

**European Union – Middle East North Africa (MENA)
Private Sector Dialogue (PSD) on Combating Financing Terrorism
3 September 2015 – Brussels, Belgium**

Keynote Speech by FATF Vice-President Mr. Juan Manuel Vega Serrano

Good morning.

It is my pleasure to be here with you all today. I would like to express my gratitude to the Union of Arab Banks for inviting the Financial Action Task Force (FATF) to participate in this event and have a dialogue with the private sector on challenges that we face at the times of combating terrorist financing.

As you know, the FATF is the international policy-making body whose purpose and responsibility is to protect the global financial system against money laundering and terrorist financing. Therefore, several of our current pressing priorities indeed coincide with the topics that we are going to cover in today's sessions, which I will address briefly.

First of all, terrorist financing is currently at the top of the FATF's list of priorities. The FATF Typologies Report on the *Financing of the terrorist organisation Islamic State in Iraq and the Levant (ISIL)*, which was published in February this year, gives insights into how ISIL differs from other terrorist organisations, how it finances its operations, and how this has "changed the scenario" for terrorist financing. The report, led by Turkey and the United States, is based on information and case studies from the FATF

delegations and open source information. To date, the feedback we have received from the private sector has been highly positive.

The ISIL phenomenon shows a new type of terrorist organisation with unique funding streams that are crucial to its activities. Therefore, cutting off this financing is critically important. For instance, ISIL is drawing material support from individual contributors, rather than soliciting funds from donor networks. ISIL's presence on the internet and social media has allowed it generate and convert international support into tangible funds.

Given its mandate, the FATF has a particular responsibility to develop a coordinated and decisive response to fight not just terrorist financing, but at the end of the day, terrorism. In line with the FATF's ongoing work, the G20 has asked the FATF to put special focus on global collaboration to enhance the transparency of payment systems in order to mitigate the risk of them being abused for terrorist financing and money laundering purposes. Going forward, the FATF is committed to taking the following actions to combat terrorist financing:

1. The FATF and FATF Style Regional Bodies (FSRBs), including the MENAFATF, will continue to work closely on the fact-finding exercise of measures undertaken by members to determine whether countries have criminalised terrorist financing and implemented targeted financial sanctions, in line with the FATF standards.

2. Strengthening the FATF standards on criminalising terrorist financing, by incorporating new requirements on foreign terrorist fighters, and clarifying that the offence should include funding terrorists for purposes other than mounting attacks.
3. Conducting further typologies work on terrorist financing.
4. Developing guidance on effective supervision and enforcement which will include specific guidance on the focused supervision of compliance with TFS obligations.
5. The NPO community provides critically important services around the world assisting those in need, often in remote regions. However, terrorists and terrorist organisations may also abuse some NPOs by creating fake charities to funnel money to terrorists, or abusing legitimate NPOs without the knowledge of their donors, management, or staff. After publishing the revised *Best Practices Paper on Combating the Abuse of NPOs* in June this year, the FATF has begun further work on clarifying the FATF Standards on how AML/CFT measures should apply to NPOs.
6. Finally, preparing a handbook to facilitate foreign requests for freezing action. This will address potential obstacles by centralising information on the responsible authorities, contact points, procedures, evidential requirements and legal tests in all FATF member countries.

The FATF welcomes any feedback and suggestions today, in particular from the private sector, on what further actions the FATF can take in both short and long terms to facilitate effective implementation of targeted financial sanctions.

I would like to turn now to the issue of “de-risking”, which is also one of the important topics to be discussed in today’s session.

Financial institutions and capital markets serve as intermediaries connecting global saving to investments, allocating scarce resources efficiently to serve the real economy. While the financial system itself serves as a pure means of intermediation and is value-neutral in nature, it is sometimes exposed to risks of being abused as a means to finance terrorism or to transfer illicit or criminal proceeds for money laundering purposes.

The financial system cannot be sustainable in the long-run and serve its intended goal without safeguarding its integrity. At a fundamental level, by promoting the integrity, safety and security of the financial system, the FATF international standards support sound growth of global financial flows and thus contribute to global financial stability and the broader economy.

Recently, some “misconduct” by global financial institutions has led to questions about whether certain activities are posing threats or vulnerabilities to the integrity of the global financial market.

One of the imminent risks to the integrity of financial markets is the new form of terrorist financing, such as ISIL, which I mentioned earlier. ISIL needs vast funds to meet operational requirements and it is relying on various revenue sources. In order to counter these terrorist activities, the FATF is taking measures to ensure that terrorist financing activities are criminalised and that financial flows related to terrorism are stopped. The effective implementation of AML/CFT requirements, in line with the proper implementation of the FATF's risk-based approach, increases transparency in the financial system and makes terrorist financing flows easier to detect and stop.

There is no universally agreed definition of "de-risking" and the term is used in different ways within the international community. The FATF understands the term "de-risking" to mean decisions by banks to exit whole categories of customers to avoid, rather than manage, risk in line with the FATF's risk-based approach.

We know that "de-risking" is a very complex issue and is being driven by a range of drivers including profitability concerns, more stringent prudential and liquidity requirements, large fines for violations of financial sanctions, high compliance costs, more rigorous enforcement of AML/CFT requirements, lower risk appetites of the banks, and their fear of reputational risk.

The apparently high costs of AML/CFT compliance are often blamed for "de-risking". However, in our analysis this statement is misleading. Although "de-risking" is a fairly recent phenomenon, the FATF standards on correspondent banking, customer due diligence and targeted financial sanctions have not changed substantially in over 12 years. What has changed is that regulators are enforcing TFS obligations and

AML/CFT requirements more strictly, which has led to some extremely large fines. However, the vast majority of the largest fines were imposed for serious violations of financial sanctions and related AML/CFT failings instead of unintended breaches caused by weak AML/CFT procedures and controls.

The FATF has been consistent in its approach to “de-risking”, that financial institutions and national authorities should apply the risk-based approach in order to have an efficient and effective AML/CFT system. The FATF expects financial institutions to identify, assess and understand their money laundering and terrorist financing risks and take proportionate measures in order to mitigate them.

The FATF Recommendations only require financial institutions to terminate customer relationships, on a case-by-case basis, where the money laundering and terrorist financing risks cannot be mitigated. The FATF standards do not envisage financial institutions cutting-off entire classes of customers, without taking into account their level of risk or risk mitigation measures for individual customers.

It is important to recognise that “de-risking” should never be an excuse for financial institutions to avoid implementing a risk-based approach. Applying an overly cautious approach to AML/CFT, for example, through the termination of account relationships, can have the unintended consequence of excluding legitimate businesses and consumers from the financial system and force them into less or unregulated channels, resulting in introducing higher risk and opacity into the global financial system.

The FATF has recently published a public statement saying that the drivers of “de-risking” go beyond anti-money laundering and terrorist financing. The discussions on “de-risking” seem to focus around establishing and maintaining “correspondent banking” relationships. The recent FATF statement explains that when establishing correspondent banking relationships, banks are required to perform normal customer due diligence on the respondent bank. Additionally, banks are required to gather sufficient information about the respondent bank to understand the respondent bank’s business, reputation and the quality of its supervision.

In the context of financial inclusion, the FATF updated the *Guidance on Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion* in 2013, which provided support to countries and their financial institutions in designing AML/CFT measures that meet the national goal of financial inclusion, without compromising the measures that exist for the purpose of combating crime. The Guidance paper focuses on ensuring that AML/CFT controls do not inhibit access to well regulated financial services for financially excluded groups, including low income, rural sector and undocumented groups. The document also focuses in particular on the reinforcement of the risk-based approach as a general and underlying principle of all AML/CFT systems.

Going forward, the FATF is undertaking work to further clarify the interplay between the FATF standards on correspondent banking (Recommendation 13) and other intermediated relationship, and the FATF standards on customer due diligence (Recommendation 10) and wire transfers (Recommendation 16). This work will shed

light on how these recommendations are implemented in practice and the extent of customer due diligence that is required in the correspondent banking context. The FATF will also undertake further work on financial inclusion and customer due diligence in due course.

Given that drivers of “de-risking” are complex and the scale of “de-risking” is not fully known yet, the work of FATF on “de-risking” will take some time to complete. The FATF members are working together to identify the root causes and address any unintended side-effects in implementing the agreed international standards. This work should be based on hard evidence and facts. Coming to a hasty conclusion based on patchy, anecdotal evidence may result in a superficial and cursory solution to the problem which may give rise to graver problems. As a consequence the FATF will work closely with the international community in taking the work forward.

I hope that you find my updates on FATF’s works helpful in understanding our determination to address these pertinent AML/CFT issues swiftly. Thank you very much for your attention, and I wish you all a fruitful discussion today.