

FATF



FATF Report to the G20 Finance Ministers and Central Bank Governors

April 2019





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

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

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FATF REPORT TO G20 Finance Ministers and Central Bank Governors Meeting

(11-12 April 2019)

1. **The G20, in particular under the German, Argentinian and the Japanese Presidencies, has continued to express its support for the FATF with a view to promote swift and effective implementation of FATF standards worldwide.** The G20 reaffirmed its support for the FATF, as the global anti-money laundering, counter terrorist financing, and proliferation financing standard-setting body, and welcomed its ongoing efforts to strengthen its institutional basis. The G20 also called on FATF to enhance its efforts to counter proliferation financing, and asked the FATF to clarify how its standards apply to virtual asset activities.
2. **Under the U.S. Presidency from 1 July 2018, the FATF is prioritising action on ensuring countries effectively regulate and supervise financial activities involving virtual assets and virtual asset service providers, strengthening its focus on combating terrorist financing activities, and taking additional action against the financing of the proliferation of weapons of mass destruction.** The FATF is also considering how it can support the use of digital ID, and continue to promote transparency and availability of beneficial ownership information.
3. **In April 2019, FATF Finance and Justice Ministers will meet in Washington, DC.** In June 2019, the United States will host a FATF Plenary session, where the FATF will close the celebration of its 30th anniversary.

Strengthening the institutional basis, governance and capacity of FATF

4. **The mid-term review of the 2012-2020 Mandate was initiated in 2016 with the view to strengthen FATF's institutional basis, governance and legal status** and better support its operational capacity to respond to emerging anti-money laundering, terrorist financing, and proliferation financing threats.
5. **In that context, FATF members took key initiatives to raise the FATF's profile and visibility with global governance bodies and relevant stakeholders.** As a result, in April FATF Ministers will approve enhancement of the FATF Presidency and Vice-Presidency and extension of their term to a 2-year period. These enhancements aim to recognize and build on FATF's increased participation in international fora, including at the G7/G20, United Nations bodies and FATF-Style Regional Bodies, and support the FATF's responsiveness to current and emerging threats and opportunities.
6. **In addition, FATF Members continue to explore ways to further strengthen FATF governance and accountability.** This will support a more

cohesive view of the various issues related to anti-money laundering and counter terrorist and proliferation financing, provide greater political awareness of the FATF's work, reinforce member's commitment to implement effective and strong regimes, and help to direct global resources in more risk-based and results-oriented way. The FATF is also reviewing how its members contribute to the work of the task force to ensure that the FATF has the necessary resources and support to effectively fulfill its mandate.

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

FATF's work programme on Virtual Assets¹

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

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

10. In October 2018, the FATF adopted changes to its Recommendations and Glossary to explicitly clarify that the Recommendations apply in the case of financial activities involving virtual assets and to virtual asset service providers. The amended Recommendation 15 requires that virtual asset service providers are regulated for AML/CFT purposes, licenced or registered and subject to effective systems for monitoring and ensuring compliance with the relevant measures called for in the FATF Recommendations.

11. The FATF has conducted further work to define how these requirements should apply in relation to virtual assets and virtual asset service providers. In February 2019, FATF agreed on the text of a binding Interpretive Note to R. 15, which will clarify in particular that:

- Countries should consider virtual assets as “property,” “proceeds,” “funds,” “funds or assets,” or other “corresponding value” for the purposes of applying the various FATF Recommendations that contain these or other similar funds- or value-based terms;

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

- Jurisdictions should apply a risk-based approach to virtual assets, virtual asset financial activities, and virtual asset service providers and, similarly, virtual asset service providers should also understand their associated money laundering and terrorist financing risks;
- At a minimum, virtual asset service providers should be required to be licenced or registered in the jurisdiction where they are created, or for natural persons acting as virtual asset service providers, where they have their place of business;
- Virtual asset service providers should be supervised or monitored by a competent authority/ies (not a self-regulatory body);
- Jurisdictions and virtual asset service providers should apply the preventive measures set forth under Recommendations 10 through 21;
- Countries should ensure that they have a range of sanctions, whether criminal, civil or administrative, to deal with virtual asset service providers that fail to comply with AML/CFT requirements; and
- Countries should provide international cooperation in relation to virtual assets and virtual asset service providers.

12. **The FATF will consult the private sector on one paragraph of the Interpretative Note (paragraph 7(b)) relating to the implementation of Recommendation 16 (wire transfers) in the context of virtual assets.**

13. **The FATF will also update by June 2019 its [2015 Risk-based Approach Guidance on Virtual Currencies](#) to continue assisting jurisdictions and the private sector, in implementing a risk-based approach to regulating virtual asset service providers, including their supervision and monitoring. This will help countries in exercising oversight of this sector, including through guidance on risk indicators and supervisory arrangements.**

14. **In light of the rapid development of the range of financial activities involving virtual assets, the FATF will also review the scope of activities and operations covered in the amended Recommendations and Glossary by the end of this year and consider whether further updates may be necessary.**

Countering the Financing of Terrorism

15. **The FATF focus on countering the financing of terrorism is being strengthened further under the U.S. Presidency.** In February 2018, the FATF agreed a new Operational Plan to enhance global efforts against terrorist financing and prioritise work in this area. The new Operational Plan focuses on effective action to improve understanding and mitigation of the risks identified. It provides for a flexible and dynamic response to the new threats that may develop.

16. **Under the U.S. Presidency, the FATF is prioritising work in three areas; effective implementation, risk understanding and interagency coordination** in support of the Operational Plan. The U.S. Presidency is building on the initiative of the Argentinean Presidency to strengthen countries' capacity to investigate and prosecute terrorist financing and organised a dedicated Workshop on the margins of

the FATF/MONEYVAL Joint Experts Meeting that occurred in March 2019 in Israel. To ensure countries have the tools they need to identify and understand the risks they face from terrorist financing, the FATF will publish guidance on terrorist financing risk assessments in June 2019. The FATF is also supporting national efforts to implement a comprehensive interagency approach to countering the financing of terrorism.

17. **FATF is also improving the mechanisms in place to disrupt terrorist financing before terrorist attacks occur.** In October 2018, the FATF developed a road map for disruption strategies that can be used at a domestic or international level to counter specific terrorist financing threats. In February 2019, the FATF agreed actions to ensure that practices to disrupt different types of terrorist financing threat are understood.

18. **In February 2019, the FATF reviewed its work on CFT.** Building on the initiatives to be completed under the U.S. Presidency, the FATF will prioritise work on enhancing the effective implementation of the FATF Standards around the world, in particular by strengthening all jurisdictions' capacity to prosecute terrorist financing, develop the understanding of risk, and support the development of CFT regimes and enhancing dialogue in higher-risk regions.

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

Countering the Financing of Proliferation of Weapons of Mass Destruction

20. **We commit to further action to strengthen the global response to Weapons of Mass Destruction (WMD) proliferation financing.** This reflects the serious threat posed to international peace and security as long recognised by the United Nations Security Council and reflected in its 2013 and 2016 calls for more attention to CPF measures

21. **In October 2018, the FATF agreed to consider options to more effectively counter proliferation financing through the FATF Standards** within the framework of UNSC Resolutions and the FATF mandate. Specifically, the FATF is considering whether and how to expand the FATF standards and produce further guidance to set out a wider range of measures applicable to countering proliferation financing. This could include new standards and accompanying guidance for the public and private sectors to identify, assess and mitigate the risk of proliferation financing as well as the use of criminal justice and financial intelligence, and expanded targeted financial sanctions tools to help respond to the grave threat posed by proliferation financing.

Improving Transparency and the Availability of Beneficial Ownership Information

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

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

24. **In February 2019, the FATF initiated work to identify best practices on beneficial ownership** to provide practical advice and examples for jurisdictions on the effective measures to help ensure that legal persons are prevented from misuse for money laundering or terrorist financing, and information on their beneficial ownership is available to competent authorities without impediments. Work is expected to be finalized by October 2019.

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

25. **In June 2018, a report was agreed identifying challenges and good practices in prosecuting ML and TF, and in confiscating criminal proceeds** - Under the U.S. Presidency, the FATF has continued its efforts to enhance the effectiveness of the Criminal Justice System. This is occurring in a number of ways, including through strengthening of work on prosecution of terrorist financing (see above), as well as renewed work to find ways to strengthen and make more effective international efforts to confiscate the proceeds of crime.

Financial Technologies, Regulatory Technologies: Digital Identity

26. **The FATF recognises financial innovation, and strongly supports responsible technological developments that enhance countries' anti-money laundering and counter terrorist financing frameworks.** Digital ID has the potential to enhance financial inclusion and reduce the costs of customer onboarding, as well as to better manage the risks of money laundering and terrorist financing.

27. **As part of work under the G20 priority agenda on "opportunities and challenges by financial innovation", the FATF will co-host with the IMF and G20 a special joint session on Financial Technology (FinTech) and anti-money laundering and counter terrorist financing to be held on 2nd April** in the context of the IMF's second FinTech Roundtable. This session will discuss the potential opportunities and challenges that Fintech raises with respect to anti-money laundering and counter terrorist financing and how the relevant authorities and international organisations, in partnership with the industry, can effectively improve the framework for financial intermediation and integrity. The outcome of the discussion will be reported to the April G20 Ministers and Governors meeting.

28. **The FATF, jointly with the Eurasian Group (EAG), reached out to the FinTech and Regulatory Technologies (RegTech) sectors at its 3rd FinTech and RegTech Forum in September 2018 in Hangzhou, China.** This continued its constructive dialogue on important issues such as digital identification, distributed ledger technology, virtual currency/crypto assets, and how technology can

contribute to anti-money laundering and counter terrorist financing compliance, risk assessment and management.

29. **The FATF is preparing Guidance on the application of the FATF Recommendations in a digital ID context.** This Guidance will clarify the principal requirements for digital ID solutions, as well as the circumstances under which digital forms of identification and verification could be used during the customer due diligence process. The Guidance will consider and describe potential risks as well as how they can be mitigated in the context of digital ID.

De-risking

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

31. **The FATF has been active in clarifying the international standards to avoid misunderstandings that could contribute to de-risking,** publishing guidance on financial inclusion and on correspondent banking, and has continued to publicise those clarifications.

32. **During 2018, the FATF conducted a survey to analyse measures taken by countries to improve their supervisory practices, domestic co-ordination and co-operation and risk-based approach in the remittance sector.** It focused on implementation of key recommendations made by the FSB Remittance Task Force in its March 2018 report: “Stocktake of remittance service providers’ access to banking services”. The survey highlights good practices, policies and procedures adopted by jurisdictions to improve their supervisory framework and ensure effective coordination. It also identifies areas, which will benefit from further attention by national authorities. G20 countries could lead by example by addressing many of these areas, for example:

- i. Supporting a risk-based approach, collection of data on agents and strengthening of their monitoring/ supervision within the framework of the FATF Standards, should be considered a priority. Home and host country supervisors should consider sharing relevant information to help improve risk assessment and supervision of the sector.
- ii. National authorities should proactively engage with the private sector including banks and providers of money and value transfer services to clarify regulatory expectations and foster dialogue.
- iii. National authorities should consider applying the whole range of sanctions for compliance failures in the sector. This would not only create confidence in the supervisory practices, but also act as a deterrent against egregious behaviour.

33. **The FATF looks forward contributing to the work of the G20 under the Japanese Presidency, and reporting its progress on these issues to the G20 Finance Ministers and Central Bank Governors and to the next G2.**

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