

Elements of a Successful Anti-Money Laundering/ Countering the Financing of Terrorism/ Countering Proliferation Financing System "EFFECTIVENESS"

Overview of the Mutual Evaluation Process

The Financial Action Task Force (FATF) Mutual Evaluation Reports are in-depth country assessments analyzing the implementation and effectiveness of measures to combat money laundering and terrorist financing.

Mutual Evaluations are peer reviews, where individuals from different member countries assess another member country. A Mutual Evaluation Report (MER) provides a detailed description and analysis of a country's system for preventing criminal abuse of the financial system as well as recommendations to the country to further strengthen its systems.

Mutual Evaluations are precise and comprehensive in accordance with the FATF's 40 Recommendations. A country is only deemed compliant if it can prove to the other members of the FATF and Caribbean Financial Action Task Force (CFATF) that its systems are adequate and effective in combating financial crime. Therefore, the onus is on the assessed country to demonstrate that it has an effective framework to protect the financial system from abuse.

Figure 1 below summarizes the Mutual Evaluation Process



Topics Discussed:

- ⇒ Overview of the Mutual Evaluation Process
- ⇒ Effectiveness Explained
- ⇒ Effectiveness vs Technical Compliance
- ⇒ Immediate Outcomes
- ⇒ The Context of Risk in Effectiveness
- ⇒ Effectiveness: The Rating System

Effectiveness Explained

The Mutual Evaluation is an assessment of Technical Compliance and Effectiveness. Based on the FATF's Methodology, "Effectiveness" is defined as the extent to which a country's Anti-Money Laundering/Countering the Financing of Terrorism and Countering Proliferation Financing (AML/CFT/CPF) regime is achieving the defined outcomes of an effective system that allows them to identify and mitigate their risks and threats of money-laundering, terrorist financing and proliferation financing (ML/TF/PF).

Assessing the effectiveness of a country's AML/CFT/CPF System is intended to:

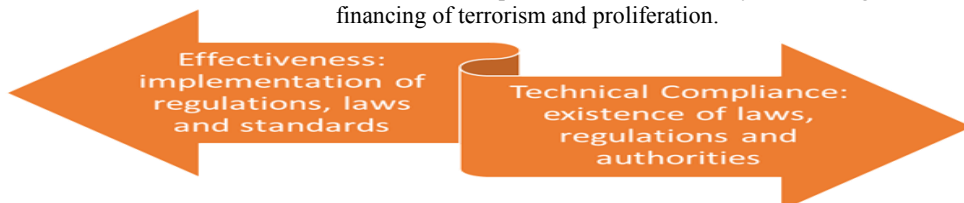
- (a) Identify the extent to which the national AML/CFT/CPF regime is achieving the objectives of the FATF standards;
- (b) Identify systematic weaknesses; and
- (c) Enable countries to prioritize measures to improve their systems.

During the Mutual Evaluation, the Assessment Team would gauge how well the various competent authorities use their understanding of the risks to make decisions concerning policy developments and actions to mitigate ML/TF/PF risks.

They would also seek to ensure that all assessments conducted by the country are comprehensive and reflect a satisfactory understanding of risks.

Effectiveness vs Technical Compliance

- For Effectiveness, the Assessment Team will require evidence that demonstrates that the assessed country's measures are working and produce the right results to reduce the effects of financial crime. This evidence is gathered during the on-site visit of the Mutual Evaluation process.
- In Technical Compliance, the assessed country must provide information on the laws, regulations and any other legal instruments in place to combat money laundering and the financing of terrorism and proliferation.



Immediate Outcomes

In order to achieve the right balance between an overall understanding of the effectiveness of a country's AML/CFT/CPF system and a detailed appreciation of how well its components are operating, the FATF uses eleven (11) Immediate Outcomes (IOs) to assess effectiveness.

Each IO represents one of the key goals which an effective AML/CFT/CPF regime should achieve.

IO 1: Properly identify, assess and understand ML/TF risks and coordinate domestically to implement actions to mitigate these risks.

IO 2: The country provides constructive and timely information or assistance when requested by other countries.

IO 3: Supervisors appropriately supervise, monitor and regulate Financial Institutions (FIs), Designated Non-Financial Businesses and Professions (DNFBPs) and Virtual Asset Service Providers (VASPs) for compliance with AML/CFT requirements in line with their risks.

IO 4: FIs, DNFBPs and VASPs should apply AML/CFT preventative measures in line with their risks and report suspicious transactions.

IO 5: Legal Persons and arrangements are prevented from misuse for money laundering or terrorist financing and information on their beneficial ownership is available to competent authorities without impediments.

IO 6: Financial intelligence and all other relevant information are appropriately used by competent authorities for money laundering and terrorist financing investigations.

IO 7: Money laundering offences and activities are investigated and offenders are prosecuted and subject to effective, proportionate and dissuasive sanctions.

IO 8: Proceeds and instrumentalities of crime are confiscated.

IO 9: Terrorist financing offences and activities are investigated and persons who finance terrorism are prosecuted and subject to effective, proportionate and dissuasive sanctions.

IO 10: Terrorists, terrorist organizations and terrorist financiers are prevented from raising, moving and using funds and from abusing the NPO Sector.

IO 11: Persons and entities involved in the proliferation of weapons of mass destruction are prevented from raising, moving and using funds, consistent with the relevant United Nations Security Council Regulations (UNSCRs).

The extent to which a country implements the technical requirements of each of the FATF Recommendations remains important as they are the foundation for an effective framework to protect the financial services system.

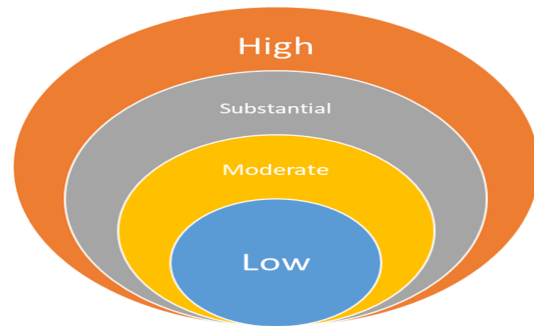
Adopting compliant laws and regulations, however, is not sufficient. Each country must enforce these measures, and ensure that the operational, law enforcement and legal components of an AML/CFT system work together effectively to deliver results.

The Context of Risk in Effectiveness

Risk and Context are intricately embedded in the analysis of every FATF Recommendation and Immediate Outcome since a determination of the success of a country's system must be based on how implemented measures impact circumstances specific to that country. This must take into consideration the ML/TF/PF risks they face, the composition of sectors in that economy, the types of cross border flows, level of corruption and other indicators.

During a Mutual Evaluation, the Assessors will look for evidence that demonstrates how well all these components are working together in the context of the risks to which the country is exposed.

Effectiveness: The Rating System



The Effectiveness Rating System consists of four (4) pillars which are explained below.

1. High Level of Effectiveness: The IO is achieved to a very large extent and minor improvements are needed.
2. Substantial Level of Effectiveness: The IO is achieved to a large extent and moderate improvements are needed.
3. Moderate Level of Effectiveness: The IO is achieved to some extent and major improvements are needed.
4. Low Level of Effectiveness: The IO is not achieved or achieved to a negligible extent. Fundamental improvements are needed.

The purpose of implementing AML/CFT/CPF measures is to stop criminals and terrorists from abusing the financial system. Through effective implementation of these measures, countries can help trace and stop the financial flows linked to serious crime and terrorism, and make society safer.

Due to the effects of the COVID-19 pandemic, the on-site visit of the Mutual Evaluation of St. Kitts and Nevis which was scheduled for March 2020 has been postponed until September 2020 (tentatively). St. Kitts and Nevis continues to make the necessary arrangements to prepare for this process.

References

- * **An Effective System to Combat Money Laundering and Terrorist Financing, CFTAF Secretariat**
- * **What is Effectiveness? CFATF Secretariat**
- * **FATF Methodology**