

Client Alert:

3 Key Takeaways from FATF's Recent Mutual Evaluations Report

APRIL 2022

by Kristin Bone



Kristin Bone

Partner, StoneTurn

kbone@stoneturn.com

+1 202 349 3743

The Financial Action Task Force ("FATF") recently released its Report on the State of Effectiveness and Compliance with the FATF Standards ("Report"). The Report contains the results of its 4th Round of Mutual Evaluations which serves to evaluate the assessed countries' effectiveness in preventing money laundering and terrorist financing.

In short, the Report found that although progress has been made in the last ten years since the 3rd Round of Mutual Evaluations, in both establishing and enacting better laws and regulations to address money laundering and terrorist financing, the 120 assessed countries have, in large part, treated the changes as a "check the box" exercise, and more work is needed. The FATF announced that based on the results of this round of evaluations, it will place more emphasis on the areas of risk assessment and risk mitigation and will shorten the evaluation cycle from ten to six years.

For financial institutions and other entities subject to AML laws and regulations (e.g., real estate agents, lawyers, and accountants) (collectively "Entities"), we note the following key takeaways from the Report and considerations for Entities when assessing existing compliance programs:

- **The FATF reports that countries need to respond to the rapidly changing risks effectively and promptly.** It is not just the countries that need to be timely in their response, but Entities do as well since the FATF clearly states that Entities have a role and "shared responsibility" to prevent

money laundering and terrorist financing. It is critical for Entities to react promptly to the policies pushed out by the countries in their responses, and even consider acting proactively to anticipated changes in law and regulations. Entities can be proactive by reviewing existing AML compliance programs, assessing the program for gaps and/or weaknesses in preventative controls, and further testing the controls for design and operating effectiveness

- **The FATF expresses concern with Entities' low level of understanding of the AML risks and how to mitigate against such risks, particularly smaller, regional Entities.** The Report states that FATF assessed 97% of countries as having "low to moderate" effectiveness ratings, and particularly the non-financial sector which performed poorly. It is important for Entities to ensure that its organization: (1) is knowledgeable of the risks related to money laundering and terrorist financing; (2) knows how to assess its risks and controls to prevent money laundering and terrorist financing; (3) knows how to identify and remediate gaps; (4) has a robust system to monitor transactions and activity for potential signs of money laundering and terrorist financing; and (5) knows how to report suspicious activity.
- **The FATF reports that "all sectors" can be better at filing suspicious transaction reports.** Entities should assess the effectiveness of its

current process and procedures for reporting suspicious activity and remediate any gaps. The assessment should cover the identification of suspicious activity, completion of required forms (content), reporting of suspicious activity to the government authorities (timing and mechanism), and training content and requirements.

In summary, considering the recent FATF findings, Entities should consider assessing their current AML and terrorist financing compliance program to ensure that the organization's policies, processes, and procedures are designed and operating effectively to prevent, detect and deter non-compliance with laws and regulations in each of the countries in which it operates. The Entity should include independent sources, such as Internal Audit or external experts, to properly assess the effectiveness of its program and to benchmark against others, including those in the countries with strong results from the FATF evaluations.

About the Author

Kristin Bone, a Partner with StoneTurn, has more than 20 years of forensic accounting, auditing, compliance and monitoring, and dispute consulting experience. Kristin brings expertise in investigations, litigation matters and arbitration connected with civil and commercial disputes. She also assists clients to develop and implement antifraud risk assessments, and remediate fraud and corruption.

Leaving no stone unturned.

StoneTurn, a global advisory firm, assists companies, their counsel and government agencies on regulatory, risk and compliance issues, investigations and business disputes. We serve our clients from offices across the U.S., U.K. and in Germany, Brazil, South Africa and Singapore, assisted by a network of senior advisers around the world.



StoneTurn.com