

Outcomes FATF Plenary, 17-19 October 2018

Paris, 22 February 2019 – FATF President Marshall Billingslea of the United States, chaired the second Plenary meeting of FATF-XXX in Paris on 20-22 February 2019.

The main issues dealt with by this Plenary were:

1. Operations and Streamlining the FATF

- Strengthening the Governance and Accountability of the FATF
- Appointing the incoming FATF Vice-President for 2019-2021

2. Major Strategic Initiatives

- Combating the financing of terrorism, including a public statement on FATF's current actions
- Mitigating risks from virtual assets

3. Mutual Evaluations and Follow-Up Reviews, and Compliance

- Discussion of the mutual evaluation reports of China and Finland
- Discussion of follow-up reports for the mutual evaluations of Italy and Norway in which both countries achieved technical compliance re-ratings
- Issuing a statement on Brazil's progress in addressing the deficiencies identified in its mutual evaluation report
- Identifying jurisdictions with strategic anti-money laundering and countering the financing of terrorism (AML/CFT) deficiencies:
 - New jurisdiction subject to monitoring
 - Monitoring Iran's actions to address deficiencies in its AML/CFT system

4. Other Strategic Initiatives

- Adoption of a report to the G20 Finance Ministers and Central Bank Governors
- Approval of three Risk-Based Approach Guidance papers for public consultation:
 - Lawyers
 - Accountants
 - Trust and Company Service Providers (TCSPs)

1. Operations and Streamlining the FATF

Strengthening the governance and accountability of the FATF

In October 2018, FATF Members agreed to strengthen FATF governance and accountability through increasing the engagement of ministers and senior officials of FATF members. Delegates further clarified a proposed structure for Ministerial approval in April 2019 during the adoption of the FATF's revised mandate. The structure for Ministerial involvement aims to achieve the right balance between political oversight, senior level engagement and maintaining FATF as a technical body.

Appointing the incoming FATF Vice-President for 2019-2021

The FATF Plenary appointed Dr. Marcus Pleyer, Deputy Director General of the Finance Markets Department of the German Federal Ministry of Finance, as the new incoming FATF Vice-President. Dr. Pleyer will assume the role of FATF Vice-President for a two-year term, effective 1 July 2019 and until 30 June 2021.

2. Major Strategic Initiatives

Combating the financing of terrorism, including a public statement on FATF's current actions

During this Plenary meeting, delegates heard an update on the financing methods employed by ISIL, Al Qaeda and affiliates, and released a public statement¹ on its current actions.

Although ISIL has lost control of the large territory it once occupied, this does not mean that the terrorist organisation's ideology is no longer a threat to our society. Al Qaeda and affiliates, as well as other terrorist organisations continue to have a significant impact in the regions where they are active. Combating the financing of terrorism therefore remains a top priority for the FATF under the US Presidency, and the Plenary heard an update on the FATF's work in this area, including work on the prosecution of terrorist financing and assessing terrorist financing risks. These topics will be further developed at the Joint Experts' meeting in March 2019, hosted by the Israeli government in Tel Aviv, Israel.

- FATF's current action to combat terrorist financing²

Mitigating risks from virtual assets

Recognising the need to adequately mitigate the money laundering and terrorist financing risks associated with virtual asset activities, the FATF is setting out more detailed implementation requirements for effective regulation and supervision/monitoring of virtual asset service providers. FATF has therefore been working on an Interpretive Note to Recommendation 15. FATF had amended Recommendation 15 in October 2018 to clarify how the FATF standards apply to activities or operations involving virtual assets.

¹ <http://www.fatf-gafi.org/publications/methodsandtrends/documents/fatf-action-against-terrorist-financing-feb-2019.html>

² <http://www.fatf-gafi.org/publications/methodsandtrends/documents/fatf-action-against-terrorist-financing-feb-2019.html>

The text of the new Interpretive Note has been finalised, and will be formally adopted as part of the FATF Standards in June 2019.

Paragraph 7(b) of the Interpretive Note has not yet been finalised because it will benefit from private sector consultations. It may be considered further to reflect technical implementation considerations, for final adoption in June 2019.

- Interpretive Note to FATF Recommendation 15³

3. Mutual Evaluations and Follow-Up Reviews, and Compliance

Discussion of the mutual evaluation reports of China and Finland

The Plenary discussed the mutual evaluation reports of China and Finland and the level of effectiveness of each country's AML/CFT system and their level of compliance with the FATF Recommendations.

The Plenary concluded that China has the foundation for a sound system to tackle money laundering and terrorist financing, but should strengthen its financial intelligence unit and use of financial intelligence.

The Plenary concluded that Finland's measures to combat money laundering and terrorist financing are delivering good results, but that the country needs to improve supervision to ensure banks and others are properly implementing effective AML/CFT controls.

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 April 2019 after the quality and consistency review, in accordance with procedures.

Discussion of follow-up reports for the mutual evaluations of Italy and Norway in which both countries achieved technical compliance re-ratings

The Plenary discussed the progress that Italy and Norway have made since their mutual evaluation reports were adopted (in 2016 and 2014 respectively). Both countries have made progress since the publication of their mutual evaluation report, with this being the second progress report for Norway.

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.

³ <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/regulation-virtual-assets-interpretive-note.html>

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

In June 2018, the FATF decided that it would initiate discussions on Brazil's membership if adequate legislation was not adopted by the February 2019 Plenary. As of this date, Brazil has passed new legislation towards addressing its deficiencies. The FATF will review the legislation for compliance with FATF Standards and will consider next steps in June 2019. The Plenary has issued a statement regarding Brazil.

- Statement on Brazil's steps toward addressing the deficiencies identified in its mutual evaluation report⁴

Identifying jurisdictions with strategic anti-money laundering and countering the financing of terrorism (AML/CFT) deficiencies

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

- Jurisdictions with strategic AML/CFT deficiencies for which a call for action applies⁵
- Jurisdictions with strategic AML/CFT deficiencies for which they have developed an action plan with the FATF⁶

New jurisdiction subject to monitoring

FATF has identified Cambodia 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 Cambodia to its action plan.

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 the Action Plan. Given that Iran provided that political commitment and the relevant steps it has taken, the FATF decided in October 2018 to continue the suspension of counter-measures.

In November 2017, Iran established a cash declaration regime. In August 2018, Iran has enacted amendments to its Counter-Terrorist Financing Act and in January 2019, Iran has also enacted amendments to its Anti-Money Laundering Act. The FATF recognises the progress of these legislative efforts. The bills to ratify the Palermo and Terrorist Financing Conventions have passed Parliament, but are not yet in force. As with any country, the FATF can only consider fully enacted legislation. Once the remaining legislation comes fully into force, the FATF will review this alongside the enacted legislation to determine whether the measures contained therein address Iran's Action Plan, in line with the FATF standards.

Iran's action plan expired in January 2018. In February 2019, the FATF noted that there are still items not completed and Iran should fully address: (1) adequately criminalising terrorist financing, including by removing the exemption for designated groups "attempting to end

⁴ <http://www.fatf-gafi.org/publications/methodsandtrends/documents/fatf-statement-brazil-feb-2019.html>

⁵ <http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/public-statement-february-2019.html>

⁶ <http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/fatf-compliance-february-2019.html>

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 operational independence of the Financial Intelligence Unit and clarifying that the submission of STRs for attempted TF-related transactions are covered under Iran’s legal framework; (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; and (7) ensuring that financial institutions verify that wire transfers contain complete originator and beneficiary information.

The FATF decided at its meeting this week to continue the suspension of counter-measures. While welcoming the passage of the Anti-Money Laundering Act, the FATF expresses its disappointment that the Action Plan remains outstanding and expects Iran to proceed swiftly in the reform path to ensure that it addresses all of the remaining items by completing and implementing the necessary AML/CFT reforms.

If by June 2019, Iran does not enact the remaining legislation in line with FATF Standards, then the FATF will require increased supervisory examination for branches and subsidiaries of financial institutions based in Iran. The FATF also expects Iran to continue to progress with enabling regulations and other amendments.

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 with respect to countering terrorism-financing 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 with respect to business relationships and transactions with natural and legal persons from Iran, consistent with FATF Recommendation 19, including: (1) obtaining information on the reasons for intended transactions; and (2) conducting enhanced monitoring of business relationships, by increasing the number and timing of controls applied, and selecting patterns of transactions that need further examination.

4. Other Strategic Initiatives

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 Leaders in December 2018, on its work programme on preventing the misuse of virtual assets for money laundering and terrorist financing, including the adoption of revisions to define how to apply its revised requirements of the FATF Standards to virtual asset service providers and in the context of virtual assets.

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, FATF engagement with judges and prosecutors and digital identity.

Approval of three Risk-Based Approach Guidance papers for public consultation

The risk-based approach is at the core of the FATF Recommendations. It ensures that countries identify and understand the unique risks they are exposed to, allowing them to prioritise resources on areas where risks are highest. The FATF discussed risk-based approach guidance for:

- Lawyers
- Accountants
- Trust and Company Service Providers (TCSPs)

These guidance documents aim to support the implementation of the risk-based approach, taking into account national ML/TF risk assessments and AML/CFT legal and regulatory frameworks. The guidance documents will be released for public consultation⁷ before their final adoption in June 2019.

⁷ <http://www.fatf-gafi.org/publications/fatfgeneral/documents/public-consultation-guidance-tcsp.html>