



Financial Action Task Force



Financial Action Task Force on
Money Laundering In South America

Mutual Evaluation Report – Executive Summary

Anti-Money Laundering and
Combating the Financing of Terrorism

17 October 2008

MEXICO

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EXECUTIVE SUMMARY

1. This report provides a summary of the anti-money laundering/combating the financing of terrorism (AML/CFT) measures in place in Mexico as of January 2008, along with recommendations on how certain aspects of Mexico's AML/CFT system could be strengthened. The attached table sets out Mexico's levels of compliance with the international standard in this area, the FATF 40 Recommendations plus 9 Special Recommendations.

Key Findings

2. As has been the case in other countries, Mexico now faces an unprecedented threat to its national security and stability from drug trafficking and organized crime. Powerful drug cartels, resorting to extreme violence, have extended their activities across various parts of the country, and these activities pose significant challenges to the Government. This situation reflects the magnitude of financial and economic resources and power at the disposal of drug cartels and organized crime. The economic power of the criminal organizations helps them to continue operating and undermines good governance and the authority of the State.

3. In response, the Mexican government has instituted unprecedented measures to support law enforcement activities against organized crime and drug trafficking. The authorities have recently approved an "Integral Strategy Against Organized Crime" and various key national stakeholders have executed an interagency agreement entitled the "National Agreement for Security, Justice and Legality." The Mexican authorities are also working to complete an AML/CFT National Strategy before the end of 2008.

4. There is strong political and institutional commitment to tackle crime and money laundering (ML) in Mexico. The authorities have taken a number of measures to counter the significant ML risks connected with drug trafficking, organized crime and related offenses, and they remain alert for any indication of terrorism or financing of terrorism (FT). The authorities perceive that the threat of terrorism financing in Mexico arises primarily from terrorist methods supported by organized crime, and from the proximity and close relation with other countries that face serious terrorism threats.

5. Overall, Mexico has made progress in developing its system for combating ML and FT since its last assessment by the FATF in 2004, but further work is needed to strengthen it. First, the laws criminalizing the ML and FT offenses are comprehensive but do not fully meet international standards, and there is scope to significantly improve their implementation. In particular, laws and procedures do not adequately provide for the freezing without delay of terrorist funds or other assets of persons designated in accordance with relevant United Nations Security Council resolutions (UNSCRs). Given the extent of drug trafficking, organized crime and other predicate criminal activities, the ML offenses are not being adequately investigated; the authorities have obtained only 25 convictions for ML since the criminalization of the ML offense in 1989. During the period 2004–2007, prosecutors secured 149 indictments for ML, but only two were related to financial intelligence reports produced by Mexico's financial intelligence unit (FIU).

6. Coordination arrangements among the intelligence, investigation and prosecution agencies have been strengthened recently but need to be further developed as the new relationship evolves. The insufficient resources allocated to investigation units of the Deputy Attorney General's Office for the Investigation of Organized Crime (SIEDO) have impeded Mexico's capacity to conduct investigations and prosecutions of ML offenses in an effective manner. The structure and processes for case

management by SIEDO also need to be improved, and prosecutors and judges could also benefit from additional training on AML/CFT issues.

7. The FIU has made progress in developing its financial intelligence infrastructure and staff, and it has markedly improved its working relationship with the prosecutorial authorities at the Office of the Attorney General (PGR). The Tax Administration Service (SAT) and the FIU need to work together to ensure the full, timely and secure access to suspicious transaction reports (STRs) from exchange centers, money services businesses and certain other businesses. The FIU currently does not have direct access to criminal records due to legal constraints, except ex-post with respect to cases or subjects informed by the FIU to the PGR. The number of staff remains low relative to the large volume of reports it receives and the other activities assigned to it. However, to help it cope with the volume of STRs, the FIU has considered measures with reporting entities to reduce over-reporting and has adopted an automated “risk-based” system to filter cases that do not merit deeper analysis. As part of a restructuring of the FIU that is expected to conclude at the end 2009, the FIU has embarked upon a project to significantly increase its staff resources.

8. The AML/CFT preventive measures are comprehensive, contain risk-based elements, and are being implemented across all the principal sub-sectors of the financial system. Nonetheless, the AML/CFT regulations are still evolving, particularly for the non-deposit taking sectors, and they should be revised to add clarity and consistency. A key challenge is the lack of staff and resource capacity of the SAT to enforce registration requirements and conduct ongoing AML/CFT supervision of the very large number of foreign exchange centers and remittance operators. This challenge is being compounded by the increasing number of unregulated multi-purpose finance companies (SOFOMES) coming on stream, a product of deregulation of limited purpose finance companies (SOFOLLES) that are engaged in, e.g., lending, leasing, and factoring. Notwithstanding these challenges, all of the supervisory authorities are implementing fairly comprehensive on-site AML/CFT supervision which is largely focused on regulatory compliance and which could benefit from the introduction of more risk-based processes.

9. There are no AML/CFT legal or regulatory measures, nor supervision, for any of the categories of FATF designated non-financial businesses and professions (DNFBPs)¹, except for trust services which, by law, can be provided only by licensed financial institutions. The lack of measures with respect to the other categories of DNFBPs represents a significant gap in the AML/CFT regime. In addition, no review has been conducted of the domestic nonprofit organization (NPO) sector to support the adoption of measures to prevent the unlawful use of legal persons in relation to ML and FT.

10. Mexican authorities have been cooperating effectively with authorities from other countries, particularly in the area of mutual legal assistance and extradition involving ML and related crimes.

Legal Systems and Related Institutional Measures

11. The ML legislation applies to the proceeds of all crimes committed in Mexico and includes all of the designated categories of offenses under the FATF recommendations. The principal ML provisions are contained under Article 400-Bis of the Federal Criminal Code and complemented by

¹ In Mexico, applicable DNFBPs include real estate agents, dealers in precious metals and stones, lawyers, notaries and other independent legal professionals and accountants, and company services providers.

the provisions in the Federal Law Against Organized Crime. The Federal Criminal Code applies more severe criminal sanctions for ML that is committed by members of a criminal organization.

12. Mexican law allows for the prosecution of persons who commit both the predicate offense and the ML offense (self-laundering). The offense of ML extends to any type of property, regardless of its value, that directly or indirectly represents the proceeds of a crime.

13. Criminal liability for ML or FT currently does not extend to legal persons but recently proposed legislation may allow for it. The law provides for administrative and civil sanctions against legal persons if a member or representative of a legal entity engages in criminal conduct in the name of, on behalf of, or for the benefit of the legal entity.

14. While the ML criminalization provisions are generally broad, there are a few technical deficiencies that could affect implementation. These include the lack of an explicit criminalization of the conducts of “concealment or disguise,” and the mere “possession or use of property regardless of the purpose”. Mexican criminal law provides a broad range of procedures and tools to attach and forfeit property. However, the legislation does not provide for the forfeiture of property “for the equivalent or corresponding value”. In addition, it makes no provision for preventing or voiding contracts or other acts in which the persons involved knew or should have known that as a result of those contracts or acts the authorities’ ability to recover property subject to forfeiture would be impaired. Mexico also has not implemented legislation or procedures to enable the freezing of terrorist funds or other assets *without delay* of persons designated in accordance with relevant UNSCRs.

15. The authorities are committed to increasing the number and significance of prosecutions and convictions for ML. Notwithstanding the 149 indictments for ML issued by the PGR since 2004, there have only been 30 judicial decisions, 25 of which resulted in convictions and five in acquittals. These figures are indicative of a lack of capacity at the judicial level and the need to strengthen evidence used by PGR to support its indictments. Moreover, most of these convictions resulted from uncomplicated investigations arising out of seizures of cash at the airports and borders where the defendants were unable to demonstrate the legal origin of funds. Given the level and sophistication of organized criminal activity in Mexico, these results reflect a disappointing lack of effectiveness in implementation of the ML offense. The ongoing development of a national strategy to combat ML and FT should help lay the foundation for more effective implementation of the ML and FT legislation.

16. There is also currently close collaboration between the FIU and PGR, and the relationship between these two entities has been evolving and improving over time. Nonetheless, it could benefit from more formal arrangements as work processes are developed. Enhanced use of FIU-generated reports would also lead to more effective ML investigations and prosecutions.

17. In June 2007, terrorist financing was criminalized under the Mexican Federal Criminal Code, which distinguishes between “domestic terrorist financing” and “international terrorist financing”. Terrorism financing is also a predicate offense to money laundering and is a serious felony under the Federal Code of Criminal Procedures. When committed by members of organized crime, such offenses are subject to more severe sanctions.

18. The international terrorist financing offense extends to any “funds” as that term is defined in the United Nations’ (UN) Terrorist Financing Convention. However, the legal provisions do not fully comply with SR II. While the UN’s Terrorist Financing Convention focuses on the intention of the act to cause death or serious bodily injuries, the law seems to focus on what is used to carry out the act.

The requirement to demonstrate that the terrorist act generates alarm, fear, or terror to a population or to a group or sector thereof is not consistent with Article 2 of the UN's Terrorist Financing Convention, as the Convention only requires that "the purpose" of the act, by its nature or context, be to intimidate a population. Moreover, while the FT offense covers the financing of a significant number of terrorist acts, it does not extend the financing conduct to all of the acts that constitute offenses within the scope and definition of the treaties listed in the annex of the UN's Terrorist Financing Convention. Nor does it extend to all situations where a person may willfully provide funds. It only covers the provision of funds through the "financing," "contributing," and "procuring" conducts. This would leave out the provision of funds "by any means" as required by the standard. Moreover, the collection of funds is not covered.

19. The FIU has made progress in developing its financial intelligence infrastructure and staff capacity, including improving its working relationship with the prosecutorial authorities at the PGR. At the time of the on-site visit, it was not fully receiving suspicious activity reports in a timely way sent through the SAT by foreign exchange centers and money remitters.² Moreover, it does not have full legal authority to access criminal records to inform its analytical work. The number of staff relative to the volume of reports it receives and its current and future workload is inadequate, even though the FIU has implemented an automated risk-based system to filter out cases that do not merit deeper analysis. As part of an ongoing restructuring project of the FIU, its staff will be increased significantly.

Preventive Measures—Financial Institutions

20. The various financial sector laws establish the principal AML/CFT preventive obligations for financial institutions. In turn, the AML/CFT legal provisions are implemented through regulations ("*Disposiciones de Carácter General*") issued under such laws. All the detailed AML/CFT requirements for financial institutions are contained in these regulations. In addition, the Ministry of Finance and Public Credit can also issue written communications ("*Oficios*") to financial institutions for, inter alia, clarifying and interpreting the provisions in the regulations. Both laws and the subsidiary regulations are enforceable and sanctionable in accordance with the provisions established in the applicable financial sector laws. The FIU, National Banking and Securities Commission (CNBV), and financial sector representatives jointly issued a set of best practice guidelines to help improve the quality of STRs submitted to the FIU by financial institutions subject to CNBV's supervision.

21. At the time of the mission, the AML/CFT laws and regulations covered all of the known financial activities applicable to Mexico as set out under the FATF definition of "financial institution". The sectoral regulations impose detailed AML/CFT requirements on the financial sector for; inter alia, CDD, record-keeping, large and suspicious transaction reporting, internal controls, compliance management arrangements, and training. However, Mexico has not yet issued implementing AML/CFT regulations for the recently deregulated SOFOMES. Unregulated SOFOMES are non-deposit taking finance companies (e.g. engaged in lending, leasing, factoring) that are not members of a regulated financial group. The absence of such regulations, combined with a recent sharp increase in the number of SOFOMES in Mexico, constitute a significant vulnerability in the system.

² More recently, the authorities have indicated that these obstacles had been overcome but the mission is not in a position to verify the effectiveness of the reporting arrangement with the SAT.

22. The Mexican authorities acknowledge the need to upgrade and align the 2004 AML/CFT regulations (e.g. for the securities, insurance, money services sectors) with the 2006 regulations (for the banking, savings and loans, and SOFOLES sectors). There is also a need for greater clarity in some of the provisions, including for internal and cross-sectoral regulatory consistency with respect to CDD for business relationships and occasional transactions, risk-based provisions, and suspicious transaction reporting. The CDD requirements also need to be enhanced in key areas such as for recently established corporate entities that have not completed incorporation requirements, and for insurance policyholders. The authorities expect to issue new regulations by the end of 2008.

23. Implementation of the regulatory requirements by financial institutions is more advanced in the core financial sector entities (i.e., deposit-taking, insurance, and securities), but less so in some systemically important and risky sectors (i.e., foreign exchange centers, money remitters and unregulated SOFOMES). The authorities estimate that a large proportion of the thousands of foreign currency exchange centers and money remitters have now registered with the SAT (the designated AML/CFT supervisor), but a significant number has not done so.

24. All of the AML/CFT regulations include risk-based elements for purposes of CDD and the authorities are to be commended for implementing such practices. Going forward, these risk-based provisions could be better supported with sector-specific guidelines, and refinements to the simplified CDD regime allowed for in the regulations. The authorities should also consider conducting a systemic assessment of ML and FT risks in Mexico to support the development and implementation of preventive measures regime.

25. Recordkeeping and CDD requirements for introduced business and third parties are generally comprehensive. However, they could be improved, as is now being contemplated by the authorities, by specifically requiring that the necessary CDD information be obtained immediately by the financial institutions. The threshold for recordkeeping and other requirements with respect to wire transfers should be reduced from the equivalent of US\$3 000 to US\$1 000 in line with the standard.

26. There is a clear obligation to report suspicions of ML and FT, but the obligation does not extend to suspected financing of international acts of terrorism (except in relation to lists issued by international organizations or foreign countries). Most sectors are actively filing reports but there is a need to improve their quality and reduce the occurrence of “defensive” reporting.

27. There are four principal supervisory authorities responsible for AML/CFT compliance supervision, and for the enforcement of requirements. All of them have broad powers to obtain access to and inspect the businesses under their jurisdiction and to sanction for noncompliance. In practice, they have applied administrative sanctions (e.g., fines) for noncompliance with the AML/CFT regulations. However, most fines have been applied by the CNBV and their average amount has been relatively low, particularly for the larger institutions.

28. Most supervisory agencies have implemented relatively comprehensive on-site supervisory systems for AML/CFT compliance. Supervision by the CNBV is more advanced in terms of processes and capacity, and it has developed a specialized AML/CFT supervisory unit. However, it could enhance its offsite AML/CFT processes, and undertake more risk-based and consolidated AML/CFT supervision.

29. Limited staff resources have prevented the SAT from fully implementing AML/CFT supervision of foreign exchange centers and money remitters. It has about 4 380 such entities subject to its supervision, and the transfer of unregulated SOFOMES (currently 634 entities and rapidly increasing) under its supervision will further compound this problem. There is a potential of contagion

risk for other financial institutions, e.g., banks that transact with these businesses. Nonetheless, the SAT indicated that it has conducted around 800 inspection visits to-date.

30. With respect to the insurance and bonding sectors, there is a need to strengthen supervision of the channels of distribution, in particular enforcing the training and oversight requirement placed on insurance and bonding companies with respect to their agents. A review of the contracting arrangements between these companies and their agents is also recommended to support implementation of the regulatory requirements.

Preventive Measures—Designated Non-Financial Businesses and Professions

31. The AML/CFT preventive measures have not been extended to DNFBPs. The only requirement that applies to this group is an obligation under the Income Tax Law to report cash transactions to the SAT in excess of Mexican pesos \$100 000 (equivalent to approximately US\$10 000). This is an obligation imposed on all taxpayers and NPOs. In addition, notaries public are required to report to the SAT every purchase of real estate in Mexico in which they participate regardless of the method of payment. This information is available to the FIU for AML/CFT purposes.

32. All types of DNFBPs are active in the Mexican economy. However, by law the administration of “*fideicomisos*” can be done only by designated licensed financial institutions. (A “*fideicomiso*” is broadly similar to a trust). Casinos are prohibited by law, including slot machines, except during regional fairs, in which case they require a temporary license. One to five such casino licenses are issued every year. The authorities are unable to prevent the existence of many unauthorized gaming-machine establishments due to resource limitations and gaps in the applicable legal framework which allow these businesses to pose as games of skill and not of chance. According to the authorities, these businesses are perceived as legitimate by the communities in which they operate, including by financial institutions, and this makes them vulnerable to money laundering and exposes the financial institutions that conduct business with them.

Legal Persons and Arrangements & Non-Profit Organizations

33. Mexico has not taken concrete measures to prevent the unlawful use of legal persons in relation to ML and FT. Moreover, competent authorities in Mexico are not able to obtain or do not have access to sufficient, accurate, and current information in a timely fashion, on beneficial ownership and control of legal persons.

34. Legal persons created under Mexican law are not able to issue bearer shares. However, the shareholder of a Mexican entity can be a foreign bearer share company incorporated in a jurisdiction that allows the issuance of such shares. Mexico does not have specific measures in place to help prevent Mexican subsidiaries of such bearer share companies from being used for illicit ML.

35. Only designated licensed financial institutions may administer “*fideicomisos*” in Mexico. Financial institutions are covered by the preventive measures applicable to them and are hence required to obtain, verify, and retain details of the “*fideicomisos*”, including beneficial ownership and control information. Such information would be available to the competent authorities. However, due to the lack of statistics on authorities’ requests for information, it was not possible to assess the effective implementation of these measures.

36. Mexico has not undertaken a review of the adequacy of domestic laws and regulations that relate to NPOs, nor has it undertaken outreach to the NPO sector with a view to protecting the sector from FT abuse.

National and International Cooperation

37. There are no legal impediments for cooperation among the various supervisory bodies and other domestic authorities in Mexico. It was evident prior to and during the mission, that there are adequate processes for national cooperation and that such processes has been very efficient and effective. Cooperation between PGR and the FIU has been enhanced since 2007 and is currently working satisfactorily.

38. Mexican authorities have the power to collaborate with foreign counterparts in their respective areas of competence. In the majority of cases, international cooperation takes place directly between authorities exercising similar responsibilities and functions. They have cooperated with their foreign counterparts in the areas of mutual legal assistance and extradition. Supervisors have also entered into a number of memoranda of understanding with their foreign counterparts, and these have been put into practice especially as it concerns the banking sector. The mission received comments from various countries which highlight the significant improvements in international cooperation with Mexico last year. In particular, these countries underscored the constructive cooperation with Mexico's FIU and the PGR.

Table 1: Ratings of Compliance with the FATF Recommendations

The ratings of compliance vis-à-vis the FATF Recommendations are made according to the four levels of compliance mentioned in the 2004 Methodology Compliant (C), Largely Compliant (LC), Partially Compliant (PC), Non-Compliant (NC)), or, in exceptional cases, may be marked as Not Applicable (N/A).

Forty Recommendations	Rating	Summary of factors underlying rating ³
Legal systems		
1. ML offense	PC	<ul style="list-style-type: none"> 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”. ML offence is not being effectively implemented, insufficient focus on ML investigations committed through the financial system, and underutilization of financial intelligence reports from the FIU sector.
2. ML offense—mental element and corporate liability	LC	<ul style="list-style-type: none"> The money laundering offence is not being effectively implemented as is shown by the very low number of convictions relative to the significant threat of organized crime, the low number of indictments, the volume of intelligence reports of STRs and the size and complexity of the financial system.
3. Confiscation and provisional measures	LC	<ul style="list-style-type: none"> Legislation does not provide for the ability to forfeit assets of equal or corresponding value. There are no criminal laws/tools for preventing or voiding contracts and actions that diminish the ability to recover assets subject to forfeiture.
Preventive measures		
4. Secrecy laws consistent with the Recommendations	C	
5. Customer due diligence	PC	<ul style="list-style-type: none"> No CDD (AML/CFT) regulations and supervision as yet for unregulated SOFOMES. Inadequate implementation of CDD requirements esp. oversight requirements imposed on insurance companies for business conducted through agents. Need to qualify the use of numbered and coded accounts in accordance with c5.1. Significant legal and capacity deficiencies in implementing CDD requirements for centros cambiarios and money remitters.

³ These factors are only required to be set out when the rating is less than Compliant.

Forty Recommendations	Rating	Summary of factors underlying rating ³
		<ul style="list-style-type: none"> • Inadequate CDD threshold (USD 10 000) for business relationships for casas de cambio and insurance companies. • 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. • No explicit requirement to conduct CDD in all cases where there is suspicion of ML/FT or doubt about the adequacy of customer information. • 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. • Weak identification verification requirements for non-beneficiary insurance policyholders. • Insufficient requirements in the 2004 regulations for the identification of foreign beneficiaries. • No direct explicit requirement for FIs to ascertain/request that applicants for business to state whether they are acting on behalf of others. • No general requirement for obtaining information on the purpose and nature of business relationships. • Insufficient justification and guidelines for risk-based CDD, including with respect to simplified CDD for customers listed in the Annex of the regulations. • No risk mitigating controls for deferment of identification verification, including with respect to newly-formed companies. • Provisions to defer verification of identification of customers associated with insurance policies are too broad. • 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 file a STR.
6. Politically exposed persons	LC	<ul style="list-style-type: none"> • No explicit requirement in some regulations to obtain senior management approval for existing PEP accounts and relationships. • Need to define the scope of “origen de recursos” to include source of wealth for PEPs in addition to source of funds.
7. Correspondent banking	LC	<ul style="list-style-type: none"> • Inadequate CDD requirements for correspondent

Forty Recommendations	Rating	Summary of factors underlying rating ³
		relationships for the mutual fund and securities firms, including the need to establish their AML/CFT responsibilities and that of their respondents.
8. New technologies & non face-to-face business	PC	<ul style="list-style-type: none"> • No specific requirements to implement measures to prevent misuse of technological developments. • No specific risk mitigating CDD requirements for transactions that do not require face-to-face contact.
9. Third parties and introducers	PC	<ul style="list-style-type: none"> • Lack of a requirement for FIs to “immediately” obtain CDD information from third parties. • Inadequate supervision/monitoring of insurance intermediaries for compliance with AML/CFT obligations. • Inadequate supervision/monitoring of paying agents (on whom reliance is placed) by remittance firms for compliance with AML/CFT obligations.
10. Record-keeping	C	
11. Unusual transactions	LC	<ul style="list-style-type: none"> • Many reporting institutions are using the list of possible alerts provided in the regulations as triggers of reports, without sufficiently analyzing the background and purpose of such transactions. • The monitoring of transactions by money exchanges (centros cambiarios) and money remitters (transmisores de dinero) has been almost exclusively focused on the control of unique or structured transactions starting at USD 3 000.
12. DNFBP–R.5, 6, 8–11	NC	<ul style="list-style-type: none"> • No AML/CFT regulations exist for any category of DNFBP, except trust services which only specified financial institutions can provide.
13. Suspicious transaction reporting	PC	<ul style="list-style-type: none"> • The reports filed by some sectors are not being transmitted to the FIU, nor utilized in any form (Bonding companies and the registered money transmitters and currency exchanges). • There is no clear obligation to report the suspicion of the financing of international acts of terrorism (only of terrorist acts committed locally). • 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. • The obligation to report attempted transactions is not explicitly established in regulations, and not

Forty Recommendations	Rating	Summary of factors underlying rating³
		consistently implemented by financial institutions.
14. Protection & no tipping-off	C	
15. Internal controls, compliance & audit	LC	<ul style="list-style-type: none"> No explicit requirement in all the AML/CFT regulations to have a well resourced and independent audit function.
16. DNFBP–R.13–15 & 21	NC	<ul style="list-style-type: none"> No AML/CFT regulations exist for any category of DNFBP, except trust service providers which are designated financial institutions.
17. Sanctions	PC	<ul style="list-style-type: none"> Sanctions not sufficiently proportionate and dissuasive. On average, relatively low fines applied and insufficient use of nonmonetary sanctions.
18. Shell banks	LC	<ul style="list-style-type: none"> No requirement for FIs to satisfy themselves that their foreign respondents do not permit their accounts to be used by shell banks.
19. Other forms of reporting	C	
20. Other NFBP & secure transaction techniques	NC	<ul style="list-style-type: none"> No consideration has been given to applying the FATF recommendations to other high-risk businesses and professions. No evidence of measures taken to encourage the development and use of modern and secure techniques for conducting financial transactions that are less vulnerable to ML.
21. Special attention for higher risk countries	LC	<ul style="list-style-type: none"> Mexico can impose countermeasures only with respect to countries previously identified by an international organization, and not to countries of specific concern to Mexican authorities.
22. Foreign branches & subsidiaries	C	
23. Regulation, supervision and monitoring	PC	<ul style="list-style-type: none"> Insufficient supervision, largely due to inadequate budgetary and human resources, of the unregulated foreign exchange centers and money remittance sector. No AML/CFT regulation and supervision for unlicensed SOFOMES. Inadequate oversight mechanisms for intermediaries (channels of distribution) in the insurance and bonding sectors, and on cash acceptance practices. Insufficient use of offsite supervisory capacity for planning and conducting onsite inspections, consistent with the risk-based provisions in the regulations and prudential supervision. Insufficient cross-border supervision including through the use of supervisory MOUs.
24. DNFBP—regulation, supervision and monitoring	NC	<ul style="list-style-type: none"> No AML/CFT regulations and supervisory framework exist for any category of DNFBP, except for trust service providers which are designated financial institutions.

Forty Recommendations	Rating	Summary of factors underlying rating ³
25. Guidelines & Feedback	PC	<p>Supervisory: NC</p> <ul style="list-style-type: none"> • Need for more current guidelines on new ML and FT techniques and methods including for new technologies. • Need for industry-specific guidelines on ML and FT risks in the Mexican market to support risk-based compliance. • FIU: LC • The recently increased strategic analysis capability of the FIU has not yielded significant information that could be used by reporting institutions to recalibrate their preventive mechanisms, and the FIU has not published Mexico-specific typologies since 2005. • FIU provides occasional feedback on STR quality to institutions of concern, but there is no mechanism in place to provide reporting institutions with more opportune and relevant feedback about their reports, other than an automatic acknowledgment of receipt of their STRs. The project to rate the quality of STRs still has not reached a representative sample of reports. <p>DNFBP: NC</p> <ul style="list-style-type: none"> • No AML/CFT framework and guidelines for DNFBPs.
Institutional and other measures		
26. The FIU	LC	<ul style="list-style-type: none"> • Does not have full, timely and secure access to STRs from exchange centers, money services businesses and unregulated SOFOMES filed through the SAT. • FIU has no access to criminal records. • The number of staff is low relative to the amount of reports received and expected future volume of STRs and workload potentially hampering the FIU's effectiveness.
27. Law enforcement authorities	PC	<ul style="list-style-type: none"> • The reorganization of the federal forces of investigation have created difficulties in the coordination between such forces and prosecutors, thereby affecting the effective investigation and prosecution of ML offences. • The insufficiency of resources allocated to PGR's SIEDO and its specialized units is affecting Mexico's capacity to conduct investigations and prosecutions of ML offences in an effective manner. • Mexico has no legal provision or other tool that allows competent authorities to postpone or waive the arrest of suspected persons and/or the seizure of money for the purpose of identifying

Forty Recommendations	Rating	Summary of factors underlying rating ³
		<p>persons involved in such activities.</p> <ul style="list-style-type: none"> Limited provisions for the use of special investigative techniques to cover all underlying offenses in regard to money laundering and the financing of terrorism, and for controlled deliveries.
28. Powers of competent authorities	LC	<ul style="list-style-type: none"> The reorganization of federal forces of investigation have created difficulties in the coordination between such forces and prosecutors, thereby affecting the capacity of competent authorities to exercise document production, search and seizure powers in an effective manner. The insufficiency of resources allocated to PGR's SIEDO and its specialized units is affecting their capacity to implement their investigative powers in an effective manner.
29. Supervisors	C	
30. Resources, integrity, and training	PC	<p>Supervisory: PC</p> <ul style="list-style-type: none"> EC 30.1, 30.3 and 30.3 Insufficient training for risk-based supervision including for offsite surveillance of ML and FT risks. Insufficient focus on, and provision of specialized training to inspections staff, for the review of controls in FIs designed to detect non-cash suspicious transactions. Insufficient staff of the DGPOI to provide more adequate support to all of the CNBV's supervisory units and other outside authorities such as the FIU and the PGR. Insufficient staff for the SAT for supervising money exchange centers, money remitters, and SOFOMES. <p>FIU: PC</p> <ul style="list-style-type: none"> Low number of staff relative to the amount of reports received and expected future volume of STRs and workload, and there is no timetable for increasing resources for the FIU, especially in the number of staff. <p>Law Enforcement: PC</p> <ul style="list-style-type: none"> Insufficient resources allocated to PGR's SIEDO and its specialized units hinders effectiveness in the conduct investigations and prosecutions.
31. National co-operation	LC	<ul style="list-style-type: none"> The reorganization of the federal forces of investigation over the past year has created transitional coordination and cooperation

Forty Recommendations	Rating	Summary of factors underlying rating ³
		<p>difficulties between these forces and prosecutors.</p> <ul style="list-style-type: none"> Absence of effective joint cooperation or coordination mechanisms between the PGR and the Judiciary to implement joint policies and conduct activities aimed at fighting organized crime.
32. Statistics	LC	<p>Supervisory: C FIU: LC</p> <ul style="list-style-type: none"> There is no information on requests denied by either the Mexican FIU or its foreign counterparts. No statistics were provided on the number of consultations made by the FIU or the number of declarations received and analyzed by the FIU. <p>Customs: LC</p> <ul style="list-style-type: none"> No statistics or any other information to assess the effectiveness of domestic coordination arrangements. No statistics on the number of international information requests made and received by the General Customs Administration were provided. <p>Law Enforcement: C</p>
33. Legal persons–beneficial owners	NC	<ul style="list-style-type: none"> Mexico has not taken measures to prevent the use of legal persons in relation to ML/TF. The Registry may not be able to obtain or have access to adequate, accurate and current beneficial ownership and control information. Mexico has not taken appropriate measures to ensure that legal persons using bearer shares are not misused for ML.
34. Legal arrangements – beneficial owners	LC	<ul style="list-style-type: none"> Lack of sufficient measures to ensure that there is adequate, accurate and timely information on the beneficial ownership and control of legal arrangements in all cases. No statistics on the number of requests for beneficial ownership information or the amount of sanctions applied to conclude that the measures are effective.
International Cooperation		
35. Conventions	LC	<ul style="list-style-type: none"> Mexico has not fully implemented the Vienna and Palermo Conventions. Mexico has not fully implemented the Terrorist Financing Convention
36. Mutual legal assistance (MLA)	LC	<ul style="list-style-type: none"> The deficiencies in the money laundering and terrorist financing offenses may impact on Mexico’s ability to provide MLA.

Forty Recommendations	Rating	Summary of factors underlying rating ³
37. Dual criminality	LC	<ul style="list-style-type: none"> The deficiencies in the money laundering and terrorist financing offences may impact on Mexico's ability to provide MLA and extradite.
38. MLA on confiscation and freezing	PC	<ul style="list-style-type: none"> There are no appropriate laws and procedures to freeze terrorist funds or other assets at the request of a foreign country. Mexican law contains no provisions for confiscating goods of equivalent value.
39. Extradition	LC	<ul style="list-style-type: none"> The deficiencies in the money laundering and terrorist financing offences may impact on Mexico's ability to extradite.
40. Other forms of co-operation	C	
Nine Special Recommendations		
SR.I Implement UN instruments	PC	<ul style="list-style-type: none"> The Terrorist Financing Convention has not been fully implemented. United Nations Security Council Resolutions relating to the prevention and suppression of FT are not being fully implemented.
SR.II Criminalize terrorist financing	PC	<ul style="list-style-type: none"> 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. 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. No TF investigations to date and therefore cannot conclude that the measures are effective.
SR.III Freeze and confiscate terrorist assets	NC	<ul style="list-style-type: none"> 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. 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. 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.

Forty Recommendations	Rating	Summary of factors underlying rating ³
		<ul style="list-style-type: none"> • 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 organizations, 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 organizations. • There is no effective system for communicating actions taken under the freezing mechanisms to the financial sector immediately upon taking such action. • 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. • 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. • 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. • There are no appropriate procedures for authorizing 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). • 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.
SR.IV Suspicious transaction reporting	PC	<ul style="list-style-type: none"> • No clear obligation to report suspicions of financing of international acts of terrorism (only of terrorist acts committed locally).
SR.V International cooperation	PC	<ul style="list-style-type: none"> • The deficiencies in the terrorist financing offence described under SR.II impact on Mexico's ability to provide international cooperation through MLA and extraditions. • The deficiencies in the process for freezing terrorist assets described under SR.III impact on

Forty Recommendations	Rating	Summary of factors underlying rating ³
		<p>Mexico's capacity to freeze, seize, and confiscate terrorist assets at the request of a foreign country.</p> <ul style="list-style-type: none"> The deficiencies in the terrorist financing offence described under SR.II impact on the law enforcement authorities' ability to provide international cooperation.
<p>SR.VI AML/CFT requirements for money/value transfer services</p>	<p>PC</p>	<ul style="list-style-type: none"> Large volumes of cash are brought from abroad by informal and unregistered courriers and there has not been a systematic effort to estimate the number of MVT and to identify those that operate informally. The obligation for money remitters to consider, for purposes of ascertaining suspicion, small structured transactions that in aggregate equal or exceed the USD 3 000 threshold does not constitute an explicit requirement to undertake CDD. Insufficient supervisory actions and resources relative to the large number of providers hamper effectiveness of implementation. Additional personnel recently assigned to the SAT unit responsible for supervision may take some time before reaching full capacity. The SAT is not explicitly empowered to inspect, instruct and sanction the payors, only the disperser transmitters. Technical problems are preventing that the STRs (and CTRs) filed by money remitters through the SAT arrive at the FIU, and these reports are not being used in any form. Disperser transmitters are not required to maintain a list of the agents and payor transmitters with whom they operate, and are not required to immediately obtain the customer documentation after a transfer is paid by agents or payors. Disperser transmitters are not explicitly accountable for the failure of their Payor transmitters to satisfy the applicable CDD, monitoring and reporting requirements. Regulations do not require money remitters to include and maintain CDD information on wire transfers (relation to SR. VII).
<p>SR.VII Wire transfer rules</p>	<p>PC</p>	<ul style="list-style-type: none"> CDD threshold of USD 3,000 exceeds FATF limit. No regulation of batch transfers. No regulation of the information that must be kept by intermediary institutions (regulations only cover the originator and beneficiary financial institutions).

Forty Recommendations	Rating	Summary of factors underlying rating ³
		<ul style="list-style-type: none"> • No requirement to adopt risk based procedures for identifying and handling transfers with incomplete originator information. • Money remitters are not subject wire transfer regulations.
SR.VIII Nonprofit organizations	PC	<ul style="list-style-type: none"> • The relevant reviews of the domestic non-profit sector have not been conducted. • No outreach to the NPO sector has been undertaken with a view to protecting the sector from TF abuse. • Most measures in place concerning NPOs are only for tax purposes and only cover a limited number of NPOs, which are those authorized by the SAT to issue tax deductible receipts. • No steps have been taken to promote effective supervision or monitoring of relevant NPOs. • Not all NPOs are required to maintain relevant purpose and control information (only those authorized to issue tax deductible receipts). • Not all NPOs are subject to appropriate sanctions for violations of oversight or rules (only those authorized to issue tax deductible receipts). • Not all NPOs are required to be licenced (only those authorized to issue tax deductible receipts). • Not all NPOs are required to maintain detailed records of transactions to verify that funds have been spent consistent with purpose and objectives (only those authorized to issue tax deductible receipts). • There is no effective domestic co-operation, co-ordination and information sharing among all levels of appropriate authorities or organizations that hold relevant information on NPOs of potential terrorist financing concern (other than NPOs authorized to issue tax deductible receipts). • There are no mechanisms to ensure that full access to information on the administration and management of a particular NPO may be obtained during the course of an investigation (other than for NPOs authorized to issue tax deductible receipts). • There are no mechanisms for the prompt sharing of information among all relevant authorities in order to take preventative or investigative action when there is a suspicion or reasonable grounds to suspect that a particular NPO is being exploited for terrorist financing purposes or is a front organization for terrorist fundraising (other than NPOs authorized to issue tax deductible receipts).

Forty Recommendations	Rating	Summary of factors underlying rating ³
		<p>receipts).</p> <ul style="list-style-type: none"> • There is no investigative expertise and capabilities to examine those NPOs that are suspected of either being exploited by or actively supporting terrorist activity or terrorist organizations. • There are no mechanisms to allow for prompt investigative or preventive action against such NPOs.
<p>SR.IX Cross-Border Declaration & Disclosure</p>	<p>PC</p>	<ul style="list-style-type: none"> • It is not an offense to make a false declaration. • Cases of cross-border transportation of cash or other bearer negotiable instruments are not being thoroughly investigated. • Customs, Immigration, ONDCP and other competent authorities do not coordinate domestically on issues related to the implementation of Special Recommendation IX. • Customs capability to identify money related to terrorist financing activities is limited. • There is no specific procedure by the Customs to deal with cross-border transportation of money related to terrorist financing. • No legal provisions to address false declarations.