

FATF



FATF Report to the G20 Leaders' Summit

June 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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28-29 June 2019

- 1. Under the Japanese Presidency, the G20 has continued to express its support for the FATF with a view to promote swift and effective implementation of the FATF standards worldwide.** The G20 reaffirmed its support for the FATF, as the global anti-money laundering, counter terrorist financing (AML/CFT), and counter 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 financial activities and related providers.
- 2. Under the U.S. Presidency from 1 July 2018, the FATF has successfully delivered on the call from the G20 to clarify the global standards for the regulation and supervision of virtual asset financial activities and providers,** in order to help countries develop effective AML/CFT frameworks while balancing innovation and financial inclusion.
- 3. The FATF prioritised its action on combating terrorist financing activities, and taking additional action against the financing of the proliferation of weapons of mass destruction.** The FATF is also progressing work to support the use of digital ID, and continue to promote transparency and availability of beneficial ownership information.
- 4. On 12 April 2019, FATF Ministers agreed upon an open-ended Mandate for the FATF and confirmed its role leading global action to counter money laundering and the financing of terrorism and proliferation of weapons of mass destruction.** The adoption of an open-ended mandate, on the 30th anniversary of the FATF, reflects the fact that these threats are enduring concerns for the integrity of the financial system, and that a sustained political commitment is required.

Strengthening the institutional basis, governance and capacity of FATF

- 5. The FATFs new [Ministerial Declaration and Mandate](#) recognise the need for FATF to continue to lead decisive, co-ordinated and effective global action to counter the abuse of the financial system by criminals and terrorists, and strengthen its capacity to respond to these threats that all countries face.**
- 6. Ministers set out the priorities for the FATF to address these threats, and to strengthen its governance and capacity.** They adopted an open-ended mandate to reaffirm that these threats are enduring concerns and that a sustained political commitment is required. Ministers also decided to meet every two years, agreed to extend the terms of the FATF's Presidency (the President and Vice-President) to a two-year period, and concurred on a stronger funding model for the organisation.

7. **These are key initiatives that will enhance the effectiveness of the FATF globally and raise its profile and visibility with global governance bodies and relevant stakeholders.** These enhancements aim to recognize and build on the 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.

8. **Following the adoption of the open ended Mandate by FATF Ministers, the FATF will conduct a strategic review of its core work to ensure it is fit for the future** and support further efforts to strengthen its effectiveness as the leading global standard setting body for preventing and combatting money laundering, terrorist financing and proliferation financing.

FATF's Work Programme on Virtual Assets¹

9. **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.** This includes potential benefits for financial inclusion and cross-border remittances.

10. **However, virtual assets also pose serious money laundering and terrorist financing risks that criminals, money launderers, terrorists, and other illicit actors exploit.** In June 2019, the FATF finalised a guidance on financial investigations involving virtual assets for law enforcement and other operational authorities, which addresses a number of challenges and good practices related to the detection, investigation and confiscation of virtual asset-related cases where criminals exploit virtual assets for money laundering and terrorist financing purposes.

11. **In October 2018, the FATF adopted changes to its Recommendations to explicitly clarify that they apply in the case of financial activities involving virtual assets and to related service providers.** The FATF also added two new definitions in the Glossary, "virtual asset" and "virtual asset service provider". The amended FATF Recommendation 15 requires that virtual asset service providers are regulated for AML/CFT purposes, licenced or registered, and subject to effective systems for monitoring or supervision.

12. **The FATF has since adopted an Interpretative Note to Recommendation 15 in June 2019. The Interpretive Note sets out** binding measures for effective regulation and supervision or monitoring of virtual asset service providers. It requires in particular:

- The application of a risk-based approach for virtual asset financial activities and virtual asset service providers;
- Licensing or registration obligations;

¹ The FATF uses the term "virtual assets" to refer to digital representations of value that can be digitally traded or transferred and can be used for payment or investment purposes, encompassing both convertible and non-convertible, centralised and decentralised forms, as well as Initial Coin Offerings. This includes but is broader than crypto-assets, as they are commonly referred to by the G20.

- The monitoring or supervision of virtual asset service providers by a country's competent authority, and not a self-regulatory body, with adequate powers, including to conduct inspections and compel the production of information;
- A range of effective, proportionate and dissuasive sanctions to deal with virtual asset service providers that fail to comply with their AML/CFT requirements, including the power for supervisors to withdraw, restrict or suspend virtual asset service providers' license or registration;
- The application of all FATF preventive measures, including customer due diligence, recordkeeping, and suspicious transaction monitoring, among others, by virtual asset service providers;
- The provision of the widest possible range of international cooperation by countries, especially between supervisors.

13. In June 2019, the FATF also issued guidance on the application of the risk-based approach to virtual assets and virtual asset service providers. The updated Guidance further explains the application of the FATF requirements in the context of virtual assets and virtual asset service providers (as well as for other obliged entities that engage in or provide virtual asset financial activities, products or services), Recommendation-by-Recommendation. It is intended to help both national authorities in understanding and developing regulatory and supervisory responses to virtual asset activities and virtual asset service providers, and private sector entities seeking to engage in virtual asset activities or operations in understanding their AML/CFT obligations and how they can effectively comply with these requirements.

14. The FATF will immediately begin work to revise its assessment methodology, in line with its newly revised Standards. This work will proceed as a matter of priority, so that FATF can begin assessing countries' compliance with the new standards applicable to virtual assets and virtual asset providers.

15. In light of the rapid development of the range of financial functions served by virtual assets, the FATF will review countries' and providers' implementation of the requirements applicable to virtual assets and virtual asset service providers in June 2020. This will include monitoring the implementation of the new requirements at national level, monitoring virtual asset service providers' progress in developing technology solutions for securely submitting originator/beneficiary information between virtual asset service providers when conducting virtual asset transfers and assessing whether further updates are necessary to ensure the FATF Standards stay relevant and effective. The FATF has also set up a contact group that will engage industry and monitor industry-led efforts to enhance compliance with the FATF Standards and better safeguard the international financial system from abuse.

Countering the Financing of Terrorism

16. Terrorism continues to pose a substantial threat to global peace and security, from which no region is immune. Despite the territorial defeat of ISIL in Iraq and Syria, it continues to pose a threat by inspiring and potentially conducting

attacks around the world. Disrupting the financial flows of ISIL, Al Qaeda and other terrorist organisations and individual terrorists remains one of the most effective ways to detect and disrupt terrorist activity.

17. **The United Nations Security Council Resolution 2462 that was adopted in March 2019 highlights the importance international community holds in tackling terrorist financing, and the central role the FATF plays in setting global standards and monitoring terrorist financing risks.** Yet FATF assessments have shown that most countries assessed do not have an adequate understanding of their terrorist financing risks, and around two thirds do not have the ability to effectively investigate and prosecute terrorist finance activity.

18. **Under the U.S. Presidency, the FATF has prioritised work in three areas: effective implementation, risk understanding and interagency coordination.** The FATF has completed and published guidance to help countries assess and understand their TF risks, and held a global workshop to help improve the ability of countries to effectively prosecute terrorist financing.

19. **The FATF has agreed to focus its next stage of work on developing the countries' capacity to understand terrorist financing risk, improving the effective implementation of the FATF standards, and supporting the development of counter terrorist financing regimes and enhancing dialogue in higher-risk regions.** Under these priorities, the FATF will draft guidance on the effective investigation and prosecution of terrorist financing, and assess how the FATF can support the development of counter terrorist financing regimes in higher-risk regions.

20. **The FATF will continue to improve the effective implementation of the FATF standards. It will continue to hold countries to account for failures to address their deficiencies** by publishing robust and comprehensive mutual evaluation and follow-up reports, and list 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

21. **Financing of proliferation of weapons of mass destruction remains a key threat to international peace and security.** The United Nations Security Council has long recognised this threat, as reflected in multiple resolutions calling for more attention to counter proliferation-financing measures. The FATF remains committed to pursuing further work in strengthening the global response to combat proliferation financing.

22. **Under the U.S. Presidency, in June 2019, the FATF agreed to pursue further work to strengthen the FATF Standards on countering the financing of proliferation** by requiring jurisdictions and private sector entities to understand and mitigate their proliferation financing risks, as well as by enhancing requirements for domestic cooperation and coordination on proliferation financing. FATF has conducted extensive analysis on a range of proposals, but has agreed to prioritize this work moving forward. Other options considered included new requirements to use criminal justice measures and financial intelligence, expanded targeted financial sanctions tools, and more effective mechanisms to ensure international information-

sharing on proliferation financing activity. The FATF agreed to potentially consider these other options at a later date.

Improving Transparency and the Availability of Beneficial Ownership Information

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

24. **The FATF has published Guidance on the Risk-based Approach for Lawyers, Accountants, and Trust and Companies Service Providers in June 2019.** This focuses 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 was undertaken in partnership with the private sector.

25. **Since February 2019, the FATF is identifying best practices on beneficial ownership, drawing reference from practical examples provided by its delegations and its mutual evaluations to date.** This will facilitate jurisdictions' implementation of effective measures in order to ensure that legal persons are prevented from being misused for money laundering and terrorist financing and proliferation financing, and that information on their beneficial ownership is available to competent authorities without undue restrictions.

26. **At the FATF Private Sector Consultative Forum held on 6-7 May 2019, participants exchanged views on the key features in different systems and shared their opinions on the key factors of an effective system** to promote beneficial ownership transparency consistent with the FATF standards. Taking into account comments from the public and private sector, the FATF will continue to work on this project, which is expected to be published by the end of this year.

Financial Technologies, Regulatory Technologies: Digital Identity

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

28. **As part of work under the G20 priority agenda on "opportunities and challenges by financial innovation" , the FATF co-hosted with the IMF and G20 a special joint session on Financial Technology and anti-money laundering and counter terrorist financing on 2 April 2019.** This session highlighted the range of opportunities and challenges that financial technologies raise with respect to anti-money laundering and counter terrorist financing.

29. **The 2019 FATF Private Sector Consultative Forum provided a further opportunity to exchange views on how the private sector can make greater use of technology** (such as machine learning, data mining, artificial intelligence) to manage AML CFT risk, facilitate customer due diligence, sanctions screening and

transaction monitoring, and how government authorities have harnessed new technologies to increase efficiency and effectiveness in detecting money laundering and terrorist financing.

30. **The FATF is preparing Guidance on the application of the FATF Recommendations on customer due diligence in a digital ID context.** While the FATF Standards are technology-neutral, this Guidance aims to provide comfort to those seeking to harness responsible innovation by clarifying how digital forms of identification, verification and authentication could be used during the customer due diligence process. The Guidance will consider the opportunities presented by this technology, including greater financial inclusion, while also highlighting potential risks and mitigation measures. Work is expected to be published by February 2020.

31. **More broadly, the FATF continues to monitor the risks and opportunities of financial innovation to ensure the FATF Standards remain relevant and responsive,** and the FATF will report back to the G20 on its progress in 2021.

De-risking by Banks

32. **De-risking remains a challenge for a number of countries, sectors and businesses across the world.** While drivers of de-risking are complex, The FATF has been active in clarifying the FATF standards to avoid misunderstandings that could contribute to de-risking. In addition, the FATF is contributing to global efforts to address the decline of banking services for the remittance sector, as remittance flows are key to sustenance for people in a number of countries.

33. **The FATF considers addressing de-risking as a strategic priority for the international community.** In June 2019, the FATF discussed an update on international efforts to monitor and address de-risking, including through initiatives of the FSB, IMF, World Bank and FATF-style Regional Bodies. The FATF will continue to monitor the trends and contribute to international efforts in this area.

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

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