

## Outcomes FATF-MENAFATF Joint Plenary, 27-29 June 2018

Paris, 29 June 2018: FATF President Santiago Otamendi of Argentina and MENAFATF President Abdul Hafiz Mansour chaired the third Plenary meeting in Paris on 27-29 June 2018.

The main issues dealt with by this Plenary were:

- Combatting terrorist financing, including the outcomes from the *Ministerial Conference on the Fight against the Financing of Daesh and Al-Qaeda*, organised by the French government
- Adoption of a report to the G20 Finance Ministers and Central Bank Governors
- Improving the effectiveness of the Criminal Justice System, a President's paper on the outcomes from FATF global engagement with judges and prosecutors
- Financial Flows from Human Trafficking, a typologies report
- Concealment of Beneficial Ownership, a typologies report
- Professional Money Launderers, a typologies report
- Discussion of the mutual evaluation reports of the Kingdom of Bahrain and the Kingdom of Saudi Arabia.
- Discussion of follow-up reports for the mutual evaluations of Australia, Belgium and Sweden, all three countries sought technical compliance re-ratings
- Brazil's progress in addressing the deficiencies identified in its mutual evaluation report since it agreed to an action plan in November 2017.
- Identifying jurisdictions with strategic anti-money laundering and countering the financing of terrorism (AML/CFT) deficiencies
  - AML/CFT improvements in Iraq and Vanuatu
  - New jurisdiction subject to monitoring
  - Monitoring Iran's actions to address deficiencies in its AML/CFT system
- Discussion of the draft risk-based approach guidance for the insurance sector and the draft risk-based approach guidance for the securities sector
- Update on FinTech & RegTech Initiatives
- Discussing FATF's work programme on virtual currencies/crypto-assets
- 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
- Discussion of the priorities of the US Presidency of the FATF
- Welcoming Somalia as a member to MENAFATF
- Welcoming Indonesia as an observer country to the FATF
- Welcoming CARIN as an observer organisation to the FATF

### **Combatting terrorist financing, including the outcomes from the Ministerial Conference on the Fight against the Financing of Daesh and Al-Qaeda, organised by the French government**

In February 2018, the FATF adopted its second counter-terrorist financing operational plan of action, which provides a framework for a flexible and dynamic response to terrorist financing threats. FATF's role in leading global efforts in this area was highlighted at the international conference on tackling the financing of terrorism ("No Money for Terror"), at the initiative of French President Macron, which took place in

Paris on 25-26 April 2018. The closing statement demonstrated the high-level commitment of participating jurisdictions and organisations to work together to block terrorists' financial flows and recognised the important role of the FATF and FSRBs. The FATF Plenary discussed the synergies between the conclusions of the statements and its counter-terrorist financing strategy. Delegates also discussed ongoing and completed work in the areas of focus of the FATF's strategy.

Improving the identification and understanding of terrorist financing risks remains a core element of the FATF's strategy and delegates discussed ongoing work in this area, including the review of risk, threats and vulnerabilities associated with crypto-assets, and an update on the financing methods employed by ISIL, AQ and affiliates.

The global implementation of effective counter-terrorist financing measures is essential to choke off financial flows with links to terror. The FATF Plenary discussed the ongoing review of the effective implementation of measures concerning risk, policy and coordination (IO1), investigation & prosecution (IO9), and preventive measures & financial sanctions (IO10). The outcomes of the Argentinean Presidency's initiative of FATF outreach to judges and prosecutors (see below) will also contribute to more effective terrorist financing investigations and prosecutions.

## **Adoption of a 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, since its last update to G20 in March 2018, on its work programme to respond to the increasing use of virtual currencies/crypto-assets for money laundering and terrorist financing. This work will be one of the priorities of the FATF under the US Presidency.

The report also includes an update on FATF's work to counter the financing of terrorism and proliferation, improve transparency and the availability of beneficial ownership information, the President's initiative of FATF engagement with judges and prosecutors, de-risking and FinTech, RegTech.

## **Improving the effectiveness of the Criminal Justice System**

Under the Argentinean Presidency, one of FATF's priorities was to enhance engagement with national Prosecution Services and other experts within Criminal Justice Systems. Prosecutors and the judiciary are an important component of AML/CFT efforts. A series of regional workshops brought together practitioners as well as representatives to gather and share experiences and views on the challenges and good practices in investigating and prosecuting money laundering and terrorist financing cases, and seizing and confiscating criminal proceeds and instrumentalities. FATF President Santiago Otamendi presented a paper on the outcomes of this global engagement with judges and prosecutors which will contribute to making investigation, prosecution of terrorist and money launderers more effective. The final report, Anti-money laundering and counter terrorist financing for judges and prosecutors, highlights the relevant underlying and supporting elements of the wider AML/CFT regime. It also provides good practices in the investigation, prosecution and conviction for both money laundering

and terrorist financing; confiscation; and mutual legal assistance, extradition & other cooperation.

## **Financial Flows from Human Trafficking**

Human trafficking is one of the most heinous and profitable proceeds-generating crimes in the world. The Plenary adopted a joint FATF-APG report which analyses the financial flows associated with the fast-growing crime of human trafficking, both as a money laundering predicate and potential source of terrorist financing. The report updated the FATF's 2011 Human Trafficking report. The report provides good practices and indicators specific to the type of human trafficking as specified in the Palermo Protocol: human trafficking for forced labour, sexual exploitation or for the removal of organs. The report also responds to a call from the UN Security Council for the FATF to consider the links between human trafficking and terrorist financing.

## **Concealment of Beneficial Ownership**

Legal persons, legal arrangements and professional intermediaries play important roles in facilitating business growth and development. But, they can also be misused, providing criminals with structures that help them conceal the proceeds of crime. The Plenary adopted a joint FATF-Egmont Group study that looks at the mechanisms and techniques that can be used to obscure the ownership and control of illicitly obtained assets, drawing on over 100 case studies, the experiences of law enforcement experts, the outcomes of FATF Mutual Evaluation Reports, and the insights provided by academic reports and other studies. The report aims to raise awareness with national authorities, financial institutions and other professional service providers about the risks involved.

## **Professional Money Launderers**

Professional money launderers (PMLs) provide services to criminals and organised criminal groups by laundering the proceeds of their illegal activities. They may provide the entire infrastructure for complex ML schemes (e.g. a 'full service') or construct a unique scheme tailored to the specific needs of a client that wishes to launder the proceeds of crime. This report identifies the specialist skill sets that PMLs offer their clients in order to hide or move their proceeds, and provides a detailed explanation of the roles performed by PMLs to enable authorities to identify and understand how they operate. This report also provides recent examples of financial enterprises that have been acquired by criminal enterprises or co-opted to facilitate ML. This report aims to assist authorities to target PMLs, as well as the structures that they utilise to launder funds, in order to disrupt and dismantle the groups that are involved in proceeds-generating illicit activity so that crime does not pay.

## **Mutual evaluation reports of Bahrain and Saudi Arabia**

The Plenary discussed the joint FATF-MENAFATF mutual evaluation reports of Bahrain and Saudi Arabia, which set out the level of effectiveness of each country's AML/CFT system and their level of compliance with the FATF Recommendations. The reports were

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 each country's AML/CFT regime. The mutual evaluation reports are expected to be published by September 2018 after the quality and consistency review, in accordance with procedures.

## **Mutual evaluation follow-up reports of Australia, Belgium and Sweden**

The Plenary discussed the progress that Australia, Belgium and Sweden have made since their mutual evaluation reports were adopted in 2015 for Australia and Belgium, and 2017 for Sweden. All three countries have made 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 these countries 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 recognises that Brazil has taken further steps to improve its counter terrorist financing regime; however deficiencies remain regarding targeted financial sanctions and Brazil has failed to meet the deadlines in the action plan it agreed to. As such, this is now a membership issue for the FATF to consider in February 2019 and Brazil is encouraged to address those deficiencies as soon as possible.

## **Identifying jurisdictions with strategic AML/CFT deficiencies**

The FATF maintains its February 2018 public documents which identify jurisdictions that may pose a risk to the international financial system, with the amendments set out below:

### **Jurisdictions no longer subject to monitoring**

The FATF congratulated Iraq and Vanuatu for the significant progress made in addressing the strategic AML/CFT deficiencies identified earlier by the FATF and included in their respective action plans.

Both countries will no longer be subject to the FATF's monitoring under its on-going global AML/CFT compliance process, and will work with their FATF-Style Regional Bodies MENAFATF (Iraq) and APG (Vanuatu) as they continue to further strengthen their AML/CFT regime.

## **New Jurisdiction subject to monitoring**

FATF has identified Pakistan as a jurisdiction with strategic AML/CFT deficiencies. The country has developed an action plan with the FATF to address the most serious deficiencies. The FATF welcomed the high level political commitment of Pakistan to their action plan.

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

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 the Action Plan. Given that Iran provided that political commitment and the relevant steps it has taken, the FATF decided in February 2018 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 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.

The FATF is disappointed with Iran's failure to implement its action plan to address its significant AML/CFT deficiencies. Given the Iranian government's continued efforts to finalize and pass amendments to its AML and CFT laws, the FATF decided at its meeting this week to continue the suspension of counter-measures. 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 enacting the necessary legislation. We expect Iran to enact amendments to its AML and CFT laws and ratify the Palermo and TF Conventions in full compliance with the FATF Standards by October 2018, otherwise, the FATF will decide upon appropriate and necessary actions at that time.

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.

## **Discussion of the draft risk-based approach guidance for the insurance sector and the draft risk-based approach guidance for the securities sector**

Delegates discussed two draft risk-based approach guidance papers. These papers will be released for public consultation following the Plenary. The finalised reports, which will take into account the feedback received during the public consultation, will be adopted by the FATF Plenary in October 2018.

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

The Plenary heard an update on FATFs ongoing work concerning FinTech and RegTech, including plans for the next FATF FinTech and RegTech Forum which will be held jointly with the Eurasian Group (EAG) in Hangzhou, China on 4-5 September 2018, and presentations by the United Arab Emirates and Tunisia.

## **FATF's work programme on virtual currencies/crypto-assets**

Delegates discussed FATF's comprehensive work programme to urgently address the money laundering and terrorist financing vulnerabilities of virtual currencies/crypto-assets. FATF continues its work to actively monitor and understand how criminals and terrorists can use virtual currencies/crypto assets to launder the proceeds of crime or move funds to support terror. The FATF agreed to initiate a project on investigative best practices related to virtual currencies/crypto-assets to assist law enforcement in the light of the growing risks. FATF's has begun its review of guidance and standards to determine if changes are necessary to clarify their application to virtual currencies/crypto-assets and promote a more consistent regulatory approach, taking into account the results of FATF's stocktake exercise of the different national regulatory approaches. The FATF will hold an intersessional meeting in September on how the FATF Standards apply to virtual currencies/crypto-assets.

## **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 met in the margins of the FATF Plenary to discuss the cooperation between FIUs and intelligence services and follow-up on earlier discussions on the importance of FIU autonomy and independence.

The private sector plays an important role in detecting and reporting suspicious transactions. For the first time, the meeting of FATF Heads of FIUs also included private sector participants during the discussions on enhancing the effectiveness of suspicious transaction reporting (STR) regimes and the quality of financial intelligence.

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

FATF members discussed options to reinforce the FATF's 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 February 2018. The FATF TREIN research and training programme included the APG-FATF Joint Experts' Meeting, its flagship Standards Training courses and the pilot training course on Counter Proliferation Financing.

## **Discussion of the priorities of the US Presidency of the FATF**

The Plenary discussed the priorities of the FATF during the US Presidency. During the US Presidency, the FATF will continue its core work, with a particular focus on combatting the financing of the proliferation of weapons of mass destruction, countering the financing of terrorism and addressing the ML/TF risks of virtual currencies/crypto assets.

## **Welcoming Somalia as a member to MENAFATF**

The MENAFATF congratulated Somalia on their completion of the accession criteria. All countries present endorsed their membership, the MENAFATF Secretariat shall reach out to other jurisdictions that did not attend for their approval of the membership.