



FINANCIAL ACTION TASK FORCE
GROUPE D'ACTION FINANCIÈRE

FATF Standards for Combating the Financing of Proliferation

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List of acronyms

ACRONYM	DESCRIPTION
AML/CFT	Anti-Money Laundering/Countering the Financing of Terrorism
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
FOP	Financing of Proliferation
FT	Financing of Terrorism
FSRB	FATF-Style Regional Body
ML	Money Laundering
OP	Operative Paragraph
TFS	Targeted Financial Sanctions
UN	United Nations
UNSCR	United Nations Security Council Resolution
WMD	Weapons of Mass Destruction

FATF and financing of proliferation (FOP)

- FATF: Inter-governmental policy-making body established by G7 in 1989 (Ministerial mandate) with 36 members/22 observers, including the UN
- Mandate: Renewed in April 2012 (through 2020)
 - Setting standards and promoting effective implementation of legal, regulatory and operational measures for combating ML, FT and FOP. Working to identify national-level vulnerabilities to protect the international financial system from misuse.
- FATF Standards: **The FATF 40 Recommendations**
 - Internationally recognised standards for an effective AML/CFT/FOP framework (revised in 2012).
 - Covering FOP in **Recommendations 2** and **7**.

FATF standards relating to FOP(1)

- **FATF Recommendation 2** (National cooperation and coordination)

Countries should ensure that policy-makers, the FIU, law enforcement authorities, supervisors and other relevant competent authorities, at the policy-making and operational levels, **have effective mechanisms in place which enable them to cooperate, and, where appropriate, coordinate domestically with each other concerning the development and implementation of policies and activities to combat money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction.**

FATF standards relating to FOP(2)

■ FATF Recommendation 7

- A new standard to assist countries in implementing targeted financial sanctions related to proliferation.

Countries should implement targeted financial sanctions to comply with United Nations Security Council resolutions relating to the prevention, suppression and disruption of proliferation of weapons of mass destruction and its financing.

- TFS: asset freezing and prohibitions to prevent funds from being available for the designated persons/entities
- R7 aims to support the implementation of UNSCRs 1718, 1874, 2087, 2094(DPRK), 1737, 1747, 1803, 1929(Iran), and successor resolutions.
- Focus is prevention, to stop the flow of FOP related funds.

FATF guidance on implementation of UNSCRs to counter WMD proliferation

- **A FATF guidance** *The implementation of financial provisions of UNSCRs to counter the proliferation of WMD* to assist implementation of the UNSCRs (issued in June 2013).
- Guidance covers TFS, activity-based financial prohibitions, vigilance measures, and other financial provisions contained in UNSCRs to counter WMD proliferation: Guidance goes beyond Recommendation 7.
- In addition to country-specific UNSCRs, Guidance mentions broad-based financial provisions of **resolution 1540 (2004)**.

Other tools available for FOP (1)

- The best practices paper on R.2 *Sharing among domestic competent authorities information related to the financing of proliferation* identifies **key agencies** (export control, customs, border control agencies, intelligence, the FIU, law enforcement/prosecution agencies, financial supervisors etc.) and sets out mechanisms by which relevant agencies co-operate/co-ordinate to combat FOP.

- **Other FATF Recommendations** also assist detecting FOP/illicit financial flow:
 - **Customer due diligence (R.10)/Record keeping (R.11)/Wire transfers (R.16)**
 - **Reporting of suspicious transactions (R.20)**
 - FIU and Law enforcement powers (R.29 – R.31)
 - **Cash couriers (R.32)**

Other tools available for FOP (2)

- **FATF's country assessment**

- FATF assesses country's implementation of the 40 Recommendations, including **R.2** and **R.7**.

- A country would be assessed against:

- 1) **Technical compliance** with 40 Recommendations

- Legal/institutional AML/CFT framework of the country; powers/procedures of competent authorities etc.: ***compliant (C), largely compliant (LC), partially compliant (PC), or non-compliant (NC)***

- 2) **Effectiveness**

- How well the AML/CFT system is working in practice in the country: ***high, substantial, moderate, or low*** level of effectiveness

Result of country assessment (1)

- **FATF assessed Norway and Spain in October 2014**

	Technical Compliance		Effectiveness of the AML/CFT system in the country	
	R.2	R.7	Immediate Outcome 1 (Risk, Policy and Coordination)	Immediate Outcome 11 (Proliferation Financing/Sanctions)
Spain	LC	PC	Substantial	Moderate
Norway	PC	PC	Moderate	Moderate

(*LC: Largely Compliant; PC: Partially Compliant)

- **Spain:** “...there is inadequate cooperation and coordination between the competent authorities responsible for export control, and other competent authorities...who can add value in the area of detecting proliferation-related sanctions evasion.”

(p.11, *Mutual Evaluation Report of Spain*, December 2014)

Result of country assessment (2)

	Technical Compliance		Effectiveness of the AML/CFT system in the country	
	R.2	R.7	Immediate Outcome 1 (Risk, Policy and Coordination)	Immediate Outcome 11 (Proliferation Financing/Sanctions)
Spain	LC	PC	Substantial	Moderate
Norway	PC	PC	Moderate	Moderate

(*LC: Largely Compliant; PC: Partially Compliant)

- Norway:** “...There is strong coordination and cooperation between competent authorities on Proliferation Financing, although this **does not include engagement with the Financial Supervisory Authority...The delays in transposing designations into Norwegian law** undermine Norway’s ability to use targeted financial sanctions as a tool to combat Proliferation Financing.”

(p.18, *Mutual Evaluation Report of Norway*, December 2014)

Lesson learned

- **Fulfilling requirements under R.2/R.7 is not easy**
 - Mechanisms to cooperate/coordinate, involving all relevant authorities, both those supervising financial sector and export/border control agencies, may not exist.

- **R.7 requires freezing ‘without delay’**
 - UN sanctions list need to be transposed into domestic laws/regulations: it always adds time to implement the sanctions.

A way ahead

- FATF's country assessment continues: **countries need to be prepared**. Many Asian countries will be assessed through regional bodies (FSRBs, e.g. APG)
- FATF tools and UNSCRs are **mutually reinforcing**: FATF continues to **monitor country's implementation of FATF standards** and **issue/revise guidance** as needed.
 - **Synergies** between the FATF Recommendations and UNSCRs: e.g. resolution 2094(2013) welcomes Recommendation 7 and **urges countries to apply FATF's Interpretive Note to Recommendation 7** and related **guidance papers** for effective implementation of targeted financial sanctions related to proliferation.



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For further information

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