National Money Laundering and Terrorist Financing Risk Assessment

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FATF Recommendation 1

- Countries should **identify, assess, and understand** the money laundering and terrorist financing risks for the country, and should **take action**, including designating an authority or mechanism to coordinate actions to assess risks, and apply resources, aimed at ensuring the risks are mitigated effectively. Based on that assessment, countries should **apply a risk-based approach (RBA)** to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified. This approach should be an essential foundation to efficient allocation of resources across the anti-money laundering and countering the financing of terrorism (AML/CFT) regime and the implementation of risk-based measures throughout the FATF Recommendations. Where countries identify higher risks, they should ensure that their AML/CFT regime adequately addresses such risks. Where countries identify lower risks, they may decide to allow simplified measures for some of the FATF Recommendations under certain conditions.

- Countries should require financial institutions and designated non-financial businesses and professions (DNFBPs) to identify, assess and take effective action to mitigate their money laundering and terrorist financing risks

Effectiveness assessment (Immediate Outcome 1)

"Money laundering and terrorist financing risks are understood and, where appropriate, actions co-ordinate domestically to combat money laundering and the financing of terrorism and proliferation".

- 1.1. How well does the country understand its ML/TF risks?

- 1.2. How well are the identified ML/TF risks addressed by national AML/CFT policies and activities?

- 1.3 To what extent are the results of the assessment(s) of risks properly used to justify exemptions and support the application of enhanced measures for higher risk scenarios, or simplified measures for lower risk scenarios?

- 1.4. To what extent are the objectives and activities of the competent authorities and self-regulatory bodies consistent with the evolving national AML/CFT policies and with the ML/FT risks identified?

- 1.6. To what extent does the country ensure that respective financial institutions, DNFBPs and other sectors affected by the application of the FATF standard are aware of the relevant results of the national ML/TF risk assessment?

4th EU Directive

- Section 2 of the Directive is about NRA

- The Commission shall conduct an assessment of the risks of money laundering and terrorist financing affecting the internal market and relating to cross-border activities

- Each Member State shall take appropriate steps to identify, assess, understand and mitigate the risks of money laundering and terrorist financing affecting it, as well as any data protection concerns in that regard. It shall keep that risk assessment up to date.

- Each Member State shall designate an authority or establish a mechanism by which to coordinate the national response to the risks identified.

- In carrying out the risk assessments referred Member States shall make use of the findings of the supranational NRA.

How to assess risk?

- "**Risk** can be seen as a function of three factors: *threat*, *vulnerability* and *consequence*. An ML/TF *risk assessment* is a product or process based on a methodology, agreed by those parties involved, that attempts to identify, analyse and understand ML/TF risks and serves as a first step in addressing them" (FATF Guidance on NRA).

- No universally accepted methodology

- IMF, World Bank, OSCE

- Countries assessed under the new FATF standard so far: Australia, Belgium, Norway, Spain: in-house developed methodologies

Threat

- **ML threat can be:**
  - Criminals, past, present and future ML activities
  - Domestic proceeds of crime (i.e., all illegal revenue) from crimes committed domestically
  - Transnational (international) inflows of proceeds of crime from crimes committed abroad
- **FT threat can be:**
  - Terrorist groups/Terrorists, past, present and future terrorist and TF activities
  - Domestic fund raised from legally or illegally obtained assets
  - Transational (international) inflows of funds from sources abroad.

Vulnerability

- **ML/FT vulnerability** relates to the intrinsic properties in a product, service, distribution channel, customer base, institution, system, or jurisdiction (including weaknesses in systems, controls, or measures) that enable ML or FT risk events

- **Three main categories that have an impact on vulnerabilities**

  - Intrinsic properties: Not altered much by controls (e.g., geography, size of economy, currency, general aspects of products and services)

  - General controls and mitigants: Non-AML/CFT controls (e.g., non-AML supervision, tax scrutiny, registers, etc.)

  - AML/CFT controls: CDD/KYC, reporting requirements, etc.

Consequences

- ***Consequence*** refers to the impact or harm that ML or TF may cause and includes the effect of the underlying criminal and terrorist activity on financial systems and institutions, as well as the economy and society more generally.

- Two Types of ML/FT Consequences

  - Short-term consequences

    - Volume of ML/FT-related transactions occurring, directly or indirectly, through different categories of firms

  - Long-term consequences of risk events

    - Political (i.e. criminal organizations threaten or subvert state power)

    - Economic (i.e. macroeconomic impact of the drug economy)

    - Social (i.e. the increased costs of more crime)

Sources of Objective Data

- Crime and criminal justice statistics
- Various reports
- STR and other reporting statistics
- General financial sector characteristics
- General economic statistics
- Other statistics

Sources of Qualitative Data: Solicit Expert Views

- Surveys and Questionnaires

- Group Workshop Session Exercises

- Structured Interviews

- A very common approach in risk analysis due to limited data and/or resources

FATF Guidance on NRA

- Political Commitment

- Mechanism to steer process

- It is advisable that a national-level ML/TF assessment exercise involve a broad range of relevant departments, agencies and other organizations within the government:

  - Policy makers

  - Prosecution and Law Enforcement

  - Financial Intelligence Units

  - Intelligence agencies

  - Regulatory and supervisory bodies

FATF Guidance on NRA

- Private sector involvement may also be valuable in building a complete picture of national ML/TF risks and may benefit the assessment process in a number of ways – as either as a source of information or by having representatives participating directly in some aspects of the process if the country considers that appropriate:
  - Financial Institutions and DNFBPs
  - Industry Associations and Self-Regulatory Bodies
  - Others
  - Criminals (!!!)

NRA Process Benefits

- Identifies effectiveness of existing risk mitigation

- Identifies residual risks (for potential action)

- Process helps authorities in a structured manner, using data, to make informed & credible judgments that can be justified

- "Deconstructing" the ML processes helps authorities identify & assess their agency risks & understand their mitigation roles

- Facilitates national coordination

Lessons learned from Countries assessed by FATF

- There were significant shortcomings in the NRA process and methodology, and gaps in inputs and areas covered. For example, few government agencies were fully engaged in the process, which has resulted in challenges concerning the acceptance of the findings of the NRA. (Norway)

- The NRA was based on a limited range of data sources and the private sector was only peripherally consulted (Norway).

- Deficiencies in the assessment of threat (Australia, Norway)

Lessons learned from Countries assessed by FATF

- Current AML/CFT activities are not sufficiently being carried out on the basis of ML risk (Belgium Norway

  - supervisors and self-regulatory bodies (SRBs) have not incorporated the main ML/TF risks into their inspection policies (Belgium) or do not ensure that financial institutions and DNFBPs are implementing their obligations to assess and mitigate their risks (Norway)

- Exemptions from requirements for reporting entities and the application of enhanced or simplified measures are not based primarily on the results of the NTA, NRA or other efforts to assess ML/TF risks (Australia, Belgium Norway).

- Lack or poor communication of NRA findings to private sector (Australia, Belgium, Norway

- National Policy does not fully reflect NRA findings (Australia)

Questions?

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