



Financial Action Task Force

OBJECTIVES FOR FATF – XXXI (2019-2020)

PAPER BY THE INCOMING PRESIDENT

CHINESE PRESIDENCY PRIORITIES FOR THE FINANCIAL ACTION TASK FORCE (FATF)

China is proud to take the Presidency of the FATF in the year of its 30th Anniversary, during which its Ministers agreed an open-ended mandate for the organisation, recognising its evolution from a temporary forum to a sustained public and political commitment to fight money laundering, terrorist financing, and proliferation financing.

Under the Chinese Presidency, the FATF will continue to deliver its core work of identifying risks, setting standards, evaluating and holding countries to account for effective action. In 2019-20 this will include closely monitoring and reporting on the financing of ISIL, AQ and Affiliates; work on confiscation and asset recovery; best practices to improve the transparency of beneficial ownership; the mutual evaluations of Russia, Turkey, United Arab Emirates, Korea, Japan and South Africa; and the first 5th year follow-up assessments of effectiveness for Norway, Spain, Australia, Belgium and Malaysia.

In addition to reporting to its ministers, the FATF will continue to support the priorities of the G20 under the Presidency of Japan and subsequently Saudi Arabia. It will strengthen its support for the FATF-Style Regional Bodies (FSRBs) and work to ensure the quality and consistency of evaluations against the FATF Standards, through the efforts of members and the FATF Secretariat.

The Presidency will continue to improve engagement and dialogue with the private sector, including through the annual Private Sector Consultative Forum hosted by the UNODC. The FATF will work collaboratively with other standard-setting bodies, and in support of the UN in critical areas such as sustainable development and financial inclusion.

The Presidency will support further efforts to strengthen the effectiveness of the FATF as an international organisation and ensure it is fit for the future, including by leading a strategic review of the FATF's evaluation and follow up processes.

Building on initiatives of the Presidencies of Spain, Argentina and the US, the Chinese Presidency will lead further action to mitigate the risks from financial innovation and to take full advantage of the opportunities presented by new technologies, including for more effective implementation of preventive measures.

Given the increasing scale and impact of money laundering and the high profile and persistent failures of financial institutions to implement effective controls, the FATF will bring together supervisors from across the FATF Global Network to share challenges and best practices. This will reinforce its expectations of supervisors, promoting a more effective risk-based approach to supervision and support for innovation.

The challenge many countries face today is not the absence of comprehensive global standards. It is the effective implementation of those standards. To that end, the FATF will develop an e-learning

package to be available to all countries. In addition, the Presidency will promote the development and coordination of high quality training on the FATF Standards throughout the 205 jurisdictions that have committed to implement and be assessed against them.

Finally, the FATF may consider the opportunity for work on money laundering from illegal wildlife trafficking. This is estimated to be the fourth most profitable criminal trafficking enterprise, generating revenues of between USD 7 billion and USD 23 billion a year, with links to modern slavery, narcotics and the arms trade. The FATF's work in this area could build on recent work by the FSRBs and current international initiatives.

CONDUCTING A STRATEGIC REVIEW

As agreed by members in February 2019, and following the adoption of an open-ended mandate by ministers in April, under the Chinese Presidency the FATF will conduct a strategic review of its core work.

The review will focus on the mutual evaluation and follow-up processes. It will consider experience from the evaluations done to date, and it will inform agreement by the FATF Plenary on the future of this work after the current round.

As the determining factor for the majority of the costs for members, in terms of being assessed, providing assessors and funding the Secretariat, the review should strengthen the efficiency and the effectiveness of FATF and make the FATF's country assessments and monitoring processes more timely, effective and risk-based.

The Presidency proposes this work be led by an ad hoc group open to all FATF members and FSRBs, and that it includes reviewing FATF's achievements to date, the factors that have contributed most to this and the approach and activities that are likely to be most effective in driving positive change by countries in the future.

MITIGATING THE RISKS AND EXPLOITING THE OPPORTUNITIES OF NEW TECHNOLOGIES

The FATF has for many years acted to identify and mitigate the risks of technological developments in financial services, from issuing guidance for a risk-based approach to pre-paid cards, mobile payments and internet-based payment services, to setting the first global standards for the regulation of virtual assets, including crypto assets. Under the Chinese Presidency, the FATF will develop the methodology for countries to be assessed against the standard for virtual assets, and it will start assessing FATF members for effective compliance with it.

New technologies also provide opportunities for improvements to the efficiency and effectiveness of AML/CFT controls, both for supervision and for the benefit of financial intelligence units in their analysis of suspicious transaction reports.

Recognising the need to harness these opportunities, under this Presidency, FATF will issue guidance on the use of digital ID. This will support supervisors and help the private sector realise savings and improve the effectiveness of customer due diligence measures, while mitigating the risks that may arise.

Through this and further work to explore the opportunities provided by technology, the FATF will promote financial inclusion and the implementation of effective AML/CFT measures. This should enable and support more dynamic risk assessment and timely action by regulated entities to mitigate those risks, as well as more effective and risk-based supervision by national authorities.

PROMOTING AND ENABLING MORE EFFECTIVE SUPERVISION BY NATIONAL AUTHORITIES

Financial institutions continue to attract attention for the wrong reasons and find themselves the focus of increasingly large-scale money laundering as highlighted by investigations and sanctions by law enforcement agencies and supervisors.

The FATF will continue to strengthen the capacity and effectiveness of criminal justice systems, including the investigation and prosecution of money laundering and terrorist financing. At the same time, the FATF must take further steps to improve supervision and to ensure that national supervisors and regulated entities focus on outcomes rather than processes. This in turn will help address the impact of de-risking by banks across vulnerable communities, higher risk customers and the risks for correspondent banking relationships and for financial inclusion.

To that end, the FATF will convene a meeting or meetings of supervisors to share challenges and best practices in this area with the aim of:

- Addressing challenges identified in FATF evaluations, such as developing and implementing a more sophisticated risk-based approach to supervision and effective international cooperation between supervisors.
- Communicating recent changes to the FATF standards and guidance issued by FATF to ensure this is properly understood and is being acted upon by supervisors.
- Promoting public-private partnerships as an effective means of enabling a more intelligence-led approach to supervision and higher quality suspicious transaction reporting.
- Considering how technology can support a focus on better outcomes, including the use of artificial intelligence and machine learning.

OTHER PRIORITIES

In addition to the main priorities set out above, under the Chinese Presidency, the FATF will

- a) Strengthen coordination and capacity for training on the FATF standards throughout the FATF Global Network. As demonstrated by mutual evaluation reports, many countries face substantial challenges implementing the FATF standards effectively and there is a pressing need for more effective and targeted training in many countries.

The April 2019 Declaration of Ministers of the FATF, calls on the IMF, the World Bank, the United Nations and multilateral technical assistance providers to increase their capacity building in the area of AML/CFT/CPF. Consistent with that, the FATF will encourage those bodies and other observers to the FATF, to enhance and target their capacity building efforts, and ensure they are informed by the findings of FATF mutual evaluations.

Building on this, and the work done by FATF TREIN and Secretariat, the Presidency will promote more effective coordination of training on the FATF standards and support efforts to increase the capacity for providing this training throughout the FATF Global Network.

- b) Consider the opportunity to build on work by the FSRBs and current international initiatives to develop best practices for fighting money laundering from the illegal trafficking in wildlife.
- c) Develop and issue best practices on beneficial ownership.