request for information through MLA requests.

> ***Weighting and conclusion*** – Malaysia conducts risk-based outreach and monitoring of NPOs vulnerable to TF abuse. However, deficiencies exist related to a lack of focused and proportionate measures in place to apply targeted measures to high-risk NPOs. **Malaysia is rated largely compliant with R.8.**

Recommendation 9 – Financial institution secrecy laws[115]

In its 2015 MER, Malaysia was rated largely compliant with R.9, as some basic supervisory information which does not reasonably give rise to suspicion of an offence and that is not requested by a home supervisor or a party to an MOU would still be captured by secrecy obligations.

Criterion 9.1 – A duty of confidentiality and secrecy is imposed by the financial and regulatory laws on directors, officers, auditors, agents etc, of licensed FIs with respect to customers and the affairs of such institutions (Section 79 AMLA). A similar duty is also imposed on the supervisors of such institutions, but with exemptions as provided for in the law, including with respect to sharing of information with foreign counterparts and domestic LEAs which they obtain during their supervisory functions. For purposes of the STR obligations of all entities covered under the AMLA, the secrecy and restrictions on disclosure imposed by any law or otherwise are overridden.

In 2010, the Offshore Banking Act (OBA 1990) was repealed and the Labuan Financial Services and Securities Act 2010 (LFSSA 2010) which includes provisions for banks, was enacted. In 2010, the LFSAA 1996 was also amended to address information access restrictions in the predecessor OBA 1990. Section 17A of the LFSAA 1996 contains broad secrecy and disclosure restrictions that can cover information obtained during the LFSA supervisory functions (e.g. '…any record, book, register, correspondence, document, material or information, relating to the business and affairs of the Authority in the performance of his duties or the exercise of his functions…'). Exemptions to the secrecy provisions under section17A of the LFSAA 1996 are disclosures when required by a court or written law. There are pecuniary and imprisonment penalties for violations of secrecy provisions.

Section 28B(1) allows the LFSA to require FIs to submit to it a wide range of information for purposes of its supervisory functions including information, then imposes restrictions on divulging that information care of Section 28B(5) of the Act. Section 28B (6) allows the LFSA to divulge information submitted to it under section 28B(1) to a range of recipients including home supervisors, LEAs, under MOUs, on order of the courts, etc. but only with respect to information obtained under section 28B(1), that is, customer and beneficiary identification information "or" the general information submission requirement under item (c).

Sections 28(E) and 28(F) combined with section 28P of LFSAA 1996 provide very wide powers for LFSA investigating officers to obtain the widest range of information and things from Labuan RIs and share any such materials or information, but only in the context of the investigation of a breach of regulatory offence set out in the Act and acts in the schedule to the LFSAA 1996. The threshold for obtaining this information is reasonable suspicion by an investigating officer. Section 28P of the LFSAA 1996 clearly puts aside any secrecy obligations, regardless of MOU, home supervisor relationship or any other provision and empowers LFSA to share the widest range of information held by LFSA with any authority vested with supervisory and regulatory or enforcement powers situated within or outside Malaysia. The disclosure to a supervisory or regulatory authority in the context of section 28P of the LFSAA 1996 is not limited to home supervisory authority but is limited to information obtained by an investigating officer when there is a suspicion of a breach of a regulatory offence.

Some basic supervisory information which does not reasonably give rise to suspicion of an offence, and which is not requested by a home supervisor or a party to an MOU would still be captured by secrecy obligations. This appears to be a relatively minor gap and would include information that the LFSA does not request and may obtain on its own or itself generate through the examination process that may be of interest

[115] This Recommendation was not under review. Therefore, the text for the Recommendation is copied from MER 2015, with minor non-substantive edits included from Malaysia.

to other competent authorities and information which is not collected in the context of suspicion of an offence.

> ***Weighting and conclusion* –** Some basic supervisory information which does not reasonably give rise to suspicion of an offence, and which is not requested by a home supervisor or a party to an MOU would still be captured by secrecy obligations. This appears to be a relatively minor gap. **Malaysia is rated largely compliant with R.9.**

Recommendation 10 – Customer due diligence[116]

In its 2015 MER, Malaysia was rated compliant with R.10.

The main CDD requirement is established in the AMLA (Amendment) Act of 2013 (passed in June 2014). Section 16(2) states that FIs shall undertake CDD measures in the circumstances listed in the Act, e.g. establishment of business relations, conduct of transactions and ongoing due diligence. Therefore, the basic requirement that the CDD obligation be established in law has been met.

Criterion 10.1 – Section 16(1) of the AMLA prohibits FIs from opening or operating an anonymous account or any account in a fictitious, false or incorrect name. This prohibition also applies to the establishment or conduct of business relationships in a similar manner. In addition, section 18 of the AMLA states that no person shall open, operate or authorise the opening or operation of an account, or establish, conduct or perform any business relationship, transaction or activity with a FI in a fictitious, false or incorrect name. Provisions are also made for persons that are commonly known by two or more names.

Application of customer due diligence

Criterion 10.2 – Section 16(2) of the AMLA and the sectoral guidelines require FIs to conduct CDD when: (a) establishing or conducting a business relationship; (b) carrying out a transaction or activity for occasional or 'usual' customers; (c) when any transaction or activity exceeds the thresholds specified by the applicable supervisor (see below); (d) there is suspicion of ML or TF, but does not state that this applies regardless of any threshold or exemption but which can be so implied. The guidelines elaborate on the requirements of the Act and state that CDD should be conducted when there is suspicion regardless of the amount; and (e) when there is doubt about the veracity or adequacy of previously obtained identification data. This requirement in the Act (section16 (2) and (7) in particular) is also elaborated in the guidelines. For instance, paragraph 14A.1 of BNM guidelines requires CDD for occasional transactions and cash transactions of RM 25 000 (EUR 5 388) and above. For occasional transactions this also includes '... situations where the transaction is carried out in a single transaction or several transactions in a day that appear to be linked;' The one-day period is not a material gap (and not a specific FATF requirement) but is limiting because structured linked transactions can occur on different days that can exceed the established thresholds during e.g. one week or month. A longer period for aggregating linked transactions may be more appropriate, both with respect to the occasional and cash transactions requirements in the Guidelines. This could also be included under section 16(7) of the AMLA that establishes the requirement of linking multiple transactions and activities but no timeframe for aggregating 'series of transactions' that are or appear to be linked (as required under criterion 10.2(b)).

[116] This Recommendation was not under review. Therefore, the text for the Recommendation is copied from MER 2015, with minor non-substantive edits included from Malaysia.

This would better support the identification and reporting of structured suspicious transactions that occur over several days but not daily. For insurance/takaful companies the BNM guidelines require structured transactions to be linked for purposes of the threshold established for simplified CDD only and not for other cases. For LFSA supervised insurance /takaful entities the guidelines provide for split transactions below the established thresholds for simplified CDD only, and they only apply in cases of structured premium payments with respect to multiple policies per policy holder. It can therefore be interpreted that CDD is required on all transactions including occasional irrespective of the amount, other than for simplified CDD purposes. Other sectoral guidelines do not contain provisions for aggregating linked transactions for purposes of established thresholds for occasional transactions.

The AMLA does not specifically require CDD for occasional wire transfers but under s.16(2) it requires CDD for all occasional transactions, presumably regardless of the amount. However, this requirement is established in the guidelines with specific threshold made applicable to FIs under BNM's purview i.e. RM3 000 (about EUR 647) for cross border wire transfer and domestic wire transfers.

In January 2020, Malaysia further strengthened its CDD requirements for some sectors [i.e. money services business (paragraph graph 14C.1 of Guidelines for FIs), issuers of designated payment instruments (paragraph 14D.1 of Guidelines for FIs), money lenders and pawnbrokers (paragraphs 14G.1.1 and 14H.1.1 of Guidelines for DNFBPs and NBFIs)].

Criterion 10.3 – Section 16(3) of the AMLA requires FIs to ascertain the identity of customers, including their domicile, legal and representative capacity, occupation or business purpose whether the person is an occasional or usual customer. In this regard, FIs shall verify such information using reliable means or from an independent source document, data or information which can include identity card, passport, birth certificate, driver's license, constituent document, or any other official or private document. The guidelines provide the full details on CDD measures and documentation including address, nationality, contact details, employment, etc, where these CDD datapoints have been streamlined to be applicable to all sectors. Verification methods have been expanded from the requirement to make a copy of the official photographic identification document (except where biometric identification method is used) to providing principle-based requirement i.e. verification is done using reliable and independent documentation, electronic data or any other measures that RIs deem necessary, providing flexibility to RIs to verify identity of customers using documents (bearing photograph or otherwise, with adequate supporting documents), electronic data or a combination.

Criterion 10.4 – Section 16(3) of the AMLA and the sectoral guidelines require FIs to identify persons purporting to act on behalf of a customer. This includes identification of the legal and representative capacity. FIs shall take reasonable steps to obtain and record information on the identity of any person on whose behalf an account is opened or a transaction is conducted if there is doubt that a person is not acting on his own behalf. Section 16(3)(b) of the AMLA requires FIs to verify the 'representative' and 'legal' capacity of a person which should allow the FI to establish if the person is authorized to act on behalf of another. FIs must verify that persons acting on behalf of customers are authorised, and similar expansion of verification method provided in criterion 10.3 applies.

Criterion 10.5 – Section 16(7) of the AMLA states that the CDD measures applicable to persons includes any person who is a nominee, agent, beneficiary, beneficial owner or principal and any other person specified by the competent authority in relation to a transaction or activity. Consequently, the CDD obligations imposed by the Act cover beneficial owners. More directly, each of the guidelines have more detailed requirements for beneficial owners which mirror the FATF requirements.

Criterion 10.6 – Section 16(3) of the AMLA requires FIs to identify and verify, inter alia, the business purpose of a customer. The requirements to understand and obtain the purpose and intended nature of the business relationship are contained in each of the sectoral guidelines at a level of detail which mirrors the FATF standard.

Criterion 10.7 – Section 16(4) of the AMLA includes a high-level requirement on FIs to conduct ongoing due diligence on all accounts, business relationships, transactions and activities. The full CDD requirements to scrutinize transactions for consistency with knowledge, business and risk profile of customers, source of funds and updating and reviewing CDD data, particularly for higher risk clients are established in the sectoral guidelines consistent with FATF requirements.

Criterion 10.8 – The sectoral guidelines contain detailed CDD requirements for legal persons and arrangements consistent with the FATF standards with respect to CDD for legal persons and arrangements' nature of business and the ownership and control structure.

Criterion 10.9 – Detailed requirements consistent with the standards are established in the respective sectoral guidelines to identify and verify legal persons and arrangements using the required information. Stricter CDD is applied for government-linked corporations (GLCs), state-owned companies and registered persons, where exemption of CDD verification provided previously have been removed in the revised sectoral guidelines given the heightened risk noted from these entities.

Criterion 10.10 – Section 16(3)(e) of the AMLA requires FIs to take reasonable steps to verify the identity of natural persons who own or exercise effective control over a customer that is not a natural person. The definition of 'person' under section 16(7) of the AMLA includes beneficiaries and beneficial owners. Obligations which mirror the FATF requirements are contained in the sectoral guidelines.

Criterion 10.11 – The specific CDD requirements for legal arrangements including trusts (settlors, trustee(s), protectors) are detailed in the sectoral guidelines at a level of detail which mirrors the FATF requirements.

Criterion 10.12 – The AMLA has broad requirements, but the insurance/takaful guidelines have specific requirements that are set out in a way which mirrors the FATF requirements (s.13.4.2 refers). In addition to general CDD to be undertaken, s.13.4.2 requires that the following CDD measures on the beneficiary of policies apply as soon as the beneficiary is identified/designated (the beneficiary is defined as 'the natural or legal persons, or a legal arrangement, or category of person, who will be paid the policy proceeds when or if an insured event occurs, which is covered by the insurance policy): (a) for a beneficiary that is identified as specifically named natural or legal persons or legal arrangements – taking the name of the person; (b) for beneficiary that is designated by characteristics or by class or by other means – obtaining sufficient information (e.g. under a will of testament) concerning the beneficiary to satisfy the RIs that it will be able to establish the identity of the beneficiary at the time of the payout; and (c) for the purposes of (a) and (b), the verification of the identity of the beneficiary must occur latest at the time of the payout.

Criterion 10.13 – The guidelines for the insurance and takaful sectors include requirements which mirror the FATF requirements to include beneficiaries of life insurance policies as a relevant risk factor to determine enhanced CDD measures, including verification of identity at the time of payout.

Time of verification

Criterion 10.14 – The sectoral guidelines have provisions that are consistent with the FATF requirements to permit delays in the verification of identity under controlled circumstances.

Criterion 10.15 – The sectoral guidelines contain risk assessment, management and control provisions especially for the banking and capital markets sectors where such circumstances may arise.

Criterion 10.16 – The sectoral guidelines establish this requirement in language which mirrors the FATF standard. The guidelines do not define existing customers as being those at the date new national requirements are brought into force. The guidelines do, however, indicate their date of effect and the requirements to comply shall take effect immediately. A common reading of the term 'existing customers' in this circumstance would appear to be those customers of any FIs at the date the guidelines entered into force.

Risk-based approach

Criterion 10.17 – The AMLA (s.16(5)(b) requires that the competent authority (FIU) issue directions or guidelines to FIs on undertaking additional CDD measures. The sectoral guidelines repeat those obligations and also require FIs to perform enhanced CDD where ML/TF risks are higher.

Criterion 10.18 – The AMLA (s.16(5)(b) requires that the competent authority (FIU) issue directions or guidelines to FIs on undertaking additional CDD measures. The sectoral guidelines repeat those obligations and set out the application of simplified CDD measures where lower risks have been identified through an adequate risk analysis but are not acceptable where there are suspicions of ML/TF. This is in keeping with the standards.

Inability to meet customer due diligence obligations

Criterion 10.19 – Sectoral guidelines which mirror the FATF requirements govern situations where FIs cannot comply with the applicable CDD measures.

Criterion 10.20 – Sectoral guidelines which mirror the FATF requirements allow FIs to not pursue CDD measures if doing so could tip-off a customer, and to immediately file an STR in such cases.

Weighting and conclusion – All criteria are met. **Malaysia is rated compliant with R.10.**

Recommendation 11 – Record-keeping[117]

In its 2015 MER, Malaysia was rated largely compliant with R.11. The application of a specified threshold to certain record keeping requirements was noted as a shortcoming.

Criterion 11.1 – FIs are required to maintain all necessary records on transactions, both domestic and international, for at least six years following completion of the transaction (sections 13 and 17, AMLA). Section 13(1) requires FIs to keep the records of financial transactions involving domestic and foreign currencies. While there is no legal requirement of retention period of these records, relevant guidelines stipulate that transaction records should be kept for at least 6 years (paragraph 24.3, BNM Guidelines for FIs; paragraph 21.3, BNM Guidelines for DNFBPs and NBFIs; paragraph 10.2, SC Guidelines; paragraph 19.3, LFSA KRI Guidelines). Section 17 (1) requires FIs to retain their records relating to customer identification or account for at least 6 years after the account has been closed or the transaction terminated.

Section 17(3) of AMLA states that the above provisions do not apply where a reporting institution has transmitted the account, record, business correspondence and document to the competent authority or an enforcement agency. The Malaysian authorities describe this provision as a suspension of the provisions and that where this happens in practice, the courts will eventually order for the records to be returned to RIs once the case is complete and at which time the record keeping requirements continue to be applied. However, this is not a formal process guaranteed by AMLA, or any other regulation.

Criterion 11.2 – FIs are required to keep all records obtained through CDD measures, account files and business correspondence, and results of any analysis undertaken, for at least six years following the

[117] Recommendation 11 is newly assessed as Malaysia has made legal, regulatory or operational framework changes since its last mutual evaluation.

termination of the business relationship, or after the date of the occasional transaction (s.13(3) and 17(1), AMLA; paragraph 24 BNM Guidelines for FIs; paragraph 21 BNM Guidelines for DNFBPs and NBFIs; paragraph 19, LFSA KRI Guidelines; paragraph 10.2, SC Guidelines). The deficiency identified in c11.1 relating to the suspension of record keeping requirements where data is transmitted to competent authorities, cascades here.

Criterion 11.3 – Malaysia requires that transaction records are maintained to enable the reconstruction of any transaction more than such amount as the competent authority may specify under section 14 of AMLA (s.17(2), AMLA). The deficiency identified in c11.1 relating to the suspension of record keeping requirements where data is transmitted to competent authorities, cascades here. Relevant guidelines require FIs to ensure all relevant records relating to transactions are maintained sufficiently to permit reconstruction of individual transactions to provide, if necessary, evidence for prosecution of criminal activity (paragraph 24.2, BNM Guidelines for FIs; paragraph 21.2, BNM Guidelines for DNFBPs and NBFIs; paragraph 10.4(b), SC Guidelines; paragraph 19.2, LFSA KRI Guidelines).

Criterion 11.4 – FIs are required to ensure that all CDD information and transaction records are available swiftly to domestic competent authorities upon appropriate authority (paragraph 24.5, BNM Guidelines for FIs; paragraph 21.5, BNM Guidelines for DNFBPs and NBFIs; paragraph 10.4(c), SC Guidelines; paragraph 19.5, LFSA KRI Guidelines). The deficiency identified in c11.1 relating to the suspension of record keeping requirements where data is transmitted to competent authorities, cascades here.

> ***Weighting and conclusion*** – The requirements to maintain records by FIs do not apply where a reporting institution has transmitted the account, record, business correspondence and document to the competent authority or an enforcement agency. This is a minor deficiency on the basis that in practice courts usually order for the information to be returned to the FI and most FIs will retain a copy of the records even upon transferring them. **Malaysia is rated largely compliant with R.11.**

Recommendation 12 – Politically exposed persons (PEPs)[118]

In its 2015 MER, Malaysia was rated largely compliant with R.12 due to the implicitness of the requirement in relation to foreign PEPs. Enhanced measures were not explicitly required on foreign PEPs in all cases, unless higher risk scenarios were identified.

Criterion 12.1 – In relation to foreign PEPs, FIs are required to: (a) put in place risk management systems to determine whether a customer or beneficial owner is a PEP; (b) obtain senior management approval before establishing (or continuing, for existing customers) such business relationships; (c) take reasonable measures to establish the source of wealth and the source of funds of customers and beneficial owners identified as PEPs; and (d) conduct enhanced ongoing monitoring on that relationship (paragraph 15.2, BNM Guidelines for FIs; paragraph 15.2, BNM Guidelines for DNFBPs and NBFIs; paragraph 8.4, SC Guidelines; paragraph B.7.2, LFSA KRI Guidelines).

Criterion 12.2 – In relation to domestic PEPs, FIs are required to take reasonable measures to determine if a customer or beneficial owner is a domestic PEP or who holds a prominent function in an international organisation, and where higher risk is assessed, to take enhanced measures as established under the guidelines (paragraph. 15.3, BNM Guidelines for FIs; paragraph 15.3, BNM Guidelines for DNFBPs and NBFIs; paragraph 8.4, SC Guidelines; paragraph B.7.3, LFSA KRI Guidelines). Enhanced measures include obtaining senior management approval for business relationships, establishing source of wealth/funds and enhanced ongoing monitoring.

[118] Recommendation 12 is newly assessed as Malaysia has made legal, regulatory or operational framework changes since its last mutual evaluation.

Criterion 12.3 – The definition of PEPs in all supervisory guidelines covers family members or close associates of all types of PEPs, therefore the above requirements extend to them.

Criterion 12.4 – Insurance and takaful operators are required to take reasonable measures to determine whether beneficiaries, or where required, the beneficial owner of the beneficiary are PEPs (paragraph 15.1.2, BNM Guidelines for FIs). In cases where the beneficiaries, or the beneficial owner of the beneficiaries are PEPs and assessed as higher risk, insurance and takaful operators are required to inform senior management before the payout of the policy proceeds, to conduct enhanced scrutiny on the whole business relationship with the policyholder and to consider making a suspicious transaction report (paragraph 14B.14.4, BNM Guidelines for FIs; paragraph 10.65, LFSA KRI Guidelines).

Weighting and conclusion – All criteria are met. **Malaysia is rated compliant with R.12.**

Recommendation 13 – Correspondent banking[119]

In its 2015 MER, Malaysia was rated largely compliant with R.13. The shortcoming was that the relevant provisions were only applicable to the RIs dealing with respondent bank but not to the wider concept of respondent institutions.

Criterion 13.1 – In relation to cross-border correspondent banking and other similar relationships, FIs are required to undertake the following actions in accordance with relevant guidelines (paragraph 20.3, BNM Guidelines for FIs; paragraph 16.2, LFSA KRI Guidelines):

a) gather sufficient information about a respondent institution to understand the nature of the respondent institution's business, and to determine from publicly available information the reputation of the respondent institution and the quality of supervision exercised, including whether it has been subject to a ML/TF/PF investigation or regulatory action;

b) assess the respondent institution's AML/CFT/CPF controls having regard to the AML/CFT/CPF measures of the country or jurisdiction in which the respondent institution operates;

c) obtain approval from the Senior Management before establishing new correspondent banking relationships; and

d) clearly understand the respective AML/CFT/CPF responsibilities of each institution.

Criterion 13.2 – In relation to 'payable-through accounts', correspondent FIs are required to satisfy themselves of the following in accordance with relevant guidelines (paragraph 20.4, BNM Guidelines for FIs; paragraph 16.3, LFSA KRI Guidelines):

a) the respondent FI has performed CDD obligations on its customers that have direct access to the accounts of the correspondent FI; and

b) the respondent FI can provide relevant CDD information to the correspondent FI upon request.

Criterion 13.3 – FIs are prohibited from entering into, or continuing, correspondent banking relationships with shell banks. FIs are also required to satisfy themselves that respondent FIs do not permit their accounts to be used by shell banks (paragraph 20.5, BNM Guidelines for FIs; paragraph 16.4, LFSA KRI Guidelines).

Weighting and conclusion – All criteria are met. **Malaysia is rated compliant with R.13.**

[119] Recommendation 13 is newly assessed as Malaysia has made legal, regulatory or operational framework changes since its last mutual evaluation.

Recommendation 14 – Money or value transfer services[120]

In its 2015 MER, Malaysia was compliant with R.14.

Criterion 14.1 – MVTS providers are required either to be approved under section 11 of the Financial Services Act 2013 (FSA 2013) or section 11 of the Islamic Financial Services Act 2013 (IFSA) to issue designated payment instruments (banking and non-banking institutions) and be licensed under section 7 of the Money Services Business Act 2010 (MSBA) for remittance services (non-banking institutions which also carry out remittance services); or be licensed under section 7 of the MSBA for remittance services (other institutions that carry out a remittance business only).

Criteria 14.2 – Persons who conduct MVTS via designated payment instruments without having obtained approval under section 11 of the FSA 2013 or IFSA 2013 are subject to imprisonment for a term not exceeding 10 years or a fine not exceeding RM 50 million (EUR 10.78 million) or both if convicted. In addition, section 4 of the MSBA makes it an offence for any person conducting a MSB without a licence. Upon conviction, such person shall be punished with imprisonment for a term not exceeding 10 years and a fine of not less than RM 50 000 (EUR 10 775) but not exceeding RM 5 million (EUR 1.08 million).

Malaysia takes a series of measures to identify illegal MVTS activity, including conducting surveillance and taking enforcement actions against such activities.

Criteria 14.3 – MVTS providers are subject to supervision by BNM. MVTS providers are RIs under AMLA and are subject to the AML/CFT/CPF requirements set out in the Act and guidelines.

Criterion 14.4 – Section 42 of the MSBA 2010 requires MSB licensees to obtain the approval of BNM prior to the appointment of an MSB agent. Paragraph 10.1.3(e) of the Agent Oversight Framework for MSB policy document requires a principal licensee to maintain an up-to-date record (accessible by BNM) of all agents appointed. In addition, BNM maintains a register of licensed MSB principals and approved agents which is published on BNM's website.

Criterion 14.5 – Paragraph 6.2 of the AML/CFT/CPF and TFS for FIs Guidelines clarifies that third parties do not include agents. Agents are regarded as synonymous with the RI they provide services for and as such are subject to the AML/CFT/CPF compliance program of the reporting institution. Paragraph 8.2 of the Agent Oversight Framework for MSBs and paragraph 21.5 of the E-Money policy document require the principal licensee to establish robust agent management and monitoring functions to ensure compliance with the expectation of the framework, including compliance with AML/CFT/CPF requirements.

> ***Weighting and conclusion*** – All criteria are met. **Malaysia is rated compliant with R.14.**

[120] This Recommendation was not under review. Therefore, the text for the Recommendation is copied from MER 2015, with minor non-substantive edits included from Malaysia.

Recommendation 15 – New technologies[121]

In its 2015 MER, Malaysia was rated compliant with former R.15.

New technologies

Criterion 15.1 – Malaysia identifies and assesses the ML/TF risks that may relate to new technologies through its risk assessment process. The 2020 NRA notes that the increasing adoption of technology such as online marketplaces and VAs has widened the reach of criminals to perpetrate their illicit activities (e.g., scamming unsuspecting victims). Although the NRA 2023 does not mention new technologies in detail, technological factors are meticulously assessed as stipulated in NRA methodology. Beyond the NRAs, Malaysia has conducted standalone risk assessments on the development of new products and new business practices, such as digital banking.

FIs are required to have a well-integrated risk management system to identify, assess and manage the risks associated with new products (paragraph 12.1, BNM Guidelines for FIs/DNFBPs and NBFIs; paragraphs 10.9, 10.11 and 10.12 BNM Guidelines on introduction of New Products for Banks/ITOs; paragraph 7.1.5, SC Guidelines; paragraph 8.1 LFSA KRI Guidelines).

Criterion 15.2 – FIs are required to:

a) undertake risk assessment prior to the launch, or use of new products, practices and technologies; and

b) take appropriate measures to manage and mitigate the risks (paragraph 12.2, BNM Guidelines for FIs, DNFBPs and NBFIs, paragraph 7.1.5, SC Guidelines; paragraph 8.2, LFSA KRI Guidelines).

Virtual assets and virtual asset providers

Criterion 15.3 – Based on the FATF definition of VASPs, the following activities are covered in Malaysia by the relevant operators onshore, which are regulated as part of the capital market sector:

FATF definition	Operator
(a) exchange between VAs and fiat currencies;	DAX, Initial Exchange Offering (IEO) operator
(b) exchange between one or more forms of VAs	DAX. Note: Activity (b) alone is not permitted in Malaysia. To conduct activity (b), a client must conduct activity (a) first.
(c) transfer of virtual assets	DAX
(d) safekeeping and/or administration of virtual assets or instruments enabling control over VAs; and	Digital Asset Custodians (DAC)
(e) participation in and provision of financial services related to an issuer's offer and/or sale of a VA.	IEO operator

VASP activities in Labuan IBFC can only be carried out by certain FIs (banks, money brokers and payment system operators). There are no Labuan FIs that participate in or provide financial services related to an issuer's offer or sale of a virtual asset.

(a) Malaysia initially assessed the risks posed by VAs/VASPs in the 2020 NRA, as part of its assessment of capital market intermediaries, Labuan banks and Labuan money brokers. This assessment considered the vulnerabilities the sector is exposed to and control measures put in place. In 2024, Malaysia also concluded a standalone VA ML/TF/PF risk assessment to:

[121] Recommendation 15 is newly assessed due to changes to the FATF Standards for which Malaysia has not previously been assessed.

i. enhance understanding of Malaysia's exposures to ML/TF/PF risks associated with VAs;

ii. identify key threats and vulnerabilities of the regulated VASPs in the financial system that may be exploited by criminals using VAs; and

iii. ascertain the adequacy and effectiveness of the AML/CFT/CPF controls against identified risks to support development of appropriate strategies.

This assessment was a multi-agency collaboration by BNM, RMP, SC and LFSA (covering VA activities in Labuan)

(b) As part of its 2021-2023 NCC Roadmap, Malaysia implemented risk-based measures to prevent VASPs being used for ML, TF and PF. These measures are commensurate with the identified risks. The 2024-2026 NCC Roadmap includes additional specific measures aimed at enhancing intelligence gathering and monitoring of illegal VASPs, strengthening engagement with foreign supervisory authorities and ensuring proportionate enforcement measures.

(c) Onshore VASPs are required to comply with the SC Guidelines and take steps to identify, assess, manage and mitigate their ML/TF/PF risks (Part II, SC Guidelines). In addition, requirements are placed on onshore DAXs including a requirement for them to ensure the VAs they acquire are sourced from VASPs that comply with FATF Recommendations and implement necessary AML/CFT measures (paragraph 15.26, SC Guidelines on RMO).

FIs carrying on VASP activity in Labuan are required to identify, assess, manage and mitigate their ML, TF and PF risks (paragraphs 6.4, 6.9, 6.11 and 6.16, LFSA KRI Guidelines).

Criterion 15.4 – Onshore VASPs must be registered by the SC before carrying on VASP activity. Fit and proper requirements are imposed on the applicant, directors, controller and senior management of these entities (paragraphs 3.01, 4.01 and 4.09, SC Guidelines on RMO; paragraphs 15.01, 16.02, 25.01 and 26.01, SC Guidelines on Digital Assets). Fit and proper requirements include not having been convicted of a criminal offence involving fraud, dishonesty or violence, whether within or outside Malaysia (Appendix 2, SC Guidelines on RMO; Appendix 1, SC Guidelines on Digital Assets). DAXs and IEOs must be Malaysian-incorporated companies; DACs can be foreign custodians (paragraph 15.03, SC Guidelines on RMO; paragraphs 13.04 and 23.05, SC Guidelines on Digital Assets).

Legal persons carrying out digital financial services (including VASPs) must be licensed by the LFSA prior to carrying on business. LFSA assesses the eligibility and fitness and propriety of the applicant which includes the person in control, directors and principal officers based on the criteria specified in the relevant guidelines and provisions of the LFSSA 2010 and LIFSSA 2010 (see c.26.2 and c.26.3).

Criterion 15.5 – The SC has a dedicated unit called Surveillance on Unlicensed/Unauthorised Regulated Activities Unit. This Unit was established in 2021 to conduct proactive surveillance on unlicensed activities online to stem illegal capital market activities perpetrated through social media and the internet. This includes VASP activity. The LFSA conducts off site supervision to identify unauthorised businesses operating in the Labuan IBFC.

Malaysia has a range of sanctions for unlicensed VASPs, ranging from placing the names of the illegal entities in the SC's Investor Alert List, issuing a cease-and-desist notice, blocking relevant websites from Malaysian users, taking administrative action and taking criminal action where the illegal entities can be subjected to a fine not exceeding ten million ringgit or to imprisonment for a term (not exceeding ten years for onshore and five years for Labuan) or to both (CMSA 2007, LFSSA 2010 and LIFSSA 2010).

Criterion 15.6 –

(a) VASPs in Malaysia are subject to the same risk-based supervision processes as FIs (see c.26.4). The SC applies a risk-based supervisory approach, as guided by the Risk-focused Supervisory Framework. This includes determining the ML/TF risks profile and effectiveness of the control environment of the VASP to apply appropriate intensity and frequency of supervision. The LFSA's risk-based approach is guided by both the Risk-Based Supervisory Framework and the AML/CFT/CPF Supervisory Framework, where the latter Framework is established to provide a systematic approach for supervisors to identify, understand and assess the ML/TF/PF risks of institutions under their purview.

(b) Supervisory authorities have adequate powers to supervise, monitor and ensure VASPs comply with their requirements as obliged entities. Similar powers for FIs apply to VASPs under the SC Malaysia Act 1993, CMSA 2007, AMLA, SC Guidelines on RMO and the Labuan Financial Services Authority and Labuan Islamic Financial Services and Securities Acts 2010. These powers include supervision and monitoring, compelling VASPs to provide information and imposing disciplinary and financial sanctions.

Criterion 15.7 – Competent authorities have established guidelines and provided feedback to assist VASPs in applying AML/CFT/CPF measures and, in particular, in detecting and reporting suspicious transactions. See R.34 for further details.

Criterion 15.8 – Malaysia has a range of criminal, civil and administrative sanctions for VASPs that fail to comply with their obligations. These sanctions can be applied to directors and senior managers. However, the 2015 MER noted that the general sanction available to SC for failures such as CDD and record keeping is a fine of up to RM 1 million (EUR 215 500) plus compounding up to 50% the value of the sanction, which may not be dissuasive.

Criterion 15.9 – VASPs in Malaysia are required to comply with the requirements set out in Recommendations 10-21 as set out in the SC Guidelines and LFSA KRI Guidelines, with the following qualifications:

(a) CDD is required for all customers and transactions and is not subjected to any designated threshold (paragraph 8.1.1, SC Guidelines; paragraph 10.1, LFSA KRI Guidelines).

(b) Beneficiary and originator VASPs in Malaysia are required to comply with the requirements set out in R.16 for transactions of all values. Additional requirements are required by Labuan VASPs for transfers EUR above 955 (e.g., National Registration Identity Card number or passport number of the originator) (paragraph 9, SC Guidelines; paragraphs 7 and 8, Guidelines on Travel Rule for Labuan Digital Financial Services; paragraphs B.14 and B.17, LFSA KRI Guidelines).

Criterion 15.10 – Malaysia has in place communication mechanisms, reporting obligations and monitoring referred to in criteria 6.5(d), 6.5(e), 6.6(g), 7.2(d), 7.2(e), 7.3 and 7.4(d) that are applicable to VASPs (parts vii and viii, SC Guidelines; paragraph B.17, LFSA KRI Guidelines).

Criterion 15.11 – The cooperation mechanisms that Malaysia has for FIs are applicable to VASPs (see R.40).

Weighting and conclusion – The maximum sanction for general AML/CFT failures (such as CDD and record keeping) is a fine of up to RM 1 million (EUR 215 500) plus compounding up to 50% the value of the sanction. The 2015 MER noted that this may not be dissuasive, and the current Assessment Team shares this view. **Malaysia is rated largely compliant with R.15.**

Recommendation 16 – Wire transfers[122]

In its 2015 MER, Malaysia was rated compliant with R.16.

Originator's financial institutions

Criterion 16.1 – The guidelines require the applicable FIs (ordering institutions) to ensure that wire transfers exceeding RM 3 000 (about EUR 647) are accompanied by full originator information, including beneficiary information.

Criterion 16.2 – The guidelines mirror the FATF requirements relating to the treatment of batched or bundled transactions. (paragraph 19.2.2 of BNM AML/CFT/CPF and TFS for FIs Guidelines and paragraph 15.6 of LFSA AML/CFT/CPF and TFS Guidelines for Labuan KRIs)

Criterion 16.3 – The guidelines mirror the FATF requirements relating to any *de minimis* threshold. (paragraph 19.2.3 of the BNM AML/CFT/CPF and TFS Guidelines for FIs and paragraph 15.7 of the LFSA AML/CFT/CPF and TFS Guidelines for Labuan KRIs)

Criterion 16.4 – The guidelines mirror the FATF requirements relating to verification of information when there is suspicion of ML, TF or PF. (paragraph 19.2.4 of the BNM AML/CFT/CPF and TFS Guidelines for FIs and paragraph 15.8 of the LFSA AML/CFT/CPF and TFS Guidelines for Labuan KRIs)

Criterion 16.5 – The guidelines mirror the FATF requirements relating to domestic wire transfers. (paragraph 19.2.5 of the BNM AML/CFT/CPF and TFS Guidelines for FIs and paragraph 15.9 of the LFSA AML/CFT/CPF and TFS Guidelines for Labuan KRIs)

Criterion 16.6 – The guidelines mirror the FATF requirements in relation to information accompanying domestic wire transfers. (paragraph 19.2.6 of the BNM AML/CFT/CPF and TFS Guidelines for FIs and paragraph 15.10 of the LFSA AML/CFT/CPF and TFS Guidelines for Labuan KRIs)

Criterion 16.7 – The guidelines mirror the FATF requirements for ordering institutions (paragraph1 9.2 of the BNM AML/CFT/CPF and TFS Guidelines for FIs and paragraph 15.4 of the LFSA AML/CFT/CPF and TFS Guidelines for Labuan KRIs)

Criterion 16.8 – The guidelines mirror the FATF requirements to not progressing if there is a failure to implement controls (paragraph 19.1.3 of the BNM AML/CFT/CPF and TFS Guidelines for FIs and paragraph 15.3 of the LFSA AML/CFT/CPF and TFS Guidelines for Labuan KRIs)

Intermediary financial institutions

Criterion 16.9 – The guidelines mirror the FATF requirements covering intermediary institutions ensuring originator and beneficiary information accompanies a wire transfer (paragraph 19.3.1 of the BNM AML/CFT/CPF and TFS Guidelines for FIs and paragraph 15.11 of the LFSA AML/CFT/CPF and TFS Guidelines for Labuan KRIs)

Criterion 16.10 – The guidelines mirror the FATF requirements, including the recordkeeping requirement of 6 years or more. (paragraph 19.1.4, 19.3.2 and 19.4.2 of the BNM AML/CFT/CPF and TFS Guidelines for FIs and paragraph 15.12 of the LFSA AML/CFT/CPF and TFS for Guidelines Labuan KRIs)

[122] This Recommendation was not under review. Therefore, the text for the Recommendation is copied from MER 2015, with minor non-substantive edits included from Malaysia.

Criterion 16.11 – The guidelines mirror the FATF requirements for intermediaries' responsibilities to identify cases of a lack of originator or beneficiary information. (paragraph 19.3.3 of the BNM AML/CFT/CPF and TFS Guidelines for FIs and paragraph 15.13 of the LFSA AML/CFT/CPF and TFS Guidelines for Labuan KRIs)

Criterion 16.12 – The guidelines mirror the FATF requirements for intermediaries' responsibilities for risk-based actions in case of a lack of originator / beneficiary information. (paragraph 19.3.4 of the BNM AML/CFT/CPF and TFS Guidelines for FIs and paragraph 15.14 of the LFSA AML/CFT/CPF and TFS Guidelines for Labuan KRIs)

Beneficiary financial institutions

Criterion 16.13-15 – The guidelines mirror the FATF requirements covering beneficiary institutions' responsibilities to identify and take risk-based measures to act in case of a lack of originator / beneficiary information and to identify the beneficiary if it has not been done previously (paragraph 19.4.1 to 19.4.3 of the BNM AML/CFT/CPF and TFS Guidelines for FIs and paragraph 15.15 to 15.17 of the LFSA AML/CFT/CPF and TFS Guidelines for Labuan KRIs)

Money or value transfer service operators

Criterion 16.16 & 17 – The guidelines mirror the FATF requirements covering MVTS responsibilities which may conduct wire transfers. (paragraphs 18.1 and 18.2 of the BNM AML/CFT/CPF and TFS Guidelines for FIs)

Implementation of targeted financial sanctions

Criterion 16.18 – Paragraph 19.1.2 read together with paragraph 27 of the BNM AML/CFT/CPF and TFS Guidelines for FIs per UNSCRs, require FIs conducting wire transfers to comply with the freezing and customer rejection requirements established in paragraph 27.6. In Malaysia these are persons listed by the UN or orders made by the MoHA under sections 66B or 66C of the AMLA to implement UNSCR 1373.

Weighting and conclusion – All criteria are met. **Malaysia is rated compliant with R.16.**

Recommendation 17 – Reliance on third parties[123]

In its 2015 MER, Malaysia was rated largely compliant with R.17. The shortcoming was that the relevant guidelines did not specify that RIs relying on a third party should be required to immediately obtain the necessary CDD information.

Criterion 17.1 – When FIs rely on third parties to conduct CDD or to introduce business, they are required to:

(a) immediately obtain the necessary CDD information relating to the identification and verification of a customer's identity, identification and verification of a beneficial owner's identity, and purpose and intended nature of the business relationship;

(b) satisfy themselves that the third parties can provide CDD information and copies of relevant documentation immediately upon request as well as have adequate CDD and recordkeeping requirements; and

(c) satisfy themselves that the third parties are properly regulated and supervised by their respective authorities (paragraph 16, BNM Guidelines for FIs; paragraph 16,

[123] Recommendation 17 is newly assessed as Malaysia has made legal, regulatory or operational framework changes since its last mutual evaluation.

BNM Guidelines for DNFBPs and NBFIs; paragraph 8.6, SC Guidelines; paragraph B8.1, LFSA KRI Guidelines, paragraph 16, LFSA Guidelines for Capital Market).

An attestation or written confirmation may be obtained from third parties that the requirements above have been met.

Criterion17.2 – FIs are required to have in place internal policies and procedures to mitigate the risks when relying on third parties, including those from jurisdictions that have been identified by the FATF as having strategic AML/CFT deficiencies. FIs are prohibited from relying on third parties located in higher risk countries identified as having ongoing or substantial ML/TF risks (i.e., according to the applicable guidelines, 'higher risk countries' refer to the counties identified by the FATF or Government of Malaysia) (paragraph s 16.3 and 16.4, BNM Guidelines for FIs; paragraph s 16.3 and 16.4, BNM Guidelines for DNFBPs and NBFIs; paragraph s 8.6.2 and 8.6.3, SC Guidelines; paragraphs 13.3 and 13.4 LFSA KRI Guidelines; paragraph s 16.3 and 16.4, LFSA Guidelines for Capital Market).

Criterion 17.3 – FIs relying on a third party that is part of the same financial group are required to fulfil the following conditions: (a) the group applies CDD, record keeping and AML/CFT/CPF programmes; (b) the implementation of CDD, record keeping and AML/CFT/CPF programmes is supervised at a group level by the relevant authority; and (c) any higher country risk is adequately mitigated by the financial group's AML/CFT/CPF policies (paragraph 16.8, BNM Guidelines for FIs; paragraph 16.8, BNM Guidelines for DNFBPs and NBFIs; paragraph 8.6.6, SC AML/CFT/CPF/TFS Guidelines; paragraph 13.8, LFSA KRI Guidelines; paragraph 16.8, LFSA Guidelines for Capital Market).

As set out in R.11, the requirements to maintain records by FIs do not apply where a reporting institution has transmitted the account, record, business correspondence and document to a competent authority or an enforcement agency.

> ***Weighting and conclusion*** – The record keeping deficiency highlighted in R.11. and set out above cascades and leads to a minor deficiency in c.17.3. **Malaysia is rated largely compliant with R.17.**

Recommendation 18 – Internal controls and foreign branches and subsidiaries[124]

In its 2015 MER, Malaysia was rated compliant with R.18.

Criterion 18.1 – The guidelines require FIs to have a compliance program, screening procedures for hiring and ongoing training of employees and independent audit functions to test an institution's AML/CFT/CPF framework. The roles and responsibilities of the board of directors, senior management, compliance officers and employees are clearly spelt out.

Criterion 18.2 – Guidelines issued by BNM, LFSA and SC have included the requirements to implement group-wide programs. This includes a framework for AML/CFT/CPF compliance programs at the group level, appointment of a group compliance officer at management level, policies and procedures for sharing information required for the purposes of CDD and ML/TF/PF risk management, the provision of customer, account and transaction information from branches and subsidiaries when necessary for AML/CFT/CPF purposes and safeguards on the confidentiality and use of information. Holding companies provide and implement AML/CFT/CPF programs as per the need of branches and subsidiaries in the group. Group compliance officers appointed by the holding company make group-wide assessments for the implementation of a single AML/CFT/CPF strategy.

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[124] This Recommendation was not under review. Therefore, the text for the Recommendation is copied from MER 2015 and FUR 2018, with minor non-substantive edits included from Malaysia.

Malaysia's AMLA and guidance enable the sharing of information relating to suspicious transactions and contain clauses requiring group-wide AML programs to have safeguards on the confidentiality and use of information to prevent tipping-off.

Criterion 18.3 – FIs and groups are required to ensure that their foreign branches and subsidiaries apply AML/CFT/CPF measures in a manner that is consistent with the requirements in Malaysia. Where the minimum AML/CFT/CPF requirements of the host country are less stringent than those of Malaysia, the RI must apply Malaysia's requirements, to the extent that host country laws and regulations permit.

Weighting and conclusion – All criteria are met. **Malaysia is rated compliant with R.18.**

Recommendation 19 – Higher-risk countries[125]

In its 2015 MER, Malaysia was rated compliant with R.19.

Criterion 19.1 – All three AML/CFT/CPF regulators have issued appropriate guidelines to implement the revised FATF requirements on higher-risk countries. BNM, SC and LFSA guidelines require enhanced CDD for business relationships and transactions with any person from countries identified by the FATF or the Government of Malaysia as having ongoing or substantial ML/TF risks.

Criterion 19.2 – Guidelines issued by the three regulators require a range of actions to be taken against higher-risk countries, based on risk and whether FATF has called for action. A policy to disallow the opening of offices/branches/subsidiaries of FIs hailing from higher-risk countries is uniformly followed by all regulators. Malaysia can apply countermeasures when called for by FATF, as well as independent of such a call based on the risk involved in any relationship or transaction with the higher-risk country.

Criterion 19.3 – BNM issues periodic circulars to its regulated sectors on countries that have strategic deficiencies in their AML/CFT/CPF regime. LFSA places such information on its website as well as using the Labuan CONG platforms to communicate the information, while SC publishes this information through the upgraded Electronic Application System and its website.

Weighting and conclusion – All criteria are met. **Malaysia is rated compliant with R.19.**

Recommendation 20 – Reporting of suspicious transactions[126]

In its 2015 MER, Malaysia was rated compliant with R.20.

Criterion 20.1 – Section 14(1)(b) and (c) of the AMLA requires RIs to promptly report transactions suspected to involve proceeds of an unlawful activity, instrumentalities of an offence or relate to TF.

The September 2014 AMLA amendments substantially address the deficiencies highlighted in the MER 2007, including the reporting of suspicious transactions related to TF independent of an unlawful activity. The amendments also make the 'structuring of transaction' an offence.

Guidelines issued by all three regulators provide further detailed obligations and necessary guidance regarding the reporting of suspicious transactions. The guidelines issued by BNM and the other regulators require RIs to file an STR when a transaction, including an attempted transaction, appears unusual, has no clear economic purpose, appears illegal, involves proceeds from an unlawful activity or indicates that the

[125] This Recommendation was not under review. Therefore, the text for the Recommendation is copied from MER 2015, with minor non-substantive edits included from Malaysia.

[126] This Recommendation was not under review. Therefore, the text for the Recommendation is copied from MER 2015, with minor non-substantive edits included from Malaysia.

customer may be involved in ML/TF, regardless of the amount involved. These requirements are supplemented by detailed guidance on the reporting mechanism and examples of red flags/ triggers for reporting a transaction.

Criterion 20.2 – Section 14(2) of AMLA provides that an 'attempted transaction' shall be taken as a 'transaction' for reporting purposes under section 14 of the Act.

Weighting and conclusion – All criteria are met. **Malaysia is rated compliant with R.20.**

Recommendation 21 – Tipping-off and confidentiality[127]

In its 2015 MER, Malaysia was rated compliant with R.21.

Criterion 21.1 – Protection against criminal and civil liability is provided under section 24 of the AMLA.

Criterion 21.2 – AMLA includes a clear prohibition on disclosure of the fact that an STR or related information is being sent to the FIU and section 14A makes disclosure a punishable offence. Section 14A(2) creates an additional safeguard against further dissemination of information received under subsection (1). There is a clear exemption to Malaysia's provisions on tipping-off which permits information-sharing on STRs within a financial group.

Weighting and conclusion – All criteria are met. **Malaysia is rated compliant with R.21.**

Recommendation 22 – Designated non-financial businesses and professions (DNFBPs): customer due diligence[128]

In the 2015 MER, Malaysia was rated largely compliant with R.22 due to gaps with record keeping, PEPs and reliance on third parties.

Since June 2024, the DPMS registered as businesses in East Malaysia and DPMS throughout the country operating under limited liability partnerships have been included as RIs under the First Schedule of the AMLA (Ministerial Orders P.U.(A)158/2024 and P.U.(A)159/2024). As such, the CDD requirements are also imposed on the DPMS in East Malaysia as specified in paragraph 14 of the revised BNM Guidelines for DNFBPs and NBFIs. The full range of DNFBPs are currently covered by the obligations in the AMLA and relevant guidelines.

The analysis for Recommendations 10, 11, 12, 15 and 17 is largely applicable to DNFBPs as they are RIs for the purposes of the AMLA. The obligations in the AMLA apply to DNFBPs in the same way as to FIs. BNM has issued a binding guideline for all DNFBPs except trust companies in Labuan. The LFSA has issued its own guidance for the TCSPs that it regulates.

Criterion 22.1 – RIs are required to comply with the CDD requirements set out in R.10 (s.16, AMLA). The definition of "RIs" in AMLA covers all DNFBPs. DNFBPs are also required to comply with the CDD requirement below:

[127] This Recommendation was not under review. Therefore, the text for the Recommendation is copied from MER 2015 and FUR 2018, with minor non-substantive edits included from Malaysia.

[128] Recommendation 22 is newly assessed as Malaysia has made legal, regulatory or operational framework changes since its last mutual evaluation.

(a) Casinos – when the customer conducts the transaction and junket, engaging in any transaction equivalent to RM 10 000 (equivalent to USD 2 155) and above. This includes circumstances where the transaction is carried out in a single transaction or in several transactions in a day that appear to be linked (paragraph 14A, BNM Guidelines for DNFBPs and NBFIs).

(b) Estate agents – when registered estate agents are involved in purchaser and seller, or landlord and tenant of a property (paragraph 14F, BNM Guidelines for DNFBPs and NBFIs).

(c) DPMS – when they engage in any cash transaction equivalent to RM 50 000 (EUR 10 775) and above. This includes circumstances where (a) transaction conducted as in a single transaction or through several transactions in a day that appear to be linked and across all branches of the reporting institution; and (b) aggregate payments over a period of time for a single purchase (paragraph 14E, BNM Guidelines for DNFBPs and NBFIs).

(d) Accountants, Lawyers, Notaries, and Company secretaries– when they are involved in buying and selling of immovable property, formation of legal entities, managing client's assets and accounts, operating or management of companies, buying and selling of business entities, or providing a registered office, business address or accommodation, correspondence or administrative address for a company, etc. (paragraph 3.3(a), (b), (d) and (g), and paragraph 14C, BNM Guidelines for DNFBPs and NBFIs).

(e) Trust companies – when they prepare or carry out transactions for their clients; (i) act as (or arrange for another person to act as) a director or secretary of a company, a partner of a partnership, or any similar position in relation to other legal entities; (ii) act as (or arrange for another person to act as) a trustee of an express trust; or (iii) act as (or arrange for another person to act as) a nominee shareholder for another person (paragraph 3.3 (i) and paragraph 14D, BNM Guidelines for DNFBPs and NBFIs; paragraph 10.40-10.41 of paragraph B5, LFSA KRI Guidelines).

Criterion 22.2 – DNFBPs are required to comply with record keeping requirements as explained in R.11 (s.13 and 17 AMLA; paragraph 21 BNM Guidelines for DNFBPs and NBFIs; s.B.14 LFSA KRI Guidelines). The same deficiency identified in R.11 relating to the suspension of record keeping requirements where data is transmitted to competent authorities applies here.

Criterion 22.3 – DNFBPs are required to comply with obligations set out in R.12 when dealing with PEPs (paragraph 15, BNM Guidelines for DNFBPs and NBFIs; paragraph B.7, LFSA KRI Guidelines).

Criterion 22.4 – As set out in R.15, DNFBPs are required to identify and assess the ML/TF/PF risks that may arise in relation to the development of new products and new business practices. DNFBPs are also required to undertake the risk assessments prior to the launch or use of such products, practices and technologies and take appropriate measures to manage and mitigate the risks (paragraphs 12.1 and 12.2, BNM Guidelines for DNFBPs and NBFIs; paragraphs 8.1 and 8.2, LFSA KRI Guidelines).

Criterion 22.5 – DNFBPs are required to comply with obligations set out in R.17 in relation to reliance on third party provisions (paragraph 16, BNM Guidelines for DNFBPs and NBFIs; paragraph B8, LFSA KRI Guidelines).

> ***Weighting and conclusion*** – The same deficiency identified in R.11 relating to the suspension of record keeping requirements applies. The requirements to maintain records by DNFBPs do not apply where a RI has transmitted the account, record, business correspondence and document to the competent authority or an enforcement agency. This is a minor deficiency on the basis that in practice courts usually order the information to be returned to the FI and most RIs will retain a copy of the records. **Malaysia is rated largely compliant with R.22.**

Recommendation 23 – DNFBPS: other measures[129]

In its 2015 MER, Malaysia was rated largely compliant with R.23 due to the scope limitation in relation to DPMS.

Criterion 23.1 – RIs are required to report suspicious transactions (s.14, AMLA). Revised First Schedule of AMLA, which came into force on 15 June 2024, has filled the gap in the scope of DNFBPs as it covers DPMS in East Malaysia and dealers operating under limited liability partnerships. The reporting obligations apply to all DNFBPs, including accountants, lawyers, notaries, company secretaries and trust companies (onshore and Labuan). Relevant guidelines further elaborate on these reporting obligations (paragraph 19, BNM Guidelines for DNFBPs and NBFIs; paragraph B12, LFSA KRI Guidelines).

Criterion 23.2 – DNFBPs are required to comply with obligations set out in R.18 in relation to having appropriate compliance programs, implementing group-wide programs, and ensuring their foreign branches and subsidiaries apply AML/CFT measures (paragraph 19, AMLA; paragraph 13, BNM Guidelines for DNFBPs and NBFIs; paragraph B4 LFSA KRI Guidelines).

Criterion 23.3 – DNFBPs are required to comply with obligations set out in R.19 in relation to the application of enhanced due diligence and countermeasures to higher risk countries (paragraph 17, BNM Guidelines for DNFBPs and NBFIs; paragraph B9, LFSA KRI Guidelines). In addition, BNM issues periodic circulars on countries that have strategic deficiencies in their AML/CFT regimes. The LFSA places such information on its website.

Criterion 23.4 – DNFBPs are required to comply with obligations set out in R.21 in relation to tipping-off and confidentiality as outlined in the AMLA (s.24 and 35, AMLA).

> ***Weighting and conclusion*** – All criteria are met. **Malaysia is rated compliant with R.23.**

Recommendation 24 – Transparency and beneficial ownership of legal persons[130]

In its 2015 MER, Malaysia was rated partially compliant with former R.24. The main deficiencies related to a lack of understanding of the vulnerabilities of legal persons to be misused for ML/TF purposes, RIs not having timely CDD information when the BO of a legal person changes, and limited sanctions for non-compliance with transparency obligations under the Companies Act and Labuan Companies Act.

Criterion 24.1 – The requirements of R.24 apply to all forms of legal persons in Malaysia, subject to the following qualifications:

(a) the measures are set out with specific reference to companies. Onshore foundations can be incorporated as companies limited by guarantee.

(b and c) The measures Malaysia applies to companies are similar for Labuan foundations, Labuan limited partnerships and limited liability partnerships (onshore and offshore, domestic and foreign LLPs) and other legal persons. Some foundations, such as those under the purview of the Legal Affairs Division (BHEUU), and waqf exist as legal arrangements within the scope of R.25. Anstalt does not exist in Malaysia.

[129] Recommendation 23 is newly assessed as Malaysia has made legal, regulatory or operational framework changes since its last mutual evaluation.

[130] Recommendation 24 is newly assessed due to changes to the FATF Standards for which Malaysia has not previously been assessed.

(d) The requirements of criteria 24.3(b), and 24.10 are applied by the relevant authorities in Malaysia in relation to all types of foreign-created legal persons that present ML/TF risks and have sufficient links with Malaysia (see c.24.3(b) and 24.10).

Criterion 24.2 –

(a) Malaysia has a comprehensive legal framework in place to identify and describe the different types, forms and basic features of legal persons. This information is provided under specific sections of several laws (e.g., ss.10-13, CA 2016 for onshore companies and s.14, LCA 1990 for Labuan companies) and is publicly available at on the CCM and Labuan FSA websites.

(b) The processes for creating different types of legal persons are set out in legislation (e.g., Labuan Companies Regulation 2010 for Labuan companies) and guidance (e.g., Guidelines for Incorporation of Local Companies for onshore companies). This information is publicly available.

(c) The process for obtaining and recording basic and BO information of legal persons is set out in legislation and guidelines, which are publicly available (e.g., s.51 and s.60B(3), CA 2016 as amended in 2024 and Guidelines for the Reporting Framework for BO of companies for onshore companies (paragraph 6, Guidelines on BO for Labuan Legal Persons and Legal Arrangements for all Labuan legal persons).

Criterion 24.3 –

(a) Malaysia conducted comprehensive assessments of the ML/TF risks posed by domestic legal persons in 2020 and 2023. Both assessments drew on a wide range of qualitative and quantitative information and sources, including intelligence from LEAs and the FIU. Discussion on the results of the 2023 legal persons' risk assessment took place amongst competent authorities, and some limited mitigating measures based on the identified vulnerabilities have been put in place. These include establishing a discrepancy reporting system and ensuring basic and BO information for legal persons with sufficient links to Malaysia is available from CCM and LFSA. However, there is currently no requirement for nominees to disclose their nominee status, which is a significant issue in the context of Malaysia (see c.24.13).

(b) Malaysia has undertaken an assessment of risk associated with foreign legal persons as part of the 2023 Legal Person Risk Assessment. This assessment concludes that the ML/TF risk from foreign legal persons is low based on their small number, a lack of observed misuse of and adequate control measures, such as ongoing monitoring.

Criterion 24.4 – All companies created onshore are registered with the CCM and listed in its register (s.15, CA 2016). In addition, all domestic and foreign LLPs in Malaysia are registered with the CCM (s.11 and 45, LLPA 2012). The basic information required under c.24.5a must be lodged with CCM within 30 days from the date the constitution was adopted (s.32(4), CA 2016) and such information is made publicly available (s.601(2), CA 2016). Information on onshore companies and LLPs is made publicly available to competent authorities and to public for a fee (s.601(2), CA 2016; s.70, LLPA 2012).

Labuan

All Labuan companies, Labuan Limited Partnerships and Labuan LLPs (including Labuan Recognised LLPs), and Labuan foundations are registered with the LFSA s.13, LCA 1990; 5, 30 and 48, LLPLLPA 2010 and s.14, LFA 2010 (for foundations). The basic information required under c.24.5 is publicly available for Labuan Limited Partnerships and Labuan LLPs and foundations (s.73, LLPLLPA 2010, s.49, LFA) can be accessed by officers, members, debenture-holders, directors, liquidators, or anyone with written permission of such officers, members, debenture-holders, directors and liquidators, or persons who can justify their need to LFSA (s.13(2), LCA 1990; s.73, LLPLLPA 2010, s.49, LFA 2010). In addition, some information on Labuan companies including company name, registration number, status, address, and company secretary are publicly available for search via the Labuan entities status platform. The lists of Labuan Limited Partnerships, Labuan LLPs and foundations are also publicly available via the LFSA website.

Criterion 24.5 – Malaysia requires all companies created in the jurisdiction (onshore and Labuan) to collect and record the following information:

- **(a)** company name, company number, proof (certificate) of incorporation, legal form and status, address of registered office, regulating powers (e.g., company constitution, articles of association), list of directors, company registration number (CA, 2016; LCA, 1990).
- **(b)** a register of members containing the names of the shareholders and members, and number of shares held by each shareholder and categories of shares (including the nature of the associated voting rights) (s.50 and 56, CA 2016; s.105, LCA 1990). Domestic (Onshore) LLPs and Labuan LLPs are also required to maintain a register of the partners (s.19 LLPA 2012; s.9(5) and 63(5) of LLPLLPA 2010).
- **(c)** Onshore companies are required to keep the register of members at the registered office of the company or at another place in Malaysia and the place of the register must be notified to the CCM (s.54, CA 2016)**.** The particulars in the register must be notified to the CCM (s.54, CA 2016). The particulars in the register include the location of company registry (s.50, CA 2016). If the register is not kept at the registered office of a company, the company shall notify the Registrar of the change of address of the place where the particulars are kept (s.47, CA 2016).

Labuan IBFC

For Labuan companies, the register must be kept at the registered office of the company, unless otherwise directed by the LFSA. If the register is moved to another location, the company should notify the LFSA of the new location within one month of the change (s.106, LCA 1990). For Labuan companies, the register of members can be kept outside of the country subject to LFSA's direction. Pursuant to section 106(1) of the LCA 1990, by default, the register of members of a Labuan company is to be kept at the registered office of the Labuan company which is a principal office of the Labuan trust company (s.85, LCA 1990). As of September 2024, there is no register of members of a Labuan company kept outside of Malaysia.

Criterion 24.6 – Malaysia follows a multi-pronged approach to ensure that the BO of a company can be determined in a timely manner by a competent authority. This includes the following:

- **(a)** ensuring companies hold accurate and up to date information on the company's own BO (s.60B, CA 2016; s.108E, LCA 1990) that can be accessed in a timely manner by the competent authorities and the law enforcement agencies as and when required (Part II Section 5, Guidelines for the Reporting Framework for BO of companies; Guidelines on BO for Labuan legal persons and arrangements). Furthermore, companies are required to co-operate with RIs to provide adequate, accurate and up-to-date information on the company's BO, failing which such RIs are not allowed to establish or conduct any business relationship, transaction or activity with the companies (s.16, AMLA).
- **(b)** Onshore domestic companies in Malaysia are required to register the company's BO information with CCM within 60 days from the appointment of its company secretary. For foreign owned onshore companies, the BO information must be submitted at the point of registration (Section 3, Guidelines for Reporting Framework for BO of Companies). Companies are also required to lodge with CCM any change to the particulars of the

beneficial owner within 14 days after such change is recorded in the register of beneficial owners as well as to lodge with CCM an annual return for each calendar year.

Labuan IBFC

For companies in Labuan, the TCSP creating the company, must register with the LFSA the BO information within 30 days from date of incorporation or registration or establishment, and within 30 days of any changes to particulars as well as lodge an annual return with LFSA for each calendar year (s.108C and E, LCA 1990; and Guidance Note on Submission of BO Information for Labuan Company and Foreign Labuan Company).

(a) *N/A*

(b) Competent authorities in Malaysia also have access to BO information held by RIs. The guidelines (e.g., BNM Guidelines for FIs) require RIs to identify and take reasonable measures to verify the identity of the BO, including through ongoing CDD (see R.10 above).

Criterion 24.7 –

Labuan IBFC

All Labuan foundations, Labuan limited partnerships and Labuan limited liability partnerships (including Labuan Recognised LLPs) are required to keep the BO information and its supporting documents for at least six years from the date a person ceases to be a BO (paragraph 7.2(vii), Guidelines on Beneficial Ownership for Labuan legal persons and arrangements).

Criterion 24.8 –

Adequate

Malaysia requires all companies to hold and maintain adequate basic and BO information as set out in 24.5 and 24.6 (e.g., including full name, nationality, residential address, date of birth, identity card/passport number, date of becoming/ceasing to be a BO). This information must be lodged with the CCM, as set out in 24.4-24.6. FIs and DNFBPs are also required to conduct CDD on legal person including obtaining the basic and beneficial ownership information of the customer as discussed under criterion 24.6 above.

Accurate

Companies, including directors and company secretaries are required to ensure any information provided to the CCM is accurate (s.593, CA 2016). BO information must be verified before it is recorded in the register (paragraph 47-55, Guidelines for Reporting Framework for Beneficial Ownership of Companies).

The CCM has a range of powers to inspect companies to ensure they are complying with registry requirements, including in relation to basic and BO information. This includes having access to any place or building and may inspect and make copies of or take extracts from any book, minute book, register or other documents required to be kept by the Registrar (s.27c, CCMA 2001).

Up to date

Under the CA 2016, basic and BO information must be updated to the register within a period of 30 days. Certain information must be notified sooner, for example, changes of BO information within 14 days (s.60B(4), CA 2016).

Labuan

Adequate

Labuan companies are required to obtain and record the basic and BO information as discussed under c.24.5 and 24.6 (e.g., including full name, nationality, residential address, date of birth, identity card/passport number and date of becoming/ceasing to be a BO) (s.6.2 Guidelines on BO for Labuan legal persons and arrangements).

FIs and DNFBPs are also required to conduct CDD on legal person including obtaining the basic and BO information of the customer as discussed under criterion 24.6 above.

Accurate

BO information must be verified to confirm its accuracy by verifying the identity and status of the BO using reliable, independent source documents, data or information (paragraphs 6.1, 6.4 and 7.1, Guidelines on Beneficial Ownership for Labuan legal persons and arrangements).

LFSA conducts onsite examination on Labuan Trust Companies to review and validate the CDD assessment conducted on Labuan entities including basic information and their BO information kept at the registered office of trust companies (s.28C, LFSAA 1996).

Up to date

Basic and BO information must be updated to the register within a period of 30 days. (ss.24, 80, 85, 94, 108E(2) LCA 1990).

Criterion 24.9 – Basic information on domestic, foreign and Labuan registered companies is available publicly as set out in 24.5. Competent authorities in Malaysia have all the powers necessary to be able to obtain timely access to the basic and BO information held by CCM, LFSA or registered companies, including rapid and efficient access to information held or obtained by a public authority or body or other competent authority (s.60B(9), CA 2016; s.28B(6), LFSAA 1996). In addition, LEAs have powers to require any person (including legal persons and arrangements) to deliver any document or information which can assist in the investigation of an offence (s.37, AMLA), and the FIU may require RIs to provide any information, data or details obtained during CDD process (s.16(6), AMLA).

Criterion 24.10 – The same measures for access to BO information for onshore domestic and Labuan established companies, also applies to foreign created legal persons and other entities. All foreign companies are required to obtain and hold adequate, accurate and up-to-date information on the company's own BOs in a BO register and to lodge such ownership information with CCM and LFSA (s.573a, CA 2016; s.108C and E, LCA 1990). Access to BO information of a foreign company is the same as a domestically incorporated company (see 24.9).

Criterion 24.11 – Basic information as per c.24.5(a) is publicly available (please refer to c.24.4 above), and can be accessed by FIs, DNFBPs and other countries' competent authorities for a fee.

Criterion 24.12 – Issuance of bearer share warrants in Malaysia is prohibited and, as such, bearer shares cannot be issued (s.73 CA 2016; s.46A, LCA 1990). All bearer share warrants that previously existed, had to have been converted into a registered form or surrendered by 31 January 2018.

Criterion 24.13 –

(a) There is no requirement for the nominee status of nominee directors and shareholders to be disclosed as part of public information for onshore legal persons. However, all Labuan companies are required to disclose nominee information and to submit the information to LFSA via BO Registry Platform (PEARL) and such information is available to public via company search at Corporate Online Registry (s.9A, LCA 1990). For onshore public listed companies, all authorised nominees are required to provide to the central depository the name and other particulars of the beneficial owner of the securities deposited in the securities account opened in the name of the authorised nominee (s.25A, Securities Industry (Central Depositories) Act 1991 (SICDA 1991)). Furthermore, onshore legal persons are required to submit to CCM their nominee shareholders with 20% or more of voting shares as part of their BO information requirements and information on natural persons that exercise significant control or influence over the directors or the management of the company, (paragraphs 25 and 27, Guidelines for Reporting Framework for Beneficial Ownership of Companies). However, there is no clear requirement to disclose the status of nominee director for onshore non-listed companies. All legal entities in Labuan are required to declare their nominee status and details of nominator (paragraph 6.3, Guidelines on Beneficial Ownership for Labuan Legal Persons and Legal Arrangements). They are required to submit nominee's information via lodgement to LFSA and to update the information if there are any changes within a reasonable period (paragraph 6.3, Guidelines on BO for Labuan legal persons and arrangements).

(b) Malaysia does not apply the mechanism set out in sub-criterion 23.13(b).

(c) Not applicable. Malaysian law does not prohibit the use of proxy shareholders or directors.

Criterion 24.14 – The responsibilities to comply with the requirements are provided in the respective legislations as discussed above. Liability and proportionate and dissuasive sanctions are in place for any legal or natural person that fails to properly comply with the requirements. For example, persons are subject to a fine not exceeding RM 3.0 million (EUR 646 500) and imprisonment not exceeding 10 years or both for making and furnishing false report or statement to CCM (c.593, CA 2016) and an administrative penalty of RM 500 for each day of non-compliance to a maximum of RM 50 000 (EUR 10 775) may be imposed by LFSA on any person for failure to comply with any provision of LCA 1990 (s.142A(3), LCA 1990).

Criterion 24.15 – Malaysia provides a range of international cooperation in relation to basic and BO information, on the basis set out in Recommendations 37 and 40:

(a) There are no restrictive conditions on the exchange of information or assistance.

(b and c) Enabling access by foreign competent authorities to basic information (see c.24.11 above) and facilitating information exchange on shareholders, for example through legislation and membership in the Egmont Group

(d) Using their powers such as Section 590(2)(d) of CA 2016, Section 28P of LFSAA 1996, etc, to obtain BO information on behalf of foreign counterparts on the request of authority of another country

(e) monitoring the quality of assistance received from other countries in response to requests for basic and BO information or requests for assistance in locating BOs residing abroad through engagement with the requested countries

(f) Keeping in a readily accessible manner information held or obtained for the purpose of identifying BO (see c.24.4 and 24.6).

(g) International requests can be made to the following agencies: AGC (for MLA), FIU (through Egmont Group or memorandum of understanding with foreign countries), IRBM (through public website) and CCM and LFSA (through informal supervisory cooperation).

> ***Weighting and conclusion*** – There is no requirement to disclose the status of nominee directors of shareholders for onshore non-listed companies. This is a minor deficiency and to some extent mitigated by RIs preventative measures and has been weighted accordingly. **Malaysia is rated largely compliant with R.24.**

Recommendation 25 – Transparency and beneficial ownership of legal arrangements[131]

In its 2015 MER, Malaysia was rated PC for former R.25. The main deficiencies related to lack of timely CDD information for RIs when changes to the BO of a legal arrangement took place and obligations to declare trustee status not applying beyond deposit taking institutions and limited sanctions for non-compliance with transparency obligations.

Criterion 25.1 – The requirements of R.25 apply to all legal arrangements meaning express trusts (as defined in the Glossary of the FATF Recommendations) and other similar arrangements that can be created in Malaysia. Onshore legal arrangements consist of private trusts, foundations/incorporated trusts, commercial trusts, testamentary trusts, and religious trusts such as waqf. There are also Labuan trusts under the purview of the LFSA.

Criterion 25.2 (a-c) – The forms, basic features and processes for setting up all types of legal arrangements are identified, described, and made are publicly available on the websites of professional associations. For example, for private trust, testamentary trust, foundations/incorporated trusts, and waqfs, the relevant information is available through association websites (e.g., Official website of the Association of Trust Companies Malaysia (ATCM) and the Official website of Amanah Raya Berhad. Alternatively, this information is provided and made publicly available through various legislation (e.g., TIA 1952, LTA 1996, CMSA 2007). The processes for obtaining basic and BO information for trusts is provided under various legislations and made publicly available (e.g., BNM Guidelines for DNFBPs and NBFIs, ITA 1967, TIA 1952, Guidelines on BO for Labuan LPs and LAs, SC Guidelines, Enactments of respective States).

Criterion 25.3 – Malaysia updated its assessment of the ML/TF risks associated with trusts and other similar legal arrangements in 2024 The assessment covers:

(a) Legal arrangements governed under Malaysian laws;

(b) Legal arrangements administered in Malaysia or for which the trustee or equivalent resides in their country;

(c) Types of foreign legal arrangements that have sufficient links with Malaysia. The scope of the 2024 assessment includes:

i. Understanding and mapping landscape of legal arrangements in Malaysia;

ii. Legal arrangements governed under Malaysian laws;

iii. Legal arrangements administered in Malaysia or for which the trustee or equivalent resides in their country; and

iv. Types of foreign legal arrangements that have sufficient links with Malaysia.

The methodology of the risk assessment encompasses both quantitative and qualitative data, including statistics and data from competent authorities and RIs. Qualitative data sources include Malaysia and other countries' NRAs, MERs, independent publications and expert validation.

Criterion 25.4 –

(a) Trustees of all trusts in Malaysia (including non-professional trustees and foundations/incorporated trusts established pursuant to the TIA 1952) are required to collect BO information, including the identity of

[131] Recommendation 25 is newly assessed due to changes to the FATF Standards for which Malaysia has not previously been assessed.

the settlor, protector (if any), beneficiary or class of beneficiaries, and any other natural person exercising ultimate effective control over the trust (including through the chain of control/ownership) or the identity of persons in equivalent or similar positions for other types of legal arrangements (s.44D(2)(a), TAA 2025). All Trustees are also required to maintain a register of beneficial ownership.

The Waqf (State of Selangor) Enactment 2015 designates the SIRC as the sole trustee for all waqf within the state. The SIRC has the authority to establish a corporation to manage the waqf. The Chief Registrar of Waqf, who serves as the CEO of this corporation, is responsible for registering the waqf, maintaining related documents, and performing other duties outlined in the Enactment. For religious trusts such as waqfs, basic and BO information including endowed property, waqf giver, waqf recipient, waqf administrator and any other parties exercising ultimate effective control over the waqf must be collected (s. 15, 16. 19, 27-30, Enactment 2015).

For Labuan trusts, the requirement covers trustees, settlors and protectors and any other persons that benefits, directly or indirectly, from the assets as well as any other natural persons exercising ultimate effective control over the trust (paragraph 5.6, Guidelines on BO for Labuan LPs and LAs). For commercial trusts, BO information includes the identity of the settlor, the trustee or the protector, the beneficiary or class of beneficiaries and any other natural person exercising ultimate effective control over the trust (including through a chain of control/ownership) (paragraph 8.1.16, SC Guidelines). The provisions in the guidelines apply to corporate bonds and sukuk.

(b) Trusts established and managed by professional trustees account for 74.3% of the total value of Malaysia's legal arrangements. Notably, commercial trusts (which only trust companies can be the trustees of) constitute 74.1% of the value of these legal arrangements, positioning them as the largest category by value. All trustees are required to obtain and hold adequate, accurate and up-to-date basic and BO information on parties to the trusts or other similar legal arrangements that are legal persons or arrangements as they are required to identify the beneficial owner of the parties to the trust up to the natural persons (s.44D(2)(b), TAA 2025)

In Labuan, trustees are required to obtain and hold adequate, accurate, and up-to-date basic and BO information on the parties to the Labuan trusts that are legal persons or arrangements (paragraph 5.6, Guidelines on BO for Labuan LPs and LAs).

(c) All trustees are required to obtain and hold basic information on regulated agents and service providers to the trusts including, but not limited to, investment advisors or managers, accountants and tax advisors (s.44D(2)(c) TAA 2025).

Criterion 25.5 – All trustees must keep the basic and BO information obtained for at least five years after their involvement with the trust ceases (s.44D(2)(d), TAA 2025). For foundations/incorporated trusts, all documents to be kept for a period of five years from the date of the final documents sent to the Minister or from the date the revocation of the certificate of incorporation (s.7(2) Trustees (Incorporation) Regulations 2025).

Criterion 25.6 – All trustees are required to ensure information held pursuant to c.25.4 is kept accurate and up-to-date. Information on any changes must be updated within one month of the change (s.44D(2)(f), TAA 2025). For foundations/incorporated trusts, any changes on the BO information of the trust must be updated and submitted to the Minister within 14 days from the date of change (s.5(3) Trustees (Incorporation) Regulations 2025).

Criterion 25.7 –

(a) All trustees are required to disclose their trustee status to RIs when forming a business relationship or carrying out a transaction (s.44D(2)(g), TAA 2025).

(b) All trustees are required to grant access to documents and information collected and kept by them to competent authorities on request. This includes information in the register of beneficial ownership (s.44D(2)(e), TAA 2025). In addition, trustees must submit the BO information in the register to competent authority upon request (s.3, Register of Beneficial Ownership Regulations 2025).

(c) Trustees are required to grant access to all documents and information collected and kept by them to RIs (s.44D(2)(e), TAA 2025). In addition, trustees must submit the BO information in the register to FIs and DNFBPs upon request (s.3, Register of Beneficial Ownership Regulations 2025).

Criterion 25.8 – Malaysia has mechanisms to ensure information is adequate, accurate and up-to-date (s.44D(2)(f), TAA 2025). In addition to the requirements listed under c25.4 and c25.6, the annual tax returns provide an opportunity for information to be updated on a fixed cycle (s.77A, ITA 1967) and RIs are required to report discrepancies they find in the BO register.

Criterion 25.9 –

Malaysian competent authorities have access to basic and BO information through a range of sources.

(a) IRBM obtains and holds BO information on trusts, including trustees with tax obligations.

(b) BHEUU obtains and holds information on the foundations/incorporated trusts and their trustees.

(c) RIs are required to obtain and hold the information on customers who are trusts or legal arrangements and keep such information relevant and up-to-date.

Criterion 25.10(a-c) – Competent authorities have a range of powers to obtain timely access to the information held by trustees and other parties, in particular information held by RIs. For example, LEAs can require any person to deliver any document or information to assist in the investigation of an offence, and the FIU can require RIs to provide any information, data or details obtained during the CDD process, that includes basic and BO information of trusts (s.16(6) and 32 and 37, AMLA).

Criterion 25.11 –

(a) Responsibilities to comply with the requirements set out in Interpretative Note 25 (e.g., collect BO information) are clearly set out in the TAA 2025 and the Trustee (Register of Beneficial Ownership) Regulations 2025.

(b) Any trustee who contravenes requirements under the TAA 2025 including failure to perform the duties relevant to meeting the obligations in criterion 25.4 to 25.7 can be convicted of a criminal offence and is liable to maximum fine of RM 5 000 (EUR 1 078) (s.44D(5), TAA 2025). In relation to foundations/incorporated trusts, any contravention with requirements on keeping register of beneficial owners is liable to a maximum fine of RM 15 000 (EUR 3 233) (s.2B(5), TIAA 2025).

(c) Sanctions are in place for failure to provide information listed in c.25.4-25.7. For example, any person failing to deliver any property, document or information that is required by an investigating officer or obstructing or hindering an investigating officer while exercising any of his powers shall be liable to a fine not exceeding RM 3 million (EUR 646 500) or to imprisonment for a term not exceeding five years or to both (s.37, AMLA).

Criterion 25.12 – Malaysia provides international cooperation in relation to information, including BO information, on trusts and other legal arrangements on the basis set out in R.37 and 40:

(a) There are no restrictive conditions on the exchange of information or assistance.

(b) Malaysia can provide international cooperation in relation to basic and BO information to foreign competent authorities through various means including via the Egmont Group and under legal provisions and supervisory engagement.

(c) Malaysia can supply information, including beneficial BO information, on trusts to foreign competent authorities (s.9, AMLA).

(d) Malaysia can obtain BO information on behalf of foreign counterparts under various legislative provisions, such as section 590(2)(d) of the CA 2016, which allows CCM to assist investigation on the request of the authority of another country.

(e) International requests can be made to the following agencies: the AGC through mutual assistance in criminal matters, FIU through Egmont Group, IRBM (information on tax), CCM and LFSA through Corporate Registers Forum, and BNM through the IOSCO Multilateral MoU.

Weighting and conclusion – All criteria are met. **Malaysia is rated compliant with R.25.**

Recommendation 26 – Regulation and supervision of financial institutions[132]

In its 2015 MER, Malaysia was rated compliant with R.26.

Criterion 26.1 – BNM, LFSA and SC are the primary financial sector supervisory authorities. They are responsible for regulating and supervising compliance by FIs with Malaysia's AML/CFT requirements under sector-specific legislation and guidelines. Section 21 of the AMLA enables supervisory authorities to monitor compliance by RIs with their AML/CFT obligations. Section 25 of the AMLA empowers BNM to authorise any examiner to perform AML/CFT examinations of any RIs which are not subject to supervision by the BNM. In addition, Bursa Malaysia supervises its participants (stock broking and derivatives broking companies) under ss.11 and 21 of the CMSA 2007.

Criterion 26.2 – Core Principle Institutions must be licensed (Art 8(1)(a), FSA 2013); Art 8(1)(a), IFSA 2013; s.61, CMSA 2007). Most other FIs must be licensed or registered (e.g., Money Service Business Activities, article 4 (1), MSBA 2011) (article 5(1), Money Lenders Act 1951). Issuers of designated payment instruments and designated Islamic payment instruments or insurance intermediaries and takaful broking companies must be approved before carrying on activity (s.11, FSA 2013; s.11, IFSA 2013).

There are no licensing or registration requirements for leasing and factoring companies.

Although there is no specific provision prohibiting shell banks, conducting business without a license is prohibited (s.8, FSA 2013 and IFSA 2013). It is also prohibited use of the word 'bank', 'insurance/assurance', 'Islamic bank', 'takaful/Islamic insurance/Islamic assurance' by persons other than the persons authorised to do the respective business except with the prior written approval of BNM.

Labuan IBFC

The LFSSA 2010 and LIFSSA 2010 have specific provisions to carry out securities, banking, investment, or insurance business, whether conventional or Islamic, under a license to be issued by the LFSA. Shell banks are not allowed in Labuan IBFC. Sections 88 and 89 of the LFSSA 2010 provide that no person other than

[132] Recommendation 26 is newly assessed as Malaysia has made legal, regulatory or operational framework changes since its last mutual evaluation.

licensed Labuan banks shall, without the written consent of the LFSA, assume or use the words "licensed Labuan Bank" or any derivative of such works.

Criterion 26.3 – The AMLA empowers the relevant supervisory authorities to adopt necessary measures to prevent any person who is unsuitable from controlling or participating, directly or indirectly, in the directorship, management or operation of an FI (s.21(1)(a)). In addition, the sector specific laws have detailed provisions to prevent the entry of undesirable persons into FIs as significant shareholders, controllers, directors, chief executives, etc.

Approval of BNM is required for any persons to hold five percent or more interested in the shares of banking institutions and insurance/takaful operators. BNM policy document on shareholder suitability issued on 8 October 2014 gives full effect to Schedule 6 of the FSA 2013 and IFSA 2013. The policy document contains legally binding standards that must be observed by shareholders of such operators and details on factors of consideration in assessing shareholder suitability. These include the character and integrity of the shareholder, including for body corporate, its reputation for operating in a manner consistent with the standards of good governance and integrity. For DPI issuers, insurance intermediaries and banking intermediaries, BNM Guidelines on Shareholder Suitability – Notification and Application Procedures set out standards on shareholder suitability check. BNM guidelines on minimum screening requirements for banks, insurance and takaful operators, DFIs and financial holding companies require that before employing an individual, screening of their previous employment records and criminal records must be undertaken (s.7.1, BNM Guidelines on Screening). This extends to all employees except those carrying out administrative functions such as reception duties.

Fit and proper requirements for the appointment of a chairman, director, chief executive officer or senior officer of banking institutions, insurance/takaful operators, designated payment instrument issuers, insurance intermediaries, banking intermediaries, money lenders and pawnbrokers are outlined in law (s.55 and 60, FSA 2013; s.64 and 69, IFSA 2013; s.9, Moneylenders Act 1951; s.8A, Pawnbrokers Act 1972).

For MSBs, fit and proper requirements for a substantial shareholder, director, controller, chief executive officer or manager are also outlined in law (s.6, MSBA 2011). BNM requires the consideration of any record of criminal activities or adverse regulatory judgments.

For reporting entities regulated by the SC, CEOs and directors of Capital Market Services License (CMSL) holders are subject to the fit and proper requirements provided under chapter 4 of the SC's Licensing Handbook. Also, the law provides grounds to refuse to grant a CMSL where the applicant or its directors, CEO, managers or controllers have been convicted of an offence involving fraud, dishonesty or violence (s.64 and 65, CMSA 2007).

There are no measures in place to prevent criminals or their associates from owning or controlling leasing and factoring companies.

Labuan IBFC

RIs supervised by LFSA are required to ensure that their directors, principal officers and trust officers remain fit and proper persons throughout their appointment in a licensed entity (s.4 LFSSA 2010 and LIFSSA 2010). The LFSA performs assessment on applicants by conducting financial and security vetting from relevant authorities and seeking information from other financial supervisors. Fit and proper requirements cover the persons in control, including shareholders. A person in control is defined as a person in relation to an applicant for a licence or a licensed entity who is entitled to exercise, or control the exercise of, not less than one-third of the votes attached to the voting shares in such applicant or licensed entity (s.2 LFSSA 2010, LIFSSA 2010).

Criterion 26.4 (a-b) – In line with Principle 29 of the Core Principles for Effective Banking Supervision and the IAIS Insurance Core Principle 22, BNM has a mechanism to ensure that FIs have adequate policies and processes, including CDD rules to promote high ethical and professional standards in the financial sector and prevent the bank from being used, intentionally or unintentionally, for criminal activities. This includes the prevention and detection of criminal activity and reporting of such suspected activities to the appropriate authorities.

BNM has adopted a Supervisory Risk-Based Framework (SuRF) to assess the safety and soundness of licensed FIs. This is achieved by evaluating an institution's risk profile, risk management processes, compliance with applicable laws and regulations, and financial condition. SuRF is applicable to core principle institutions supervised by BNM. The SuRF allows BNM to pay attention to areas that are deemed to pose a higher ML/FT risk and to allocate resources accordingly. This approach is applied on a consolidated basis for all material activities/entities within a financial group including cross border activities (e.g., overseas branches, subsidiaries and offshore operations), and other significant entities within the group (e.g., assets management companies and subsidiaries that provide financial services).

The SC follows a risk-based supervisory approach for each type of market intermediary as guided by the RSF in determining the ML/TF risk profile and effectiveness of the FI's control framework of FIs. SC supervisors identify ML/TF risks and assess the adequacy of control functions via annual self-assessment questionnaires received from market intermediaries and a regulatory risk assessment conducted by the SC during its supervisory visit.

MSBs (MVTS and money changers) are supervised by BNM under sections 48 to 50 of the MSBA 2011. Payment Services Supervisory Framework also covers the risk-based supervision of MSBs and DPI issuers.

Labuan IBFC

LFSA utilises its Risk-Based Supervisory Framework in determining and assessing the risks exposed to Labuan FIs. It focuses supervisory attention on areas that are deemed to pose higher ML/TF risk and allocate resources accordingly. Under the framework, compliance with regulations and legal requirements is incorporated as part of the risk management and control function. Banking, insurance and capital market entities are subject to AML/CFT regulation and supervision in line with the respective core principles. There are no significant financial groups for which LFSA may need consolidated supervision.

Criterion 26.5 (a-c) – BNM follows a risk-based approach to supervisory reviews. Timing and intensity of reviews is informed by risk scoping, including the findings of the NRA and sectoral reviews. Periodic reviews are conducted on an annual basis to produce ML/TF institutional risk ratings. Thematic reviews are conducted based on AML/CFT supervisory plan established annually across the banking and insurance industries while ad-hoc reviews are conducted based on risk assessment results, intelligence, specific issues or adverse media. The SC follows an annual offsite and onsite supervisory plan based on institutional risk profiling and the results of the NRA. Based on the findings of assessments and reviews, appropriate supervisory interventions are initiated.

Labuan IBFC

LFSA determines the focus area, frequency and intensity of reviews based on institutional risk profiling and NRA. The LFSA conducts thematic examinations based on the outcome of the NRA, particularly relating to the high-risk crimes and emerging risks that may pose threats to the sectors, in addition to annual onsite examination, engagement sessions, or offsite supervision.

Criterion 26.6 – BNM, SC and LFSA review risk profiles of RIs and groups periodically and when there is any development with the potential of creating risks, e.g., at the time of undertaking new activities or introducing new products, opening of new branches or subsidiaries and changes in group structure, etc.

> ***Weighting and conclusion*** – Leasing and factoring companies are not subject to licensing or registration or fit and proper checks. This is a minor deficiency in the context of Malaysia. **Malaysia is rated largely compliant with R.26.**

Recommendation 27 – Powers of supervisors[133]

In its 2015 MER, Malaysia was rated compliant with R.27.

Criterion 27.1 – BNM, LFSA and SC have responsibility and powers to regulate and supervise AML/CFT/CPF compliance under sector-specific legislation and guidelines. Section 21 of the AMLA empowers each supervisory authority to monitor AML/CFT/CPF compliance of RIs under its supervisory ambit.

Section 48 of the FSA 2013 and section 58 of the IFSA 2013 compel RIs to comply with the BNM prudential standards to prevent FIs from being used for criminal activities. Section 5 of the Central Bank of Malaysia Act 2009 (CBA 2009) empowers supervisors to regulate and supervise FIs that are subjected to laws enforced by BNM. BNM supervises MSBs under the powers conferred on it by section 48 of the MSBA 2011.

LFSA derives its supervisory powers from section 4(1)(a) of the LFSAA 1996 to administer and enforce provisions of the Act and the laws specified in the schedule. LFSA has issued necessary standards and guidelines on AML/CFT/CPF to protect its institutions from being used for criminal activities.

SC has the power to supervise and monitor its RIs under sections 15(1)(m) and 16 of the Securities Commission Malaysia Act 1993 (SCMA 1993), in addition to section 21(1)(b) of the AMLA. SC has also issued the necessary guidelines for entities regulated by it to ensure compliance with AML/CFT/CPF requirements.

Non-prudentially regulated smaller entities are registered under respective laws but supervised for AML/CFT/CPF by BNM.

Criterion 27.2 – BNM is authorized to conduct inspections of its regulated entities under section 146 of the FSA 2013, section 158 of the IFSA 2013, section 85 of the DFIA 2002 and section 48 of the MSBA 2011. It can also examine the books or other documents, accounts and transactions of a prescribed institution and any of its offices in or outside Malaysia. Section 21(1)(b), sections 25-26 of the AMLA also empower BNM to conduct inspections of RIs including their officers, directors and controllers.

LFSA is authorized to conduct inspections of Labuan FIs under section 177(1) of the LFSSA 2010, section 138(1) of the LIFSSA 2010 and sections 28C and 28E of the LFSAA 1996.

SC has the power to examine the books and documents, accounts and transactions of an RI under section 126(1) of SCMA 1993. Bursa Malaysia performs certain regulatory functions including supervision of its participants under sections 11 and 21 of the CMSA 2007. Rule 14.02 of Bursa Securities and Rule 515.1A of Bursa Derivatives provide powers to Bursa Malaysia to conduct onsite inspections of stock broking and derivatives broking companies.

Criterion 27.3 – BNM can access information required for inspection purposes pursuant to section 147 of the FSA 2013, section 159 of the IFSA 2013 and section 50 of the MSBA 2011. During the ordinary course of business, BNM has the power to seek any information or document pursuant to section 143 of the FSA 2013 and section 155 of the IFSA 2013. Section 50 of the MSBA 2011 allows BNM access to documents, information etc. of licensee, MSB agent and others. It is noted that section 132(1) of the FSA 2013 and section 144(1) of the IFSA 2013 prohibits the Minister or BNM to enquire into the affairs or accounts of customers of authorized persons. Section 132(2) of the FSA 2013 and section 144(2) of the IFSA 2013 specifically allows

[133] This Recommendation was not under review. Therefore, the text for the Recommendation is copied from MER 2015, with minor non-substantive edits included from Malaysia.

BNM to inquire into the affairs or accounts of customers for purposes of performing its functions under the FSA 2013 and IFSA 2013.

BNM maintains that there is no difficulty in compelling production of record since section 132(2) of the FSA 2013 and section 144(2) of the IFSA 2013 provides that the prohibition does not apply when BNM exercises its powers or functions under the FSA 2013, IFSA 2013 or section 47 of the CBA 2009. Therefore, exercise of supervisory powers is outside the purview of the said prohibition.

Section 34 of the MSBA 2011 affords authority to compel the production of information from MSBs. This specifically empowers BNM to require any licensee or any person to submit such information or document as BNM may specify, and failure to comply with any requirements specified is subject to penalties under the law.

Under section 28B of the LFSAA 1996, LFSA can seek any information relating to the identity, affairs, account or particulars of any customer of a Labuan financial institution or any corporation related to the Labuan financial institution, or a nominee or beneficiary.

SC has the power to compel production of any documents or records for examination. For routine demands of information, SC can invoke section 152 (1) of the SCMA 1993 requiring any person to disclose such information as the Commission may specify in the notice for administration of the securities laws. *Prima facie*, there does not appear to be any restriction on customer related records. This has been reconfirmed by Malaysia that powers under section 152 extend to AML/CFT issues.

Criterion 27.4 – In addition to having a range of enforcement powers under the AMLA, BNM is empowered under section 234 of the FSA 2013 and section 245 of the IFSA 2013 to take action against any breach of provisions of the Act, any regulations made under the Act, any order or direction issued under the Act and any standards and requirements. BNM can issue an order in writing requiring compliance, impose monetary penalties, reprimand in writing the person in breach or require the person to issue a public statement of the breach, require the financial institution to take necessary steps to mitigate the effect of such a breach or remedy the breach including making restitution to people affected by the breach. Section 162 of the FSA 2013 and section 174 of the IFSA 2013 provides the power for removal of directors, chief executive officers or senior officers in the event of a breach of any provisions in the FSA 2013 and IFSA 2013. Section 20 of the FSA 2013 and section 18 of the IFSA 2013 provide grounds for BNM to revoke a financial institution's license in the event of non-compliance with any provisions in the FSA 2013 and IFSA 2013.

Section 75(1) of the MSBA 2011 provides BNM with powers to take administrative action for contraventions of the Act. A range of actions are available to BNM up to the power to revoke the license of MSBs for various contraventions.

LFSA can impose administrative sanctions under section 36G of the LFSAA 1996 against any Labuan entity which fails to comply with the requirements of the law. The amount of administrative penalties for each offence ranges from RM 500 (EUR 108) to RM 10 000 (EUR 2 155). In addition, LFSA can take enforcement action under section 193 of the LFSSA 2010 and section 153 of the LIFSSA 2010. Section 167(b)(x) of the LFSSA 2010 and section 124(b)(x) of the LIFSSA 2010 empower LFSA to revoke the license or registration of a Labuan financial institution.

The SC is empowered to take enforcement action under subsections 354, 355 and 356 of the CMSA 2007 which include disciplinary and financial sanctions. SC can also apply to the court for an appropriate order. The power of the SC also includes actions under sections 72(2)(a)(i) and (iii) of the CMSA 2007, including revocation or suspension of the reporting institution's license.

Weighting and conclusion – All criteria are met. **Malaysia is rated compliant with R.27.**

Recommendation 28 – Regulation and supervision of DNFBPs[134]

In its 2015 MER, Malaysia was rated largely compliant with R.28 as there were certain gaps in market entry controls over some DNFBPs.

Criterion 28.1(a and b) – There are no changes to the licensing requirement on casinos since MER 2015. BNM has issued AML/CFT Guidelines covering Malaysia's one casino. The casino is subject to AML/CFT regulation and supervision by BNM (s.7, AMLA) and the MoF for licensing and business operations (s.7, Common Gaming House Act).

As part of their license commitments, the licensee must not allow any person of notorious or unsavoury reputation or any person with previous criminal convictions or any person involved in subversive movements or their associates to own, hold (or be the beneficial owner of) a significant or controlling interest, or hold a management function, or operate the Licensee (s.10A, Common Gaming Houses Act). The casino license is subject to renewal every three months in accordance with section 27A of the Common Gaming Houses Act and can be suspended if the licensee is not complying with requirements including in relation to fitness and propriety. Furthermore, in relation to statutory provision, Section 21(1)(a) of the AMLA also provides for the broad powers of fit and properness of all RIs, which continue to apply.

(c) - BNM supervises the full range of CDD and other AML/CFT requirements with the exception of licensing fit and proper measures. There are no changes to AML/CFT supervision on the one casino since MER 2015.

Criterion 28.2 – BNM is the designated AML/CFT supervisory authority for DNFBPs in Malaysia (First Schedule, AMLA). The LFSA is the designated AML/CFT authority for the trust company sector in Labuan (s.21, AMLA).

Criterion 28.3 – All categories of DNFBPs are monitored for AML/CFT requirements by the BNM. The Terms of Collaboration signed between BNM and CCM in August 2022 formalises the undertaking of an AML/CFT supervisory role by CCM and the MIA has powers to supervise compliance programmes and investigate breaches of the AMLA for accountants (s.6(c) Accountants Act 1967; s.260 and 360 of Part A of the MIA By-Laws).

Criterion 28.4 –

- **(a)** The supervisory authorities have adequate powers to perform its functions, including powers to monitor AML/CFT compliance (s.21, 22 and 25, AMLA; s.28B, 28C, 28D, 28E and 28F of LFSAA). There are broad powers of examination of DNFBPs. Powers of investigation for breaches of the Act are contained in Part V of the AMLA.
- **(b)** Under Section 21 of the AMLA, BNM can adopt measures to prevent unfit persons from controlling or participating in the directorship, management or operation of DNFBPs, including those persons who hold an interest in one third or more of its voting shares or who have the power to cause to be appointed a majority of directors or the power to make a decision, or cause a decision to be made, in respect of its business or administration. TCSPs must be licensed by the LFSA, but the BNM or other sector licensing bodies for DNFBPs have not utilised Section 21 of the AMLA to implement market entry fit and proper controls for DNFBPs. The various professional authorisation, licensing or registration bodies for some of the DNFBPs have certain authorisation, licensing or registration criteria as established in their respective regulatory or legal frameworks (see "Introduction to Money Laundering and Terrorist Financing Risks and Context").

[134] Recommendation 28 is newly assessed as Malaysia has made legal, regulatory or operational framework changes since its last mutual evaluation.

(c) AMLA includes fines and/or imprisonment for failure by DNFBPs to comply with the various requirements of the Act and the guidelines. There are some elements that are not proportionate or dissuasive (See R.35).

Criterion 28.5 (a-b) – BNM, LFSA, CCM and MIA apply a risk-based approach to supervision of DNFBPs. The NCC conducted a sectoral risk assessment of DNFBPs in 2020 and 2024 as part of the NRA, which formed the basis for the allocation of supervisory resources and activities, primarily for the frequency of inspections on the sectors. The high-level risk-based approach is reflected in the establishment of priorities for sectors, such as the lawyers and DPMS sectors which are rated as high risk on ML, while the casino sector is rated as medium-high risk and receives considerable supervisory focus. The LFSA has formed views on the level of risks associated with each Labuan sector and priorities for supervision. The LFSA uses a risk-based approach to set priorities for supervision of individual licensees within the trust company sector.

> ***Weighting and conclusion*** – There are no legal or regulatory measures to prevent criminals or their associates from holding (or being the beneficial owner of) a significant or controlling interest, or holding a management function, or being an operator of a DPMS. Other DNFBPs are subject to fit and proper controls by government regulators and SROs. **Malaysia is rated largely compliant with R.28.**

Recommendation 29 – Financial Intelligence Units (FIU)[135]

In its 2015 MER, Malaysia was rated compliant with R.29.

Criterion 29.1 – BNM is the competent authority under the AMLA and has FIED to perform the function of Malaysia's FIU. FIED is empowered under the AMLA, through a legal delegation by BNM to be the national centre to receive and analyse information from any person and send any report or any information derived from such a report to an LEA or a foreign FIU if it is satisfied or has reason to believe or suspect that a transaction involves proceeds of an unlawful activity or serious offence or relates to TF.

Criterion 29.2 – Under section 8 of the AMLA, the FIU is the central agency for the receipt of the information and report from any person, including the following disclosures filed by RIs: CTRs filed under section 14(1)(a) of the AMLA and STRs filed under section 14(1)(b). The requirements under section 14(1)(b) requiring RIs to report STRs are applicable to all FIs and DNFBPs. STRs and CTRs are received from RIs via the FINS system, which is a secure and protected channel for the FIU to receive reports. The FIU is also the central agency for the database on the receipt of CBNI reports made at the border to the authorised officer (Customs officer) under section 28B of the AMLA.

Criterion 29.3 – Under section 8 of the AMLA, the FIU is empowered to give instructions to RIs to provide additional information. The FIU may also make recommendations to a relevant supervisory agency, including for the supervisor to request additional information. In conducting its analysis, the FIU has access, directly or indirectly, to the widest range of sources of financial, regulatory, administrative and LEA information to undertake analysis.

Criterion 29.4 – Malaysia has demonstrated that it conducts both operational and strategic analysis. The FIU has established the following units to carry out its functions:

- ***Tactical Analysis Division*** - conducts operational analysis in identifying specific targets, following the trail of particular activities or transactions and determining links between those targets and possible proceeds of crime related to predicate offences and ML/TF/PF. Criteria used to conduct

[135] This Recommendation was not under review. Therefore, the text for the Recommendation is copied from MER 2015, with minor non-substantive edits included from Malaysia.

analysis on a subject include the number of STR/CTR matches, amount reported, suspected criminal activity, occupation and nationality. The Division also provides investigation support to LEAs, including crimes under BNM's purview.

- ***Strategic Analysis Division*** - conducts strategic analysis by using information in identifying ML/TF trends and patterns, as well as possible ML/TF/PF threats and vulnerabilities. The information analysed is escalated to relevant stakeholders for appropriate regulatory and enforcement action or policy development. There is also a data science unit dedicated to developing solutions to support the analysis by tactical and strategic analysts.

Criterion 29.5 – The FIU can disseminate, spontaneously and upon request information and the results of its analysis to relevant domestic competent authorities (sections 8 and 9 of the AMLA) and foreign counterparts (s.10, AMLA). The FIU utilizes dedicated, secure and protected channels for dissemination by using the FINS system. The FIU's SOPs outline procedures for the dissemination of information to competent authorities in a secure manner which ensures the integrity and protection of the financial intelligence. Most LEAs have direct access to search the FINS system and all LEAs receive spontaneous and reactive disclosures through that system in a closely governed secure framework. Disseminations to those LEAs which are not on FINS are conducted in a secure and protected manner.

Criterion 29.6 – The FIU's 'Standard Operating Procedures on Receipt, Analysis and Dissemination of Financial Intelligence' sets out the procedures for handling confidential information to be disseminated to domestic LEAs or foreign counterparts. The FIU adheres to BNM's policies and procedures, including the Information Security Management Policy (ISMP), IT and Risk Management Policies in preserving the data security and confidentiality of all financial intelligence received and maintained within the FIU. FIU staff have the necessary security clearance levels and access is limited to facilities and information, including information technology systems.

Criterion 29.7 – Under section 7 of the AMLA the government has designated BNM as the competent authority for the purposes of the various powers under the act, including FIU functions. In implementing sections 8, 9 and 10 of the AMLA, BNM as the competent authority has delegated the function to disseminate and exchange information with domestic agencies and foreign counterparts, to the Head of FIU and his alternates (Deputy Directors of FIED). Although it is structured within BNM, the FIU operates with sufficient operational independence and autonomy to be free of undue influence or interference. The Head of FIU administratively reports directly to the Deputy Governor and Chief Operating Officer (Assistant Governor) of BNM. Functionally the Head of FIU and his alternates have the autonomy and power to receive, analyse and disseminate financial intelligence with domestic LEAs and with foreign counterparts. The Head of the FIU has control in setting and expending necessary budgets and other resources. The FIU is operationally independent and autonomous as a separate unit within FIED. The FIU has an SOP which outlines the autonomy of the Head of the FIU in relation to the FIU operations.

Criterion 29.8 – Malaysia's FIU has been a member of the Egmont Group since July 2003 and has represented the Asia Group (now known as the Asia Pacific Regional Group) in the Egmont Committee.

> ***Weighting and conclusion*** – All criteria are met. **Malaysia is rated compliant with R.29.**

Recommendation 30 – Responsibilities of law enforcement and investigative authorities[136]

In its 2015 MER, Malaysia was rated compliant with R.30.

Criterion 30.1 – LEAs enforce serious offences as listed in the Second Schedule of the AMLA. Part V of the AMLA provides for the powers of investigation which all LEAs can exercise. There are 12 LEAs responsible for investigating ML and associated predicate offences, namely the RMP, MACC, RMCD, IRBM, BNM, SC, CCM, KPDN, LFSA, IDM, MMEA and PERHILITAN. All LEAs have established ML investigation units or designated capacity to conduct investigations under AMLA.

Criterion 30.2 – LEAs are authorized to pursue investigations of any related ML offences in parallel with predicate offences under section 29(1) of the AMLA and to co-ordinate and co-operate with other LEAs in and outside of Malaysia with respect to an investigation into any serious offence or foreign serious offence as provided under section 29(3). Malaysia advised that all investigations and findings related to TF will be referred to RMP for further investigation.

LEAs investigate predicate offences under their respective laws and also authorize their AMLA Unit or designated investigating officer to investigate ML in parallel with the predicate offence. The authority to investigate ML offences is granted under section 30 of the AMLA. LEAs will appoint any of their officers or any person to be an investigating officer for the purpose of carrying out the investigation of any offence under the AMLA.

Criterion 30.3 – LEAs have investigative powers, under Part V and VI of the AMLA, to identify, trace (s.31, 32, 37, 48 and 67) and initiate freezing (s.44) and seizing of property (s.45, 46(6), 50, 51 and 52), which may become a subject matter of proceeds of crime or is derived from proceeds of crime. Apart from the AMLA provisions, similar powers can also be found in other laws relevant to the respective LEAs.

Criterion 30.4 – Competent authorities that are not LEAs *per se* are able to exercise the functions under this Recommendation pursuant to section 29(1) of the AMLA. Criterion 30.1 also refers.

Criterion 30.5 – MACC is an independent commission set up in 2008, replacing the Anti-Corruption Agency. The powers to identify, trace and initiate freezing and seizing of assets under the AMLA are also accorded to the MACC, by virtue of enforcing the provisions under the MACCA 2009 which are listed under the Second Schedule of the AMLA. MACC has jurisdiction to pursue offences of corruption, bribery and which are listed as 'Prescribed Offences' under the MACCA 2009. In addition to the powers under the AMLA, MACCA 2009 also provides comprehensive measures to identify, trace, and initiate freezing and seizing of assets arising from, or related to, corruption offences (s.29, 30, 31, 33, 36, 37, 38, 40, 41, 43 and 46 refer).

Weighting and conclusion – All criteria are met. **Malaysia is rated compliant with R.30.**

[136] This Recommendation was not under review. Therefore, the text for the Recommendation is copied from MER 2015, with minor non-substantive edits included from Malaysia.

Recommendation 31 – Responsibilities of law enforcement and investigative authorities[137]

In its 2015 MER, Malaysia was rated compliant with R.3.

Criterion 31.1 – Malaysia's LEAs and investigative authorities have sufficient powers to access all necessary documents and information for use in ML, associated predicate offences and TF investigations, prosecutions and related actions.

Criterion 31.2 – Malaysian LEAs are permitted under the law to use the wide range of investigative techniques for the investigation of ML, associated predicate offences and TF, including undercover operations, the interception of communication, accessing computer systems and controlled deliveries. Although the SC advised that they cannot conduct undercover operations, if necessary, it can be done by the RMP. The RMP has the power to investigate any offence under any of the laws in Malaysia as stipulated under section 20 of the Police Act 1967 and section 23 of the Criminal Procedure Code. During the onsite visit the BNM advised that the RMP assistance is requested to help enforce their respective Acts.

Criterion 31.3 – Under section 48 of the AMLA, LEAs can obtain an order for RIs to provide information which would identify, whether natural or legal persons hold accounts. The AMLA includes provisions to ensure no person shall disclose any information or matter which has been obtained by him in the performance of his duties or the exercise of his functions under the Act. This includes information obtained from RIs to identify assets and accounts.

Malaysia has developed a coordinated approach for the execution of section 48 orders through the FIU. On its own or on behalf of LEAs the FIED uses FINS as secure and fast conduit for serving orders on all RIs. This provides an efficient, secure and timely mechanism to obtain information from RIs.

Criterion 31.4 – Under powers in the AMLA, LEAs investigating ML, associated predicate offences and TF are able to ask for all relevant information held by the FIU.

> ***Weighting and conclusion*** – All criteria are met. **Malaysia is rated compliant with R.31.**

Recommendation 32 – Cash couriers[138]

Malaysia was rated largely compliant with R.32 in the MER 2015 and was re-rated to compliant in the FUR 2018.

Criteria 32.1 – Sections 28B and 28C of the AMLA require residents and non-residents to declare incoming and outgoing cross border movement of currency and BNIs exceeding USD 10,000 or its equivalent. This covers passenger, postal and cargo streams. The declaration is to be made to RMCD officers using a prescribed form (Customs Form Number 7) at all points of entry and exit in Malaysia. Notices are placed at all entry and exit points to give warning to travellers of their obligation to make a declaration.

Criterion 32.2 – Declarations are required to be truthful and made in the respective prescribed form to RMCD, the competent authority under sections 28B, 28C and 28H of the AMLA and section 87 of the Customs Act 1967.

[137] This Recommendation was not under review. Therefore, the text for the Recommendation is copied from MER 2015, with minor non-substantive edits included from Malaysia.

[138] This Recommendation was not under review. Therefore, the text for the Recommendation is copied from MER 2015 and FUR 2018, with minor non-substantive edits included from Malaysia.

Criterion 32.3 – This criterion is not applicable as Malaysia implements a written declaration system.

Criterion 32.4 – RMCD officers have the authority to obtain further information from the carrier with regard to the origin of the cash or BNIs and their intended use.

Criterion 32.5 – Persons who make a false declaration or disclosure are subject to proportionate and dissuasive sanctions. AMLA imposes a criminal penalty upon conviction of a fine not exceeding RM 3 million (EUR 646 500) or imprisonment for a term not exceeding five years or both for the offence of failure to make such declaration. AMLA also provides for compounding of a sum not exceeding fifty percent of the amount of the maximum fine for that offence. Non-declaration or smuggling is also an offence under section 135(1)(a) of the Customs Act 1967 with a sanction (if it is a first offence) of a fine of not less than ten times the value of the goods or RM 50 000 (EUR 10 775, whichever is the greater amount, and of not more than 20 times or RM 500 000 (EUR 107 750), whichever is the greater amount, or to imprisonment for a term not exceeding five years or to both.

For a subsequent offence the fine is between twenty and forty times the value of the currency or BNI or imprisonment for a term not exceeding five years or both. The court can forfeit currency or BNI seized under the Customs Act 1967. The offence of making an incorrect declaration of currency or BNI in the prescribed form is also punishable under section 133(1)(a) of the Customs Act 1967. The criminal sanction for a person convicted for this offence is a fine of not less than twenty times the value of the goods or RM 100 000 (EUR 21 550), whichever is the greater amount, and of not more than forty times the value of the goods or RM 1 million (EUR 215 500), whichever is the greater amount, or to imprisonment for a term not exceeding seven years or both.

Criterion 32.6 – CADS was introduced in 2011 enables the FIU to have access to all declaration information. CADS facilitates the secure access to and analysis of declaration data by RMCD and the FIU as part of both agencies ongoing intelligence and investigative work. RMCD is also able to notify the FIU about suspicious cross border currency / BNI transportation incidents. The CADS is made available to SCBNI members i.e., RMP, IDM and MMEA.

Criterion 32.7 – There are several coordination mechanisms to support the cooperation between RMCD, BNM and other relevant authorities in the implementation of R.32. The Cross Border Transportation of Currency (CBTC) Task Force was established in June 2007 to establish the CBTC Framework and is comprised of BNM, RMCD and the Immigration Department, however this was recently disbanded as it was focused on establishing the cross-border currency reporting framework. CADS was introduced in July 2011 as a platform to coordinate access to cross border declaration data between BNM and RMCD. BNM collaborates with RMCD in capacity building and training for RMCD staff on cash declarations and utilisation of CADS. There are operational coordination arrangements in place between RMCD and RMP to generally guide RMCD's implementation.

In May 2016 Malaysia established the SCBNI. This sub-committee includes various national authorities, including the RMCD and the RMP, to ensure TF-related cross-border co-operation.

Malaysia also established other domestic coordination mechanisms, which included members of RMCD and RMP, such as the Eastern Sabah Security Zone, responsible to advise the implementing bodies/agencies on measures to strengthen security and public order in the security zone.

Criterion 32.8 – RMCD officers can stop or restrain currency or BNIs for a reasonable time where there is a failure to declare under section 28B AMLA or section 134(1)(a) of the Customs Act 1967 or an incorrect declaration under section 133(1)(a) of the Customs Act 1967. These offence provisions give RMCD officers the reason for affecting a seizure, whether there is a suspicion of ML. Under section 28H of AMLA, RMCD officers are authorized to seize cash/BNI or other things if there is a reason to suspect that the cash/BNI or other things may afford evidence relating to commission of an offence under the AMLA. Part IVA of the

AMLA has been introduced to allow RMCD to investigate and exercise the relevant investigation powers in relation to offences on cross-border movement of cash/BNIs.

Criterion 32.9 – Since 2011 all cross-border declarations have been retained in the CADS which is maintained by the FIU. Access is limited to RMCD and the FIU. The FIU may disclose declaration information to other competent authorities via reactive or proactive disclosures, including to foreign agencies. The FIU can share cross border declaration data with foreign counterparts proactively or on request as per Recs 37-40. Processes for international cooperation on CADS data is supported by SOPs.

In addition, all information (including declarations) collected for purposes related to investigations is considered 'public records' as such is retained in accordance with section 25 of the National Archives Act 2003. The period of retention is seven years in line with the Limitation Act 1953. After that period, such records are to be moved to the National Archive.

Criterion 32.10 – The cross-border declaration information is stored in CADS and can only be accessed by RMCD or the FIU and can only be shared by seeking permission of either agency. The declaration only requires travellers or person who moves cash/BNI by courier services and other means to declare their cash/BNI and does not impede trade payments between countries or limit the movement of capital.

Criterion 32.11 – See criterion 3.9, R.4 and criterion 5.6.

> ***Weighting and conclusion*** **–** All criteria are met. **Malaysia is rated compliant with R.32.**

Recommendation 33 – Statistics[139]

In its 2015 MER, Malaysia was rated compliant with R.33.

Criterion 33.1 – Malaysia maintains comprehensive AML/CFT/CPF related statistics. In June 2012 the NCC enforced a 'Centralized Data Management Framework' which came into effect in January 2013. The framework requires each NCC agency to adopt policies and systems to capture statistical data related to AML/CFT/CPF work across a range of relevant categories. These include financial intelligence (reports received and disseminated); investigation (cases investigated; amounts frozen and seized); prosecution; forfeiture (criminal and civil) and international cooperation (MLA and extradition); supervision (onsite and offsite examinations; sanctions); ML/TF typologies (sanitised cases based on ML/TF investigations) and AML/CFT/CPF training (events conducted and attended). The outputs of the cross-border reporting system are included. Financial Intelligence, investigation, prosecution and supervisory statistics are collected every four months, and typologies and training statistics are collected annually.

> ***Weighting and conclusion*** – All criteria are met. **Malaysia is rated compliant with R.33.**

Recommendation 34 – Guidance and feedback[140]

In its 2015 MER, Malaysia was rated largely compliant with R.34 and was re-rated to compliant in the FUR 2018.

Criterion 34.1 – Regulators' updated AML/CFT/CPF guidelines include enforceable regulatory obligations and clearly marked unenforceable guidance points. BNM revised their previous guidelines in 2020 and

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[139] This Recommendation was not under review. Therefore, the text for the Recommendation is copied from MER 2015, with minor non-substantive edits included from Malaysia.

[140] This Recommendation was not under review. Therefore, the text for the Recommendation is copied from MER 2015 and FUR 2018, with minor non-substantive edits included from Malaysia.

February 2024, for the different types of FIs and DNFBPs under their supervision. Similarly, LFSA revised its guidelines in 2022 and the latest revision of May 2024 is applicable to Labuan KRIs. The SC revised its guidelines in 2016, 2021 and latest revision on 13 June 2024. All guidelines are in line with FATF recommendations.

Regulators supplement their guidelines with guidance, conferences, bilateral engagements, and circulation of questionnaires, web page information and ongoing dialogue. All supervisors publish guidance, circulars and/or frequently asked questions through their respective web pages.

> ***Weighting and conclusion*** – All criteria are met. **Malaysia is compliant with R.34.**

Recommendation 35 – Sanctions[141]

In its 2015 MER, Malaysia was rated largely compliant with R.35.

Criterion 35.1 – While the AMLA, guidelines and other relevant legislation contains sanctions for failure, there are some elements that are not proportionate or dissuasive. The general sanction available is a fine of up to RM 1 million (EUR 215 500) plus compounding up to 50% the value of the sanction, which may not be dissuasive. This covers CDD, compliance programs, STR reporting and the like. Some key AMLA obligations have stronger penalties as set out below.

For R.6, section 66D(5) of AMLA provides for the RM 3 million (EUR 646 500) plus five years imprisonment for persons who contravene obligations to implement the TFS. In connection with the prohibitions against disclosure of STRs and related information, under section 14A(1) and (2) of AMLA, breaches are an offence and on conviction is a fine of up to RM 3 million (EUR 646 500) or imprisonment for up to five years or both are available. The same penalties apply under section 17(4) of AMLA for breaches of section 17 (retention of records) and section 18(6) for breaches of section 18 (opening of account or conducting business relationship, transaction or activity in fictitious, false or incorrect name).

Sanctions under the AMLA apply to the institutions and staff. Section 22 allows BNM to obtain an order against any or all the officers or employees of an RI to be sanctioned on such terms as the Court deems necessary to enforce compliance. Under section 22(4), an officer of an RI who fails to take all reasonable steps to ensure the RI's compliance with obligations under Part IV commits an offence and on conviction is liable to a fine of up to RM 1 million (EUR 215 500) or imprisonment for up to three years or both. An additional fine is available to RM 3 000 (EUR 647) for each day the offence continues to be committed.

Section 92 of the AMLA empowers BNM, with consent of the Public Prosecutor, to compound any offence under the AMLA or under regulations made under AMLA, by accepting from the person reasonably suspected of having committed the offence such amount not exceeding 50% of the amount of the maximum fine for that offence. Compounding allows for an administrative penalty to be payable by the offender as an alternative to prosecution.

The analysis and findings at 28.4(c) also apply here.

BNM, SC and LFSA can apply the administrative enforcement powers available to them under their regulatory acts to enforce non-compliance with AML/CFT/CPF obligations, as the instruments are also issued under respective supervisory laws. In the case of BNM, relatively higher penalties for failure to implement those obligations are available [fines up to RM 5 million (EUR 1.08 million)] while SC [fines up to RM 1 million (EUR 215 500) per breach of AML/CFT/CPF obligations] and LFSA [fines up to RM 3 million (EUR 646 500)].

[141] This Recommendation was not under review. Therefore, the text for the Recommendation is copied from MER 2015, with minor non-substantive edits included from Malaysia.

In the case of both LFSA and SC the regulatory fines do not add further persuasiveness as the fines are not up to the level available under the AMLA.

Section 21(2) of the AMLA empowers the licensing authority of an RI, upon the recommendation of BNM, to revoke or suspend the RI's licence if it has been convicted of an offence under the AMLA. The various statutory schemes available to BNM, SC, LFSA, CCM, ROS and other authorities provide a range of sanctions to revoke or curtail licenses and impose conditions for failures to apply AML/CFT/CPF controls.

See R.8 for an assessment of the applicable sanctions.

Criterion 35.2 – AMLA contains appropriate sanctions where relevant to the individual (for example, tipping-off) and where relevant to the institution. Section 66E(5) sets out that an institution which fails to comply with guidelines issued to it commits an offence and shall on conviction be liable for a fine of up to RM 1 million (EUR 215 500). Section 87(1) of the AMLA sets out that when an offence is committed by a body corporate or an association of persons, a person who is the director, controller, officer, or partner, or person who is concerned win the management of its affairs is deemed to have committed the offence, unless it was committed without consent. Furthermore, under section 87(2) of the AMLA an individual may be prosecuted for an offence when the body corporate or association has not been convicted.

Weighting and conclusion – **Malaysia is rated largely compliant with R.35.**

Recommendation 36 – International instruments[142]

In its 2015 MER, Malaysia was rated largely compliant with R.36. Deficiencies existed in relation to AMLA not covering all predicate offences comprehensively and a small number of minor technical gaps with the relevant elements of the conventions.

Criterion 36.1 – Malaysia is a party to the Vienna Convention, Palermo Convention, Merida Convention and the TF Convention. Malaysia ratified the Vienna Convention on 11 May 1993; the Palermo Convention on 24 September 2004 and the Merida Convention on 24 September 2008. Malaysia acceded to the TF Convention on 29 May 2007.

Criterion 36.2 – Malaysia has implemented the vast majority of the relevant articles of the Vienna, Palermo and TF Conventions and has implemented the Merida Convention by legislating the MACA 2009. There are a small number of minor technical gaps with the relevant elements of the conventions (see R.11, R.37 and R.39).

Weighting and conclusion – **Malaysia is rated largely compliant with R.36.**

Recommendation 37 – Mutual legal assistance[143]

In its 2015 MER, Malaysia was rated largely compliant with R.37. A key deficiency was the mandatory grounds of refusal of MLA: (a) dual criminality for non-coercive actions; and (b) restrictive condition of 'insufficient importance to the investigation'.

Criterion 37.1 – Malaysia has the legal basis to provide MLA under the Mutual Assistance in Criminal Matters Act (s. 17 and 18, MACMA). Malaysia can provide MLA in criminal matters where:

[142] Recommendation 36 is newly assessed as Malaysia has made legal, regulatory or operational framework changes since its last mutual evaluation.

[143] Recommendation 37 is newly assessed as Malaysia has made legal, regulatory or operational framework changes since its last mutual evaluation.

- the requesting foreign State has a treaty or agreement with Malaysia and has agreed to provide assistance in criminal matters with Malaysia; and
- where no treaty or agreement with Malaysia exists. In such cases, the responsible Minister can consider giving a Special Direction that the MACMA shall apply to that foreign State in relation to the requested assistance. The normal timeframe for securing this Special Direction is approximately two weeks but in urgent cases it can be secured sooner.

Accordingly, Malaysia has entered into treaties on Mutual Assistance in Criminal Matters with 21 foreign States which allows for assistance to be considered by the Attorney General of Malaysia as the Central Authority for MLA for Malaysia. For foreign States that do not have an MLA treaty with Malaysia, assistance can be considered and provided upon obtaining approval of the Minister in the form of Special Direction.

Criterion 37.2 – The AGC is the central authority for the transmission and execution of MLA requests. The MACMA provides flexibility for transmission of requests to Malaysia to be made directly to the Central Authority for MLA under certain circumstances namely where there is no Embassy, High Commission, Consulate General or Consulate office of the foreign State in Malaysia or where the request needs to be executed expeditiously. Similarly for requests from Malaysia, the Attorney General, may make a request for assistance in a criminal matter directly to the relevant authority as determined by a foreign State (s. 7(2) and 19(2), MACMA).

AGC has established processes for prioritisation and execution of requests, including the AGC's Client Charter. Although this Charter specifies the procedure of mutual assistance requests in criminal matters and extradition, it indicates that the expected period of handling the MLA request cases is between six months and one year, and for more complex requests within one to two years. There are no clear processes for the timely prioritisation of MLA requests.

Malaysia has an internal case management system called as '*i*-AGC', it is an online system allowing the tracking of the progress of MLA and Extradition requests (both incoming and outgoing) and it became fully operational in December 2024.

Criterion 37.3 – The MACMA was amended and came into force in 2024, which included amendments to remove the ground of refusal related to "insufficient importance to the investigation", which was noted in the 2015 MER as unduly restrictive. The MACMA sets out the conditions of potential refusal of the provision of MLA, including: failure of compliance with the terms of any treaty or other agreement with Malaysia, dual criminality, effect to the sovereignty, security, public order or other essential public interest of Malaysia, prejudice of a criminal matter in Malaysia (s.20, MACMA). These conditions are not considered to be unreasonable or unduly restrictive.

Criterion 37.4 – There is no domestic legislation or provisions in the MACMA that prevent Malaysia from executing MLA for fiscal matters or on grounds of secrecy or confidentiality requirements on FIs or DNFBPs. Malaysia has also accepted similar principles in bilateral treaties it has entered.

Criterion 37.5 – The MACMA requires that every request to Malaysia shall be accompanied by a statement setting out the wishes of that prescribed foreign State concerning the confidentiality of the request and the reason for those wishes. All requests received as confidential information would fall within the definition of 'official secret' under section 2 of the Official Secrets Act which binds all public servants to maintain confidentiality in discharging their functions. Officers are also required to sign a letter of undertaking with the government and are subject to security clearance before appointment in the public service sector. The confidentiality principle is also captured in treaty obligations.

Criterion 37.6 – Dual criminality is a mandatory ground for refusal for all MLA requests coercive or non-coercive (s.20(1)(f), MACMA). In practice Malaysia has never refused a request on the grounds of dual criminality and interprets dual criminality broadly and flexibly. On a bilateral basis, Malaysia has relaxed the dual criminality requirement on assistance on non-coercive measures in accordance with bilateral treaties.

Criterion 37.7 – Malaysia provides MLA where both countries criminalise the conduct underlying the offence. A restrictive approach is not taken when considering how the requesting country categorises or names the relevant offence, and technical differences between laws do not appear to impede the provision of assistance.

Criterion 37.8 – The MACMA includes a range of investigative powers including production orders, search and seizure and taking witness statements. The MACMA provides the abilities for non-exhaustive assistance for Malaysia to provide and obtain international assistance in criminal matters (s.3, MACMA). With the 2024 amendments to the MACMA, the powers extended to the provisions of any other written laws relating to the powers of an authorized officer shall apply for MLA (s.41A, MACMA). It has given all range of investigative techniques for MLA, including undercover operations, the interception of communication, accessing computer systems and controlled deliveries. Malaysia can also use domestic powers to assist foreign states outside the MLA process, for example, through Part VII of the DDFOPA.

> ***Weighting and conclusion*** – Malaysia has a comprehensive MLA regime and clear processes to make and respond to requests. However, there is a question in the established official mechanism with respect to timeliness of prioritisation and execution of MLA and there is a minor deficiency that the requirement for dual criminality could apply to mutual assistance requests for non-coercive actions. **Malaysia is rated largely compliant with R.37.**

Recommendation 38 – Mutual legal assistance: freezing and confiscation[144]

In its 2015 MER Malaysia was rated largely compliant with R.38 due to deficiencies affected its scope of assistance.

Criterion 38.1 – The MACMA provides a legal basis to provide and obtain international assistance of identifying, seizing, freezing and confiscating property and proceeds of crime as well as property of corresponding value (s.3, MACMA). With the 2024 amendments to the MACMA, the provision of assistance has been extended to cover instrumentalities (and the value of such instrumentalities) by broadening the definitions of 'foreign forfeiture order' (s.2, MACMA). In terms of the proceeds and instrumentalities of drug-related crimes, there are comprehensive provisions under Part VII of the DDFOPA allowing Malaysia to provide direct assistance relating to seizure and forfeiture of proceeds and instrumentalities relating to drug matters to foreign countries.

Malaysia has treaties on mutual assistance in criminal matters with 21 countries that allows assistance to be considered by the Attorney General as the Central Authority for MLA for Malaysia. For non-treaty countries, assistance can be considered and provided upon obtaining approval of the Minister in the form of Special Directions. The normal timeframe for securing the Special Direction is approximately two weeks but in urgent cases it can be secured sooner. The Special Direction is only required for non-treaty partners.

Criterion 38.2 – The MACMA and AMLA are the legal bases of providing international assistance for non-conviction-based forfeiture (NCBF). The AMLA could apply to NCBF related to a foreign offence. By virtue of the 2024 amendment of the MACMA to the definition of 'judicial proceedings', international assistance can now be provided to a foreign State for NCBF (s. 2(3)(a), MACMA). The DDFOPA allows non-conviction forfeiture in response to requests from foreign States for drug-related matters (s. 50).

[144] Recommendation 38 is newly assessed as Malaysia has made legal, regulatory or operational framework changes since its last mutual evaluation.

Criterion 38.3 –

(a) In practice, for requests related to seizure and confiscation, the AGC, as the central authority for MLA in Malaysia, coordinates the seizure and confiscation activities through physical meetings, video, and teleconferences. This coordination occurs in two folds, namely coordination with the central authority for MLA of the requested state and coordination with Malaysia's law enforcement agencies. Some existing bilateral treaties have provisions of execution of the international assistance requests of seizures and confiscation. While these complement co-ordination of seizure and confiscation actions with other countries in certain cases, lack of established arrangements may limit the ability of Malaysia in proceeding with co-ordination.

(b) The MACMA and MACMR allow for asset management, including processes for taking custody and control of property (s.37, MACMA; s.25(6), MACMR), land titles registration (s.25(7-9), MACMR), selling property (s.25(5) and 28(4), MACMR) and appointing a manager to 'take control of, and manage or otherwise deal with' restrained or forfeited property in accordance with the directions of the Minister (s.29, MACMR). Forfeited property, or the proceeds from its sale, is transferred to the ownership of the Government of Malaysia (s.28, MACMR). The amount forfeited will be subjected to deduction on the cost in executing the request and manager's remuneration and expenses and other payments as the Minister may direct. Any excess money after the amount under the foreign forfeiture order has been fully paid shall be distributed among the person who held the property which has been realised and to the Federal Consolidated Fund (s.28(5)-(7), MACMR).

Upon appointment of a manager by the Minister, the said manager is to take control of and manage or otherwise deal with the assets in accordance with the directions of the Minister (s.29, MACMR). Administratively, asset management is handled by the relevant LEAs. As noted in the analysis under R.4, each agency has basic asset management procedures in place which apply domestically and includes mechanisms for management of assets that are subject to foreign requests under MACMA.

Criterion 38.4 – Property forfeited under the AMLA is transferred to the Federal Government of Malaysia (s.62, AMLA; s.28, MACMR). Such property can be retained by an enforcement agency for its official use or transferred to the Federal Government. Section 28(4) of the Mutual Assistance in Criminal Matters Regulation 2003 prescribes that the Government of Malaysia shall have absolute discretion on the management and disposition of any property seized and forfeited. Bilateral MLA treaties set out the provision that, to the extent permitted by its laws, Malaysia may transfer all or any part of the forfeited proceeds or instruments of crime or the value to the requesting party as it deems appropriate.

> ***Weighting and conclusion*** – Malaysia has a generally strong MLA technical framework. The provisions in the MACMA allow assistance for the identification, seizure, freezing, and confiscation of all types of property, including laundered property and proceeds in non-conviction-based cases. However, the absence of a formal legal framework or mechanism may limit Malaysia's ability to coordinate seizure and confiscation efforts with other countries. **Malaysia is rated largely compliant with R.38.**

Recommendation 39 – Extradition[145]

In its 2015 MER, Malaysia was rated largely compliant with R.39.

Criterion 39.1 – Malaysia is able to execute extradition requests without undue delay. ML and TF are extraditable offences under the Extradition Act 1992 (EA) as it meets the required threshold and fulfilled the extra-territorial application.

AGC has a functioning internal case management system to monitor the progress of each extradition request to ensure it is being handled and executed in a timely manner and follows a clear process for executing and prioritising requests. There are no unreasonable or unduly restrictive conditions on the execution of requests. The grounds for refusal in the EA are consistent with international practice. While the MER 2015 noted the requirement for a *prima facie* case may limit the efficiency of extradition, the assessors have confirmed that this requirement is not inconsistent with other international practice, and it can be dispensed with for prescribed countries.

Criterion 39.2 – Malaysian nationals can be extradited to foreign countries and the Minister has the discretion to refuse to extradite a Malaysian citizen and in that event the case must be referred to the AGC for consideration of prosecution in Malaysia. However, section 49 of the EA only requires the Minister to submit the case to the Public Prosecutor 'if courts in Malaysia have jurisdiction over the extradition offence'. Courts do not always have jurisdiction over offences Malaysian citizens committed outside Malaysia, therefore it is not certain that a Malaysian citizen would be prosecuted in lieu of extradition.

Criterion 39.3 – Dual criminality is a requirement for extradition, but Malaysia can extradite persons where both countries criminalise the conduct underlying the offence. A restrictive approach is not taken when considering how the requesting country categorises or names the relevant offence and technical differences between laws do not appear to impede the provision of assistance.

Criterion 39.4 – The EA does not require a request for provisional arrest to be transmitted through the diplomatic channel or be authorised by the Minister. A provisional arrest can be by the Magistrate based on the justified circumstances (s.13(1), EA) taking into account any information in an INTERPOL notice (s.13(2) of EA 1992). Malaysia has a simplified extradition process for consenting persons who waive extradition proceedings (s. 22, EA). Malaysia also has a backing of warrants scheme with Singapore and Brunei Darussalam (Part V, EA).

> ***Weighting and conclusion*** – Malaysia has a strong legal framework for extradition and has advanced mechanisms to streamline the extradition process in certain circumstances. There is a minor deficiency with respect to prosecution in lieu however this is unlikely to have a significant effect in practice. **Malaysia is rated largely compliant with R.39.**

[145] This Recommendation was not under review. Therefore, the text for the Recommendation is copied from MER 2015, with minor non-substantive edits included from Malaysia.

Recommendation 40 – Other forms of international cooperation[146]

In its 2015 MER, Malaysia was rated largely compliant with R.40.

Criterion 40.1 – Competent authorities are able to provide a wide range of international cooperation in relation to ML, associated predicate offences and TF. Supervisors, the FIU and LEAs are able to share information through various arrangements, both spontaneously and upon request.

Criterion 40.2 –

(a) The legal basis for competent authorities to provide cooperation exists in relevant provisions in various laws, including sections 10 and 29(3) of the AMLA, section 150 of the Securities Commission Malaysia Act 1993 (SCMA 1993), section 28BA and 28P of the LFSAA 1996, section 177 of the LFSSA 2010, section 138(2) of the LIFSSA 2010, sections 132 and 132A of the ITA 1967, Part VII of the DDFOPA, section 40 of the CBA 2009, section 153 of the FSA 2013, section 165 of the IFSA 2013, and section 125A of the Customs Act 1967. Under section 29(3) of AMLA, LEAs such as MACC, RMP & CCM can co-operate with LEAs outside of Malaysia with respect to an investigation into a serious offence, a foreign serious offence, a TF offence, a structuring offence to evade reporting requirements or an offence in relation to cross border movements of cash and BNIs. LEAs do not have any other international cooperation provisions outlined in law but are able to use the Constitution or UN instruments to cooperate with foreign jurisdictions.

(b) Competent authorities are able to use the most efficient means to cooperate.

(c) Competent authorities have appropriate and secure mechanisms to exchange information. The FIU has signed 47 MoUs with counterparts; the SC has bilateral agreements with 36 foreign regulators; LFSA has 20 MoUs and 3 MMoUs with foreign counterparts; and IRBM has 74 double taxation avoidance treaties with relevant partners. Malaysia is also a signatory to Convention on Mutual Administrative Assistance in Tax Matters; MACC has entered into 11 MoUs since 2015, making a total of 16 MoUs. RMCD has entered into eight more MOUs since 2015.

BNM and CCM signed a Terms of Collaboration in August 2022 to strengthen collaboration in the regulation and supervision of AML/CFT and TFS on onshore company secretaries and trust companies. This formalizes the undertaking of AML/CFT supervisory role of CCM under section 21 of AMLA and will also provide for a more structured approach to assess ML/TF risks in these two sectors, as well as to promote institutional capacity building in these areas.

The FIU uses the Egmont Secure Web as the primary channel to exchange FIU information and uses registered mail for sharing with non-Egmont members with whom it has a MoU. The IRBM exchanges information through courier or encrypted email. RMCD utilises secure email to liaise with its designated contacts to exchange information. Since 2015, the RMP has participated as member of the Asset Recovery Interagency Network Asia Pacific exchange of information on individuals, companies and assets at the international level with the intention of facilitating the pursuit and recovery of proceeds of crime.

(d) Various competent authorities have processes in place to prioritise to execute requests in a timely manner. The FIU has a SOP on Receipt, Analysis and Dissemination of Financial Intelligence. Other agencies prioritise cases based on "first in first served", however priority is granted to cases which require urgent attention, for instance serving a subpoena for court trials. LFSA has a SOP on any request received where the request is prioritized according to risk level and complexity of the request. Priority is granted to urgent requests involving court proceedings.

[146] This Recommendation was not under review. Therefore, the text for the Recommendation is copied from MER 2015, with minor non-substantive edits included from Malaysia.

(e) Various competent authorities have processes for safeguarding information received from foreign counterparts. IRBM treaties contain provisions following the OECD Model Tax Convention to keep received information confidential. Section 117 of the ITA 1967 includes criminal sanctions for breaches and information exchange is handled by specified personnel under secure conditions. Information received by MACC from foreign counterparts is classified and secured as per the relevant exchange agreement. Information received by RMCD is safeguarded through security-controlled access and sections 125 and 125A of the Customs Act 1967. BNM has obligations under the AMLA to protect the confidentiality of information received from foreign FIUs and for controlling the use of the information. In addition, BNM officers are subject to confidentiality obligations under section 86 of the CBA 2009 and BNM's Information Security Management Policy which sets out safeguards. SC is subject of a confidentiality clause under the IOSCO MMOU which requires all information received by SC to be kept confidential. LFSA officers are also subject to confidentiality obligations under section 17A of the LFSSA 2010. LFSA is subject to the confidentiality clauses under all MOU/MMOUs which require all requests to be classified as confidential and addressed to the relevant unit only.

Criterion 40.3 – Malaysia advised that bilateral or multilateral agreements (including MoUs) are negotiated and signed in a timely manner (depending on the scope of the MoU and the issues to be resolved), with the widest range of foreign counterparts (see criterion 40.2(c) above). The FIU can share information with Egmont members without MoUs. Further details are under criterion 40.17.

Criterion 40.4 – FIU requirements to provide feedback on assistance received are contained in its SOP. In practice, the FIU provides feedback upon the request of the authority which provided the information. The RMP provides feedback on a case-by-case basis. IRBM provides feedback on exchange of information experiences with its treaty countries. MACC will issue an official appreciation letter to countries which have shared information which has led to a successful case. SC provides feedback annually to the IOSCO MMOU Monitoring Group, which identifies possible improvements to cooperation.

Criterion 40.5 –

(a) Involvement of fiscal matters does not limit cooperation. Section 132(2), 132A(3) and 132B(1A) of the ITA 1967 lifts confidentiality requirement under section 138 of the ITA 1967 where an arrangement for the international exchange of information or assistance has been made, including in relation to fiscal matters.

(b) Obligations to maintain secrecy or confidentiality by FIs or DNFBPs are overridden in relation to reporting obligations. These include the exchange of information for intelligence purposes (in the case of the FIU) under section 20 of the AMLA; giving effect to any legal arrangement or MoU with foreign governments (in the case of the LFSA) under section 28B of the LFSAA 1996 (read together with sections 178(2) of the LFSSA 2010 and section 139(2) of the LIFSSA 2010); and for the purpose of investigating alleged breaches of regulatory requirements (in the case of the SC) under section 150 of the SCMA 1993.

(c) Where there is an ongoing enquiry, investigation or judicial proceedings, competent authorities require instruction from the AGC on whether the information exchanged will impede the enquiry, investigation or proceeding. IRBM and MACC have previously exchanged information with foreign counterparts in such circumstances.

(d) The nature or status of the requesting foreign counterpart is not a ground for refusal to exchange information. Information exchange with non-counterparts can be conducted under DTA and TIEAs (IRBM), section 150 of the SCMA 1993 (SC) and within the scope of the LFSA's law. Malaysia has some experience of providing such assistance in practice.

Criterion 40.6 – Malaysia's competent authorities have established controls and safeguards to ensure that the information exchanged with foreign counterparts is used only by them and for the intended purpose only. Disclosure to a third party is only allowed after authorisation has been granted by the counterpart.

These safeguards are explicitly provided for in laws such as section 10 of AMLA, section 40 of CBA 2009, section 17A of LFSAA 1996, section 125A of Customs Act 1967 and section 132A of ITA 1967, as well as in MoUs and agreements that have been signed by competent authorities.

Criterion 40.7 – Competent authorities maintain and protect the confidentiality of information exchanged, consistent with the relevant provisions of applicable laws (see 40.6) and the terms of MoUs and agreements entered into by competent authorities.

Criterion 40.8 – Competent authorities can conduct inquiries on behalf of foreign counterparts. These powers are provided for under their respective legislation. Authorities can use powers under section 29(3) of AMLA which empowers FIU and LEAs to co-ordinate and co-operate with LEAs outside of Malaysia to conduct inquiries on behalf of foreign counterparts into any serious offence (including foreign offence) as well as ML and TF. The IRBM's powers under ITA 1967 to gather information for the purposes of the Act, can only be used to obtain information requested by a foreign authority under a DTC, TIEA or MAC. Section 150 of the SCMA 1993 provides the SC with specific authority to cooperate with and assist a foreign supervisory authority, including the ability to conduct inquiries on their behalf.

Criterion 40.9 – AMLA provides for sharing information with foreign counterparts on ML, TF and similar offences. This extends to cover predicate offences through sections 29(3) and 10 of the AMLA.

Criterion 40.10 – The FIU provides feedback upon request of foreign counterparts.

Criterion 40.11 – Sections 10 and 29(3) provide broad powers for the FIU to exchange all information required to be accessible by the FIU and all other information which the FIU has the power to obtain or access.

Criterion 40.12 –

BNM: The strict secrecy conditions on information relating to the affairs or account of any customer of an FI continue in the financial institution laws introduced in 2013. Schedule 11 to the FSA 2013 and IFSA 2013 permits the disclosure of information to a relevant supervisory authority outside Malaysia, but such disclosure is restricted to information relating to branches, subsidiaries and associates of foreign financial entities as provided under section 134 of the FSA 2013 and section 146 of the IFSA 2013. The permission to foreign supervisory authority to examine records is also limited to foreign branches and subsidiaries supervised by that supervisor in the home country (section 152 of the FSA 2013 and 164 of the IFSA 2013). Section 40 of CBA 2009 permits an arrangement with other supervisory authorities to promote financial stability the term which includes requirements of AMLA, therefore, power to exchange information is indirectly covered.

SC: Section 148 of the SCMA 1993 imposes certain duties of secrecy on the SC in relation to non-published information obtained as a result of its duties and functions, but section 150 of the SCMA 1993 exempts this prohibition and allows the SC to render assistance to any foreign supervisory authority upon receiving a written request. The SC's ability to assist foreign counterparts is not dependent upon the alleged conduct constituting a breach of Malaysia's securities laws. It includes the provision of any assistance to the foreign supervisory authority 'as the Commission thinks fit'. This provision is very flexible as to the type of assistance that may be provided and could include AML/CFT/CPF, especially in cases where the foreign supervisor is not the competent authority for AML/CFT/CPF supervision and enforcement. In addition, the SC must ascertain whether the provision of assistance is 'desirable and necessary to render assistance in the interest of the public' taking into account (a) whether foreign counterparts will meet SC's costs; and (b) whether foreign counterparts will be able and willing to provide reciprocal assistance to a comparable request from the SC.

In addition to being the signatory to the IOSCO Multi-lateral Memorandum of Understanding (which currently consists of 130 signatories), the SC has also signed various bilateral MOUs with 36 foreign regulators which covers supervisory cooperation. Since 2015, the SC has also strengthened its international supervisory cooperation through the signing of IOCSO Asia Pacific Regional Committee (APRC) Supervisory Multilateral Memorandum of Understanding (which currently have 12 signatories).

LFSA: LFSA's legal basis to provide cooperation with foreign counterparts is sound. LFSA became a signatory to IOSCO in May 2012 and to ESMA MMOU in July 2013. In 2014 LFSA commenced the process to become a signatory to IAIS MMoUs, which is a strength.

The analysis of secrecy provisions affecting LFSA is set out at R.9 above and highlighted minor limitations on LFSA's ability to obtain and share the widest range of information. Section 28P of the LFSAA 1996 clearly puts aside any secrecy obligations, regardless of MOU, home supervisor relationship or any other provision and empowers LFSA to share the widest range of information held by LFSA with any authority vested with supervisory and regulatory or enforcement powers situated within or outside Malaysia. The disclosure to a supervisory or regulatory authority in the context of section 28P of the LFSAA is not limited to home supervisory authority but is limited to information obtained by an investigating officer when there is a suspicion of a breach of a regulatory offence**.**

Criterion 40.13 –

BNM: Sections 153 of the FSA 2013 and 165 of the IFSA 2013 permits disclosure of information to a relevant supervisory authority outside Malaysia which exercises functions corresponding to those of BNM. In addition, section 40(1)(b) of the CBA 2009 empowers BNM to obtain any information or share any information with any supervisory authority.

SC: The SC can assist foreign counterparts. This would include information it has the power to request from the entities it supervises. See also 40.12 above.

LFSA: The ability to provide information to foreign counterparts in certain circumstances is set out in the LFSAA. These provisions do not cover the exchange of all information domestically available to LFSA.

Criterion 40.14 –

BNM can share comprehensive information related to AML/CFT/CPF and prudential supervision of FIs and financial groups. BNM follows the Basel Core Principles and can share the required regulatory information, prudential information and detailed AML/CFT/CPF information without attracting the secrecy provisions of Malaysian laws. Sections 40 (1) and (2) of CBA 2009 provides for BNM to make cooperative arrangements and share information with other supervisory authorities, both within Malaysia and outside Malaysia, for the purposes of promoting financial stability the term which includes requirements of AMLA, therefore, power to exchange information is indirectly covered.

SC: Section 150 of the SCMA 1993 contains broad powers enabling the SC to provide the required regulatory information, prudential information and detailed AML/CFT/CPF information.

LFSA: LFSA's ability to share information is limited to sharing information related to an individual Labuan FI with a home supervisor of a Labuan FI, and sharing information though the IOSCO, ESMA MMOUs, Group of International Financial Centre Supervisors -MMOU, and its 20 bilateral MOUs.

Criterion 40.15 –

BNM can conduct inquiries on behalf of foreign counterparts for effective group supervision. It can appoint investigation officers under section 219 of the FSA 2013 and section 230 of the IFSA 2013. Foreign supervisors are authorized to conduct onsite examinations of branches and subsidiaries of their FIs doing business in Malaysia as per section 152 of FSA 2013 and section164 of IFSA 2013. BNM has entered formal arrangements with foreign supervisors to support supervision of financial groups. Consultations with foreign supervisors occurs through supervisory colleges, formal letters, bilateral meetings, and onsite examinations to discuss planning of supervisory assessments and sharing information about the overall risk assessment of financial groups.

SC: Section 150 of the SCMA 1993 empowers the SC to make a wide range of investigations on behalf of a foreign supervisory authority into an alleged breach of a legal or regulatory requirements which that authority enforces or administers and provide other assistance as the SC thinks fit. There are no provisions that would allow a foreign supervisor to conduct inquiries themselves in the country, e.g. for purposes of group supervision. See also c.40.12 to c.40.14 above.

LFSA: There are no express legal provisions on the ability of foreign counterparts to conduct enquiries themselves in Labuan to facilitate effective group supervision. While the LFSA does have the ability under s.28C of the LFSAA 2006 to authorise persons to examine FIs and related corporations and copy information, these provisions are to do with giving effect to the LFSAA and certain specified domestic legislation rather than to assist foreign supervisors. Section 28P of the LFSAA provides for the LFSA to supply certain information to another authority (including foreign authorities) or to allow the requesting authority access to or inspect specific items. LFSA can exercise its investigative powers when providing such assistance. This however does not provide for LFSA to broadly conduct enquires on behalf of foreign counterparts.

Criterion 40.16 –

BNM: Section 40(2) of the CBA 2009 requires that the sharing of information and documents with the foreign supervisor is subject to an undertaking for protecting the confidentiality of such information and the purposes for which it shall be used. However, section 40 is silent on any requirement of prior authorization for further disclosure. Information obtained from foreign supervisory authorities would be tantamount to "information relating to the business or affairs of the Bank". Section 86 of the CBA 2009 imposes a duty on directors, officers and employees of BNM to preserve secrecy of any information acquired in the performance of duties or carrying out of functions. Therefore, this information is protected under the CBA 2009. In addition, Malaysia states that MoUs entered by BNM with foreign supervisory authorities provide the necessary confidentiality requirements and require BNM to seek the consent of the requested financial supervisor prior to releasing such information to a third party. If BNM needs further disclosure, it will notify the other authority.

SC: Section 148 of the SCMA 1993 imposes a duty of secrecy on the SC and all its officers and staff, which would cover information obtained from other supervisors. If disclosure of information is compelled by law, the SC indicates that it would notify the foreign regulator prior to making the disclosure and where applicable will apply available legal exceptions and privileges to resist disclosure. The SCMA also has confidentiality clauses in the MOUs requiring foreign regulators to keep confidential all information provided to them and not to disclose the assistance/information to third parties without the SC's prior consent. The letter transmitting the information to the foreign regulator will also state that the information is provided on a strictly confidential basis and the information is not to be disclosed to any third parties without the SC's prior written consent.

LFSA: The requirement to have the prior authorisation of a counterpart before any dissemination of information provided by that counterpart is provided for in MoUs LFSA has entered. This provision does not apply to any supervisors which have not entered into an MoU with the LFSA but which have or might provide the LFSA with information.

Criterion 40.17 – Malaysia has provided details on mechanisms in which its LEAs and related competent authorities can share and cooperate with their foreign counterparts whereby the RMP has mechanisms in place to exchange domestically available information with its foreign counterparts, specifically relating to ML, associated predicate offences and TF including the identification and tracing of the proceeds and instruments of crime. Section 29(3) of the AMLA provides for the competent authority and the relevant LEAs to coordinate and cooperate with any other LEAs in and outside Malaysia in respect to an investigation into any serious offences or foreign serious offences. Further, Malaysia cited the use of Interpol, ASEANAPOL, and the liaising of foreign liaison officers attached with embassies as mechanisms to share. RMCD also utilizes RILO to exchange information.

Criterion 40.18 – During the onsite visit in 2015, Malaysia demonstrated that LEAs could use their powers including investigative techniques in accordance with domestic law, to conduct inquiries and obtain information. Section 32 of the AMLA provides LEAs the power to examine persons for the purposes of investigation on ML and TF. Malaysia provided details on the RMP's capabilities of being able to serve a summons, subpoenas and certain warrants for three countries. It was noted that under the DDFOPA various investigative techniques can be used for foreign counterparts. The AGC advised that LEAs can utilise investigative techniques such as controlled delivery and undercover operations on behalf of a foreign entity. Further there are provisions under MACCA 2009, Customs Act 1967, Part V of the STA 2010, Part VI of the ATIPASOMA 2007 and 29(3) of the AMLA to conduct inquiries and obtain information on behalf of its foreign counterparts. RMCD amended the Customs Act 1967 to include section 116E on investigative technique that allows admissibility of agent provocateur evidence, which can be used to facilitate ML and associate predicate offence investigations.

Criterion 40.19 – During the onsite visit Malaysia provided examples where they provided the capability to form a joint investigative team to conduct cooperation investigation. The example outlined the use of an undercover operation and controlled delivery in conjunction with a foreign country that was of mutual interest to both parties. The operation was done within Malaysia. Malaysia advised that since December 2013 there have been 15 cases of joint investigations with foreign LEA or intelligence partners and the Joint Customs Operation (DIABOLO II) involving the importation of vehicles whereby cooperation was gained with its foreign EU counterparts.

Criterion 40.20 – There are no express provisions preventing competent authorities from exchanging information indirectly with non-counterparts. Such information exchange is facilitated through regional or international cooperation platforms or bilateral agreements.

> ***Weighting and conclusion*** – **Malaysia is rated largely compliant with R.40.**

Annex B. Technical compliance shortcomings

The Recommendations presented in green have been subject to a full assessment, reflecting either amendments to the FATF Standards or substantive changes made by the country to its legal, regulatory, or operational frameworks since its last mutual evaluation. The remaining Recommendations are based on pre-existing information from the country's most recent assessments and have not been reassessed in this review.

Recommendation	Rating*	Factor(s) underlying the rating
1) Assessing risks & applying a risk-based approach	C	• All criteria are met.
2) National cooperation and coordination	C	• All criteria are met.
3) Money laundering offence	C	• All criteria are met
4) Confiscation and provisional measures	LC	• Asset management guidelines lack comprehensiveness.
5) Terrorist financing offence	C	• All criteria are met.
6) Targeted financial sanctions related to terrorism and terrorist financing	C	• All criteria are met.
7) Targeted financial sanctions related to proliferation	C	• All criteria are met.
8) Non-profit organisations	LC	• There is a lack of focused and proportionate measures applied to NPOs as part of a risk-based approach.
9) Financial institutions secrecy laws	LC	• There is a gap in the scope of the information which can be shared by LFSA investigators with LFSA supervisors due to application of secrecy obligation.
10) Customer due diligence	C	• All criteria are met.
11) Record-keeping	LC	• The requirements to maintain records by FIs do not apply where a reporting institution has transmitted the account, record, business correspondence and document to the competent authority or an enforcement agency.
12) Politically exposed persons	C	• All criteria are met.
13) Correspondent banking	C	• All criteria are met.
14) Money or value transfer services	C	• All criteria are met.
15) New technologies	LC	• General sanction available to SC (VASPs supervisor) for failures of AML/CFT obligations is not dissuasive.
16) Wire transfers	C	• All criteria are met.
17) Reliance on third parties	LC	• There is shortcoming in R.11 that impacts compliance with this Recommendation.
18) Internal controls and foreign branches and subsidiaries	C	• All criteria are met.
19) Higher-risk countries	C	• All criteria are met.
20) Reporting of suspicious transactions	C	• All criteria are met.
21) Tipping-off and confidentiality	C	• All criteria are met.

Recommendation	Rating*	Factor(s) underlying the rating
22) DNFBPs: customer due diligence	LC	• There is shortcoming in R.11 that impacts compliance with this Recommendation.
23) DNFBPs: other measures	C	• All criteria are met.
24) Transparency and beneficial ownership of legal persons	LC	• There is no requirement to disclose the status of nominee directors of shareholders for onshore non-listed companies.
25) Transparency and beneficial ownership of legal arrangements	C	• All criteria are met.
26) Regulation and supervision of financial institutions	LC	• Leasing and factoring companies are not subject to licensing or registration or fit and proper checks.
27) Powers of supervisors	C	• All criteria are met.
28) Regulation and supervision of DNFBPs	LC	• There are no legal or regulatory measures to prevent criminals or their associates from holding (or being the beneficial owner of) a significant or controlling interest, or holding a management function, or being an operator of a DPMS.
29) Financial intelligence units	C	• All criteria are met.
30) Responsibilities of law enforcement and investigative authorities	C	• All criteria are met.
31) Powers of law enforcement and investigative authorities	C	• All criteria are met.
32) Cash couriers	C	• All criteria are met.
33) Statistics	C	• All criteria are met.
34) Guidance and feedback	C	• All criteria are met.
35) Sanctions	LC	• General sanction available to RIs supervisors for failures of AML/CFT obligations is not dissuasive.
36) International instruments	LC	• There are shortcomings in R.11, R.37, and R.39 that impacts compliance with this Recommendation.
37) Mutual legal assistance	LC	• There is a question in the established official mechanism with respect to timeliness of prioritisation and execution of MLA. • There is a deficiency that the requirement for dual criminality could apply to mutual assistance requests for non-coercive actions.
38) Mutual legal assistance: freezing and confiscation	LC	• The absence of a formal legal framework or mechanism may limit Malaysia's ability to coordinate seizure and confiscation efforts with other countries or to share confiscated assets.
39) Extradition	LC	• There is a deficiency with respect to prosecution in lieu as courts do not always have jurisdiction over offences Malaysian citizens committed outside Malaysia.
40) Other forms of international cooperation	LC	• There is shortcoming in R.9 that impacts compliance with this Recommendation. • Information sharing with foreign counterparts is restricted to the information relating to branches, subsidiaries, and associates of foreign FIs. The permission to foreign supervisory authority to examine records is also limited to foreign branches and subsidiaries supervised by that foreign supervisory authority. • LFSA's ability in providing information and assistance to foreign counterparts is limited. • For a foreign counterpart of SC, there are no legal provisions that would allow the foreign supervisor to conduct inquiries themselves in Malaysia. • For BNM, there are no requirements of ensuring the prior authorisation for further disclosure.

*Note: C = Compliant; LC= Largely compliant; PC=Partially compliant; NC=Non-compliant

Glossary of acronyms

Acronyms	Definitions
1MDB	1Malaysia Development Berhad
AG	Attorney General of Malaysia
AGC	Attorney General's Chamber
AMLA	Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Crime Act 2001
ASEAN	Association of Southeast Asian Nations
BHEUU	Legal Affairs Division of the Prime Minister's Department
BNM	Bank Negara Malaysia
CADS	Cash Declaration System
CBF	Conviction-based forfeiture
CBNI	Cross-border movements of currency and bearer negotiable instruments
CCM	Companies Commission of Malaysia
CMI	Capital Market Intermediaries
CONG	Compliance Officer Networking Group
CTR	Cash threshold report
DAX	Digital Assets Exchange
DCAP	DNFBP centralised analytics platform
DCR	Designated Compliance Report
DDFOPA	Dangerous Drugs Forfeiture of Proceeds Act 1988
DPI	Designated Payment Instrument
DPP	Deputy Public Prosecutors
D'SuRF	DNFBP Risk-Based Supervisory Framework
EA	Extradition Act 1992
FICG	Financial Intelligence Consultative Group
FIED	Financial Intelligence and Enforcement Department
FINS	Financial Intelligence System
FTF	Foreign terrorist fighters
HRRI	Higher-Risk Reporting Institutions
IDM	Immigration Department of Malaysia
IRA	Institutional Risk Assessment
IRBM	Inland Revenue Board of Malaysia
ISIL	Islamic State of Iraq and the Levant
ITO	Insurance and Takaful Operator
KPDN	Ministry of Domestic Trade and Cost of Living
KPKT	Ministry of Housing and Local Government
KRP	Key Responsible Person
Labuan IBFC	Labuan International Business and Financial Centre
LARA	Legal Arrangement Risk Assessment
LEAs	Law enforcement authorities
LFSA	Labuan Financial Services Authority
MACC	Malaysian Anti-Corruption Commission
MACMA	Mutual Assistance in Criminal Matters Act 2002
MATF	Multi-Agency Task Force
MBC	Malaysian Bar Council
MIA	Malaysian Institute of Accountants
MITI	Ministry of Investment, Trade and Industry

MMEA	Malaysia Maritime Enforcement Agency
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MoHA	Ministry of Home Affairs
MOU	Memorandum of Understanding
MSB	Money Services Business
MyFINet	Malaysia Financial Intelligence Network
NCBF	Non-conviction-based forfeiture
NCC	National Coordination Committee to Counter Money Laundering
NCID	Narcotic Crimes Investigation Department of the RMP
NFCC	National Anti-Financial Crime Centre
NFP	National Fraud Portal
NSRC	National Scam Response Centre
PERHILITAN	The Department of Wildlife and National Parks Peninsular Malaysia
PPP	Public-Private-Partnership
POE	Ports of entry
POTA	Prevention of Terrorism Act 2015
RI	Reporting Institution
RM	Malaysian Ringgit
RMCD	Royal Malaysian Customs Department
RMP	Royal Malaysia Police
ROS	Registrar of Societies
SB	RMP's Special Branch
SC	Securities Commission Malaysia
SCBNI	NCC Sub-Committee on Implementation and Enforcement of CBNIs
SIRC	The State Islamic Religious Council
SOP	Standard Operating Procedures
STS	Strategic Trade Secretariat
TBML	Trade-based money laundering
TCU	Transnational Crime Unit within the AGC

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Mutual Evaluation of Malaysia - Anti-money laundering and countering the financing of terrorism and proliferation financing measures

In this report: a summary of the anti-money laundering (AML)/countering the financing of terrorism (CFT)/counter-proliferation financing (CPF) measures in place in Malaysia at the time of the on-site visit in February 2025.

The report analyses the level of effectiveness of Malaysia's AML/CFT/CPF system, the level of compliance with the FATF 40 Recommendations and provides recommendations on how their AML/CFT system could be strengthened.