The Financial Action Task Force

setting the standards
to combat money laundering and
the financing of terrorism and proliferation
FATF Presidents, 1989-2014

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The FATF has come a long way in 25 years. It has grown significantly from the small task force that was created to find a solution to the global drug trade. Today, it has become the global standard setter on measures to protect the international system from money laundering, terrorist financing and other forms of abuse.

As we look back at the past 25 years, the FATF and its members can take pride in what has been achieved. Over 190 countries have today taken the necessary steps to protect their financial system from those who wish to abuse it for illicit purposes.

But, crime never stops: criminals continue to find different ways to circumvent the measures that have been put in place to combat money laundering and terrorist financing. Technological innovations introduce efficiencies, but also provide opportunities for criminals, and new challenges for countries who need to regulate the use of these technologies.

Countries which have not implemented sound measures to stop their financial system from abuse, present a risk to the entire global financial system. FATF’s work in identifying these countries, and working with them to strengthen their measures, continues to be a priority.

The world is still recovering from the global financial crisis. There is more need than ever to support the integrity of the financial system. In the long term, integrity and trust in the financial sector are an essential foundation for growth. FATF’s work on establishing and enforcing sound international standards to combat money laundering and the financing of terrorism therefore remains essential.

Roger Wilkins
FATF President 2014-2015
The Financial Action Task Force is a task force created by the G7 in 1989. It was originally created in response to the growing concern of the global drug problem. By the late 1980s, the prosperous global drug trade, was a concern for citizens and governments the world over. Both drugs, and drug money moved across borders freely, and national legislation and law enforcement seemed powerless to put a halt to it.

The G7 ministers decided that a multinational approach was necessary to fight the international drug trade and to prevent the global misuse of the banking sector and other financial institutions to launder drug money. They created the FATF, which was tasked with developing international consensus on measures to detect and seize the proceeds from drug crime and other crimes. Its members were the G7 countries, the European Commission, and eight other countries.

In 1990, a year after its creation, the FATF created the 40 Recommendations. These recommendations set out the legal and regulatory measures that countries should take to enable them to detect, prevent and punish the misuse of their financial system for money laundering. These measures were the turning point in the fight against money laundering. Up until then, most countries had no legal or regulatory provisions that were specifically targeted at detecting and punishing money laundering. For the first time, countries had powerful and effective tools at their disposal and an international consensus on how to fight money laundering of drug money at a global scale.
Today, laundering of drug money is no longer the only concern that threatens the integrity of the international financial system. Banks and financial institutions are also being used to finance terrorism and the proliferation of weapons of mass destruction and to transfer corruption-related funds as well as proceeds from other crimes. As with the problem of drug trade back in the 1980s, these threats call for a multinational response. FATF’s proven success as a global standard-setter on measures to combat money laundering, saw its mandate expand to include these important issues as well as new threats to the integrity of the international financial system.

www.fatf-gafi.org/pages/aboutus
The membership of the FATF has grown from the original 16 members to 36 members. In June 2014, the FATF agreed to start the process to further expand its membership.

From the beginning, the FATF made it a high priority to build external relationships and to encourage non-member countries to take effective measures against money laundering. An effective response to money laundering and terrorist financing and other threats to the financial system, needs to be a global response. To achieve a global implementation of sound AML/CFT measures, the FATF works closely with eight FATF-style regional bodies (FSRBs). These FSRBs encourage the implementation of the FATF’s Recommendations in their respective memberships. Together with the FATF and its members they make up the FATF Global Network of over 190 countries that are committed to ensuring the integrity of the international financial system.

The FATF also recognises the value of a dialogue with its other stakeholders, including the private sector. The FATF frequently engages with civil society or private sector representatives to get their perspective and feedback on FATF work. This insight is essential as they are often at the forefront of anti-money laundering and counter terrorist financing efforts. Their understanding of, and compliance with, AML/CFT measures, such as customer due diligence requirements, is essential in an effective fight against the abuse of the financial system.
FATF Membership

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

www.fatf-gafi.org/pages/aboutus/membersandobservers
What does it do, how does it work?

The FATF is a policy-making body that develops international standards that will help countries detect, prevent, and punish the abuse of the international financial system. The FATF not only sets these standards: the FATF Recommendations. It also looks at how well countries have implemented them and identifies those countries that have weaknesses in their anti-money laundering (AML) and countering the financing of terrorism (CFT) measures. These weaknesses could be exploited by criminals to introduce their proceeds of their crimes for example. Once introduced into the financial system, these transactions using illicit assets can easily cross borders. One country with weak AML/CFT measures creates a risk for the entire global financial system.
The FATF has several working groups that focus on specific areas of work with the FATF Mandate.

The FATF’s decision-making body is the FATF Plenary, which meets three times a per year.

The FATF’s makes its decisions by consensus. The Presidency and Vice-Presidency positions are held by senior representatives from one of the FATF members. The positions rotate on a yearly basis, the Vice-President will hold the Presidency the following year.

The FATF Secretariat was created in 1992. It is located at the headquarters of the Organisation for Economic Co-operation and Development (OECD) in Paris, but remains independent from the OECD.
Today the FATF’s work primarily focuses on the following main areas to identify and respond to threats to the integrity of the international financial system:
The methods used to move illicit funds or to move funds in support of terrorist activities constantly evolve. As countries tighten their AML/CFT measures, criminals must explore different methods to escape detection when they want to use the financial system for their criminal activities. In order for the FATF to develop an effective policy response, it must understand these new methods.

Since its creation, the FATF has carried out research on the money laundering and terrorist financing vulnerabilities of certain sectors or activities. It has analysed how they can be misused for money laundering or other criminal purposes. The result of this research, also called typologies research, grew from an annual report with a short summary of key vulnerabilities, to a series of in-depth typologies reports. Each report provides a detailed and in-depth analysis of a sector’s vulnerabilities to money laundering and terrorist financing.

Based on these reports, the FATF reviews whether the current standards provide an effective response, or whether additional policy is needed. The FATF can decide to further clarify the standards by developing new guidance that will ensure a better application of the FATF Recommendations. Sometimes, for example as a result of new technology, criminals find a loophole that enables them to launder criminal assets without detection. In that case, the FATF can decide to develop new policy and strengthen the provisions of the FATF Recommendation in that area. For example, the threat to the financial system posed by the financing of the proliferation of weapons of mass destruction
was identified through typologies research of the FATF. It resulted in new guidance and ultimately in the inclusion of the financing of proliferation in the FATF Recommendation adopted in 2012. Similarly, FATF’s research into the ML/TF vulnerabilities of new payment methods, resulted in a new guidance paper on prepaid cards, mobile payments and internet-based payment services in 2013.

The typologies reports provide an in-depth analysis, supported by real case examples, of the vulnerabilities of a specific sector. They provide authorities with valuable information, often including ‘red flag indicators’ that will help them detect possible cases of money laundering or terrorist financing that involve that sector. The reports also raise awareness with those working in the sector to recognise how criminals may want to misuse their services for their illegal activities.

Key typologies reports published in recent years on the football sector (2009), free trade zones (2010), legal professionals (2013), non-profit organisations and the diamond sector (2014).
Annual typologies expert meetings provide a forum to exchange experiences on new trends in money laundering and the financing of terrorism and proliferation.

Based on this input from its members on real cases reported by typologies experts such as law enforcement and financial intelligence experts, the FATF will continue to research and analyse the new techniques that criminals are exploring to finance their illegal activities. This important work will ensure that authorities everywhere have access to detailed sector-specific information on specific sectors that will help them detect misuse of these sectors for the purpose of money laundering and terrorist financing. At the same time, this will work ensure that the FATF Recommendations remain up to date and relevant in the face of today’s threats.

www.fatf-gafi.org/topics/methodsandtrends
The FATF’s Recommendations are at the core of FATF’s work. The first set of Recommendations was issued in 1990 and was aimed at providing measures that would help detect, prevent and punish the abuse of the international financial system for money laundering. Since then, the FATF has periodically refined and updated the FATF Recommendations to respond to new threats to the international financial system. For example, in 2001, the FATF established Special Recommendations to combat terrorist financing. In 2003, the FATF introduced stronger standards for money laundering predicate offences and stronger customer due diligence requirements. And in 2005 it addressed the threat posed by cash couriers by introducing measures to detect physical cross-border transportation of cash and bearer monetary instruments.

By 2005, FATF was globally recognised as the standard-setter to combat money laundering and terrorist financing. This was confirmed by United Nations Security Council Resolution 1617 (2005), which “strongly urges all Member States to implement the comprehensive, international standards” embodied in the FATF Forty Recommendations on money laundering and the Nine Special Recommendations on terrorist financing.

The latest revision of the FATF Recommendations was completed in 2012. It addressed new concerns such as the proliferation of weapons of mass destruction which had been on the FATF radar since 2008. Working closely with the United Nations Security Council, the FATF developed two guidance papers
Developing and refining the FATF Recommendations

The FATF Recommendations, interpretive notes as well as Best Practices and Guidance papers are available for download at:

www.fatf-gafi.org/fatfrecommendations

www.fatf-gafi.org/topics/fatfrecommendations

Transparency

The current FATF Recommendations also include strengthened requirements on transparency and beneficial ownership. This makes the FATF Recommendations a powerful tool to combat corruption, an issue which became a new priority for the FATF in 2010. At the time, G20 leaders at the Pittsburgh summit, called on the FATF to give a higher priority to fighting corruption, a global priority for the international community. The FATF responded with an information note on the use of AML/CFT measures in the fight against corruption and completed a study to identify the links between corruption and money laundering. It also addressed the issues of transparency and beneficial ownership in the revision of the FATF Recommendations. Throughout this process, the FATF liaised closely with anti-
Developing and refining the FATF Recommendations
corruption experts such as the G20 anti-corruption working group, to avoid duplication of efforts. This co-operation will continue as the FATF continues refining its standards and guidance to assist countries in implementing measures that will safeguard the financial system from abuse, including corruption.

www.fatf-gafi.org/topics/corruption

Financial inclusion

The FATF encourages all countries to implement strong AML/CFT measures, but this should not lead to the automatic exclusion of those with limited access to the financial system, for example in developing or emerging countries. Since 2009, the FATF has drawn attention to the need for both financial inclusion and sound AML/CFT measures, that complement each other and ultimately lead to stronger and safer financial systems. The FATF Recommendations include measures that require countries to assess and understand where their financial system is most at risk, so that they focus their resources on areas where risks are highest. This approach, the risk-based approach, is a key step for countries who wish to build a formal financial system that reaches a larger proportion of the population, including the most vulnerable and unserved groups.

The FATF remains committed to support financial inclusion as a means to strengthen financial integrity. It continues a close dialogue with relevant international stakeholders such as the United Nations Secretary General’s Special Advocate for Inclusive Finance for Development and the Basel Committee on Banking Supervision.

www.fatf-gafi.org/topics/financialinclusion
Assessing implementation of the FATF Recommendations

The strength of the FATF lies in its ability to assess how well a country has implemented the FATF Recommendations, and how effective a country’s measures are in reaching their ultimate goal of detecting, preventing and punishing abuse of the financial system.

During the first years of FATF’s existence, the assessment process was a modest system of self-reporting to determine the AML measures in place in each of the FATF member countries. It quickly developed into a robust programme of mutual evaluations aimed at assessing countries’ compliance with the FATF Recommendations and identifying deficiencies their AML/CFT systems.

In 1991, the FATF introduced the mutual evaluation procedures. France, Sweden, the United Kingdom and Australia were the first ever countries to undergo a peer review of their level of implementation of the FATF Recommendations. Each of the reports provided a comprehensive analysis of the system in place, its strengths and shortcomings, and the scope for further progress. The self-reporting and mutual assessment programme proved to be a powerful tool to encourage countries to comply with the FATF Standards, and by 1993 nearly all FATF members had made drug money laundering a criminal offence or were in the process of doing so. By 1994, all member governments permitted their banks to report suspicious transactions, and in 19 member jurisdictions, this was a requirement.

After the inclusion of terrorist financing in the FATF’s mandate and the subsequent publication of the
FATF’s Special Recommendations, the FATF increased its collaboration with other international financial institutions, which are also concerned with combating money laundering and terrorist financing. By 2004, the IMF and the World Bank as well as the FATF-Style Regional Bodies (FSRBs) had all agreed to use the same methodology in conducting their assessment of compliance with the FATF Recommendations.

The current methodology to assess countries’ AML/CFT measures is the result of 20 years of experience and the many lessons learnt along the way. Today, mutual evaluations no longer just look at how well all of the technical requirements of each FATF Recommendation are met. The peer review also assesses how effective a country’s AML/CFT measures, such as financial intelligence, law enforcement and legislation work together to achieving the ultimate objective of protecting the financial system from abuse.

This two-pronged approach results in two sets of ratings:

**Technical Compliance**

Ratings to indicate how well a country has implemented the technical requirements of the FATF Recommendations (compliant; largely compliant; partially compliant; non-compliant).

**Effectiveness**

Ratings to indicate a country’s level of effectiveness on each of the eleven Immediate Outcomes, ranging from high level of effectiveness to low level of effectiveness.
Immediate outcomes

Each of the eleven Immediate Outcomes represents one of the key goals, which an effective AML/CFT system should achieve.

During the assessment, assessors will look at the various components of the AML/CFT measures and see how they interact and whether the give the expected results.

The mutual evaluations are what gives the FATF its teeth. It will determine whether countries have sufficiently implemented all the components that make up a robust AML/CFT system, such as:

- a legal, regulatory and operational framework, that achieves the expected results.

- a comprehensive risk assessment, to identify the areas that are at particular risk in the country, which then enables the country to focus their resources to adequately, but not excessively, mitigate these AML/CFT risks.

- the implementation of other measures such transparency and beneficial ownership requirements to ensure that there is reliable information available about the beneficial ownership and control of companies.

A follow-up process ensures that those countries who have taken insufficient measures, will take the necessary steps to address the weaknesses in their AML/CFT measures.

www.fatf-gafi.org/topics/mutualevaluations
The international financial system is only as strong as its weakest link. A country whose AML/CFT measures have serious deficiencies, presents a risk to other countries conducting financial transactions with that country. Reducing risks has become a priority for regulators and financial institutions everywhere. More and more, they seek to limit their exposure to illicit activities by limiting or halting their financial interactions with countries that are unable or unwilling to safeguard the integrity of the financial system.

Since 2000, the FATF has worked to identify non-cooperative countries and territories and publicly identified those that were of particular concern. The FATF strengthened this monitoring process in 2007 with the creation of the International Co-operation Review Group (ICRG). ICRG works with vulnerable jurisdictions that are failing to implement effective AML/CFT systems. The G20 welcomed this progress in their communiqué of September 2009, and asked the FATF to reinvigorate the process for identifying countries’ compliance with the international AML/CFT standards and to publicly identify high-risk jurisdictions by February 2010. Ever since, the FATF has publicly identified countries and jurisdictions with weak AML/CFT measures and that are therefore less vigilant or able to detect cases of misuse of the financial system.

This process, and in particular the process of public identification, has proven a very successful tool to safeguard the integrity of the global financial system.
The public statements issue clear warnings about countries with strategic risks due to inadequate AML/CFT measures. As regulators and financial institutions increasingly seek to limit the risk of unwittingly getting involved in illicit activities, they rely on the FATF to provide them with information on the countries that pose a risk. At the same time, these statements put pressure on the countries in question to address these deficiencies. Failing to do so, can have a negative impact on their position in the global economy. Trading partners will be facing higher costs due to additional measures imposed on high-risk countries, or, as financial institutions seek to minimise their risks, they may find they can no longer do business with them at all. All this can have serious consequences for the economy of countries that the FATF identifies as having strategic AML/CFT weaknesses.

The FATF engages directly with the countries it has identified, to help them implement the necessary measures. This process has proven successful, out of the 55 jurisdictions identified since the start 2010, 23 are no longer in the process.

The FATF continues to identify, primarily on the basis of mutual evaluation results, additional jurisdictions that pose a money laundering or terrorist financing risks to the international financial system. It continues to engage with those it has identified, to obtain a high level commitment to take the necessary steps to address the AML/CFT deficiencies and to ensure that these measures are implemented effectively. This work represents an important contribution to strengthening global AML/CFT compliance and a more successful fight against money laundering and terrorist financing.

www.fatf-gafi.org/topics/high-risk-and-non-cooperative-jurisdictions
From the beginning, the FATF made it a high priority to build external relationships and to encourage non-member countries to take effective measures against money laundering. An effective response to money laundering and terrorist financing and other threats to the financial system, needs to be a global response.

Between 1993 and 2006, seven regional bodies endorsed the FATF Recommendation and established processes to monitor implementation of the FATF Recommendations by their respective members. As a result of FATF’s commitment to spread the anti-money laundering message to all countries and regions of the globe, these regional bodies become official FATF-Style Regional bodies. Together with the FATF and its own expanding membership, they formed the FATF Global network, a rapidly growing network of countries, committed to protecting the international financial system from abuse. The FATF is also working closely with the Groupe d’Action Contre le Blanchiment d’Argent en Afrique Centrale (GABAC), who joined FATF as a new observer in 2012, to help it meet the FATF criteria for the recognition as an FSRB. The co-operation between the FATF and GABAC will help to extend the FATF global network on money laundering and terrorist financing into the Central Africa.

Today, over 190 countries make up the Global Network, and all have committed to implementing the FATF Recommendations. All FSRBs now also have Associate Member status, which ensures greater consistency in the policy and operations of these groups, as well as a fuller participation in all aspects of FATF’s work. Since 2012, a set of high-level principles
and objectives apply to both the FATF and the FATF-style regional bodies (FSRBs) and they govern the relationship between the FATF and the FSRBs.

During the past 25 years, the FATF has continued to encourage the effective implementation of the FATF Recommendations, and strengthen the international financial network. The FATF Global Network of FATF members and the members of the FSRBs, are unified in their commitment to stamp out the abuse of the financial system for money laundering and the financing of terrorism and proliferation.

However, even with robust AML/CFT systems in place, criminals will not stop looking for ways to circumvent the AML/CFT measures to continue financing their illicit activities, often using new technologies to do so. FATF’s work will continue to be essential to ensure the integrity of the international financial system.

**FATF-Style Regional Bodies**

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

After 25 years, the FATF's mandate has expanded significantly. The FATF now sets the standards and promotes effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system.