

FATF • GAFI

FINANCIAL ACTION TASK FORCE

20 Years

of the

FATF Recommendations

1990-2010

Foreword by Paul Vlaanderen, President of FATF-XXI

Two decades of the Financial Action Task Force.

Two decades of constant evolution in the multilateral fight against money laundering and terrorist financing.

This brochure is intended to give a quick overview of what the FATF is and how it works. It describes how the FATF mandate has expanded over the years helped by an ever-growing consensus on the dangers money laundering and terrorist financing represent. It shows how the 40+9 Recommendations and their implementation have become the core of FATF's effort to preserve the integrity of the financial system. It explains the sophisticated tools the FATF has honed over the years to monitor compliance with the Recommendations, including its process for following up on shortcomings and publicly identifying high-risk and non-cooperative jurisdictions having persistent strategic weaknesses. The brochure furthermore provides insight into the FATF's ability to face up to new or unexpected developments that may pose a threat to the integrity of the financial system.

The FATF relies on a unique co-operation network involving more than 180 jurisdictions around the world. Additionally, eight FATF-Style Regional Bodies have been created over the years as part of this network. FSRBs have members in all continents of the world working actively and with increasing success towards the implementation of FATF objectives in their respective regions. This brochure lays out how the interplay between the FATF and the FSRBs further reinforces its aims.

Leading intergovernmental institutions, including the G20, UN, World Bank and the IMF, have accepted the FATF as the prime authority setting standards. With the FATF and its 180+ participants, the international community is well prepared for the future, a future that will likely see our actions against criminal behaviour in the financial sector continue to evolve in order to remain relevant and effective.

Paul Vlaanderen



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1990 - 2010

What is the FATF?

In the late 1980s, the problem of illegal narcotics trafficking had become a problem of alarming proportions and world-wide concern. Faced with the wide geographical spread of production activities, the international nature of drug distribution routes and the ability to move the drug money across borders, national legislation and the efforts of law enforcement bodies were, on their own, no longer sufficient. Increasingly, there was recognition of an urgent need for decisive, multinational action to tackle the global problem of money laundering and other abuses of the financial system as a means of attacking the heart of illegal narcotics trafficking and organised crime.

The Ministers of the G7 countries decided in 1989 to take a number of steps. Along with measures to strengthen international co-operation on eradicating supply and measures to curb the demand for drugs, these included the establishment of the Financial Action Task Force (FATF). The FATF's initial mission was to focus on preventing the use of the banking system and other financial institutions for the purpose of money laundering. More specifically, it was to develop an international consensus on measures to help identify, trace and seize the proceeds from drug crime and other criminal activities.

As an initial step and based on an analysis of the existing situation, the FATF developed a series of Recommendations on specific measures, including the adaptation of national legal and regulatory systems, that would help detect, prevent and punish misuse of the financial system for money laundering. A Secretariat was set up for the Task Force in 1991-1992 at the OECD, although the FATF remains an independent body.

The Recommendations

Less than a year after its foundation, in April 1990, the FATF published the 40 Recommendations, a set of global standards designed to detect and prevent money laundering. The Recommendations, which have been updated periodically, lay out a wide-ranging set of measures covering the criminal justice system and law enforcement, the financial system and its regulation, and international co-operation. The Recommendations are not binding instruments under international law;

however, when combined with other FATF processes and mechanisms, there has been increasing pressure for all countries to implement them. Furthermore, the Recommendations were intended to allow countries some flexibility in adapting them to fit their own legal systems. Today, most countries in the world have made a political commitment to implement them, and the more broadly they are adopted the more effective they are likely to be.

In addition to its initial objective of combating money laundering, the FATF's mandate has grown over the years as new threats to the financial system have emerged. For example, in the immediate aftermath of the attacks on the US on 11 September 2001, the FATF's mission was expanded to include the development of policies to combat the financing of terrorism. As a result, the 40 money laundering Recommendations were supplemented by eight (later increased to nine) Special Recommendations dealing specifically with terrorist financing. Agreement on the special recommendations was accompanied by a firm political commitment to ensure rapid implementation of the new Recommendations by FATF members, as well as a call on all countries to put these measures in place. Further pressure to adopt the Recommendations occurred mainly through a process devised by the FATF for multilateral peer review.

The original FATF Recommendations, published in 1990, and the current 40 Recommendations and IX Special Recommendations.

See www.fatf-gafi.org for the complete text of the Recommendations.

Recommendation numbers

III - RECOMMENDATIONS

A - GENERAL FRAMEWORK OF THE RECOMMENDATIONS

Many of the current difficulties in international cooperation in laundering cases are directly or indirectly linked with a strict application of with the fact that, in many countries, money laundering is not today an offence insufficiencies in multilateral cooperation and mutual legal assistance.

Some of these difficulties will be alleviated when the Vienna Convention effect in all the signatory countries, principally because this would open more widely the possibility of mutual legal assistance in money laundering cases. Accordingly, the group unanimously agreed at its first recommendation that each country should, without further delay, take steps to fully implement the Vienna Convention, and proceed to ratify it.

FATF IX Special Recommendations
22 October 2004
(incorporating the amendments of 22 October 2004)

FATF 40 Recommendations
29 June 2004
(incorporating the amendments of 22 October 2004)

The FATF tool kit

The FATF is a policy-making body. It strives therefore to generate the broad political will and action that is necessary to bring about national, legislative and regulatory reforms to combat money laundering and terrorist financing. There are five main mechanisms or tools that the FATF uses to achieve these ends.

Setting standards

The FATF has an ongoing process for reviewing and refining the standards for combating money laundering and terrorist financing. The methods used by criminal and terrorist organisations are in constant evolution. As the international financial sector implements the FATF standards, criminals must find ways to beat the system. The FATF therefore needs to remain vigilant to these changes and then respond by updating and adapting its standards so that they remain relevant and effective.



Figure 1. The FATF tool kit.

Assessing progress at the national level

The FATF conducts peer reviews on an ongoing basis to assess levels of implementation of the FATF standards. These reviews, or mutual evaluations, provide an in-depth description and analysis of each country's system for preventing criminal abuse of the financial system. At present, the FATF is approaching the end of the third round of mutual evaluations of its members and has already begun laying the groundwork for a fourth round.

Monitoring high-risk and non-cooperative jurisdictions

When jurisdictions fail to adequately implement the FATF standards, they represent a risk to the international financial system, which is only as strong as its weakest link. The FATF has therefore created a mechanism for identifying these systemic weaknesses and for encouraging stronger compliance. The FATF is thus able to apply pressure on high-risk and non-cooperative jurisdictions, with a view to persuading them to strengthen their anti-money laundering and counter-terrorist financing systems.

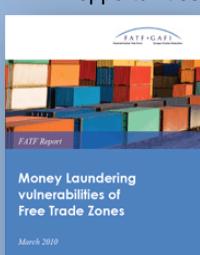
Sector studies

In addition to reviews of national systems, the FATF also carries out research on specific economic sectors and activities to identify existing and potential money laundering and terrorist financing vulnerabilities. Usually referred to as typologies reports, these studies analyse the various channels that could be used to transfer funds illegally and are conducted by relevant experts from the public sector (law enforcement, financial intelligence units, supervisory authorities) and when necessary with contributions of expertise from the private sector. The FATF has produced analyses on casino gambling, the real estate industry, the securities sector, football and money laundering, trade-based money laundering, proliferation financing, as well as terrorist financing and more recently, free-trade zones.

Recent Sector study (typologies report)

Money Laundering vulnerabilities of Free Trade Zones

A key typologies report investigated the vulnerabilities of Free Trade Zones (FTZs). As separate customs territories, FTZs help to stimulate business and trade, but they also offer potential money laundering and terrorist financing opportunities. Clearly, rules that fast-track customs procedures and freight clearance can also be used to avoid the normal barriers to illicit activity. The analysis of FTZs highlighted a number of real cases in which free-trade zones have been used to channel terrorist financing. These include cases in which drugs smuggling through an FTZ in Colombia was linked to Hezbollah in Lebanon; illicit trading in alcohol via a US FTZ was linked to a terrorist group in the Philippines; and shell companies operating in an FTZ in Costa Rica were used to channel funds to the terrorist group ETA.



High-Risk Jurisdictions

As another means of focussing on threats to the financial system, the FATF has also established a process for identifying high-risk or non-cooperative countries and jurisdictions and recommending specific action through its International Co-operation Review Group (ICRG). Through this process, the FATF has been able to issue a series of statements drawing attention to concerns about serious weaknesses in the anti-money laundering and counter-terrorist financing systems of Iran, Uzbekistan, Pakistan, Turkmenistan, São Tomé and Príncipe, and the northern part of Cyprus. As a result of this pressure, most of these jurisdictions have since taken some steps towards improving their anti-money laundering and counter-terrorist financing systems.

The review system is an ongoing process, thus the FATF has continued to further strengthen its procedures for dealing with high-risk jurisdictions. The process was lent added urgency by the need to respond to the global financial and economic crisis, which left the financial system particularly vulnerable. From June 2009, the FATF therefore launched reviews of the systems employed by a number of other jurisdictions.

In February 2010, the FATF responded to a G20 request by identifying 28 jurisdictions having strategic AML/CFT deficiencies in their financial security regimes. Progress on this front has been encouraging in that 20 of these jurisdictions have already provided a written, high-level commitment to address the deficiencies in their systems and have developed action plans. Other jurisdictions are also being reviewed as part of the ongoing ICRG process.

Spreading the word

The original members of the Financial Action Task Force were the G7 members, the European Commission and eight other countries that were interested in finding a solution to the problems of money laundering and terrorist financing.

Membership has since expanded from the original 16 to a total of 35 (33 member countries, as well as the European Commission and the Gulf Co-operation Council).

Early on, it was clear that in order for the FATF recommendations to be truly effective, they had to be implemented by as many countries as possible. Consequently, the FATF sought to expand its own membership and, at the same time, involve as many other countries as possible through the creation of FATF Style Regional Bodies (FSRBs). Together, these regional bodies have expanded the reach of the FATF from the original 16 members to well over 180 jurisdictions and have allowed all of these countries to become a part of the overall FATF effort.

In addition, there are a very large number of other international organisations that have observer status with the FATF. These institutions generally also have, along with their other functions, an anti-money laundering or counter-terrorist financing responsibility. FATF observers include global financial institutions, such as the IMF and the World Bank; international police and intelligence bodies, such as Interpol and the UN Office on Drugs and Crime; and multi-lateral supervisory organisations for specific industries, such as the Basel Committee on Banking Supervision, the International Organisation of Securities Commissions and the International Association of Insurance Supervisors.



Figure 2. The FATF Recommendations have been endorsed by more than 180 jurisdictions across the world.

1990 - 2010

FATF Membership

The FATF currently comprises 33 member jurisdictions and 2 regional organisations, representing most major financial centres in all parts of the globe.

- Argentina
- Australia
- Austria
- Belgium
- Brazil
- Canada
- China
- Denmark
- European Commission
- Finland
- France
- Germany
- Greece
- Gulf Co-operation Council
- Hong Kong, China
- Iceland
- Ireland
- Italy
- Japan
- Kingdom of the Netherlands*
- Luxembourg
- Mexico
- New Zealand
- Norway
- Portugal
- Republic of Korea
- Russian Federation
- Singapore
- South Africa
- Spain
- Sweden
- Switzerland
- Turkey
- United Kingdom
- United States

* the Kingdom of the Netherlands: the Netherlands, the Netherlands Antilles and Aruba.

Additionally, India became an observer on 27 November 2006 and is currently working towards becoming a full FATF member.

FATF Style Regional Bodies

The following regional FATF-style bodies have similar form and functions to those of the FATF.

- Asia/Pacific Group on Money Laundering (APG)
- Caribbean Financial Action Task Force (CFATF)
- Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL)
- The Financial Action Task Force on Money Laundering in South America (GAFISUD)¹
- Middle East and North Africa Financial Action Task Force (MENAFATF)
- Eurasian Group (EAG)
- Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)
- Intergovernmental Action Group against Money-Laundering in Africa (GIABA)²

In addition, there are numerous international organisations that have, among other functions, a specific anti-money laundering mission or remit.

¹ *Grupo de Acción Financiera de Sudamérica* in Spanish.

² *Groupe Inter-gouvernemental d'Action Contre le Blanchiment en Afrique* in French.

Looking ahead

In 20 years of its existence, the FATF has made considerable progress in identifying and coordinating the response to threats to the world financial system posed by illegal activity. But there remains much to be done. The use of financial channels to conceal and transfer the proceeds of criminal activity and to facilitate the funding of terrorist operations is a problem that will not go away. As the systems for combating money laundering and terrorist financing are strengthened, criminal and terrorist organisations will continue to adapt their methods in order to circumvent the safeguards put in place. There is therefore a critical need to remain vigilant in identifying and responding to changing threats in order to prevent abusers of the financial system from remaining one step ahead of efforts to curb their activities.

Money laundering and terrorist financing

Over the next decades, the FATF will likely need to continue monitoring developments in two areas of its current mandate, money laundering and terrorist financing. In both areas, the methods used by those seeking to get around the rules will no doubt mutate, requiring continual monitoring and adaptation of systems designed to counter such activities.

The terrorist organisations of today vary widely, ranging from large, structured organisations to small, decentralised and self-directed networks. To make detection even more difficult, terrorist groups can also be funded from legitimate sources. In that respect, terrorist financing is different from money laundering, which involves only money from illegal sources (*i.e.* the proceeds of crime). In addition, the direct operational cost of mounting individual terrorist attacks, such as the cost of materials, day-to-day expenses, training, travel and logistics, are usually very low relative to the damage that the terrorist attack may cause. As a result, detecting and disrupting a specific terrorist attack via monitoring of the financial system is extremely challenging. However, the direct costs of a terrorist attack are only a fraction of a terrorist organisation's demand for funds. The broader organisational costs of maintaining a terrorist network are more substantial and therefore easier to detect and disrupt. If these

larger financial flows can be stemmed, the reach and capabilities of terrorist organisations can be curtailed.

Terrorist organisations also continue to receive crucial support, in some cases active financial and material support, from safe havens, failed states and state sponsors. Such support may simply reflect weak government. The FATF is therefore in the process of undertaking a strategic surveillance initiative and global threat assessment that, as it matures, will provide a long-term view of money laundering and terrorist financing threats. It will also assist in the identification of systemic threats and encourage new thinking about priorities and countermeasures.



Figure 3. The three stages of money laundering.

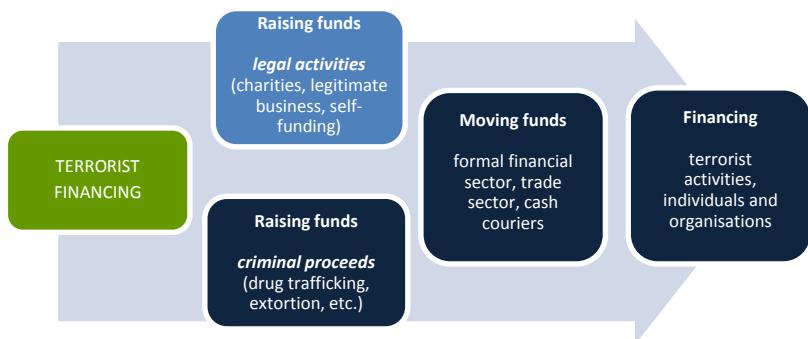


Figure 4. The stages of terrorist financing.

1990 - 2010

High-risk jurisdictions

It is expected that several countries identified as high-risk or non-cooperative jurisdictions in February 2010 will be taken off the list in the near future. On the other hand, a significant number of jurisdictions have not yet been reviewed, so other countries are likely to be added to the list. The FATF will therefore likely continue to work with listed countries and monitoring progress made in reforming their systems.

The fourth round of mutual evaluations

The FATF will continue to monitor the implementation of its standards through a fourth round of mutual evaluations. In preparation for this round, and in order to provide a focus for discussion, the FATF is reviewing a number of priority issues within the FATF Recommendations, which will include:

- Transparency of legal persons and arrangements
- Beneficial ownership
- Customer due diligence
- The risk-based approach
- Tax crimes that generate the funds for money laundering
- International cooperation
- Cross-border exchange of information within and between financial institutions
- The potential impact of data protection and privacy law on the implementation of counter measures
- Operational matters

As well as national-level talks, preparations for the fourth round of evaluations will also involve a sustained effort to seek practical input from private sector financial institutions. This ongoing framework will offer the private sector an opportunity to raise issues that it feels would be helpful for the FATF to address. For the FATF, it will help to structure and prioritise work that impacts on the private sector.

In conducting these preparations, the FATF, the FSRBs and other international organisations such as the World Bank and the IMF

actively participate. This participation will be essential since the review will result in a modification of the FATF Recommendations, which are applied by these bodies as the world-wide standard to combat money laundering and terrorist financing.

Proliferation financing

Another important and emerging concern is the serious threat posed by proliferation financing. Proliferation may be pursued by states (as in the case of Iran and North Korea) or by non-state actors, including terrorists who are willing to use weapons of mass destruction in acts of terrorism. There is evidence that terrorist organisations are increasing their efforts to secure chemical, biological, or nuclear capabilities. The FATF has produced a typologies report and three guidance papers on this issue to assist countries in their implementation of the relevant UN Security Council Resolutions. That report was prepared in close consultation with the private sector and export control authorities. It sets out a range of possible policy options for further consideration. More recently, the FATF published a status report on policy development and consultation on the subject of Proliferation Financing.

Corruption

A current issue of importance to the international community is the fight against corruption. Following the Pittsburgh Summit of September 2009, the G20 called on the FATF to help detect and deter the proceeds of corruption by prioritizing work to strengthen standards on customer due diligence, beneficial ownership and transparency. The FATF has responded to the G20 by prioritising these issues in its work programme and, going forward, will focus on how AML/CFT measures may be leveraged to combat corruption.

1990 - 2010

Preventing abuse of the financial system by criminal and terrorist organisations is clearly a complex and challenging issue. Moreover, it is one that continues to evolve. As governments and financial authorities tighten safeguards and attempt to close existing loopholes, organisations that exploit the financial system for illicit purposes will continue to find new ways around these barriers. The struggle against money laundering and terrorist financing is both multi-dimensional and global, and requires effective cooperation between governments and private sector institutions. Encouragingly, the FATF standards have been endorsed by international bodies such as the UN, IMF and World Bank. The FATF's position at the forefront of international efforts to combat money laundering and terrorist financing has been further reinforced by a G20 call for action against non cooperative jurisdictions.

UN SECURITY COUNCIL RESOLUTION 1617

...
7. *Strongly urges all Member States to implement the comprehensive, international standards embodied in the Financial Action Task Force's (FATF) Forty Recommendations on Money Laundering and the FATF Nine Special Recommendations on Terrorist Financing;*
...

Although much has been achieved in the past twenty years, maintaining and developing the existing system to combat misuse of the financial system will require considerable further effort. In this context, the broad geographical coverage of the FATF and its variety of sophisticated tools will allow it to continue to play a leading role in the international fight against financial crime.

Paris, June 2010

Annex – The FATF Presidency

The FATF year runs from 1 July to 30 June the following year. The presidency of the FATF rotates annually among the members of the FATF. Since 1989, the Presidency has been held by the following countries:

- | | |
|--------------------------|----------------------------|
| ■ 1989-1990 – FATF –I | France |
| ■ 1990-1991 – FATF-II | France |
| ■ 1991-1992 – FATF-III | Switzerland |
| ■ 1992-1993 – FATF-IV | Australia |
| ■ 1993-1994 – FATF-V | United Kingdom |
| ■ 1994-1995 – FATF-VI | Kingdom of the Netherlands |
| ■ 1995-1996 – FATF-VII | United States |
| ■ 1996-1997 – FATF-VIII | Italy |
| ■ 1997-1998 – FATF-IX | Belgium |
| ■ 1998-1999 – FATF-X | Japan |
| ■ 1999-2000 – FATF-XI | Portugal |
| ■ 2000-2001 – FATF-XII | Spain |
| ■ 2001-2002 – FATF-XIII | Hong Kong, China |
| ■ 2002-2003 – FATF-XIV | Germany |
| ■ 2003-2004 – FATF-XV | Sweden |
| ■ 2004-2005 – FATF-XVI | France |
| ■ 2005-2006 – FATF-XVII | South Africa |
| ■ 2006-2007 – FATF-XVIII | Canada |
| ■ 2007-2008 – FATF-XIX | United Kingdom |
| ■ 2008-2009 – FATF-XX | Brazil |
| ■ 2009-2010 – FATF-XXI | Kingdom of the Netherlands |
| ■ 2010-2011 – FATF-XXII | Mexico |



The FATF is celebrating twenty years of constant evolution in the multilateral fight against money laundering and terrorist financing and on an increasingly global scale.

For more information about the FATF and the FATF Recommendations,
please consult our website at:

www.fatf-gafi.org