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EDGE

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FATF (Financial Action Task Force)

Introduction:

The Financial Action Task Force (on Money Laundering) (FATF). It is an intergovernmental organization founded in 1989 on the initiative of the G7 to develop policies to combat money laundering and to maintain certain interest. In 2001, its mandate was expanded to include terrorism financing.

FATF was formed by the 1989 G7 Summit in Paris to combat the growing problem of money laundering. The task force was charged with studying money laundering trends, monitoring legislative, financial and law enforcement activities taken at the national and international level, reporting on compliance, and issuing recommendations and standards to combat money laundering. At the time of its formation, FATF had 16 members, which by 2021 had grown to 39.[9] In its first year, FATF issued a report containing forty recommendations to more effectively fight money laundering. These standards were revised in 2003 to reflect evolving patterns and techniques in money laundering.

Methodology and Recommendations:

The FATF's Forty Recommendations on money laundering of 1990 are the primary policies issued by FATF and the Nine Special Recommendations (SR) on Terrorism Financing (TF). The Recommendations are seen globally as the world standard in anti-money laundering as well many countries have made a commitment to put the Forty Recommendations in place. The Recommendations cover the criminal justice system and law enforcement, international co-operation, and the financial system and its regulation. The FATF completely revised the Forty Recommendations in 1996 and 2003. By 1996 the Recommendations had to be updated to include more than just drug-money laundering, as well as to keep up with changing techniques.

The methods used to launder the proceeds of criminal activities and to finance illicit activities are in constant evolution. As the international financial sector implements the FATF standards, criminals must find alternative ways to launder their dirty money.

The FATF carries out research into evolving methods and trends to assist countries in identifying, assessing and understanding their money laundering and terrorist financing risks. Once these risks are properly understood, countries will be able to implement more effective measures to mitigate the risks.

Money Laundering and Terrorist Financing Risks Arising from Migrant Smuggling:

Migrant smuggling is a global issue. Every year, millions of migrants seek to escape regional conflict, political instability, persecution and poverty in search of a better future. They can risk their lives at the hands of migrant smugglers who see them as an opportunity to make financial gains and often have little regard for the migrants' safety. The proceeds generated by migrant smuggling are estimated to exceed USD10 billion per year.

The FATF analysed the money laundering and terrorist financing risks associated with migrant smuggling. While there has been an increase in migrant smuggling, many countries do not consider it a high-risk crime for money laundering and the associated financial flows are rarely investigated. In July 2022, the FATF organised a webinar to raise further awareness of the way criminal organisations try to make a profit out of smuggling migrants.

Ethnically or racially motivated terrorist financing
Ethnically or racially motivated terrorism, also referred to as extreme right-wing terrorism, has increased in recent years, highlighting the need to raise awareness about this complex phenomenon and its financing. The FATF's research focuses on the funding behind this form of terrorism.

Money Laundering from Environmental Crime
Environmental crime is one of the most profitable criminal enterprises, generating around USD 110 to 281 billion in criminal gains each year. It covers a wide range of unlawful activities such as illegal logging, illegal wildlife trade and waste trafficking.

FATF Black List:

The FATF black list (sometimes referred to as the OECD black list) is a list of countries that the intragovernmental organization considers non-cooperative in the global effort to combat money laundering and the financing of terrorism. By issuing the list, the FATF hopes to encourage countries to improve their regulatory regimes and establish a global set of AML/CTF standards and norms black-listed countries will likely be subject to **economic sanctions** and other prohibitive measures by FATF member states and international organizations.

The black list is a living document issued and updated periodically in official FATF reports. Countries are added and withdrawn from the black list as their AML and CFT regulatory regimes are adjusted to meet the relevant FATF standards. The first FATF black list was issued in 2000 with an initial list of 15 countries. Since then, the lists have been published as part of official FATF statements and reports yearly and sometimes twice yearly.

FATF black list:

- North Korea
- Iran
- Myanmar

Grey List:

The FATF grey list, officially known as **Jurisdictions Under Increased Monitoring**, includes countries with deficiencies in their AML/CTF regimes. Like the black list, the grey list was created in 2000 and is updated periodically. Countries placed on the grey list are subject to increased monitoring and must work with FATF to improve their regimes.

To do this, the FATF either assesses them directly or uses **FATF-style regional bodies** (FSRBs) to report on their progress toward their AML/CTF goals. While grey list classification is not as punitive as the black list, countries on the list may still face economic sanctions from institutions like the International Monetary Fund (IMF) and the World Bank and experience adverse effects on trade.

The grey list is updated regularly as new countries are added or as countries that complete their action plans are removed.

Pakistan in FATF’s Grey List:

Pakistan was placed on FATF's grey list in June 2018 whereby it was found non-compliant with recommendations of the FATF which targeted areas of risk assessment, national cooperation, targeted sanctions, preventative measures, due diligence, internal and third-party controls, law enforcement, regulation and supervision for money laundering and terror financing.

Countries under Grey List are considered safe haven for supporting terror funding and money laundering are put in the FATF grey list.
This inclusion serves as a warning to the country that it may enter the blacklist. The FATF Plenary is the decision-making body of the FATF. It meets three times per year.
The main impact of being on the grey list that it raises the risk that the country could be placed on the black list which is a very serious threat and factor that discourages investors.
Financial Action Task Force (FATF) on 21 October 2022 excluded Pakistan from the grey list of the global watchdog on terror financing and money laundering after four years.
"Pakistan is no longer subject to FATF's increased monitoring process; to continue to work with APG (Asia/Pacific Group on Money Laundering) to further improve its AML/CFT (anti-money laundering & counter-terrorist financing) system," states FATF.

Conclusion:

In conclusion, the Financial Action Task Force (FATF) plays a critical role in combatting money laundering and terrorist financing globally. The organization has established international standards for anti-money laundering and counter-terrorism financing measures that countries must implement. FATF conducts mutual evaluations of countries compliance with these standards abd has the power to impose sanctions on non-compliant jurisdictions. Its efforts have resulted in increased cooperation and coordination among countries in the flight against illicit finance. However, there are still challenges facing the organization, including the need for greater transparency and accountability, and the need to adapt to emerging risks such as the use of cryptocurrencies. Despite these challenges, the FATF’s work remains crucial in protecting the integrity of the global financial system and preventing the funding of criminal activities.