

FATF



FATF Report to the G20 Leaders' Summit

July 2017





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.

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FATF REPORT TO G20 LEADERS' SUMMIT

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1. **The Financial Action Task Force (FATF) greatly reinforced its work on fighting money laundering and terrorist financing with the support of the G20 over the past few years.** Under the German Presidency, the G20 has continued to express its support for the FATF with a view to promoting swift and effective implementation of FATF standards worldwide. The FATF reiterated its commitment to tackle all sources, techniques and channels of terrorist financing, increase financial transparency and ensure effective implementation of the standards on transparency, and to improve the environment for remittances. In this regard, the G20 also welcomed and supported ongoing efforts to strengthen the institutional basis, governance and capacity of the FATF.
2. **This report provides an overview of the FATF's recent work in these areas and suggests possible avenues for further effort and next steps.**

UPDATE ON FATF'S ONGOING WORK TO STRENGTHEN ITS INSTITUTIONAL BASIS, GOVERNANCE AND CAPACITY

3. **In 2016, the FATF initiated a review of its current mandate.** The G20 welcomed this ongoing work to strengthen the institutional basis, governance and capacity of the FATF and called on the FATF to reflect on ways to further strengthen its capacity and enhance the effectiveness of the Global Network of FATF and FATF-style regional bodies.
4. **At the FATF plenary meeting in June 2017, FATF members agreed on revisions to the FATF Mandate and *Internal Governance Principles*.** These revisions notably include the extension of the term for both its President and Vice-President to a 2-year term. These proposals will improve FATF governance, international engagement and interaction with stakeholders, and strengthen the FATF Global Network. They will be implemented over a 3-year transition period that will end by 2020.
5. **FATF members also considered how to improve FATF's institutional basis, notably through obtaining legal status under host country law, following a proposal made by the French authorities.** Further consideration is underway, and progress is expected by the upcoming FATF Plenary meeting in November 2017.

COUNTERING TERRORIST FINANCING

6. **Countering terrorist financing continues to be a key issue for the integrity of the financial system and for international security.** Under the German Presidency, the G20 has reaffirmed its commitment to tackle all sources, techniques and channels of terrorist financing and has called for swift implementation of FATF standards worldwide.

7. **The FATF has carried out significant work over the last years to combat terrorist financing.** These accomplishments are reflected in the Counter Financing Terrorism Operational Plan. Concrete steps have been taken in line with this plan, notably:

- **The FATF has revised its standard on the criminalisation of terrorist financing** to ensure that it applies to the travel of foreign terrorist fighters and that it includes economic resources and natural resources used by ISIL. FATF has published detailed guidance on the criminalisation of terrorism financing to assist countries in fully applying the requirements of the FATF and those of the United Nations Terrorist Financing Convention;
- **The FATF is ensuring that all countries implement robust preventive measures to combat terrorist financing** through mutual evaluations and through an ongoing programme to follow-up on any weaknesses in terrorist financing laws. To date, the FATF has surveyed the legal framework to criminalise terrorist financing and impose United Nations terrorism-related targeted financial sanctions of 205 jurisdictions. Since 2015, over 36 countries passed new legislation and many committed to doing so. Seven jurisdictions identified as having fundamental deficiencies also passed new legislation to address their technical gaps, and others are in varying stages of drafting or adopting legislation or regulations to rectify the deficiencies;
- **FATF has also produced detailed research on the methods and trends of terrorism financing**, notably a detailed study on risk indicators of terrorist financing to help identify it more effectively and studies of the financing of terrorist groups in West and Central Africa.

8. **FATF's work in this area is still ongoing and remains an important element in its current work programme which involves core counter terrorism financing components:**

- **The FATF is continuing its regular update on ISIL financing.** It prepared three further ISIL financing updates since the last G20 Summit (October 2016, February 2017 and June 2017). These updates provided a comprehensive picture of ISIL-related risks, based on recent information from 14 member jurisdictions of the Global Network. The FATF has also proactively begun to discuss changes on the ground, including ISIL's financing strategy in the medium and long term given the worsening situation on the ground;
- **The FATF completed its work on inter-agency information sharing in June 2017.** It adopted a Report which outlines challenges to effective information sharing between key operational authorities, as well as good

practices and practical tools to improve inter-agency cooperation for counter financing terrorist purposes;

- **The FATF held a Joint Experts Meeting on Money Laundering and Terrorist Financing Typologies**, with participation of regional FATF-style regional bodies on Combating Money Laundering and Terrorism Financing in Moscow on 24-26 April 2017. The purpose of the event was to inform on-going work and potential future priorities by bringing together operational experts, including authorities from law enforcement, financial intelligence units, border control and security services;
- **The FATF is also in the process of identifying ways in which financial intelligence units (FIUs) can contribute even more effectively to counter financing terrorism efforts.** The Heads of FATF FIUs have recognised that FIUs must be innovative and proactive to stay ahead of the latest money laundering and terrorist financing risks and to ensure that any existing issues are addressed. In June 2017, FATF Heads of FIUs adopted a paper aimed at enhancing the effectiveness of FIUs in identifying and responding to present and future money laundering/terrorist financing risks.

9. **Looking forward, the FATF has also initiated a project on Financing of Recruitment for Terrorist Purposes which looks at the different models of terrorist recruitment and their associated costs.** The project will also identify potential sources of funding and methods to move funds, and identify good practices for inter-agency cooperation in identifying opportunities to disrupt the financing of recruitment for terrorist purposes, and in using financial intelligence to detect lone actors and small terrorist cells.

TRANSPARENCY AND AVAILABILITY OF BENEFICIAL OWNERSHIP INFORMATION

10. **The FATF has made significant progress on transparency and beneficial ownership during the German Presidency.** Beneficial ownership remains a highly important issue, both as a money laundering/terrorist financing vulnerability and as a priority on the international agenda. This is a cross-cutting issue which affects several aspects of FATF's work. Following the G20 mandate to make initial proposals on ways to improve the implementation of international standards on transparency and the availability of beneficial ownership information, FATF provided a report on beneficial ownership to the G20 in October 2016 which set out initial proposals.

11. **Since then the FATF has made progress in implementing these proposals:**

- **To apply effective peer pressure on countries to fully implement the standards**, recent FATF mutual evaluations have focused significant attention on weaknesses in beneficial ownership transparency, as weaknesses in transparency and beneficial ownership result mainly from insufficient implementation of standards;
- **To deliver clear and consistent recommendations on how to improve.** A mapping exercise was completed in February 2017 to identify common areas within the FATF and the Global Forum standards. This will promote

mutually supporting evaluations between these two fora to the extent possible;

- **To enhance cooperation between the FATF and the Global Forum**, each organisation will become an observer to the other and contribute to ongoing policy work.

12. **In addition, the FATF is currently conducting two projects:**

- **A joint research project with the Egmont Group to study the risk of abuse of certain types of corporate vehicles and professional intermediaries.** This work will enable a better-targeted risk-based approach and potentially inform policy decisions to restrict focus to the most vulnerable forms. Completion is expected in October 2017;
- **A horizontal study on the enforcement and supervision of beneficial ownership obligations**, focused on measures countries are currently taking to prevent, identify, and respond to corrupt or negligent intermediaries and professionals and seeking examples of potential best practices. Completion is expected in October 2017.

13. **A coherent international approach to this issue is important, to avoid a confusing array of different standards.** Therefore, the FATF will continue to work cooperatively with the Global Forum and the OECD to apply the beneficial ownership standards coherently in each of our areas of responsibility.

CORRESPONDENT BANKING AND REMITTANCES

14. **The G20 German Presidency has promoted work to ensure a healthy environment for remittances with access to safe, timely, and cost-efficient remittance services while meeting FATF Recommendations** on combatting money laundering and terrorism Financing.

15. **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 FATF standards by remitters and effective supervision and enforcement by authorities.

16. **Addressing the risk stemming from remittances also poses challenges, notably de-risking** which can potentially drive remittance flows underground and increase the money laundering and terrorism financing risks to society as a whole.

17. **The FATF has been actively responding to these challenges, de-risking in particular, to clarify requirements of FATF Standards.** In February 2016, the FATF published *Guidance on a Risk-Based Approach for Money and Value Transfer Services*. In October 2016, the FATF released *Guidance on correspondent banking services* which addresses key drivers of de-risking of remittances services. Both of these guidance documents were issued after consultation with the private sector.

18. **In light of continuing concerns about the impact of de-risking on the remittance sector, the FATF and Financial Stability Board (FSB), together with the German Presidency of the G20 and with the support of the Global Partnership for Financial Inclusion (GPII), engaged with relevant stakeholders including from the private sector.** A session on remittances and de-risking was held in the FATF Private Sector Consultative Forum on

22 March 2017, with separate discussions with remittance providers and banks respectively, in order to properly understand the challenges and concerns of each sector.

19. **The dialogue provided useful information about the nature and extent of the problems and possible avenues for steps that could be taken - in coordination with the FSB and GPFII.** These include: i) considering whether there is a role for strengthening and adapting global and national standards; ii) considering the balance between risk-based and rules-based approaches; iii) improving information sharing; iv) making use of new technology; v) reinforcing Money and Value Transfer Services supervision; vi) and deeper engagement between banking, Money and Value Transfer Services, and public sectors.

20. **The meeting also highlighted the need for coordinated efforts to address the situation at both national and international levels.** The FATF will continue working in this area by further clarifying regulatory expectations, as needed, and closely monitoring emerging developments. Success in this area also depends on jurisdictions taking practical and coordinated steps at national level to implement FATF Standards, and clarifying supervisory expectations in line with FATF risk-based guidance. This would be taken forward in coordination with other international bodies, in the context of the FSB's work plan on the access of remittance providers to banking services.

21. **G20 members already play an important role - for example through national remittance plans. They could reinforce their support in several ways, including by:**

- Taking a coordinated approach to clarifying regulatory expectations, by disseminating FATF guidance documents: clarifying regulatory expectations on Money and Value Transfer Services (February 2016) and correspondent banking (October 2016), and adjusting supervisory approaches and national rules and regulations, if needed;
- Coordinating and providing training and technical assistance to strengthen public and private sector capacity in areas such as supervisory processes, respondent banks' and MVTs sector's risk management systems and procedures;
- Facilitating continuous engagement and dialogue between official and private sector among relevant stakeholders, such as supervisors of the banking and MVTs sector, banks and MVTs providers.

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