

CARIBBEAN FINANCIAL ACTION TASK FORCE



Summary of Outcome: FATF Guidance on addressing Car Dealerships in Mutual Evaluations

August 2nd, 2023

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Overview

1. In March 2023, the CFATF Secretariat ('CFATF') tabled a Position Paper ('the Paper') titled, *Car Dealerships: Outliers to the FATF definition of DNFBPs*, at the CFATF Steering Group's Meeting. The Paper examined CFATF members'¹ inclusion of car dealerships as a DNFBP reporting sector within their AML/CFT supervisory regimes. To date, Members have either conducted sectoral analyses of identified high risk sectors or undertaken National Risk Assessments ('NRAs') consisting of sectors that may fall outside the scope of the FATF's definition of DNFBPs and have prioritised and allocated scarce to such sectors. The merits of the Paper did not propose a change to the FATF Standards but rather focused on added FATF guidance regarding the treatment of car dealerships in the write up of an MER, given the legitimacy of the risk.
2. The Paper, duly approved by the CFATF Steering Group, was forwarded to the FATF Global Network Coordination Group (GNCG) for consideration by FATF members. The issue which follows was discussed in the Paper titled, *CFATF Secretariat Request on Guidance to address Car Dealers in Mutual Evaluations*² at the GNCG Working Group Meeting in June 2023 Paris, France.

Issue

3. The CFATF Secretariat, on behalf of CFATF members, presented a position on the consideration of car dealers in evaluations within the context of IO.3 and IO.4. The issue raised by the CFATF follows:

'A risk-based approach requires countries to allocate resources across the AML/CFT system - including between sectoral supervisors' regimes - and therefore IO.3 and IO.4 should incorporate all sectors that represent a material risk, rather than being constrained to FIs, DNFBPs and VASPs.'

4. The FATF Secretariat ('FATF') reiterated its advice to the CFATF that the Methodology restricts the scope of IO.3 and IO.4 to financial institutions, DNFBPs, and VASPs only, and responses to the risks of car dealers being misused for ML, including their inclusion within the AML/CFT regulatory and supervisory framework, should be included predominantly under IO.1. While references to other DNFBPs that are not defined as a DNFBP within the scope of the Recommendations can be made in the MER, they should not be given any weight in the findings and the conclusions of IO.3 and IO.4. Conversely IO.1, and in particular core issue 1.2, are sufficiently broad to enable the coverage of car dealers or other high-value dealers to be incorporated in the analysis as a response to higher risks where they have been identified.

¹ Aruba, Belize, Curacao, Dominica, Grenada, Guyana, Jamaica, Montserrat, Sint Maarten, St. Vincent and the Grenadines, St Kitts and Nevis, St. Lucia, Suriname, Trinidad and Tobago, Turks and Caicos Islands.

² [FATF/GNCG\(2023\)38](#). Global Network Coordination Group: CFATF Secretariat Request On Guidance To Address Car Dealers In Mutual Evaluations



5. The FATF delineated the scope of DNFBPs as set out in R. 22 and the Glossary of the FATF Standards according to the category of service provider but exclude car dealers or other types ‘high-value dealers’ with the exception of dealers in precious metals and stones³. Considerations were made as to how the Methodology has been applied and precedents from recent FATF MEs; as well as whether the issue was raised in recent discussions of the Methodology on IO.3 and IO.4 including the potential implications for the Methodology, if the issue were to be pursued.

Discussion

6. FATF delegations were asked to consider the position presented on the exclusion of car dealers from the analysis of effectiveness under IO.3 and IO.4 in paper [FATF/GNCG\(2023\)38](#). Two options were considered:-

- i. Take note of the issue and not pursue it further, confirming that assessed jurisdictions’ responses to risks of car dealers being misused for ML should be included under IO.1, and not under IO.3 and 4; or
- ii. Conduct further work on this issue, with a discussion in ECG on the additional guidance that could be provided to CFATF, subject to consideration of Secretariat resource consistent with the Work Programme.

7. Based on a light touch review of MEs recently adopted by the FATF, around half countries assessed have high-value dealers incorporated within their AML/CFT frameworks (e.g., Germany, the Netherlands and New Zealand). In each instance, analysis has been included in Chapter 1 or in the analysis of IO.1 in Chapter 2 of MERs. Where references have been made in IOs.3 and 4, this has not been considered in the conclusion for such IOs., except for the inclusion of references or footnotes generally for the purposes of completeness (i.e., where DNFBP supervisors also supervise high-value dealers)⁴.

8. The FATF intimated that the inclusion of high-value dealers within the analysis of IO.3 and IO.4 is a more substantive issue affecting the Methodology, which was not pursued as part of the recent and wide-ranging revisions to the Methodology following the Strategic Review. No issues were raised in prior opportunities for review of the application of the Methodology for FIs and DNFBPs and in Policy discussions and the potential implications of broadening IOs. 3 and 4, both in ECG in 2018 and as part of the FATFs Strategic Review processes during the period 2018-2022. At the June 2018 Plenary and in 2021 and 2022, delegations noted that there may be a need to revise the Methodology to clarify the expectations on IOs.3 and 4 with respect to the materiality and weighting of DNFBPs and FIs, respectively. Plenary adopted revisions to the Methodology in

³ When they engage in any cash transaction with a customer equal to or above the applicable designated thresholds. See R.22.

⁴ Similarly for the purposes of technical compliance assessments, references to the high-value dealers for completeness where DNFBP supervision covers high-value dealers, without being considered in the weighting. This appears to be due to difficulties assessing DNFBP supervisors who conduct supervisory activities covering multiple sectors (both DNFBPs and high-value dealers)



October 2018, with footnotes to encourage assessors to better consider the risk and materiality associated with respective DNBFP and FI sectors⁵, following work by ECG.

9. Further, a review of the record of discussions of key issues or horizontal issues in ECG and Plenary for recent MEs, did not reflect any instances where extending the coverage of DNBFPs for inclusion IO3 and IO4 were raised nor the way that assessments should consider the resources that a jurisdiction would deploy to non-financial businesses outside the FATF definition, and whether this should be accounted for in the assessment of preventative measures and supervisory activities.

Decision and conclusion

12. Delegations at the GNCG meeting took note of the CFATF Secretariat's presentation on car dealers. During the Working Group deliberations, several delegations intervened namely, the European Commission, United Kingdom, U.S.A and ESAAMLG giving commendations to the CFATF membership on bringing this significant regional issue to the fore.

13. The GNCG agreed that further work should not be undertaken on the issue, and that analysis about such sector should be considered in IO.1 where non-financial sectors that are not DNBFPs have been regulated in response to risk, consistent with the approach taken by the FATF. CFATF will also consider how references to these sectors can be made in its MERs under IO3 and IO4 for completeness, while limiting analysis to IO1.

CFATF Secretariat
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⁵ Subsequently the VASP sector was also included within the Methodology following changes to R.15.
Caribbean Financial Action Task Force