

# OUTCOMES OF THE OCTOBER 2018 MEETING OF THE FINANCIAL ACTION TASK FORCE

South Africa participated in the first meeting of the [Financial Action Task Force](#) (FATF) session under the United States of America (USA) Presidency in Paris, France, from 14 to 19 October 2018. At this meeting the FATF continued work on a number of important initiatives relating to its mandate to promote effective implementation of measures against money laundering, terrorist financing and other related threats to the integrity of the international financial system. Key among these are the following:

- [Operations and Streamlining the FATF](#)
- [Combating the financing of terrorism, including a public statement on FATF Monitoring of Terrorist Financing Risks and Actions Taken to Combat ISIL, Al-Qaeda and Affiliates Financing Public Statement](#)
- [Amendments to the FATF Recommendations to address the regulation of virtual assets](#)
- [Future work on proliferation financing](#)
- [The mutual evaluation reports of Israel and the United Kingdom](#)
- [Follow-up reports for the mutual evaluations of Austria, Denmark and Malaysia](#)
- [Adoption of a report to the G20 Leaders' Summit](#)
- [Adoption of two Risk-Based Approach Guidance papers on the Life Insurance Sector and the Securities Sector](#)
- [Update on FinTech & RegTech Initiatives](#)
- [Future work on Digital IDs](#)
- [Outcomes of the meeting of the FATF Forum of Heads of Financial Intelligence Units \(FIUs\)](#)
- Activities of the FATF Training and Research Institute in Busan, Korea.
- [Two public documents identifying jurisdictions that may pose a risk to the international financial system](#)

## Operations and Streamlining the FATF

## ***Strengthening the governance and accountability of the FATF***

FATF Members agreed to strengthen FATF governance and accountability through increasing the engagement of ministers and senior officials of FATF members. This will support a more cohesive view of the various issues related to AML/CFT and counter proliferation financing (CPF), provide greater political awareness of the FATF's work, reinforce member's commitment to implement effective strong regimes and help direct global resources in more risk-based and results oriented ways.

## ***Status of expansion of membership***

The FATF adopted the assessment of the Kingdom of Saudi Arabia's AML/CFT framework in June 2018. Saudi Arabia will continue the membership accession process to fulfil the requirements to be granted membership status as set out in the [FATF's Membership process and criteria](#). Saudi Arabia has provided a high-level political commitment to reach the expected results within a reasonable timeframe and prepared an action plan that will be reviewed by FATF.

Following the discussion of Israel's mutual evaluation, the report needs to undergo a quality and consistency review before publication. If Israel's assessment meets the FATF's membership requirement, the country will become an official member of the FATF at the publication of this report. If the country's assessment does not meet the membership criteria then the FATF Plenary will discuss the next steps in the country's membership process in February 2019.

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## **Combating the financing of terrorism**

During this Plenary meeting, delegates heard an update of the financing methods employed by ISIL, Al Qaeda and affiliates, and released a [public statement](#) on the evolution of these terrorist financing strategies since the FATF's 2015 report.

The Plenary also approved a report on disruption of the financial flows on which terrorists rely. Understanding these financial flows is important not only from an

investigative standpoint, but also to ensure that authorities are able to take decisive, preventative measures to disrupt terrorist activity before a terrorist attack takes place.

Building on contributions from 33 Members and Observers from across the FATF Global Network, this internal report provides authorities with a toolkit of disruption tools and comprehensive strategies that will assist them to improve domestic CFT actions and identify novel ways in which competent authorities can effectively work together to disrupt TF activity. The report also highlights the need for all countries to remain vigilant in countering TF in any and all forms.

Combating the financing of terrorism remains a top priority for the FATF under the US Presidency, and the Plenary agreed to focus its work on three areas:

- **Implementation**, to ensure that countries can prosecute and convict terrorist financiers, FATF will prioritise work on the effective investigation and prosecution of this crime.
- **Guidance**, to help countries better identify and understand the terrorist financing risks they face so that they can appropriately resource counter terrorist financing efforts.
- **Training**, to build knowledge across the Global Network on terrorist financing risks, asset freezing, information sharing and disrupting terrorist financing.

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## Amendments to the FATF Recommendations to address the regulation of virtual assets

The FATF Plenary discussed and adopted amendments to the FATF Standards to respond to the increasing use of virtual assets for money laundering and terrorist financing and at the request of the G20 Ministers. This includes an amendment to the FATF Recommendations and glossary to clarify to which businesses and activities the FATF requirements apply in the case of virtual assets. Exchanges and wallet providers will be required to implement AML/CFT controls, and to be licensed or registered and supervised or monitored by national authorities.

Strengthening the standards is part of a comprehensive approach that the FATF has developed to prevent the misuse of virtual asset activities for money laundering and terrorist financing. As a next step, the FATF will update its Guidance to assist countries with the full and effective implementation of these requirements of the FATF Standards. All countries are encouraged to swiftly take the necessary steps to prevent the misuse of virtual assets. Given the speed of innovation, and to ensure that the FATF Standards remain relevant, the FATF will review its standards as they apply to the virtual asset sector in 12 months.

### [Statement on regulating virtual assets](#)

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## **Future work on proliferation financing**

The FATF has started a project that will consider the feasibility of expanding the FATF Recommendations applicable to proliferation financing, as well as enhancing implementation of existing obligations. There is no presumption that the FATF will adopt any amendments to the Recommendations at this time. The project will explore the degree to which there is support for revisions and will develop and consider detailed proposals for amendments in these areas within the framework of FATF and UN mandates. The project will also consider developing best practices on combating proliferation financing, and consider how such best practices can help countries strengthen implementation of the existing FATF requirements.

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## **Mutual Evaluations and Follow-Up Reviews and Compliance**

### ***Discussion of the mutual evaluation reports of Israel and the United Kingdom***

The Plenary discussed the mutual evaluation reports of Israel and the United Kingdom 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 December 2018, after the quality and consistency review, in accordance with procedures.

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### ***Discussion of follow-up reports for the mutual evaluations of Austria, Denmark and Malaysia in which all three countries achieved technical compliance re-ratings***

The Plenary discussed the progress that Austria, Denmark and Malaysia have made since their mutual evaluation reports were adopted (in 2015 for Austria and Malaysia, and in 2017 for Denmark). 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.

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### ***Adoption of a report to the G20 Leaders' Summit***

The Plenary discussed the FATF's report to the G20 Leaders. This report sets out FATF's progress, since its last update to G20 in July 2018, on its work programme to respond to the increasing use of virtual assets for money laundering and terrorist financing, including the adoption of revisions to its standards to clarify how they apply to 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, digital identity and de-risking.

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## ***Adoption of two Risk-Based Approach Guidance papers***

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 adopted risk-based approach (RBA) guidance for the life insurance and the securities sectors. These guidance documents were developed in close partnership with the private sector.

### **Risk-based Approach Guidance for the Securities Sector**

The risk-based guidance for securities products and services provides specific guidance and examples for securities providers and their supervisors. It highlights that the ML/TF risk assessment should reflect the nature, size and complexity of the business. It also stresses the important role of the senior management in fostering and promoting a culture of compliance with anti-money laundering and counter-terrorist financing measures. The guidance document can be accessed here: <http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/RBA-Securities-Sector.pdf>

### **Risk-based Approach Guidance for the Life Insurance Sector**

The risk-based guidance for the life insurance sector highlights the nature and level of money laundering and terrorist financing risks of the life insurance sector. It provides indications and examples of ML/TF risks for a range of life insurance products. The guidance highlights that the ML/TF risk assessment should reflect the nature, size and complexity of the business: from a simple risk assessment for less complex life insurers and intermediaries, to a more complex risk assessment that takes into account group-wide risk appetite and framework. The Guidance aims to support the design and implementation of the RBA for the life insurance sector, taking into account national ML/TF risk assessments and legal and regulatory frameworks to combat money laundering and terrorist financing. The guidance document can be accessed here: <http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/RBA-Life-Insurance.pdf>

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

The Plenary heard an update on FATFs ongoing work concerning FinTech and RegTech, including the outcomes from the joint FATF-EAG FinTech and RegTech Forum which was held in Hangzhou, China on 4-5 September 2018, and presentations by the European Commission and the United Kingdom on their ongoing initiatives in this area.

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## ***Future work on Digital IDs***

The FATF will develop guidance on digital identity. The guidance will consider endorsement by national authorities as a key test for the acceptability of digital ID. It will focus mainly on the reliability and independence features of digital IDs that are not issued on the basis of a process that is agreed, regulated or supervised by a national authority. Further, the guidance will consider and describe potential risks, as well as opportunities for their mitigation in the context of digital IDs. The FATF will consider a first draft of this guidance in February 2019, with a planned completion of the project in June 2019, following further consultation with private sector experts.

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## ***Outcomes of the meeting of the FATF Forum of Heads of Financial Intelligence Units (FIUs)***

FATF Heads of FIUs met in the margins of the FATF Plenary to discuss how to enhance the effectiveness of suspicious transaction reporting and the quality of financial intelligence, with participation from private sector participants. The Forum agreed two reports, one addressing how large international financial institutions identify suspicious activity, and the other describing the practical considerations in setting up public-private partnerships. These reports will be disseminated through the FATF Global Network.

The Plenary also agreed that the Forum take on new projects relating to virtual asset risks and effective approaches to detection and analysis and on enhancing FIU strategic analysis.

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## **Public documents identifying jurisdictions that may pose a risk to the international financial system**

These are discussed in the FIC's advisory note issued on 6 November 2018 which can be accessed [here](#).

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

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