

## Outcomes Joint FATF/GAFILAT Plenary, 21-23 February 2018

*Paris, 23 February 2018, the second FATF Plenary meeting under the Presidency of Mr. Santiago Otamendi of Argentina took place in Paris 21-23 February 2018.*

The main issues dealt with by this Plenary were:

- Combatting terrorist financing, including the adoption of a new counter-terrorist financing operational plan and a statement on the actions taken under the 2016 counter-terrorist financing strategy.
- Adoption of a report to the G20 Finance Ministers and Central Bank Governors.
- Updated FATF Guidance on Counter Proliferation Financing.
- Amendments to Recommendation 2 on national cooperation and coordination.
- Discussion of the mutual evaluation report of Iceland.
- Follow-up reports for the mutual evaluations of Spain and Norway where both countries sought technical compliance re-ratings.
- Brazil's progress in addressing the deficiencies identified in its mutual evaluation report since it agreed an action plan in November 2017.
- Two public documents identifying jurisdictions that may pose a risk to the international financial system:
  - Jurisdictions with strategic anti-money laundering and countering the financing of terrorism (AML/CFT) deficiencies for which a call for action applies.
  - Jurisdictions with strategic AML/CFT deficiencies for which they have developed an action plan with the FATF.
- Monitoring Iran's actions to address deficiencies in its AML/CFT system.
- AML/CFT improvements in Bosnia and Herzegovina.
- Revisions on information sharing to the FATF Methodology.
- Update on recent developments on de-risking
- Improving the understanding of virtual currencies risks.
- Update on FinTech & RegTech Initiatives.
- Improving the effectiveness of the Criminal Justice System: FATF global engagement with judges and prosecutors.
- Outcomes of the meeting of the FATF Forum of Heads of Financial Intelligence Units (FIUs), which was held in the margins of the Plenary.
- Strengthening FATF's institutional basis.
- Activities of the FATF Training and Research Institute in Busan, Korea.

### **Combatting terrorist financing, including the adoption of a new Counter-Terrorist Financing Operational Plan**

FATF continues to focus its efforts on ensuring that its standards provide strong and powerful tools to enable countries to protect the integrity of the financial system and contribute to safety and security.

In February 2016, following the terrorist attacks in Paris, the FATF adopted a consolidated strategy to combat terrorist financing and an operational plan to focus its work in four key areas. Since then, the FATF has intensified its action to identify new and developing terrorist financing threats, strengthen or refine its standards accordingly and assess whether countries have implemented sound and effective measures to detect, prevent and punish cases of abuse of the financial system in support of

terrorism. The FATF has achieved significant results in the four key areas identified in the 2016 operational plan.

To further enhance the international fight against terrorist financing, the Plenary has adopted a new operational plan of action. This operational plan is a living document that provides a framework for a flexible and dynamic response to terrorist financing threats. It will build on existing results and focus on new areas which will increase understanding of terrorist financing risks and the effectiveness of measures to address these risks, while also being flexible to address the continuous evolution of this threat. Areas of focus include:

- Further improving the identification and understanding of terrorist financing risks, both at country level and more broadly, which will have an impact on the effectiveness of international efforts to tackle terrorist financing.
- Carry forward FATF's work to enhance information-sharing, which will build on the work that FATF has already completed on domestic inter-agency information sharing and sharing within the private sector.
- Ensure that efforts to detect terrorist financing lead to successful investigations, prosecutions and convictions including the President's initiative on increased engagement with the criminal justice system and prosecution services.
- Ensure a better global implementation of effective counter-terrorist financing measures through closer coordination with FATF's regional bodies and the actions they are taking.

FATF also continued the expanded update on the financing of ISIL, Al-Qaeda and affiliates.

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

The Plenary discussed the FATF's report to the G20 Finance Ministers and Central Bank Governors. This report sets out FATF's progress on counter terrorist financing, to improve transparency and the availability of beneficial ownership information, and in relation to work on correspondent banking and remittances, since the report to the G20 Leaders' Summit in July 2017. The report includes an update on FATF's work on counter proliferation financing and the President's initiative for a global engagement with the criminal justice system and prosecution services. It also provides an update on FATF's ongoing work to ensure a coherent and consistent approach to deal with the AML/CFT risks and opportunities related to FinTech, RegTech and virtual currencies, and its work to update knowledge on the financial flows associated with human trafficking.

## **Updated FATF Guidance on Counter Proliferation Financing**

The FATF has updated its guidance on the implementation of financial provisions of United Nations Security Council Resolutions to counter the proliferation of weapons of mass destruction. This guidance will help countries understand and implement the financial provisions of UNSCRs on proliferation, to ensure that targeted financial sanctions are implemented, and each country has effective mechanisms in place to prevent breaches. *(Report to be published shortly)*

## **Amendments to Recommendation 2 on national cooperation and coordination**

The FATF adopted revisions to Recommendation 2 on national cooperation and coordination. These will expand the Recommendation to include information sharing between competent authorities, and emphasise that cooperation and coordination should include coordination with the relevant authorities to ensure the compatibility of AML/CFT requirements with Data Protection and Privacy rules and other similar provisions (e.g. data security / localisation). Improving the compatibility of AML/CFT and DPP rules will facilitate exchange of information within the private sector.

## **Mutual evaluation report of Iceland**

The Plenary discussed the mutual evaluation report of Iceland, which set out the level of effectiveness of Iceland's AML/CFT system and its level of compliance with the FATF Recommendations. The report was prepared on the basis of the FATF Methodology for assessments, which requires countries to take into account the effectiveness with which AML/CFT measures are implemented, as well as technical compliance for each of the FATF Recommendations.

The Plenary discussed the key findings, priority actions, and recommendations regarding Iceland's AML/CFT regime. The mutual evaluation report is expected to be published by April 2018 after the quality and consistency review, in accordance with procedures.

## **The follow-up report for the mutual evaluations of Spain and Norway**

The Plenary discussed the progress that Spain and Norway have made since the adoption of their mutual evaluation reports in 2014. Both countries have made significant progress since the publication of their mutual evaluation report. For each country, the FATF Plenary agreed to re-rate a number of FATF Recommendations to reflect the country's current level of technical compliance. After a quality and consistency review, the FATF will publish the follow-up reports which set out the actions that Spain and Norway have taken to strengthen the effectiveness of their measures to combat money laundering and the financing of terrorism and proliferation.

## **Brazil's progress in addressing the deficiencies identified in its mutual evaluation report**

The FATF also discussed the progress that Brazil has made in line with the action plan it agreed in November 2017.

## **Monitoring Iran's actions to address deficiencies in its AML/CFT system**

In June 2016, the FATF welcomed Iran's high-level political commitment to address its strategic AML/CFT deficiencies, and its decision to seek technical assistance in the implementation of its action plan. Given that Iran provided that political commitment

and the relevant steps it has taken, the FATF decided in November 2017 to continue the suspension of counter-measures.

Since November 2017, Iran has established a cash declaration regime and introduced draft amendments to its AML and CFT laws. However, Iran's action plan has now expired with a majority of the action items remaining incomplete. Iran should fully address its remaining action items, including by: (1) adequately criminalising terrorist financing, including by removing the exemption for designated groups "attempting to end foreign occupation, colonialism and racism"; (2) identifying and freezing terrorist assets in line with the relevant United Nations Security Council resolutions; (3) ensuring an adequate and enforceable customer due diligence regime; (4) ensuring the full independence of the Financial Intelligence Unit and requiring the submission of STRs for attempted transactions; (5) demonstrating how authorities are identifying and sanctioning unlicensed money/value transfer service providers; (6) ratifying and implementing the Palermo and TF Conventions and clarifying the capability to provide mutual legal assistance; (7) ensuring that financial institutions verify that wire transfers contain complete originator and beneficiary information; (8) establishing a broader range of penalties for violations of the ML offense; and (9) ensuring adequate legislation and procedures to provide for confiscation of property of corresponding value.

Given that Iran has draft legislation currently before Parliament, the FATF decided at its meeting this week to continue the suspension of counter-measures. Depending upon Iran's progress in completing its action plan, the FATF will take further steps in June 2018. The FATF urgently expects Iran to proceed swiftly in the reform path to ensure that it addresses all of the remaining items in its Action Plan by completing and implementing the necessary AML/CFT reforms, in particular passing the necessary legislation.

Iran will remain on the FATF Public Statement until the full Action Plan has been completed. Until Iran implements the measures required to address the deficiencies identified in the Action Plan, the FATF will remain concerned with the terrorist financing risk emanating from Iran and the threat this poses to the international financial system. The FATF, therefore, calls on its members and urges all jurisdictions to continue to advise their financial institutions to apply enhanced due diligence to business relationships and transactions with natural and legal persons from Iran, consistent with FATF Recommendation 19.

## **AML/CFT improvements in Bosnia and Herzegovina**

The FATF congratulated Bosnia and Herzegovina for the significant progress made in addressing the strategic AML/CFT deficiencies earlier identified by the FATF and included in its action plan.

Bosnia and Herzegovina will no longer be subject to the FATF's monitoring under its on-going global AML/CFT compliance process, and will work with MONEYVAL as it continues to further strengthen their AML/CFT regime.

## **Revisions on information sharing to the FATF Methodology**

In November 2017, the FATF adopted revisions to the FATF Recommendations to clarify the FATF's requirements on sharing of information. The FATF has adopted revisions to the Methodology to assess compliance with the FATF Recommendations. These revisions clarify how assessors should determine the extent of sharing of information at group-wide level, including with branches and subsidiaries, and the whether or not sufficient safeguards are in place to ensure confidentiality and prevent tipping-off.

## **Update on recent developments on de-risking**

De-risking has been a concern for FATF since October 2014. Inappropriate de-risking undermines financial resilience and inclusion and promotes underground financial channels that can be misused by criminals and terrorists. The Plenary discussed recent international developments and engagement on de-risking, including through the FSB's Remittance Task Force. Delegates discussed ongoing work to further enhance traction of FATF guidance on correspondent banking and risk-based approach for money and value transfer services, which clarify regulatory expectations under the risk-based approach. The FATF received a presentation from the Wolfsberg Group on their Correspondent Banking Due Diligence Questionnaire.

## **Improving the understanding of virtual currencies risks**

FATF considered a report on the AML/CFT risks associated with virtual currencies and the regulatory measures being taken in different countries. The improved understanding of the misuse and risk of virtual currencies will lead to FATF undertaking additional work streams.

## **Update on FinTech & RegTech Initiatives**

At the November 2017 Plenary, the FATF expressed its strong support for responsible financial innovation in line with the FATF Standards and to explore the opportunities that new financial and regulatory technologies present for improving the effective implementation of AML/CFT. Various work streams on FinTech and RegTech are currently underway as the FATF considers how its standards apply in this context. The FATF Plenary heard presentations from some of its member countries concerning the FinTech and RegTech initiatives they were implementing. The FATF is also working to improve its understanding of the misuse and potential risks which may be posed by virtual currencies.

## **Improving the effectiveness of the Criminal Justice System: FATF global engagement with judges and prosecutors**

The Argentinean FATF Presidency has made one of FATF priorities to enhance engagement with national Prosecution Services and other experts within Criminal Justice Systems. The FATF President updated the Plenary on the outcomes of the second workshop with judges and prosecutors, organised in collaboration with FATF-Style

Regional Bodies APG and EAG and hosted by China. Prosecutors and the judiciary are an important component of AML/CFT efforts and this event provided a venue to gather and share experiences and views from practitioners on the challenges and good practices in investigating and prosecuting money laundering and terrorist financing cases, and seizing and confiscating criminal proceeds and instrumentalities. The workshop is the second in a series of events that will contribute to improve the effectiveness of prosecution action against those who abuse the financial system, and to confiscate their criminal proceeds.

## **Outcomes of the meeting of the FATF Forum of Heads of Financial Intelligence Units (FIUs), which was held in the margins of the Plenary**

FATF Heads of FIUs discussed how to enhance the effectiveness of suspicious transaction reporting (STR) regimes and the quality of financial intelligence. Participants shared their views on the importance of FIU autonomy and independence and its impact on the strategic and operational work of FIUs. The private sector plays an important role in detecting and reporting suspicious transactions, and participants discussed the practical/operational considerations in further developing public/private partnerships and the application of IT tools to improve the quality of financial intelligence.

## **Strengthening FATF's institutional basis**

FATF members continued to explore options to reinforce its legal capacity, international standing and independence.

## **Activities of the FATF Training and Research Institute in Busan, Korea**

The FATF Training and Research Institute, FATF TREIN, updated the Plenary on its activities since November 2017. FATF TREIN research and training programme included the APG-FATF TREIN Joint Typologies and Capacity Building Workshop. Almost 200 participants, representing FATF and APG members and observers as well as private sector participants took part in this event. The discussion provided valuable information which will contribute to on-going research projects.