



What is “Effectiveness?”

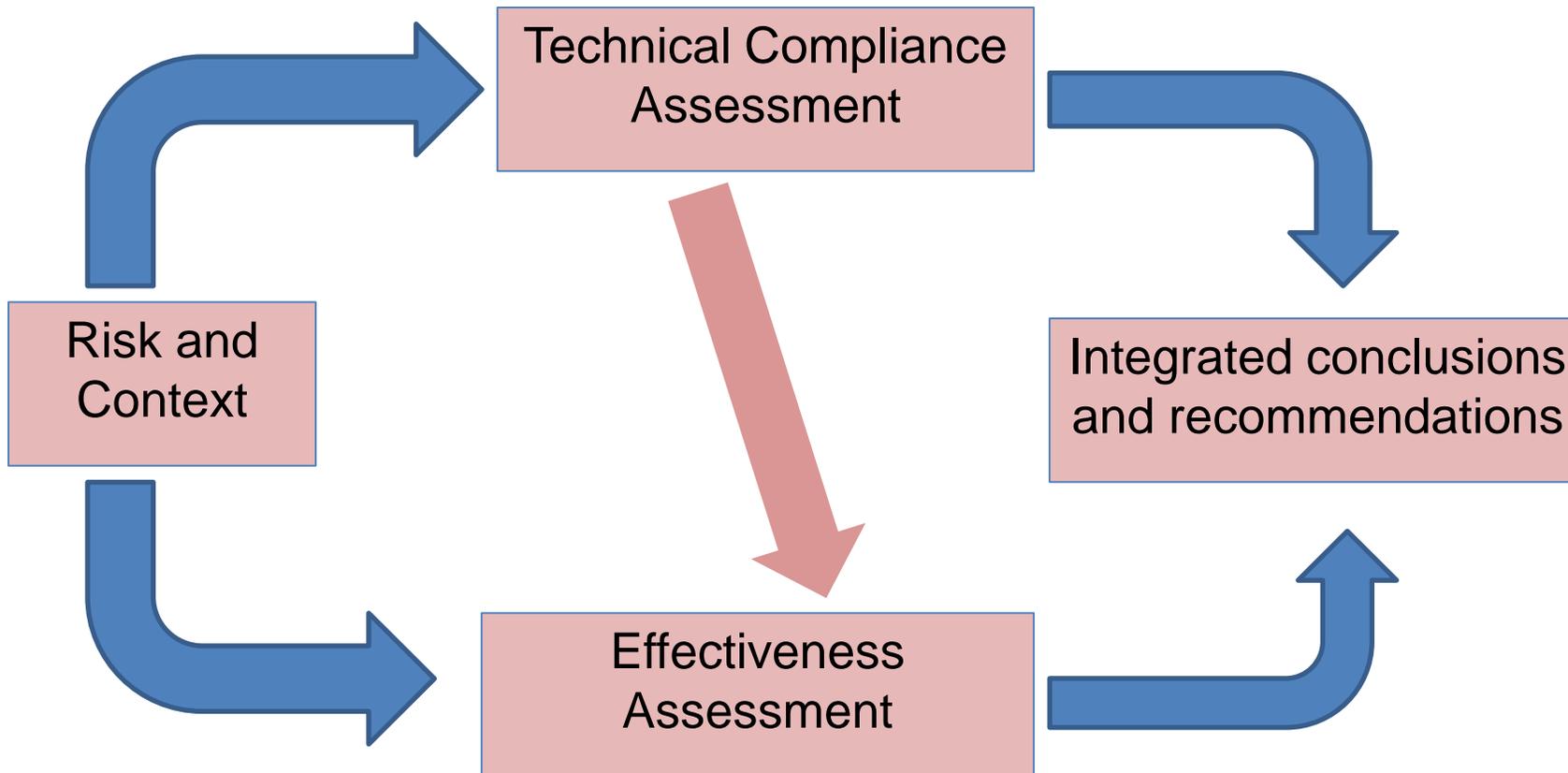
What makes an AML/CFT/CPF system successful?

CFATF Secretariat Research Desk

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The FATF Methodology



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Effectiveness vs Technical Compliance

“Effectiveness” :

-Beyond Technical Compliance (TC), the Fourth Round places much stronger emphasis on the assessment of effective implementation of the revised FATF Standards.

- ❖ Technical Compliance means the rules are in place in laws or regulations, and authorities exist.
- ❖ “Effectiveness” means the rules are implemented and produce the desired objectives of the FATF - to combat ML/TF and to “effectively” mitigate the risks the country faces.



Technical Compliance

Implementation of specific requirements with particular focus on:

- ✓ Laws
- ✓ Enforceable means (regulations, guidelines, instructions or other documents set out in mandatory language with sanctions for non-compliance issued or approved by a competent authority)
- ✓ Institutions (powers and procedures)



What is Effectiveness?

“Effectiveness”: To what extent is the national AML/CFT system achieving the objectives of the FATF standards?

Assessing effectiveness of a country’s AML/CFT system is intended to:

- (a) improve the FATF’s focus on outcomes;
- (b) identify the extent to which the national AML/CFT system is achieving the objectives of the FATF standards, and identify any systemic weaknesses; and
- (c) enable countries to prioritise measures to improve their system.



What is Effectiveness? - 1





What is Effectiveness? - 2

For the purposes of the FATF Methodology, ‘Effectiveness’ is defined as “The extent to which a country’s AML/CFT/CPF regime is **achieving the defined outcomes of an effective regime** that allows them to mitigate their risks and threats of ML/TF/PF”.

- Does the AML/CFT system work in practice? - How well is it achieving the objectives which it sets out to achieve?
- How well is the country mitigating the ML/TF risks?
- Outcomes not outputs- An output is the direct product of a process or programme, while the outcome is the change or benefit that ultimately results from it.
- Effectiveness is not the same as efficiency.



The FATF Methodology - 1

- The FATF Methodology provides definitive guidance for evaluating a country's AML/CFT/CPF regime.
- The Methodology states that the goal of an assessment of effectiveness is to provide an appreciation of the country's whole AML/CFT system and how well it works.
- Assessing effectiveness is based on whether the key objectives of an AML/CFT/CPF system in line with the FATF Standards are being effectively met in practice.
- The assessment process is reliant on the judgement of assessors, who will work in consultation with the assessed country.
- The country being assessed is tasked with the responsibility of demonstrating that its AML/CFT system is effective.



The FATF Methodology – 2

THE FRAMEWORK FOR ASSESSING EFFECTIVENESS

The FATF's approach focuses on a hierarchy of defined outcomes.

***High-Level Objective:** Financial systems and the broader economy are protected from the threats of money laundering and the financing of terrorism and proliferation, thereby strengthening financial sector integrity and contributing to safety and security*

In order to give the right balance between an overall understanding of the effectiveness of a country's AML/CFT system, and a detailed appreciation of how well its component parts are operating, the FATF assesses effectiveness primarily on the basis of ***eleven Immediate Outcomes***.

Each of these represents one of the key goals which an effective AML/CFT system should achieve.



The FATF Methodology - 3

Immediate Outcomes	Features of an effective system
IO 1	Properly identify, assess and understand ML/TF risks, and co-ordinate domestically to put in place actions to mitigate these risks.
IO 2	The country provides constructive and timely information or assistance when requested by other countries. Competent authorities assist with requests to: locate and extradite criminals; and identify, freeze, seize, confiscate and share assets and provide information (including evidence, financial intelligence, supervisory and beneficial ownership information) related to ML/TF or associated predicate offences.
IO 3	<i>Supervisors appropriately supervise, monitor and regulate FIs, DNFBPs and VASPs for compliance with AML/CFT requirements commensurate with their risks.</i>
IO 4	Financial institutions, DNFBPs and VASPs adequately apply AML/CFT preventive measures commensurate 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 organisations 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 UNSCRs.



Risk, Context & Effectiveness

- Effective = effectively mitigates ML/TF risks
- Risk and Context are a part of the analysis of every Core Issue since:

a determination of how successful a country's system is in producing the intended result, must be based on how implemented measures impact or address factors or circumstances specific to that country i.e. giving consideration to the ML/TF risks they face, the makeup of sectors in that country, the types of cross border flows, level of corruption etc.



Effectiveness and understanding, identifying and assessing risks

What would assessors look at:

- For TC:
 - the process, mechanism and information sources adopted, as well as contextual factors & reasonableness of the conclusions reached
- For Effectiveness:
 - How well do competent authorities use their understanding of the risks to inform policy developments and actions to mitigate ML/TF risks.
 - Important that the assessments are comprehensive in scope, reflect a good understanding of the risks and are coordinated nationally.



The Rating System: Effectiveness

High level of effectiveness	The Immediate Outcome is achieved to a very large extent. Minor improvements needed.
Substantial level of effectiveness	The Immediate Outcome is achieved to a large extent. Moderate improvements needed.
Moderate level of effectiveness	The Immediate Outcome is achieved to some extent. Major improvements needed.
Low level of effectiveness	The Immediate Outcome is not achieved or achieved to a negligible extent. Fundamental improvements needed.