

**FATF**



**FINANCIAL ACTION TASK FORCE**

**ANNUAL REPORT  
2011 - 2012**







FINANCIAL ACTION TASK FORCE

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.

For more information about the FATF, please visit the website:

[www.fatf-gafi.org](http://www.fatf-gafi.org)

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## Abbreviations

AML	Anti-money laundering
APG	Asia/Pacific Group on Money Laundering
CFATF	Caribbean Financial Action Task Force
CFT	Counter-terrorism financing
EAG	Eurasian Group on combating money laundering and financing of terrorism
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FIU	Financial Intelligence Units
FSRB	FATF-Style Regional Body
GABAC	<i>Groupe d'Action Contre le Blanchiment d'Argent en Afrique Centrale</i>
GAFISUD	Financial Action Task Force on Money Laundering in South America
GIABA	Inter Governmental Group against Money Laundering in West Africa
GNCG	Global Network Coordination Group
GPFI	(G20) Global Platform for Financial Inclusion
ICRG	International Co-operation Review Group
IMF	International Monetary Fund
MENAFATF	Middle East and North Africa Financial Action Task Force
MER	Mutual Evaluation Report
MONEYVAL	Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
PEP	Politically exposed person
VTC	Voluntary Tax Compliance
WGEI	Working Group on Evaluations and Implementation
WGTM	Working Group on Money Laundering and Terrorist Financing
WGTYP	Working Group on Typologies





# Letter from the FATF President

## Giancarlo Del Bufalo

This Plenary year we achieved two major milestones: **new international standards on combating money laundering, the financing of terrorism and the financing of the proliferation of weapons of mass destruction**, and a **new mandate** for the FATF to continue the fight against illicit finance.

It was a privilege for me to have been part of the FATF family this past year and to have contributed to these achievements.

The review of the FATF standards was a complex process that was started, and continued, under the Presidency of my predecessors in June 2009. The private sector and civil society are vital partners in ensuring the integrity of the financial system, the FATF therefore took an inclusive approach to the review, involving not only governments but also the private sector and civil society. This work has resulted in a set of Recommendations that will provide governments with stronger and more targeted tools to take action against financial crime.

A key element of the revised standards is that countries will now have to identify, assess and understand their money laundering and terrorist financing risks

as part of the risk-based approach. This will allow them to better adopt an effective and appropriate response to these risks.

The new Recommendations provide measures that will strengthen the requirements to identify the real people behind legal persons and transactions. They also provide measures to deal with those individuals that have prominent positions in government or large international organisations and who, because of their powerful positions and access to funds, are susceptible to corruption.

The new FATF Recommendations show our global shared commitment to strong



*Giancarlo Del Bufalo*  
FATF President 2011-2012

and effective measures to fight financial crime. The endorsement of these revised standards by the ministers of FATF member countries and the special statement issued by G20 Ministers, confirm the broad political support for the FATF and its international standards.

The renewal by all the FATF Ministers of the FATF Mandate until 2020, was another important milestone for FATF. The new mandate reaffirms the close co-operation between the FATF, the International Monetary Fund (IMF), the World Bank and the United Nations. Along with the establishment of the Global Network Coordination Group (GNCG) the new mandate also strengthens the ties between FATF and the FATF-Style Regional Bodies (FSRBs).

It has been a stimulating and rewarding year for me and I wish to express my thanks to the delegations and the members of the Secretariat for their support and confidence. I am confident that under the leadership of my successor Bjorn S. Aamo, the FATF will build an even stronger global network that is working together to fight money laundering, the financing of terrorism and the financing of proliferation.

A handwritten signature in black ink, which appears to read 'Giancarlo del Bufalo'. The signature is written in a cursive, flowing style.

Giancarlo del Bufalo  
FATF President (2011-2012)



*Rick McDonnell*  
FATF Executive Secretary

## Foreword by the FATF Executive Secretary **Rick McDonnell**

This year has been an exceptionally busy one for the Secretariat in supporting the FATF's work.

As the President has noted, the adoption of the revised FATF Recommendations in February 2012 was a major achievement involving several working groups, analysis of over 140 detailed responses from government and private sectors and the on-going review of the process and procedures which will be needed to undertake the next round of mutual evaluations next year. There will be a standard methodology and approach used by the FATF, the FSRBs, the IMF and the World Bank in carrying out country assessments.

The FATF mutual evaluation process is a rigorous mechanism to assess how well the FATF Recommendations have been implemented. The next round of mutual evaluations, will place greater emphasis on the effectiveness of the measures taken to combat money laundering and terrorist financing. There will also be continuing follow-up on evaluations to ensure that countries remedy identified deficiencies.

The combined work of the FATF and the FSRBs (the global network comprising 187 jurisdictions) has brought about a

demonstrable change in global efforts to combat money laundering and terrorist financing. The FATF Secretariat and all the FSRB Secretariats are co-operating closely in order to maintain this momentum.

In addition to the revision of the FATF Recommendations, the FATF's working groups have continued to produce guidance on terrorist financing issues, typologies reports and financial investigation guidance, supporting anti-corruption efforts, facilitating financial inclusion and, not least, ensuring better international co-operation.

In terms of public profile and knowledge, the FATF has revamped its website, created Facebook and Twitter pages and updated its logo. These communication tools are part of the FATF's objective to broaden awareness of the FATF standards and its practical work and to enhance effective communication with its stakeholders and the general public.

With these operational and communication measures in place, the FATF should be well placed to carry out the work assigned to it under its new mandate.

## MANDATE RENEWAL

This year, FATF ministers endorsed a new 8-year mandate for the FATF which builds on the accomplishments of the body and identifies the challenges facing it in the future.

The FATF was created in 1989 by the Ministers of G7 countries to address the mounting concerns over illegal narcotics trafficking which were increasingly recognised as a problem of world-wide and alarming proportions.

The efforts of national law enforcement bodies on their own were deemed to be insufficient to deal with the wide geographical spread of the production and distribution activities of illegal narcotics and the ability to move drug money across borders. The problem required a multinational response: the FATF was established with the mission to examine and develop measures to combat money laundering. The 40 Recommendations, a set of global standards to detect and combat money laundering, were published the following year.

The FATF's mandate expanded over the years to respond to emerging threats. In 2001, following the terrorist attacks of September 11, the mandate was expanded to include efforts to combat terrorist financing. The eight (later increased to nine) Special Recommendations were created to specifically address terrorist financing.

The renewed Mandate, adopted at the meeting of Ministers and representatives of the Financial Action Task Force in Washington on 20 April 2012, reaffirms the FATF as the international standards-setter for combating money laundering and the financing of terrorism, as well as the financing of the proliferation of weapons of mass destruction (see Annex II for the Ministerial Declaration and the full text of the FATF Mandate).



*Meeting of FATF Ministers, adoption of the renewed FATF Mandate Washington, April 2012*

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## ■ **DEVELOPING AND REFINING THE FATF RECOMMENDATIONS**

The *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation*, or the *FATF Recommendations*, provide a comprehensive framework for building a co-ordinated and effective response to these problems and the threat they pose to the integrity of the international financial system. The FATF will continue to promote adequate and effective implementation of its Recommendations through refinements to these standards and the issuance of additional guidance when necessary.

## ■ **ASSESSING AND MONITORING IMPLEMENTATION OF THE FATF RECOMMENDATIONS**

The FATF system of peer reviews, or mutual evaluation programme, allows the FATF to assess the level of implementation of the FATF Recommendations by its members. The FSRBs and other bodies such as the IMF and the World Bank, also conduct evaluations or assessments. During the previous mandate of the FATF, nearly 200 countries or jurisdictions were evaluated to determine their compliance with the FATF Recommendations. A rigorous follow-up process ensured that shortcomings in their anti-money laundering/counter-terrorism financing (AML/CFT) systems were monitored and addressed. During the next mandate, the FATF will continue to assess countries' conformity with the FATF Recommendations. However, future evaluations will move beyond technical compliance and put more emphasis on assessing the effectiveness of measures put in place to implement the FATF Recommendations. They will aim to assess how far countries' AML/CFT domestic regimes contribute to achieve the goals underlying FATF Recommendations to address jurisdictions' money laundering and terrorist financing risks. The FATF will continue to work closely with the FSRBs, the IMF and the World Bank to refine evaluation procedures, the common assessment methodology and other processes for assessing compliance.

## ■ IDENTIFYING HIGH-RISK JURISDICTIONS

FATF's work to identify and monitor jurisdictions with strategic deficiencies in their AML/CFT regimes has been instrumental in bringing about changes in jurisdictions having weak systems. Nearly all of the jurisdictions identified by the FATF are working closely with the FATF to address these issues or have already made significant reforms to address strategic deficiencies.

The new FATF mandate instructs the FATF to continue to identify and engage with high-risk and non-cooperative jurisdictions and those with strategic deficiencies in their national regimes to protect the integrity of the international financial system.

## ■ TYPOLOGIES

Money laundering and terrorist financing trends and techniques evolve over time. The FATF carries out research on specific economic sectors and activities in order to determine their vulnerability to money laundering and terrorist financing. These studies, conducted by relevant experts from the public sector, are aimed at raising awareness and can lead to the development of new guidance on, or refinements to, the FATF Standards.

Under the new mandate, the FATF will continue to identify and analyse money laundering and terrorist financing and other related threats to the financial system, including what methods are used, their impact and in particular, support national, regional and global risk assessment initiatives.

## ■ NEW AND EMERGING THREATS

Over the years, the FATF has examined and responded to a number of new and emerging threats: financing of the proliferation of weapons of mass destruction; corruption; and new payment methods. The FATF has informed policy makers of these new threats and developed guidance to assist both governments and the private sector in addressing them. In certain cases, specific changes have been made to the FATF Recommendations.

New threats to the integrity of the financial system will continue to emerge over time. The FATF needs to maintain a flexible structure, which will enable it to address new and significant threats as identified by the international community, including the United Nations Security Council, the G20, other relevant bodies, and the FATF itself.

■ **ENGAGING AND CONSULTING WITH THE PRIVATE SECTOR**

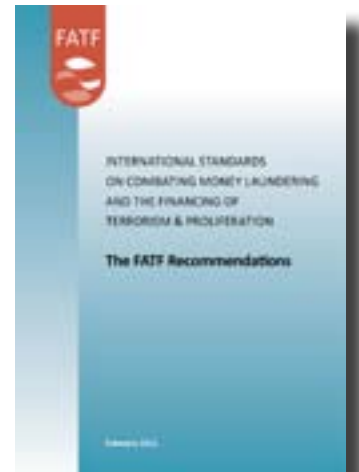
As during the previous mandate period, the new FATF Mandate specifies that it will continue to engage and consult with the private sector and civil society to ensure that their views and concerns are taken into account.

■ **PROMOTING FULL AND EFFECTIVE IMPLEMENTATION OF THE FATF RECOMMENDATIONS BY ALL COUNTRIES**

Through the FATF's global network of the FATF and eight FSRBs, there are today 187 countries or jurisdictions that have committed to the FATF Recommendations. The FATF will continue to work closely with the FSRBs, the IMF and the World Bank to ensure that there is a sound understanding of the FATF Recommendations and a consistent application of the mutual evaluation and follow-up processes.

At the same time, the FATF will seek to expand its global coverage by encouraging countries not yet involved in the global network to join a relevant FSRB.

## REVISION OF THE FATF RECOMMENDATIONS



The FATF Recommendations are the globally recognised and implemented international standards on combating money laundering and the financing of terrorism and proliferation. Through a network of FSRBs, jurisdictions have committed to applying the FATF's measures to combat money laundering and terrorist financing.

Shortly after its creation in 1989, the FATF developed the original FATF 40 Recommendations to combat money laundering. These FATF Recommendations, published in 1990, provided governments and financial institutions with tools to take action against money laundering.

Money laundering trends and techniques and their threat to the international financial system continued to evolve, leading to a revision of the FATF Recommendations in 1996. In October 2001, the FATF mandate was expanded to include terrorist financing. The eight Special Recommendations were established to address this issue.

To ensure that the FATF Recommendations remained a comprehensive and up-to-date

framework for combating money laundering and terrorist financing, the 40 Recommendations and the eight Special Recommendations were revised in 2003 to take into account changing money laundering and terrorist financing threats. In October 2004, the FATF published a ninth Special Recommendation.

Today, governments' defences against money laundering and terrorist financing have evolved and strengthened, but the threats posed to the international financial system have also evolved and continue to have significant costs to people and economies, while new threats have also emerged.

In June 2009, as the end of its third cycle of mutual evaluations was approaching, the FATF commenced





Press Conference, Adoption of the revised FATF Recommendations, 16 February 2012.  
 From left to right, Rick McDonnell, FATF Executive Secretary; Giancarlo Del Bufalo, FATF President; Richard Chalmers (United Kingdom) and Alex Karrer (Switzerland), Co-Chairs of the FATF Working Group on Evaluations and Implementation.

a revision of its 40+9 Recommendations, to take into account the changing threats to the international financial system, and close any shortcomings and loopholes in the existing Recommendations, reflecting the lessons learnt from implementing and evaluating them. The revision of the FATF Recommendations was an inclusive process, involving government officials, private sector and civil society through a series of public consultations and private sector consultative forum meetings.

The revised *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation (the FATF Recommendations)* were adopted in February 2012 and fully integrate the counter-terrorist financing measures with the anti-money laundering measures and include counter-financing of proliferation measures for the first time.

These new Recommendations provide governments and financial institutions with stronger tools to address financial crime while at the same time addressing new priority areas. New and revised Interpretive Notes give better guidance for the implementation of the Recommendations.

The revised Recommendations aim to achieve the following balance:

**The Requirements have been strengthened in areas which are high risk or where implementation could be enhanced. They have been expanded to deal with new threats such as the financing of proliferation of weapons of mass destruction and to be clearer on transparency and tougher on corruption.**

**The Recommendations are also better targeted. Financial institutions and other designated sectors will be able to apply their resources more efficiently by adopting the risk-based approach to identify and focus on higher risk areas. There is more flexibility to apply simplified measures to low risk areas.**

“ The revised Recommendations include requirements for stronger safeguards in the financial sector, strengthened law enforcement tools and improved international co-operation. ”

Giancarlo Del Bufalo  
FATF President 2011-2012

## The main changes to the FATF Recommendations are:

- **Financing of the proliferation of weapons of mass destruction**, which poses a significant concern to the security of the financial system, has been addressed by a new Recommendation which is aimed at ensuring a consistent and effective implementation of targeted financial sanctions when these are called for by the UN Security Council. Additionally, countries are required to implement effective mechanisms to enable their authorities to co-operate and co-ordinate at the domestic level concerning the development and implementation of policies to combat the financing of proliferation of weapons of mass destruction.
- **An enhanced risk-based approach** enables countries and the private sector to apply their resources more effectively. This major revision in the FATF Recommendations requires that countries should clearly understand the money laundering and terrorist financing risks which affect them, and adapt their AML/CFT system to the nature of these risks. This approach will allow them to apply enhanced measures where the risks are higher and it will give them the option to apply simplified measures where the risks are lower. A well-implemented risk-based approach will result in a more effective, flexible, and less costly AML/CFT system. A better understanding of the risks will also mean countries are better able to use their resources to detect financial crime, take enforcement action and apply preventative measures that correspond to the risks of particular sectors or activities.

■ **International co-operation** continues to be an important requirement, given the increasing globalisation of money laundering and terrorist financing threats. The FATF has enhanced the scope and application of international co-operation between competent authorities and between financial groups. The revised Recommendations will mean more effective exchanges of information for investigative, supervisory and prosecutorial purposes. This will also assist countries in tracing, freezing, confiscating and repatriating criminal assets.

■ **Operational standards:** the FATF Recommendations concerned with law enforcement and Financial Intelligence Units have been expanded significantly. They set out a wider range of investigative techniques and powers which should be available to them, *e.g.*, to obtain and analyse financial information about a suspected criminal's accounts and transactions.

The FATF has issued guidance on Financial Investigations which will help countries better understand law enforcement's role in the larger AML/CFT context, specifically addressing the role of financial investigations (see page 27).



■ **Measures to combat corruption** have been taken by tightening the requirements on politically exposed persons, who may pose a higher risk of corruption by virtue of the positions they hold. The requirement to apply enhanced due diligence to foreign politically exposed persons has been expanded, with new requirements applied to domestic politically exposed persons and international organisations, and to the family and close associates of all politically exposed persons (who are often used by corrupt kleptocrats and officials to help launder the proceeds of corruption).

- **Improved transparency** makes it harder for criminals and terrorists to conceal their identities or hide their assets behind legal persons and arrangements. The revised FATF Recommendations require that there is reliable information available about the beneficial ownership and control of companies, trusts, and other legal persons or arrangements. The FATF Recommendations also contain more rigorous requirements for electronic funds transfers. These measures will significantly increase transparency about the ownership and control of legal persons and legal arrangements and parties to electronic funds transfers which will strengthen global anti-corruption efforts.
- **Tax crimes** have been included in the list of crimes which countries must treat as predicate offences for money laundering. This will bring the proceeds of tax crimes within the scope of the powers and authorities used to combat money laundering. The smuggling offence has also been clarified to include offences relating to customs and excise duties and taxes. This will contribute to better co-ordination between law enforcement, border and tax authorities and remove potential obstacles to international co-operation regarding tax crimes.

The revised FATF Recommendations set clear requirements for countries. A rigorous and objective assessment of countries' implementation of these requirements will be conducted through the fourth cycle of mutual evaluations. The fourth round of mutual evaluations will assess both technical compliance through laws and regulations and the effectiveness of the AML/CFT measures put in place. The FATF has started the revision of the assessment methodology to be used by the FATF, FSRBs, the IMF and the World Bank in assessments of countries' compliance with the FATF standards.

## FATF AND CORRUPTION

In response to the G20 request that the FATF assist in the fight against corruption, the FATF has provided the G20 with regular updates on anti-corruption related developments. The FATF also continues to work closely with the G20 Anti-Corruption Working Group to implement the G20 Anti-Corruption Action Plan as adopted by the G20 Seoul Summit Leaders and contributes to OECD's Anti-Corruption peer reviews to ensure consistency with the FATF's mutual evaluation and follow-up process findings.

The FATF is committed to raise awareness of how AML/CFT measures can be leveraged to combat corruption and to ensure that corruption is taken into account in the assessment of effectiveness in the next round of mutual evaluations, which will be based on the 2012 FATF Recommendations.

## GUIDANCE

The FATF has adopted its first best practices paper for the revised FATF Recommendations. This best practices paper focuses on information sharing and exchange related to the financing of the proliferation of weapons of mass destruction. The paper provides guidance on the implementation of Recommendation 2 (*National co-operation and co-ordination*) and assists jurisdictions in engaging appropriate authorities in order to best exchange financial intelligence and apply targeted financial sanctions to combat proliferation.

The FATF has also developed guidance on financial investigation which provides necessary useful information to law enforcement agencies that are now called on to complement any investigations of major proceeds-generating predicate offences with parallel financial investigations (see page 27).

The FATF will continue updating its guidance and best practice papers to reflect the revisions in the FATF Recommendations.

## AML/CFT AND FINANCIAL INCLUSION

Ensuring that low-income and underserved populations gain access to financial services that meet AML/CFT requirements, remains a priority for the FATF. In June 2011, the FATF published the *FATF Guidance on Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion*. This report provides support to countries and their financial institutions in designing AML/CFT measures that meet the national goal of financial inclusion, without compromising the measures that exist for the purpose of combating financial crime.

Following the adoption of the revised FATF Recommendations, the FATF has initiated a process to update the guidance to reflect the new requirements, such as the general application of the risk-based approach. The FATF has invited the FSRBs to contribute to this work, so that the

revised Guidance is adapted to the national/ domestic context of the countries where access to financial services is a major challenge.

FATF's initiative to specifically address the issue of financial inclusion in the AML/CFT context was positively received by the international community. In September 2011, the G20 Global Platform for Financial Inclusion (GPFI) welcomed FATF's initiative in its White paper on *Global Standard-Setting Bodies and Financial Inclusion for the Poor – Towards Proportionate Standards and Guidance*<sup>1</sup>. The FATF continues working closely with the GPFI, to facilitate the implementation of global standards in low capacity countries and with respect to financial inclusion objectives.

1. [www.gpfi.org/knowledge-bank/white-papers](http://www.gpfi.org/knowledge-bank/white-papers)

## MONITORING COMPLIANCE

The FATF's Mutual Evaluation process is an in-depth peer review process, which provides a detailed description and analysis of a country's AML/CFT system for preventing, detecting, investigating and sanctioning criminal abuse of the financial system.

### FOURTH ROUND OF EVALUATIONS

With the adoption of the revised FATF Recommendations, the FATF is now focusing on the next phase: reviewing and enhancing the assessment process of the fourth round of mutual evaluations, which will start in the last quarter of 2013.

The next round of evaluations will have an even stronger focus on judging how effectively countries are implementing the FATF Recommendations in practice.

The FATF is working closely with its delegations and other assessing bodies, including the IMF, the World Bank, and the FSRBs to develop the methodology for assessing the level of compliance with the new FATF Recommendations.

During this time, the FATF is also working with its partners, including the private sector, to create greater awareness of the requirements of the revised Standards.

The new methodology will be used by the FATF for its fourth round of mutual evaluations as well as by the FSRBs, the IMF and the World Bank.

## THIRD ROUND FOLLOW-UP

The FATF completed its third round of mutual evaluations last year. Although no new mutual evaluations have been conducted by the FATF this year, the FATF has continued its follow-up process for countries assessed during the third round of mutual evaluations.

The completion of a Mutual Evaluation Report is not the end of the FATF's interest in a country's AML/CFT system, but the start of a process where the evaluated country works to address any deficiencies that were identified during the mutual evaluation process. The FATF monitors countries' progress in improving their AML/CFT systems through its follow-up process.

Evaluated jurisdictions with a high level of compliance with the FATF Recommendations are required to report back to the Plenary two years after their evaluation, with an update on improvements they have made. The FATF Plenary refers to these reports as biennial updates. If insufficient progress is being made, or if the AML/CFT deficiencies are of a serious nature, then a country may be placed in the follow-up process, in which case it will need to report back to the FATF on a more regular basis.

Greece and China submitted follow-up reports in October 2011 and February 2012 respectively. The FATF Plenary considered these reports and decided on both occasions that the jurisdiction had sufficiently addressed the problem areas in its AML/CFT system that were identified during the mutual evaluation. Henceforth, both countries can provide biennial updates to the FATF Plenary on any further improvements to their AML/CFT system.

**Table 1. The FATF mutual evaluation and follow-up process**

FATF Member	June 2005	October 2005	February 2006	June 2006	October 2006	February 2007	June 2007	October 2007	February 2008	June 2008	October 2008	February 2009	June 2009	October 2009	February 2010	June 2010	October 2010	February 2011	June 2011	October 2011	February 2012	June 2012		
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United States																								

Mutual Evaluation report
  Biennial report
  Follow-up report
  Enhanced Follow-up
  End of Follow-up procedure



## FATF-STYLE REGIONAL BODIES' ASSESSMENTS

During the past year, the FSRBs adopted 16 mutual evaluations. These mutual evaluations were based on the FATF 40+9 Recommendations as they were published in 2004. The full reports are, or will be, available on the websites of the assessing bodies.

It is important that there be a consistent approach in conducting mutual evaluations, whether they are conducted by the FATF, the FSRBs, the IMF or the World Bank. This is achieved by a close collaboration between the Secretariats of the FATF and the FSRBs, and the IMF and World Bank through the use of standard documentation and by participation in the examination and discussion of draft evaluation reports.

Approximately half of the FATF members are also members or observers of one or more of the FSRBs.

**Table 2. Assessments conducted by FSRBs**

FSRB	Country/countries assessed
APG	Afghanistan Marshall Islands Maldives Lao PDR Nepal Papua New Guinea
CFATF	Curaçao Guatemala
EAG	<i>none</i>
ESAAMLG	Lesotho Kenya
GAFISUD	Ecuador
GIABA	<i>none</i>
MENAFATF	<i>none</i>
MONEYVAL <sup>1</sup>	Andorra Cyprus Malta San Marino Slovak Republic

1. MONEYVAL is in the process of conducting a 4th "follow-up" round on the basis of the 2004 FATF Methodology. Generally, this round examines the current effectiveness of implementation of all key and core and some other important FATF recommendations (i.e., Recommendations 1, 3, 4, 5, 10, 13, 17, 23, 26, 29, 30, 31, 32, 35, 36 and 40, and SRI, SRII, SRIII, SRIV and SRV), whatever the rating achieved in the 3rd round, as well as all other FATF recommendations where the rating was NC or PC in the 3rd round.

## VOLUNTARY TAX COMPLIANCE PROGRAMMES

In June 2010, the FATF adopted four basic principles in relation to AML/CFT policy implications of voluntary tax compliance programmes<sup>1</sup>. The FATF asked its members to inform the FATF Plenary of any existing or

future voluntary tax compliance (VTC) schemes, including tax amnesty/asset repatriation programmes. As a result, the FATF Plenary reviewed a number of voluntary tax compliance programmes this year, to determine whether

1. [www.fatf-gafi.org/documents/repository/taxamnestyandassetrepatriationprogrammes.html](http://www.fatf-gafi.org/documents/repository/taxamnestyandassetrepatriationprogrammes.html)

they respected the FATF principles. The FATF issued a statement in October 2011 regarding the VTC programme in Bangladesh which was found to be in breach of the FATF's principles, and its negative impacts on AML/CFT measures in the country. Bangladesh is a member of the Asia/Pacific Group on Money Laundering (APG), and in December 2011 a high-level APG delegation visited Bangladesh to discuss concerns in relation to the scheme. In January 2012 Bangladesh amended the scheme to address these concerns. The FATF, through the International Co-operation Review Group (ICRG), also continues to monitor the AML/CFT risk emanating from the implementation of Bangladesh's programme.

There were initial concerns about the VTC programme of Curaçao which was discussed at the FATF Plenary in June 2012. Curaçao has committed to ensuring that the programme will comply with the FATF's four principles. The FATF will decide at the October 2012 Plenary whether further action should be taken in relation to Curaçao.

## TYPOLOGIES

The methods used to launder and use illicit assets are in constant evolution. In order for the standards to remain relevant and effective, the FATF must keep up to date with the latest money laundering and terrorist financing methods, techniques and trends.

The FATF constantly monitors and identifies new threats and risks to the financial system and publishes the findings in typologies reports. These reports are aimed at raising global awareness and allow an early detection of use and abuse of the systems. They are also instrumental to ensure the development of the most appropriate standards to respond globally to these new and emerging money laundering and terrorist financing risks and threats.

The conclusions generated by the typologies studies played an important role in the revision of the FATF Recommendations. The threat to the financial system posed by the financing of the proliferation of weapons of mass destruction was identified through

the typologies work of the FATF. The identification of this new threat led to the development of new guidance and ultimately to the inclusion of the financing of proliferation in the revised FATF Recommendations. The new FATF Recommendations, which were adopted in February 2012, provide countries with the tools to build stronger safeguards to face today's threats and challenges to the financial system.

## 2011 TYPOLOGIES EXERCISE

The FATF and the Asia/Pacific Group on Money Laundering (APG) jointly organised the annual experts' meeting on typologies. The meeting took place in Busan, Korea from 5 to 9 December 2011.

Participation at this event was the highest since the FATF started organising annual meetings for typologies experts. This ninth joint meeting brought together over 270 participants, representing 60 national delegations from the FATF and APG memberships.

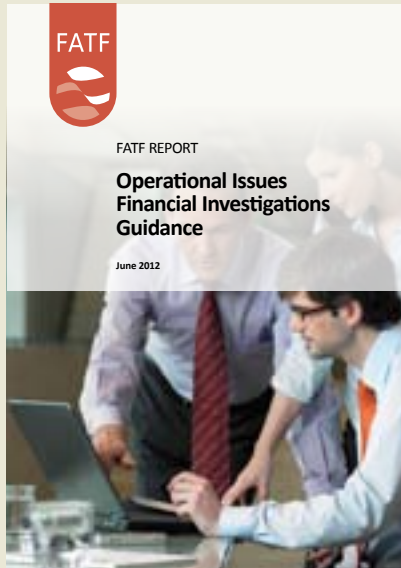
The annual expert meetings centre on a series of workshops where on-going research projects are discussed and new areas for research are identified. This year's workshops focused on: trade-based money laundering, the illegal tobacco trade, operational issues and corruption which were then followed by a round-table discussion of conclusions. The discussions allowed those working on the research projects to validate the work done so far and helped them to identify any areas where additional focus was required.

A separate seminar was organised jointly by the Egmont Group and APG in the margins of the annual typologies meeting. The seminar was aimed at regional Financial Intelligence Units (FIU) and jurisdictions in the process of setting up an FIU, to increase their understanding on the roles and functions of FIUs, the challenges faced by FIUs and presented proposed strategies to enhance FIUs' operational efficiency. Further capacity building seminars were organised by the APG, ESAAMLG and the Commonwealth Secretariat to focus on actions to tackle proceeds of crime issues.

## TYPLOGIES RESEARCH 2011-2012

In 2011-2012, the FATF completed and published three typologies research studies. All three reports were discussed and approved by the FATF Plenary at the June 2012 Plenary in Rome.

## OPERATIONAL ISSUES – FINANCIAL INVESTIGATIONS GUIDANCE



The FATF Recommendations are designed to detect illicit financial activity, protect the integrity of financial systems, bring criminals to justice and prevent threats to national security. Financial investigations are one of the core elements in the fight against money laundering and terrorist financing. For these investigations to be effective, a country needs to have a well-functioning operational framework: law enforcement and investigative authorities need to have the necessary responsibilities and powers and a framework of co-operation with domestic partners and international counterparts needs to exist. The FATF has issued guidance to help countries understand the important role of law enforcement in conducting money laundering, terrorist financing and asset-tracing investigations. The guidance also provides strategies and techniques to assist countries to increase the effectiveness of such investigations.

For more information, see [www.fatf-gafi.org/topics/methodsandtrends](http://www.fatf-gafi.org/topics/methodsandtrends).

## SPECIFIC RISK FACTORS IN LAUNDERING THE PROCEEDS OF CORRUPTION



The revised FATF Recommendations, adopted in February 2012, require that additional measures for specific customers and activities be put in place. Specifically, appropriate risk management systems need to be in place to determine whether a customer or beneficial owner is a politically exposed person. The FATF report *Laundering the Proceeds of Corruption*, published in 2011, analysed the relationship between corruption and money laundering. The FATF has continued with this work to explore whether specific types of business relationships, customers or products are more at risk of corruption-related money laundering. In June 2012, the FATF adopted a second report that lays out specific risk factors related to laundering of corruption proceeds.

This report should assist practitioners in the financial sector to better understand and identify the risk factors that may indicate the laundering of corruption proceeds.

For more information, see [www.fatf-gafi.org/topics/methodsandtrends](http://www.fatf-gafi.org/topics/methodsandtrends).

## ILLICIT TOBACCO TRADE



The FATF has now completed typologies research on the illicit trade in tobacco. This is a global problem that generates significant revenue: it represents approximately one tenth of the global trade in cigarettes which is estimated at USD 40.5 billion per year. In addition to its financial impact, illicit trade in tobacco also creates substantial loss of tax revenue. This FATF report analyses the extent of money laundering and terrorist financing vulnerabilities of the illicit tobacco trade at global, regional and domestic levels. Supported by case studies, it provides an overview of existing responses to the phenomenon and will assist jurisdictions in knowledge building and in identifying the consequences and elements that facilitate the illicit trade in tobacco.

For more information, see [www.fatf-gafi.org/topics/methodsandtrends](http://www.fatf-gafi.org/topics/methodsandtrends).

## HIGH-RISK AND NON-COOPERATIVE JURISDICTIONS

One of the key objectives of the FATF is to identify and engage with high-risk, non-cooperative jurisdictions and those with strategic deficiencies in their national AML/CFT regimes and co-ordinate action to protect the integrity of the financial system against the threat posed by them.

Public identification of these jurisdictions has proved to be successful in encouraging them to improve their AML/CFT systems and has resulted in better worldwide compliance with the standards and enhanced international co-operation to counter money laundering, terrorist financing, and other related threats. The FATF public statements in this area provide an indication of the strategic risk emanating from each country identified and therefore the protective measures that should be taken.

The work of identifying and engaging with jurisdictions that have strategic deficiencies is carried out by the FATF's International Co-operation Review Group (ICRG), which reviews and monitors a large number of potentially high-risk and non-cooperative jurisdictions around the world.

These efforts have been reinforced by consistent calls from the G20 since 2009 for the FATF to continue its successful work in identifying non-cooperative jurisdictions as well as regularly updating a public list on non-cooperative jurisdictions and jurisdictions with strategic deficiencies.

Since 2008, the FATF has issued public statements, three times a year, expressing concerns and calling for particular actions from FATF members and other jurisdictions. In particular, the FATF called upon its members and urged all other jurisdictions to strengthen preventive measures and apply effective counter-measures against Iran and the Democratic People's Republic of Korea, since February 2009 and February 2011, respectively.

Initial referral to the ICRG is based on information on threats, vulnerabilities or particular risks emanating from a specific jurisdiction that comes to the ICRG's attention. Such information includes, but is not exclusively based on, the results of mutual evaluation reports (MERs); or the lack of a clear commitment to implementing the FATF standards through non-participation in any of the FATF-style regional bodies. Jurisdictions that are identified as having serious AML/CFT threats and vulnerabilities or posing significant ML/FT risks are referred to the ICRG for a preliminary or *prima facie* review conducted by one of the four regional review groups, covering, respectively: the Africa/Middle East, the Americas, the Asia/Pacific, and the Europe/Eurasia regions. Based upon reports from these groups, the FATF decides whether it should conduct a more in-depth, targeted review of the relevant jurisdiction's strategic AML/CFT deficiencies. Each reviewed jurisdiction is provided an opportunity to participate in face-to-face meetings with the regional review group in order to discuss the report, including developing an action plan with the FATF to address the deficiencies identified. The FATF specifically requests high-level political commitment to implement these action plans.

On the basis of the results of the ICRG review, jurisdictions may be publicly identified in the *FATF Public Statement*. The *Public Statement* identifies two groups of countries, namely

1. jurisdictions for which the FATF calls on its members and non-members to apply counter-measures and
2. jurisdictions for which the FATF calls only

on its members to consider the risks arising from the deficiencies associated with the countries.

This second category includes jurisdictions that have not made sufficient progress in addressing the deficiencies or have not committed to an action plan developed with the FATF to address the deficiencies. As of June 2012, counter-measures are called for by the FATF for: **Iran**, and **the Democratic People's Republic of Korea**, while the second group of jurisdictions in the Public Statement includes:

- **Bolivia**
- **Cuba**
- **Ecuador**
- **Ethiopia**
- **Ghana**
- **Indonesia**
- **Kenya**
- **Myanmar**
- **Nigeria**
- **Pakistan**
- **São Tomé and Príncipe**
- **Sri Lanka**
- **Syria**
- **Tanzania**
- **Thailand**
- **Turkey**
- **Vietnam**
- **Yemen**

Due to the lack of progress made by **Kenya**, **Myanmar** and **Turkey**, the FATF decided in June 2012 that if these jurisdictions do not take significant actions by October 2012, the FATF will call upon its members and non-members to apply counter-measures proportionate to the risks associated with each jurisdiction.



In addition, the FATF regularly issues a second public document *Improving Global AML/CFT Compliance: On-going process*, that identifies jurisdictions with strategic AML/CFT deficiencies that have provided a high-level political commitment to address those deficiencies through implementation of an action plan developed with the FATF. The FATF encourages its members to consider the strategic deficiencies identified for these jurisdictions. As of June 2012, this includes the following jurisdictions:

- **Afghanistan**
- **Albania**
- **Algeria**
- **Angola**
- **Antigua and Barbuda**
- **Argentina**
- **Bangladesh**
- **Brunei Darussalam**
- **Cambodia**
- **Kyrgyzstan**
- **Kuwait**
- **Mongolia**
- **Morocco**
- **Namibia**
- **Nepal**
- **Nicaragua**
- **Philippines**
- **Sudan**
- **Tajikistan**
- **Trinidad and Tobago**
- **Venezuela**
- **Zimbabwe**

If the FATF is not satisfied with the progress made by any of these jurisdictions in addressing the identified AML/CFT deficiencies in line with

their high-level political commitment the FATF calls on the jurisdiction to implement significant components of its action plan, otherwise the jurisdiction will be moved to the *Public Statement*. A number of jurisdictions currently identified in the *Public Statement* have been moved on this basis.

As a pre-condition of the FATF decision on removing a country from the ICRG review process and public identification, the country must address all or nearly all the deficiencies identified in its action plan; the FATF then decides whether an on-site visit to the named jurisdiction is warranted to confirm the action plan implementation. A report of that visit is presented to the FATF Plenary to decide whether removal is justified. During the year 2011-2012, the FATF concluded that Greece, Honduras, Paraguay, Ukraine, and Turkmenistan demonstrated significant progress against their actions plans and were removed from the ICRG process. In June 2012, the FATF also decided that it will conduct an on-site visit to Trinidad and Tobago before October 2012 to confirm that the process of implementing the required reforms and actions is underway.

The FATF will continue monitoring the progress made in all identified jurisdictions and will continue identifying and reviewing potentially non-cooperative jurisdictions in this process. Engaging with these jurisdictions to strengthen global AML/CFT compliance contributes to a more successful fight against money laundering and terrorist financing, and serves to protect the integrity of the international financial system.

## STRENGTHENING THE AML/CFT NETWORK

The FATF is committed to engaging with its stakeholders and partners throughout the world to successfully fight against money laundering and terrorist financing.

### DIALOGUE WITH THE PRIVATE SECTOR CONSULTATIVE FORUM

In recent years, the FATF has sought input from private sector, civil society, and other stakeholders on a regular basis. The FATF recognises that it relies on input from the private sector in order to remain informed about the latest developments and to ensure that the FATF Recommendations and guidance remains relevant. This has resulted in a strong dialogue with key private sector representatives.

Throughout the process of revising the FATF Recommendations, the FATF reached out to the private sector on a range of issues, such as the risk-based approach; the inclusion of tax crimes as predicate offence for money laundering; customer due diligence measures and legal arrangements;

politically exposed persons; etc. This included joint work by FATF and private sector experts to develop proposals on issues of particular interest, such as reliance on third parties. The valuable input provided the FATF with a clear insight into specific requirements of different segments of the private sector and the views of civil society.

The private sector played a particularly important role in the revision of the FATF Recommendations. The Private Sector Consultative Forum, which facilitates the dialogue between financial and non-financial sectors and the FATF, met twice during the year to review the revisions to the FATF Recommendations.

In December 2011, the Private Sector Consultative Forum was given the opportunity to discuss the proposed revisions to the FATF Recommendations before these revisions were submitted for approval to the FATF Plenary. The Private Sector Consultative Forum met with the FATF again in April 2012, following the adoption of the FATF Recommendations. This meeting was an opportunity to provide detailed feedback to private sector and civil society representatives

on the revised FATF Recommendations and to discuss next steps, including implementation of the revised FATF Recommendations and future co-operative work by the FATF and private sector on guidance and typologies.

## CO-OPERATION WITH INTERNATIONAL ORGANISATIONS & BODIES

### G20

At the 2009 Pittsburgh Summit and subsequent Summits, the G20 Leaders have welcomed the progress made by the FATF in combating money laundering and terrorist financing. At the 2011 Cannes Summit, the G20 Leaders specifically requested the FATF to present its new standards to their next summit so that G20 members could commit to full, effective and consistent implementation of these standards. In response to this request, the FATF presented the revised FATF Recommendations to the G20 Leaders at the 2012 Los Cabos Summit. The G20 Leaders Declaration from Los Cabos gives strong support for the renewal of the FATF mandate and the adoption of the revised FATF Recommendations. This is an endorsement by the G20 Leaders of the FATF's on-going importance in the fight against money laundering and the financing of terrorism and proliferation.

### CLEANGOV.BIZ

FATF has joined forces with other organisations, such as the OECD, the United Nations, the World Bank, Transparency International, Extractive Industries Transparency Initiative and the World Economic Forum, in providing a comprehensive tool kit of measures and initiatives that will help governments fight corruption.

Cleangov.biz covers four key elements: healthy governance, effective prevention, sharp detection and robust prosecution and recovery. Each of the partner organisations in this initiative has valuable expertise in specific areas. The FATF contribution to this initiative focuses on how the effective implementation of the FATF Recommendations has a positive impact on anti-corruption efforts.

## FATF AND FATF-STYLE REGIONAL BODIES

As part of the FATF's commitment to promoting effective global implementation of the revised FATF Recommendations, the FATF is working closely with the FSRBs to move toward more harmonisation in the application of FATF and FSRB processes.

The establishment of the Global Network Coordination Group (GNCG) marks an important step forward in developing this co-operation. The GNCG met for the first time during the Rome plenary. This working group provides a practical forum for exchanging experiences between the FSRB's and with the FATF and for developing high standards of the work carried out by the various bodies and their secretariats.

In addition, the FATF President met with the Presidents of the FSRBs during the Rome Plenary in June 2012 to take this work forward.

During this meeting, discussion focused on co-ordination among FSRBs in the next round of evaluations.

The FATF took part in a series of FSRB training sessions on the new FATF Recommendations. These training sessions were an excellent opportunity to highlight the major changes in

the revised Recommendations to the members of the FATF/FSRB global network and to discuss issues related to the implementation of the revised requirements in the respective regions. FSRB members are encouraged to take an active part in the development of the Methodology for assessment of the FATF Recommendations as well as other on-going work for the implementation of the new Recommendations.

The FATF welcomed the *Groupe d'Action Contre le Blanchiment d'Argent en Afrique Centrale* (GABAC) as a new FATF observer organisation. GABAC is a body of the Economic and Monetary Community of Central Africa and is made up of the six members: Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea and Gabon. It was established in 2000 with a mandate to combat money laundering and terrorist financing, assess the compliance of its members against the FATF Standards, provide technical assistance to its member States and facilitate international co-operation.

The co-operation between the FATF and GABAC will help to extend the FATF global network on money laundering and terrorist financing into this region of the world.

**Table 3. Membership of the FATF and the FSRBs**

Country	FATF	APG	CFATF	EAG	ESAMLG	GAFISUD	GIABA	MENAFATF	MONREVVAL <sup>1</sup>
Afghanistan		member		observer					member
Albania								member	member
Algeria								member	member
Andorra									member
Anguilla			member						
Antigua and Barbuda			member						
Argentina	member					member			
Armenia				observer					member
Aruba	other		member						
Australia	member	member							
Austria	member								other
Azerbaijan									member
Bahamas			member						
Bahrain	other							member	
Bangladesh		member							
Barbados			member						
Belarus				member					
Belgium	member								
Belize			member						
Benin						member			
Bermuda			member						
Bhutan		member							
Bolivia					member				
Bosnia and Herzegovina									member
Botswana					member				
Brazil	member				member				
Brunei Darussalam		member							
Bulgaria									member
Burkina Faso						member			
Cambodia		member							
Canada	member	member	other		observer				
Cape Verde						member			
Cayman Islands			member						

member
  observer
  other

Country	FATF	APG	CFATF	EAG	ESAMLG	GAFISUD	GIABA	MENAFATF	MONREVVAL <sup>1</sup>
Chile						member			
China (People's Republic of)	member	member		member					
Chinese Taipei		member							
Colombia						member			
Comoros					member				
Cook Islands			member						
Costa Rica						member			
Croatia									member
Curaçao	other		member						
Cyprus									member
Czech Republic									member
Côte d'Ivoire							member		
Denmark	member								
Dominica			member						
Dominican Republic									
Ecuador						member			
Egypt								member	
El Salvador			member						
Estonia									member
Fiji		member							
Finland	member								
France	member	observer	other	other	observer			member	observer
Gambia							member		
Georgia									member
Germany	member	observer		observer	observer				
Ghana							member		
Greece	member								
Grenada			member						
Guatemala						observer			
Guinea							member		
Guinea-Bissau							member		
Guyana			member						
Haiti			member						

member
  observer
  other

Table 3. Membership of the FATF and the FSRBs (continued)

Country	FATF	APG	CFATF	EAG	ESAMLG	GAFISUD	GIABA	MENAFATF	MONREVVAL <sup>1</sup>
Holy See									member
Honduras			member						
Hong Kong, China	member	member							
Hungary									member
Iceland	member								
India	member	member		member					
Indonesia		member							
Iraq								member	
Ireland	member								
Israel									observer
Italy	member			observer					
Jamaica			member						
Japan	member	member							observer
Jordan								member	
Kazakhstan				member					
Kenya				member					
Korea	member	member							
Kuwait		other						member	
Kyrgyzstan				member					
Lao, People's Democratic Republic		member							
Latvia									member
Lebanon								member	
Lesotho				member					
Liberia								member	
Libya								member	
Liechtenstein									member
Lithuania				observer					member
Luxembourg	member								
Macao (China)		member							
Malawi				member					
Malaysia		member							
Maldives		member							

member
  observer
  other

Country	FATF	APG	CFATF	EAG	ESAMLG	GAFISUD	GIABA	MENAFATF	MONREVVAL <sup>1</sup>
Mali							member		
Malta									member
Marshall Islands			member						
Mauritania									member
Mauritius						member			
Mexico	member		other			member			observer
Moldova				observer					member
Monaco									member
Mongolia		member		observer					
Montenegro				observer					member
Montserrat			member						
Morocco									member
Mozambique						member			
Myanmar			member						
Namibia					member				
Nauru			member						
Nepal			member						
Netherlands	member		other						
New Zealand	member	member							
Nicaragua			member						
Niger							member		
Nigeria							member		
Niue			member						
Norway	member								
Oman			other						member
Pakistan			member						
Palau			member						
Palestinean Administered Areas									other
Panama							member		
Papua New Guinea			member						
Paraguay						member			
Peru						member			

member
  observer
  other

**Table 3. Membership of the FATF and the FSRBs (continued)**

Country	FATF	APG	CFATF	EAG	ESAMLG	GAFISUD	GIABA	MENAFATF	MONEYVAL <sup>1</sup>
Philippines		member							member
Poland				observer					member
Portugal	member					observer			
Qatar	observer							member	
Romania									member
Russian Federation	member	observer		member					member
Saint Kitts and Nevis			member						
Saint Lucia			member						
Saint Maarten	observer		member						
Saint Vincent and the Grenadines			member						
Samoa		member							
San Marino							member	member	member
Sao Tomé and Príncipe							member	member	
Saudi Arabia	observer							member	
Senegal						member			
Serbia				observer					member
Seychelles				member					
Sierra Leone							member		
Singapore	member	member							
Slovak Republic									member
Slovenia									member
Solomon Islands		member							
South Africa	member				member				
Spain	member		observer		observer			observer	
Sri Lanka		member							
Sudan								member	
Suriname			member						
Swaziland				member					

Country	FATF	APG	CFATF	EAG	ESAMLG	GAFISUD	GIABA	MENAFATF	MONEYVAL <sup>1</sup>
Sweden	member								
Switzerland	member								
Syrian Arab Republic									member
Tajikistan				member					
Tanzania					member				
Thailand		member							
Timor-Leste		member							
Togo								member	
Tonga		member							
Trinidad and Tobago			member						
Tunisia									member
Turkey	member			observer					
Turkmenistan				member					
Turks and Caicos Islands			member						
Uganda					member				
Ukraine				observer					member
United Arab Emirates	observer								member
United Kingdom	member	observer	observer		observer			observer	member
United States	member	observer	observer	observer	observer			observer	member
Uruguay						member			
Uzbekistan				member					
Vanuatu		member							
Venezuela			member						
Vietnam		member							
Virgin Islands (UK)			member						
Yemen								member	observer
Zambia					member				
Zimbabwe									

1.1 Following the adoption of the MONEYVAL Statute in October 2010 MONEYVAL uses the terminology “states (some of which are member states of the Council of Europe and some of which are not) evaluated by MONEYVAL” instead of “MONEYVAL members”. Other participants in MONEYVAL include observer states to the Council of Europe and any other FATF state not appointed by the FATF Presidency, together with other organisations.

## 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 administrative officer, one electronic information management officer 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 of and participating in mutual evaluation missions and drafting the related assessment reports.

The FATF Secretariat also liaises on an on-going 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 budget. Table 4 reflects the budget of the FATF for fiscal years 2011 and 2012.

**Table 4. FATF Budget summary, Fiscal years (FY) 2011 and 2012**

Budget items	Budget FY 2011	Budget FY 2012
Permanent staff, auxiliaries and consultants	2 146 981	2 210 065
Travel	295 000	275 000
Entertainment expenses	1 000	1 500
Operating expenditure	185 000	222 011
Share of OECD's overheads	326 000	328 000
Meeting room costs, documents, translation and interpretation	244 700	252 976
Hardware and other investments	7 650	20 083
Other IT costs	59 100	62 214
Carry forward/adjustments	40 014	
<b>Total</b>	<b>3 305 445</b>	<b>3 371 848</b>



# ANNEX I

## MINISTERIAL DECLARATION

### DECLARATION OF THE MINISTERS AND REPRESENTATIVES OF THE FINANCIAL ACTION TASK FORCE

[1] Effective action against money laundering and terrorist financing, including both preventive and law enforcement measures, is essential for securing a more transparent and stable international financial system. Likewise, new threats, such as the financing of proliferation of weapons of mass destruction, can emerge and result in the clandestine use of the international financial system. As an intergovernmental body established by the G7 Summit in 1989, the Financial Action Task Force (FATF) exists for the purpose of protecting the international financial system from misuse and to mobilise action to go after criminals and their assets. We, the Ministers and representatives of the FATF Members, reaffirm our commitment to the objectives of the FATF in developing policy and promoting effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and new and emerging threats to the integrity of the international financial system.

[2] The FATF Recommendations are the international standard for combating money laundering and the financing of terrorism and proliferation. They form the basis for a co-ordinated response to these threats to the integrity of the financial system and help to ensure a level playing field. We welcome the adoption by the FATF of revised standards in February 2012. We endorse the FATF Recommendations as an international standard and call on all countries to fully implement measures in line with them.

[3] Since full and effective implementation of the FATF Recommendations in all countries is one of our fundamental goals, we remain committed to assessing the degree of implementation and the effectiveness of systems designed to combat money laundering and terrorist financing through the conduct of a 4th round of 'peer reviews' ('mutual evaluations') of our Members as well as monitoring progress through appropriate follow-up processes. Future evaluations will move beyond technical compliance of the standards and aim to understand how resources and sanctions are being applied in practice to meet desired objectives. The FATF will work closely with FATF-style regional bodies (FSRBs), the International Monetary Fund (IMF) and the World Bank in refining procedures for evaluations,

including the common methodology and common processes for assessing compliance.

[4] We recognise the leading role of the FATF in promoting full and effective implementation of the FATF Recommendations in collaboration with other national and international stakeholders and, most importantly, through a global network of FSRBs. We support the linkages between the FATF and FSRB mutual evaluation programmes and the IMF/World Bank Financial Sector Assessment Programme. We also encourage the FATF to continue communicating broadly about this work.

[5] We note that many countries – particularly those with capacity constraints – continue to face legitimate challenges in achieving effective implementation of the FATF Recommendations. Financial exclusion can also represent a real risk to achieving effective implementation. Recognising these challenges and adopting a comprehensive approach to dealing with them will contribute to universal implementation of the FATF Recommendations. The FATF will continue to support the work of regional bodies and the international organisations that are helping countries to carry out this work.

[6] We reaffirm our support for the timely identification and monitoring of high-risk and non-co-operative countries and for co-ordinated action when necessary to protect the integrity of the financial system against the threat posed by such countries. It is essential that all countries take collective action to apply countermeasures when called on by the FATF.

[7] Maintaining the integrity of the financial system also requires the ability to respond actively and in a timely manner to significant new threats as identified by the international community, including the United Nations Security Council, the G-20 and the FATF itself, and we remain committed therefore to the need for such work. One such area, as envisaged in the revised FATF mandate adopted in 2008 is the financing of the proliferation of weapons of mass destruction for which the FATF has developed a new standard relating to the implementation of financial provisions of the United Nations Security Council resolutions on non-proliferation. We reiterate our support for this initiative and commit to having the implementation of this standard evaluated under the peer review process of the FATF. Corruption remains a global challenge, continues to hinder development in many areas and fuels criminal activity. The FATF will step up its support of anti-corruption issues through its work on money laundering and other misuse of the financial system.

[8] Recognising that preventing the misuse of legal persons and arrangements is a core element of the fight against money laundering, terrorist financing and other illicit purposes, the FATF will continue its work to improve the transparency of legal persons and arrangements.

[9] The fight against money laundering, terrorist financing and other misuse of the financial system must be based on a thorough understanding of these threats. We therefore encourage further strategic and focussed analysis of relevant methods and trends, as well as a continuing examination of the impact of measures designed to combat misuse of the international financial system, and we endorse support to national, regional and global threat and risk assessment initiatives.

[10] The private sector remains on the front line of the fight against money laundering, terrorist financing and other threats to the integrity of the international financial system. We therefore reaffirm our support for continuing consultation with the private sector and civil society with a view to fostering transparency and dialogue towards more effective implementation of the FATF standards.

[11] The FATF is a task force of its Members, and its activities have continued to evolve whilst remaining focussed on achieving concrete results. We believe that the task force structure of the FATF has served it well. The FATF should therefore retain this flexibility as it continues to consolidate and build on what it has already achieved. At the same time, the decision-making and governance processes of the FATF should be transparent and predictable.

[12] We endorse the work of the FATF and approve the following Mandate of the Financial Action Task Force (FATF), which will from this date serve as the framework for its activities. The technical implementation of the FATF Mandate will be carried out by the officials and experts of our member countries. We look forward to receiving regular updates from the FATF on key aspects of its work.

*Washington, DC, 20 April 2012*

# **ANNEX II**

## **MANDATE OF THE FINANCIAL ACTION TASK FORCE (2012-2020)**

### **I. OBJECTIVES, FUNCTIONS AND TASKS**

#### **OBJECTIVES OF THE FINANCIAL ACTION TASK FORCE**

1. The Financial Action Task Force (FATF) is an intergovernmental body established in 1989 by the Ministers of its Member jurisdictions.
2. The objectives of the FATF are to set standards and to promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. In collaboration with other international stakeholders, the FATF also works to identify national-level vulnerabilities with the aim of protecting the international financial system from misuse.

#### **FUNCTIONS AND TASKS OF THE FATF**

3. In order to fulfil its objectives, the FATF carries out the following tasks:
  - a) Identifying and analysing money laundering, terrorist financing and other threats to the integrity of the financial system, including the methods and trends involved; examining the impact of measures designed to combat misuse of the international financial system; supporting national, regional and global threat and risk assessments;
  - b) Developing and refining the international standards for combating money laundering and the financing of terrorism and proliferation (the FATF Recommendations);
  - c) Assessing and monitoring its Members, through 'peer reviews' ('mutual evaluations') and follow-up processes, to determine the degree of technical compliance, implementation and effectiveness of systems to combat money laundering and the financing of terrorism and proliferation; refining the standard assessment methodology and common procedures for conducting mutual evaluations and evaluation follow-up;
  - d) Identifying and engaging with high-risk, non co-operative jurisdictions and those with

strategic deficiencies in their national regimes, and co-ordinating action to protect the integrity of the financial system against the threat posed by them;

e) Promoting full and effective implementation of the FATF Recommendations by all countries through the global network of FATF-style regional bodies (FSRBs) and international organisations; ensuring a clear understanding of the FATF standards and consistent application of mutual evaluation and follow-up processes throughout the FATF global network and strengthening the capacity of the FSRBs to assess and monitor their member countries;

f) Responding as necessary to significant new threats to the integrity of the financial system consistent with the needs identified by the international community, including the United Nations Security Council, the G-20 and the FATF itself; preparing guidance as needed to facilitate implementation of relevant international obligations in a manner compatible with the FATF standards (e.g., continuing work on money laundering and other misuse of the financial system relating to corruption);

g) Assisting jurisdictions in implementing financial provisions of the United Nations Security Council resolutions on non-proliferation, assessing the degree of implementation and the effectiveness of these measures in accordance with the FATF mutual evaluation and follow-up process, and preparing guidance as needed to facilitate implementation of relevant international obligations in a manner compatible with the FATF standards;

h) Engaging and consulting with the private sector and civil society on matters related to the overall work of the FATF, including regular consultation with the private sector and through the consultative forum;

i) Undertaking any new tasks agreed by its Members in the course of its activities and within the framework of this Mandate; and taking on these new tasks only where it has a particular additional contribution to make while avoiding duplication of existing efforts elsewhere.

## II. COMPOSITION AND PARTICIPATION

4. In the development of the FATF standards, guidance and other policy, the FATF consults widely amongst its Members, Associate Members, the International Monetary Fund (IMF), the World Bank and other observer organisations, as well as with other stakeholders including the private sector.

### MEMBERS

5. FATF Members are the jurisdictions and organisations that have agreed to work together in the form of a task force toward the common objectives laid out in this mandate. The current Members of the FATF are listed in Annex A.

6. Member jurisdictions commit to:

a) Endorse and implement the FATF Recommendations for combating money laundering and the financing of terrorism and proliferation, using where appropriate guidance and other policy endorsed by the FATF; and

b) Undergo and actively participate in systematic 'peer reviews' ('mutual evaluations') and follow-up processes using the agreed assessment methodology and procedures; evaluations

will be published by the FATF.

7. Member organisations commit to:
  - a) Endorse and promote the effective implementation of the FATF Recommendations among their member jurisdictions; and
  - b) Support systematic 'peer reviews' ('mutual evaluations') and follow-up processes using the agreed assessment methodology and procedures.
8. Member jurisdictions and organisations commit to:
  - a) Pursue the development of the FATF standards, guidance and other policy for combating money laundering and the financing of terrorism and proliferation and other threats to the integrity of the international financial system through active participation in the work of the FATF (chairing meetings, drafting reports, etc.); and
  - b) Work together to meet the objectives and carry out the tasks of this Mandate.

## ASSOCIATE MEMBERS

9. Associate Members are FATF-style regional bodies (FSRBs), as designated by the FATF, that participate in the work of the FATF.
10. The relationship between the FATF and its Associate Members is governed by a set of high-level principles.
11. The decision as to whether a body qualifies as an FSRB and is thus eligible to participate in the FATF as an Associate Member is taken by the FATF Plenary. The current list of Associate Members is contained in Annex B.
12. Associate Members commit to:
  - a) Endorse the FATF Recommendations, guidance and other policy as determined by the FATF for combating money laundering and financing of terrorism and proliferation;
  - b) Promote effective implementation of the FATF standards in their member jurisdictions through the conduct of systematic 'peer reviews' ('mutual evaluations') and follow-up processes using the agreed assessment methodology and procedures, and publish completed evaluations; and
  - c) Participate in the development of the FATF standards, guidance and other policy for combating money laundering and the financing of terrorism and proliferation and other threats to the integrity of the international financial system.

## INTERNATIONAL FINANCIAL INSTITUTIONS

13. Within and in furtherance of their respective mandates to promote financial and economic stability and development, the International Monetary Fund and the World Bank play a special role in

the development, promotion and dissemination of measures for combating money laundering and the financing of terrorism and other related threats. In particular, the IMF and the World Bank:

- a) Contribute to the development of the FATF standards, guidance and other policy for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system;
- b) Help to promote the effective implementation of the FATF Recommendations through country assessments conducted in the context of the Financial Sector Assessment Program using the agreed assessment methodology and promoting publication of detailed assessment reports; and;
- c) Provide technical assistance and capacity building on combating money laundering, terrorist financing and other related threats.

## OBSERVERS

14. The FATF works closely with other international organisations, such as the United Nations and the Egmont Group of Financial Intelligence Units, who participate as observers in the work of the FATF. Other bodies are eligible to participate in the work of the FATF as observers.

15. The decision as to whether a body may participate as an observer to the FATF is taken by the Plenary. The eligibility of observers is reviewed periodically by the Plenary in light of FATF objectives. The current list of Observers is contained in Annex C.

16. Observers have a stated role related to combating money laundering and the financing of terrorism and proliferation and commit to:

- a) Endorse the FATF Recommendations, guidance and other policy for combating money laundering and the financing of terrorism and proliferation; and
- b) Contribute to the work of the FATF in accordance with their respective legal frameworks and policies.

## III. ORGANISATION

### STRUCTURE OF THE FATF

17. The FATF comprises the following internal structures:

- a) the Plenary;
- b) the President, assisted by a Vice-President;
- c) the Steering Group; and
- d) the Secretariat.

## **THE PLENARY**

### *COMPOSITION AND RESPONSIBILITIES*

18. The FATF Plenary consists of Member jurisdictions and organisations.
19. The Plenary is the decision-making body of the FATF. Its decisions are taken by consensus.
20. The Plenary:
  - a) Determines the manner in which it conducts its affairs;
  - b) Appoints the President, the Vice-President and the Steering Group;
  - c) Approves the work programme and budget for the FATF;
  - d) Adopts standards, guidance and reports developed by the FATF;
  - e) Decides on membership, FSRB status and observer status for the FATF; and
  - f) Decides on any other matter governing the business and affairs of the FATF.

### *ATTENDANCE AT PLENARY MEETINGS*

21. All Members may attend any Plenary Meeting or any meetings of subgroups created by the Plenary. The President presides over Plenary Meetings.
22. All Members, Associate Members and observers are entitled to attend the open sessions of Plenary Meetings. All Members and Associate Members are entitled to attend closed Plenary sessions.
23. The President may extend ad hoc invitations to representatives of non-Members to attend the whole or part of Plenary Meetings. In the context of specific (closed) sessions of the Plenary and after consultation with Members, the President may also invite representatives from the IMF, World Bank or observer bodies.

### *MEETINGS*

24. The President convenes at least three Plenary Meetings every calendar year, normally in February, June and October.
25. Additional extraordinary meetings may be held as circumstances arise, at such time and place as the President may designate, following consultation with Members.

## **WORKING GROUPS AND OTHER SUBGROUPS**

26. To support the work of the FATF, the Plenary may establish and mandate working groups and other subgroups as necessary.



27. The chairs of the working groups and subgroups are selected from and appointed by the Plenary at the President's recommendation. They report to the Plenary on their work programmes.
28. Participation in working groups and other subgroups is open to all Members, Associate Members, the IMF, the World Bank and observers.
29. The Secretariat supports the work of the working groups and other subgroups.
30. The current working groups of the FATF are listed in Annex D of this Mandate.

## **PRESIDENT**

### *APPOINTMENT AND RESPONSIBILITIES*

31. The FATF President is appointed by the Plenary from among its Members for a term of one year. The term of the President begins on 1 July and ends on 30 June of the following year.
32. The President convenes and chairs the meetings of the Plenary and of the Steering Group. The President oversees the FATF Secretariat.
33. The President is the principal spokesperson for the FATF and represents the FATF externally. The President will be informed of all significant matters that concern the FATF. More generally, the President takes all decisions and actions as necessary to achieve the objectives of the FATF in accordance with this mandate and the directions given by the Plenary. The President reports regularly on behalf of the FATF Plenary to the Ministers on key aspects of FATF work and more generally to the public through the FATF annual report.
34. The President, in the discharge of the functions as the President, owes his/her duty entirely to the FATF and to no other authorities or institutions.

## **VICE-PRESIDENT**

### *APPOINTMENT AND RESPONSIBILITIES*

35. The FATF Vice-President, who is also the FATF President-designate, is appointed by the Plenary from among its Members for a term of one year preceding the start of his/her Presidential term.
36. The Vice-President assists the President in carrying out his/her responsibilities and stands in for the President when necessary.

## **STEERING GROUP**

### *COMPOSITION AND APPOINTMENT*

37. The FATF Steering Group is an advisory body and is chaired by the President.
38. The composition of the Steering Group is decided by the Plenary at the proposal of the President in a manner that ensures maximum effectiveness in taking forward the FATF's work while having regard to balanced representation in terms of geographic regions.
39. The composition of the Steering Group is reviewed on an annual basis.

### *RESPONSIBILITIES*

40. The Steering Group provides advice between Plenary Meetings to assist the President in carrying forward the directions of the FATF.
41. The President convenes at least three Steering Group meetings every calendar year at such time and place as the President may designate.
42. The duties of the Steering Group include the following:
- a) Monitoring and guiding the progress of the FATF's ongoing work;
  - b) Promoting co-ordination across the working groups;
  - c) Ensuring effective information flow to all Members; and
  - d) Taking forward, in consultation with the Plenary, any other work necessary for the FATF to fulfil its mandate.

## **SECRETARIAT**

### *COMPOSITION AND APPOINTMENT*

43. The FATF Secretariat is composed of an Executive Secretary, who is appointed by the Plenary at the proposal of the President, and the Secretariat staff.

### *RESPONSIBILITIES*

44. In supporting the functions of the FATF, the Executive Secretary and Secretariat staff are responsible to and act in accordance with the instructions of the President. The President is responsible for providing general direction to the Executive Secretary, in accordance with any directions given by the Plenary.

45. The main responsibilities of the Secretariat include the following:
- a) Supporting the activities of the FATF, including its working groups;
  - b) Facilitating co-operation between Members, Associate Members and observers;
  - c) Ensuring efficient communication to Members and others;
  - d) Managing the financial, material and human resources allocated to the FATF;
  - e) Maintaining the records, administering internal and external websites and dealing with correspondence of the FATF; and
  - f) Carrying out all other functions that are assigned to it by the President or the Plenary.
46. The Secretariat service is provided by the OECD, and the Secretariat is located at the OECD Headquarters in Paris.
47. The cost of the Secretariat and other services are met by the FATF budget to which Members contribute. The OECD is used as the channel for these services. Individual Member contributions to the FATF budget are in line with OECD scales.

#### **IV. LEGAL EFFECT AND DURATION OF THE MANDATE; ACCOUNTABILITY**

48. This Mandate is not intended to create any legal rights or obligations.
49. This Mandate will commence on 20 April 2012 and will be valid until 31 December 2020. There should be a mid-term review of the work carried out under this mandate to ensure that it remains consistent with the aims and objectives of the FATF.
50. The implementation of this mandate will be carried out by the officials and technical experts of FATF Members and the FATF Secretariat. The FATF is accountable to its Ministers and reports to them on key aspects of its work through the annual reporting of the FATF President. The mid-term review and occasional ministerial meetings, as necessary, provide other mechanisms whereby Ministers may shape the strategic direction of FATF policy-making.

## **ANNEX A**

# **FATF MEMBER JURISDICTIONS AND ORGANISATIONS**

- 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
- Kingdom of the Netherlands
- Luxembourg
- Mexico
- New Zealand
- Norway
- Portugal
- Republic of Korea
- Russian Federation
- Singapore
- South Africa
- Spain
- Sweden
- Switzerland
- Turkey
- United Kingdom
- United States

## **ANNEX B**

### **FATF ASSOCIATE MEMBERS**

- Asia/Pacific Group on Money Laundering (APG)
- Caribbean Financial Action Task Force (CFATF)
- Eurasian Group on combating money laundering and financing of terrorism (EAG)
- Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)
- Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL)
- 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)

## **ANNEX C**

### **CURRENT LIST OF OBSERVERS**

- African Development Bank
- 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) [formerly the Offshore Group of Banking Supervisors - OGBS]
- 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)
- Task Force on Money Laundering in Central Africa (GABAC)

- United Nations –
  - Office on Drugs and Crime (UNODC)
  - Counter-Terrorism Committee Executive Directorate
  - The Analytical Support and Sanctions Monitoring Team established pursuant to Security Council resolution 1526(2004)The Al-Qaida Sanctions Committee (1267/1989 Committee) Group of experts established pursuant to Resolution 1540 (2004)
  - Panel of experts established pursuant to Resolution 1874 (2005)
  - Panel of experts established pursuant to Resolution 1929 (2010)
- The World Bank
- World Customs Organization (WCO)

## **ANNEX D**

### **CURRENT LIST OF FATF WORKING GROUPS**

- Working Group on Evaluations and Implementation (WGEI)
- Working Group on Money Laundering and Terrorist Financing (WGTM)
- Working Group on Typologies (WGTYP)
- International Co-operation Review Group (ICRG)
- Global Network Coordination Group (GNCG )





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