



Objectives for FATF XXVI (2014-2015) Paper by the incoming President

LIST OF PRIORITIES

1. **Raising the profile** of the FATF in its 25th year and communicating its continued relevance
2. Working with the FSRBs to address the issue of regulatory arbitrage
3. Emphasising the **effectiveness** component of mutual evaluations
4. Ensuring **quality and consistency** in mutual evaluation reports across the global network
5. Promoting meaningful engagement and open communication with the **private sector**
6. **Working with the G20** on areas of mutual interest, including corruption and beneficial ownership
7. Considering the risks associated with **virtual currency** and potential policy responses
8. Continuing the FATF **strategic view** discussions, including prioritisation of the FATF's work

KEY POINTS ON EACH PRIORITY

1. *Raising the profile of the FATF/reflecting on its achievements/communicating ongoing relevance*
 - In its 25th year of operation it is important to take stock of what the FATF has achieved and what now needs to be done.
 - In addition to specific priorities, an overarching theme of the Australian presidency will be raising the profile of the FATF.
 - There are a number of ways to do this –
 - emphasising the practical consequences of non-compliance with the FATF recommendations (for example, how non-compliance can impact a country's financial risk profile or credit rating, potentially effecting their financial position and broader international reputation)
 - communicating the relevance of the FATF in the international arena (e.g. continuing and strengthening our cooperation with the G20)
 - emphasising the advances in our methodology through our new focus on effectiveness

- acknowledging the improvements in the FATF and FSRB member jurisdictions' AML/CFT regimes since the FATF was created (e.g. promoting how many countries have exited the ICRG and follow up processes)

2. *Reducing regulatory arbitrage within the FATF global network*

- In the 21st century, the flow of money across jurisdictions has afforded us many economic and social benefits. However, it has also opened up the problem of regulatory arbitrage. In international finance, this is the practice of taking advantage of a regulatory difference between two or more markets. In the FATF context, it can be best explained as the exploitation of differences in standards and enforcement of those standards.
- Closing down regulatory arbitrage is essentially what the FATF is about. By agreeing to AML/CFT standards that apply to FATF members and the global network, and enacting national laws, policies and practices to meet and enforce those standards, we are reducing the differences in AML/CFT regulation between our jurisdictions. Limiting the differences reduces the risk of arbitrage.
- For this to work, we must continue to encourage each other and our FSRB members to apply the FATF recommendations consistently across the global network. However, our challenge over the coming years will be to shift our focus to effectiveness - encouraging each other to have effective AML/CFT regimes in our jurisdictions. If we can all demonstrate an effective system, we are well on our way to addressing the problem of regulatory arbitrage as it applies to AML/CFT.
- As individual FATF members, we are all reliant and dependent on each other - it is the responsibility of us all to take ownership and do what we can to achieve a strong global AML/CFT framework.
- As a multi-lateral body, we have an over-arching responsibility to ensure our members and the FSRBs apply the standards consistently and that their regimes are effective. We should also continue our strong cooperative relationships with other multi-lateral organisations, such as the Egmont Group of Financial Intelligence Units, and work with them to address these issues as they apply in specific contexts.
- The Australian presidency will emphasise the importance of closing down regulatory arbitrage. Because, in an increasingly global financial system, we are only as strong as our weakest links.

3. *Measuring effectiveness*

- A distinguishing feature of the fourth round will be an analysis of the effectiveness of a jurisdiction's AML/CTF regime. This will be combined with a technical compliance assessment that was the focus of previous rounds of evaluations.
- Measuring effectiveness is a new component of the FATF evaluations and one which is critical to get right from the outset. Internationally, it will receive a lot of attention as it

reflects a new approach to peer review. Other organisations will be looking to see how the FATF undertakes this in practice, and will judge us on whether we get it right.

- The Australian presidency proposes to pay particular attention to the initial evaluations and how effectiveness is being measured in these assessments.
- This will culminate with a preliminary discussion at the Australian plenary of lessons learned from the initial fourth round evaluations and if needed, consideration of any necessary adjustments to substance or process.

4. *Quality and consistency*

- Achieving quality and consistency in mutual evaluation reports is a key priority of the Australian presidency.
- The FATF has worked hard to revise its recommendations and create a new methodology, but to maintain the integrity of the FATF as a global standard-setter we must ensure that the recommendations are applied in a consistent manner and our reports are of high quality.
- The FATF and the FSRBs have recently adopted universal procedures for assessments. Implementing these procedures and carrying out the associated reviews will be an ongoing task for the FATF and FSRBs throughout the fourth round. It is important that the FATF and the FSRBs are clear, fair and explicit in their evaluations and reports. And these need to be communicated more clearly and openly to the private sector and other public sector agencies.

5. *Engagement with the private sector*

- The Australian presidency will continue to emphasise the importance of meaningful engagement with the private sector.
- In recognition of the important role the private sector plays in AML/CFT the FATF plenary recently adopted a strategy for engagement with the private sector.
- In the coming years it will be important that the FATF uses consultation to add value to its work, is flexible in its engagement methods and ensures that feedback is given to the private sector as part of the process. Where appropriate, stakeholder consultation should be viewed as an opportunity to leverage private sector expertise and work together in the pursuit of common goals. This is particularly important given the crucial role the private sector plays in implementing the FATF standards across the globe.
- The Australian presidency will continue to emphasise the importance of working collaboratively with the private sector to develop guidance papers that are useful for them. It is expected that the FATF will finalise the guidance on the risk-based approach for the banking sector and the guidance on the risk-based approach for money service businesses under the Australian presidency.

- As FATF President I propose that the FATF continues its engagement with the private sector, specifically focusing on how we can raise the profile of the FATF through wider and deeper methods of engagement.

6. *Working with the G20*

- The FATF should continue to cooperate with the G20 on issues of mutual interest, including corruption and beneficial ownership, but also more broadly. In a global system multi-lateral partnerships are critical to achieving outcomes and this is a partnership that we need to maintain, if not leverage more.
- Last year, in consultation with the G20 Anti-Corruption Working Group, the FATF developed a best practices paper on using the FATF recommendations to combat corruption. The FATF is also consulting G20 experts on its guidance on transparency and beneficial ownership, which is an issue critical to both organisations. The guidance is expected to be completed under the Australian presidency.
- In recognition of the powerful tool the FATF recommendations can be in the fight against corruption, the FATF and the G20 have held annual joint experts' meetings on corruption for the past three years.
- The Australian presidency suggests holding the fourth joint meeting of anti-corruption experts in October 2014 in Paris and encourages the FATF and G20 to continue to work together in fighting the threats of corruption, money laundering and the financing of terrorism and proliferation.
- Under the Australian presidency we will also look for other opportunities where we can strengthen our relationship with the G20 and other international bodies.

7. *Virtual currency*

- In addition to setting global standards on AML/CFT, the FATF is also recognised as a task force of policy and operational experts. It is important that we maintain our reputation and continue to be at the forefront of emerging risks or trends in ML/TF.
- To this end, the Australian presidency proposes to examine the ML/TF risks associated with virtual currency.
- The FATF is continuing to conduct research on the use of virtual currency and will consider whether further policy measures are needed. Whatever the outcome is, the Australian presidency proposes to work closely with the private sector and operational and policy experts in developing the appropriate response.

8. *A FATF strategic view*

- The FATF should continue to work towards the development of a FATF strategic view. In its 25th year of operation it is important to take stock of what the FATF has achieved and

what needs to be done. Having a clear strategic vision will assist us in setting out what now needs to be done and how we are going to do it.

- It is expected that the FATF will shortly adopt a strategy document, which will set out the challenges and priorities facing the FATF over the next three years and give a coherent picture of how the FATF plans to achieve its objectives up to the mid-term review of its mandate in 2016.
- The Australian presidency considers that particular emphasis should be given to priority setting, particularly in the current fiscal environment. A strategy document will assist to guide these discussions, and it will also be important for members to be open to priority setting and realistic in their expectations of what can be done.

Roger Wilkins

FATF President