



## THE FINANCIAL ACTION TASK FORCE (FATF)

The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering and terrorist financing. Recommendations issued by the FATF define criminal justice and regulatory measures that should be implemented to counter this problem. These Recommendations also include international co-operation and preventive measures to be taken by financial institutions and others such as casinos, real estate dealers, lawyers and accountants. The FATF Recommendations are recognised as the global anti-money laundering (AML) and counter-terrorist financing (CTF) standard.

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## THIRD ROUND OF AML/CFT MUTUAL EVALUATIONS PROCESS AND PROCEDURES

### Introduction

1. The FATF is conducting a third round of mutual evaluations for its members based on the FATF Forty Recommendations 2003 and the Nine Special Recommendations on Terrorist Financing 2001, and using the AML/CFT Methodology 2004, as amended from time to time. This paper sets out the process and procedures that are the basis for the third round of mutual evaluations, and covers the following issues:

- a) the underlying scope, objectives and principles;
- b) changes in the FATF standards;
- c) the evaluation schedule;
- d) the procedures and steps in the evaluation process;
- e) processes for follow-up of mutual evaluations;
- f) joint evaluations; and
- g) IFI assessments of FATF members and co-ordination with the FSAP process.

### Scope, basis and principles for the third round

2. As set out in the Methodology, the scope of the evaluations will be to assess whether the necessary laws, regulations or other measures required under the essential criteria are in force and effect, that there has been a full and proper implementation of all the necessary measures, and that the AML/CFT system as implemented is effective.
3. There are a number of general objectives and principles that govern FATF mutual evaluations. The process and procedures should:
  - a) produce objective and accurate reports of a high standard in a timely way;
  - b) ensure that there is a level playing field, whereby mutual evaluation reports, including the summaries are consistent, especially with respect to the findings and ratings;
  - c) ensure that there is equality of treatment, both in terms of process and results, for all countries assessed;
  - d) seek to ensure that the overall evaluation and assessment exercises conducted by all relevant organisations and bodies (FATF, IMF, World Bank, FSRBs) are not duplicative;
  - e) have sufficient clarity and transparency, to encourage the implementation of higher standards, to identify and promote good and effective practices, and to alert governments and the private sector to areas of weakness or deficiency;
  - f) be sufficiently streamlined and efficient, so as to ensure that there are no unnecessary delays or duplication in the process and that resources are used effectively.

### Change of FATF standards

4. Ongoing work within the FATF could lead to further changes to either the Recommendations or the Interpretative Notes, which in turn would require a change in the Methodology. Members that are being evaluated after the date of any changes will be evaluated on the basis of the Recommendations and Interpretative Notes and the 2004 Methodology as they exist at the date on which the country's mutual evaluation questionnaire is sent to the Secretariat. Even where the standards are amended after that date, countries may choose to be evaluated on the revised standards. The report should state if an assessment has been made against new or recently amended standards i.e. revised within six months prior to the on-site visit. To ensure that there is equality of treatment, if members have been evaluated prior to that date, and the relevant change has not been assessed or addressed, the revised elements of such members systems could be assessed as part of the follow up process (see section V below).

### Schedule for the third round

5. The schedule of mutual evaluations for the third round, and the number of evaluations to be prepared each year is primarily governed by the number of mutual evaluation reports (MER) that can be discussed at each Plenary meeting, and by the need to complete the entire round in a reasonable timeframe. FATF members have reaffirmed the importance of the mutual evaluation process and the need to ensure that there is a thorough and productive discussion of mutual evaluation reports in the Plenary. The discussion of each report is likely, on average, to take 2-3 hours of Plenary time, and members will normally discuss two evaluations per Plenary, but could on an exceptional basis discuss three reports.
6. A schedule of mutual evaluations showing the fixed or proposed date of the on-site visit and the date for the Plenary discussion of the MER will be provided to WGEEI and updated for each Plenary. The criteria underlying the sequence of evaluations are:
  - The need to avoid duplication - Countries that have had recent FATF evaluations or assessments by the IFIs should not normally have to substantially duplicate that process by having another evaluation soon thereafter.
  - The scheduled date of any possible FSAP mission - As the summary of the evaluation is used as the basis of the ROSC, it is desirable that there is a reasonable proximity between the date of the FSAP and the date of a mutual evaluation. The Fund/Bank's general approach is that mutual evaluation reports that are adopted within 18 months of FSAP documents being provided to the IFI Boards would be satisfactory. The schedule has therefore been designed to try to accommodate FSAP dates (where these are known), but members should equally ensure that if mutual evaluation dates are fixed, dates for possible FSAPs are fixed within reasonable proximity. A fuller discussion of co-ordination of the mutual evaluation and FSAP processes is set out in sections VIII and IX.
  - The date of the last mutual evaluation - if this was conducted early in the second round, then consideration could be given to an earlier evaluation during the final round.
  - Members' views on their preferred date - members are consulted on the possible dates for on-site visits and Plenary discussion of their MER, and this is taken into account in the schedule.

## Procedures and steps in the evaluation process

### Preparation for the on-site visit

7. A summary of the steps in the FATF mutual evaluation process are set out at Annex 1. Those steps are described more fully below. It is strongly recommended that FSRBs should adopt broadly similar procedures.
8. The Secretariat will fix precise dates for the evaluation in consultation with the country. The country will advise whether they wish to conduct the evaluation in English or French. The mutual evaluation questionnaire (MEQ/Annex 1, Handbook) follows a standard format, and should be downloaded directly from the website by the country authorities. The response to the questionnaire must be submitted to the Secretariat at least two (2) months before the on-site visit.
9. The questionnaire format is intended to facilitate the preparation of a response, which can provide key information for the on-site visit and form the basis for the initial outline draft of the MER to be prepared by the Secretariat. It does not ask detailed questions, but countries must set out fully how they meet each Methodology criterion. It is very important that countries provide a full description of their AML/CFT system, covering all the essential criteria, and provide a detailed description (and analysis where appropriate) of the relevant measures, including appropriate citations from supporting laws or other material. All necessary laws, regulations, guidelines and other relevant documents should be available in the language of the evaluation and the original language, and both these documents and the MEQ should be provided in an electronic format. If there is a joint evaluation with another body, the Secretariat will forward all the relevant documents to the assessors and the Secretariat of any other body participating in the evaluation.
10. Unless allowed for otherwise under FATF procedures, documents produced: (a) by an assessed country during a mutual evaluation exercise, (e.g. documents describing a country's regime or threats faced, responses to the Mutual Evaluation Questionnaire, or responses to assessors' queries); and (b) by the FATF Secretariat or assessors (e.g. reports from assessors, draft Mutual Evaluation Reports etc) should be treated as confidential and should not be made publicly available, unless the assessed country (for documents under (a) above) or the Secretariat (for documents under (b) above) consents to their release.
11. The assessors are selected by the President through the Secretariat, and this will normally be completed several weeks before the evaluation. Evaluation teams will usually consist of four expert assessors (a legal, two financial and a law enforcement expert), principally drawn from FATF members, as well as members of the FATF Secretariat. In selecting the assessors, account is taken of the expertise and background of each assessor, the language of the evaluation, the nature of the legal system (civil law or common law) and the specific characteristics of the jurisdiction (size, geographical location). Greater detail on the composition, roles and functions of the assessors are set out in the Handbook. It is the objective that, where possible, and unless they have other relevant evaluation experience, assessors should have been to a training seminar before they conduct a mutual evaluation.
12. In joint evaluations, the assessment team is made up of experts from both the FATF and an FSRB or members (see section VII). For some other FATF evaluations, the Secretariat could invite participation (if the evaluated country is agreeable) by an expert from an FSRB (on the basis of reciprocity). Occasionally, FSRB experts or their secretariats could also be permitted to take part as observers. This increases the co-operation with FSRBs, and in particular allows FSRBs that have less experience to give some of their assessors or their Secretariat "on the job training", by having the Secretariat (on a reciprocal basis) of experts from other observers that are conducting assessments, such as UNCTED, could be considered on an exceptional basis.

opportunity to work with experienced assessors from FATF member countries. As the size of any team should remain limited for practical and logistical reasons, it is proposed that no more than one observer should participate on an evaluation.

13. Due to the nature of the peer review process, the Secretariat will work to ensure that the mutuality of the process is maintained. A list of assessors will be kept, and the Secretariat will try to keep the process a mutual one, in which all members provide an expert for at least one mutual evaluation, though it would be better if the workload could be more evenly spread.
14. Members and FSRBs<sup>2</sup> will be invited to provide information on their experience of international co-operation with the country being evaluated or any other issues that they would like to see raised and discussed during the on-site visit. This information will be sought biannually, for any evaluations/assessments scheduled for the following six months. Responses will be made available to the assessment team and the assessed country.
15. The jurisdiction must prepare a draft programme of meetings for the on-site visit and send it to the Secretariat no later than one month before the on-site visit (see the Handbook for a list of the types of authorities that need to be met). Where practical, meetings could be held in the premises of the agency/organisation being met, since this allows the assessors to meet the widest possible range of staff and to obtain information more easily. However, for some evaluations travelling between venues can be time consuming and wasteful, and it is suggested that generally, unless venues are in close proximity, there should be no more than 2-3 venues per day. Based on the draft programme sent by the examined country, the assessors, the country and the Secretariat will work to agree the schedule of meetings as soon as possible prior to the on-site visit. The assessors and/or Secretariat may request such additional meetings as they believe are necessary.
16. Both in terms of the programme and more generally, the time required for interpretation, and for translation of documents, must be taken into account. Where English or French is not the native language of the assessed country, the process of translation of relevant laws, regulations and other documents should start at an early stage. Relevant laws or other documents should also be provided in the language of the country. During the on-site visit there also needs to be professional and well prepared translators if the country experts are not fluent in the relevant language.
17. Countries are required to provide information on the measures that they have taken in response to their last evaluation report (see the Handbook, s.1.5.4). In addition, issues may come to the attention of the evaluation team which they want to raise with the country prior to the evaluation. Any supplementary questions of this nature should be sent to the country at least four weeks prior to the on-site visit, and responses provided no later than one week prior to the visit.
18. In order to expedite the whole mutual evaluation process, and to ensure that there is sufficient time between the on-site visit and the discussion of the report in the Plenary, the Secretariat will turn the MEQ response into an initial outline draft of the MER in the two months following the receipt of the response. This initial draft will be provided to the assessors no later than one week prior to the on-site, and will also contain a list of any issues which need to be clarified/discussed during the evaluation.

<sup>2</sup> FSRBs and their members will only be invited to provide this information where they are willing to reciprocally invite FATF members to provide the same type of information in relation to their mutual evaluations. Currently Moneyval, CFATF and the IMF invite FATF members to provide such information.

### On-site visit

19. The on-site visit provides the best opportunity to clarify issues relating to the country's AMU/CFE system, and assessors need to be fully prepared to not only examine the laws, regulations, guidelines and institutional measures, but to also review the effectiveness of the system. Assessors must be cognisant that different countries may adopt different approaches to meeting the FATF standards, and so need to be open and flexible, and seek to avoid narrow comparisons with their own national solutions.

20. Experience has shown that a minimum of 7-8 days of meetings is appropriate for countries with developed AMU/CFE systems. On-site visits thus allow for:

- an initial half day preparatory meeting between the Secretariat and assessors;
- followed by up to eight days of meetings with representatives of the country; and
- finally 1-2 days where the Secretariat and assessors work on the draft outline MER, ensure that all the major issues that arose during the evaluation are noted in the report, and discuss and agree ratings for 40 + 9 Recommendations.

The total length of the mission for a normal evaluation is therefore likely to be in the order of 10 days, but this could be extended for large or complex jurisdictions.

21. During the evaluation, it is important that the country being evaluated, and the specific agencies being met, ensure that appropriate staff are available for each meeting. It can also be useful for the team if they are provided with a specific meeting room for the duration of the on-site mission. The room should have photocopying, printing and other basic facilities, as well as internet access.

22. The meetings with the private sector are an important part of the visit, and generally, the assessors should be given the opportunity to meet with the various representatives of associations and institutions in private, and without a government official present. The team may also request that meetings with certain government agencies are restricted to those agencies only.

### Preparation of draft MER – post on-site

23. The period between the end of the on-site visit and the discussion of the draft mutual evaluation report at the Plenary meeting should be a minimum of six months, and should preferably extend to seven months. Only in exceptional cases, and based on justified circumstances, should a shorter period of time be allowed for. The steps in finalising a draft report for discussion at a Plenary, and the approximate time that is required for each step, are as follows (see also Annex 1):

- a) Assessors to send their additional remarks on the draft MER (as discussed on-site) to the Secretariat (3 weeks).
- b) Preparation of a draft MER by the Secretariat, which is sent to the assessors for comment (5 weeks).
- c) Assessors to provide comments on the draft MER to the Secretariat (2 weeks).
- d) Revision of the draft report by the Secretariat based on these comments, and the draft report then to be sent to the country and to the assessors (1 week).
- e) Country to provide comments to the Secretariat, which are forwarded to the assessors for their views (5 weeks). Within this time, the Secretariat will also have prepared the

draft Executive Summary, sent this to the assessors, received their comments, and provided the draft summary and the draft ROSC<sup>3</sup> to the country for comment.

- f) Assessors review the country comments and liaise with the Secretariat on the changes that need to be made to the draft MER (2 weeks). At the same time the country should review the draft Executive Summary and ROSC and provide their comments to the Secretariat (which will be forwarded to the assessors).
- e) The assessors review the country comments on the Executive Summary and ROSC and liaise with the Secretariat on the changes that need to be made. The Secretariat revises the MER, the Executive Summary and ROSC based on the assessors' comments (1-2 weeks) and sends it to the assessed country and the assessment team.
- h) Where requested by the assessed country, the assessment team (including Secretariat) and the country can meet by teleconferences and/or face to face to further discuss the draft report. Any face to face meeting should occur at least seven weeks before the Plenary, and at least one week prior to any such meeting the country must provide a 2<sup>nd</sup> set of comments and other relevant material in writing to the assessment team.
- i) The draft MER, the Executive Summary and ROSC are sent to all members and observers at least one month prior to Plenary. Where other assessment bodies are conducting AMU/CFE evaluations/assessments, it is expected that they would reciprocate and provide copies of any such reports to the FATF. For IFI purposes, and to coordinate with the FSAP process, an IFI proforma review of the ROSC summary will be made prior to the Plenary meeting, and comments provided to the country, the Secretariat and assessors (at least one week prior to Plenary).

Although the times suggested are not rigid rules, they do provide guidance on what is required if reports are to be prepared within a reasonable timeframe and in sufficient time for discussion at the meeting.

24. It is important to note that both the assessors and the country need to respect the timetables, since delays may significantly impact the ability of the Plenary to discuss the report in a meaningful way. The draft schedule of evaluations has been prepared so as to allow enough time between the on-site visit and the Plenary discussion, however a failure to respect the timetables may mean that this would not be the case. By agreeing to participate in the mutual evaluation process, the country and the assessors undertake to meet the necessary deadlines and to provide full and accurate responses, reports or other material as required under the agreed procedure. Where there is a failure to comply with the agreed deadlines, then the following actions could be taken (depending on the nature of the default):

- a) Failure by the country to provide a timely or sufficiently detailed responses to the MEQ could lead to deferment of the mutual evaluation and the FATF President may write to the head of delegation or the relevant Minister in the country. The Plenary is to be advised as to reasons for deferment, and publicity could be given to the deferment (as appropriate).
- b) Failure by the country to provide a timely response to the draft MER – the President may write a letter to the head of delegation or the relevant Minister in the country.

<sup>3</sup> The format for this Executive Summary is contained in the revised Handbook. In order to ensure consistency and to make the process as efficient as possible, the substantive text of the Executive Summary and the ROSC should be the same, though minor formal changes could be made. See Section IX for more details.

Where the delay results in a report not being discussed, the Plenary is to be advised of the reasons for deferral<sup>4</sup>.

- c) Failure by the assessors to provide timely or sufficiently detailed reports or responses at any stage of the mutual evaluation process – President may write a letter to the head of delegation of the assessor.
- d) Failure by the Secretariat to provide timely reports at any stage of the mutual evaluation process – President may liaise with the FATF Executive Secretary.

The Secretariat will keep the Presidency advised of any failures so that the President can respond in an effective and timely way.

#### *The Expert Review Group (ERG) Process*

25. The key objective of the ERG, which meets immediately prior to the Plenary, is to identify and highlight the main key issues arising in each MER, as well as inconsistencies with other MERs with a view to enhance discussion and resolution of those issues at the Plenary in an equitable manner. The main/key issues to be highlighted by the ERG should include, inter alia:

- Identifying all remaining areas of disagreement between the assessed country and the assessment team, as well as the main issues behind these positions;
- Noting inconsistencies with other MER;
- Noting important areas deserving a discussion in the Plenary;
- Identifying any issues that require interpretation/clarification of the FATF standards, the 2004 Methodology (including “horizontal issues”) or regarding FATF procedures.

26. The Secretariat will prepare a short written report summarizing the ERG discussion, which will identify clearly the most important issues to be discussed at the Plenary. The report on the ERG discussion will help define and focus the order of the discussion at the Plenary. At the Plenary all delegations will still be able to raise any issue with respect to the report.

27. There are also a number of other objectives/principles that underlie the ERG’s work:

- a) The ERG has no decision-making powers on a mutual evaluation report or assessment. The Plenary is the only body where decisions on a mutual evaluation/assessment report take place.
- b) The ERG should not censor, overrule or “second-guess” the assessment teams, nor should the ERG function as a broker between the assessment team and the country.
- c) The ERG will identify the key issues for discussion in the Plenary taking into account any comments by the assessed country/assessment team/Secretariat (in particular all areas where the assessed country disagrees with the report or identifies inconsistencies with other reports), and the written comments received in advance from FATF delegations.
- d) The process must ensure high quality, consistent MERs, and create a more efficient/effective process both in terms of Plenary discussion and overall. Reviewing

<sup>4</sup> A table setting out the timelines of the various steps in the evaluation process should be provided to the Plenary.

an MER (150+ pages), annexes and underlying laws will require a significant commitment from the persons in the ERG.

- e) All FATF mutual evaluation reports will be reviewed by an ERG prior to the FATF Plenary discussion, including joint reports with FSRBs and assessment reports prepared by the IMF or the World Bank.

28. The practical arrangements for the ERG are as follows:

- a) For each Plenary, an ERG composed of 5 to 7 experienced experts from interested FATF members (other than the assessed countries), one interested FSRB, and/or the IMF/World Bank will be set up to review the MERs to be discussed at the Plenary. The ERG will discuss each draft MPR on its agenda in the presence of representatives of the assessed country, the Secretariat and the assessment team<sup>5</sup>. The ERG will be chaired by one of the co-chairs of the Working Group on Evaluations and Implementation.
- b) The ERG for each Plenary should be composed of experienced experts from different delegations, taking into account regional balance, and from different expertise (legal, financial, law enforcement). The Secretariat will ensure that there is a sufficient rotation in the participation in ERG to allow every FATF Member to have a chance to participate in this process if they wish. The Secretariat will progressively put together a general roster of experts to ensure good participation in the ERG at each Plenary.
- c) The Secretariat report based on the ERG discussion about the priorities for the Plenary should be clear and self-explanatory. It should be distributed to delegations as soon as possible, before the start of the Plenary.
- d) The Secretariat (having significant responsibilities in ensuring quality and consistency) will co-ordinate ERG meetings, and will provide an interface between the ERG, the assessment team and the country.

#### *The Plenary meeting*

29. Although the assessment team and the country should endeavour to agree the draft mutual evaluation report prior to it being sent to delegations, there may be exceptional circumstances when the country delegation, the assessors and the Secretariat will need to meet on the margins of the Plenary to try to agree the final text of the MER and the summary (including the ROSC). These final amendments should be made available to delegations as soon as possible. Any issue that is not agreed should be presented through the ERG process or if the issue is a minor one, in a separate document.

30. The procedure for the discussion of the draft mutual evaluation report and the executive summary (including a set of key findings<sup>6</sup>) at the Plenary meeting will be as follows:

- a) Assessment team introduces itself and one of the assessors chosen by the assessment team briefly presents in high level terms the key issues from the report. The team will have the opportunity to intervene/comment on any issue concerning the MDR.
- b) Assessed country makes its opening statement

<sup>5</sup> In the case of a report prepared by the IMF/WB, the IMF/WB staff who have prepared the draft report should participate in this discussion.

<sup>6</sup> The key findings describe in 1-2 pages the key risks, the strengths and weaknesses of the system, and any overarching recommendations made to improve the AML/CFT regime of the country.

c) The Plenary discusses the issues raised in the report in sequential order:

- i. first the key issues identified by the ERG (to be presented briefly by the Secretariat); and
- ii. afterwards any other issues raised from the floor.

d) The Plenary discusses the overall picture of the assessed country's AML/CFT regime, using as a focal point the key findings in the Executive Summary and agrees on the language of the key findings.

e) The MER and the Executive Summary are agreed. If MER and summary are not agreed, then the assessors, the country and the Secretariat should prepare amendments to meet the issues raised by the Plenary.

31. The final report which is agreed is a report of the FATF, and not simply a report by the assessors. As such, the Plenary will make the final decision on the wording of any report. Plenary will give careful consideration to the views of the assessors and the country when deciding on the wording, as well as taking into account the need to ensure consistency between reports.

32. When the text of the report is agreed, the MER (including the executive summary) should be adopted by the Plenary, subject to checks for typographical or similar errors. If the text is not agreed, then the assessors, the country and the Secretariat should revise the MER and prepare an amended version which can be further discussed by the Plenary as soon as possible thereafter. Where substantive changes are required, either because additional information is required to be added, or the report has to be substantially amended, then the Plenary could decide to: (a) defer adoption of the report, and agree to have a further discussion of an amended report at the following Plenary; or (b) where the required changes are less significant, adopt the report subject to it being amended, and the amended report being approved through a written process. The Secretariat would be responsible for ensuring that all the changes agreed by the Plenary had been made. Following the discussion of the report, and prior to its formal adoption, the Plenary should discuss the nature of the follow-up measures that would be required (see section V below).

**Publication and other Procedures following the Plenary**

33. Following the discussion of the report at the Plenary meeting, the Secretariat will amend all documents as necessary, and will circulate a revised version of the report to the country within one week of the Plenary. Where possible, the final text of the executive summary should be agreed and finalised at the Plenary. All mutual evaluation reports and executive summaries are to be published, and this will be done at the time of or soon after the Plenary, thus giving timely publicity to an important part of the FATF's work. The report and executive summary will be published on the FATF website, and the country would be free to publish it as well. The FATF would also issue a press release on the mutual evaluation.

34. Within three weeks of receipt of the final version of the MER from the Secretariat, the country must confirm that the MER is accurate and/or advise of any typographical or similar errors in the MER. The country should also indicate at that time the date that it could be published on the FATF website. At this time, the final version of the ROSC will be sent to the Plenary, along with the country's advice concerning publication of the ROSC.

**V. FOLLOW UP PROCESS**

35. There are three types of process that could occur following the discussion and adoption of a mutual evaluation report. The first, which is set out at paragraph 36 provides that members that are not assigned regular or enhanced follow-up should provide a biennial update of their progress in meeting the deficiencies identified in their MER or in taking other action to enhance their AML/CFT regime, starting two years after their MER is discussed. The second process of regular follow-up is set out in paragraphs 37-41, while the third process of enhanced follow-up, as set out in paragraph 42, is based on the FATF's traditional policy that deals with non-complying members<sup>7</sup>.

**Biennial update**

36. The steps in the biennial update process are set out below.

- a) No later than two years after the discussion of their MER, assessed countries must provide a succinct update to the Secretariat describing the new measures that have been adopted and implemented to deal with the identified deficiencies in relation to any of the 40 + 9 Recommendations that are rated partially compliant (PC) or non-compliant (NC). This should always include all the updated data or statistics as required under Recommendation 32. Further updates would be provided every two years.
- b) The biennial update reports of specific countries may be discussed in Plenary based on the recommendation of the President or the request of the country.

**Regular Follow up**

37. Regular follow-up will apply where the mutual evaluation report shows there are significant deficiencies in the country's AML/CFT system. This process is thus applied in two circumstances:

- a) Where any of Recommendations 1, 5, 10, 13 or Special Recommendations II or IV are rated either PC or NC; or
- b) Where the Plenary so decides.

38. Where the Plenary agrees that there should be follow-up, it should also decide which steps should be taken and the timing of the necessary action. The normal first step in the process would be that two years after the MER is discussed, the assessed country would report back to the Plenary and provide information on the actions it has taken or is taking to address the factors/deficiencies underlying any of the 40 + 9 Recommendations that are rated partially compliant (PC) or non-compliant (NC). It may include other information if it so desires. The expectation would be that significant progress would have been made by that time. FATF members are encouraged to seek removal from the follow-up process within three years after the adoption of the MER, or very soon thereafter, though the Plenary will always have the discretion to allow further time where this is necessary. Where the failings identified in a MER are particularly serious, the Plenary could decide on a more expedited timetable, and require the country to report back sooner than two years. Equally, if the country wants to report back sooner, this would be acceptable.

39. At any Plenary at which a follow-up report is discussed, there would be three possible options for Plenary decision:

<sup>7</sup> An updated list of the countries in the follow-up process is provided to WG/EI at every Plenary.

- (a) The country has not taken satisfactory steps to deal with the identified deficiencies – the Plenary could then decide to move to one of the other steps in the process (see paragraph 42 below), or could seek follow-up reports at more regular intervals e.g. each Plenary.
- (b) The country has taken steps to deal with the deficiencies, and is making satisfactory progress, but needs further time before it could be considered for removal from the process – the Plenary could ask the country to provide a further report at a future Plenary.
- (c) The country has taken sufficient action to be considered for removal from the process – to have taken sufficient action in the opinion of the Plenary, it is necessary that the country has an effective AML/CFT system in force, under which the country has implemented the following Recommendations at a level essentially equivalent to a C or LC, taking into consideration that there would be no re-rating:
- money laundering and terrorist financing offences (R.1 & SR.II);
  - freezing and confiscation (R.3 and SR.III);
  - financial institution secrecy (R.4) and customer due diligence (R.5);
  - record-keeping (R.10);
  - suspicious transaction reporting and the FTU (R.13, 26 & SR.IV);
  - financial sector supervision (R.23); and
  - international co-operation (R.35, 36 and 40; and SR.I & V).

Plenary should, however retain some limited flexibility with regard to those Recommendations listed above that are not core Recommendations<sup>8</sup> if substantial progress has also been made on the overall set of Recommendations that have been rated PC or NC.

40. The Plenary will discuss the reports that warrant its attention and where a real decision needs to be made, namely reports that fall under paragraphs 39(a) or (c) above, or where a country is subject to enhanced follow-up. Routine interim follow-up reports will not as a matter of course be discussed by the Plenary, but will be available as an information paper. The assessed country will provide a short interim follow-up report to the Secretariat setting out the remedial action it has taken and a proposal on the FATF Plenary meeting at which it would wish to report back. Where the Secretariat felt that a country had failed to make adequate progress, the Secretariat would prepare a short summary paper and raise the issue in the Plenary, and Plenary would have a discussion on whether a more expedited follow-up or another approach should be taken. If the Secretariat did not have concerns about the progress made, then the country's interim report would be provided as an information item to WGGEI. If no issues are raised in WGGEI, then the WGGEI co-chairs report would contain a short proposal to the Plenary on when the country would wish to next report back, which could be agreed as part of the normal process.

41. Under paragraph 39(c) the process for consideration of an application to move from regular follow-up to biennial updates would be as follows. The country would indicate to the Secretariat no later than the Plenary before the one at which its application is made that it had in its view met the criteria set out above for removal. In making and assessing the merits of the application the country should work in close collaboration with the Secretariat. The country would provide a full report, and all

<sup>8</sup> The core Recommendations as defined in the FATF procedures are R. 1, SR II, R. 5, R. 10, R. 13 and SR IV.

necessary laws, regulations and other information, including relevant data and information for assessing effectiveness, at least four months before the Plenary at which it would seek to be removed from regular follow-up. The Secretariat would then prepare a more detailed analysis of the progress made by the country for the following Plenary. This report would analyse the actions taken by the country to resolve the deficiencies/factors underlying each of the above Recommendations that was rated PC or NC, and would indicate the extent to which the deficiencies had been resolved, and indicate for each relevant Recommendation whether it believed sufficient action had been taken. In assessing whether sufficient progress had been made, effectiveness would be taken into account to the extent possible. The exercise would be in the nature of a paper based “desk review”. In preparing the detailed analysis, the Secretariat would consult the original assessors, where they are available. The detailed analysis should be provided to the country for its comments before it is sent to delegations. In addition, the Secretariat will organise a face-to-face or otherwise a teleconference with the country if the country or the Secretariat itself so requests. In the final version of the follow-up report and if necessary, the country will be given the opportunity to respond to the findings of the follow-up in a concise and focused manner (in a format of an extra section at the end of the follow-up report).

#### Enhanced Follow up

42. The additional, graduated steps in the enhanced follow-up policy for third round mutual evaluations are:

- a) A letter could be sent from the FATF President to the relevant minister(s) in the member jurisdiction drawing attention to the non compliance with the FATF Recommendations.
- b) A high-level mission would be arranged to the member jurisdiction to reinforce this message. This mission would meet with Ministers and senior officials.
- c) In the context of the application of Recommendation 21 by its members, issuing a formal FATF statement to the effect that the member jurisdiction is insufficiently in compliance with the FATF Recommendations, and recommending appropriate action, and considering whether additional counter-measures are required.
- d) Suspending the jurisdiction's membership of the FATF until the Recommendations have been implemented.
- e) Terminate the membership of the jurisdiction.

43. The FATF publication policy would apply to actions taken under the FATF's follow-up policy, and appropriate details of any follow-up action and the result of that action would be published. As regards biennial updates and interim follow-up reports, if requested by the country, a link will be provided from the FATF website to a website of the country on which it can place the biennial update or interim follow up report and any other information relevant to the actions it is taking to enhance its AML/CFT system. As regards the detailed analysis report prepared at the time the country is removed from the follow-up process, this will be placed on the FATF website with the following introductory statement:

“This report provides an overview of the measures that [the country] has taken to address the major deficiencies relating to Recommendations rated NC or PC since its last mutual evaluation. The progress shown indicates that sufficient action has been taken to address those major deficiencies, and in particular those related to Recommendation(s) [size Recommendation applicable]. It should be noted that the original rating does not take into account the subsequent progress made by the country.”

**Evaluations of New Members**

44. Where a potential new member undergoes a first mutual evaluation in order to assess whether it meets the criteria for FATF membership, the procedures laid out in sections I to IV of these procedures will apply. If the criteria for membership are met, and the country is admitted as an FATF member, but deficiencies are identified in the country's AML/CFT system, the Plenary may apply any of the aspects of the FATF's follow up policy (biennial update or follow up) as it sees fit.

**Joint mutual evaluations with FSRBs**

**General Policy**

45. The FATF's policy is that FATF members that are also members of an FSRB will undergo a joint evaluation by both bodies. Generally, the FATF will be the principal organiser, and will provide three assessors, while one or two assessors could be provided by the participating FSRBs. Both the FATF and the FSRB Secretariats would participate. The first discussion of the MER should take place in the FATF, unless exceptional circumstances arise. The process for joint evaluations would be the same as for FATF evaluations, except that consideration may need to be given to the timing of publication, if the MER is still to be discussed in the FSRB.

46. The FATF procedures for preparing the draft MER would be the same as for a normal FATF mutual evaluation, with the report being discussed and finalised in the FATF Plenary. This process already allows for considerable FSRB input into the exercise, since an FSRB expert and the FSRB Secretariat participate at every step of the process. Moreover, the draft report is shared with the FSRB and its members. However, greater FSRB input into the final part of the mutual evaluation procedure could strengthen the ties and joint work with FSRBs. On the basis that the FSRB allows reciprocal participation in mutual evaluation discussions for FATF members, the following additional steps are added to the evaluation process for joint evaluations:

- a) FSRBs would be given a specific opportunity to intervene during the Plenary discussion of the MER;
- b) All the FATF assessors on the assessment team are encouraged to attend the FSRB Plenary at which the joint evaluation report is considered, and at least one FATF assessor should attend the FSRB Plenary.
- c) In the exceptional case where a report was agreed within FATF but subsequently the FSRB identified major difficulties with the text of the report, then the FSRB Secretariat would advise the FATF Secretariat of the issues, and the issues could be discussed at the following FATF Plenary.

**GCC member states**

47. The member states of the Gulf Cooperation Council hold a unique position in FATF, since they are not FATF members in their own right, but are part of the FATF through the GCC's full membership in FATF. Between 2000 and 2004, the FATF conducted joint FATF/GCC evaluations for all GCC member states, and those reports were prepared and discussed in the FATF Plenary in the same

<sup>9</sup> For example, in most joint evaluations there will only be a small delay between the FATF and the FSRB Plenaries. However, it could be that the FSRB might hold its annual Plenary shortly before the FATF Plenary. In that situation, in order to avoid a long delay before the FSRB discusses the MER, it might be possible to have the FSRB discuss the MER first, and the report dealt with, subject to any discussion and changes that are agreed within FATF.

member as all other FATF MER. The six GCC member states (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates) are founding members of MENAFATF.

48. Following the creation of MENAFATF, the evaluations/assessments of the six GCC states will be conducted as joint FATF/MENAFATF evaluations, with MENAFATF taking the lead in organizing the evaluations. The evaluations will be conducted on the following basis:

- a) MENAFATF will take primary responsibility for scheduling the evaluations in accordance with its evaluation schedule. The FATF and MENAFATF Secretariats will consult closely on the timing of the on-site visit and the respective Plenary discussions, to ensure there are mutually agreed dates;
- b) FATF and MENAFATF will each provide at least two assessors, and respectively at least one Secretariat member. The assessors will make themselves available for discussions of the report in both FATF and MENAFATF Plenary meetings;
- c) MENAFATF procedures for mutual evaluations will be used for the joint evaluation process, and although Arabic is the normal official language for MENAFATF evaluations, joint evaluations between FATF and FSRBs are conducted in a common official language of the two groups. On this basis, the joint FATF/MENAFATF evaluations will be conducted in English, with MENAFATF taking such action as it deems appropriate regarding an Arabic translation;
- d) The MER will be discussed first in the MENAFATF Plenary and then in the immediately following FATF Plenary;
- e) In sufficient time prior to the MENAFATF Plenary, the FATF Secretariat will distribute the draft MER to all FATF members and observers. FATF members and observers are encouraged to provide comments. Any comments received will be provided to the MENAFATF Secretariat and those comments and other issues may be raised by the FATF Secretariat or FATF members that are present during the discussion of the report in the MENAFATF Plenary;
- f) The MENAFATF Secretariat will forward the agreed report to the FATF Secretariat in sufficient time that it can be distributed to FATF members and observers at least 4 weeks prior to the next FATF Plenary, and the normal FATF procedures would apply thereafter;
- g) Following the discussion and final adoption of the report in the FATF Plenary, the FATF publication policy will apply and the FATF and MENAFATF Secretariats will agree a date for publication of the MER;
- h) MENAFATF will be in charge of any follow up action that may be required, and will regularly inform FATF about any follow up action it is taking in relation to GCC member states.

49. Where MENAFATF agrees that the assessment of a GCC state can be done by an IFI (in a similar manner to that described in section VIII below), then the draft report prepared by the IFI shall be subject to the procedures described in paragraph 47(d)-(h) above.



#### Assessments of FATF members by the IFIs

50. The FATF is responsible for the mutual evaluation process for all its members without exception, and there is a presumption that the FATF will conduct the mutual evaluations<sup>10</sup> of all FATF members as part of this process. That presumption can only be overridden at the discretion of the FATF Plenary on a case by case basis.

51. Periodically the IMF/World Bank may advise FATF on a timely basis of their willingness to conduct AML/CFT assessments of a limited number of FATF member(s) consistent with their FSAP schedule. At the Plenary the FATF will consider this advice and decide which FATF members, if any, will be assessed by the IMF or World Bank. Only members that wish to have an IFI assessment could be considered in this way. For the purposes of mutual evaluations the FATF Plenary has discretion as to the number of FATF member assessments that could be conducted by the IFIs. There should be flexibility about the annual number of such assessments, but the expectation is that there would be five to six during the third round of mutual evaluations.

52. Where the IMF or World Bank conduct an AML/CFT assessment of an FATF member as part of the mutual evaluation process, the outline of the procedures whereby such assessments are to be considered is as follows:

- Bank/Fund staff will send the draft detailed assessment report (DAR) and ROSC of the FATF member to the FATF Secretariat for transmission to FATF delegations within the timeframes that are established under FATF mutual evaluation procedures (see Annex 1).
- The timing for the finalisation of the DAR and ROSC would depend on the scheduling of the Article IV and Executive Board discussion. Draft DAR and ROSCs would be provided to the FATF in advance of the Executive Board discussion in a normal case. However, there may be exceptional cases where the IFIs would need to complete the DAR/ROSC at short notice and without FATF Plenary review. In these situations, the IFIs would enter into a dialogue with FATF to explore ways to include these reports in the mutual evaluation process. If agreement cannot be reached then the FATF will need to consider whether the assessment can be accepted as a mutual evaluation.
- The assessors<sup>11</sup> would be available at FATF Plenaries to present the report and ROSC and to respond to questions, as part of the FATF mutual evaluation process.
- In the case of a draft DAR and ROSC, Bank/Fund assessors should take account of the views expressed by FATF members and make modifications to the DAR and ROSC as appropriate. Bank/Fund assessors would nonetheless retain ultimate responsibility for the contents of the Bank/Fund report and ROSC.
- Significant policy issues with respect to analysis, ratings or recommendations that arose in the course of discussions of a Bank/Fund report could be reviewed by the FATF.
- The mutual evaluation report and the FATF executive summary would be the responsibility of the FATF. The executive summary would be based largely on the draft ROSC, modified as necessary to suit the purposes of the FATF.

<sup>10</sup> Including any follow up that may be required.

<sup>11</sup> Normally the whole AML/CFT assessment team, including the team leader, will be present, though it is recognised that in exceptional cases, it may not be possible for an assessor to be present.

• The FATF Plenary will in any case have to approve an IFI assessment of an FATF member for it to be approved as a mutual evaluation.

As part of any review of its mutual evaluation processes and procedures, the FATF may review the process outlined above to ensure that it is working effectively and efficiently.

53. Where the IFIs conduct an assessment of an FATF member, the ROSC that is prepared by the IFIs should, in addition to any other text that is normally included for the ROSC, also contain the following text:

"The views expressed in this document are those of the assessment team and have been discussed [and adopted] by the FATF in the context of the FATF's discussion of its report on [Country], but do not necessarily reflect the views of the government of [Country] or the Boards of the IMF or World Bank. It was based on information available at the time it was completed on [date]."

#### Co-ordination with the FSAP process

54. The basic products of the evaluation process are the MER, the executive summary and the ROSC (which is virtually identical to the executive summary). The ROSC is included in the FSSA reports issued by the IMF, which may be published<sup>12</sup>. FATF members may choose to participate in the IMF-World Bank FSAP process, and the product of that process is an IMF Financial System Stability Assessment (FSSA) or a stand-alone assessment, or a World Bank FSA. As concerns AML/CFT work, FSSA reports are in two parts: part I - an overview of financial sector issues (12-1 page summary/key findings on AML/CFT), part II - Reports on Observances of Standards and Codes (ROSCs). Where members have decided that they will participate in the FSAP process, combined with an FATF mutual evaluation, they should co-ordinate with the FATF Secretariat and IFI staff on the timing of the FSAP and the mutual evaluation at the earliest possible date.

55. The process regarding ROSCs is as follows. The draft ROSC is agreed by the country and the assessors, and the ROSC is sent to the IMF for its "proforma review". This review entails the Fund reviewing the mutual evaluation report and the ROSC and checking to see if the summary fairly reflects the contents of the MER. No judgment is made regarding the factual findings or the substance of the MER conclusions, rather the IMF reviews consistency between the MER and the summary. It then provides its comments at least one week before the Plenary, which the assessment team and country are free to accept or not. Following the Plenary, the ROSC is finalized and provided to the Fund. As a general rule, the ROSC (including the tables and authorities comments) should not exceed 15 pages. The assessed country may provide comments on the ROSC, which will be added at the end of that document.

<sup>12</sup> The MER and executive summary would be treated in the same way as if the FATF had conducted the evaluation, and the applicable procedures would be the same when appropriate e.g. Plenary discussion, follow-up, publication etc.

<sup>13</sup> A fuller description of the IFI documentation used in the FSAP/OFC programmes is set out in FATF-XV/PLEN/49.

56. In order to prevent duplication of work and to ensure consistency, the substantive text of the ROSC will be the same as that of the Executive Summary. The proforma changes that need to be added to the text of a ROSC would be as follows:

- Adding a formal paragraph at the beginning:  
 "This Report on the Observance of Standards and Codes for the FATF 40 Recommendations and 9 Special Recommendations on Anti-Money Laundering and Combating the Financing of Terrorism was prepared by the Financial Action Task Force. The report provides a summary of the AML/CFT measures in place in [Country] as at [date], the level of compliance with the FATF 40+ Recommendations, and contains recommendations on how the AML/CFT system could be strengthened. The views expressed in this document have been agreed by the FATF and [Country], but do not necessarily reflect the views of the Boards of the IMF or World Bank."
- Adding table 2 of the MER.

ANNEX 1

OUTLINE SCHEDULE FOR THE FATF MUTUAL EVALUATION PROCESS

The overall process for an evaluation from the time of the on-site visit to the discussion of the report in the Plenary is expected to take about 6-7 months.

DATE	WEEK	ACTION TO BE TAKEN
<i>Timeline of the on-site visit</i>		
As soon as possible		Agree date for on-site visit and for Plenary discussion of mutual evaluation report. Country to advise Secretariat about the official language (English or French) to be used for the evaluation.
At least 2 months before the on-site visit	-8	1. Response to questionnaire together with copies of all relevant laws, regulations and other documents (in the original language and the language of the evaluation) returned to Secretariat (in electronic form). The Secretariat will forward these documents to the assessors and any FATF-style regional body (FSRB) expert participating in the evaluation. 2. Secretariat to send e-mail to FATF members and FSRBs (if reciprocity) regarding their experiences concerning international co-operation with the assessed country.
At least 1 month before the on-site visit	-4	1. Examined country to provide draft programme for on-site visit to the Secretariat. Secretariat, assessors and country to finalise programme. 2. Where necessary, Secretariat to send supplementary questionnaire to examined country.
At least 3 weeks before the on-site visit	-3	President/Secretariat to advise examined country of the FATF assessors and FATF Secretariat, and any FSRB representatives
No later than 1 week prior to the on-site visit	-1	1. Secretariat to provide FATF assessors and any FSRB representatives with an outline of the mutual evaluation report (MER) based on the material received from the country. 2. Country to provide response to supplementary questionnaire (if any). 3. Final date by which FATF members and FSRBs provide information on their international co-operation experiences with the assessed country. The information is provided to the assessment team and the assessed country.

Minimum - 6 weeks before the Plenary	Where the IFIs are conducting an assessment of an FATF member, the draft DAR to be provided to the FATF Secretariat.
Minimum - 5 weeks before Plenary	Secretariat to draw up a list of interested experts that will participate in the ERG, and will ensure that the ERG consists of experts from approximately 5 to 7 FATF members <sup>14</sup> . Preferably, the ERG should consist of experts from different areas of expertise.
Minimum - 4 weeks before Plenary	1. Secretariat sends draft report (MER or DAR), including summary, to all delegations. The report will not be subject to further change before the Plenary discussion, however the country and the assessment team may prepare an addendum which contains minor corrections. 2. Secretariat sends draft ROSC to IMF for pro-forma review, with copy to country and examiners. 3. Secretariat requests countries to send written comments on the key issues raised in the MER (2 weeks).
Minimum - 2 weeks before Plenary	Deadline for written comments on the draft report (MER and DAR) to be received from delegations (including the prioritised issues of the assessed country).
Minimum - 1 week before Plenary	1. IMF provides comments after pro-forma review. These comments are provided to the country and examiners. 2. Secretariat to distribute a summary of the draft set of key issues to the ERG members.
<b>PRE-PLenary VISIT</b>	
Monday	ERG meeting (representatives of FATF members, the assessed country, the Secretariat and the assessment team <sup>15</sup> ) and discussion of written comments received and any other key issues that ERG participants wish to raise. One of the WGEL co-chairs acts as chair for the meeting. The Secretariat prepares a written report for Plenary.
Wednesday or Thursday	Main discussion of MER and Executive Summary - 1. Assessment team introduces itself and briefly presents report (optional) 2. Assessed country makes its opening statement 3. The Plenary discusses: (a) the issues raised in the ERG report in sequential order (briefly presented by the Secretariat). (For joint evaluations with an FSRB, the FSRB should have a specific opportunity to raise any issues it wishes to see discussed.) (b) any other issues raised from the floor (c) the overall picture of the assessed country's AML/CFT regime, using as a focal

<sup>14</sup> Where appropriate an FSRB and/or IMF/W/World Bank representative could also participate in the ERG.  
<sup>15</sup> In the case of a report prepared by the IMF/WB, the IMF/WB staff who have prepared the draft report should participate in this discussion

<b>ON-SITE VISIT</b>	
First half day	0 Assessors and Secretariat to discuss draft outline report and issues relevant to the mutual evaluation.
Up to 8 days	0 Meetings with all government and private sector bodies
Next 1-2 days	0 Assessors and Secretariat to work on draft MER, and prepare draft where all major issues and recommendations are noted, as well as ratings given
<b>AFTER THE ON-SITE VISIT</b>	
Within 3 weeks of on-site visit	3 Assessors to provide Secretariat with written report on any additional findings
Within 5 weeks following receipt of last assessor's report (8 weeks after on-site)	8 Secretariat to prepare draft MER to send to assessors for their comments
Within 2 weeks of receipt of draft report	10 Assessors provide comments on the draft MER to the Secretariat and other assessors
Within 1 week of receipt of last examiner's comments	11 Revised draft report sent to country for comment
Within 5 weeks of country receiving draft report	12 Secretariat to send Executive Summary of MER to assessors 16 1. Comments from country sent to Secretariat and forwarded to assessors. 2. Assessors provide comments on the Executive Summary, which is sent to the country, along with draft ROSC (ROSC is same text as summary, with pro-forma paragraphs added)
Within 2 weeks of receipt of country comments	18 1. Assessors advise on country comments and first draft report prepared and sent to country and assessors. 2. Comments from country on the Executive Summary and ROSC sent to Secretariat, and Secretariat makes changes as appropriate.
Minimum - 10 weeks before the Plenary	Secretariat requests delegations to advise of names of experts interested in participating in the ERG for the Plenary.
Minimum - 7 weeks before the Plenary	Where requested by the assessed country, the assessment team (including Secretariat) and the country meet by teleconference and/or face to face to further discuss the draft report. At least one week prior to any further meeting the country must provide a 2 <sup>nd</sup> set of comments and other material in writing to the assessment team.

	<p>point the key findings in the Executive Summary</p> <p>4. The MER and the Executive Summary (including key findings) are agreed and adopted. If MER and/or summary are not agreed, then assessors, country and Secretariat must revise and prepare amendments to meet issues raised by the Plenary</p> <p>5. Plenary to discuss when the country will provide a biennial update or follow up report (as appropriate) and any additional follow up measures that may be required</p>
<p><b>POST PLENARY</b></p>	
<p>The week following the Plenary</p>	<p>1. Secretariat prepares revised MER, based on the agreed amendments and any amendments made during the Plenary discussion, and sends to country.</p> <p>2. The Executive Summary is agreed and made available for publication.</p>
<p>Within 3 weeks of the Plenary</p>	<p>1. Country confirms report is accurate and/or advises of any consistency, typographical or similar errors in MER.</p> <p>2. MER to be published on FATF website.</p> <p>3. Final version of ROSC sent to IFIs.</p>



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