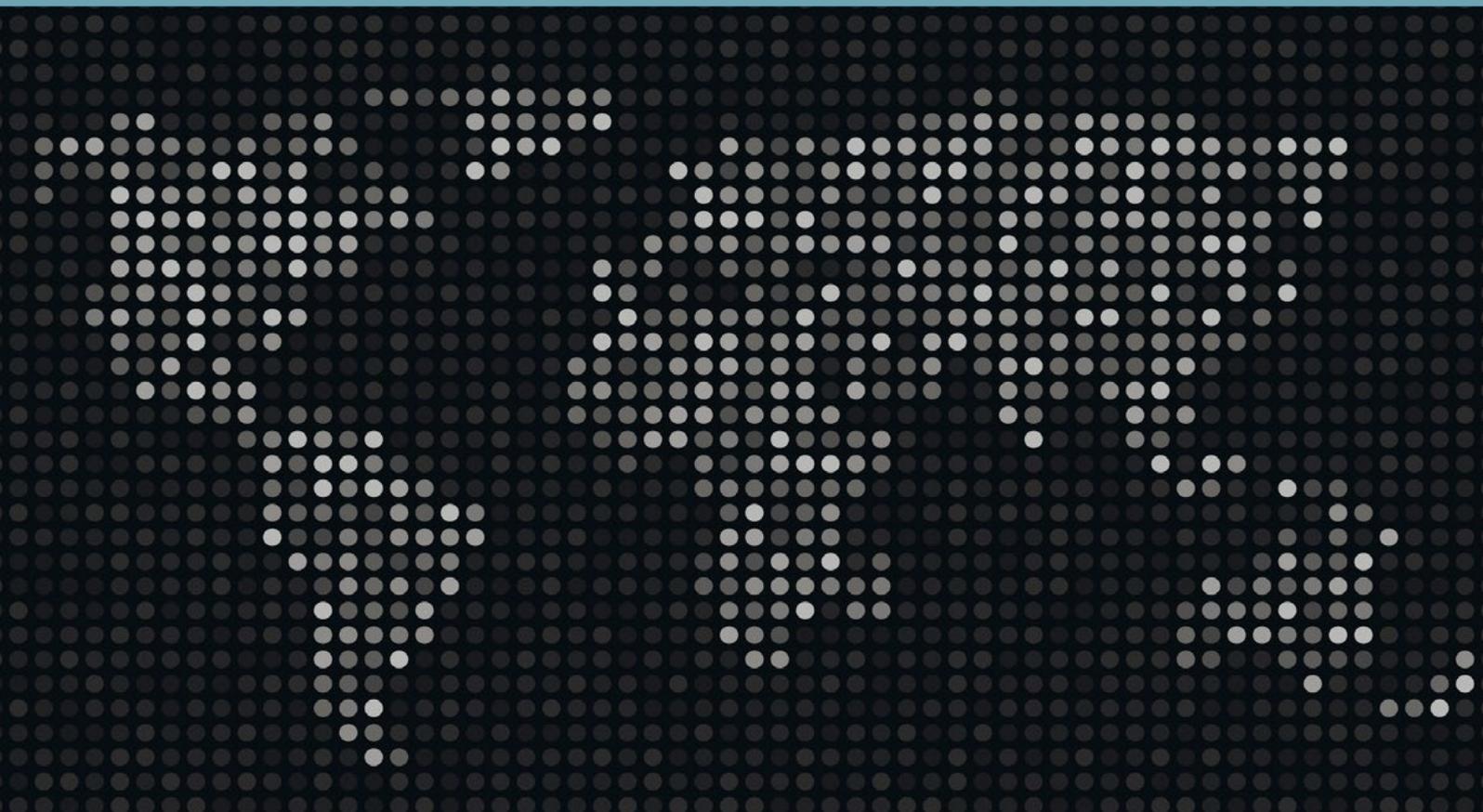


FATF



FATF Report to the G20 Leaders' Summit

November 2018





The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF Recommendations are recognised as the global anti-money laundering (AML) and counter-terrorist financing (CFT) standard.

For more information about the FATF, please visit www.fatf-gafi.org

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FATF Report to G20 Leaders' Summit

30 November – 1 December 2018

- 1. The Financial Action Task Force (FATF) expanded its work on fighting money laundering, terrorist and proliferation financing with the support of the G20 over the past few years.**
- 2. Under the G20 Argentinean Presidency, the G20 has continued to express its support for the FATF with a view to promoting swift and effective implementation of FATF standards worldwide.** The G20 reaffirmed its support for the FATF, as the global anti-money laundering, counter terrorist financing, and proliferation financing standard-setting body, and welcomed its ongoing efforts to strengthen its institutional basis. The G20 also called on FATF to enhance its efforts to counter proliferation financing, and asked the FATF to clarify how its standards apply to virtual assets activities.
- 3. Under the US Presidency from 1 July 2018, the FATF is prioritising action to ensure that countries properly regulate and supervise financial activities involving virtual assets, continuing its focus on combating terrorist financing activities, and taking additional action against the financing of the proliferation of weapons of mass destruction.** The FATF will also consider how it can support the use of digital ID, and continue to promote the transparency and availability of beneficial ownership information.
- 4. In April 2019, FATF Ministers from Finance and Justice Ministries will meet in Washington, DC** on the occasion of the 30th anniversary of the FATF.
- 5. In June 2019, the United States will host a FATF Plenary session, where the FATF will close the celebration of its 30th year.**

Strengthening the institutional basis, governance and capacity of FATF

- 6. The mid-term review of the 2012-2020 Mandate was initiated in 2016 with the view to strengthen FATF's institutional basis, governance and legal status** and better support its operational capacity to respond to emerging anti-money laundering, terrorist financing, and proliferation financing threats.
- 7. In that context, FATF members took key initiatives to raise the FATF's profile and visibility with global governance bodies and relevant stakeholders.** These included strengthening and extending the roles and terms of the FATF Presidency and Vice-Presidency to two-year period. These enhancements aim to recognize and build on FATF's increased participation in international fora, including

at the G7/G20 and United Nations bodies, and support the FATF's responsiveness to current and emerging threats and opportunities.

8. **In addition, FATF Members continue to explore ways to further strengthen FATF governance and accountability through improvements of operations.** This will support a more cohesive view of the various issues related to anti-money laundering and counter terrorist and proliferation financing, provide greater political awareness of the FATF's work, reinforce member's commitment to implement effective strong regimes and help direct global resources in more risk-based and results-oriented ways. The FATF is also reviewing how its members contribute to the work of the task force to ensure that the FATF has the necessary resources and support to effectively fulfill its mandate.

9. **FATF Ministers will have an opportunity to consider the revised mandate when they meet in April 2019.**

FATF's work programme on Virtual Assets¹

10. **Technological innovations, including those underlying virtual assets like blockchain and other distributed ledger technologies, may deliver significant benefits to the financial system and the broader economy.**

11. **However, virtual assets also pose serious money laundering and terrorist financing risks that criminals, money launderers, terrorists, and other illicit actors exploit.** The FATF closely monitors risks in this space, with regular internal reporting on associated risks, as well as surveys covering mitigating measures taken by countries to counter suspicious or illegal financial activity facilitated by virtual assets. The FATF will also address by June 2019 challenges in investigations and confiscation of cases where criminals exploit virtual assets for money-laundering and terrorist financing purposes.

12. **The FATF Recommendations set out comprehensive requirements for combating money laundering and terrorist financing that apply to all forms of financial activity—including those that make use of virtual assets.** The risk-based approach requires jurisdictions to identify money laundering and terrorist financing risks and take appropriate action to mitigate those risks. This includes identifying and mitigating illicit financing risks associated with new products or business practices, and other activities not explicitly referred to in the FATF Recommendations. However, governments and the private sector have asked for greater clarity about exactly which activities the FATF standards apply to in this context.

¹ The FATF has decided to adopt the term "Virtual Asset" as a basis for these requirements, defined as a digital representation of value that can be digitally traded, or transferred, and can be used for payment or investment purposes. This includes the technologies referred to in G20 as "crypto-assets" and those referred to as "virtual currencies" in some national legislation. This terminology will help ensure the revised FATF Recommendations are neutral with respect to different technologies, and can accommodate future developments.

13. **In October 2018, the FATF adopted changes to its Recommendations and Glossary to explicitly clarify that the Recommendations apply in the case of financial activities involving [virtual assets](#).** A new section to Recommendation 15 on new technologies sets out that “*to manage and mitigate the risks emerging from virtual assets, countries should ensure that virtual asset service providers are regulated for anti-money laundering and counter terrorist financing purposes, and licenced or registered and subject to effective systems for monitoring and ensuring compliance with the relevant measures called for in the FATF Recommendations*”, for example conducting customer due diligence and reporting of suspicious transactions. FATF members also added to the Glossary new definitions of “*virtual assets*” and “*virtual asset service providers*” – such as exchanges, certain types of wallet providers, and providers of financial services for Initial Coin Offerings (ICOs). The FATF will further elaborate on how these requirements should be applied in relation to virtual assets.

14. **The FATF encourages appropriate and consistent safeguards for activities in this space that reduce the potential for regulatory and legal arbitrage globally as a result of inadequate or non-regulation and supervision in many jurisdictions.** All jurisdictions should urgently take legal and practical steps to prevent the misuse of virtual assets. This includes assessing and understanding the risks associated with virtual assets in their jurisdictions, applying risk-based anti-money laundering and counter terrorist financing regulations to virtual asset service providers and identifying effective systems to conduct risk-based monitoring or supervision of virtual asset service providers.

15. **As part of a staged approach, the FATF will consider in February 2019 whether and how to provide further clarifications in the Standards to guide implementation. The FATF will also update by June 2019 its [2015 Risk-based Approach Guidance on Virtual Currencies](#)** to continue assisting the public and private sectors in implementing a risk-based approach to regulating virtual assets providers, including their supervision and monitoring. This will help countries in exercising oversight of this sector in practice, including through guidance on risk indicators and supervisory arrangements.

16. **In light of the rapid development of the range of financial functions served by virtual assets, the FATF will also review the scope of activities and operations covered in the amended Recommendations and Glossary in the next 12 months** and consider whether further updates are necessary to ensure the FATF Standards stay relevant.

Countering the Financing of Terrorism

17. **The FATF focus on countering the financing of terrorism is being strengthened further under the US Presidency.** In February 2018, the FATF agreed upon a new Operational Plan to further enhance global efforts against terrorist financing and prioritise work in this area. The new Operational Plan focuses on

effective action to improve understanding and mitigation of the risks identified. It provides for a flexible and dynamic response to the new threats that may develop.

18. **Under the [US Presidency](#), the FATF will prioritise work on three areas; implementation, guidance and training**, in support of the Operational Plan. The US Presidency is building on the initiative of the Argentinean Presidency to strengthen countries' capacity to investigate and prosecute terrorist financing and will organise a dedicated workshop in the margins of its Joint Experts Meeting to be organised with MONEYVAL in Israel in March 2019. To ensure countries have the tools to understand the risks they face from terrorist financing, the FATF will publish guidance on terrorist financing risk assessments by June 2019. The FATF is also supporting expanded training on countering the financing of terrorism.

19. **FATF will also further improve the mechanisms in place to disrupt terrorist financing before terrorist attacks occur.** In October 2018, the FATF developed a road map for disruption strategies that can be used at a domestic or international level to counter specific terrorist financing threats, and will follow-up on the way that the tool is being used in February 2019.

20. **The FATF will improve the effective implementation of the FATF Standards by holding countries accountable for failures to address their deficiencies** by publishing robust and comprehensive mutual evaluation and follow-up reports, and by publicly listing those countries with strategic deficiencies that present a risk to the global financial system.

Countering the Financing of Proliferation of Weapons of Mass Destruction

21. **The FATF published [comprehensive guidance for countries on proliferation financing](#) in February 2018**, reflecting the latest relevant United Nations Security Council Resolution (UNSCR) obligations and providing advice on how countries can implement targeted financial sanctions and mitigate the risks of sanctions evasion. Improved vigilance against sanctions evasion can materially strengthen the effectiveness of sanctions regimes.

22. **In October 2018, the FATF agreed to consider the feasibility of options to more effectively counter proliferation financing through the FATF Standards.** The FATF will consider whether and how to expand the FATF standards to include a wider range of measures applicable to countering proliferation financing, including the use of criminal justice and financial intelligence tools to help respond to the grave threat posed by proliferation financing, within the framework of UNSC Resolutions and the FATF mandate.

Improving Transparency and the Availability of Beneficial Ownership Information

23. **The FATF will continue to improve the transparency and availability of beneficial ownership information through considering further work in this area, its mutual evaluation process**, and through collaboration with the Global Forum on Transparency and Exchange of Information for Tax Purposes. To-date, few

countries have demonstrated that accurate and timely information is available to competent authorities on the beneficial owner of legal persons and arrangements, or that these persons and arrangements are prevented from being misused.

24. **In June 2018 the FATF published a [report on the vulnerabilities associated with the misuse of legal persons and arrangements](#) with the Egmont Group of Financial Intelligence Units in June 2018. This report includes a review of enforcement and supervision of beneficial ownership obligations.** It highlights how criminals are using complex structures with chains of legal persons and arrangements in different jurisdictions and informal and formal nominees to thwart detection and investigation by law enforcement agencies. The report demonstrates the role that professional intermediaries play in wilfully or unwittingly designing structures that can be exploited by criminals.

25. **On the basis of the horizontal study, the FATF will publish Guidance on the Risk-based Approach for Lawyers, Accountants, and Trust and Companies Service Providers (TCSPs)** by June 2019. This will focus on how these professions should apply safeguards, in a risk-based way, to prevent the misuse of their services by criminals; and how supervisors should prevent complicit or negligent professionals from operating. The work is being undertaken in partnership with the private sector.

Improving the Effectiveness of the Criminal Justice System: FATF Engagement with Judges and Prosecutors

26. **The Argentine presidency of the FATF initiated a global outreach programme to the Criminal Justice Systems** as the work of the Judiciary is crucial for stable and effective institutions, accountability, integrity, transparency and the rule of law, which are all pillars of an effective anti-money laundering and counter terrorist financing system.

27. **This initiative aimed to learn about experiences, challenges and best practices in investigating financial criminality, improve international co-operation and highlight the intricate structures that are used for legal and illegal activity.** Through several regional workshops² and in a joint effort with the FATF-Style Regional Bodies (FSRBs) and other international organisations, the FATF brought together almost 450 judges and prosecutors from more than 150 jurisdictions and observers. Relevant organisations were invited to participate in the discussions such as the Organization for Security and Co-operation in Europe, the International Prosecutors Association, the International Magistrates Association and Asset Recovery Networks.

² Americas (GAFILAT and CFATF). Asia/Pacific (APG and EAG). Africa/Middle East (ESAAMLG, GIABA, GABAC and MENAFATF). Europe (MONEYVAL and the Organization for Security and Co-operation in Europe (OSCE). FATF wrap-up workshop (Korea).

28. **In June 2018, the FATF President presented [conclusions](#) from the set of workshops for judges and prosecutors.** These highlight useful elements and best practices in the conduct of investigations, prosecutions, convictions and confiscation. As criminal networks are often spread over multiple countries, international co-operation is critical for the success of investigations and prosecutions and also for asset recovery. Based on these findings, the FATF will continue this joint effort to enhance the effectiveness of the Criminal Justice System.

Financial Technologies, Regulatory Technologies: Digital Identity

29. **The FATF recognises financial innovation, and strongly supports responsible technological developments that enhance countries' anti-money laundering and counter terrorist financing frameworks.**

30. **The FATF, jointly with the Eurasian Group (EAG), reached out to the Financial Technology (FinTech) and Regulatory Technologies (RegTech) sectors at its 3rd FinTech and RegTech Forum in September 2018 in Hangzhou, China.** This continued its constructive dialogue on important issues such as digital identification, distributed ledger technology, virtual assets, and how technologies can contribute to anti-money laundering and counter terrorist financing compliance, risk assessment and management.

31. **The FATF is preparing Guidance on the application of the FATF Recommendations in a digital ID context.** This Guidance will clarify how and when digital forms of identification and verification could be used during the customer due diligence process. Digital ID has the potential to enhance financial inclusion and reduce the costs of customer on-boarding, as well as to better manage the risks of money laundering and terrorist financing. The Guidance will consider and describe potential risks as well as how they can be mitigated in the context of digital ID.

De-risking

32. **De-risking remains a challenge for the countries affected.** Loss of access to banking services for some remittance service providers and non-profit organisations remains a key concern for the global community. This has a wider impact on financial inclusion and efforts of governments and business sector to provide essential services to those who need help around the world.

33. **The FATF has been active in clarifying the international standards to avoid misunderstandings that could contribute to de-risking,** publishing guidance papers on financial inclusion and on correspondent banking, and has continued to publicise those clarifications. During 2018, the FATF has continued to facilitate engagement among different stakeholders in the public and private sector, promoting better implementation of risk-based measures by financial institutions, national authorities and supervisors and clarifying regulatory expectations as needed to ensure a shared understanding.

34. **As agreed upon in the February 2018 Plenary, the FATF is also conducting a global survey to analyse measures taken by countries to improve their supervisory practices, domestic co-ordination and co-operation and risk-based approach in the remittance sector.** It will focus on implementation of key recommendations made by the FSB Remittance Task Force in its March 2018 report: "Stocktake of remittance service providers' access to banking services". Information gathered during the exercise will also help the FATF determine if any further steps are needed at the global level to address the issue.

35. **The FATF has also collaborated on this issue with other international organisations such as the FSB, IMF and the World Bank.** A co-ordinated approach among international organisations, technical assistance providers, policy makers, standard setters, supervisors and private sector can help generate necessary will to address de-risking in a meaningful manner.

36. **The FATF looks forward to contributing to the work of the G20 under the Japanese Presidency, and reporting its progress on these issues to the G20 Finance Ministers and Central Bank Governors and to the next G20 Leaders' Summit.**

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