

FATF



# FATF Report to the G20 Finance Ministers and Central Bank Governors

March 2018





FINANCIAL ACTION TASK FORCE

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 the website:

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# FATF REPORT TO G20 FINANCE MINISTERS AND CENTRAL BANK GOVERNORS

## MARCH 2018

1. **At their last Summit in Hamburg in July 2017, G20 Leaders reiterated their call for swift and effective implementation of the Financial Action Task Force (FATF) Recommendations worldwide.** G20 Members welcomed reforms agreed to strengthen the governance of the FATF and the FATF intention to further explore its transformation into a legal person, which recognises that the FATF has evolved from a temporary forum to a sustained public and political commitment to tackle anti-money laundering and countering terrorist financing threats.

2. **G20 Leaders also welcomed that countering terrorist finance remains the highest priority of FATF and its work in advancing the effective implementation of the international standards on transparency and beneficial ownership.** They highlighted the planned outreach to legal authorities, which will contribute to enhancing international cooperation and increasing effectiveness in the application of FATF's standards, and welcomed as well the FATF's contribution to addressing the decline in correspondent banking relationships, so as to secure a well-functioning global payment system and thus support remittances and financial inclusion. G20 Leaders asked the FATF to report back on further progress on these issues by early 2018.<sup>1</sup>

3. **The FATF continues its work to fight money laundering and terrorist financing with the support of G20 Members.** It reiterates its commitment to tackle all sources, techniques and channels of terrorist financing, increase financial transparency, and to improve the environment for remittances. This report provides an overview of recent FATF work in these areas and next steps.

### STRENGTHENING THE INSTITUTIONAL BASIS, GOVERNANCE AND CAPACITY OF FATF

4. **In 2016, the FATF initiated a review of its current mandate.** The G20 welcomed this review to strengthen FATF's institutional basis, governance and capacity and called on the FATF to reflect on ways to further strengthen the effectiveness of the FATF Global Network.

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<sup>1</sup> G20 Leaders' Declaration: Shaping an interconnected world; G20 Hamburg Action Plan; G20 Statement on Countering Terrorism (Hamburg, 7/8 July 2017).

5. **FATF members have now agreed on revisions to the FATF Mandate, subject to Ministerial approval, and to its Internal Governance Principles.** These revisions notably included the extension of the term for both its President and Vice-President to a two-year period. In November 2017, the FATF Plenary decided how the FATF will transition to a two-year presidency. In addition, FATF members agreed to strengthen transparency in its decision making process and the capacity of the President and Vice-President to respond promptly to important external developments and to enhance the role of the FATF Steering Group as an advisory body. Finally, FATF Members recognised the importance of engaging with FATF-style regional bodies and in contributing to the strengthening the Global Network. These proposals will improve FATF's governance, international engagement with other bodies and interaction with key stakeholders.

6. **FATF members reaffirm their intention to strengthen FATF international status as the intergovernmental body in charge of setting standards globally for anti-money laundering, counter terrorist financing and counter proliferation financing.** In that regard, FATF members continue to explore ways to improve FATF's institutional basis, including through further consideration of legal personality in the host country of the Secretariat or under international public law.

7. **In that context, FATF members welcome the continued support of the Observers to the FATF and their contribution to the fight against money laundering, counter terrorist financing and counter proliferation financing through the FATF.**

## COUNTERING THE FINANCING OF TERRORISM

8. **Countering the Financing of Terrorism (CFT) remains the top priority for the FATF.** Following the Paris attacks in November 2015, the FATF agreed a CFT Strategy and Operational Plan. The 2016 Operational Plan is now complete. The FATF has clarified its Recommendations to reflect the evolving nature of the threats faced, and further action has been taken to hold countries to account for deficiencies in their anti-money laundering and counter terrorist financing regimes.

9. **In February 2018, the FATF agreed a new Operational Plan to further enhance the international fight against terrorist financing and take forward the next phase of its work in this area.** While terrorist attacks remain persistent around the world, methods for terrorist financing continue to evolve. Small-scale attacks requiring limited resource occur in some regions, and terrorist organisations take advantage of political instability in others. These threats pose challenges for governments in detecting and preventing terrorist financing. The FATF will undertake work to tackle the evolving nature of the risks under this Operational Plan.

10. **The new Operational Plan will focus on effective action to continuously improving the understanding of risks and mitigate those risks.** Many countries are still at the early stages of identifying, analysing and understanding the terrorist financing risks they face. The FATF will help countries' understanding of risk, and increase our regional and global understanding of risk, working closely with FATF-style regional bodies. The FATF has also started to work on identifying disruption strategies that can be applied to counter the specific terrorist threats, in order to help mitigate the

different types of risk that countries are facing. The Training and Research Institute (FATF TREIN) will provide specific training on CFT as part of its FATF Standards Training Course. The new Operational Plan provides for a flexible and dynamic response to the new threats that may develop.

11. **The FATF will continue to provide regular updates to its members and the FATF Global Network on ISIL's financing.** This includes analysis of sources of income, expenditure and financial management, and of facilitation and procurement networks. FATF extended this analysis in February 2018 to include Al-Qaeda and the affiliates of ISIL and Al-Qaeda.

12. **The FATF undertook in February 2018 a stocktaking exercise to better understand the risks and mitigating measures associated with Virtual Currency Payment Products and Services (VCPSS).** The FATF will continue to look at particular methods of terrorist financing activity that pose an emerging threat, as well as at products and services that may represent an emerging vulnerability. The FATF will continue to monitor risks in in this sector, as well as the opportunities for technology to provide new or improved tools to combat terrorist financing and to improve implementation of its Recommendations.

13. **Inadequacies in domestic coordination, international cooperation and information sharing with the private sector continue to pose challenges to effective action against terrorist financing.** In November 2017, the FATF amended its Recommendations and adopted guidance on private sector information sharing, which identifies the key challenges that inhibit sharing of information to manage money laundering and terrorist financing risks, both group-wide within financial groups and between financial institutions which are not part of the same group. In February 2018, the FATF also reinforced its Recommendations to provide greater clarity on the minimum measures that countries need to take to ensure effective domestic information sharing. All countries in the global network will be assessed for their compliance with these standards.

## COUNTERING THE FINANCING OF PROLIFERATION

14. **Proliferation financing has also been a high-level priority for FATF in recent months. The FATF has closely monitored proliferation financing risks and reflected these in its public statements.** The FATF revised its Recommendations in 2012 to focus on proliferation financing, in addition to money laundering and terrorist financing. In June 2017, the FATF updated its Recommendations on proliferation financing.

15. **Furthermore, in February 2018 the FATF published comprehensive guidance for countries on proliferation financing,** reflecting the latest relevant United Nations Security Council obligations and providing advice on how countries can implement targeted financial sanctions and mitigate the risks of sanctions evasion. The FATF has also instructed FATF TREIN to develop and deliver Counter Proliferation Financing Training that will be executed in 2018.

## IMPROVING TRANSPARENCY AND THE AVAILABILITY OF BENEFICIAL OWNERSHIP INFORMATION

16. **Beneficial ownership remains a high priority for FATF, as well as for others such as the Global Forum on Transparency and Exchange of Information for Tax Purposes and OECD, with whom the FATF is collaborating.** Lack of access to accurate information on the ultimate owner of legal persons and arrangements on a timely basis is a significant vulnerability for money laundering and terrorist financing. Compliance with beneficial ownership obligations remains a global challenge in almost every aspect: collecting accurate information, maintaining it, and making it available without delay.

17. **Countries need to continue to strengthen their implementation of the FATF Recommendations related to beneficial ownership and transparency.** As of February 2018, the FATF and FATF-style regional bodies have conducted mutual evaluations of 44 jurisdictions. The results show that 40 of these need to make fundamental or major improvements in their anti-money laundering and countering terrorist financing systems to prevent the misuse of legal persons and arrangements and ensure availability of beneficial ownership information.

18. **In November 2017, the FATF concluded a study on the enforcement and supervision of beneficial ownership obligations.** This study focused on measures countries are currently taking to collect and maintain accurate beneficial ownership information. This study raised members understanding of how beneficial ownership requirements are being supervised, in particular among key gatekeeper professions such as lawyers and trust and company service providers, as these professions have a particularly important role as intermediaries in company formation and management and noted a numbers of areas for improvement. The study also focused on the role of registries of companies and beneficial owners.

19. **The FATF is carrying out a joint project with the Egmont Group on the risk of abuse of corporate vehicles, legal arrangements and professional intermediaries.** This study will help to ensure that global standards and policies continue to reflect the evolving risks, and it will support further risk analysis by governments, financial institutions and professional service providers, as well as inform future policy decisions. The project is due to finish in June 2018.

20. **Taking into account the results of this study, the FATF is developing new Guidance on the Risk-based Approach for Lawyers, Accountants, and Trust and Company Service Providers,** in partnership with the private sector. It will set out how key gatekeeper professions should apply safeguards, in a risk-based way, to prevent the misuse of their services; and how supervisors should prevent complicit or negligent businesses and professionals from operating.

21. **Transparency of beneficial ownership is particularly relevant to fighting corruption and tax evasion.** The FATF is cooperating with the Global Forum, the OECD and other international bodies to promote stronger implementation of the FATF Recommendations on beneficial ownership and a consistent understanding of the requirements and a coherent approach to address beneficial ownership issues.

22. Further action will be considered in June 2018 when the joint FATF/Egmont research project is complete.

## SUPPORTING FINANCIAL INCLUSION AND ACCESS TO REGULATED FINANCIAL SERVICES

23. **Financial inclusion is at the heart of anti-money laundering and countering terrorist financing.** Without access to the formal financial system, unserved or underserved customers will resort to cash and unregulated channels, which limits transparency and increases the risk of crime and money laundering. One of the main obstacles to providing appropriate regulated financial services or products to unbanked customers is their lack of reliable identity documentation and data verification.

24. **In November 2017, the FATF published a new Supplement to the 2013 FATF Guidance on anti-money laundering and countering terrorist financing measures and financial inclusion.** The supplement provides country examples of customer due diligence measures adapted to the context of financial inclusion. Those examples illustrate how a simplified set of customer due diligence measures or alternative forms of identity verification, for example the use of digital identity tools, can support financial inclusion, while appropriately mitigating the money laundering and terrorist financing risks.

## BANK DE-RISKING AND THE IMPACT ON REMITTANCES

25. **De-risking remains a challenge to effective and risk-based anti-money laundering and countering terrorist financing measures.** The FATF has been active in discouraging inappropriate de-risking that might arise due to the way in which financial institutions are implementing the FATF Recommendations and how these are supervised by regulatory bodies. The FATF has issued guidance helping to clarify the requirements of the FATF Recommendations thus contributing to other international initiatives currently underway to address the issue, and it is monitoring the emerging trends, including those identified by the FSB.

26. **In February 2016, the FATF published *Guidance on a Risk-Based Approach for Money and Value Transfer Services (MVTs)*.** In October 2016, the FATF released guidance on correspondent banking services which clarifies regulatory expectations on customer due diligence measures. The FATF started a project in November 2017 to better understand how member governments are using this guidance to improve national policies for regulators and financial institutions, and their impact on national and private sector practices. It is critical that national regulators take action to reflect the FATF guidance in their supervisory practices, including by clarifying regulatory expectations for financial institutions that are unlikely to act on FATF guidance unless they are required to do so by their regulatory bodies.

27. **The G20 has played an important role on this issue. G20 members could further reinforce their support for addressing de-risking in several ways, including by:**

- Clarifying regulatory expectations, through their own outreach and guidance at national level, and adjusting supervisory approaches and national rules and regulations, if needed;
- Providing training and technical assistance to remittance recipient countries to strengthen public and private sector capacity in areas such as supervisory processes and the risk management systems and procedures of respondent banks and the MVTS sector;
- Facilitating continuous dialogue between official and private sectors, such as policy makers, supervisors of the banking and MVTS sector, banks and MVTS providers.

28. **FATF published guidance on private sector information sharing in November 2017.** This provides clarity and support for information sharing between financial institutions. Obstacles to such information sharing create challenges for effective financial crime risk management, including problems that can lead to termination of correspondent business relationships, thereby exacerbating de-risking.

29. **Ensuring access to remittance services, and supporting financial inclusion, while combating money laundering and terrorist financing is a key policy objective.** The remittances sector is vulnerable to misuse for terrorist financing and other criminal activities. These risks need to be adequately addressed through effective implementation of the FATF Recommendations by remittance providers, and effective supervision and enforcement by authorities. Lack of a proper risk-based approach by national authorities has the potential to drive remittance flows underground and increase the money laundering and terrorist financing risks, while the sector is also suffering from de-risking by banks. There is a need for better supervision of this sector at a national level in order to give financial institutions the confidence they need to continue to provide banking services. The FATF is actively coordinating with other international bodies and contributing to FSB's Remittance Task Force to support this.

## IMPROVING THE EFFECTIVENESS OF THE CRIMINAL JUSTICE SYSTEM: FATF ENGAGEMENT WITH JUDGES AND PROSECUTORS

30. **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 countering terrorist financing system.** The legitimacy of global anti-money laundering and countering terrorist financing and counter proliferation financing efforts rests, not only in effective prevention and disruption, but also in achieving convictions and asset recovery for the benefit of States and victims.

31. **The Argentine Presidency of the FATF initiated a global outreach programme to the prosecutorial services and criminal justice systems.** This initiative aims to learn about their experience, challenges and best practices in investigating and prosecuting money laundering and terrorist financing, and in confiscating proceeds of crime.

32. **The FATF is bringing together judges and prosecutors from all around the world in a series of regional workshops.** Successful workshops were held in



Ecuador in September 2017 and in China in January 2018. Further workshops will also be held in Tunisia in February, France in March, and in Guyana and Korea in May 2018 to discuss the information, findings and analysis.

33. **These workshops are gathering experiences from practitioners on the challenges and difficulties they face while investigating and prosecuting money laundering and terrorist financing.** This will contribute to improve the effectiveness in fighting money laundering and terrorist financing. The FATF Presidency will publish a report in June 2018 on the outcomes of this initiative with a focus on the factors that can result in a more effective system for prosecution and confiscation.

### FINTECH, REGTECH & VIRTUAL CURRENCIES: RISKS AND OPPORTUNITIES

34. **In November 2017, FATF publicly signalled its strong support for responsible financial innovation in line with the FATF Standards.** FATF continues to explore opportunities that new financial and regulatory technologies present for improving the effective implementation of AML/CFT measures. At the same time, the fast pace and evolving nature of financial services innovation in may create money laundering and terrorist financing risks.

35. **Digital ID has the potential to streamline customer due diligence processes, reduce compliance costs and improve financial inclusion.** This is important to improve the effectiveness of anti-money laundering and countering terrorist financing measures but also for financial inclusion more broadly. It is therefore the focus of FATF as well as the G20 Global Partnership for Financial Inclusion. The FATF is reviewing how different countries are approaching digital ID and related innovations. In February 2018, the FATF considered the potential policy implications of this and it will report later in the year on further developments.

36. **In its Plenary in February 2018, the FATF reviewed the risks related to virtual currencies and the measures countries are taking to mitigate these risks.** The current patchwork regulatory framework across different countries can be exploited by criminals, stifle innovation and create uncertainty. This review has identified opportunities to improve the understanding of the risks and to develop a more consistent approach to managing these risks, while supporting financial innovation. As an area of interest to the G20, the FATF will continue to monitor new trends and cooperate with international partners to mitigate risks.

### CONCLUSION & NEXT STEPS

37. **The FATF will take forward its work to combat terrorist financing under its new Operational Plan** and will regularly review and report on this to ensure its work remains effective in supporting countries in tackling the different and evolving terrorist financing risks.

38. **FATF will continue to consider financial inclusion and de-risking as important strategic priorities,** and will update its members on work on these issues at each of its Plenary meetings as a standing agenda item.

39. **FATF's recent work on transparency and beneficial ownership identified a numbers of areas for further improvement by countries, notably in the**

**supervision of gatekeeper professions.** Further work is ongoing to better understand the risk of abuse of corporate vehicles, legal arrangements and professional intermediaries. On the basis of these studies, FATF Members will consider further actions in June 2018.

40. **The Argentine FATF Presidency will publish a report in June 2018 on the challenges and good practices to improve the effectiveness of the criminal justice system** in fighting money laundering and terrorist financing.

41. **The FATF will continue its work on FinTech and virtual currencies, including considering how to promote and ensure a more coherent and consistent approach by countries to mitigating the risks and supporting financial innovation.** The FATF will also be considering if further action is necessary to fully exploit the opportunities presented for digital ID to improve the efficiency and effectiveness of customer due diligence measures.

42. **Finally, the FATF is updating its knowledge on the financial flows associated with human trafficking,** including identified links with money laundering and terrorist financing. The initiative will notably identify innovative ways to use financial tools to tackle human trafficking and its profits. The FATF will conclude this work by June 2018.

43. **The FATF will report its progress on these issues to G20 Leaders at their Summit in Buenos Aires, 30 November – 1 December 2018.**



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