

MEDIA RELEASE

OUTCOMES FROM THE MEETING OF THE FINANCIAL ACTION TASK FORCE, PARIS 19 to 21 OCTOBER 2016

03 November 2016 - South Africa participated in the first meeting of the [Financial Action Task Force](#) (FATF) session XXVIII, under the Spanish Presidency in Paris from 19 to 21 October 2016. The main issues dealt with in this meeting were:

- Work on terrorist financing, which remains the top priority for the FATF, including:
 - [Approval of a joint FATF-GABAC-GIABA report on Terrorist Financing in West and Central Africa.](#)
 - [Update information on, and understanding of, ISIL funding.](#)
 - [Revision of the interpretive note to Recommendation 5 on criminalising terrorist financing to ensure oil and other key sources of funds are included.](#)
 - [Approval of the Guidance on criminalising terrorist financing.](#)
 - [Changes to the Methodology for assessing compliance with Recommendation 8 which is focused on protecting non-profit organisations from terrorist financing abuse.](#)
 - [Changes to the Methodology for assessing how effectively countries are implementing measures to protect non-profit organisations from terrorist financing abuse \(Immediate Outcome 10\).](#)
- FATF work to improve transparency and access to beneficial ownership information.
- Decline of correspondent banking relationships:
 - [Approval of Guidance on correspondent banking services, to help deal with the decline of correspondent banking relationships.](#)
- [Outreach to the FinTech / RegTech communities.](#)
- [Forum of the Heads of FATF Financial Intelligence Units to discuss operational issues including responses to the Panama papers, enhanced information sharing, beneficial ownership and maximising information sources to detect terrorist financing.](#)
- [Discussion of the mutual evaluation reports of Switzerland and the United States.](#)
- [Two public documents identifying jurisdictions that may pose a risk to the international financial system:](#)
 - Jurisdictions with strategic anti-money laundering and combating 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.
 - Statement on Brazil's progress in addressing the serious deficiencies identified in its mutual evaluation reports, and the issues that remain unresolved.

EFFORTS TO COMBAT TERRORIST FINANCING

Approval of a joint FATF-GABAC-GIABA report on [Terrorist Financing in West and Central Africa](#).

In 2013, the FATF and GIABA published a [report on terrorist financing in West Africa](#).

Continuing violence in the West and Central African Region have made this area particularly vulnerable to terrorism and three years after the last study, Boko Haram has developed as one of the deadliest terrorist organisations in the region. FATF, GABAC and GIABA have now updated the 2013 report and expanded it to include Central Africa. The report reveals a number of threats and vulnerabilities that are specific to the region, and highlights the role of cash, including foreign currency. The report looks at the contextual factors and the challenges that the region faces to regulate financial products and sectors. It acknowledges that further work is needed in the area; in particular it highlights the need for countries in the region to work closer together as well as with the broader international community to identify and disrupt terrorist financing.

Update information on, and the understanding of ISIL funding

In-depth knowledge and understanding of ISIL/Da'esh methods to raise, move and use funds, remains an important tool to disrupt their access to funding and deprive them of the ability to finance terrorist attacks. The FATF continues to monitor closely and analyse developments in this regard. FATF discussed changes to the financing of ISIL and its affiliates, allowing FATF and members to take informed actions to disrupt ISIL funding.

Revision of the interpretive note to Recommendation 5 on criminalising terrorist financing

The FATF has revised the Interpretive Note to Recommendation 5, which focuses on the criminalisation of terrorist financing. The revision clarifies the scope of the term 'economic support' to cover a broad range of economic support, including trade in oil and other natural resources, and other assets which could be used to obtain funds. These changes reflect recent United Nations Security Council Resolutions, in particular 2199 and 2253, and ensure that important sources of ISIL funding are comprehensively included. The revised interpretive note refers to 'funds or other assets', to ensure that specific forms of support highlighted in UNSCRs are within the scope of the definition.

Approval of the [guidance on criminalising terrorist financing](#)

In 2015, the FATF reviewed the global implementation of key counter-terrorist financing measures in 194 jurisdictions. The review revealed that while most countries had criminalised terrorist financing, some had gaps in their criminal offence, and few had secured convictions or had been able to freeze terrorist assets.

The FATF developed guidance to assist countries to effectively and comprehensively criminalise terrorist financing, in a manner consistent with national legal systems. In particular, it focuses on how countries can fill gaps in their terrorist financing offence. The guidance sets out the specific elements that a country must implement to comply with the United Nations International Convention for the Suppression of the Financing of Terrorism (1999) and relevant United Nations Security Council Resolutions, and gives examples of the various approaches that countries have used to implement them in the context of their different legal and operational frameworks.

Changes to the Methodology for assessing compliance with Recommendation 8 which is focused on protecting non-profit organisations from terrorist financing abuse as well as how effectively countries are implementing measures to protect non-profit organisations from terrorist financing abuse (Immediate Outcome 10)

In June 2016, the FATF revised its Recommendation 8 to ensure that its implementation is in line with the risk-based approach and does not disrupt or discourage legitimate non-profit activities. The FATF has updated its assessment Methodology for Recommendation 8 and Immediate Outcome 10 to bring it into line with those revisions. Future assessments of members of the FATF and FATF-Style Regional Bodies will be conducted on the basis of this revised Methodology. They will focus on the extent to which measures being applied to NPOs are focused and proportionate, in line with the risk-based approach, such that NPOs are protected from terrorist financing abuse and legitimate charitable activities are not disrupted or discouraged.

FATF WORK TO IMPROVE TRANSPARENCY AND ACCESS TO BENEFICIAL OWNERSHIP INFORMATION

Improving transparency and beneficial ownership has been a focus of the FATF since 2003. The FATF standard on beneficial ownership was strengthened in 2012 to address vulnerabilities such as bearer shares and sets out comprehensive measures to ensure transparency and to prevent the misuse of corporate vehicles. Over the years, the FATF has developed a comprehensive body of guidance and research on this issue.

Today, the FATF standards on beneficial ownership remain and are recognised as the gold standard globally. Nevertheless, recent developments, as well as the review of the first nine assessments in the fourth round of mutual evaluations, reveal that countries are still not fully and effectively implementing the measures to prevent the misuse of companies, trusts and other corporate vehicles. Building on its existing work, the FATF will undertake the following work to better understand the risks and to improve the effective implementation of the international standards on transparency:

- Undertake a detailed study on the risks and the mechanisms that are used to hide and obscure the beneficial ownership of companies, trusts etc., including by focussing on the role played by professional intermediaries.
- Prepare a horizontal study on the effective supervision and enforcement of beneficial ownership obligations, to review the different models that countries can use to exercise oversight of gatekeepers and ensure they are properly applying the FATF requirements.
- Focus on beneficial ownership in the follow-up processes to FATF mutual evaluations.
- Provide clear and consistent recommendations to assessed countries on how to improve effective implementation of beneficial ownership requirements.
- Enhance co-operation between the FATF and the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) to reinforce each other's work to improve transparency in relation to beneficial ownership.

DEVELOPMENTS IN THE DECLINE OF CORRESPONDENT BANKING RELATIONSHIPS

The decline in correspondent banking relationships, or de-risking, has been a concern for the FATF since 2014. Some financial institutions have decided to close their corresponding banking relationships with whole classes of customers or entire regions, in order to avoid, rather than mitigate, money laundering and terrorist financing risks. This is not in line with the FATF's risk-based approach, which is central to the FATF Recommendations. De-risking can lead to financial exclusion, by depriving customers from access to the regulated financial sector for their financial transactions. The loss of correspondent banking relationships makes it harder to make cross-border payments in some countries, and can potentially damage the resilience and stability of the financial system.

The FATF is working closely with other relevant organisations such as the Financial Stability Board (FSB), the Committee on Payments and Market Infrastructures (CPMI), the International Monetary Fund (IMF), the World Bank and others, to understand the various drivers for de-risking and clarify the application of the risk-based approach.

Approval of the [guidance on correspondent banking services](#)

Responding to concerns by global leaders, including the G20, about a need for further clarification of regulatory expectations, FATF has approved a guidance on corresponding banking services. Correspondent banking services have an important role in the global economy and to the many sectors and regions that rely on them. An incorrect understanding of AML/CFT measures, can increase the costs of doing business with correspondents, and cause unnecessary pressure on banks to end correspondent relationships. This guidance addresses the issue of de-risking and clarifies how money laundering and terrorist financing risks should be managed, customer-by-customer, in the context of correspondent banking relationships and money or value transfer services that provide similar services. The FATF developed this guidance in collaboration with the private sector, and with the FSB, which is coordinating international work to assess and address the extent and causes of the decline in correspondent banking relationships.

OUTREACH TO THE FINTECH / REGTECH COMMUNITIES

Technology-based innovations are rapidly changing the financial industry, introducing efficiencies and providing alternatives for traditional financial products. Consequently, it is important for the FATF to engage with the FinTech/RegTech communities to remain involved in these developments. A close partnership will allow FATF to be proactive in refining its standards to effectively regulate financial innovations. The FATF Plenary approved an initiative which will focus on the FATF President's objective of developing a partnership with the FinTech/RegTech community. Such a partnership will build awareness within the industry of potential ML/TF risks and allow FATF to explore ways to meet the regulatory and supervisory challenges of new innovations.

FORUM OF THE HEADS OF FATF FINANCIAL INTELLIGENCE UNITS

Financial intelligence Units (FIUs) play an important role in efforts to combat money laundering and terrorist financing, analysing suspicious transaction reports submitted by financial institutions in their country and reporting new trends and methods that criminals use to launder the proceeds of their crime and terrorists use to raise and move their funds. In the margins of this Plenary

meeting, the first forum of Heads of FIUs took place, which explored both the challenges and the best practices in obtaining beneficial ownership information, and the role of FIUs in information sharing for counter-terrorist financing purposes. Participants at the meeting also discussed the role of FIUs in determining the effectiveness of a country's use of financial intelligence during the FATF's mutual evaluation process.

DISCUSSION OF THE MUTUAL EVALUATION REPORTS OF SWITZERLAND AND THE UNITED STATES

The Plenary discussed the mutual evaluation reports of Switzerland and the United States which set out the level of effectiveness of their AML/CFT systems 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 mutual evaluation of the United States was conducted jointly with the Asia/Pacific Group on Money Laundering, of which the country is also a member.

The Plenary discussed the assessment team's key findings, priority actions, and recommendations regarding each country's AML/CFT regime. The FATF will finalise the mutual evaluation reports for publication [on its website](#) after the quality and consistency review, in accordance with its procedures.

Public statements

- [Jurisdictions with strategic anti-money laundering and combating 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 - Update on, and recognition of, AML/CFT improvements in Guyana.](#)

Statement on Brazil's considerable progress in addressing the serious deficiencies identified in its mutual evaluation reports, and the important issues that remain unresolved

In February 2016, the FATF released a statement conveying its deep concerns about Brazil's continued failure to remedy the serious deficiencies identified in its third mutual evaluation report adopted in June 2010. Brazil had not criminalised terrorist financing since 2004, when Brazil's second mutual evaluation report was adopted. And while the FATF welcomed progress by Brazil on the freezing of terrorist assets, further improvements were required to fully satisfy the FATF standards. The FATF called on Brazil to fulfil its FATF membership commitment by enacting counter terrorist financing legislation that would adequately address these shortcomings in line with the FATF Recommendations. If adequate legislation was not enacted by the June 2016 FATF Plenary, the FATF would have considered the next steps in the follow-up process.

On 16 March 2016, Law 13.260 was enacted to criminalise terrorism and terrorist financing and "deal with investigative and procedural provisions and to reformulate the concept of a terrorist organization" and which covered most of the elements of former SR.II, thereby addressing that Recommendation sufficiently (with minor deficiencies). The FATF welcomed that important development and decided not to consider the next steps in the follow-up process.

Since June 2016, Brazil has taken additional steps towards improving its counter-terrorism (CFT) regime by preparing several ordinances which would in principle contribute to fully implementing UNSCRs 1267 and 1373. These however, are yet to be enacted.

There still remain a number of shortcomings that Brazil must address in order to reach a satisfactory level of compliance with the FATF standards. If sufficient progress is not made by February 2017, the FATF will consider taking other measures, including issuing another Public Statement.

Among the provisions included in the new law, article 5, paragraph 1 establishes penalties to the agents, who with the purpose of practicing acts of terrorism, recruit, organize, carry or equip individuals traveling to a country other than that of their residence or nationality. This is an important provision in line with UNSCR 2178 (2014).

For more information on these and other matters relating to the work of the FATF please visit <http://www.fatf-gafi.org/home/>.

---ends---