

FATF



# Anti-money laundering and counter-terrorist financing measures

## Mexico

June 2021

3<sup>rd</sup> Enhanced Follow-up Report &  
Technical Compliance Re-Rating

Follow-up report





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 (CTF) standard.

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**The FATF Plenary adopted this report by written procedure in June 2021.**

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## 1. Introduction

The FATF Plenary adopted the mutual evaluation report (MER) of Mexico in November 2017<sup>1</sup>. This FUR analyses Mexico's progress in addressing the technical compliance deficiencies identified in its MER, relating to Recommendations 8, 10, 12, 15, 17 and 18.

This report also analyses Mexico's progress in implementing new requirements relating to FATF Recommendations that have changed since the end of the on-site visit to Mexico in March 2017 (Recommendations 2, 7, 15, 18 and 21).

Mexico previously provided to plenary for information two FUR without re-rating requests (February 2019<sup>2</sup> and February 2020<sup>3</sup>). Overall, the expectation is that countries will have addressed most if not all technical compliance deficiencies by the end of the third year from the adoption of their MER. This report does not address Mexico's progress to improve its effectiveness.

## 2. Findings of the MER

The MER rated Mexico's technical compliance as follows:

**Table 1. Technical compliance ratings, November 2017**

R.1	R.2	R.3	R.4	R.5	R.6	R.7	R.8	R.9	R.10
LC	LC	C	LC	LC	C	C	PC	C	PC
<b>R.11</b>	<b>R.12</b>	<b>R.13</b>	<b>R.14</b>	<b>R.15</b>	<b>R.16</b>	<b>R.17</b>	<b>R.18</b>	<b>R.19</b>	<b>R.20</b>
LC	PC	LC	LC	PC	PC	PC	PC	LC	PC
<b>R.21</b>	<b>R.22</b>	<b>R.23</b>	<b>R.24</b>	<b>R.25</b>	<b>R.26</b>	<b>R.27</b>	<b>R.28</b>	<b>R.29</b>	<b>R.30</b>
LC	PC	NC	PC	LC	LC	LC	PC	C	LC
<b>R.31</b>	<b>R.32</b>	<b>R.33</b>	<b>R.34</b>	<b>R.35</b>	<b>R.36</b>	<b>R.37</b>	<b>R.38</b>	<b>R.39</b>	<b>R.40</b>
LC	PC	PC	LC	LC	LC	PC	PC	LC	LC

Note: There are four possible levels of technical compliance: compliant (C), largely compliant (LC), partially compliant (PC), and non-compliant (NC). Source: Mexico Mutual Evaluation Report, November 2017: [www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-Mexico-2018.pdf](http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-Mexico-2018.pdf)

The following experts assessed Mexico's request for technical compliance re-ratings:

- Ms. Federica Lelli, Senior Financial Expert, Banca d'Italia, Italy.
- Ms. Sandra Garcia, Director, National Security Threats & Trends, U.S. Department of the Treasury, United States.

Section 3 of this report summarises the progress Mexico has made in improving technical compliance. Section 4 sets out the conclusion and a table showing which Recommendations have been re-rated.

1 [www.fatf-gafi.org/publications/mutualevaluations/documents/mer-mexico-2018.html](http://www.fatf-gafi.org/publications/mutualevaluations/documents/mer-mexico-2018.html)

2 FATF/PLEN(2019)4

3 FATF/PLEN(2020)18

### 3. Overview of progress to improve technical compliance

This section summarises Mexico's progress to improve its technical compliance by:

- a) addressing some of the technical compliance deficiencies identified in the MER; and
- b) implementing new requirements where the FATF Recommendations have changed since the on-site visit to Mexico (R.2, R.7, R.15, R.18, and R.21).

#### 3.1 Progress to address technical compliance deficiencies identified in the MER

Mexico has made progress to address the technical compliance deficiencies identified in the MER in relation to R.8, 10, 12, 15, 16 and 17. Because of this progress, these Recommendations are re-rated.

The FATF welcomes the progress achieved by Mexico in order to improve its technical compliance with R.18. However, this does not justify an upgrade of this Recommendation's rating at this stage.

#### *Recommendation 8 (originally rated PC)*

In its 4th round MER, Mexico was rated PC with R.8. The MER identified several deficiencies, including that Mexico had not reviewed the adequacy and regulations that relate to NPOs and had not yet begun conducting targeted outreach to the NPO sector concerning specific vulnerabilities or typologies for TF abuse. The authorities were establishing a plan to improve effective supervision or monitoring NPOs, but this was not in place.

Since the MER, Mexico published a National Assessment of Money Laundering and Terrorism Financing Risks 2020, including risks to NPOs. The assessment demonstrates a good understanding of NPOs operating in Mexico and includes inputs from the civil intelligence agency and the FIU. The Mexican authorities have engaged in a meaningful and comprehensive review of the laws and regulations relating to the subset of the NPO sector most vulnerable for TF abuse. The authorities have recommended proportionate actions to address the risks identified, which are currently pending approval before the Mexican Senate. Increased outreach has taken place with the NPO sector, including providing guidance and running forums on TF prevention and NPO obligations. The "Servicio de Administracion Tributaria (SAT)" has engaged in face-to-face and virtual outreach to reporting entities including 60 religious NPOs to make them aware of TF Risks. Authorities have also engaged with the NPO sector to recommend transactions be carried out via regulated financial channels.

There are some sanctions in place for DNFBBPs, which cover NPOs, but legislative amendments (to the LFPIORPI) to introduce specific NPO sanctions are pending approval before the Mexican Senate.

Mexico has addressed most of the deficiencies identified in its MER. On this basis, R.8 is re-rated **largely compliant**.

#### *Recommendation 10 (originally rated PC)*

In its 4<sup>th</sup> round MER, Mexico was rated PC. Deficiencies included a lack of comprehensive requirements to identify and verify beneficial owners, a narrow application of CDD measures to existing customers and limited requirements to identify and verify occasional customers transacting in national currency.

Since its MER, Mexico has amended legislation to require Retirement Fund Administrators (RFAs) to collect information preventing anonymous or fictitious accounts, required obliged entities to collect identification information for occasional transactions in Mexican Pesos, prohibited simplified CDD where there is suspicion of ML/TF and reinforced monitoring, beneficial ownership (BO) and reporting requirements.

Amendments to legislation to strengthen enhanced due diligence and BO identification requirements for other financial service providers (OFSPs) are still pending approval by the Mexican Senate and a review of requirements for RFAs to obtain information on the purpose and nature of the business relationship is ongoing.

Mexico has addressed most of the deficiencies identified in its MER and only minor remain. On this basis, **R.10 is re-rated largely compliant.**

### ***Recommendation 12 (originally rated PC)***

In its 4<sup>th</sup> round MER, Mexico was rated PC with R.12. The main technical deficiencies were lack of requirements to determine whether BOs were politically exposed persons (PEPs) (foreign or domestic), no requirement to determine whether the beneficiary of life insurance was a PEP and insufficient coverage of occupations that should be categorised as PEPs.

Since its MER, Mexico has amended legislation requiring obliged entities to identify if BOs of customers are PEPs, broadened the list of occupations considered PEPs in line with the FATF definition and introduced requirements for insurance and bonding companies in relation to life insurance policies for PEPs.

Mexico has addressed all deficiencies identified in its MER. On this basis, **R.12 is re-rated compliant.**

### ***Recommendation 16 (originally rated PC)***

In its 4<sup>th</sup> round MER, Mexico was rated PC with R.16. The deficiencies were lack of requirements in relation to beneficiary information, no requirement for procedures to determine when to exert, reject, or suspend a wire transfer lacking required information, or to identify occasional customers transferring Mexican Pesos.

Since its MER, Mexico has introduced requirements for FIs to identify occasional wire transfer customers in Mexican Pesos, required FIs to identify clients and occasional customers for transfers below USD 1000 and to verify this information when there is a suspicion of ML/TF.

In addition, Mexico now has clear requirements for the collection, retention, and transmission of originator and beneficiary information (including in the payment message and in relation to domestic and international transfers) and FIs must have policies and procedures for handling transfers with incomplete information and for considering information from originator and beneficiary when considering submitting an STR.

Mexico has addressed all deficiencies identified in its MER. On this basis, **R.16 is re-rated compliant.**

### ***Recommendation 17 (originally rated PC)***

In its 4th round MER, Mexico was rated PC with R.17. The primary deficiencies identified were a lack of requirements for all FIs to report on the countries a third party may be based and a lack of comprehensive requirements for FIs to ensure third parties were regulated and supervised for compliance with R.10 and 11.

Since its MER, Mexico has amended its AML/CFT General Provisions to require third parties to carry out CDD and make the information immediately available, require FIs to assess the risks of delegating CDD measures to a third party located abroad and not rely on third parties in high-risk countries.

Mexico has addressed all deficiencies identified in its MER. On this basis, **R.17 is re-rated compliant.**

## **3.2. Progress on Recommendations which have changed since adoption of the MER and where progress has been made**

Since the adoption of Mexico's MER, the FATF has amended R.2, R.7, R.15, R.18 and R.21. This section considers Mexico's compliance with the new requirements. This section also considers Mexico's progress in addressing deficiencies highlighted in the MER relating to R.15 and R.18.

### ***Recommendation 2 (originally rated LC)***

In October 2018, R.2 was amended to require countries to have cooperation and coordination between relevant authorities to ensure compatibility of AML/CFT requirements with Data Protection and Privacy rules. The amended Recommendation further requires a domestic mechanism for exchange of information. In its 4th round MER, Mexico was rated LC with R.2. At the time, the Mexican authorities were in further developing a national strategy to address all findings of the NRA and to establish clearer priorities.

Mexico complies with the revised requirements of R.2. Mexico has several mechanisms for authorities to adequately cooperate and share information for AML/CFT purposes. For example, the Group for the Homologation of Criteria in Supervision Matters (GHCS) oversees the National Supervision Strategy. The FIU and CNBV are members of the Group. The National Supervision Strategy promotes coordination among authorities and has a strategic action to optimize the exchange of information among authorities. In addition, the FIU and the CNBV have a longstanding "Collaboration Agreement". Clause 5 of the agreement covers the obligations to be observed by the parties, in terms of data protection. Mexico's bank secrecy law specifically states that compliance with the obligations of AML/CFT does not violate bank secrecy. **R.2 remains largely compliant.**

### ***Recommendation 7 (originally rated C)***

In November 2017, R.7 was amended to mirror amendments to the FATF Standards (INR.7 and the Glossary) made in June 2017, which reflected changes to the UN Security Council Resolutions on proliferation financing.

In its 4th Round MER, Mexico was rated compliant with R.7. Mexico complies with the revised requirements of R7. The FIU implements the procedures for authorizing access to funds or other assets in accordance with resolutions 1718 and 2231 as described in its 2018 MER and the Mexican system does not permit the interest or earning resulting from the blocked account. The revised and new requirements of R.7 are met. **R.7 remains rated compliant.**

### ***Recommendation 15 (originally rated PC)***

In June 2019, R.15 was amended to include obligations related to virtual assets (VA) and virtual asset service providers (VASPs). These new requirements include identifying, assessing and understanding ML/TF risks associated with VASPs, licensing and supervising VASPs and applying preventive measures and international co-operation.

In its 4th Round MER, Mexico was rated PC with R.15. The deficiencies were a lack of requirements for all FIs to assess ML/TF risks prior to the launch or use of new products, business practices, or delivery mechanisms or to manage such risks.

Since the MER, Mexico has amended the AML/CFT General Provisions requiring FIs to assess their risks before offering new services or products through new technologies. The Law to Regulate Financial Technology Institutions (LRITF) defines VA activity and establishes the regulatory framework, including registration requirements. The regulatory framework covers all activities captured by the FATF definition of VASPs and extends to legal and natural persons. Mexico has taken steps to identify persons carrying out unauthorised VASP activity and has seen several VASPs cease operating due to requirements of the registration regime. The communication mechanisms, reporting obligations and monitoring requirements for individuals subject to targeted financial sanctions applies to VASPs.

However, despite the significant progress in implementing the new requirements of R.15, some deficiencies remain in relation to the “Travel Rule” and Mexico is exploring the possibility of sharing information with international counterparts.

Mexico has addressed previous deficiencies in compliance with R.15 and met many of the new requirements introduced for VASPs. There are minor remaining deficiencies. On this basis, **R.15 is re-rated largely compliant.**

### ***Recommendation 18 (originally rated PC)***

In February 2018, R.18 was amended to reflect the November 2017 amendments to the FATF Standards (INR.18 and R.21). This clarified the requirements on sharing of information related to unusual or suspicious transactions within financial groups and the interaction of these requirements with tipping-off provisions.

In its 4th Round MER, Mexico was rated PC with R.18 due to lack of requirements for financial groups to implement group-wide AML/CFT programs.

Since its MER, Mexico has amended the AML/CFT General Provisions to require mitigating measures to manage AML/CFT risks be applied to branches and subsidiaries and where this is not possible to notify the appropriate authorities. FIs that are part of groups must consider group wide risk assessments and the results of internal and external parts of the group.

However, amendments to the LFPIORPI requiring OFSPs to implement policies and procedures on screening and training still pending approval before the Mexican Senate. Although FIs can share information with confidentiality agreements on a non-mandatory basis, reforms providing FIs with the ability to exchange information regarding STRs are still pending. On this basis, **R.18 remains partially compliant.**

### **Recommendation 21 (originally rated LC)**

In February 2018, R.21 was amended to clarify the interaction of R.18 requirements with tipping-off provisions. In its 2018 MER, Mexico was rated LC with R.21. Mexico complies with the revised requirements described above. The AML/CFT GP prohibits the disclosing of submitting an STR with the FIU. This does not inhibit information sharing. On this basis, **R.21 remains largely compliant**.

## **4. Conclusion**

Overall, Mexico has made progress in addressing most of the technical compliance deficiencies identified in its MER and has been upgraded on R. 8, 10, 12, 15, 16 and 17. Mexico meets the new requirements of R.2, R.7 and R.21 and the ratings for these Recommendations remain unchanged (R.2 and R.21 largely compliant and R.7 compliant). R.18 remains partially compliant, as insufficient progress has been made to justify an upgrade at this stage.

Considering the progress made by Mexico since the adoption of its MER, its technical compliance with the FATF Recommendations has been re-evaluated in the following manner:

**Table 2. Technical compliance ratings, June 2021**

R.1	R.2	R.3	R.4	R.5	R.6	R.7	R.8	R.9	R.10
LC	<i>LC</i>	C	LC	LC	C	<i>C</i>	<i>LC</i>	C	<i>LC</i>
<b>R.11</b>	<b>R.12</b>	<b>R.13</b>	<b>R.14</b>	<b>R.15</b>	<b>R.16</b>	<b>R.17</b>	<b>R.18</b>	<b>R.19</b>	<b>R.20</b>
LC	<i>C</i>	LC	LC	<i>LC</i>	<i>C</i>	<i>C</i>	<i>PC</i>	LC	PC
<b>R.21</b>	<b>R.22</b>	<b>R.23</b>	<b>R.24</b>	<b>R.25</b>	<b>R.26</b>	<b>R.27</b>	<b>R.28</b>	<b>R.29</b>	<b>R.30</b>
<i>LC</i>	PC	NC	PC	LC	LC	LC	PC	C	LC
<b>R.31</b>	<b>R.32</b>	<b>R.33</b>	<b>R.34</b>	<b>R.35</b>	<b>R.36</b>	<b>R.37</b>	<b>R.38</b>	<b>R.39</b>	<b>R.40</b>
LC	PC	PC	LC	LC	LC	PC	PC	LC	LC

Note: There are four possible levels of technical compliance: compliant (C), largely compliant (LC), partially compliant (PC), and non-compliant (NC).

Mexico will remain in enhanced follow-up and will continue to inform the FATF of progress achieved on improving the implementation of its AML/CFT measures. !



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June 2021

## Anti-money laundering and counter-terrorist financing measures in Mexico

### 3<sup>rd</sup> Enhanced Follow-up Report & Technical Compliance Re-Rating

As a result of Mexico's progress in strengthening their measures to fight money laundering and terrorist financing since the assessment of the country's framework, the FATF has re-rated the country on 6 of the 40 Recommendations.

The report also looks at whether Mexico's measures meet the requirements of FATF Recommendations that have changed since their Mutual Evaluation in 2018.

Follow-up report

