World Council

August 31, 2020

Delivered Via Email: FATF.Publicconsultation@fatf-gafi.org

Dr. Marcus Pleyer, President
Financial Action Task Force
FATF/GAFI
2, Rue André Pascal
75775 Paris Cedex 16 FRANCE

Re: Comments from World Council of Credit Unions Re: Public consultation on FATF's Recommendation 1 and its Interpretive Note

Dear President Pleyer:

World Council of Credit Unions (World Council) appreciates the opportunity to comment on the Public consultation of FATF's Recommendation 1 and its Interpretive Note.[1] Credit unions are cooperative depository institutions and World Council is the leading trade association and development organization for the international credit union movement. Worldwide, there are over 85,000 credit unions in 118 countries with USD 2.1 trillion in total assets serving 274 million physical person members.[2]

World Council supports FATF's proposed amendments to Recommendation 1, notably its support for a risk-based approach when implementing mitigating systems to address proliferation financing (PF) risks. While we encourage FATF to finalize the amendments to Recommendation 1 with a risk-based approach, World Council urges specific guidance to national-level regulators to apply tailored mandates and regulations to small financial institutions such as credit unions in a way that is proportional to the size, risk, and complexity of the institution.

Credit unions rarely engage in cross-border operations, are smaller in size and assets, distribute smaller sized loans, issue lower credit limits, are not as complex in structure, and have diminished profit driven motivations because they are not beholden to stockholders. More importantly, as member-owned institutions that often contain limited fields of membership, credit unions enjoy an advantage, as compared to their bank counterparts, in having better knowledge ot the identity and background of their

[1] See, Public consultation on FATF's Recommendation 1 and its Interpretive Note Interpretive.
[2] World Council of Credit Unions, *2018 Statistical Report* (2019), *available at* http://www.woccu.org/publications/statreport.

members.

National-level regulators show great deference to the guidance and recommendations of international standard setting bodies, as such, they often apply the strictest standards on any given sliding scale of a risk-based approach, and fail to appropriately apply guidelines specifically tailored to credit unions, cooperative institutions and smaller, less risky institutions (i.e. “gold-plating”). This proves to be overburdensome on credit unions, and ultimately diminishes much needed limited resources and capital.

Recommendation 1 states that, “Where countries identify lower risks, they should ensure that the measures applied are commensurate with the level of proliferation financing risk, while still ensuring full implementation of the targeted financial sanctions as required in Recommendation 7.” FATF further clarifies in the Interpretive Note to Recommendation 1 that, “In determining the measures to mitigate proliferation financing risks in a sector, countries should consider the proliferation financing risks associated with the relevant sector. By adopting risk-based measures, competent authorities, financial institutions and DNFBPs should be able to ensure that these measures are commensurate with the risks identified, and that would enable them to make decisions on how to allocate their own resources in the most effective way.”[3] In addition to this language, we request clear direction to national-level regulators on the importance of properly tailoring additional requirements resulting from the risk analysis that is commensurate with the risk. The regulatory burden should never result in situations where persons are denied access to services, particularly disadvantaged groups. This will help alleviate the imposition of requirements that exceed the risk of the institution.

According to the Interpretive Note to Recommendation 1, “The policies, controls and procedures should be approved by senior management, and the measures taken to manage and mitigate the risks (whether higher or lower) should be consistent with national requirements and with guidance from competent authorities and SRBs.”[4] Small financial institutions such as credit unions have limited resources and capacity to monitor unlikely PF risks. Credit unions often have minimal financial and staff resources because of the relatively small size of their assets, as such, regulatory burden increasing monitoring requirements are a significant issue for credit unions. The amount of necessary staff, resources, training and money to support operational costs in order to monitor PF risks required by law often proves to be disproportionate for credit unions that often do not have the economies of scale that the larger global systemically important bank counterparts have. Credit unions must undertake the additional measures requested by regulators to mitigate risks that do not necessarily

[3] See, Public consultation on FATF's Recommendation 1 and its Interpretive Note Interpretive; Note to Recommendation 1, paragraph 3.

[4] See, Public consultation on FATF's Recommendation 1 and its Interpretive Note Interpretive; Note to Recommendation 1; B. Obligations and decisions for financial institutions and DNFBPs, paragraph 13.

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exist. We ask that these obstacles are taken into consideration, and the requirements for monitoring PF risks are reduced and accommodating to the unique challenges credit unions face.

World Council reiterates its support for FATF's proposed amendments to Recommendation 1 relating to PF risks. We again urge FATF to consider additional language that will direct national-level regulators to apply proportionate regulations specifically tailored to credit unions and small financial institutions that are not overly burdensome and are appropriate to the size, risk and complexity of the institution. World Council appreciates the opportunity to comment on the Financial Action Task Force's, Public Consultation on FATF's Recommendation 1 and its Interpretive Note. If you have questions about our comments, please feel free to contact me at pmonford@woccu.org or +1-202-510-9347.

Sincerely,

Panya Monford, Esq.
Advocacy Counsel
World Council of Credit Unions

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