

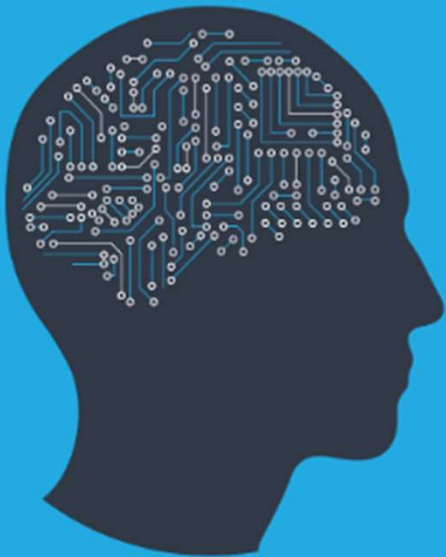
17 APRIL 2024

FATF 5th Round What has changed ?


WITH ELISABETH LEES
CLARITAS LEGAL, CAYMAN ISLANDS

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- **Not Legal advice**
- **Approximately 1 hour**
- **Polls during live broadcast**
- **Q&A - post questions**
- **Auto generated certificates of participation are emailed to live attendees only. Recording will be sent out in a few days.**
- **All previous recordings can be found on the SILO Compliance website: <https://silocompliance.com/resources/>**
- **Thank you to various risk management professionals who share with me your experiences/challenges!**



The Financial Action Task Force Fifth Round and the role of Industry

Elisabeth Lees



Overview

- 1: FATF, CFATF and the Mutual Evaluation Process
- 2: Overview of Fifth Round
- 3: The Role of Industry prior to the Mutual Evaluation
- 4: The Role of Industry during the Onsite Visit



Introduction

- The Financial Action Task Force (FATF) leads global action to tackle money laundering, terrorist financing and proliferation financing.
- FATF promotes global standards to mitigate risks and assesses whether countries are taking effective action.
- FATF has 40 Recommendations and accompanying interpretive notes (INs).
- FATF has a methodology with criteria by which to assess countries.



Financial Action Task Force

- Monitors countries to ensure they implement the FATF standards fully and effectively and holds countries to account that do not comply.
 - 40 Technical Compliance – is the legal framework in place?
 - 11 Immediate Outcomes – how effective is the system?
- Members (39 countries (1 suspended), the EC), Associate Members (e.g. CFATF), Observers (e.g. IMF)
- The newest member is Indonesia (2023)



FSRBs



Caribbean Financial Action Task Force

- There are 9 FATF Style Regional Bodies (FSRBs).
- CFATF is the FSRB for the Caribbean with 24 members.
- The FATF is the only standard-setting body and the guardian and arbiter of the application of its standard.
- The FATF and FSRBs are interdependent partners in the global anti-money laundering and countering the financing of terrorist network.
- Despite the autonomy of the FATF and individual FSRBs from one another, they share a common goal in combating money laundering and the financing of terrorism and proliferation, and in fostering effective AML/CFT systems.
- FSRBs should understand the risks associated with money laundering and terrorist financing in the region.



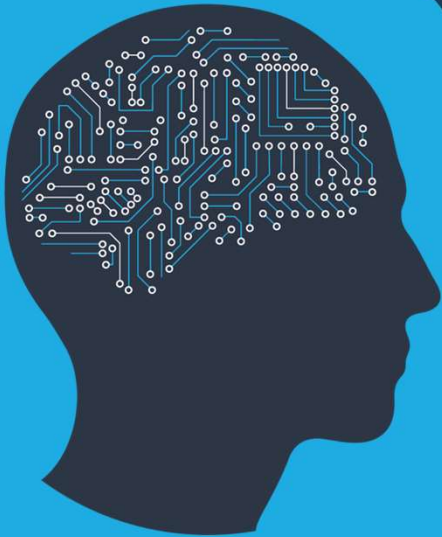
CFATF Mutual Evaluations, Cayman Islands

- Cayman Islands Third Round CFATF Mutual Evaluation Report: November 2007.
- Cayman Islands Fourth Round CFATF Mutual Evaluation Report: March 2019.
- Cayman Islands added to the grey list: February 2021.
- Cayman Islands removed from FATF Grey List: October 2023.



Poll Question 1

Have you been involved in a Mutual Evaluation in relation to your country or another country?



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The Mutual Evaluation Process

- The Mutual Evaluation Team
- The period under review
- The timeline
 - Technical Compliance
 - Effectiveness
- The Plenary
- The Observation Period
- The Joint Group of the Americas



Overview of Fifth Round timeline

| FOURTH ROUND | FIFTH ROUND |
|---------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|
| 10 year average cycle | 6 year cycle |
| Assessment sequence based on: 1. Time since last assessment 2. Level of ML / TF risk 3. Size of economy and financial sector | Assessment sequence based on time since last assessment |
| 3 years to address deficiencies | Observation period – one year |

Newsroom

MONEYVAL launches the evaluation process of Latvia

RIGA | 25 MARCH 2024



www.coe.int/moneyval

Search tool

Fraud warning

Are you looking for a news posted the previous years?
[2005-2017]

Planned Assessments (extract)

| Country | Assessment Body | Possible onsite | Possible Plenary |
|----------------------|-----------------|-----------------|------------------|
| Belgium | FATF | Apr 2025 | Oct 2025 |
| Singapore | FATF-APG | Apr 2025 | Feb 2026 |
| United States | FATF | Apr 2026 | Oct 2026 |
| United Arab Emirates | FATF-MENAFATF | Aug 2026 | Feb 2027 |
| United Kingdom | FATF | Aug 2027 | Feb 2028 |

Overview of Fifth Round

- There will be a greater focus on **effectiveness** (i.e. assessment of the 11 immediate outcomes).
- The effectiveness of the **financial sector and the non-financial businesses** and professions will be assessed separately.
 - To provide a clearer overview of the level of effectiveness of these distinct areas, and stronger and more targeted recommendations for improvement.
- Recommendations from the mutual evaluation reports will be **more results-oriented**, focusing on specific actions and timelines to tackle money laundering, terrorist financing and the financing of weapons of mass destruction.
- The methodology for the Fifth Round has been published in draft form and is subject to change.



Report on the State of Effectiveness and Compliance with the FATF Standards (April 2022)

To successfully achieve the 11 immediate outcomes of the FATF's effectiveness-based peer reviews, countries need to make fundamental or major improvements to their money laundering and terrorist financing systems in the next round of mutual evaluations. This can only be achieved if countries redouble their efforts. In this regard, the FATF's peer review process can help apply pressure and incentivize greater progress.



IO4 preventative measures

HOW DO SOME COUNTRIES ACHIEVE A HIGH LEVEL OF EFFECTIVENESS?

Authorities identify and understand the relative risk of each sector in a detailed manner. Authorities also conduct awareness raising, particularly in highest-risk or important (high materiality) sectors, and [work with the private sector to identify new and emerging risks](#). Conversely, the private sector also demonstrates an effective understanding of risks relevant to their activities.

Authorities often engage with the private sector and exchange information, notably [through public-private-partnerships](#) to rapidly exchange information on risks and high-risk activities or persons.

In the financial sector, strong regulatory coverage extends beyond the large banks and financial institutions, and reaches all relevant businesses (such as insurance, lenders and securities sector).

Authorities ensure that often-neglected sectors in designated non-financial businesses and professions (like real estate agents, lawyers and trust and company service providers) conduct due diligence, keep records and file suspicious transaction reports in a manner that reflects risks.



Immediate Outcome 4, what improvements can countries make?

To improve their preventive measures, countries should first and foremost address the recommended actions in the Mutual Evaluation Reports. Looking more widely, countries should:

- » Continue to work on ensuring private sector improves implementation of preventive measures such as customer due diligence.
- » Focus efforts on preventive measures for vulnerable sectors like real estate, lawyers and trusts and company service providers.
- » All designated entities must strengthen their reporting requirements on suspicious transaction reports.



Overview of Fifth Round – Key Points

1. Risk and Context
- 2: Beneficial Ownership
- 3: Proliferation Financing
- 4: Asset recovery



Poll Question 2

Have you participated in a National Risk Assessment as a representative of industry or government / regulator?

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Risk and context

- There will be a greater emphasis on the major risks and context.

This will ensure that countries, and the assessors reviewing them focus on the areas where the risks are highest, not just lower-risk areas where it is comparatively easier to launch investigations and secure convictions.

- Importance of risk assessments, national and sectoral.

Industry: demonstrate understanding of risk, e.g. entity level risk assessments



Report on the State of Effectiveness and Compliance with the FATF Standards (April 2022) What improvements can countries make?

IO1 – Assessment of risk, coordination and policy setting

Share up-to-date national risk assessments and sectoral risk assessments **as widely as possible with relevant stakeholders**. Where relevant, **interact closely with external stakeholders in the private sector**, research institutes, nonprofit organisations and civil society to help develop their understanding of risks



Beneficial Ownership

FATF priority: Improve transparency of beneficial ownership and prevent criminals, the corrupt and sanctions evaders from hiding their illegal activities and assets behind anonymous shell companies, other businesses or legal arrangements.

Legal Persons: Revised recommendation 24, includes assessing and mitigating the ML and TF risks associated with **foreign companies** to which the country is exposed.

Legal Arrangements: Revised recommendation 25.

Industry: Ensure that BO information is accurate and filed on time.



Proliferation Financing

- Revision to R1 and INR1, require countries, financial institutions, designated non-financial businesses and professions and virtual asset service providers to identify, assess, understand and mitigate their proliferation financing risks.
- The risk of potential breaches, non-implementation or evasion of the targeted financial sanctions related to proliferation financing, as contained in FATF Recommendation 7.
- FATF Guidance on Proliferation Financing Risk Assessment and Mitigation, June 2021.
- Revisions to Anti-Money Laundering Regulations in the Cayman Islands.
- **Industry:** Conduct Entity-Wide Proliferation Financing Risk Assessments.



Asset Recovery

Countries intercept and recover **less than one per cent** of global illicit financial flows, according to estimates by the United Nations Office on Drugs and Crime.

- FATF: Improving global asset recovery is one of the priorities of Singapore Presidency.
- FATF and Interpol joint initiative:
 - Promote national policies and actions that prioritize tracing, seizure and confiscation of criminal assets
 - Enhance operational cooperation at the national, regional and international levels
 - Increase effective information sharing among public authorities and within the private sector.

Industry: SAR reporting, identification of assets



The Role of Industry leading up to the ME

Understand obligations and implement them.

Provide constructive input into requests for consultation on legislation and Guidance.

Engage with the supervisor.

Engage in outreach.

Consider examples of the effectiveness of Industry in compliance.

Consider examples of the input of Industry into risk assessments, legislative review, engagement.

Participate in risk assessments, provide assistance and feedback.



The Role of Industry during an onsite-visit

- Prepare for onsite interviews, conduct mock assessments.
- Prepare facts and examples to demonstrate effectiveness.
- Engage with the lead agency at the National Level.





Poll Question 3

Have you participated in a public private partnership?

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Joint Money Laundering Intelligence Taskforce

The NECC includes the well established Joint Money Laundering Intelligence Taskforce (JMLIT). JMLIT is a partnership between law enforcement and the financial sector to exchange and analyse information relating to money laundering and wider economic threats.

The taskforce consists of:

- over 40 financial institutions
- the Financial Conduct Authority
- Cifas
- five law-enforcement agencies: the NCA, HMRC, the SFO, the City of London Police, and the Metropolitan Police Service.

JMLIT is an innovative model for public/private information sharing that has generated very positive results since its inception in 2015, and is considered internationally to be an example of best practice.

If the UK is to tackle high-end money laundering schemes which are most commonly complex, multi-institutional, and multi-jurisdictional, then a forum to share information on new typologies, existing vulnerabilities, and live tactical intelligence, is essential.



Tackling financial crime together

Steps industry can take

- Public private partnerships
- Engagement in outreach
- The facilitation of outreach forums
- Engagement in risk assessments
- The formulation of Working Groups via Industry Associations
- Assistance with promotion of the jurisdiction's' efforts



Conclusion

- Risk and context is key. The risk must be assessed, understood and corresponding mitigating measures demonstrated.
- Proliferation Financing risk is a new requirement.
- There will be a greater focus on effectiveness.
- The Fifth Round Mutual Evaluations by FATF will commence in 2024 and will require statistics to be provided for the (four) preceding years.
- Industry can assist both prior to the Mutual Evaluation and during the onsite visit.



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