

International AML/CFT Requirements and Processes

Presentation to Vanuatu FSC Symposium on Virtual Assets

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FATF Standards and Methodology

Financial Action Task Force (FATF) Global Network

Over 200 jurisdictions have committed to tackle ML, TF, PF through a global network of the FATF and FATF-Style Regional Bodies (FSRBs).



The International AML/CFT Standards

- Comprehensive framework of principles-based requirements:
 - Risk, policy and national coordination
 - Criminal justice
 - Preventive measures for the private sector and supervision
 - Transparency of legal persons and arrangements
 - Institutional frameworks and powers
 - International cooperation
- Many of the FATF Standards explicitly apply to VASPs while the others must be in place in generic terms to address the risks of Virtual Assets and VASPs
- Peer review based on Universal FATF Assessment Methodology



Revisions to the FATF Standards and Methodology

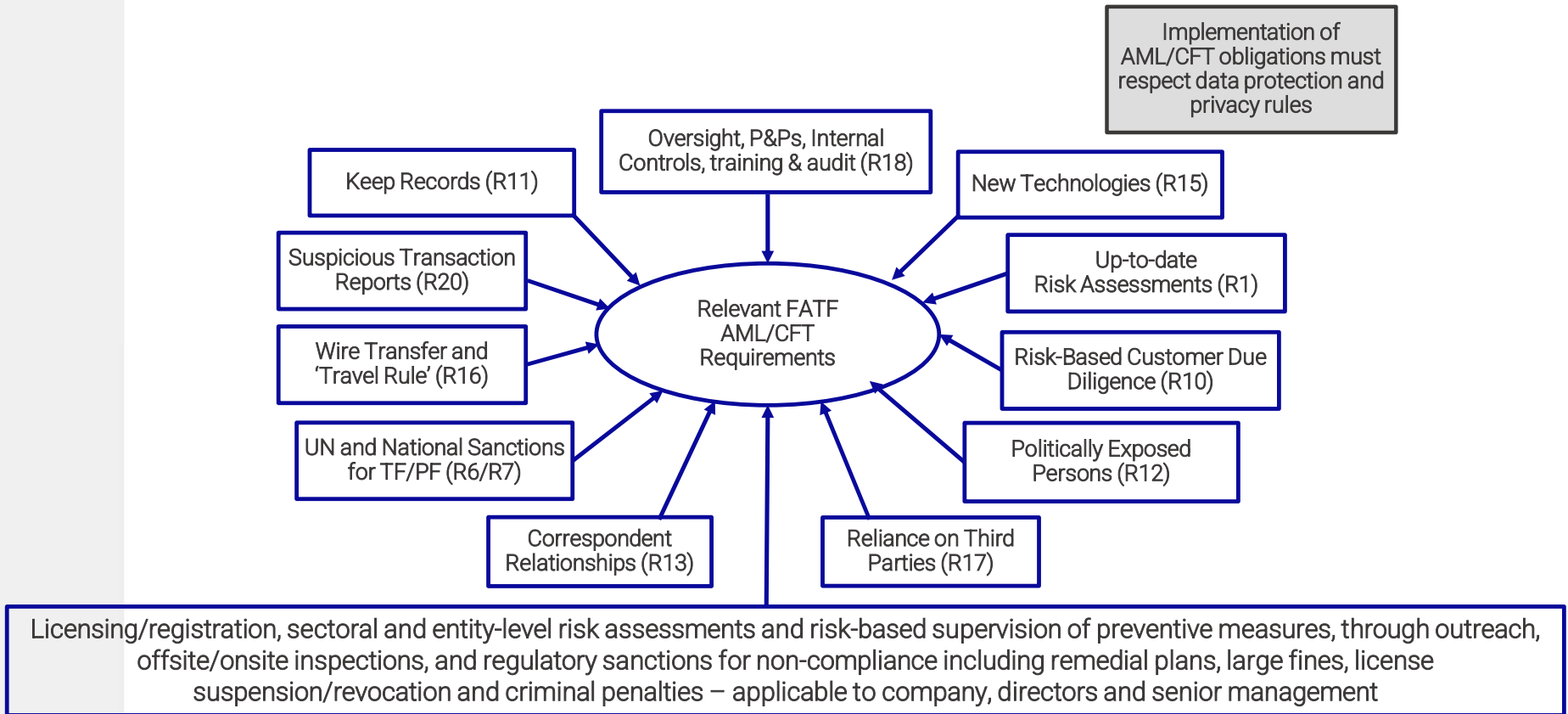
- Strategic Review launched by FATF Plenary in 2019 ended in February 2022 with the adoption of a revised Methodology and Procedures for the 5th Round
- Strategic Review introduced substantive changes to the Standards
 - Proliferation financing (R1, R2 and R15)
 - Asset recovery and NCBC (R4, R30, R31, R38 and R40)
 - Beneficial ownership (R24 and R25)
 - Preventive measures for the NPO sector (R8)
- All IOs have been revised accordingly with the exception of IO.8
 - IO.2 – More focus on how cooperation affects a country's performance
 - IO.7 – Streamlined to reduce overlap between core issues
 - IO.9 – Reduced overlap and clarified focus of core issues

AML/CFT Requirements for VASPs

Macro VASP Sector AML/CFT Requirements

- Conduct a risk assessment of virtual assets and VASPs
- Establish a licensing or registration regime for VASPs
- Require VASPs to implement AML/CFT preventive measures
 - These requirements must be set out in law or other enforceable means
- Subject VASPs to adequate regulation and risk-based supervision
- Ensure countries can investigate, prosecute and confiscate in relation to virtual asset-related crimes
- Should be done as part of a holistic approach to VASP regulation
 - Data Protection, Securities Regulation (consumer/investor protection), Prudential Regulation

Key FATF Standards Applicable to VASPs and VAs



R.16 (Wire Transfers) – FATF Travel Rule

REQUIRED ACTIONS

- Required information must be obtained and a record retained
- Screen to confirm that originator/ beneficiary are not subject to sanctions
- Monitor transactions and report suspicions
- Obligations apply equally to VASPs and FIs engaging in VA transfers for customers
- Must be applied to all VA transfers of **USD/EUR 1,000 or more**
 - No expectation that TR information is submitted to individuals who are not obliged entities (e.g., “unhosted” wallets)

DATA REQUIREMENTS

Originating VASPs must

- **obtain** and **hold required** and **accurate** originator information and **required** beneficiary information on VA transfers
- Submit the information to the beneficiary VASP or FI immediately and securely
- make available to authorities upon request

Beneficiary VASPs must

- **obtain** and **hold required** originator information and **required** and **accurate** beneficiary information on VA transfers
- make available to authorities upon request

Effectiveness of Preventive Measures

- VASPs adequately apply AML/CFT preventive measures commensurate with their risks, and report suspicious transactions
 - How well do VASPs understand their risks and obligations and how well do they apply mitigating measures?
 - How well do they apply CDD and record-keeping? Is business refused?
 - How well are specific measures applied? (e.g., PEPs, correspondent banking, wire transfers rules, financial sanctions)
 - How well do they meet their reporting obligations?
 - How well do they apply internal controls?

Considerations for Vanuatu's Next APG Mutual Evaluation

Illustrative Timeline: NRA Process and Mutual Evaluation Assuming July 2027 ME

Completion of NRA
(inherent risk
assessment)

**Dec
2024**

Mutual Evaluation
technical
compliance Annex
due

**March
2026**

Mutual
Evaluation
Onsite**

**Oct
2026**

Follow-up / ICRG
processes TBD
based on ME Results



**June
2025**

Completion of
Residual risk
assessment

**April
2026**

Mutual Evaluation
Effectiveness
response due to
APG

**July
2027
(est)**

ME adopted and
published

*** Cutoff date for all laws and regulations to be in full force and effect*

Main Stages of the ICRG Entry Process

- Entry criteria based on MER TC and/or EC ratings or by nomination
- One-year observation period, where country addresses MER Recommended Actions
- Jurisdiction provides submission to Joint Group (JG) for Post Observation Progress Report (POPR)
- JG prepares POPR and if jurisdiction progress deemed insufficient, JG develops draft action plan to address remaining strategic deficiencies
- POPR confirmed by ICRG and FATF Plenary
- FATF identifies country publicly on website (“grey list”), and requires high-level political commitment on action plan

FATF Public Statements

“GREY LIST”

- Jurisdictions for which the FATF calls on its members and non-members alike to apply enhanced due diligence measures.
- Should be proportionate to the risks arising from the deficiencies associated with those jurisdictions.
- Enhanced due diligence measures include:
 - Obtaining additional information on the customer;
 - Obtaining information on the source of funds and source of wealth of the customer;
 - Enhanced monitoring of the business relationship.

“BLACK LIST”

- For jurisdictions with serious, longstanding strategic deficiencies that have failed to make progress after a FATF call for enhanced due diligence.
- Listed countries are subject to a FATF call on its members and other countries to apply counter-measures to protect the international financial system from the ML/TF/PF risks of those countries.
- Counter-measures range may include:
 - Specific elements of enhanced due diligence;
 - Systematic reporting of transactions involving the jurisdiction;
 - Limitation or prohibitions on financial transactions with the jurisdiction.

ICRG Public Statement Exit Procedures

- Country expected to complete all, or nearly all, items included in action plan, followed by onsite to confirm progress
- ICRG assesses factually if process of implementing required actions are fully in place and being sustained with high-level political commitment to continue implementing
- Procedures do not contemplate countries moving from “black list” to “grey list”. Countries remain on the black list until action plan completed.

Intersection with EU AML/CFT and Tax Lists

EU AML/CFT List

- Identifies high-risk countries based on the faults in their AML/CTF regimes posing significant threats to the EU's financial system
- EU methodology for identifying countries considers the FATF lists as a starting point but is an autonomous assessment
- FATF delisting similarly factors into removal from EU list, but country must also meet EU delisting requirements

EU Tax List

- Listing criteria related to tax transparency, fair taxation and measures against base erosion and profit shifting
- Removal process guided by desk-based monitoring of a country's progress in implementing international tax standards

Thank You

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