AML/CFT 101

CFATF Secretariat Research Desk
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WHAT IS THE RISK-BASED APPROACH (RBA)?

What is the RBA?

- Under a RBA, consideration is given to the nature and extent of Money Laundering (ML) and Terrorist Financing (TF) a jurisdiction is exposed to.
- Implementation of appropriate measures is conducted in proportion to the level of risk in the jurisdiction's specific circumstances.
- Stronger measures are applied in higher-risk situations and simplified measures in lower-risk situations.

Source: FATF Standards

What is the purpose of the RBA?

- The purpose of the RBA is to allow governments and financial institutions, within the framework of the FATF requirements, to adopt a more efficient allocation of resources to combating ML and TF.

- This should result in more effective implementation overall, by focusing resources and attention on the highest risk sectors and activities.

Assessing risks and applying a risk-based approach

- Recommendation One (R.1) sets out the principles and the requirements of the RBA for countries, financial institutions (FIs) & designated non-financial businesses and professions, (DNFBPs) and for supervisors.

The main requirements are: -

- To identify, assess and understand the risks;
- To apply measures commensurate with those risks (with enhanced measures required where the risks are higher.

Did you know?

The implementation of an RBA may also serve financial inclusion objectives.

Excessively stringent AML/CFT safeguards can have the unintended consequence of excluding legitimate businesses and consumers from the financial system.

Unbanked and financially excluded persons often may present a lower ML/TF risk, where simplified AML/CFT measures should can be applied.

The RBA may help countries seeking to bring those persons into the formal financial sector, to build more inclusive financial systems.

Simplified Measures

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- ✓When lower risks are identified, countries may allow simplified measures, which should take into account the nature of the lower risk.
- ✓For example, reducing the frequency of the customer identification updates, reducing the degree of ongoing monitoring and scrutinising transactions based on a reasonable monetary threshold.

Enhanced Measures

Enhanced Measures

When higher risks are identified, enhanced measures must apply. This is a mandatory requirement. Enhanced measures means that the degree, the frequency and the intensity of the controls conducted will be stronger. For example, the update of the identification data of customers and beneficial owners will be required more regularly, the number and timing of controls to monitor the business transactions will increase.

There are circumstances where the risk of ML/TF is higher, and enhanced CDD measures have to be taken. When assessing the ML/TF risks relating to types of customers, countries or geographic areas, and particular products, services, transactions or delivery channels. Examples of potentially higher-risk situations can be seen on the following slides.

Source : FATF Recommendations

Customer risk factors

- The business relationship is conducted in unusual circumstances (e.g. significant unexplained geographic distance between the financial institution and the customer).
- Non-resident customers.
- Legal persons or arrangements that are personal asset-holding vehicles.
- Businesses that are cash-intensive.
- The ownership structure of the company appears unusual or excessively complex given the nature of the company’s business.

Country or geographic risk factors

- Countries identified by credible sources, such as mutual evaluation or detailed assessment reports or published follow-up reports, as not having adequate AML/CFT systems.
- Countries subject to sanctions, embargos or similar measures issued by, for example, the United Nations.
- Countries identified by credible sources as having significant levels of corruption or other criminal activity.
- Countries or geographic areas identified by credible sources as providing funding or support for terrorist activities, or that have designated terrorist organisations operating within their country.

Product, service, transaction or delivery channel risk factors

- Private banking.
- Anonymous transactions (which may include cash).
- Non-face-to-face business relationships or transactions.
- Payment received from unknown or un-associated third parties.

RBA for VIRTUAL ASSETS AND VIRTUAL ASSET SERVICE PROVIDERS

- The FATF Guidance outlines the approach to AML/CFT measures for VAs; identifies the entities that conduct activities or operations relating to VA—i.e., VASPs; and clarifies the application of the FATF Recommendations to VAs and VASPs. The Guidance is intended to help national authorities in understanding and developing regulatory responses (including by amending national laws) to covered VA activities and VASPs.
- The Guidance recognizes that an effective RBA will reflect the nature, diversity, and maturity of a country's VASP sector, the risk profile of the sector, the risk profile of individual VASPs operating in the sector and the legal and regulatory approach in the country, taking into account the cross-border, Internet-based nature and global reach of most VA activities. It sets out different elements that countries and VASPs should consider when designing and implementing a RBA.
- When considering the general principles outlined in the Guidance, national authorities will have to take into consideration their national context, including the supervisory approach and legal framework as well as the risks present in their jurisdiction, in light of the potentially global reach of VA activities.

Source: FATF Guidance on VAs and VASPs