World Council of Credit Unions, Inc.

July 4, 2012

Send via email
Anne-Françoise Lefèvre
Policy Analyst, AML/CFT
Financial Action Task Force
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Re: FATF Guidance on Financial inclusion - draft revised document for comments

Dear Ms. Lefèvre:

World Council of Credit Unions (World Council) appreciates the opportunity to comment on the Financial Action Task Force's (FATF) draft revisions to its guidance on *Anti-money laundering and terrorist financing measures and Financial inclusion*, which the FATF issued in June 2011.[1] World Council is the leading trade association and development organization for the international credit union movement. Worldwide, there are nearly 53,000 cooperatively owned not-for-profit credit unions in 100 countries, with more than US$1.2 trillion in savings and 188 million credit union members.

Credit union members usually live and/or work in the local community where the credit union's office or offices are located. Many credit unions are very small (often having less than US$ 1 million in assets), are partly and at times entirely run by volunteers, and are typically governed by an unpaid board of directors. These institutions frequently have limited capacity to deal with detailed and prescriptive regulations but are nonetheless essential to promoting financial inclusion in their local, often rural, communities.

Credit unions seek to increase underserved individuals' income and assets by giving them access to low-cost credit union financial services. Credit unions engage in a variety of outreach activities to unbanked groups, such as bringing credit, savings, and remittance services directly to people living in remote rural areas, offering electronic and mobile banking products, "matched savings" programs designed to promote healthy savings habits, programs to encourage poor women to join credit unions, and so forth. Regulatory requirements on anti-money laundering (AML) can, however, prevent some individuals from being allowed to hold an account at a credit union or bank, and are often difficult and expensive for credit unions to comply with. World Council therefore supports the FATF in developing a strong and clear Risk-Based Approach to help credit unions and other small institutions promote financial inclusion of unbanked individuals.

World Council's Detailed Comments

- We strongly support the draft's guidance regarding the Risk-Based Approach (RBA) in the context of the FATF's revised AML recommendations issued in February 2012.[2]

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Improving people's lives through credit unions

[1] FATF, *Anti-money laundering and terrorist financing measures and Financial inclusion* (June 2011), *available at* http://www.fatf-gafi.org/media/fatf/content/images/AML%20CFT%20measures%20and%20financial%20inclusion.pdf.
[2] FATF, *International Standards on Combatting Money Laundering and the Financing of Terrorism & Proliferation: The FATF Recommendations* (Feb. 2012), *available at* http://www.fatf-

- Specifically, we strongly support the RBA guidance contained in Paragraph 4 (discussing the FATF's reinforcement of the RBA), Paragraphs 32-37 (providing an overview of the RBA), Paragraph 49 (permitting a simplified, cost-efficient AML regime for lower-risk "small value client groups"), Paragraphs 51-53 (regarding lower-risk activities that countries can exempt from AML compliance procedures), and Paragraphs 69-70 (clarifying the RBA's approach to Customer Due Diligence (CDD) procedures).

- We strongly support Paragraph 33's statements regarding uniform AML requirements imposing a disproportionate compliance burden on small financial institutions, but request clarification regarding the intended meaning of the revision placing parentheses around the words "small" and "large." We note that AML compliance can be disproportionately burdensome on smaller credit unions (because of their limited staff resources) but that credit unions of all sizes experience such burdens.

- Similarly, we also strongly support Paragraph 36's revision to provide clarity about countries' implementation of the RBA. The new wording states that "countries will move away from "'one size fits all' solutions." This change will have a positive effect in many credit union systems by helping to ensure that new and existing AML rules do not adversely affect smaller credit unions (while at the same time creating unintended competitive advantages for larger banks that are better able to bear AML compliance costs because of economies of scale).

- It is our experience that national regulators are sometimes reluctant to authorize streamlined AML procedures which are not expressly referenced in FATF guidance. In this connection, we support Paragraph 37's statements that it "is broadly recognised that this approach requires significant domestic consultation and cross-sector dialogue." Similarly, we support the detailed discussion of lower-risk CDD scenarios in Paragraphs 74- 81 (including the statements that these examples are not exhaustive) as well as the numerous examples of national AML rules allowing simplified CDD measures, etc., in Paragraphs 85-105.

- We believe that Paragraphs 38-50 regarding risk-based threat assessments provides useful guidance for countries regarding national threat assessments (pursuant to FATF Recommendation 1).[3] The threat assessment will ideally be used by reporting entities to identify and assess AML risks for different market segments, intermediaries, and products on an ongoing basis. We support further FATF guidance on this issue—especially considering this issue's relevance to financial inclusion (see, for example, Paragraph 49)—and therefore look forward to the FATF's future paper on this issue, "Guidance for countries on assessing money laundering and terrorist financing risk," referenced in footnote 33.

- We support Paragraph 56's guidance regarding the need for countries to develop a methodology to assess and justify "proven low risk." National "low risk" standards will allow countries to apply these simplified measures consistently and in a way that takes into account each country's unique financial and legal systems and culture.

- Paragraph 72's draft revision would change this Paragraph's focus from "small" financial institutions' regulatory burden to regulatory burdens associated with "small" clients. We request clarification on the intent of this change because—based on the guidance's discussion

gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%20approved%20February%202012%20reprint%20March%202012.pdf.

[3] *See id.* at 11.

of the RBA and burdens on small institutions elsewhere (such as in Paragraph 33)—we do not believe that the FATF intends for this amendment to Paragraph 72 to represent a change in its AML guidance vis-à-vis small institutions as a practical matter.

Thank you for the opportunity to comment on the FATF's draft revisions to its financial inclusion guidance. If you have questions about our comments, please feel free to contact me at medwards@woccu.org or +1-202-508-6755.

Sincerely,

Michael S. Edwards
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Advocacy and Government Affairs