

**FATF**



**REPORT TO G20 LEADERS**  
**BY THE FINANCIAL ACTION TASK FORCE**

Los Cabos Summit

June 2012

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### EXECUTIVE SUMMARY

In presenting this report, and in keeping with the Cannes Summit Final Declaration, the FATF is seeking from the G20 Leaders a commitment to the full, effective and consistent implementation of the new *FATF Recommendations*.

#### 1. THE FATF HAS ADOPTED NEW AND STRENGTHENED STANDARDS

In February 2012, the FATF issued new global standards—the *FATF Recommendations*—which clarify and strengthen the requirements relating to:

- **Customer due diligence**, meaning the identification of customers and verification of their identities;
- **Beneficial ownership**, meaning the identification of the individual(s) who truly own or control legal persons or legal arrangements (such as trusts) and verification of their identities;
- **Transparency of cross-border wire transfers;**
- The identification of **politically exposed persons** (meaning individuals who hold prominent public functions along with their families and close associates), and measures to manage the risks of business relationships with such persons;
- The responsibility and powers to **conduct financial investigations and prosecute money laundering** and its predicate offences, including **tax crimes, corruption and bribery offences;**
- **Financing of the proliferation of weapons of mass destruction;**
- The ability of countries to **exchange information** and undertake **international cooperation;** and
- The application of a **risk-based approach** whereby countries should identify, assess, and understand the money –laundering and terrorist financing risks they face. Based on such assessments, and in line with the FATF Recommendations, countries should apply a risk-based approach to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified.

## 2. THE FATF CONTINUES TO IDENTIFY HIGH-RISK JURISDICTIONS WITH STRATEGIC AML/CFT DEFICIENCIES

The FATF continues to identify and monitor jurisdictions with strategic AML/CFT deficiencies, and engage with them during the development and implementation of action plans to address such deficiencies. The names of these jurisdictions are published on the FATF public website.

## 3. THE FATF CONTINUES TO EMPHASISE THE G20 ANTI-CORRUPTION AGENDA

The FATF has adopted an anti-corruption work plan which includes the development of best practices to assist jurisdictions and the analysis of the methods and trends of corruption-related transactions.

## 4. GREATER TRANSPARENCY & BETTER COOPERATION AGAINST TAX CRIMES AND THE MISUSE OF CORPORATE VEHICLES

The new *FATF Recommendations* include stronger requirements to facilitate cooperation and to improve transparency. Tax crimes are now required to be designated predicate offences for money laundering, thereby opening gateways for greater international cooperation on such offences; and substantive measures have been taken to enhance transparency of corporate vehicles and trusts, and to prevent their misuse.

## 5. THE FATF INITIATIVES TO SUPPORT FINANCIAL INCLUSION

The FATF is updating its **Guidance on Financial Inclusion** which is aimed at ensuring that the application of anti-money laundering / counter-terrorist financing controls does not have the unintended consequence of excluding legitimate business and consumers from the financial system.

## REPORT TO G20 LEADERS BY THE FINANCIAL ACTION TASK FORCE

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As requested by the G20 at the Cannes Summit, the FATF has developed a new set of recommendations — the *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation – The FATF Recommendations*. The FATF adopted these new standards in February 2012 and they have been endorsed by FATF Ministers.

This report provides a summary of what these standards mean and an update on other on-going work of the FATF which is of particular relevance to the G20 agenda in the areas of high-risk jurisdictions, corruption, tax, and financial inclusion.

In presenting this report, the FATF is seeking from the G20 Leaders a commitment to the full, effective and consistent implementation of the new *FATF Recommendations*, as foreshadowed at the Cannes Summit.

### 1. THE FATF HAS ADOPTED NEW AND STRENGTHENED STANDARDS

In February 2012, the FATF issued a new set of recommendations: *the International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation – The FATF Recommendations*. These new global standards strengthen the requirements relating to customer due diligence, beneficial ownership, the transparency of cross-border wire transfers, politically exposed persons, the investigation and prosecution of money laundering and its predicate offences (including serious tax crimes, corruption and bribery offences), international cooperation, and the risk-based approach. The following key changes are important to note.

#### ■ Customer due diligence and beneficial ownership:

- Financial institutions and designated non-financial businesses and professions are explicitly required, in all cases, to **identify & verify their customers' identity**, and to take measures to identify **beneficial ownership**.
- Every country should have a company registry containing **basic information on all companies** which are incorporated or licensed in that country, including information about the legal ownership, control structure, status and powers of such companies, their shareholders, and their directors. This information should be publicly available.
- Information on the **beneficial ownership of companies** should be available to the authorities either through company registries, from the companies themselves, or using existing information held by financial institutions, stock exchanges, public authorities or other sources.

- Trustees should be required to hold information on the **beneficial ownership of express trusts**, and must disclose their status as a trustee to any financial institutions or designated non-financial businesses and professions with whom they are doing business.
  - The misuse of **bearer shares & bearer share warrants** should be prevented. Countries should do one of the following: prohibit them, convert them into registered shares or share warrants, require them to be held with a regulated financial institution or professional intermediary, or require the bearer's identity to be recorded by the issuing company.
  - **Nominee shareholders & directors** must be licensed, or they must disclose the identity of the person nominating them to the company or relevant company registry so that this information may be recorded.
  - All countries must provide **international cooperation** on the legal and beneficial ownership of companies and trusts, and use their investigative powers to obtain such information on behalf of foreign counterparts.
- **Transparency of cross-border wire transfers:**
- Cross-border wire transfers must contain **identification information on the beneficiary of the transfer, as well as on the originator** of the transfer.
  - Intermediary financial institutions in the payment chain should take measures, consistent with straight-through processing, to **identify wire transfers which lack originator and beneficiary information**, and have effective procedures for determining appropriate follow-up action.
- **Due diligence for politically exposed persons:**
- **Domestic politically exposed persons** are now covered by the standards, and financial institutions are required to take into account the associated risks of doing business with them and whether to apply enhanced customer due diligence measures.
  - **Foreign politically exposed persons** continue to be subject to enhanced customer due diligence measures.
  - **Family members and close associates** of politically exposed persons are also to be treated in a similar way to politically exposed persons.
- **Other important changes:**
- **Tax crimes** are now predicate offences for money laundering.
  - More effective **international cooperation** is now possible through enhanced requirements to exchange information, conduct joint investigations, and trace, freeze, confiscate and repatriate illicit assets.
  - The authorities conducting **investigations & prosecutions** of money laundering and related predicate offences (including serious tax crimes, corruption & bribery

offences) should develop proactive financial investigations and have the power to obtain the production of financial records, search persons and premises, take witness statements and seize and obtain evidence. They should also be able to use a wide range of investigative techniques, including, undercover operations, intercepting communications, accessing computer systems, and controlled delivery.

- The **risk-based approach** has been specifically encapsulated within the standards, to ensure that high-risk factors are appropriately taken into account when doing business with customers, jurisdictions, or through products which represent a high risk of money laundering or terrorist financing.
- The FATF has adopted a new Recommendation on **financial measures to combat the proliferation of weapons of mass destruction** aimed at ensuring the consistent and effective application of targeted financial sanctions when these are called for by the UN Security Council.

Following the adoption of the new set of recommendations, the FATF is now preparing for the next round of country assessments which will evaluate the level of implementation of the new recommendations. There is general agreement that future evaluations will have a particular focus on whether implementation of the recommendations is effective. The FATF will begin the next round of evaluations in 2013.

## 2. THE FATF CONTINUES TO IDENTIFY HIGH-RISK JURISDICTIONS WITH STRATEGIC AML/CFT DEFICIENCIES

The FATF continues to identify and monitor jurisdictions with strategic anti-money laundering and terrorist financing deficiencies through its International Cooperation Review Group (ICRG), and engages those countries for the development and implementation of action plans to address the deficiencies. On 16 February 2012, the FATF updated its lists of high-risk jurisdictions, which are published on the FATF public website, as follows:

- **Two jurisdictions are subject to counter-measures** (Democratic People’s Republic of Korea, and Iran). Some examples of countermeasures that can be applied are: requiring financial institutions to apply specific elements of enhanced customer due diligence; introducing systematic reporting of financial transactions; prohibiting or limiting business with financial institutions from or in countries of concern; or requiring increased supervisory examinations or external audit for branches and subsidiaries of financial institutions based in countries of concern.
- **Fifteen jurisdictions<sup>1</sup> have not made sufficient progress in addressing the deficiencies or have not committed to an action plan developed with the FATF to address the deficiencies.** In these instances the FATF members and other countries should consider the risks arising from these deficiencies.

<sup>1</sup> Cuba, Bolivia, Ethiopia, Ghana, Indonesia, Kenya, Myanmar, Nigeria, Pakistan, São Tomé and Príncipe, Sri Lanka, Syria, Tanzania, Thailand, and Turkey.

- **Twenty-three jurisdictions<sup>2</sup> have provided a high-level political commitment to address the deficiencies through implementation of an action plan developed with the FATF.** Of these, four (Ecuador, Philippines, Vietnam, and Yemen) have not yet made sufficient progress on their action plans and, if sufficient action is not taken by June 2012, the FATF will take the additional step of publicly calling upon countries to consider the risks arising from these deficiencies.
- **Summary of progress:** In February 2010, the FATF publicly identified & engaged with 28 high-risk jurisdictions. Since then, a further 18 jurisdictions have been added, while six jurisdictions have made sufficient progress to be removed from the process (Azerbaijan, Greece, Honduras, Paraguay, Qatar, and Ukraine).

### 3. THE FATF CONTINUES TO EMPHASISE THE ANTI-CORRUPTION AGENDA

The FATF has adopted an extensive anti-corruption work plan that will continue to emphasise anti-corruption on the FATF agenda for the next two years. This was a key initiative of the Mexican FATF Presidency. In line with this work plan, the FATF will:

- Develop and issue **guidance** to assist jurisdictions:
  - implement measures to identify and conduct due diligence on politically exposed persons;
  - better use AML/CFT measures in the fight against corruption; and
  - use international cooperation measures to investigate and prosecute corruption and related money laundering offences, and facilitate asset recovery.
- Conduct further **meetings of AML/CFT experts and anti-corruption experts** to identify and agree on further steps to be taken.
- Conduct a study on the **methods & trends** (typologies) of corruption-related transactions and identify specific risk factors in laundering the proceeds of corruption.
- Consider **how corruption adversely impacts on the effective implementation of** AML/CFT measures.

### 4. GREATER TRANSPARENCY & BETTER COOPERATION AGAINST TAX CRIMES AND THE MISUSE OF CORPORATE VEHICLES

In addition to the overall enhanced transparency requirements, the new *FATF Recommendations* include specific new measures to prevent the misuse of corporate vehicles and to combat the laundering of the proceeds of tax crimes (thereby facilitating international cooperation with respect to such crimes):

<sup>2</sup> Algeria, Angola, Antigua and Barbuda, Argentina, Bangladesh, Brunei Darussalam, Cambodia, Ecuador, Kyrgyzstan, Mongolia, Morocco, Namibia, Nepal, Nicaragua, Philippines, Sudan, Tajikistan, Trinidad and Tobago, Turkmenistan, Venezuela, Vietnam, Yemen, and Zimbabwe.

- **Transparency** of beneficial ownership is enhanced by new requirements to ensure that reliable information is available to competent authorities on the legal and beneficial owners of all **corporate vehicles**; and to prevent the misuse of bearer shares, share warrants, and nominees. In addition, the FATF has introduced new requirements for countries to provide international cooperation in this area.
- **Tax crimes** have been added to the list of designated predicate offences for money laundering. This will require all countries to criminalise tax offences. It will also contribute to better coordination between law enforcement, cross-border and tax authorities, and introduce stronger requirements for international cooperation in this area.

The FATF will continue to work closely on these issues with other relevant international organisations, including the OECD.

## 5. THE FATF INITIATIVES TO SUPPORT FINANCIAL INCLUSION

Financial inclusion efforts enable more citizens to use regulated financial services. This improves transparency and increases the reach and the effectiveness of anti-money laundering / counter-terrorist financing measures while at the same time avoiding the unintended consequence of excluding legitimate businesses and consumers from the financial system.

- The FATF has provided **Guidance on Financial Inclusion** which helps countries and their financial institutions in designing anti-money laundering and counter-terrorist financing systems that meet financial inclusion goals, without compromising the global standards. The FATF will update this guidance in line with the new **Risk-Based Approach**. The risk-based approach provides countries with greater scope to meet financial inclusion objectives, particularly in circumstances of low risk of money laundering or terrorist financing.

FATF President  
June 2012



## ANNEX 1

### DECLARATION OF THE MINISTERS AND REPRESENTATIVES OF THE FINANCIAL ACTION TASK FORCE

Effective action against money laundering and terrorist financing, including both preventive and law enforcement measures, is essential for securing a more transparent and stable international financial system. Likewise, new threats, such as the financing of proliferation of weapons of mass destruction, can emerge and result in the clandestine use of the international financial system. As an intergovernmental body established by the G7 Summit in 1989, the Financial Action Task Force (FATF) exists for the purpose of protecting the international financial system from misuse and to mobilise action to go after criminals and their assets. We, the Ministers and representatives of the FATF Members, reaffirm our commitment to the objectives of the FATF in developing policy and promoting effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and new and emerging threats to the integrity of the international financial system.

The FATF Recommendations are the international standard for combating money laundering and the financing of terrorism and proliferation. They form the basis for a co-ordinated response to these threats to the integrity of the financial system and help to ensure a level playing field. We welcome the adoption by the FATF of revised standards in February 2012. We endorse the FATF Recommendations as an international standard and call on all countries to fully implement measures in line with them.

Since full and effective implementation of the FATF Recommendations in all countries is one of our fundamental goals, we remain committed to assessing the degree of implementation and the effectiveness of systems designed to combat money laundering and terrorist financing through the conduct of a 4th round of 'peer reviews' ('mutual evaluations') of our Members as well as monitoring progress through appropriate follow-up processes. Future evaluations will move beyond technical compliance of the standards and aim to understand how resources and sanctions are being applied in practice to meet desired objectives. The FATF will work closely with FATF-style regional bodies (FSRBs), the International Monetary Fund (IMF) and the World Bank in refining procedures for evaluations, including the common methodology and common processes for assessing compliance.

We recognise the leading role of the FATF in promoting full and effective implementation of the FATF Recommendations in collaboration with other national and international stakeholders and, most importantly, through a global network of FSRBs. We support the linkages between the FATF and FSRB mutual evaluation programmes and the IMF/World Bank Financial Sector Assessment Programme. We also encourage the FATF to continue communicating broadly about this work.

We note that many countries – particularly those with capacity constraints – continue to face legitimate challenges in achieving effective implementation of the FATF Recommendations. Financial exclusion can also represent a real risk to achieving effective implementation. Recognising these challenges and adopting a comprehensive approach to dealing with them will contribute to universal implementation of the FATF Recommendations. The FATF will continue to support the work of regional bodies and the international organisations that are helping countries to carry out this work.

We reaffirm our support for the timely identification and monitoring of high-risk and non co-operative countries and for co-ordinated action when necessary to protect the integrity of the financial system against the threat posed by such countries. It is essential that all countries take collective action to apply countermeasures when called on by the FATF.

Maintaining the integrity of the financial system also requires the ability to respond actively and in a timely manner to significant new threats as identified by the international community, including the United Nations Security Council, the G-20 and the FATF itself, and we remain committed therefore to the need for such work. One such area, as envisaged in the revised FATF mandate adopted in 2008 is the financing of the proliferation of weapons of mass destruction for which the FATF has developed a new standard relating to the implementation of financial provisions of the United Nations Security Council resolutions on non-proliferation. We reiterate our support for this initiative and commit to having the implementation of this standard evaluated under the peer review process of the FATF. Corruption remains a global challenge, continues to hinder development in many areas and fuels criminal activity. The FATF will step up its support of anti-corruption issues through its work on money laundering and other misuse of the financial system.

Recognising that preventing the misuse of legal persons and arrangements is a core element of the fight against money laundering, terrorist financing and other illicit purposes, the FATF will continue its work to improve the transparency of legal persons and arrangements.

The fight against money laundering, terrorist financing and other misuse of the financial system must be based on a thorough understanding of these threats. We therefore encourage further strategic and focussed analysis of relevant methods and trends, as well as a continuing examination of the impact of measures designed to combat misuse of the international financial system, and we endorse support to national, regional and global threat and risk assessment initiatives.

The private sector remains on the front line of the fight against money laundering, terrorist financing and other threats to the integrity of the international financial system. We therefore reaffirm our support for continuing consultation with the private sector and civil society with a view to fostering transparency and dialogue towards more effective implementation of the FATF standards.

The FATF is a task force of its Members, and its activities have continued to evolve whilst remaining focussed on achieving concrete results. We believe that the task force structure of the FATF has served it well. The FATF should therefore retain this flexibility as it continues to consolidate and build on what it has already achieved. At the same time, the decision-making and governance processes of the FATF should be transparent and predictable.

We endorse the work of the FATF and approve the following Mandate of the Financial Action Task Force (FATF), which will from this date serve as the framework for its activities. The technical implementation of the FATF Mandate will be carried out by the officials and experts of our member countries. We look forward to receiving regular updates from the FATF on key aspects of its work.

Washington, DC, 20 April 2012