Revisions to FATF Recommendations 1 and 2 – Proliferation Financing (PF)

CFATF Secretariat Research Desk

November 25th, 2020

Rationale for Revisions to Rs. 1 and 2

1. Strengthen the FATF Standards on countering the financing of proliferation (CPF) of Weapons of Mass Destruction (WMD).

2. Response to United Nations Security Council Resolution 2462 (2019).
   - All States are urged to assess specifically their terrorist financing (TF) risk and to identify most vulnerable economic sectors in line with FATF Standards (paragraph 14).
   - Guidance by FATF on assessing TF risk and most vulnerable sectors (paragraph 14).

3. FATF's role in CPF highlighted in June 2019 by the G20 in Fukuoka, Japan.
   - G20 sought further action by the FATF to strengthen the global response to proliferation financing (PF).

Updates to R.1 and R.2 - Proliferation Financing

Updates to FATF Recommendations – October 2020

1. Revision of Recommendation 1 and Interpretive Note to Recommendation 1 (INR. 1)
    - Revision of R. 1 and INR. 1 to require countries, financial institutions and DNFBPs to identify and assess the risks of potential breaches, non-implementation or evasion of the targeted financial sanctions related to proliferation financing, as contained in FATF Recommendation 7, and to take action to mitigate these risks.
2. Revision of Recommendation 2 and a new Interpretive Note to Recommendation 2 (INR. 2)
    - Minor consequential amendment in R.2 to insert reference to counter proliferation financing in the context of national co-operation and co-ordination.
    - Insertion of a new interpretive note that sets out the inter-agency framework to promote domestic co-operation, co-ordination and information exchange.

Source: “Information on updates made to the FATF Recommendations”

Revisions to Recommendation 1: Assessing PF Risk for Countries

Countries are required to identify, assess and understand their proliferation financing (PF) risks.

1. "Proliferation financing risk" refers strictly and only to potential breach, non-implementation or evasion of targeted financial sanctions obligations of Recommendation 7.

2. Countries should take these steps on an ongoing basis to:
    1. Inform potential changes to the country's CPF regime, including changes to laws, regulations and other measures;
    2. Assist in the allocation and prioritisation of CPF resources by competent authorities (CAs);
    3. Make information available for PF risk assessments conducted by financial institutions (FIs) and DNFBPs

        - Assessments should be kept up to date
        - Mechanisms should be in place to provide information on the results to all relevant CAs, Self-regulatory bodies (SRBs), FIs and DNFBPs.

Revisions to Recommendation 1: Mitigating PF Risk for Countries

Countries should take the appropriate steps to manage and mitigate identified PF risks. Countries should:

1. Develop an understanding of the proliferation financing risks present in their country
   - These risks should be shared within and across CAs and with the private sector

2. Ensure that FIs and DNFBPs take steps to identify higher risk circumstances and ensure that their counter proliferation financing (CPF) regime addresses these risks.

3. Ensure full implementation of R.7, regardless of risk scenario.

- For higher risks, countries should ensure FIs and DNFBPs take commensurate measures to manage and mitigate these risks.
- For lower risks, measures commensurate to the risk level should be applied, while still ensuring full implementation of the targeted financial sanctions (TFS) of R.7

Revisions to Recommendation 1: Assessing PF Risk for FIs and DNFBPs

FIs and DNFBPs should take the appropriate steps to manage and mitigate identified PF risks.

- This may be done within the existing TFS framework and/or compliance programmes

1. FIs and DNFBPs should document proliferation risk assessments to:
   - Demonstrate their basis
   - Keep the assessments up to date
   - Have appropriate mechanisms to provide information of the assessments to CAs and SRBs

2. The nature and extent of any proliferation risks assessment should be appropriate to the size and nature of the business.

3. CAs or SRBs may determine that individual documented risk assessments are not required, if the specific risks inherent to a sector is clearly identified and understood.

Revisions to Recommendation 1: Mitigating PF Risk for FIs and DNFBPs

FIs and DNFBPs should have policies, controls and procedures to effectively manage and mitigate the identified PF risks.

1. FIs and DNFBPs should be required to monitor the implementation of those controls and to enhance them, if necessary.
2. Senior management should approve the policies, controls and procedures employed to manage and mitigate PF risks.
3. Despite risk level (high or low), measured taken to manage and mitigate the risks should be consistent with national requirements and with guidance from CAs and SRBs.
4. Countries should ensure full implementation of R.7 in any risk scenario
   - For higher risks, countries should require FIs and DNFBPs to take commensurate measures to manage and mitigate risks
   - For lower risks, measures commensurate to the risk level should be applied, while still ensuring full implementation of the TFS of R.7

Revisions to Recommendation 2: National Cooperation and Coordination

1. Countries should have national AML/CFT/CPF policies, informed by the **risks** identified, which should be regularly reviewed, and should designate an authority or have a coordination or other mechanism that is responsible for such policies.

   - “**Risks**” refer to proliferation financing risks. These refer strictly and only to the potential breach, non-implementation or evasion of the TFS obligations referred to in R.7 .

2. Other requirements of Recommendation 2 remain unchanged.

Revisions to Recommendation 2: New Interpretive Note (INR. 2)

1. Countries should establish appropriate inter-agency frameworks for co-operation and coordination with respect to combating money laundering (ML), terrorist financing (TF) and the financing of proliferation (PF). These may be a single framework or different frameworks for ML, TF and PF respectively.

2. Such frameworks should be led by one or more designated authorities, or another mechanism that is responsible for setting national policies and ensuring co-operation and co-ordination among all the relevant agencies.

3. Inter-agency frameworks should include the authorities relevant to combating ML, TF and PF.
   - Such as competent central government departments, law enforcement, asset recovery and prosecution authorities, Financial Intelligence Units (FIUs), Supervisors and self-regulatory bodies (SRBs), tax authorities and other relevant agencies.

Source: The FATF Recommendations, 2012 (Updated October 2019)

Revisions to Recommendation 2: New Interpretive Note (INR. 2)

1. Countries should ensure that there are mechanisms in place to permit effective operational cooperation, and where appropriate, co-ordination and timely sharing of relevant information domestically between different competent authorities for operational purposes related to AML, CFT and CPF, both proactive and upon request. These could include:

i. Measures to clarify the role, information needs and information sources of each relevant authority;

ii. Measures to facilitate the timely flow of information among relevant authorities (e.g. standard formats and secure channels), and:

iii. Practical mechanisms to facilitate inter-agency work (e.g. joint teams or shared data platforms).

Source: The FATF Recommendations, 2012 (Updated October 2019)