

FATF

[UPSC Notes]

What is FATF?

FATF is the Financial Action Task Force, an association of intergovernmental bodies established with the initiative taken during the G7 summit organized in Paris. It is an association that works with the governments of several countries to effectively carry out regulatory reforms and national legislation in matters of international finance and maintains the integrity of the international finance system.

- Initially, in 1989, it was established to design and promote policies for combating money laundering across the globe; however, it expanded to take regulatory actions against terrorist financing after the United States' terrorist attack of 9/11.
- Further, in 2012, it included opposing the financing of the promotion of weapons of mass destruction.

FATF's presidential powers keep changing among its 39 members representing 37 countries and 2 regional organizations yearly. Its headquarter is situated at OECD headquarters in Paris.

FATF Latest Updates

The FATF has taken major actions on the following dates.

- **July 2021:** FATF added Haiti, Malta, Philippines, and South Sudan to its "jurisdictions under increased monitoring."
- **October 2021:** FATF added Jordan, Mali, and Turkey to its grey list and retained Pakistan.
- **March 8, 2022:** Zimbabwe is removed from the grey list; however, Pakistan remains on the list.

Financial Action Task Force Highlights

There are a few points about FATF that all aspirants must know.

- **FATF member countries:** 39 countries (37 countries and 2 regional organizations) as of 2021.
- **FATF activities:** Monitoring and combating money laundering and terror financing.
- **FATF training institute:** Busan, Korea
- **FATF President:** T. Rajakumar is the current president who succeeded Dr. Marcus Pleyer of Germany.

- **FATF listing:** FATF black list and FATF grey list have a complete list of countries.
- **Consequences of FATF listing:** Increased monitoring, Economic sanction, negative highlights on the global stage, Prohibitive measures, reduced international trade, and many other restrictions.

History of FATF

The FATF was established in 1989 to curb the increasing money laundering problem. FATF originally had 16 members, which gradually increased to 30 members by 2021. Performing efficiently, the FATF submitted a report with 40 recommendations for combatting the problem of money laundering.

- The mandate of FATF was expanded to terror funding after the case of 9/11 in 2001.
- These recommendations were further expanded in 2003 due to the different patterns of the laundering techniques.

Functions of FATF

Financial Action Task Force designs FATF standards and a set of recommendations for its member countries and other countries. It ensures a global response against terrorist funding, money laundering, corruption, organized crimes, and other activities threatening international finance and a country's financial security.

- The members of FATF help financial authorities of various countries to keep an eye on money and monetary sources of criminals involved in crimes such as human trafficking, illegal drug businesses, or any other crime that promotes mass destruction or fund such activities.
- The Financial Action Task Force also works to obstruct the monetary help for weapons of mass destruction. Moreover, it also evaluates any country's strength and commands over frameworks against money laundering and terror financing; however, it does not deal with individual cases across the globe.
- The FATF issued its first set of recommendations in 1990 and was further revised in 1996, 2001, 2003, and 2012. 2012 was the last time the FATF revised its set of recommendations still followed by countries.

FATF Grey List

The FATF has put some countries on its lists based on black and grey listings. These FATF black list countries 2022 and FATF grey list countries 2022 included countries based on their weak policies to combat the activities like money laundering and terrorist funding. This listing can also be based on the countries' financial support for such criminal activities that promote mass destruction.

FATF Grey List Countries

The Grey list of FATF means that they are not involved in terror funding and money laundering, but it is a warning for the countries, that they may be put into the category of the black list if found guilty.

List of Countries under FATF Grey List 2022

Recently, the Financial Action Task Force (FATF) has granted Pakistan a respite by saying that the nation might be taken off the grey list. Pakistan's removal from the "grey" list is anticipated and is to be decided by FATF after its plenary meeting in Berlin in October.

- Albania
- Barbados
- Burkina Faso
- Cambodia
- Cayman Islands
- Haiti
- Jamaica
- Jordan
- Mali
- Malta
- Morocco
- Myanmar
- Nicaragua
- Pakistan
- Panama
- Philippines
- Senegal
- South Sudan
- Syria

Objective of FATF Listing

The main objective of the FATF (Financial Action Task Force) in placing countries on black and grey lists is to make and encourage policies that help prevent money laundering and terrorist funding, and other such activities that promote mass destruction and harm the integrity of the international financial system.

The FATF grey list includes countries believed not to be putting enough effort into promoting policies to combat activities like money laundering and terror funding.

On the other side, countries listed on the FATF black list are those countries that cannot strengthen their policies against the activity of terror funding and money laundering despite being already on the Grey List and given enough chances and time to improve their policies.

The FATF black list and grey list countries have various endorsements, and boycotts are imposed on them. They are taken as non-cooperative countries fighting terrorist financing and money laundering globally.

FATF Role to combat Global Terrorism

As already mentioned, the FATF makes robust policies and recommendations for all the countries to fight against money laundering and funding terrorist pursuits globally.

Here are some crucial roles that the FATF plays in combating terrorism financing:

- **Set standards:** The FATF makes decisions and sets some standards to minimize the activities of money laundering, terror funding, and the financing propagation of weapons of mass destruction worldwide. Every country is supposed to follow these standards; otherwise, it can be listed in the FATF's black or grey list.
- **Protection:** One of the FATF's most important objectives and roles is to protect the integrity of the international financial system and enhance its transparency to support and promote global financial security.
- **Studies:** The FATF also regularly organizes and publishes studies based on expert operations and strategies on risks, trends and methods for combating terror funding activities. Additionally, it effectively develops and sets standard global policies, regulations, and best practices to overcome such issues and achieve global financial security.
- **Evaluation:** FATF also assesses its member countries and supervises them in close collaboration with the regional bodies.
- **Coordination:** The FATF has made recommendations that are considered the global standard to combat terror funding and money laundering activities. This set of recommendations is the foundation of a globally coordinated response to mitigate all the threats to the integrity of the international financial system. Additionally, the coordination aid in confirming a level playing field.
- **Monitoring:** The FATF plays a vital role in monitoring the policies and progress of its member countries in employing necessary measures for reviewing money laundering and terrorist funding events.
- **Identify vulnerabilities:** The FATF has a good role in identifying national-level vulnerabilities to protect the international financial system against misuse. The FATF ensures this by collaborating with other stakeholders at the international level.

FATF Recommendations

Check how the FATF effectively fights global human and financial security. The FATF and its recommendations proved to be very effective in securing the international financial system and combating terrorist funding and money laundering activities.

Pressure

The effect of the FATF listing countries in black and grey lists is proven more significant and effective in international efforts to fight against money laundering than the FATF set of Recommendations. Though the FATF blacklisted countries do not have formal

sanctions as per international law, these countries listed on the FATF Blacklist often face extreme financial pressure.

Awareness

Over time and with its efforts to fight against global illegal activities, the FATF has gained its identity and integrity as a proficient association. It has successfully increased awareness about the challenges faced by the international financial system and global level human security issues such as terrorism and money laundering.

Money laundering

With its efforts to follow the objective to fight against the activities of money laundering and oppose financial support to terrorism, the FATF is always at the forefront. Its efforts have been correlated with relevant solutions from the UNSC.

Investigation

The FATF ensures effective investigation and prosecution of terrorist financing activities and offences. The Financial Action Task Force (FATF) ensures the people involved in financing terrorist activities are prosecuted and subject to effectual, comparable and discouraging sanctions.

Terrorist financing

The FATF works at its best to ensure that terror organizations cannot easily access funds to cause these crimes against human security and financial security. The FATF has become the most important factor or body that puts pressure on the countries such as Pakistan to take obligatory action against terrorists trading from its soil.

Corruption

The well-known FATF is also very effective in fighting against corruption by countries, mainly the FATF grey list countries 2022, which do not satisfy the recommendations. This strict behavior aid in crippling the finance of the countries helping terrorist activities and corrupt organizations.

Cooperation

The FATF has proven its effectiveness in forming international cooperation. This international corporation has been strengthened by bodies such as the World Bank, the G-20 Finance Ministers and Central Bank Governors, the IMF, and the United Nations.

The FATF indeed has a significant and effective role as a pressure group and standard organization in putting pressure on combating terrorism funding and money laundering at global levels.

FATF and India

India has been an observer country in FATF since 2006 and later, in 2010, became a member country to combat terrorism.

Over time, there has been significant progress in employing FATF's set of recommendations in India, making it largely obedient to them.

