



Immediate Outcome 4 - “Preventive Measures”

To what extent FIs, DNFBPs and VASPs adequately apply AML/CFT preventive measures commensurate with their risks, and report suspicions transactions.

CFATF Secretariat Research Desk



What are Preventive Measures?

“Preventive Measures” :



shutterstock.com • 1027256470



- ☐ Detail the requirements for the private sector to have appropriate measures in place to ensure their products and services are resistant to ML and TF.
- ☐ Should be commensurate with their ML/TF risks and should also include their reporting of suspicious transactions.
- ☐ Immediate Outcome (IO) 4 is supported by Recommendations 9-23.



Why are 'Preventive Measures' important?

- The private sector -FIs, DNFBPs and VASPs, can be misused and abused by criminals and are best positioned to become aware of the transactions that comprise the criminal offences of ML, TF, PF and other associated offences.
- They are thus critical partners in any country's AML/CFT/CPF regime.





Why are 'Preventive Measures' important? (2)

FIs, DNFBPs and VASPs need to take preventive measures”

- To effectively protect their businesses, sectors and financial systems from misuse and abuse by criminal networks through:
 - Sound identification and understanding of ML/TF risks and
 - Strong and appropriate application of CDD, record-keeping, internal control and reporting requirements.





IO 4 FATF requirements- Core Issues of Preventive Measures

In evaluating IO4, Assessors determine how to weight the financial, DNFBP and VASP sectors in terms of importance; They also determine how deficiencies found are weighted in relation to their determined weight of importance of the sector in which the deficiencies are found.

Core Issue 1- How well do FIs, DNFBPs and VASPs understand their ML/TF risks and AML/CFT obligations?

Understand the ML/TF risks that they are exposed to.

Understand the legal obligations they must enact to follow AML/CFT requirements.

To come to this conclusion, Assessors can undertake the following actions:-



- Interview members of the private sector.
- Examine to what extent private sector was involved in assessment of national ML/TF risks



- Investigate how well FIs, DNFBPs and VASPs identify and understand their risks based on:
 - *Their specific operations; scale of business & their geographic, customers, products, transactions and delivery channels.



- Analyze findings regarding entities' implementation of AML/CFT obligations



IO 4 FATF requirements-

Core Issues of Preventive Measures (2)

Core Issue 2 - How well do FIs, DNFBPs and VASPs apply mitigating measures in accordance with their risk?





IO 4 FATF requirements-

Core Issues of Preventive Measures (3)

Core Issue 3 - How well do FIs, DNFBPs and VASPs apply the CDD and record keeping measures and to what extent is business refused due to incomplete CDD?

Identify and monitor clients

- **To know who is conducting** and /or ultimately benefitting from financial transactions; to ensure customers are conducting transactions in line with their profile. Have there been changes in **customer activity/profile**?

Record-keeping

- Produce information for **law enforcement if an investigation** is under way.

Assessors evaluate through interviews and analysis of information provided, to what degree the private sector understood and implemented these requirements.

Investigate to what extent the private sector would refuse a transaction or business due to insufficient or incomplete identification information.



IO 4 FATF requirements-

Core Issues of Preventive Measures (4)

Core Issue 4 - How well do FIs, DNFBPs and VASPs apply the enhanced or specific measures for: PEPs, correspondent banking, new technologies, wire transfers rules, targeted financial sanctions and higher-risk countries?

Jurisdictions must apply enhanced or specific due diligence measures for higher risk situations which include

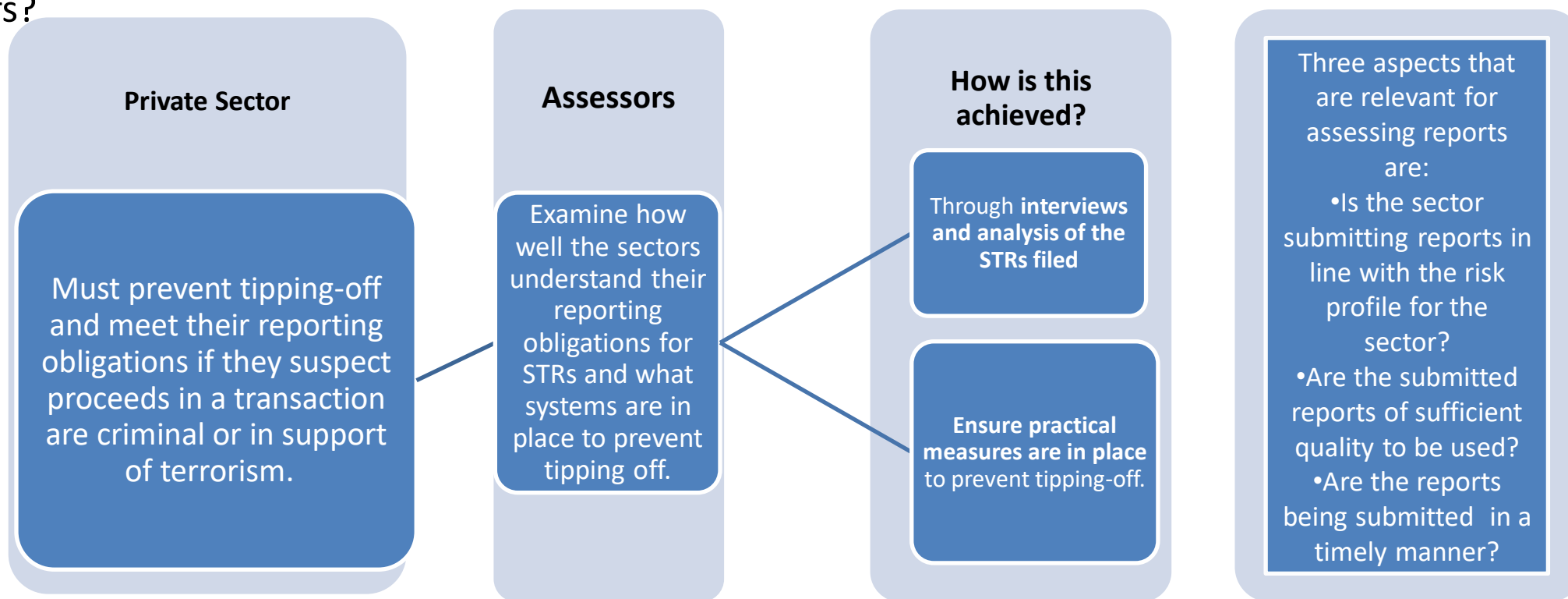
- (a) PEPs
- (b) Correspondent activities
- (c) new technologies
- (d) wire transfers
- (e) TF TFS and
- (f) higher risk countries



IO 4 FATF requirements-

Core Issues of Preventive Measures (5)

- **Core Issue 5** - To what extent do FIs, DNFBPs and VASPs meet their reporting obligations on the suspected proceeds of crime and terrorism funds? What are the practical measures to prevent tip-offs?





IO 4 FATF requirements-

Core Issues of Preventive Measures (5)

Core Issue 6 - How well do FIs, DNFBPs and VASPs apply internal controls and procedures to ensure compliance with AML/CFT requirements? Which legal or regulatory requirements are impeding its implementation?





CFATF Member experiences- IO 4

Jurisdiction	IO4
<u>Antigua & Barbuda</u>	ME
<u>Bahamas</u>	ME
<u>Barbados</u>	ME
<u>Bermuda</u>	ME
<u>Cayman Islands</u>	LE
<u>Haiti</u>	LE
<u>Jamaica</u>	LE
<u>Trinidad and Tobago</u>	ME
<u>Turks & Caicos Islands</u>	LE

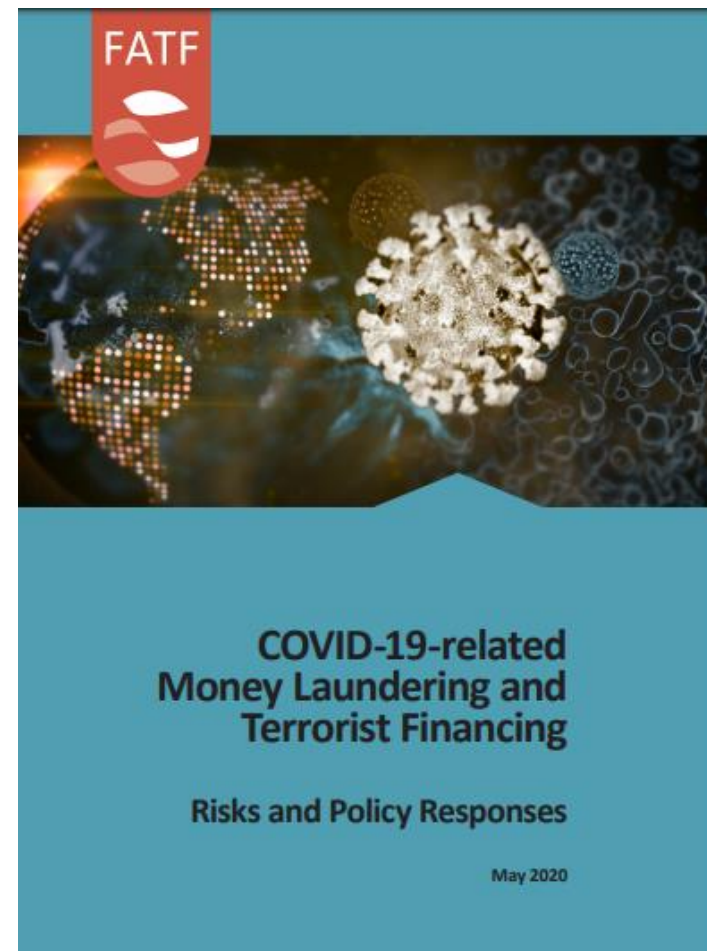


Risks identified by the FATF on COVID-19 related ML TF risks - May 2020

The FATF paper on COVID-19 related ML TF risks identified **emerging risks and vulnerabilities** that could result in criminals finding ways to:

- Bypass customer due diligence measures;
- Increase misuse of online financial services and virtual assets to move and conceal illicit funds;
- Exploit economic stimulus measures and insolvency schemes as a means for natural and legal persons to conceal and launder illicit proceeds;
- Increase use of the unregulated financial sector, creating additional opportunities for criminals to launder illicit funds;
- Misuse and misappropriation of domestic and international financial aid and emergency funding;
- Exploit COVID-19 and the associated economic downturn to move into new cash-intensive and high-liquidity lines of business in developing countries.

More than ever in the present circumstances, emphasis should be placed on fulfilling the requirements as set out in IO4.





Best practices-FATF Paper on COVID-19 related ML TF risks May 2020

Potential AML/CFT Responses as outlined by the FATF in this paper for consideration include:

- Domestic coordination to assess the impact of COVID-19 on AML/CFT risks and systems;
- Strengthened communication with the private sector;
- Encouraging the full use of a risk-based approach to customer due diligence;
- Supporting electronic and digital payment options;
- Undertake pragmatic, risk-based AML/CFT supervision;
- Understand new risks and adapt operational responses;
- Clarify AML/CFT requirements in the context of economic relief measures;
- Continue cooperating across borders;
- Monitor the impact of COVID-19 on the private sector.

