

## FATF: Where Anti-Money Laundering Rules Come From

By MICHAEL S. EDWARDS | July 2013

Wherever your credit union is located, the Financial Action Task Force (FATF) is the international standard setting body from which most of the principles behind your jurisdiction's anti-money laundering and combating the financing of terrorist (AML/CFT) rules originate.

The FATF is an independent, intra-governmental body that develops international regulatory standards to combat money laundering, terrorist financing and the financing of the proliferation of weapons of mass destruction. Thirty-four countries, as well as the European Commission and the Gulf Co-operation Council, are FATF members. The FATF also relies on an intra-global network of associate member, regional FATF-style organizations, such as the Financial Action Task Force of South America Against Money Laundering (GAFISUD) and the Caribbean Financial Action Task Force (CFATF), which require their member jurisdictions to adopt and follow the FATF's AML/CFT rules even when those jurisdictions are not direct FATF members.

Two important aspects of the FATF's AML principles that can help reduce unnecessary AML/CFT regulatory burdens for credit unions are:

1. The "risk-based approach" to AML/CFT compliance, as set forth by the FATF's revised 40 *Recommendations on AML/CFT* issued in February 2012; and
2. Simplified AML/CFT measures to promote financial inclusion as described in the February 2013 FATF guidance on *Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion*.



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What the risk-based approach means in practice is that many – but not all – credit union members can be treated as lower-risk customers for AML/CFT purposes because of credit unions' common bond requirements (especially for credit unions with employment-based or localized common bonds); lack of presence of terrorists or drug traffickers within the credit union's field of membership; and other factors that logically indicate the member is a low risk for committing financial crimes. The risk-based approach therefore encourages jurisdictions and credit unions to focus their AML/CFT customer due diligence and monitoring on their highest risk members and away from routine, tick-the-box-style AML/CFT compliance.

The FATF's guidance on financial inclusion allows streamlined AML/CFT procedures under limited circumstances – such as where there is "proven low risk" or for transactions below a *de minimis* threshold – and is designed to help improve unbanked people's



access to formal financial institutions like credit unions. Underserved people in need of increased financial inclusion typically include people in rural areas, low-income persons, undocumented workers, homeless or itinerant people or those who have been underserved or otherwise excluded from the financial sector.

According to the FATF, regulatory flexibility is essential to promoting financial inclusion in large part because such flexibility makes serving the poor and other unbanked persons cost-effective when it would otherwise not be. Without the option of streamlined AML/CFT rules to promote financial inclusion via credit unions and banks, unbanked persons are often driven by necessity into the informal financial sector. There they lack consumer protections; loans are often made at usurious rates of interest; and money laundering is easier to conceal.

Later this year, the FATF is likely to issue guidance papers regarding the expansion of the “politically exposed persons” (PEPs) definition to include domestic PEPs and international organization PEPs. Under the prior definition, only foreigners were considered PEPs. The papers will also provide updated guidance

on “new payment products and services” (NPPS) such as prepaid cards, workers’ remittances and mobile and Internet-based payments. In April, World Council participated in the FATF’s private sector consultative forum in London regarding the upcoming PEPs and NPPS guidance and filed a comment letter with the FATF on the draft NPPS guidance. The letter urged revisions to reduce regulatory burden and increase financial inclusion.

World Council will continue to engage the FATF regarding these and other international AML/CFT issues to help limit unnecessary regulatory compliance burdens on the world’s credit unions and help them continue to serve their members and promote financial inclusion.

Find sample anti-money laundering guides and resources from Canada, Ireland and the United States at [cuworld.woccu.org/2013\\_v15i1#Champion](http://cuworld.woccu.org/2013_v15i1#Champion).

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