FATF

FINANCIAL ACTION TASK FORCE

ANNUAL REPORT
2013 - 2014

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Contents

Abbreviations

AML/CFT	Anti-money laundering / countering the financing of terrorism
APG	Asia/Pacific Group on Money Laundering
CFATF	Caribbean Financial Action Force
DNFBPs	Designated non-financial business or professions
EAG	Eurasian Group
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
FSAP	Financial Sector Assessment Programme
FSRB	FATF-Style Regional Body
FT	Financing of Terrorism
GABAC	Task Force on Money Laundering in Central Africa (Groupe d'Action Contre le Blanchiment d'Argent en Afrique Centrale)
GIABA	Inter Governmental Action Group against Money Laundering in West Africa (Groupe Intergouvernemental d'Action contre le Blanchiment d'Argent en Afrique de l'Ouest)
ICRG	International Co-operation Review Group
MENAFATF	Middle East and North Africa Financial Action Task Force
ML	Money Laundering
MVTS	Money value transfer services
NPO	Non-profit organisations
OECD	Organisation for Economic Co-operation and Development
TBML	Trade-based money laundering
UN	United Nations
UNCTED	United Nations Counter-Terrorism Committee Executive Directorate
UNSCRs	United Nations Security Council Resolutions
VTC	Voluntary Tax Compliance

Vladimir Nechaev

FATF President 2013-2014

It is my pleasure to introduce the 25th annual report of the Financial Action Task Force (FATF) which outlines the progress that has been made in combating money laundering and terrorist financing during the Presidency of the Russian Federation. It was an honour for me to represent the FATF during these past 12 months and to have contributed to the many major achievements of the FATF during this period.

This year we started the fourth round of mutual evaluations under the revised Methodology for assessing compliance with the FATF Recommendations and the effectiveness of anti-money laundering and countering the financing of terrorism (AML/CFT) systems. With the new Methodology, the FATF's mutual evaluation process becomes a more rigorous mechanism to assess a country's compliance with the FATF Standards. The assessments focus not only on technical compliance with the FATF Standards, they also look at how effective a country's AML/CFT measures are in practice. The process will allow the FATF to be significantly more precise and targeted in its recommendations to the country to address any deficiencies.

During the Russian Presidency year Argentina; Aruba, Kingdom of the Netherlands; Australia; Austria; Canada; Germany; Korea; Luxemburg; Netherlands; New Zealand and the Russian Federation were removed from the FATF's third round follow-up process as a result of the positive action they had taken to strengthen their AML/CFT measures.

Strengthening the global network to combat money laundering and terrorist financing has been an important priority during the Russian Presidency. The FATF Global Network, built through the FATF and the FATF-Style Regional Bodies (FSRBs), now combines more than 190 jurisdictions committed to implement the FATF Recommendations. During my Presidency we strengthened the relationship between the FATF and the FSRBs. We are working more closely together, seeking improvements and clarifications that will ultimately improve the effectiveness of the FATF Global Network and safeguard the global financial system. It was a privilege for me to be able to attend the Plenary Meetings of all the FSRBs during my vice-presidency and presidency years. I also attended ministerial meetings of several FSRBs as well as a ministerial meeting of the Task Force on Money Laundering in Central Africa (GABAC) which is seeking to be recognised as an FSRB.

In addition, I participated in important regional conferences in Sub-Saharan, Caribbean and Eurasian regions. The meetings themselves, and the discussions I had during them, reinforced my view of the importance of the FSRBs in achieving global implementation of our standards.

I regret that it became impossible to convene the joint FATF/EAG Plenary in Moscow as was written in the priorities for this year. I do believe that the technical nature of the AML/CFT activities is important for strengthening the global efforts on AML/CFT, including effective implementation of FATF standards.

Liaising with private sector and civil society was also one of my priorities. I am pleased with the interactions that the FATF has had with stakeholders outside the FATF membership. In addition to the private sector consultative forum meeting in Brussels, I had meetings with several banking associations and CEOs of big international banks. This ongoing interaction with the private sector will help ensure that FATF's work stays relevant and up to date.

The discussions with the leadership of the Egmont group of Financial Intelligence Units during their annual meeting in Sun City, South Africa, and later in the margins of the FATF plenaries, were of great importance to me. I think that we reached a better understanding of how to combine our AML/CFT efforts.

The same refers to my meetings with the staff at the United Nations Counter-Terrorism Committee Executive Directorate (UNCTED) and other UN committees. Those meetings resulted in a series of joint events at which we were able to discuss issues of common interest. This work will continue.

FATF continued working with the high-risk and uncooperative countries and jurisdictions it has identified to address their AML/CFT deficiencies. As a result of this work, Antigua and Barbuda; Bangladesh; Kenya; Kyrgyzstan; Mongolia; Morocco; Nepal; Nigeria; Tanzania and Vietnam are no longer subject to FATF's ongoing AML/CFT compliance process.

Strengthening the global network to combat money laundering and terrorist financing also involves expanding the membership of the FATF itself. The FATF has started the process for a limited expansion of its membership to ensure a higher degree of participation and geographical balance and to engender a greater sense of ownership of the work against money laundering. That process will take some time though.

Important typology reports were published this year. I am pleased that we succeeded in finishing one of them which was specifically mentioned in the Russian priorities: Financial Flows Linked to the Illicit Production and Trafficking of Afghan Drugs. I would also like to mention another report: Virtual Currencies: Key Definitions and Potential AML/CFT Risks. This report is very important, taking into account the increasing availability of these new financial instruments.

During this year, the FATF has also reviewed its internal structure and working methods to ensure it remains effective and flexible. The work was started by my Norwegian predecessor, Mr. Bjørn Aamo and is to be finished before 2015.

This year I participated in many meetings outside the FATF Plenaries. These meetings were quite important and needed intense preparation and many efforts from the FATF Secretariat. I want to thank the FATF Executive Secretary Rick McDonell and everybody in the Secretariat for their support and excellent work that helped me in executing my presidential functions.

I leave the FATF Presidency to my successor, Roger Wilkins from Australia. I am confident that he has the expertise to meet the challenges of the fourth round of mutual evaluations and to lead the FATF in all aspects of its important work. And I would like to wish him the very best for his term as President.

Vladimir Nechaev
FATF President (2013-2014)

Rick McDonell

FATF Executive Secretary

The importance and practical significance of the FATF's work is increasing year-by-year.

The President's introduction sets out comprehensively the type and extent of work being done by the FATF.

The role of the Secretariat is to support that work as a whole, and the individual components of it, by providing ongoing expertise and acting as a focal point for the FATF.

One particularly important role for the Secretariat is to provide a bridge between the FATF and all of the FATF-Style Regional Bodies (FSRBs), to ensure that there is a consistent, global approach to the implementation of the FATF Standards. This also provides a basis for co-ordination between all the Secretariats in the FATF Global Network and ensures that it is maintained at a high level.

I am pleased to present this annual report for 2013-2014.

Rick McDonell
FATF Executive Secretary

SETTING THE INTERNATIONAL STANDARDS

Integrity and trust in the international financial system are essential foundations for growth. As countries are still recovering from the 2008 financial crisis, safeguarding the integrity of the international financial system is, therefore, more than ever a global priority.

The FATF is the global standard-setter in the fight against money laundering, the financing of terrorism and proliferation. The FATF Recommendations set out the legal, regulatory and operational measures that countries must have in place to protect the financial system from such misuse.

Since they were created in 1990, the FATF Recommendations have been adopted by over 190 countries. The FATF Recommendations are revised periodically, most recently in 2012, to ensure that they respond to current money laundering and terrorist financing threats as well as other threats to the financial system.

The most recent update of the FATF Recommendations emphasises the risk-based approach even more than previous versions of the standards. This approach requires countries to assess and understand the money laundering and terrorist financing risks that affect their country. These risks are not the same for every country: a country that is a large financial centre faces significantly different risks than a country that does not have an important role in the international financial market. The risk-based approach enables countries to use their resources more wisely by devoting them to the areas where the risks are the highest.

The risk-based approach also extends to specific business sectors that are subject to anti-money laundering and countering the financing of terrorism (AML/CFT) requirements. Between 2007 and 2009, the FATF issued a series of sector-specific guidance documents in this area. This year, the FATF continued its work with representatives from the relevant sectors to revise this guidance and bring it in line with the 2012 FATF Recommendations. The revised risk-based approach guidance for the banking sector is expected to be finalised and adopted in October 2014. The FATF has also reached out to the private sector to initiate preliminary discussions regarding the update of the risk-based approach guidance for the money services businesses and legal professionals sectors.

CORRUPTION

The international community recognises that the FATF Recommendations are valuable tools to fight corruption as they can help to create an environment where it is difficult for corruption to go undetected and unpunished. The FATF continues to emphasise the anti-corruption agenda, in co-operation with other international bodies that have anti-corruption components in their mandate.

The G20 Leaders Declaration from the Saint Petersburg summit highlights the importance of leveraging AML/CFT measures to fight corruption. This, therefore, remains a significant area of co-operation between anti-corruption experts of the G20 and the FATF.

In October 2013, the FATF and the G20 Anti-Corruption Working Group jointly organised the third experts' meeting on corruption, which brought together anti-money laundering and anti-corruption experts from 27 jurisdictions and 15 organisations. The discussions focused on issues of mutual concern such as transparency and beneficial ownership of legal persons and arrangements. These are priority issues that go beyond money laundering and corruption, as they also concern tax transparency and corporate governance. Lack of transparency or information about beneficial ownership creates serious obstacles to tracing corruption proceeds. The feedback on the key challenges in determining the beneficial ownership in corruption cases and the measures that can be taken to overcome these challenges, contributed to the guidance that the FATF is currently developing in this area.

Participants at the meeting also shared their experience on how anti-corruption and anti-money laundering authorities can cooperate in the fight against corruption. For example, by establishing interagency working groups or other mechanisms to share information in the context of corruption, bribery or money laundering investigations.

Both AML/CFT and anti-corruption experts agreed that, although the FATF Recommendations could be used in the fight against corruption, more information was needed to increase the understanding of the FATF Recommendations and their benefits to anti-corruption efforts. The FATF published best practices on the use of the FATF Recommendations to combat corruption with direct input from anti-corruption experts from the G20 Anti-Corruption Working Group. The best practices build on existing FATF work to provide guidance to policy makers and practitioners on how to use AML/CFT measures to combat corruption.

The Use of the FATF Recommendations to Combat Corruption

Adopted October 2013

Although AML/CFT and AC efforts are mutually reinforcing, they are not always brought together effectively. This is an issue of great importance to the international community, including the G20.

This best practices paper aims to provide policy makers and practitioners with guidance and best practices on how AML/CFT measures can be used to combat corruption. The FATF developed this paper with direct input from the AC experts of the G20 ACWG and built on existing work by the FATF.

Available for download at www.fatf-gafi.org

TARGETED FINANCIAL SANCTIONS

The FATF Recommendations require countries to implement targeted financial sanctions in compliance with relevant United Nations Security Council Resolutions (UNSCRs). When implemented correctly, targeted financial sanctions are an important means of depriving terrorist and proliferation financiers of their funds, thereby protecting the citizens from the threats of crime, terrorism, and weapons of mass destruction.

The FATF and the United Nations (UN) have worked together on fighting terrorist financing and proliferation financing since 2001 and 2012 respectively. This close collaboration has resulted in FATF Recommendations that complement the relevant UN Conventions and UNSCRs. In November 2013, FATF President Vladimir Nechaev and the Chairs of the UN Security Council Sanctions Committees briefed UN members on the FATF Recommendations and how they support the UNSCRs by assisting countries to implement the obligations of the targeted financial sanctions against terrorist financing and proliferation financing.

In co-ordination with the relevant bodies from the UN, an experts' meeting on targeted financial sanctions took place in June 2014 with the participation of 51 countries and 16 organisations. The meeting increased the collaboration, coordination and sharing of information between relevant bodies. Implementing targeted financial sanctions has been a challenge for some countries, as shown during the last round of mutual evaluations of the FATF. This meeting considered possible reasons for these low levels of compliance, while at the same time sharing good practices and success stories on how to implement these measures.

The FATF and the relevant bodies of the United Nations will continue to work closely to provide practical guidance on the implementation of targeted financial sanctions.

FATF President Vladimir Nechaev at the Open Briefing by the UN Security Council Sanctions Committees and the FATF, November 2013.

MONITORING **COMPLIANCE**

The FATF's mutual evaluation process provides the tools to assess how well countries have implemented the FATF Recommendations, and how effective their anti-money laundering and counter-terrorist financing (AML/CFT) measures are. After the mutual evaluation, the follow-up process provides a framework to monitor progress made by countries to address any deficiencies in its AML/CFT framework.

Fourth Round of Mutual Evaluations

The FATF began its fourth round of mutual evaluations with the assessments of Australia, Belgium, Norway and Spain. As set out in the Methodology for assessing AML/CFT systems adopted in February 2013, the mutual evaluation has two inter-linked components:

- the technical compliance assessment determines whether the elements of an AML/CFT system are present as set out in the FATF Recommendations
- the effectiveness assessment determines how well these elements work together to meet the objectives of an effective AML/CFT system.

The methodology for the fourth round of mutual evaluations is different from the one used during the previous round. While measuring technical compliance has remained more or less the same, the assessment of effectiveness has been significantly strengthened. In order for an assessment team to judge the level of effectiveness a country has achieved in its AML/CFT system, it will now need to have a sound understanding of the country's AML/CFT regime in practice as well as a clear picture of its risks and context.

PROCEDURES FOR THE 4TH ROUND OF MUTUAL EVALUATIONS

In October 2013, the FATF adopted *Procedures for the 4th Round of Mutual Evaluations*. This document sets out the mutual evaluation process from the formation of the assessment team and the preparation for the on-site visit, to the Plenary discussion of the final report.

The first assessments of this round bring with them a number of challenges as they put the new Methodology and procedures to the test. Clearly identifying these challenges will be essential feedback about the process that will allow the FATF to make adjustments, if necessary, to address any issues that arise from these assessments.

FATF 4th Round evaluations are also reinforced by comprehensive follow-up that plays an essential role in the overall mutual evaluation process. A completed mutual evaluation is a starting point for a country to work on putting in place the recommendations made by the assessment team to strengthen its AML/CFT system. The assessed country must regularly update the FATF about the steps it has taken to address the deficiencies identified during the mutual evaluation. The follow-up reports of a country in the regular process will be made public. This process relies on peer pressure and accountability, thereby encouraging a country to swiftly implement the necessary reforms to improve its compliance with the FATF Recommendations.

This new round of mutual evaluations also introduces the concept of re-rating. During the 3rd round of mutual evaluations, the ratings represented a snapshot of a country's compliance with the FATF Recommendations at the time of the on-site visit. Any progress made by a country to improve its AML/CFT measures was only reflected in the report prepared on the exit from follow up. In its 4th round of evaluations, the FATF will clearly acknowledge a country's most recent level of compliance by changing the rating for relevant Recommendations.

Finally, the 4th round procedures represent general principles and objectives that should govern the mutual evaluations conducted by FATF-style regional bodies (FSRBs) [1], the IMF and the World Bank and address the issue of co-ordination with the Financial Sector Assessment Programme (FSAP).

To further ensure quality and consistency in the mutual evaluations based on the FATF Recommendations and using the FATF Methodology, the FATF adopted a set of universal procedures in February 2014. These procedures provide further clarity about the core elements of the mutual evaluations conducted by all AML/CFT assessment bodies (FATF, FSRBs, IMF and the World Bank), while allowing some flexibility in their individual approaches. The universal procedures are based on the FATF's 4th round procedures and are intended to form the basis for the evaluations conducted by all assessment bodies.

A global calendar of assessments for this round of mutual evaluations is available on the FATF website[2]. It provides the dates of the assessments of all members of the FATF Global Network, to the extent that they are known, and is frequently updated.

1. See Annex 3. FATF Associate members, for the list of FSRBs.

2 . www.fatf-gafi.org/media/fatf/documents/assessments/Global-assessment-calendar.pdf

THIRD ROUND FOLLOW-UP

The third round of mutual evaluations and the subsequent follow-up process resulted in FATF members' significantly strengthening their frameworks for combating money laundering and terrorist financing, in particular in the following key areas:

- Criminalisation of money laundering and terrorist financing in a comprehensive manner;
- The implementation of more robust customer due diligence and suspicious transaction reporting requirements;
- Enhancement of the powers and capabilities of financial supervisory authorities and financial intelligence units in carrying out their respective duties; and
- Implementation of relevant international conventions and United Nations Security Council Resolutions thus increasing the level of international cooperation in this area.

During the third round follow-up process, the FATF closely monitored the progress that countries made in addressing the deficiencies identified during their mutual evaluations.

Countries were required to report back to the FATF Plenary on a regular basis on any improvements they had made to their AML/CFT systems. If a country's AML/CFT system had been sufficiently strengthened, it was able to apply to be removed from the follow-up process.

Between 1 July 2013 and 30 June 2014, ten countries were removed from the follow-up process, bringing the total number of FATF members out of follow-up to 28.

With the exception of Australia, the FATF published detailed reports setting out the legal, regulatory and/or operational improvements each country has taken to strengthen its AML/CFT measures since its mutual evaluation took place. In June 2014, Australia had already begun its fourth round mutual evaluation. When its evaluation is adopted and published in 2015, it will provide detailed information about Australia's compliance with the FATF Recommendations and the effectiveness of its AML/CFT system.

Countries removed from follow-up

- Argentina — June 2014
- Aruba, Kingdom of the Netherlands — February 2014
- Australia — June 2014
- Canada — February 2014
- Germany — June 2014
- Korea — June 2014
- Luxembourg — February 2014
- Mexico — February 2014
- Netherlands — February 2014
- New Zealand — October 2014
- Russian Federation — October 2014

A few FATF members continue to have deficiencies in key aspects of their AML/CFT systems which were identified during their assessment in the third round of mutual evaluations. These members have committed to rectifying their deficiencies swiftly. They will be subject to a targeted follow-up process and must report back to the FATF regularly until these deficiencies are resolved.

In June 2014, the FATF called on Japan, in particular, to enact adequate anti-money laundering and counter terrorist financing legislation. The mutual evaluation of Japan in October 2008 identified a number of serious deficiencies, including:

- the incomplete criminalisation of terrorist financing;
- the lack of satisfactory customer due

diligence requirements and other obligations in the area of preventive measures applicable to the financial and non-financial sectors;

- an incomplete mechanism for the freezing of terrorist assets, and
- the failure to ratify and fully implement the Palermo Convention.

Despite Japan's high-level political commitment, these deficiencies have not yet been addressed. The FATF will continue to monitor Japan's progress in addressing these issues and adopting the necessary legislation.

FATF-Style Regional Bodies' Assessments

The FATF-style regional bodies (FSRBs) are responsible for the assessments of their members' compliance with the FATF Recommendation. All FSRBs have now completed their rounds of assessments of compliance with the 40+9 Recommendations as set out in the 2004 Methodology. Each FSRB is now working with its members to follow up on the deficiencies identified in their respective reports. APG concluded at its annual meeting in 2013 that it would phase out the follow-up process of its members in July 2014, with the exception of members under enhanced follow-up, whose follow-up would conclude at the 2015 Annual Meeting[3].

GIABA conducted a strategic review of the first round of mutual evaluations of its members. The objective was to assess the overall level of performance of GIABA Member States and the quality and objectivity of the process. MENAFATF undertook a similar review in June 2013 which resulted in changes to its mutual evaluation procedures and follow-up process that were adopted by the MENAFATF Plenary in September 2013.

MONEYVAL is in the process of conducting its 4th "follow-up" round on the basis of the 2004 FATF Methodology. Generally, this round focussed on the current effectiveness of the implementation of all key, core and other important FATF Recommendations, regardless of the rating achieved in the 3rd round, as well as all other FATF Recommendations where the previous rating was non or partially compliant.

In this context, MONEYVAL adopted reports on assessments for the following countries this year:

- Bulgaria
- Croatia
- Israel
- Liechtenstein
- Monaco
- Romania
- 'the former Yugoslav Republic of Macedonia'

Throughout the third round process, the Secretariats of the FATF, FSRBs, World Bank and IMF have worked closely to achieve a level of consistency in the approach to conducting a mutual evaluation.

Each assessment body will have a robust review mechanism in place that will follow the FATF's quality and consistency review. In addition, prior to adoption, all mutual evaluation reports will be submitted to the FATF Secretariat for possible inclusion in the global quality and consistency review process.

This process will guarantee that all mutual evaluation reports based on the 2012 FATF Recommendations will be based on a common assessment approach, resulting in consistent and high-quality reports.

3 Those subject to a mutual evaluation in 2014-15 under the APG's 3rd round will conclude in July 2014.

Voluntary Tax Compliance programmes

This year, the FATF reviewed the voluntary tax compliance (VTC) programmes in effect in a number of its members to determine whether these impeded the effective implementation of AML/CFT measures. There are various types of voluntary tax compliance programmes, ranging from programmes to encourage tax compliance by allowing citizens to correct tax reporting information, to programmes designed to facilitate asset repatriation. Whenever these programmes incorporate elements such as full or partial exemption from criminal investigation or prosecution in relation to the tax amnesty or the repatriation of funds, there is a risk that these programmes can be abused for the purpose of money laundering. Four basic principles guide the FATF in addressing the AML/CFT policy implications of VTC programmes.

All countries are expected to ensure that any VTC programme is consistent with these four basic principles as well as the FATF Recommendations. In addition, all countries must inform the FATF or their FSRB of any new VTC scheme, tax amnesty, and asset repatriation programmes. The FATF and/or FSRB reviews the VTC scheme and determines if any aspect of it could impact negatively on the AML/CFT measures in place in the country. While they are in effect, these programmes continue to be monitored, in particular as to whether any suspicious transactions are reported in relation to the VTC schemes.

In February 2014, in consultation with the FSRBs, the FATF adopted new procedures that streamline the review of VTC programmes of both FATF members and FSRBs' members.

In October 2013, the FATF reviewed the VTC programmes of Argentina and Belgium. Some provisions of Argentina's VTC legislation appeared to limit the application of AML/CFT measures in the country. However, the country issued regulations for the implementation of the programme to ensure that all AML/CFT measures in place continue to be applied. Belgium's programme was found to be consistent with the FATF's four basic principles on VTC.

In February 2014, the FATF was informed that no suspicious transactions were detected concerning these two VTCs and, in June 2014, the FATF was again informed that no suspicious transactions were detected in relation to Argentina's VTC programme. The VTC programmes of Australia, Kyrgyzstan, and Pakistan were also reviewed in June 2014 and found to adhere to the FATF's four basic principles.

Summary of the four basic principles on VTC programmes

- effective application of AML/CFT preventative measures
- no full or partial exemptions from AML/CFT requirements for the VTC programme
- co-ordination, co-operation, and exchange information between all relevant domestic competent authorities to detect, investigate and prosecute any ML/FT abuse of the VTC programme.
- widest possible range of mutual legal assistance and exchange of information in ML/FT investigations, prosecutions and related proceedings

For more information, please see :

www.fatf-gafi.org/documents/documents/taxamnestyandassetrepatriationprogrammes.html

ML/TF RISKS, TRENDS AND METHODS

The ability to design and implement sound AML/CFT measures requires a good understanding of current risks and threats to the international financial system.

The FATF's work to identify and analyse these risks, trends and methods, or *typologies* work, ensures that the FATF standards are up to date and that new policy or guidance is developed if and when necessary. Typologies work builds on the experience and knowledge of those operating in such fields, as law enforcement and investigation, as well as financial intelligence. They are at the frontline of AML/CFT efforts and are thus best placed to signal new trends or methods in misuse of the financial system.

To better understand the particular vulnerabilities of a sector or financial product to money laundering or terrorist financing, the FATF carries out research using case studies and other relevant material. This research often leads to the determination of red flag indicators which then help detect illicit transactions. FATF research is extremely valuable, as it helps build awareness of the ways that criminals or terrorists misuse a specific sector or the financial system as a whole.

Typically, FATF research is carried out by relevant experts from among the FATF members that have experience in dealing with the particular money laundering or terrorist financing technique. When relevant, research initiatives may also involve industry representatives to ensure that all angles are taken into account.

The FATF publishes the findings of its research into ML/TF risks, trends and methods in a series of dedicated reports. These reports have been successful in raising global awareness on money laundering and terrorist financing vulnerabilities and have led to earlier detection of such methods being used.

Typologies exercise

This year, MENAFATF and FATF jointly organised a typologies experts' meeting in Doha, Qatar from 2 to 4 December 2013. The meeting brought together over 180 typologies experts from 50 delegations to discuss current and future typologies work.

The workshops for this year's typologies experts' meeting focused on two ongoing research initiatives: terrorist misuse of the non-profit sector and, financial flows related to illegal trafficking of Afghan drugs. Two new research initiatives were the subject of workshops during this year's experts' meeting: ML through physical transportation of cash (a joint FATF/MENAFATF project), and ML/TF risks and vulnerabilities associated with gold (a joint FATF/APG project).

The workshop discussions allowed the research projects to validate the conclusions they had reached so far and identify areas where further research or clarification were needed. Two of the research projects discussed during the typologies experts' meeting were finalised during the June 2014 Plenary: *The Risk of Terrorist Abuse in Non-Profit Organisations* and *Financial Flows Linked to the Illicit Production and Trafficking of Afghan Drugs.*

The annual typologies experts' meeting also supported the four research projects by highlighting areas that require further investigation. In a move to build on the important role played by the annual meeting in its overall research strategy, the FATF looked this year at how to further maximise the benefits from these meetings. There will be greater flexibility in organising future experts' meetings to include workshops on a broader variety of typologies topics and, where relevant, allow for greater participation of representatives from the private sector and civil society in workshop discussions.

Typologies Research - 2013-2014

Between 1 July 2013 and 30 June 2014, the FATF finalised and published six typologies-related reports.

The Role of Hawala and Other Similar Service Providers in Money Laundering and Terrorist Financing

Adopted October 2013

Hawala and other similar service providers (HOSSPs) arrange for transfer and receipt of funds or equivalent value and settle through trade, cash, and net settlement over a long period of time. What makes this channel distinct from other methods of money transmission is its use of non-bank settlement methods. This report provides a facts-based review of the extent of their vulnerability to money laundering and terrorist financing:

- A lack of supervisory will or resources;
- Settlement across multiple jurisdictions through value or cash outside of the banking system in some cases;
- The use of businesses that are not regulated financial institutions;
- The use of net settlement and the commingling of licit and illicit proceeds.

Report available for download at www.fatf-gafi.org

ML/TF RISKS, TRENDS AND METHODS

Terrorist Financing in West Africa

A joint FATF/GIABA report, adopted October 2013

The Inter Governmental Action Group against Money Laundering in West Africa (GIABA) and the FATF collaborated on a typologies research project to identify the methods used by terrorists, terrorist groups, and their supporters in the West African region to collect, transfer and utilise funds.

The project team used data provided by experts based in five West African countries where there have been serious and frequent incidences of terrorism: Burkina Faso, Mali, Niger, Nigeria and Senegal.

The report provides case studies, from which key indicators and red flags have been generated. Based on these case studies, the research project identified four main categories of typologies of methods and techniques used by West African terrorist and terrorist groups to support terrorist activities through:

- Trade and other lucrative activities;
- NGOs, charity organisations, and levies;
- Smuggling of arms, assets and currencies by cash couriers; and
- Drug trafficking;

Some of the main conclusions from the report are:

- Terrorists and terrorist organisations use both legitimate and illegitimate means to raise funds, and formal and informal channels to move the cash around.
- Reporting institutions in West Africa have a weak capacity to identify suspicious transactions relating to terrorism financing.
- Security and surveillance at various national borders are weak, resulting in the infiltration of terrorists, small arms, and light weapons.
- Law enforcement and regulatory agencies, security and intelligence services and the judiciary lack the requisite capacity to effectively address the challenge of terrorism and terrorism financing.
- The inability and unwillingness of national competent authorities to effectively co-operate and collaborate, especially in information sharing, is partly responsible for the deteriorating security and increasing terrorist financing in the sub-region.

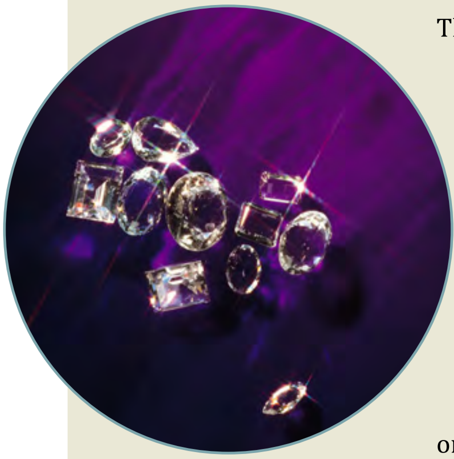
Based on these findings, the report provides recommendations to West African countries and regional/international authorities and development partners on how to improve their AML/CFT efforts.

The report aims to help policymakers, regulatory and enforcement authorities, and reporting entities to gain a better understanding of the nature and dynamics of terrorist financing in the West African region.

Report available for download at www.fatf-gafi.org

Money Laundering and Terrorist Financing through Trade in Diamonds

A joint FATF/Egmont Group report, adopted October 2013



The FATF and the Egmont Group of Financial Intelligence Units worked together on a typologies research project that identifies the ML/TF vulnerabilities and risks of the "diamond pipeline". The research covers all sectors in the diamond trade: production, rough diamond sale, cutting and polishing, jewellery manufacturing and jewellery retailers.

Using analysis of case studies collected by the project team and consultation with the private sector as the basis for its research, the report concludes that the diamonds trade is subject to considerable vulnerabilities and risks. The closed and opaque nature of the diamonds markets and the high value of diamonds combined with a lack of expertise in this area on the part of the authorities leave this industry susceptible to misuse by criminals.

The case studies in the report illustrate the creative methods that criminals have used to exploit diamonds trade for ML/TF purposes. The report aims to build awareness within regulatory, enforcement and customs authorities as well as among reporting entities about risks and vulnerabilities of the diamonds trade:

- **Global nature of the diamond trade -** This trade is transnational and complex, thus convenient for ML/TF transactions that are, in most cases, of international and multi-jurisdictional nature.
- **Use of diamonds as currency -** Diamonds are difficult to trace and can provide anonymity in transactions.
- **Trade-based money laundering (TBML) -** The specific characteristics of diamonds as a commodity and the significant proportion of transactions related to international trade make the diamonds trade vulnerable to the different laundering techniques of TBML, in general, and over/under valuation in particular.
- **High amounts -** The trade in diamonds can reach tens of millions to billions of US dollars. This has bearing on the potential to launder large amounts of money through the diamond trade and also on the level of risks of the diamonds trade.
- **Level of awareness -** Law enforcement and AML / CFT authorities, including financial intelligence units (FIUs), have limited awareness of potential ML/TF schemes through the trade in diamonds.

Report available for download at www.fatf-gafi.org

Virtual Currencies: Key Definitions and Potential AML/CFT Risks

Adopted June 2014

In a short period of time, virtual currencies, such as Bitcoin, have developed into a powerful payment method with ever growing global acceptance. Virtual currencies offer an innovative, cheap and flexible method of payment. At the same time, the unique and often unfamiliar business model of virtual currencies poses a challenge to regulators around the world who are unsure how to deal with this payment method. The policy responses vary considerably, with some countries embracing this new technology and others severely or totally limiting its legitimate use.

The FATF conducted research into the characteristics of virtual currencies to make a preliminary assessment of the ML/TF risk associated with this payment method. An important step in assessing the risks and developing an appropriate response is to have a clear understanding of the various types of virtual currencies and how they are controlled and used. This report establishes a conceptual framework of key definitions, which could form the basis for further policy development.

The legitimate use of virtual currencies offers many benefits such as increased payment efficiency and lower transaction costs. Virtual currencies facilitate international payments and have the potential to provide payment services to populations that do not have access or limited access to regular banking services.

However, other characteristics of virtual currencies, coupled with their global reach, present potential ML/TF risks, such as:

- Anonymity provided by the trade in virtual currencies on the internet;
- Limited identification and verification of participants;
- Lack of clarity regarding the responsibility for AML/CFT compliance, supervision and enforcement for these transactions that are segmented across several countries; and
- Lack of a central oversight body .

The report provides law enforcement with a number of examples of ML offences involving virtual currencies to demonstrate how this payment method has already been abused for such purposes.

Report available for download at www.fatf-gafi.org

Risk of Terrorist Abuse in Non-Profit Organisations

Adopted June 2014

Terrorist organisations and non-profit organisations (NPOs)have very different objectives but often rely on similar logistical capabilities: Funds, material, personnel and public influence are key resources for NPOs. Terrorist organisations seek the same resources to further their cause, which makes NPOs vulnerable for abuse by terrorists or terrorist networks.

FATF Recommendation 8 requires that countries review their laws and regulations to ensure that NPOs cannot be abused for the financing of terrorism.

This typologies report examines in detail, how and where NPOs are at risk of terrorist abuse. The report uses case studies as well as input collected from law enforcement, other government actors and NPOs themselves to increase awareness of the methods and risk of abuse for terrorism of the NPO sector, both domestically and internationally. This report aims to answer the questions:

- Who are the NPOs that are most at risk of abuse from terrorist entities?
- What is the nature of the threat posed by terrorist entities to the NPO sector?
- When, and where, are NPOs most at risk of abuse by terrorist entities?
- Why are NPOs at risk of abuse by terrorist entities?
- How are NPOs vulnerable to terrorist activities?
- How do terrorist entities abuse the NPO sector?
- How have cases of abuse been detected and disrupted?

The report highlights that NPOs are at risk of being abused for terrorism at different levels: from the misappropriation of street-level fundraising to the infiltration of terrorist organisations at the programme delivery level to promote their ideology. There are other factors that make the NPO sector very attractive to terrorist organisations, some of which are :

- Globalisation, which changed the way NPOs operate, drawing them into areas where terrorist networks operate. This has created interconnected financial and transportation networks that are of interest to terrorist organisations.
- The large transitory workforce of NPOs, with an important portion of that workforce made up of volunteers. Staff, and in particular volunteers, are often not given a thorough background check. NPOs also face difficulties attracting and retaining personnel that have technical expertise in risk assessment, compliance and legal matters.
- The high level of public trust in the good work done by the NPO sector. NPO activities are generally not scrutinised as consistently as other sectors. Terrorist networks abuse this public trust by piggybacking on the legitimate activities of an – unwitting – NPO, or by mimicking legitimate NPOs.

Supported by the case studies collected for this research project, this typologies report provides a number of red flag indicators to help all stakeholders, including NPOs, government officials, financial institutions and designated non-financial business or professions (DNFBPs), identify and investigate possible cases of abuse.

Report available for download at www.fatf-gafi.org

Financial flows linked to the illicit production and trafficking of Afghan opiates

Adopted June 2014

This report aims to raise awareness about the financial flows related to the Afghan opiate trade. Afghanistan is the world leader in the production and trafficking of opiates: generating revenues estimated to be as high as USD 70 billion. Despite international efforts, the cultivation of opium poppies in Afghanistan continues, and even increased significantly in southern parts of Afghanistan to reach a record high by 2013.

Little information exists about the "business model" of the Afghan opiates trade, but what is known is that globally, only a fraction of drug related funds or assets are confiscated while almost all drug profits are integrated into the world's legitimate financial system.

This report analyses how the financial transactions related to the Afghan opiates trade are conducted. The report finds that generally, the opiates and the associated financial flows do not follow the same routes. The majority of revenues generated by the trade in Afghan opiates is moved through, and possible stored in, so called "financial centres", usually involving money or value transfer services (MVTS). This report also identifies other methods used by the opiate traffickers to transfer funds and facilitate distribution of opiates.

Another finding is that the Afghan Taliban are heavily involved in the opiates trade, either through trafficking or profiting. The growing trade in opiates will soon be one of their leading sources of income, providing them with the financial means to become a major threat to the national security of Afghanistan and the wider region.

This report, and in particular the case studies provided, will assist in the detection of opiate-related financial transactions. It also provides financial centres with information about the factors that make them attractive and vulnerable to financial transactions involving proceeds of drug trade or other crimes.

Report available for download at www.fatf-gafi.org

HIGH-RISK AND NON-COOPERATIVE JURISDICTIONS

A key objective of the FATF is to identify which countries or jurisdictions have strategic weaknesses in their national anti-money laundering / countering the financing of terrorism (AML/CFT) regimes. Weak AML/CFT measures can be abused for the purpose of money laundering or terrorist financing. It takes just one country or jurisdiction that is less vigilant or less able to detect cases of misuse to pose a threat to the integrity of the entire international financial system.

Reducing risks has also become a significant concern for regulators and financial institutions around the world. Increasingly, they look to limit their risk of unwittingly getting involved in illicit activities by limiting or halting their financial interactions with countries known to have weak AML/CFT measures.

The FATF identifies countries with strategic weaknesses in their AML/CFT regimes and then works with them to establish an action plan to address these weaknesses. Through the *Improving Global AML/CFT Compliance Process* it monitors their progress in implementing the components of the action plan. The FATF also publicly identifies these countries to raise global awareness about the risks for the financial system emanating from them. Since the first public statements in 2012, experience has shown that the public identification of countries with serious weaknesses in their AML/CFT regimes encourages them to make significant improvements.

By June 2014, the FATF had reviewed over 70 countries and identified 56 jurisdictions. Of those 56 jurisdictions, 28 have since made the necessary reforms to address the deficiencies in their AML/CFT regimes. These countries have been removed from the process (i.e., ‘de-listed’), of which 10 were removed between July 2013 and June 2014. Many of the countries that are still in the process are taking steps to strengthen their AML/CFT framework by implementing legal, regulatory and operational reforms. As set out below, a number of these countries are expected to be de-listed soon.

Review Process

The FATF's International Co-operation Review Group (ICRG) reviews and identifies countries and jurisdictions with strategic AML/CFT deficiencies. Countries are referred to the ICRG for review based on information on threats, vulnerabilities or particular risks arising from the country. This information can come from their mutual evaluation reports, or from the fact that they are not participating in the work of any of the FATF-Style Regional Bodies and consequently not committing to implementing the FATF standards.

Each year, the ICRG reviews a large number of countries. During this process, it determines for each country whether its AML/CFT weaknesses, in the context of the size of its financial industry, pose a threat to the financial system. The four regional review groups, covering Africa/Middle East, the Americas, Asia/Pacific, and Europe/Eurasia, are responsible for this preliminary, or *prima facie*, review. Based on the reports by these regional review groups, the FATF will decide whether the seriousness of the strategic AML/CFT deficiencies warrants a more in-depth, targeted review. Each jurisdiction under review has the opportunity to participate in a face-to-face meeting with the regional review group to discuss the report, including developing an action plan with the FATF to address the weaknesses in its AML/CFT measures. The FATF also requests a high-level political commitment to ensure that the legal, regulatory, and operational reforms required by the action plan are implemented.

The FATF continues identifying and reviewing potentially non-cooperative jurisdictions in this process. Engaging with these jurisdictions contributes to the strengthening of global AML/CFT compliance and a more successful fight against money laundering and terrorist financing. It also ultimately helps to protect the integrity of the international financial system.

Public identification

The public identification of countries with serious weaknesses in their AML/CFT measures has proven to be a powerful tool for improving global compliance with the FATF Recommendations.

The process protects the integrity of the international financial system by issuing a warning about countries with strategic risks due to inadequate AML/CFT measures. At the same time, it puts pressure on the countries in question to act on and address these deficiencies in order to maintain their position in the global economy. Non-compliance with AML/CFT standards could result in international trading partners facing higher costs due to the additional measures that will be imposed, or, as financial institutions increasingly look to minimise their risks, they could find that they are no longer able to do business with them at all. All this could have serious consequences for the economy of a country that has been publicly identified by the FATF as having AML/CFT weaknesses. The FATF engages with the countries it has publicly identified to strengthen their compliance with global AML/CFT measures.

On the basis of the results of the ICRG review, the FATF publishes two public statements at the end of each Plenary meeting in February, June and October. The statements provide a short summary of the specific strategic risks emanating from each country, as well as the protective measures that should be taken.

The two statements reflect the seriousness of the risks posed by the country.

- The *FATF Public Statement,* for the most serious cases, identifies two groups of countries:
  - Countries or jurisdictions with such serious strategic deficiencies that the FATF calls on its members and non-members to apply counter-measures.
  - Countries or jurisdictions for which the FATF calls on its members to consider the risks arising from the deficiencies associated with the country.

- The public document *Improving Global AML/CFT Compliance: On-going process* identifies jurisdictions having strategic weaknesses in their AML/CFT measures but that have provided a high-level commitment to address those deficiencies through the implementation of an action plan developed with the FATF. The FATF encourages its members to consider the strategic deficiencies identified for these jurisdictions.

Occasionally, a country fails to make sufficient progress or does not respect the timelines set out in the action plan it agreed upon with the FATF. In such situations, the FATF can decide to increase its pressure on the country to make meaningful progress by moving it to the *Public Statement.* The country will first receive a warning, in which it will be publicly identified as a jurisdiction that has not taken sufficient action in addressing its deficiencies. If the country fails to demonstrate sufficient progress, it will be moved to the *Public Statement*. Often the warning is enough to accelerate a country's process of implementing significant components of its action plan. This was the case for Mongolia. In October 2013, it had not made sufficient progress on its action plan and was at risk of being placed on the February 2014 Public Statement. In the months that followed the warning by the FATF, it made significant progress in establishing the required legal and regulatory framework. Mongolia's progress was such that in June 2014 the FATF found that it had met all of the requirements of its action plan and removed the country from its on-going AML/CFT compliance process.

In February 2014, the FATF also issued a warning about the lack of progress by Afghanistan and Cambodia. Since then, Afghanistan has made progress in improving its AML/CFT regime with the enactment of new AML and CFT laws in June 2014, although these have not yet been reviewed by the FATF.

Cambodia appears to have substantially addressed its action plan and may be removed from the compliance process if on-site meetings confirms the implementation of the required reforms.

Public Statement

as of June 2014

- Iran
- Democratic People's Republic of Korea

Iran and the Democratic People's Republic of Korea have been the subject of calls for countermeasures and strengthened preventive measures by the FATF since February 2009 and February 2011 respectively. The FATF remains concerned about their lack of progress in addressing the significant deficiencies of their AML/CFT frameworks and the serious threat this poses to the integrity of the international financial system. The FATF is exceptionally concerned about Iran's failure to address the risk of terrorist financing. At the June 2014 Plenary meeting, the FATF decided that if Iran fails to take concrete steps to address counter-terrorist financing measures, it may call for strengthened counter-measures in October 2014.

The second group of countries or jurisdictions for which the FATF calls on its members to consider the risks arising from the deficiencies, includes:

- Algeria
- Ecuador
- Indonesia
- Myanmar

Improving Global AML/CFT Compliance: On-going Process

as of June 2014

The FATF has identified the following countries as having strategic AML/CFT deficiencies. Each of these countries has made a high-level commitment to address the legal, regulatory and/or operational shortcomings in its AML/CFT framework and has worked with the FATF to establish an action plan to make these changes happen.

- Afghanistan
- Albania
- Angola
- Argentina
- Cambodia
- Cuba
- Ethiopia
- Iraq
- Kuwait
- Lao PDR
- Namibia
- Nicaragua
- Pakistan
- Panama
- Papua New Guinea
- Sudan
- Syria
- Tajikistan
- Turkey
- Uganda
- Yemen
- Zimbabwe

Removal from the ICRG review

When a country has implemented all or nearly all, of the components of its action plan, it can be removed from the ongoing AML/CFT compliance process. Prior to this, an on-site visit by the relevant FATF regional review group will need to verify that implementation of the necessary legal, regulatory and/or operational reforms is well underway and that there is a high-level commitment to ensure that the implementation of all the reforms will be continued and completed.

Between July 2013 and June 2014, the following countries were removed from ICRG review following a successful on-site visit:

- Morocco and
- Nigeria

October 2013

- Antigua and Barbuda
- Bangladesh
- Vietnam

February 2014

- Kenya
- Kyrgyzstan
- Mongolia
- Nepal

Tanzania (June 2014)

In June 2014, the FATF also recognised that Argentina, Cuba, Ethiopia, Pakistan, Tajikistan, Turkey and, as mentioned above, Cambodia, had all substantially addressed the technical components from their respective action plans. An on-site visit will confirm the current level of implementation of the reforms and the high-level commitment to its continuation. A successful outcome of the on-site visits will mean that these countries will no longer be subject to the ongoing AML/CFT compliance process.

The FATF also determined that Syria and Yemen had completed the technical aspects of their respective action plans. However, due to security concerns, an on-site visit to these countries to confirm implementation is not possible. The FATF will continue to monitor the situation, but for the time being, these countries remain in the ongoing AML/CFT compliance process.

DIALOGUE WITH THE PRIVATE SECTOR

The FATF recognises the value of a continued dialogue with its stakeholders, including the private sector. This dialogue provides the FATF with insight into the private sector perspective on some of the issues that the FATF is working on.

This is essential. For example, banks are often closest to the origin of the money laundering or terrorist financing act. Their compliance with anti-money laundering / countering the financing of terrorism (AML/CFT) measures, by ensuring customer due diligence for example, is the first line of defence against money laundering and terrorist financing. The FATF frequently engages with the private sector and civil society to seek their input on policy work and typologies issues. At the same time, this dialogue provides the private sector an opportunity to bring issues of concern to the attention of the FATF.

The FATF's work with the private sector is organised through the Private Sector Consultative Forum. Depending on the issues that the FATF is working on, this forum meets at least once a year to discuss ongoing projects and seek their feedback. This year's forum took place in Brussels in March 2014. The event was hosted by the European Banking Federation and supported by the European Association of Public Banks, the European Savings Bank Group, the European Association of Co-operative Banks and Insurance Europe.

The meeting allowed the FATF to consult with over 120 participants representing the financial sector and other businesses and professions that are covered by AML/CFT measures, on a range of issues from the FATF agenda. It provided an opportunity to update the members of the forum on recently completed reports that were developed with key input from the private sector, such as the typologies report *Money Laundering and Terrorist Financing through Trade in Diamonds* (see page 17).

The FATF met with experts on virtual currencies to discuss how they work, what the associated money laundering and terrorist financing risks are and what measures countries and financial institutions are taking to mitigate these risks. This input was taken into consideration in the report *Virtual Currencies: Key Definitions and Potential AML/CFT Risks* (see page 19) that was adopted by the FATF in June 2014 and will also contribute to further policy development to address virtual currencies.

The meeting was also an opportunity to seek feedback about revised guidance for the application of the risk-based approach to the banking sector. The FATF issued a series of risk-based approach guidance for relevant sectors between 2007 and 2009 to explain the risk-based approach and how to determine appropriate levels of AML/CFT regulation that address the level or risk for the relevant sector. The FATF is now in the process of updating the guidance series to bring it into line with the FATF Recommendations of 2012. The discussions with the representatives from the financial sector and DNFBPs were a key step to develop a common understanding of the risk-based approach and how it applies both to private sector stakeholders and, at country level in particular, to supervisors. During the meeting, the FATF also held preliminary discussion with representatives from money service businesses and legal professionals on the development of similar guidance for those sectors.

The FATF's engagement with its external stakeholders varies. Although the Private Sector Consultative Forum is the primary forum for dialogue with the private sector, the FATF also engages with them through other initiatives.

In the margins of this year's Private Sector Consultative Forum, the FATF organised a meeting with AML/CFT experts and data protection experts. Data protection and AML/CFT requirements both aim to protect citizens against abuse. However, if incorrectly implemented, AML/CFT requirements can impede on a person's right to confidentiality, whereas data protection requirements have the potential to create challenges for the application of AML/CFT requirements and could prevent money laundering or terrorist financing transactions from being detected. Data protection and AML/CFT requirements are not mutually exclusive, but they must be implemented in a consistent manner, particularly across different jurisdictions. During the meeting, AML/CFT and data protection experts discussed the commonalities between these two fields with a view to establishing good practices and fostering dialogue between all relevant experts at the national, supranational and international level.

The report T*errorist Financing Risks of the Non-Profit Sector* (see page 15) also benefited from a consultation with the private sector and NPOs in particular. Their input contributed to a better understanding of the activities and organisation of NPOs and what makes this sector so attractive for terrorists and terrorist organisations. The report builds on the updated best practices paper on *Combating the Abuse of Non-Profit Organisations* that was updated in June 2013 with input from NPOs themselves.

The FATF also seeks input from the private sector in a country's mutual evaluation process. As set out in the Methodology for assessing compliance with the FATF Recommendations, assessment teams must ensure that the assessed country has understood the ML and TF risks it faces and has taken appropriate action. In this context, the FATF assessment team meets with representatives from a range of financial institutions and DNFBPs during its on-site visit to the country. This year, the assessment teams involved in the mutual evaluations of Norway and Spain, organised such meetings during their on-site visits in these countries.

To further engage with its stakeholders, and the private sector in particular, the FATF participated in a number of other events that brought together financial institutions or DNFBPs that are subject to AML/CFT measures. The Wolfsberg Group brings together 11 of the largest international financial institutions that play a key role in ensuring the integrity of the international financial system. The FATF's involvement in the Wolfsberg Group annual meeting in May and the dialogue with representatives from these financial institutions gave the FATF clear insight into the challenges they face in complying with AML/CFT regulations.

The FATF also participated in the Sub-Saharan Africa Public-Private Sector Dialogue on anti-money laundering and countering the financing of terrorism which took place in Namibia in September 2013 and brought together public and private sector officials responsible for AML/CFT and business development. Events such as these provide a unique opportunity to highlight the importance of compliance with the FATF Recommendations for the success of the financial sector. This was underlined by FATF President Vladimir Nechaev during the November 2013 Plenary meeting of the Caribbean Financial Action Force (CFATF). As a result, the 1st Caribbean Ministerial AML/CFT Conference, held in conjunction with the 3rd Caribbean Conference on the International Financial Services Sector, focused on the importance of sound AML/CFT measures to ensure stability and growth of the Caribbean region's financial sector.

The FATF continues to engage with its external stakeholders and to optimise dialogue with the private sector in particular.

STRENGTHENING THE GLOBAL AML/CFT NETWORK

Through its collaboration with FATF-style regional bodies (FSRBs), the FATF has created a strong global network of countries and jurisdictions united in their dedication to fight money laundering and the financing of terrorism and proliferation through the implementation of the FATF standards throughout the world.

The Global Co-operation Network Group provides a forum for the FATF and FSRBs to collaborate on equal terms and to ensure that they maintain a common approach to their core activities, in particular the mutual evaluation process. The rights and obligations that apply to both FATF and FSRBs are set out in the high-level principles and objectives for the FATF and FSRBs and aim to enhance sharing of experience and collaboration on joint projects. This year, MENAFATF and FATF jointly organised the typologies experts' meeting in Doha, Qatar (see page 15), and similar events were organised between other FSRBs such as joint typologies event between the Asia/Pacific Group on Money Laundering (APG) and the Eurasian Group (EAG).

The collaboration between the FATF, FSRBs as well as with the World Bank and IMF is particularly important when it comes to assessing compliance with the FATF Recommendations. It is essential that anti-money laundering / countering the financing of terrorism (AML/CFT) assessments are conducted in a consistent manner and result in high quality reports. The credibility of the FATF as the global standard-setter for AML/CFT matters relies on the fact that the approach to assessing compliance with the FATF standards, and the quality of the mutual evaluation reports, are the same, regardless of the assessing body.

The FATF, FSRBs and other assessing bodies adopted *Universal Procedures for AML/CFT Assessments* which now forms the basis for mutual evaluations conducted by all assessment bodies. These procedures are based on the FATF's procedures for the 4th round of mutual evaluations (see page 9). The resources, risks and context of each assessing body are different; there must therefore be a certain amount of flexibility allowed in how the assessment is conducted. However, this must not compromise the core principles of the mutual evaluation process or the quality of the final assessment report. The universal procedures set out the core procedural requirements for a mutual evaluation. As long as these are respected, each assessing body has the flexibility to adjust the remaining procedural arrangements.

The universal procedures also include measures to review the quality of the mutual evaluation reports and ensure that all published reports are of a consistently high quality.

FATF and FSRB Presidents reiterated the need for a consistent approach in the mutual evaluation process across the whole FATF global network at the Presidents' Forum which took place in the margins of the Plenary meeting in June 2014. Acknowledging the challenges that the new round of evaluations will bring to each FATF or FSRB Secretariat, they will need to rely on the various review mechanisms called for by the new procedures to ensure the highest degree of quality and consistency. During this meeting FATF and FSRB Presidents also discussed reciprocity in attending FSRB meetings and the co-ordination of typologies research activities.

Throughout the year, both FATF Secretariat members and the FATF President have participated in FSRB plenary meetings, working groups or assessment training. In addition to this, the FATF published a number of statements from FSRBs concerning low levels of compliance of one or more of their respective members. Giving wider publicity to FSRB statements, increases global awareness about the risks associated with conducting a financial transaction with these countries. It also has the added benefit of increasing the pressure on these countries to take the necessary action to comply with the FATF Recommendations.

FATF Membership and Observer Status

The FATF currently counts 36 members, which include 2 regional bodies. India was the last country to join the FATF as a member in 2010. This year, the FATF considered a limited expansion of the FATF membership and at the June 2014 Plenary agreed to this expansion. The revised criteria for membership require that a candidate country for FATF membership be strategically important and enhance the FATF's geographic balance. Based on these criteria and in accordance with the membership process, the FATF has selected a number of candidate countries and has begun the process of determining their readiness.

The FATF is working closely with the *Groupe d'Action Contre le Blanchiment d'Argent en Afrique Centrale* (GABAC) as it takes the necessary action to meet the requirements for becoming an FSRB. GABAC joined the FATF as an observer in 2012. It is made up of the six members of the Economic and Monetary Community of Central Africa: Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea and Gabon. GABAC has participated in FATF events since becoming an observer, and in October 2013 the FATF President attended a GABAC ministerial level meeting during which he congratulated GABAC on the progress it had made and the commitment it had shown. FATF continues to guide GABAC in addressing the remaining actions to strengthen the organisation and functioning of the GABAC Secretariat.

Changes in FSRB membership

This year, Ethiopia became a full member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). The Democratic People's Republic of Korea (DPRK) and Tuvalu became observers to the Asia/Pacific Group on Money Laundering (APG).

MONEYVAL revised its statute and extended voting rights to States and territories currently in MONEYVAL which are not Member States of the Council of Europe: Israel, the Holy See and the three Crown Dependencies (one collective vote). All of these non-Council of Europe States and territories are now in the same position as Council of Europe Member States.

Following these changes, the membership of the FATF's global network of FATF and FSRBs has reached 192 jurisdictions.

Egmont Group of Financial Intelligence Units

Financial intelligence units (FIUs) have the crucial role of investigating suspected cases of money laundering, the financing of terrorism and proliferation. They also hold a key position in detecting new trends and methods used by criminals to move their illicit assets or to finance illegal activities. FATF and the Egmont Group have a close working relationship and participate as observers in each other's events and activities. This collaboration has proven to be beneficial, facilitating the sharing of information and collaboration on projects of shared interest. This year, both organisations completed a joint typologies research project on money laundering and terrorist financing through the trade in diamonds (see page 17).

FINANCIAL STATEMENT

There are currently 22 staff members at the FATF Secretariat: an executive secretary, four senior policy analysts, one senior expert, ten policy analysts, one resource management advisor, one communications management advisor and four assistants. In addition, the FATF occasionally also hosts short-term interns and consultants.

The FATF Secretariat provides support to the FATF, including:

- Organising Plenary and working groups meetings.
- Providing support to the FATF President, the Steering Group and FATF delegations.
- Preparing and producing policy papers to be discussed in working groups and/or the Plenary.
- Coordinating and participating in, mutual evaluation missions and drafting the related assessment reports.

The FATF Secretariat also liaises on an ongoing basis with the numerous FATF partners, undertakes a representational role at professional events and provides information to the public and the media. Funding for the FATF Secretariat is provided by the FATF members on an annual basis and in accordance with the scale of contributions to the OECD. The scale is based on a formula related to the size of the country's economy.

Non-OECD members' contributions are also calculated using the OECD scale. The two member organisations also make voluntary contributions to the FATF.

The table below reflects the budget of the FATF for fiscal years 2013 and 2014.

Budget items	Budget FY 2013	Budget FY 2014
Permanent staff, auxiliaries and consultants	2 300 606	2 413 789
Travel	250 000	296 958
Entertainment expenses	1 500	1 500
Operating costs	205 277	202 992
OECD Overhead charges	333 824	338 400
Meeting room costs, translation, interpretation	283 300	181 565
IT: Investments and maintenance costs	72 898	76 078
Total	3 447 404	3 511 280

ANNEX 1. GLOBAL NETWORK GLOBAL MEMBER JURISDICTIONS AND ASSESSING BODIES

Country/jurisdiction	Assessing body
Afghanistan, Islamic Republic of	APG
Albania	MONEYVAL
Algeria	MENAFATF
Andorra	MONEYVAL
Angola	ESAAMLG
Anguilla	CFATF
Antigua and Barbuda	CFATF
Argentina	FATF-GAFISUD
Armenia	MONEYVAL
Aruba	CFATF
Australia	FATF
Austria	FATF
Azerbaijan	MONEYVAL
The Bahamas	CFATF
Bahrain	MENAFATF
Bangladesh	APG
Barbados	CFATF
Belarus	EAG
Belgium	FATF
Belize	CFATF
Benin	GIABA
Bermuda	CFATF
Bhutan	APG
Bolivia	GAFISUD
Bosnia and Herzegovina	MONEYVAL
Botswana	ESAAMLG
Brazil	FATF-GAFISUD
Virgin Islands (British)	CFATF
Brunei Darussalam	APG
Bulgaria	MONEYVAL
Burkina Faso	GIABA
Cambodia	APG
Canada	FATF (IMF)
Cape Verde	GIABA
Cayman Islands	CFATF
Chile	GAFISUD
China	FATF-APG-EAG

Country/jurisdiction	Assessing body
Chinese Taipei	APG
Colombia	GAFISUD
Comoros	ESAAMLG
Cook Islands	APG
Costa Rica	GAFISUD
Côte d'Ivoire	GIABA
Croatia	MONEYVAL
Cuba	GAFISUD
Curaçao	CFATF
Cyprus	MONEYVAL
Czech Republic	MONEYVAL
Denmark	FATF
Dominica	CFATF
Dominican Republic	CFATF
Ecuador	GAFISUD
Egypt	MENAFATF
El Salvador	CFATF
Estonia	MONEYVAL
Ethiopia	ESAAMLG (WB)
Fiji	APG
Finland	FATF
France	FATF
The Gambia	GIABA
Georgia	MONEYVAL
Germany	FATF
Ghana	GIABA
Greece	FATF
Grenada	CFATF
Guatemala	CFATF-GAFISUD
Guernsey	MONEYVAL
Guinea	GIABA
Guinea-Bissau	GIABA
Guyana	CFATF
Haiti	CFATF
Holy See	MONEYVAL
Honduras	GAFISUD
HK, China	FATF-APG

Country/jurisdiction	Assessing body
Hungary	MONEYVAL
Iceland	FATF
India	FATF-APG-EAG
Indonesia	APG
Ireland	FATF
Mauritania	MENAFATF
Isle of Man	MONEYVAL
Israel	MONEYVAL
Italy	FATF (IMF)
Jamaica	CFATF
Japan	FATF-APG
Jersey	MONEYVAL
Jordan	MENAFATF
Netherlands	FATF
Kazakhstan	EAG
Kenya	ESAAMLG
Kuwait	MENAFATF
Kyrgyz Republic	EAG
Lao People's Democratic Republic	APG
Latvia	MONEYVAL
Lebanon	MENAFATF
Lesotho	ESAAMLG
Liberia	GIABA
Libya	MENAFATF
Liechtenstein	MONEYVAL
Lithuania	MONEYVAL
Luxembourg	FATF
Macedonia, former Yugoslav Republic of	MONEYVAL
Macao, China	APG
Malawi	ESAAMLG
Malaysia	APG
Maldives	APG
Mali	GIABA
Malta	MONEYVAL
Mauritius	ESAAMLG
Mexico	FATF-GAFISUD
Moldova	MONEYVAL

Country/jurisdiction	Assessing body
Monaco	MONEYVAL
Mongolia	APG
Montenegro	MONEYVAL
Montserrat	CFATF
Morocco	MENAFATF
Mozambique	ESAAMLG
Myanmar	APG
Namibia	ESAAMLG
Nauru	APG
Nepal	APG
New Zealand	FATF-APG
Nicaragua	GAFISUD
Niger	GIABA
Nigeria	GIABA
Niue	APG
Norway	FATF
Oman	MENAFATF
Pakistan	APG
Palau	APG
Panama	GAFISUD (IMF)
Papua New Guinea	APG
Paraguay	GAFISUD
Peru	GAFISUD
Poland	MONEYVAL
Portugal	FATF
Qatar	MENAFATF
Iraq	MENAFATF
Korea	FATF-APG
Romania	MONEYVAL
Russian Federation	FATF-EAG-MONEYVAL
Samoa	APG
San Marino	MONEYVAL
São Tomé and Príncipe	GIABA
Saudi Arabia	MENAFATF
Senegal	GIABA
Serbia	MONEYVAL
Seychelles	ESAAMLG

Country/jurisdiction	Assessing body
Sierra Leone	GIABA (WB)
Singapore	FATF-APG
Slovak Republic	MONEYVAL
Slovenia	MONEYVAL
Solomon Islands	APG
South Africa	FATF-ESAAMLG
Spain	FATF
Sri Lanka	APG
St. Kitts and Nevis	CFATF
St. Lucia	CFATF
St. Maarten	CFATF
St. Vincent and the Grenadines	CFATF
Sudan	MENAFATF
Suriname	CFATF
Swaziland	ESAAMLG
Sweden	FATF
Switzerland	FATF
Syrian Arab Republic	MENAFATF
Tajikistan	EAG
Tanzania	ESAAMLG
Thailand	APG
Marshall Islands	APG
Philippines	APG
Timor-Leste	APG
Togo	GIABA
Tonga	APG
Trinidad and Tobago	CFATF
Tunisia	MENAFATF
Turkey	FATF
Turkmenistan	EAG
Turks and Caicos Islands	CFATF
Uganda	ESAAMLG
Ukraine	MONEYVAL
United Arab Emirates	MENAFATF
UK	FATF
USA	FATF-APG
Uruguay	GAFISUD

Country/jurisdiction	Assessing body
Uzbekistan	EAG
Vanuatu	APG
Venezuela, República Bolivariana de	CFATF
Vietnam	APG
Yemen, Republic of	MENAFATF
Zambia	ESAAMLG
Zimbabwe	ESAAMLG

ANNEX 2.
FATF MEMBERS, ASSOCIATE MEMBERS, AND OBSERVERS

FATF MEMBERS

- Argentina
- Australia
- Austria
- Belgium
- Brazil
- Canada
- China
- Denmark
- European Commission
- Finland
- France
- Germany
- Greece
- Gulf Co-operation Council
- Hong Kong, China
- Iceland
- India
- Ireland
- Italy
- Japan
- Republic of Korea
- Luxembourg
- Mexico
- Netherlands, Kingdom of
- New Zealand
- Norway
- Portugal
- Russian Federation
- Singapore
- South Africa
- Spain
- Sweden
- Switzerland
- Turkey
- United Kingdom
- United States

FATF ASSOCIATE MEMBERS (FATF-Style Regional Bodies)

- Asia/Pacific Group on Money Laundering (APG)
- Caribbean Financial Action Task Force (CFATF)
- Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL)
- Eurasian Group (EAG)
- Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)
- Financial Action Task Force on Money Laundering in South America (GAFISUD)
- Inter Governmental Action Group against Money Laundering in West Africa (GIABA)
- Middle East and North Africa Financial Action Task Force (MENAFATF)

FATF OBSERVERS

- African Development Bank
- Anti-Money Laundering Liaison Committee of the Franc Zone (CLAB) *[French]*
- Asian Development Bank
- Basel Committee on Banking Supervision (BCBS)
- Commonwealth Secretariat
- Egmont Group of Financial Intelligence Units
- European Bank for Reconstruction and Development (EBRD)
- European Central Bank (ECB)
- Eurojust
- Europol
- Group of International Finance Centre Supervisors (GIFCS)
- Inter-American Development Bank (IDB)
- International Association of Insurance Supervisors (IAIS)
- International Monetary Fund (IMF)
- International Organisation of Securities Commissions (IOSCO)
- Interpol
- Organization of American States / Inter-American Committee Against Terrorism (OAS/CICTE)
- Organization of American States / Inter-American Drug Abuse Control Commission (OAS/CICAD)
- Organisation for Economic Co-operation and Development (OECD)
- Organization for Security and Co-operation in Europe (OSCE)

- Task Force on Money Laundering in Central Africa (GABAC)
- United Nations -
  - United Nations Office on Drugs and Crime (UNODC)
  - United Nations Counter-Terrorism Committee Executive Directorate (UNCTED)
  - The Analytical Support and Sanctions Monitoring Team to the Security Council Committee pursuant to resolutions 1267 (1999) and 1989 (2011) concerning Al-Qaida and associated individuals and entities
  - The Expert Group to the Security Council Committee established pursuant to resolution 1540 (2004)
    Panel of Experts to the Security Council Committee established pursuant to resolution 1718 (2006)
  - Panel of Experts established pursuant to Security Council resolution 1929 (2010
- The Al-Qaida and Taliban Sanctions Committee (1267 Committee)
- World Bank
- World Customs Organization (WCO)

ANNEX 3. FATF PUBLICATIONS AND SPEECHES - 2013-2014

PUBLICATIONS

Financial flows linked to the illicit production and trafficking of afghan opiates and associated ML/TF activities, June 2014

Risk of terrorist abuse in non-profit organisations, June 2014

Virtual Currencies: Key Definitions and Potential AML/CFT Risks, June 2014

Mutual Evaluation of Korea: 8th Follow-up Report, June 2014

Mutual Evaluation of Germany: 3rd Follow-up Report, June 2014

Mutual Evaluation of Argentina : 11th Follow-Up Report, June 2014

Mutual Evaluation of Mexico: 7th Follow-up Report, February 2014

Mutual Evaluation of the Netherlands: 2nd Follow-up Report, February 2014

Mutual Evaluation of Luxembourg: 6th Follow-up Report, February 2014

Mutual Evaluation of Canada: 6th Follow-up Report, February 2014

Mutual Evaluation of Austria: 3rd Follow-up Report, February 2014

Mutual Evaluation of the Aruba, Kingdom of the Netherlands: 8th Follow-up Report, February 2014

Typologies Report: Money Laundering and Terrorist Financing through Trade in Diamonds, October 2013

Typologies Report: The Role of Hawala and Other Similar Service Providers in ML/TF, October 2013

Typologies Report: Terrorist Financing in West Africa, October 2013

Best Practices Paper: The Use of the FATF Recommendations to Combat Corruption, October 2013

Mutual Evaluation of New Zealand: 2nd Follow-up Report, October 2013

Mutual Evaluation of the Russian Federation: 6th Follow-up Report, October 2013

SPEECHES

Speech at the Caribbean Financial Action Task Force Regional Conference, Nassau, The Bahamas, 3 April 2014.

Speech at the 3rd Caribbean conference on the International Financial Services Sector, Nassau, The Bahamas, 2 April 2014.

Setting and Implementing Global Standards against Money Laundering and Terrorist Financing, Institute of International and European Affairs, Dublin, Ireland, 25 February 2014

Speech at the Plenary meeting of the Financial Action Task Force on Money Laundering in South America (GAFISUD), Montevideo, Uruguay, 12 December 2013.

Speech at the 43rd Moneyval Plenary Meeting, Strasbourg, France, 9 December 2013.

Speech at the Plenary meeting of the Middle East and North Africa Financial Action Task Force (MENAFATF), Bahrain, Kingdom of Bahrain, 26 November 2013.

Speech at the Plenary meeting of the Caribbean Financial Action Task Force (CFATF), Freeport, Grand Bahama, Commonwealth of the Bahamas, 20 November 2013.

FATF Recommendations support United Nations instruments, United Nations, 18 November 2014

Speech at the Eurasian Group (EAG) Plenary, Ashgabat, Turkmenistan, 14 November 2013.

Speech at the Meeting of the *Groupe d'Action Contre le Blanchiment d'Argent en Afrique Centrale* (GABAC), Paris, France, 2 October 2013 (*available in French only*)

G8 Public-Private Sector Dialogue on anti-money laundering and countering the financing of terrorism (AML/CFT), Namibia, 6 September 2013

Anti-money laundering and countering the financing of terrorism in eastern and southern Africa, Swakopmund, Namibia, 6 September 2013

The role of the Asia/Pacific Group on Money Laundering in the global AML/CFT network, Shanghai, People's Republic of China, 16 July 2013

Enhancing the synergy between the FATF and the Egmont Group, Sun City, South Africa, 3 July 2013

Summaries from key meetings

Plenary Meeting of the FATF, Paris, 25-27 June 2014

FATF Targeted Financial Sanctions Experts' Meeting, Paris, 22 June 2014

FATF Private Sector Consultative Forum Meeting, Brussels, 25-26 March 2014

FATF AML/CFT and data protection experts' seminar, Brussels, 24 March 2014

Plenary Meeting of the FATF, Paris, 12-14 February 2014

Plenary Meeting of the FATF, Paris 16-18 October 2013

Experts' Meeting on Corruption, Paris, 12 October 2013

FATF

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