FATF

7TH FOLLOW-UP REPORT

Mutual Evaluation of Mexico

February 2014

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.

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ACRONYMS

AML/CFT	Anti-Money Laundering / Countering the Financing of Terrorism
CDD	Customer Due Diligence
CNBV	National Banking and Securities Commission
CNSF	National Insurance and Surety Bond Regulator
CTR	Currency Transaction Report
DNFBP	Designated Non-Financial Business or Profession
FIU	Financial Intelligence Unit
GOM	Government of Mexico
LC	Largely compliant
MER	Mutual Evaluation Report
ML	Money laundering
MVTS	Money Value Transfer Services
MXP	Mexican Pesos
NC	Non-compliant
PC	Partially compliant
PGR	General Attorney's Office
R	Recommendation
SAT	Tax Revenue Service
SHCP	Secretariat of Finance and Public Credit
SOFOLES	*Sociedades Financieras de Objeto Limitado* - limited purpose finance companies
SOFOMES	*Sociedades Financieras de Objeto Múltiple* - multiple purpose financial institutions
SR	Special Recommendation
STR	Suspicious Transaction Report
TF	Terrorist financing
TFS	Targeted Financial Sanctions
UN	United Nations
UNSCR	United Nations Security Council Resolution

MUTUAL EVALUATION OF MEXICO 7TH FOLLOW-UP REPORT: UPDATE AND FULL ANALYSIS

Note by the Secretariat

I. INTRODUCTION

The third mutual evaluation report (MER) of Mexico was adopted in October 2008. At the same time, Mexico was placed in a regular follow-up process. Mexico reported back to the FATF in October 2010 (first follow-up report), October 2011 (second follow-up report), October 2012 (third follow-up report), and February 2013 (fourth follow-up report). In February 2013, the Plenary decided that Mexico had made concrete progress in some areas, but insufficient progress on other issues, and decided to enhance the follow-up process while at the same time focusing on the remaining shortcomings (targeted enhanced follow-up). Under this process, Mexico reported again in June 2013 (fifth follow-up report) and October 2013 (sixth follow-up report).

This paper is based on the procedure for removal from the regular follow-up, as agreed by the FATF plenary in October 2008 and subsequently amended[1]. The paper contains a detailed description and analysis of the actions taken by Mexico in respect of the core and key Recommendations rated partially compliant (PC) or non-compliant (NC) in the mutual evaluation, as well as a description and analysis of the other Recommendations rated PC or NC, and for information a set of laws and other materials (included as Annexes). The procedure requires that a country *"has taken sufficient action to be considered for removal from the process – To have taken sufficient action in the opinion of the Plenary, it is necessary that the country has an effective AML/CFT system in force, under which the country has implemented the core[2] and key[3] Recommendations at a level essentially equivalent to a Compliant (C) or Largely Compliant (LC), taking into consideration that there would be no re-rating"*[4]. Mexico was rated PC or NC on the following Recommendations:

Core Recommendations[5] rated partially compliant (PC)
R1 (Money laundering criminalisation)
R5 (Customer due dililigence)
R13 (Suspicious transaction reports)
SRII (Terrorist financing criminalisation)
SRIV (Terrorist financing suspicious transaction reports)
Key Recommendations[6] rated non-compliant (NC)
SRIII (TF related targeted financial sanctions)

1 Third Round of AML/CFT Evaluations Processes and Procedures, par. 41.
2 The core Recommendations as defined in the FATF procedures are R1, R5, R10, R13, SRII and SRIV.
3 The key Recommendations are R3, R4, R23, R26, R35, R36, R40, SRI, SRIII and SRV.
4 Third Round of AML/CFT Evaluations Processes and Procedures, par. 39 (c).
5 The core Recommendations as defined in the FATF procedures are R.1, SR.II, R.5, R.10, R.13 and SR.IV.
6 The key Recommendations are R.3, R.4, R.23, R.26, R.35, R.36, R.40, SR.I, SR.III, and SR.V.

Key Recommendations[7] rated PC
R23 (Supervision)
SRI (UN instruments)
SRV (Terrorist financing International co-operation)
Other Recommendations rated NC
R12 (Designated non-financial businesses and professions (DNFBPs)
R16 (DNFBPs)
R20 (other NFBPs)
R24 (DNFBPs)
Other Recommendations rated PC
R8 (New technologies and non-face-to-face)
R9 (3rd parties)
R17 (Sanctions)
R25 (Guidelines and feedback)
R27 (Law enforcement)
R30 (Resources, integrity and training)
R33 (Legal entities)
R38 (mutual legal assistance / Confiscation)
SRVI (Money value transfer services)
SRVII (Wire transfers)
SRVIII (Non-profit organisations)
SRIX (Cash couriers)

As prescribed by the Mutual Evaluation procedures, Mexico provided the Secretariat with all the necessary documentation and information to be assessed in its progress. The Secretariat has drafted a detailed analysis of the progress made for the core and key Recommendations rated PC or NC, as well as an update on all the other Recommendations rated PC or NC. A draft report was provided to Mexico for its review and comments were received. The final report was drafted taking into account certain of the comments from Mexico. During the process Mexico provided the Secretariat with all additional information requested. The Secretariat expresses its gratitude to the Mexican authorities, and especially to the Mexican team that was working on the follow-up process on a day-to-day basis, for their constructive co-operation throughout this process and for the high quality of the material that was provided to the Secretariat in an efficient, transparent and well organised manner.

As a general note on all applications for removal from regular or enhanced follow-up: the procedure is a *paper-based desk review* and by its nature is therefore less detailed and thorough than a mutual evaluation report. The analysis focuses on the Recommendations that were rated PC/NC, which means that only a part of the AML/CFT system is reviewed. Such analysis essentially consists of looking at the main laws, regulations and other material to verify the technical compliance of domestic legislation with the FATF standards. In assessing whether sufficient progress had been made, effectiveness is taken into account to the extent possible in a paper-based desk review and primarily through a consideration of data provided by the country. It is also important to note that these conclusions do not prejudge the results of future assessments, as they are based on

[7] The key Recommendations are R.3, R.4, R.23, R.26, R.35, R.36, R.40, SR.I, SR.III, and SR.V.

information which was not verified through an on-site process. and was not, in every case, as comprehensive as would exist during a mutual evaluation

II. MAIN CONCLUSIONS AND RECOMMENDATIONS TO THE PLENARY

CORE RECOMMENDATIONS

Recommendation 1: Regarding the first deficiency (amendments to the ML criminalisation), Mexico amended its Federal Criminal Code to address the technical shortcomings in relation to the criminalisation of money laundering. Regarding deficiency two, while the number of convictions should further increase in light of the next round of assessments, the long term measures that the Mexican authorities have introduced to raise the effectiveness of the criminal system and the focus on high profile money laundering cases show a positive effect on the effectiveness. R1 has been sufficiently addressed and the level of compliance has been brought to a level comparable at a minimum to an LC.

Recommendation 5: With the enactment of several new and amended AML/CFT regulations, Mexico has sufficiently addressed all the shortcomings related to R5, and has brought the compliance with this Recommendation up to a level comparable at minimum to an LC.

Recommendation 13: With the enactment of several new and amended AML/CFT regulations, and with the additional measures taken by the Financial Intelligence Unit (FIU) and other competent authorities, Mexico has sufficiently addressed the shortcomings related to R13, and has brought the compliance with this Recommendation up to a level comparable at minimum to an LC.

Special Recommendation II: Regarding deficiencies 1 and 2, Mexico amended its Federal Criminal Code to address the technical shortcomings in relation to the criminalisation of terrorist financing. As for the deficiency 3, this has been sufficiently addressed. SRII has been sufficiently addressed and the level of compliance has been brought to a level comparable at a minimum to an LC.

Special Recommendation IV: The two deficiencies in relation to this SRIV are identical to two of the deficiencies related to R13, which are considered to have been sufficiently addressed. This means that SRIV has also been sufficiently addressed and Mexico has brought the compliance with this Recommendation up to a level comparable at minimum to an LC.

KEY RECOMMENDATIONS

Recommendation 23: Since the approval of the MER, steps have been taken to address the deficiencies related to R23. The most important measures are the transfer of supervision of some sectors to the National Banking and Securities Commission (CNBV), the successful restriction of the use of USD in cash in Mexico (deficiencies 1 and 2), and the implementation of several measures that intent to make the supervisory framework overall more efficient. Despite the limitations of a desk-based review, at this stage it seems reasonable to conclude that Mexico has taken sufficient measures to bring R23 up to a level of at a minimum LC.

Special Recommendation I and V: The implementation of SRI and SRV depended on the full implementation of SRII and SRIII. Since the deficiencies for both have been sufficiently addressed,

the deficiencies for SRI and SRV have also been sufficiently addressed up to a level of at a minimum LC. See further the overall conclusions for SRI and SRIII.

Special Recommendation III: The targeted financial sanctions (TFS) resolution puts in place a comprehensive system for the freezing of funds or other assets as required under SRIII / UNSCR 1267 and 1373. The TFS resolution is not only useful for the prevention against and combating of terrorism and TF, but also ML, as it also allows for the incorporation of money launderers on these FIU-issued lists. The TFS resolution is not a general prohibition, as its effect is limited to entities that fall under the AML Law: all financial institutions and all DNFBPs as required by the FATF, in addition to other sectors that fall under the AML Law because they are considered a higher risk. Nevertheless, the lack of a general prohibition is a specific shortcoming that will need to be addressed over time. In addition, as the TFS resolution has not been tested in practice because it was enacted very recently, currently no funds related to UNSCR 1267 have been detected and immobilised, nor have any requests related to 1373 been received an considered, nor have any designations under 1373 been made on Mexico's own motion. Overall, the TFS resolution is a very important step forward that brings overall compliance with SRIII up to a level comparable to an LC.

OTHER RECOMMENDATIONS

Mexico has also made progress in addressing deficiencies related to non-core and non-key Recommendations rated PC or NC. It should be noted, however, that since the decision of whether or not Mexico should be removed from the follow-up process will be based solely on the decisions regarding the core and key Recommendations, this paper does not provide more detailed analyses regarding these other Recommendations. A summary of the progress that was reported by Mexico has been included in the final section of this paper, for information only.

CONCLUSIONS

This enhanced follow-up report provides an overview of Mexico's progress regarding all core and key Recommendations that were rated partially or non-compliant in the mutual evaluation report (October 2008). The draft analysis indicates that Mexico has sufficiently addressed all core and key Recommendations that were rated partially and non-compliant (core Recommendations R1, R5, R13, SRII and SRIV, and key Recommendations R23, SRI, SRIII and SRV).

At the time of the adoption of this follow-up report (12 February 2014), the legislative amendments to address R1 and SRII had been adopted (on 11 February 2014), but not yet enacted. As soon as the amendments are enacted (which will take place within 30 days of adoption through publication in the official Gazette) Mexico will exit automatically the FATF follow-up process .

III. OVERVIEW OF MEXICO'S PROGRESS

OVERVIEW OF THE MAIN CHANGES SINCE THE ADOPTION OF THE MER

Since the adoption of the MER, Mexico has focused in building a comprehensive and solid legal and institutional AML/CFT framework, which has included the issuance or amendment of several laws and regulations to criminalise ML/FT consistenct with the FATF standards, improve the efficiency of the prevention and combating of ML, establish all necessary obligations for financial institutions

(including financial supervisory and customer due diligence requirements), incorporate all DNFBPs and other risky businesses and professions into the AML/CFT regime, establish an asset freezing regime for terrorists, TF and ML, and enhance the effectiveness of the judicial system. As Mexico reported, it has focused the attention not only to the correction of the deficiencies identified in its MER, but also on enhancing with an integrated approach the effectiveness of the system as a whole and with a long term perspective.

THE LEGAL AND REGULATORY FRAMEWORK

Mexico's legal system for AML/CFT is based on a range of laws, adopted by Congress, and on regulations issued by the President or the Secretariat of Finance and Public Credit (SHCP). References to the applicable laws and regulations are included throughout this follow-up report.

IV. DETAILED ANALYSIS OF COMPLIANCE WITH THE CORE RECOMMENDATIONS

RECOMMENDATION 1 –PC

R1 (Deficiency 1): ML offense does not cover the "concealment or disguise of the true nature, source, location, disposition, movement, or ownership of or rights with respect to property" nor the "possession or use of property without a specific purpose".

A bill of decree by which the Federal Criminal Code and other laws were amended was presented by the President to Congress on 31 May 2013, adopted by the Chamber of Deputies on 3 December 2013 and by the Senate on 11 February 2014, and in force within 30 days of adoption by the Senate. It covers concealment in article 400bis, paragraph II, possession in Article 400bis, paragraph I, and use in Article 400bis, paragraph 1 (all from the Federal Criminal Code), which addresses the concerns expressed in the MER.

R1 (Deficiency 2): ML offence is not being effectively implemented, insufficient focus on ML investigations committed through the financial system, and underutilisation of financial intelligence reports from the FIU sector .

This shortcoming covers several issues, much of which the Government of Mexico (GOM) aims to address through the National AML/CFT Strategy, as presented on 26 August 2010. The analysis below summarises the work that the GOM has undertaken in general in relation to enhancing the effectiveness of the AML/CFT system. The analysis of the specific deficiencies follows after the general overview.

General overview of measures from the National Strategy to enhance the overall effectiveness of the AML/CFT system

The National AML/CFT Strategy aims to (i) prevent criminal organisations from making use of their proceeds, and (ii) prosecute highly relevant cases of ML/FT in a timely and effective manner. To this end, the national strategy focuses on four main areas: (a) information and organisation,

(b) regulatory framework, (c) risk-based supervision and effective procedures, and (d) transparency and accountability.

As part of the national strategy, the GOM also presented to Congress a series of legislation projects: (i) "*Bill for a Federal Law for the Prevention and Identification of Transactions with Criminal Proceeds*"; and (ii) legislation to introduce criminal legal liability for legal persons.

The "*Bill for a Federal Law for the Prevention and Identification of Transactions with Criminal Proceeds"* was drafted with two main purposes: (i) to establish a catalogue of those activities that are most vulnerable to ML/FT in the view of the GOM and based on international experiences (which includes all financial institutions and DNFBPs identified by the FATF, among other), and to impose CDD, record keeping and CTR reporting on these businesses, and (ii) to restrict the use of cash in certain transactions (*i.e.,* real estate, jewellery, artwork, etc.). This bill was approved by the Senate on 28 April 2011, and then subsequently by the Chamber of Deputies on 17 October 2012. The GOM issued the Law's secondary legislation in August 2013, and has also made important efforts to effectively implement the new AML/CFT regime, which include investments in technology, human resources and training.

The GOM originally introduced legislation to incorporate criminal legal liability for legal persons, by an amendment to article 11 of the Federal Criminal Code, and by the incorporation of a new article (164 Quáter) that criminalises conspiracy to perpetrate any crime in favour of a criminal organisation. The draft legislation was presented to Congress on 14 April 2011 and is pending adoption. However, it is important to note that this draft legislation is no longer relevant in this specific matter, given that the criminal legal liability for legal persons has in the meantime been covered in article 421 of the new National Code of Criminal Procedures. The draft new code was adopted by the Senate on 5 December 2013 and later by the Chamber of Deputies on 5 February 2014. The new code shall be enacted and enter into force in brief.

In addition to these legislative amendments, the GOM has also aimed to improve the coordination among AML/CFT agencies. Since 2009, the Federal Police Law (published on 1 June 2009), the Regulations of the Federal Police Law (published on 17 May 2010), and the Internal Law of the PGR (published on 29 May 2010) have been amended to clarify the responsibilities of the Federal Police and the General Attorney's Office (PGR) in the prevention and combating of ML/FT. Additionally, protocols have been concluded to improve the coordination between the FIU, the General Attorney's Office (PGR), the Tax Revenue Service (SAT) and the National Immigration Institute (INAMI).

Furthermore, the "*General Law of the National System of Public Security*" was enacted on 2 January 2009. The Law establishes the creation of the National System of Public Security, as a co-ordinator of national, local and municipal efforts with respect to public security. "*The National Council of Public Security*", is a high level political body responsible for coordinating law enforcement efforts. At its 30th session on 30 June 2011, it agreed to direct special attention to the prevention and combating of ML/FT. As a consequence, the national council formed a working group tasked to: (i) with assistance of the FIU, coordinate the process of implementation of *asset intelligence units* for each of the states; (ii) promote the criminalisation of ML/FT in state criminal codes (14 out of 32 states have currently done this); and (iii) establish mechanisms that allow the country's states to have a share of the economic gains related to the confiscation of assets.

The National Strategy for Preventing and Fighting Money Laundering and Terrorist Financing, also establishes the possibility to form multi-agency specialised groups to combat ML/FT cases.

Analysis of specific effectiveness deficiencies in relation to R1

Regarding the first part of the deficiency "ML offence is not being effectively implemented", the authorities have provided statistics in relation to the number of prosecutions and convictions for ML. As a reminder, the MER noted an average of 7 convictions per year for ML from 2004 – 2007. For the period 2008 – 2012, Mexico reports in average 24 convictions per year. Statistically, this is a relevant increase.

Nevertheless, as was indicated to some extent in the MER, for the assessment of effectiveness of the ML offence, factors that should be taken into account are the size of Mexico, the near perfect criminalisation of ML (including self-laundering), the sophisticated financial sector, the current crime situation (with proceed generating crimes), and the high level political support for the National AML/CFT Strategy.

However, measuring effectiveness relates to more than just the number of convictions. Effectiveness can also be measured, for example, by the type of ML cases that the authorities pursue. In this respect it is encouraging to note that the authorities have indicated that it is the government's policy to target ML by going after high profile money laundering cases, involving relevant amounts. The authorities substantiated their approach by providing information on the resources that have been seized in relation to ML cases in the most recent years, as shown in the table below.

Table 1: **Amounts that were seized related to ML cases 2006 – 2013**

	2009	2010	2011	2012	2013
Amounts of MXP seized (in MXP)	247 337 523	67 824 599	179 968 165	354 210 379	820 412 363
In USD [1]	*18 918 998*	*5 187 945*	*13 765 874*	*27 093 768*	*62 753 842*
Amounts of USD that were seized (in USD)	1 192 548	522 044	368 343	39 448	8 450 770

1. The conversion from MXP to USD for all amounts was made with the official exchange rate of 13 January 2014.

As is shown, the amounts of Mexican Pesos (MXP) that were seized in relation to ML cases have increased over the last two years. More specifically, in 2013, the amount increased by 132% compared to 2012, and by 286% in comparison with the average amounts seized during 2009 – 2012. Also, as can be seen, the amounts of dollars seized in relation to ML cases have increased substantially as well.

This is also shown in the following two graphs:

Figure 1: **Amounts of USD that were seized related to ML cases 2009-2013**

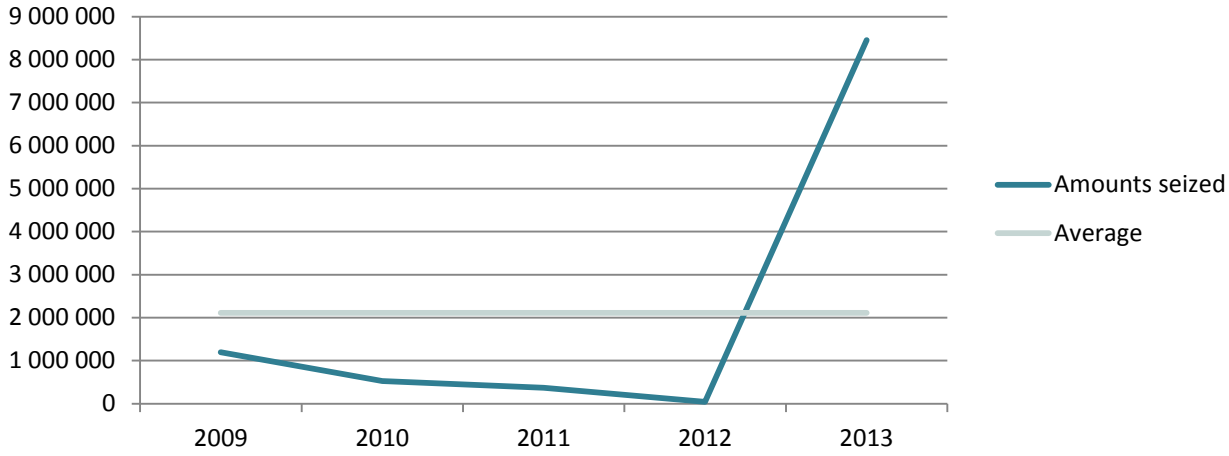
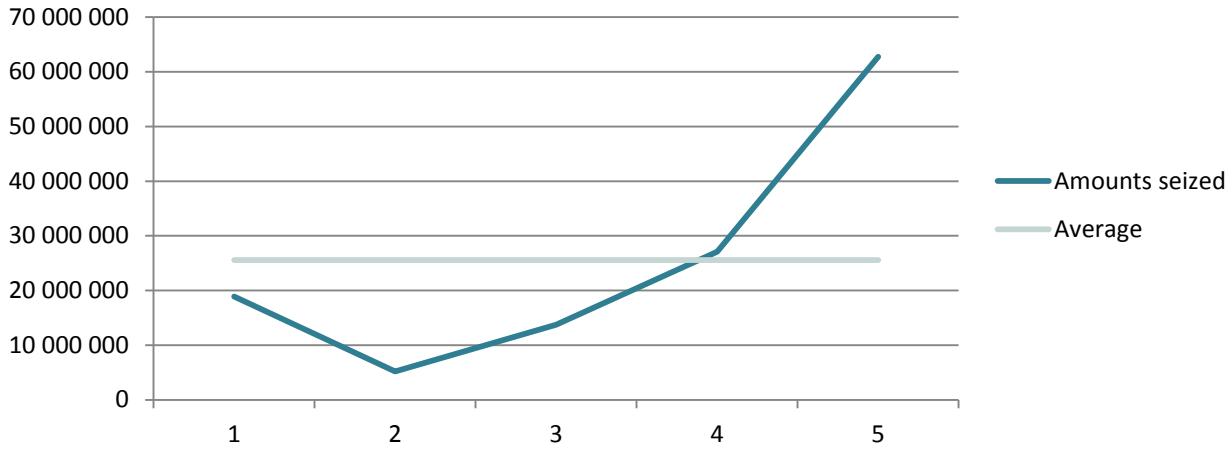


Figure 2: **Amounts of Mexican Pesos that were seized related to ML cases 2009-2013 (reflected in USD)**



The GOM also provided additional information with regards to the actions that are taken to address this issue on a mid and long term basis.

Firstly, over the past few years, several laws and regulations have been issued or amended in order to broaden the powers and resources and improve the coordination of the financial intelligence, investigative and prosecutorial authorities. These measures have allowed for an important increase in the number of prosecutions related to ML cases, which eventually should lead to an increase in the number of convictions. The table below shows that the number of ML prosecutions initiated from 2011 to 2013 represent more than 50% of the total number of ML prosecutions initiated in the past 8 years.

Table 2: **Number of prosecutions, convictions and acquittals related to ML cases 2006-2013**

	2006	2007	2008	2009	2010	2011	2012	2013
Prosecutions	36	45	61	45	70	108	128	84[1]
Convictions	21	18	29	21	27	33	8	15
Acquittals	6	8	8	4	5	5	4	5

1. Mexican authorities report that in 2013 the FIU made 84 requests for ML prosecutions directed to the Federal Prosecutor. In addition, they explained that the Federal Prosecutor could have initiated other ML prosecutions. However, they highlight that at the time, with regards to data of 2013, they don't have the information for those potential additional cases.

Second, the GOM drafted a major legal reform which was adopted by Congress in June 2008, in which it was determined that the inquisitorial justice system which was at the time in place in the entire country should be substituted within eight years by an adversarial justice system.[8] By the end of 2013, 16 out of 32 states had already adopted the adversarial system and the statistics of these states indicate that the adversarial system allows for more efficient procedures: In the states where the adversarial system has entered into effect, a judicial resolution is obtained in average 152 days after a ML trial began; whereas in the states in which the inquisitorial system is still applicable, a judicial resolution is obtained in average 543 days after the relevant trial initiated. As more or all states adopt the adversarial system, it is reasonable to believe that criminal trials, including those related to ML cases, will be resolved consistently in a more expedite manner.

It is difficult to draw conclusions on effectiveness on the basis of a desk-based review. The structural measures that have been put in place should allow Mexico to substantially increase the number of ML investigations, prosecutions and convictions on the mid and long term. Also the policy to focus on high profile cases should have a positive effect.

With regards to the second part of the deficiency "insufficient focus on ML investigations committed through the financial system" Mexico reports that from 2011 – 2013, 96% of the FIU's requests for prosecution have been admitted for pre-trial investigations and assigned to federal prosecutors, and that all of these cases relate to FIU information of possible ML cases committed through the financial system. Additionally, Mexico also reports that the information from the FIU intelligence reports is being used in open and in new investigations. The effectiveness of this information cannot be verified in the course of a follow-up report, which is a desk-review; however, the information is an indication that this deficiency is being addressed by the authorities.

With regards to the third part of the deficiency related to the "underutilisation of financial intelligence reports from the FIU sector" as mentioned in the previous paragraph, Mexico reports that the FIU information is being used as described above. However, the effectiveness of this information cannot be verified in the course of a follow-up report, which is a desk-review. In addition, the PGR has created a Financial Analysis Unit through Administrative Decree A/049/12,

8 An inquisitorial system is a legal system where courts are actively involved in investigating the facts of the case, while in an adversarial system courts are the impartial referee between the prosecution and the defence.

published on 2 March 2012. The new unit is now fully operational, staffed by financial specialists who are responsible for analysing the requests for prosecution and intelligence reports that the FIU sends to the PGR, as well as other relevant information obtained from other sources, and for issuing specialised opinions and reports on financial and accounting matters, requested by federal prosecutors.

The authorities have also provided statistics in relation to the number of requests for prosecution, intelligence reports and reports on specific financial information, elaborated or gathered by the FIU and sent to the PGR. These figures are an improvement to the numbers from the time of the MER. It should be noted that the information that is provided by the FIU with regards to requests for prosecution and intelligence reports is based on the analysis of approximately 65 000 related reports (STRs, CTRs, etc.), whereas the information that is provided by the FIU with regards to reports on specific financial information requested by competent authorities is based on the analysis of many other thousands of reports (*i.e.,* a single case file that is being forwarded may relate to several / many STRs or CTRs). This is a good indication of the good work that is undertaken by the FIU.

Table 3: **Number of requests for prosecution, intelligence reports and reports on specific financial information (2008-2013)**

	Requests for prosecution by the FIU	Intelligence reports from the FIU	Reports on specific financial information requested by PGR to the FIU
2008	38	116	292
2009	43	207	377
2010	52	70	510
2011	39	88	1 305
2012	35	56	1 109
2013	81	0	449
Total	**288**	**537**	**4 042**

R1/Deficiency 2 is difficult to measure through a desk-based review; however, from the measures that have been taken it seems that sufficient measures have been implemented to address the second and third element of this shortcoming. Regarding the first element, the number of ML cases, although the overall number of convictions is still considered insufficient for Mexico, the measures that have been put in place should lead to a further increase in the mid and long term. Also the focus on high profile cases, as substantiated by the authorities is positive. The increase in the number of ML investigations and prosecutions is also a good sign.

RECOMMENDATION 1 – OVERALL CONCLUSION

Regarding the first deficiency (amendments to the ML criminalisation), Mexico amended its Federal Criminal Code to addresses the technical shortcomings in relation to the criminalisation of money laundering. Regarding deficiency two, while the number of convictions should further increase in light of the next round of assessments, the long term measures that the Mexican authorities have introduced to raise the effectiveness of the criminal system and the focus on high profile money laundering cases show a positive effect on the effectiveness. R1 has been sufficiently addressed and the level of compliance has been brought to a level comparable at a minimum to an LC.

RECOMMENDATION 5 – PC

R5 (Deficiency 1): No CDD (AML/CFT) regulations and supervision as yet for unregulated SOFOMES.

As part of a reform of AML/CFT regulations applicable to all financial sectors, the SHCP issued AML/CFT General Provisions applicable to regulated and unregulated multiple purpose financial institutions (SOFOMES) on 17 March 2011, as most recently amended on 23 December 2011.These general provisions require all SOFOMES to have AML/CFT regimes, in almost identical terms to AML/CFT regulations issued previously for other financial sectors (including on CDD obligations). See also R5/deficiency 2.

As for the supervision element of this shortcoming, see R23, deficiency 2.

R5/deficiency 1 has been sufficiently addressed.

R5 (Deficiency 2): Inadequate implementation of CDD requirements esp. oversight requirements imposed on insurance companies for business conducted through agents.

Since the adoption of the MER, the following AML/CFT regulations (general provisions) were adopted:

For banking institutions (issued on 20 April 2009, and amended on 16 June 2010, 9 September 2010, 20 December 2010, 12 August 2011, and 13 March 2013); for currency exchange houses (issued on 25 September 2009, and amended on 9 September 2010, and 20 December 2010); for currency exchange centres (issued on 25 September 2009, and amended on 10 April 2012); for money remitters (issued on 17 December 2009 and amended on 10 April 2012); for securities brokerage firms (issued on 9 September 2010, and amended on 20 December 2010); for limited purpose finance companies (SOFOLES) (issued on 17 March 2011); for regulated and unregulated SOFOMES (issued on 17 March 2011, and amended on 23 December 2011); for auxiliary credit organisations (issued on 31 May 2011); for insurance companies and their agents (issued on 19 July 2012); for bonding companies and their agents (issued on 19 July 2012); and for credit unions (issued on 26 October 2012). With this, all financial institutions as defined in the Glossary to the 2003 FATF 40 Recommendations are now covered by the AML/CFT regime.

These regulations are to a great degree identical. The authorities have provided copies of these AML/CFT regulations, references to the relevant articles in these regulations can be found in this follow-up report with the relevant deficiencies. The regulations have been drafted in co-operation

between the FIU and relevant supervisory authorities. The AML/CFT regulation for insurance (and agents) covers the shortcomings that were identified in the MER for insurance agents, by bringing the insurance regulations in line with the provisions of other sectors. There are specific provisions to oblige insurance companies and agents to have comprehensive CDD requirements, and for the insurance companies to exercise strict control over their agents. See AML/CFT regulations for insurance articles 4, 7 and 10.

R5/deficiency 2 has been sufficiently addressed.

R5 (Deficiency 3): Need to qualify the use of numbered and coded accounts in accordance with criterion 5.1.

The AML/CFT regulations (see R5/deficiency 2) contain provisions to address this deficiency. The AML/CFT regulations applicable to banking institutions (article 10), currency exchange houses (article 8), currency exchange centres (article 7), money remitters (article 7), securities brokerage firms (article 9), insurance (article 10), bonding companies (article 8) and credit unions (article 8), establish a prohibition for these financial entities to open anonymous accounts, and maintain anonymous accounts or perform anonymous transactions.

As for SOFOMES, SOFOLES and auxiliary credit organisations, it should be noted that they do not have faculties for opening accounts; they provide services for which contracts (not accounts) are executed. In order to execute these contracts, the AML/CFT regulations applicable to SOFOMES (articles 4, 10 and 14), SOFOLES (articles 4, 10, 14 and 15) and auxiliary credit organisations (articles 4, 9 and 12), establish the obligation for these financial institutions of having their clients to be previously and dully identified (including through an interview so that financial institutions can meet their clients and obtain all information and documentation that is necessary). Furthermore, once a contract is concluded, and once a customer requests these financial institutions to execute a transaction, they have to confirm or verify the identity of their clients or users and keep relevant information for monitoring purposes.

R5/deficiency 3 has been sufficiently addressed.

R5 (Deficiency 4): Significant legal and capacity deficiencies in implementing CDD requirements for centros cambiarios (money exchange) and money remitters.

AML/CFT General Provisions applicable to currency exchange centres and money remitters were published on 25 September 2009 and 17 December 2009, respectively, establishing stricter CDD requirements for those reporting entities. Articles 4 and 11 (exchange) and 4 and 12 (remitters) apply (as amended on 10 April 2012).

As for the supervision of currency exchange centres and money remitters, a decree was published on 3 August 2011, amending the *"General Law of Auxiliary Credit Organisations and Activities"* (LGOAAC), to establish that the supervisory powers (monitoring, inspection and sanctioning) should move from SAT to the CNBV (as for unregulated SOFOMES) on AML/CFT matters. As a result, currency exchange centres and money remitters must take the legal status of a specific type of corporation called "sociedades anónimas" (joint stock company), register at the CNBV, publicly

exhibit their registration form at their premises, and include the date and number of their registration in any advertising.

The CNBV can apply different sanctions to these entities when their acts or conducts are contrary to what is established in the general provisions applicable to them. The sanctions for currency exchange centres and money remitters include the following: (1) cancelation of registration, (2) ordering the immediate suspension of the business operations, (3) closing the business, company or establishment, and (4) ordering all credit institutions, brokerage firms and currency exchange houses with business links to these entities to suspend or cancel their business relations.

It is not possible as part of a desk review to establish if the capacity issues regarding the implementation of CDD requirements for centros cambiarios and money remitters have been sufficiently addressed. However, the authorities have taken measures for these two sectors, which address the legal deficiencies and should have a positive effect on the capacity issues.

R5/deficiency 4 has been sufficiently addressed.

R5 (Deficiency 5): Inadequate CDD threshold (USD 10 000) for business relationships for casas de cambio and insurance companies.

For casas de cambio: AML/CFT General Provisions applicable to currency exchange houses were published on 25 September 2009 (article 4). These new AML/CFT regulations established stricter thresholds for the identification of clients and occasional customers:

- In business relationships involving USD 500 - USD 3 000 (except for wire transfers in which case the threshold begins at USD 1 000), a record of the transaction has to be kept. In the case the client or occasional customer is a natural person, the following information must be collected: full name, country of birth, nationality, date of birth, address, and number of an official identification; and in the case the client or occasional customer is a legal person, the following information must be collected: company name, nationality, address, federal tax identification number, and information of its legal representative.
- In business relationships involving USD 3 000 – USD 5 000, apart from the information mentioned above, copies of official identifications from the parties involved in the relevant transaction also have to be collected and kept.
- In business relationships in excess of USD 5 000, a file of each client or occasional customer has to be created prior to the execution of the relevant transaction, which apart from the information mentioned above, needs to include in the case of natural persons: profession or business, telephone number, email, national identification number, SAT electronic signature, and a declaration that the transaction is or is not carried out on behalf of a third party (in the latter case, all the relevant information for the third party must also be collected); and in the case of legal persons: business activity,

telephone number, email, SAT electronic signature, full names of legal representatives and their powers.

For insurance companies: AML/CFT General Provisions applicable to insurance companies and their agents were published on 19 July 2012 (articles 4, 6 and 8).These AML/CFT regulations are practically identical to the AML/CFT regulations issued previously for other financial sectors. In particular, these regulations establish the obligation for insurance companies to identify and verify the identity of all clients carrying out transactions with them. "Clients" is defined as those who contract or are insured by an insurance policy.

The regulations also incorporate simplified measures that allow insurance companies to complete their verification of the identification of clients once the business relationship has been established, but only for specific cases of life insurances with annual payments under USD 2 500 and pension insurances derived from social security legislation, and as long as the relevant insurance institutions:

- Implement criteria and procedures to determine which operations can be considered of low-risk.
- Implement systems that allow them to identify and monitor transactions that are not consistent with the expected transactional characteristics, and report them if applicable.
- Evaluate during the last quarter of each year, through their Committee of Control and Communication or Compliance Officer, if the abovementioned measures are adequate.
- Establish identification requirements for transactions that are not executed in person, equivalent to those demanded for transactions executed in person.

R5/deficiency 5 has been sufficiently addressed.

R5 (Deficiency 6): No distinction in all cases between CDD requirements for business relationships and all types of occasional transactions, including a direct requirement for to aggregating linked occasional transactions.

Since October 2008, several new and amended AML/CFT regulations have been published, as explained in detail above under R5/deficiency 2. AML/CFT regulations applicable to banking institutions, securities brokerage firms, insurance companies and agents, bonding forms and agents, money exchange and remitters, SOFOLES and SOFOMES, establish the obligation of these financial entities to distinguish between CDD requirements for transactions performed by clients and occasional customers. Additionally, the regulations establish that the relevant financial entities must have systems that allow for the grouping of contracts or transactions carried out by a same client or occasional user, within a consolidated database. See for banking institutions, provisions: 4, 16 and 17; for currency exchange houses, provisions: 4 and 10; for currency exchange centres, provision: 4; for money remitters, provision: 4; for insurance, provisions 4, 6 and 8, for money remitters and exchange, provision 4; for securities brokerage firms, provisions: 4, 14 and 15; for SOFOLES,

provisions: 4 and 14; for SOFOMES, provisions: 4 and 14; and for auxiliary credit organisations, provisions: 4 and 12. See also R5/deficiency 5.

R5/deficiency 6 has been sufficiently addressed.

R5 (Deficiency 7): No explicit requirement to conduct CDD in all cases where there is suspicion of ML/FT or doubt about the adequacy of customer information.

Since October 2008, several new and amended AML/CFT regulations have been published, as explained in detail for R5/deficiency 2. These AML/CFT regulations include the obligation of the relevant financial entities to conduct CDD in all cases where there is suspicion of ML/FT or doubt about the adequacy of customer information. See for banking institutions, provisions: 4, 11, 16, 17, 21 and 38; for currency exchange houses, provisions: 4, 10, 14 and 29; for currency exchange centres, provisions: 4, 11 and 25; for money remitters, provisions: 4, 12 and 27; for securities brokerage firms, provisions: 4, 10, 15, 19 and 39; for SOFOLES, provisions: 4, 14, 15, 18 and 33; for SOFOMES, provisions: 4, 14, 17 and 30; for auxiliary credit organisations, provisions: 4, 12, 14 and 26; for insurance companies, provisions: 4, 7, 19 and 29; for bonding companies, provisions: 4, 6, 20 and 30; and for credit unions, provisions: 4, 8, 15 and 29.

R5/deficiency 7 has been sufficiently addressed.

R5 (Deficiency 8):Inadequate provisions in all the regulations with respect to CDD requirements when there are indications and/or certainty of false, erased or altered identification documents.

Since October 2008, several new and amended AML/CFT regulations have been published, as explained in detail for R5/deficiency 2. These AML/CFT regulations include the obligation of the relevant financial entities to establish stricter CDD requirements when there are indications and/or certainties as to false, erased or altered identification documents. In such cases, another identification document should be requested and, if no other identification is available, two bank or business references and two personal references (to be verified with respect to their authenticity) should be demanded. See for banking institutions, provisions: 4, 21 and 31; for currency exchange houses, provisions: 4, 14 and 22; for currency exchange centres, provisions: 4, 12 and 20; for money remitters, provisions: 4, 12 and 20; for securities brokerage firms, provisions: 4, 19 and 29; for SOFOLES, provisions: 4, 18 and 26; for SOFOMES, provisions: 4, 17 and 25; for auxiliary credit organisations, provisions: 4, 14 and 22; for insurance companies, provisions: 4, 19, and 24; for bonding companies, provisions: 4, 20, and 25; and for credit unions, provisions: 4, 15 and 23.

R5/deficiency 8 has been sufficiently addressed.

R5 (Deficiency 9): Weak identification verification requirements for non-beneficiary insurance policyholders

The AML/CFT General Provisions applicable to insurance companies and their agents were published on 19 July 2012. These regulations are almost identical to the AML/CFT regulations issued previously for other financial sectors. In particular, these regulations establish the obligation of insurance companies to identify and verify the identity of all clients carrying out transactions

with them. "Clients" is defined as those who contract or are insured by an insurance policy. See articles 4, 6 and 8. See also R5/deficiency 5.

R5/deficiency 9 has been sufficiently addressed.

R5 (Deficiency 10): Insufficient requirements in the 2004 regulations for the identification of foreign beneficiaries.

Since October 2008, several new and amended AML/CFT regulations have been published, as explained in detail for R5/deficiency 2. These AML/CFT regulations make no (more) distinction between the identification of domestic or foreign beneficiaries. See for banking institutions, provisions: 2, 4, and 11; for currency exchange houses, provisions: 2 and 4; for currency exchange centres, provisions: 2 and 4; for money remitters, provisions: 2 and 4; for securities brokerage firms, provisions: 2, 4, and 10; for SOFOLES, provisions: 2, 4, and 11; for SOFOMES, provisions: 2, 4, and 11; for auxiliary credit organisations, provisions: 2, 4, and 10; for insurance companies, provisions: 2, 4 and 7; for bonding companies, provisions: 2, 4 and 6; for credit unions, provisions: 2, 4 and 8.

R5/deficiency 10 has been sufficiently addressed.

R5 (Deficiency 11): No direct explicit requirement for FIs to ascertain/request that applicants for business to state whether they are acting on behalf of others.

Since October 2008, several new and amended AML/CFT regulations have been published, as explained in detail for R5/deficiency 2. These AML/CFT regulations include obligations for relevant financial entities to ascertain/request that their clients disclose if they are acting on behalf of third parties. See article 4 in each of these regulations.

R5/deficiency 11 has been sufficiently addressed.

R5 (Deficiency 12): No general requirement for obtaining information on the purpose and nature of business relationships.

Since October 2008, several new and amended AML/CFT regulations have been published, as explained in detail for R5/deficiency 2. These AML/CFT regulations include the obligation of relevant financial entities to obtain information on the purpose and nature of business relationships; in the case of high-risk clients this information is obtained through questionnaires. See for banking institutions, provisions: 4, 24, 25, 28 and 55; for currency exchange houses, provisions: 4, 17, 18, 21,27 and 46; for currency exchange centres, provisions: 4, 14, 15,18 and 42; for money remitters, provisions: 4, 15, 16, 19 and 44; for securities brokerage firms, provisions: 4, 22, 23,26 and 56; for SOFOLES, provisions: 4, 21, 22, 25 and 50; for SOFOMES, provisions: 4, 20, 21, 24 and 47; for auxiliary credit organisations, provisions: 4, 17, 18, 21 and 43; for insurance companies, provisions: 4, 16, 17, 18, 19, 20 and 45; for bonding companies, provisions: 4, 16, 17, 18, 19, 21 and 46; and for credit unions, provisions: 4, 18, 19, 22 and 46.

R5/deficiency 12 has been sufficiently addressed.

R5 (Deficiency 13): Insufficient justification and guidelines for risk-based CDD, including with respect to simplified CDD for customers listed in the Annex of the regulations.

Since October 2008, several new and amended AML/CFT regulations have been published, as explained in detail for R5/deficiency 2. These AML/CFT regulations establish that simplified CDD procedures can only be authorised for specific types of clients listed in "Annex A" of each regulation. These listed clients are all financial entities that require of a government authorisation (*e.g.*, license) to operate as a financial entity and are regulated and supervised by financial authorities. The authorities consider these entities to be low risk customers. However, as is indicated in the regulations, these simplified CDD procedures still require certain information and documentation to be collected for the customer file. See for Banking institutions, provisions: 4, 14, 25, 38 and 40; for currency exchange houses, provisions: 4, 18, 29 and 31; for currency exchange centres, provisions: 4, 15, 25 and 27; for money remitters, provisions: 4, 16, 27 and 29; for securities brokerage firms, provisions: 4, 23, 39 and 41; for SOFOLES, provisions: 4, 22, 33 and 35; for SOFOMES, provisions: 4, 21, 30 and 32; for auxiliary credit organisations, provisions: 4, 18, 26 and 28; insurance companies, provisions: 4, 17, 18, 19, 21, 30 and 31; for bonding companies, provisions: 4, 16, 17, 18, 20, 29 and 30; and for credit unions, provisions: 4, 19, 29 and 31.

R5/deficiency 13 has been sufficiently addressed.

R5 (Deficiency 14): No risk mitigating controls for deferment of identification verification, including with respect to newly-formed companies.

Since October 2008, several new and amended AML/CFT regulations have been published, as explained in detail for R5/deficiency 2. These AML/CFT regulations establish the obligation of financial entities to identify all their clients and occasional customers before executing any type of transaction. When financial institutions identify a newly formed company that is not yet registered at the corresponding public registry, then the legal representative(s) must provide a written declaration stating that they will continue with the registration of the company, and inform the financial entity of the results thereof. See article 4 in each of these regulations. See also for insurance R5/deficiency 5.

R5/deficiency 14 has been sufficiently addressed.

R5 (Deficiency 15): Provisions to defer verification of identification of customers associated with insurance policies are too broad.

See R5/deficiency 5 and R5/deficiency 9.

R5/deficiency 15 has been sufficiently addressed.

R5 (Deficiency 16): No explicit provision to refuse to open an account (*e.g.,* when identification documentation/verification is inadequate or cannot be completed) and to terminate existing business relationships when CDD cannot be completed and to file a STR.

Since October 2008, several new and amended AML/CFT regulations have been published, as explained in detail for R5/deficiency 2. These AML/CFT regulations establish the obligation for financial entities to refuse to open accounts or terminate existing relationships when CDD

procedures cannot be completed. This means that no account should be opened or transaction executed if the identification process is incomplete. Additionally, in case the (occasional) customer refuses to provide the required identification information or documentation, or when the documents are suspected of being false, financial institutions have to file a STR. See for Banking institutions, provisions: 4 and 38; for currency exchange houses, provisions: 4 and 29; for currency exchange centres, provisions: 4 and 25; for money remitters, provisions: 4 and 27; for securities brokerage firms, provisions: 4 and 39; for SOFOLES, provisions: 4 and 33; for SOFOMES, provisions: 4 and 30; for auxiliary credit organisations, provisions: 4 and 26; for insurance companies, provisions: 4 and 29; for bonding companies, provisions: 4 and 30; and for credit unions, provisions: 4 and 29.

R5/deficiency 16 has been sufficiently addressed.

RECOMMENDATION 5 – OVERALL CONCLUSION

With the enactment of several new and amended AML/CFT regulations, Mexico has sufficiently addressed all the shortcomings related to R5, and has brought the compliance with this Recommendation up to a level comparable at minimum to an LC.

RECOMMENDATION 13 –PC

R13 (Deficiency 1): The reports filed by some sectors are not being transmitted to the FIU, nor utilised in any form (bonding companies and the registered money transmitters and currency exchanges).

The authorities indicate that all CTRs/STRs from all financial entities are now transmitted systematically to the FIU. For the sectors that did not report to the FIU at the time of the MER, the authorities provided statistics for the number of CTRs/STRs.

Table 4: **Number of CTRs / STRs**

	Bonding companies			Currency exchange centres			Money remitters		
Year	CTRs	STRs	Reports of Employees	CTRs	STRs	Reports of Employees	CTRs	STRs	Reports of Employees
2008	6	4	0	20 903	854	9	30 160	59 818	5
2009	3	9	0	143 993	5 821	296	81 487	30 797	4
2010	3	23	1	99 522	8 312	169	76 598	29 618	28
2011	6	3	0	38 174	1 723	380	39 760	29 396	0
2012	3	100	0	34 684	1 569	35	28 320	36 867	15
2013	9	15	0	35 981	1 513	1	47 937	45 343	0
Total	**30**	**154**	**1**	**373 257**	**19 792**	**890**	**304 262**	**231 839**	**52**

The authorities also explained that the decrease in the number of reports from currency exchange centres and money remitters during 2010 to 2011 is in their view the result of intensified monitoring by the authorities and an improvement of the quality of reporting by financial entities. In addition, in the case of currency exchange centres, a decrease in the number of reports can be explained by a reduction of STRs of USD denominated transactions (after AML/CFT regulations that restrict the use of cash deposits in USD in Mexico went into force). Furthermore, the decrease in the amount of reports received by the FIU from currency exchange centres and money remitters during 2012 is said to be caused by a decrease in the number of entities that operated in this sector after new requirements were imposed by the authorities (although a decrease in the number of suppliers is not necessary an indication that overall supply has also decreased). Finally, the authorities have introduced new reporting forms as of June 2012 for currency exchange centres and money remitters.

R13/ deficiency 1 has been sufficiently addressed.

R13 (Deficiency 2): There is no clear obligation to report the suspicion of the financing of international acts of terrorism (only of terrorist acts committed locally).

While at the time of the MER there was only a reference to domestic terrorism and terrorist financing in the reporting obligation, the current AML/CFT regulations for financial sectors (as explained in R5/deficiency 2 above) include a requirement to report transactions related to domestic and international terrorism and terrorist financing, by reference to articles 139 (domestic terrorism and terrorist financing) and 148 Bis (international terrorism and terrorist financing). While the requirement in the AML regulations is legally sound, to support effective implementation the authorities could have mentioned the words "terrorism" and "terrorist financing" in the regulations, instead of only referring to the two article numbers. Reporting entities have 24 hours to report such transactions. See for banking institutions, provisions: 1 and 4; for currency exchange houses, provisions: 1 and 32; for currency exchange centres, provisions: 1 and 28; for money remitters, provisions: 1 and 30; for securities brokerage firms, provisions: 1 and 42; SOFOLES, provisions: 1 and 36; SOFOMES, provisions: 1 and 33; auxiliary credit organisations, provisions: 1 and 29; for insurance companies, provisions: 1 and 31; for bonding companies, provisions: 1 and 32; and for credit unions, provisions: 1 and 32.

R13/ deficiency 2 has been sufficiently addressed.

R13 (Deficiency 3): Excessively broad definition of suspicion in the regulations generates defensive reporting, and the guidance issued to address this issue is not legally adequate to limit the scope of said regulations.

Since the MER, and with the adoption of the new and amended AML/CFT regulations published, as explained in detail for R5/deficiency 2, the authorities have updated the definition of suspicion in the regulations, and worked on new guidance and better feedback. The following measures have been taken to allow for a better understanding of suspicion and to discourage defensive filing.

The new and amended AML/CFT regulations contain updated definitions of suspicion. For example, the banking regulation contains a definition of suspicion in article 2-XIV. This definition is very straightforward. Additionally, banking regulation article 38 contains examples or typologies to further explain in practical terms, without being prescriptive, what types of transactions could be considered suspicious. See also for currency exchange houses, provision: 29; currency exchange centres, provision: 25; money remitters, provision: 27; securities brokerage firms, provision: 19; SOFOLES, provision: 33; SOFOMES, provision: 30; auxiliary credit organisations, provision: 38; insurance companies, provision: 29; bonding companies, provision: 30; and credit unions, provision: 29.

An interagency coordination group for AML/CFT supervision has been created, with representatives of supervisors, different representatives from the SHCP (FIU, Banking, Securities and Savings Unit (UBVA), Insurance, Pensions and Social Security Unit (USPSS), Development Banking Unit (UBD), CNBV and SAT). This group seeks to review and homogenise AML/CFT regulation applicable to all financial sectors, and to issue guidelines and criteria to assist the relevant financial entities to increase the quality of their reporting.

Regarding the quality of reports, the FIU has increased its feedback to reporting entities, which in turn is said to have enabled these entities to improve the quality of their internal controls, monitoring and reporting. In relation to this feedback exercise, the FIU has (i) analysed more than 90% of the reports in its database, which has allowed the FIU to have a better understanding of the areas where the different sectors have to improve their reporting; (ii) the FIU and the supervisory bodies have provided training to reporting entities, focusing on the adequate submission and filing of reports; (iii) the FIU, CNBV and CNSF hold regular meetings with private sector bodies, such as the Mexican Banking Association and the Mexican Insurance Association; (iv) the FIU provides specific feedback reports to reporting entities, with a detailed analysis of reports sent by these entities and with general information on the sector of the specific entities, in order for each entity to understand its challenges and to improve; (v) the FIU has also issued reports that identify risks, trends and patterns for most financial sectors; and (vi) the FIU has identified 43 specific indicators to be considered within its risk-based approach model. Many of these indicators have been shared among financial entities for their own analysis of operations.

R13/ deficiency 3 has been sufficiently addressed.

R13 (Deficiency 4): The obligation to report attempted transactions is not explicitly established in regulations, and not consistently implemented by financial institutions.

Since October 2008, several new and amended AML/CFT regulations have been published, as explained in detail for R5/deficiency 2. These AML/CFT regulations explicitly establish the obligation for financial entities to report attempted transactions. See for banking institutions, provisions: 2, 38 and 41; for currency exchange houses, provisions: 2, 29 and 32; for currency exchange centres, provisions: 2, 25 and 28; for money remitters, provisions: 2, 27 and 30; for securities brokerage firms, provisions: 2, 39 and 42; for SOFOLES, provisions: 2, 33 and 36; for SOFOMES, provisions: 2, 30 and 33; for auxiliary credit organisations, provisions: 2, 26 and 29; for insurance companies, provisions: 2, 29 and 31; for bonding companies, provisions: 2, 30 and 32; and for credit unions, provisions: 2, 29 and 32.

R13/ deficiency 4 has been sufficiently addressed.

RECOMMENDATION 13 – OVERALL CONCLUSION

With the enactment of several new and amended AML/CFT regulations, and with the additional measures taken by the FIU and other competent authorities, Mexico has sufficiently addressed the shortcomings related to R13, and has brought the compliance with this Recommendation up to a level comparable at minimum to an LC.

SPECIAL RECOMMENDATION II –PC

SRII (Deficiency 1): The TF offense is not fully consistent with Article 2 of the TF Convention. It only focuses on what is used for the act (and not on the intentions of the act) and it requires a showing (rather than a purpose) that the act generated alarm, fear, or terror to a population.

A bill of decree by which the Federal Criminal Code and other laws are amended, was presented by the President to Congress on 31 May 2013. The bill was adopted by the Chamber of Deputies on 3 December 2013 and by the Senate on 11 February 2014. This modifies the criminalisation of terrorism and terrorism financing in order to make it fully consistent with article 2 of the TF Convention. For domestic terrorism, Article 139 now covers both intention and purpose. Article 139 Quáter covers the financing of terrorism, and Article 139 Quinquies covers concealment. For international terrorism, the articles are 148 Bis, paragraph I (for purpose) and 148 Bis paragraph IV (for intention). The law does not change any of the elements that were in place previously and that were deemed compliant.

SRII/deficiency 1 has been sufficiently addressed.

SRII (Deficiency 2): While the TF offence covers the financing of a significant number of terrorist acts, it does not extend to the financing of the acts that constitute an offense within the scope of, and as defined in the treaties listed in the annex of the TF Convention.

A bill of decree by which the Federal Criminal Code and other laws are amended, was presented by the President to Congress on 31 May 2013. The bill was adopted by the Chamber of Deputies on 3 December 2013 and by the Senate on 11 February 2014. It criminalises terrorism and terrorism financing as required by the conventions annexed to the Terrorist Financing Convention and it extends the terrorist financing criminalisation to the financing of the acts that constitute an offense within the scope of, and as defined in the treaties listed in the annex of the TF Convention.

SRII/deficiency 2 has been sufficiently addressed.

SRII (Deficiency 3): No TF investigations to date and therefore cannot conclude that the measures are effective.

The authorities have indicated that the Center for Research and National Security (CISEN) (the federal intelligence agency, which is part of the Ministry of the Interior) carried out three terrorist financing investigations during 2010 and 2011. Some of these investigations were conducted in co-operation with other Mexican or and other foreign authorities. Additionally, the FIU has

spontaneously shared reports involving possible terrorist financing cases with other foreign financial intelligence units.

As was indicated before, this is a desk based review which makes it difficult to assess the effectiveness of a system. Considering that Mexico is an important transit country for drugs produced in countries with terrorist groups and for the related proceeds back to the possible terrorist producers, one should expect more such investigations at the latest at the time of the next mutual evaluation of Mexico (keeping in mind also that the next round of FATF mutual evaluations will focus more on effectiveness). However, in the meantime and for the purposes of this report, SRII/deficiency 3 is considered to be sufficiently addressed.

SRII/deficiency 3 has been sufficiently addressed.

SPECIAL RECOMMENDATION II – OVERALL CONCLUSION

Regarding deficiencies 1 and 2, Mexico amended its Federal Criminal Code to address the technical shortcomings in relation to the criminalisation of terrorist financing. As for the deficiency 3, this has been sufficiently addressed. SRII has been sufficiently addressed and the level of compliance has been brought to a level comparable at a minimum to an LC.

SPECIAL RECOMMENDATION IV –PC

SRIV (Deficiency 1): There is no clear obligation to report the suspicion of the financing of international acts of terrorism (only of terrorist acts committed locally).

This deficiency is identical to R13/deficiency 2, which is considered to be sufficiently addressed.

SRVI/deficiency 1 has been sufficiently addressed.

SRIV (Deficiency 2): The obligation to report attempted transactions is not explicitly established in regulations, and not consistently implemented by financial institutions.

This deficiency is identical to R13/deficiency 4, which is considered to be sufficiently addressed.

SRVI/deficiency 2 has been sufficiently addressed.

SPECIAL RECOMMENDATION IV – OVERALL CONCLUSION

The two deficiencies in relation to this SRIV are identical to two of the deficiencies related to R13, which are considered to have been sufficiently addressed. This means that SRIV has also been sufficiently addressed and Mexico has brought the compliance with this Recommendation up to a level comparable at minimum to an LC.

V. REVIEW OF THE MEASURES TAKEN IN RELATION TO THE KEY RECOMMENDATIONS

RECOMMENDATION 23 –PC

R23 (Deficiency 1): Insufficient supervision, largely due to inadequate budgetary and human resources, of the unregulated foreign exchange centres and money remittance sector.

See also R5/deficiency 4 (move of supervision of these sectors from the tax authorities to the banking supervisor). See also LGOOAC articles 81, 81A and 81A Bis. In addition to this, in order to effectively implement the new duties, CNBV has increased its budget and human resources. The CNBV has created an AML/CFT Vice-presidency (second level within the organisation), which has two General Directors, one of them specifically focused on the supervision of currency exchange centres, money remitters and unregulated SOFOMES. Furthermore, the number of employees in the AML/CFT area has increased substantially, from 41 in January 2008 to 104 in February 2012 (+154%).

R23/deficiency 1 has been sufficiently addressed.

R23 (Deficiency 2): No AML/CFT regulation and supervision for unlicensed SOFOMES

This shortcoming was addressed as described in R5/deficiency 4 and R23/deficiency 1.

R23/deficiency 2 has been sufficiently addressed.

R23 (Deficiency 3): Inadequate oversight mechanisms for intermediaries (channels of distribution) in the insurance and bonding sectors, and on cash acceptance practices.

AML/CFT regulations for insurance and bonding sectors were put in place (as is discussed elsewhere), and the CNSF has inspected several insurance and bonding companies, as well as their agents, in order to assess their level of compliance with the AML/CFT regulations. Currently there are in total 119 entities from both sectors in operation. The CNSF has focused its supervision on those entities that represent the largest risk because of the type of products they offer (*i.e.,* life insurance). To increase its AML/CFT supervision capacity, the CNSF created a specialised unit which during 2009 – 2012 has implemented 56 on-site supervisions to insurance institutions, bonding institutions, and their agents, which means that 47% of the entities in both sectors have been inspected (representing 74.7% of the market). In addition, the CNSF carries out on-site supervisions of newly-authorised institutions from both sectors, prior to the start of their operations, in order to determine if they comply with AML/CFT regulations. Special emphasis is put to ensure in that these businesses have automated systems to detect and report suspicious transactions. As a result of the supervisions carried out, during 2009 the CNSF has issued 1 590 supervision reports, 151 official observations, and 21 sanctions for a total amount of MXN 11.4 million (approximately USD 900 000).

In relation to cash acceptance: as part of the National AML/CFT Strategy, Mexico has restricted the use of cash in its financial sector (see also R1/deficiency 1). The AML/CFT General Provisions for banking institutions were amended on 16 June 2010, with the purpose of (i) establishing limits on the amounts of USD in cash that banking institutions are allowed to accept from clients or occasional

customers through deposits or other transactions, and (ii) establishing the obligation for banking institutions to report transactions involving USD in cash that exceed pre-determined limits established in the regulations. On 9 September 2010, almost identical rules have also been imposed on currency exchange houses and securities brokerage firms. Reporting forms for reporting USD CTRs were published in October 2012, and revised in March 2012. The authorities stress that the restrictions on the acceptance of USD in cash was a policy decision taken after a comprehensive joint Mexican – US investigation that concluded there was a substantial amount of USD in cash entering the Mexican financial system, for which there was not a clear licit economic explanation. Since the adoption of the measures, the amount of USD in cash that has entered the Mexican financial system has dropped by 70%.

R23/deficiency 3 has been sufficiently addressed.

R23 (Deficiency 4): Insufficient use of offsite supervisory capacity for planning and conducting onsite inspections, consistent with the risk-based provisions in the regulations and prudential supervision.

Since the adoption of the MER in 2008, the CNBV has worked intensively with the International Monetary Fund (IMF), through a technical assistance program, to develop a new supervision methodology for the prevention of ML/FT with a risk-based approach, which was finalised during March 2011. According to the authorities, this new methodology will allow for better planned and targeted onsite inspections, based on a more comprehensive understanding of the relevant financial sectors and the characteristics of each particular entity. The methodology will include a diagnosis of the relevant entities, focused on their background, their corporate structure and governance, their business and products, as well as their types of clients, among other; providing for the determination of different ML/FT risk levels.

Other relevant actions have been taken in addition. Since January 2012, CNBV has a new administrative department (within the AML/CFT Vice-presidency) that focuses specifically on off-site supervision. This new department is responsible for implementing the risk-based approach methodology, in close cooperation with the on-site supervision department, in order to determine the risk represented by entities and the consequent periodicity and intensity of the supervisions that must be carried out. In addition to the risk-based methodology that is being implemented, the authorities report that they have benefited from the implementation of a risk rating system called the Risk Oriented Rating of Financial Institutions. This system allows to determine the level of risk of specific entities and the risk classification, based on information from different sources (*e.g.,* results from off-site supervision).

The CNBV has also elaborated new criteria for establishing sanctions. The new criteria include an increase in the amounts of the fines to be established, according to the level of gravity of the acts being sanctioned. As a result of the first inspections under these new criteria, the CNBV has initiated several administrative procedures against one of the largest banking institutions in Mexico. This has led to a USD 27 million fine in June 2012 (which is the highest such fine ever in Mexico). Additionally, the CNBV has revoked its authorisation granted to two currency exchange houses. Also, there are other sanctions in progress.

R23/deficiency 4 has been sufficiently addressed.

R23 (Deficiency 5): Insufficient cross-border supervision including through the use of supervisory MOUs.

To enhance the cooperation among the AML/CFT supervisors of Mexico and other countries, the CNBV has held meetings with several national and international relevant counterparts with the purpose of seeking a more fluid and efficient information exchange that allows for coordinated actions in the supervisory area. This approach has resulted in the execution of 39 bilateral or multilateral MOUs, involving many jurisdictions, and allowed for an increase in cross-border supervision. During 2012 the CNBV carried out a diagnosis of financial institutions that have branches or subsidiaries abroad, which led to the initiation of off-site supervision on 10 banking institutions, 4 broker-dealers and 2 currency exchange houses with establishments overseas. For 2013, the number of supervisions in this respect is expected to increase.

R23/deficiency 5 has been sufficiently addressed.

RECOMMENDATION 23 – OVERALL CONCLUSION

Since the approval of the MER, steps have been taken to address the deficiencies related to R23. The most important measures are the transfer of supervision of some sectors to the National Banking and Securities Commission (CNBV), the successful restriction of the use of USD in cash in Mexico (deficiencies 1 and 2), and the implementation of several measures that intent to make the supervisory framework overall more efficient. Despite the limitations of a desk-based review, at this stage it seems reasonable to conclude that Mexico has taken sufficient measures to bring R23 up to a level of at a minimum LC.

SPECIAL RECOMMENDATION I –PC

SRI (Deficiency 1): The Terrorist Financing Convention has not been fully implemente

With the implementation of SRI, Mexico has sufficiently addressed all the shortcomings related to SRI/deficiency 1.

SRI/deficiency 1 has been sufficiently addressed.

SRI (Deficiency2): United Nations Security Council Resolutions relating to the prevention and suppression of FT are not being fully implemented.

With the implementation of SRIII, Mexico has sufficiently addressed this shortcoming.

SRI/deficiency 2 has been sufficiently addressed.

SPECIAL RECOMMENDATION I – OVERALL CONCLUSION

The implementation of SRI depends on the full implementation of SRII and SRIII. Since the deficiencies for both have been sufficiently addressed, the deficiencies for SRI have also been

sufficiently addressed up to a level of at a minimum LC. See further the overall conclusions for SRI and SRIII.

SPECIAL RECOMMENDATION III – NC

General introduction

On 8 May 2013, the President presented to Congress a major financial reform, which included AML/CFT related changes. The reform was adopted by the Chamber of Deputies on 10 September 2013 and the Senate on 26 November 2013, and one important element of it establishes the requirement for banks and most other financial institutions to suspend immediately any transactions or services with persons or entities designated as money launderers, terrorists or terrorist financiers (designations/ list issued by the SHCP). These suspensions apply until the SHCP reverses a designation (*i.e.,* de listing). The reform also includes high penalties for non-compliance, including economic sanctions that are equivalent to 10 – 100% of the transactions that were carried out with designated persons or entities, in disobedience with the above.

In addition, the FIU was granted with the authority to establish a mechanism to further implement SRIII. The Federal Law for the Prevention and Identification of Transactions with Criminal Proceeds (the "AML Law") establishes in its article 12 that competent authorities shall have the authority to issue the Law's secondary regulation, in order to allow for an adequate implementation. The Regulations to this Law were enacted on 16 August 2013 and the General Rules of this Law were enacted on 23 August 2013, by the President and the SHCP, respectively. The Regulations establish in their article 18 that the FIU shall have the authority to establish additional AML/CFT preventive mechanisms and the General Rules explain in their article 38 that the FIU can consider in its AML/CFT preventive measures, the lists of designations made by international bodies and national or foreign authorities.

Based on these powers, on 22 January 2014, the Head of the FIU disseminated to all reporting parties (financial institutions, DNFBPs and other risk sectors) the "Resolution which establishes the mechanism to prevent the execution of acts or operations that enable the commission of the crimes to which reference is made in articles 1 and 19 of the regulations of the Federal Law for the Prevention and Identification of Transactions with Illicit Proceeds", or in short the targeted financial sanctions (TFS) resolution. The TFS resolution deals with most aspects relevant for complying with SRIII as a preventive measure. Since the TFS resolution was only put in place recently, this analysis does not assess effectiveness.

The TFS resolution is a list based resolution. It covers all FIs and DNFBPs, as well as other risk sectors that have been designated under the AML Law (Article 3, sub I "vulnerable activity"), but it is not a general prohibition that covers all persons and entities in Mexico. The introduction of the TFS regulation presents an important step towards compliance, despite the specific shortcoming related to the general prohibition.

Freezing is defined as "immobilisation" and as a prohibition to move or dispose or transfer any funds and other assets (Article 2, sub V). It additionally prohibits the change of the title to those funds or other assets ("shall remain the property of"). This is in line with the freezing requirement of SRIII. Funds or other assets have been defined in Article 2, sub V as "assets, rights or goods of any

nature", which in terms of the Civil Code Article 747 would cover any property that is subject to appropriation / commerce.

SRIII (Deficiency 1): There are no effective laws and procedures to freeze terrorist funds or other assets of persons designated by the United Nations Al-Qaida and Taliban Sanctions Committee in accordance with S/RES/1267(1999) without delay and without prior notice to the designated persons involved.

Article 4 paragraph 2 of the TFS resolution refers to any lists under UNSCR 1267, which will be automatically and immediately incorporated into the list of the FIU.

SRIII/deficiency 1 has been sufficiently addressed.

SRIII (Deficiency 2): There are no effective laws and procedures to freeze terrorist funds or other assets of persons designated in the context of S/RES/1373(2001) without delay and without prior notice to the designated persons involved.

Article 4 paragraph 2 of the TFS resolution refers to any designation (inclusion in the lists) by the authorities in line with UNSCR 1373.

SRIII/deficiency 2 has been sufficiently addressed.

SRIII (Deficiency 3): There are no effective laws and procedures to examine and give effect to, if appropriate, the actions initiated under the freezing mechanisms of other jurisdictions.

Article 4 paragraph 2 of the TFS resolution refers to any designation (inclusion in the lists) by the authorities in line with UNSCR 1373, based on requests by other countries, which will be considered by the FIU, if necessary in consultation with other domestic authorities.

SRIII/deficiency 3 has been sufficiently addressed.

SRIII (Deficiency 4): There are no measures extending freezing actions to: (a) Funds or other assets wholly or jointly owned or controlled, directly or indirectly, by designated persons, terrorists, those who finance terrorism or terrorist organisations, and; (b) Funds or other assets derived or generated from funds or other assets owned or controlled directly or indirectly by designated persons, terrorists, those who finance terrorism or terrorist organisations.

Article 5 sub II of the TFS resolution targets the assets of the designated entity through immobilisations and includes a reference to "assets, rights or goods of any nature, owned or controlled by persons or entities included in the [FIU] list … which are available to them, whether owned wholly or jointly, directly or indirectly, and including any assets derived from such assets, as well as assets owned by individuals or entities acting on behalf of persons or entities named on the list", which would include any assets wholly or jointly owned or controlled, directly or indirectly, by the designated persons, as well as funds or other assets derived from the former.

SRIII/deficiency 4 has been sufficiently addressed.

SRIII (Deficiency 5): There is no effective system for communicating actions taken under the freezing mechanisms to the financial sector immediately upon taking such action.

Any designations have to be communicated to all regulated entities within 24 hours of issuing by the FIU (Article 4, paragraph 3, TFS resolution).

SRIII/deficiency 5 has been sufficiently addressed.

SRIII (Deficiency 6): No clear guidance is provided to financial institutions and other persons or entities that may be holding targeted funds or other assets concerning their obligations in taking action under freezing mechanisms.

Articles 5 and 6 of the TFS resolutions inform FIs and DNFBPs of their obligations once funds are found (immobilise and report to the FIU). Article 9 of the same regulation also establishes that the FIU will provide guidance to address some of the practical issues that FIs and DNFBPs will face.

SRIII/deficiency 6 has been sufficiently addressed.

SRIII (Deficiency 7): There are no effective and publicly-known procedures for considering de-listing requests and for unfreezing the funds or other assets of de-listed persons or entities in a timely manner consistent with international obligations.

The initial designation/immobilisation is an administrative decision that can be appealed through an administrative procedure directed by the SHCP or a judicial process. The subsequent open ended immobilisation/seizure can also be appealed though the same means.

SRIII/deficiency 7 has been sufficiently addressed.

SRIII (Deficiency 8): There are no effective and publicly-known procedures for unfreezing, in a timely manner, the funds or other assets of persons or entities inadvertently affected by a freezing mechanism upon verification that the person or entity is not a designated person.

See deficiency 7. The appeal procedures are open to all of those affected.

SRIII/deficiency 8 has been sufficiently addressed.

SRIII (Deficiency 9): There are no appropriate procedures for authorising access to funds or other assets that were frozen pursuant to S/RES/1267(1999) and that have been determined to be necessary for basic expenses, the payment of certain types of fees, expenses and service charges or for extraordinary expenses, in accordance with S/RES/1452(2002).

Article 8 of the TFS resolution describes the reasons for cancelling an immobilisation and to authorise (partial) access to funds. Access as required by UNSCR 1452 is explicitly mentioned in the resolution (sub IV).

SRIII/deficiency 9 has been sufficiently addressed.

SRIII (Deficiency 10): There are no appropriate procedures through which a person or entity whose funds or other assets have been frozen can challenge that measure with a view to having it reviewed by a court.

See deficiency 7. The appeal procedures are open to all of those affected.

SRIII/deficiency 10 has been sufficiently addressed.

SPECIAL RECOMMENDATION III – OVERALL CONCLUSION

The TFS resolution puts in place a comprehensive system for the freezing of funds or other assets as required under SRIII / UNSCR 1267 and 1373. The TFS resolution is not only useful for the prevention against and combating of terrorism and TF, but also ML, as it also allows for the incorporation of money launderers on these FIU-issued lists. The TFS resolution is not a general prohibition, as its effect is limited to entities that fall under the AML Law: all financial institutions and all DNFBPs as required by the FATF, in addition to other sectors that fall under the AML Law because they are considered a higher risk. Nevertheless, the lack of a general prohibition is a specific shortcoming that will need to be addressed over time. In addition, as the TFS resolution has not been tested in practice because it was enacted very recently, currently no funds related to UNSCR 1267 have been detected and immobilised, nor have any requests related to 1373 been received and considered, nor have any designations under 1373 been made on Mexico's own motion. Overall, the TFS resolution is a very important step forward that brings overall compliance with SRIII up to a level comparable to an LC.

SPECIAL RECOMMENDATION V – PC

SRV (Deficiency 1): The deficiencies in the terrorist financing offence described under SRII impact on Mexico's ability to provide international cooperation through MLA and extraditions.

With the implementation of SRII, Mexico has sufficiently addressed all the shortcomings related to SRV/deficiency 1.

SRV/deficiency 1 has been sufficiently addressed.

SRV (Deficiency 2): The deficiencies in the process for freezing terrorist assets described under SR.III impact on Mexico's capacity to freeze, seize, and confiscate terrorist assets at the request of a foreign country.

With the implementation of SRIII, Mexico has sufficiently addressed all the shortcomings related to SRV/deficiency 2.

SRV/deficiency 2 has been sufficiently addressed.

SRV (Deficiency 3): The deficiencies in the terrorist financing offence described under SRII impact on the law enforcement authorities' ability to provide international cooperation.

With the implementation of SRII, Mexico has sufficiently addressed all the shortcomings related to SRV/deficiency 3.

SRV/deficiency 3 has been sufficiently addressed.

SPECIAL RECOMMENDATION V – OVERALL CONCLUSION

The implementation of SRV depends on the full implementation of SRII and SRIII. Since the deficiencies for both have been sufficiently addressed, the deficiencies for SRV have also been sufficiently addressed up to a level of at a minimum LC. See further the overall conclusions for SRI and SRIII.

VI. OVERVIEW OF MEASURES TAKEN ON IN RELATION TO OTHER RECOMMENDATIONS RATED NC OR PC

The Mexican authorities reported that the following measures have been taken to address the deficiencies related to other Recommendations rated PC or NC. The information in this section is presented for information and was not discussed or approved by the FATF Plenary.

PREVENTIVE MEASURES – FINANCIAL INSTITUTIONS

Recommendation 8 – Rating PC and Recommendation 9 – Rating PC, Special Recommendation VI – Rating NC, Special Recommendation VII – Rating PC

To address the deficiencies related to Recommendation 8 and 9, the authorities report that there are new requirements in place that require that the identification of clients must be completed prior to conducting any transaction. Furthermore, the third party reliance on non-supervised intermediaries has been addressed through a change in the supervision structure that brings these non-supervised entities under supervision (see Recommendation 23).

Regarding Special Recommendation VI, a major impediment to the successful effective implementation of the requirements was the inflow of foreign currency (mainly USD). The AML/CFT regulations that restrict the use of cash deposits in USD in Mexico have a positive effect on the overall effectiveness compliance of this sector according to the authorities. The authorities also report that new requirements have been put in place for the identification of clients performing transactions in smaller amounts (starting at USD 500), which should counter structuring of transactions to avoid detection of STRs (a.k.a. smurfing). Supervisory issues have been addressed by moving supervision of this sector to the CNBV (see Recommendation 23). In relation to wire transfers (Special Recommendation VII), the authorities indicate that the applicable threshold has been changed to USD 1 000.

A risk based approach for receiving wire transfers with incomplete originator information and strengthened record keeping requirements are also said to have been put in place.

DNFBPS AND OTHER NON-FINANCIAL BUSINESSES

Recommendation 12 – Rating NC, Recommendation 16 – Rating NC, Recommendation 20 – Rating NC, Recommendation 24 – Rating NC

The Bill for a Federal Law for the Prevention and Identification of Transactions with Criminal Proceeds has been approved by Congress and published in the Federal Official Gazette on

17 October 2012. It expands the AML/CFT framework from financial institutions to designated non-financial businesses and professions (Recommendation 12, 16 and 24) and to other applicable businesses (Recommendation 20).

The GOM issued the Law's secondary legislation in August 2013, and has also made efforts to effectively implement the new AML/CFT regime, which include investments in technology, human resources and training.

SUPERVISION AND GUIDANCE – FINANCIAL INSTITUTIONS

Recommendation 17 – Rating PC, Recommendation 25 – Rating PC)

Regarding the level of sanctions, see Recommendation 17. Noteworthy are the several administrative procedures against one of the largest banking institutions with operations in Mexico that CNBV initiated. This process ended during June 2012, when the relevant bank paid a sanction of approximately USD 27 million, the largest sanction that has been ever determined/paid for non-compliance of AML/CFT regulations in Mexico.

Regarding guidance, the authorities report that the FIU has analysed 100% of the reports in its database, which has in consequence allowed for a stronger understanding of the areas of improvement for different sectors in their reporting. The FIU and the Financial Supervisory Bodies have also provided training to reporting entities, focused on STR filing. There are now periodic meetings of the FIU and CNBV/CNSF with the Mexican Banking Association/Mexican Insurance Association. Furthermore, the FIU reports that it issues feedback reports that contain a detailed analysis of reports sent by specific reporting entities, and publishes more general reports on the findings for certain sectors. In both types of reports, areas of improvement are identified. The FIU has also issued reports that identify risks, trends and patterns for practically all financial sectors, and it has identified 43 specific indicators to be considered within its risk-based approach model. Many of these indicators are said to have been shared among financial entities for their own analysis of operations.

LAW ENFORCEMENT RELATED MEASURES

Recommendation 27 – Rating PC, Special Recommendation IX – Rating NC

Several judicial reform processes, as described for Recommendation 1, are reported to have a positive effect on the effectiveness of Recommendation 27. In addition, the authorities report that the budget of the PGR was increased by 24% in 2012, and some of these resources have been allocated to AML. The authorities also report that the PGR's powers now include phone taps (in certain cases) and for the possibility for federal prosecutors to ask competent authorities for relevant information, such as telephone numbers and their registered users. Undercover operations for investigations on organized crime are now also allowed. The authorities have also indicated that an enhanced focus is being given to the implementation of Special Recommendation IX.

RESOURCES

Recommendation 30 – Rating PC

AML/CFT training has been provided to relevant authorities, partially also in the form of cooperation projects with international financial institutions. The lack of resources for AML/CFT at SAT has been addressed by a transfer of the supervisory powers to the CNBV (see also Recommendation 23), which at the same time indicates that authorities believe that the CNBV has sufficient staff to undertake this work.

According to the authorities, the FIU has taken measures to increase the effective use of its resources. The FIU has strengthened its technical and operational capacity by establishing new criteria for the selection, hiring and evaluation of staff, and for ensuring that all staff have the necessary levels of expertise and reliability. The new criteria include specialized-knowledge exams and psychological, socio-economic, polygraph and drug tests. The FIU has also been relocated to new premises with better conditions in space, equipment and security.

TRANSPARENCY OF LEGAL PERSONS AND NPOS

Recommendation 33 – Rating PC, Special Recommendation VIII – Rating PC

Regarding transparency of legal persons, since the adoption of the MER the authorities have focused on beneficial ownership requirements for financial institutions, as required for CDD purposes (Recommendation 5).

Regarding non-profit organisations, the authorities report that NPOs have been designed as reporting entities under the AML Act.

MUTUAL LEGAL ASSISTANCE

Recommendation 38 – Rating PC

Measures to allow for the freezing of terrorist funds or other assets at the request of a foreign country have been covered with the implementation of SRIII and provisions for confiscating goods of equivalent value are under consideration by Congress.