



# **FATF Mutual Evaluation Process**

## About FATF



- Financial Action Task Force (FATF) is the global watchdog on Money Laundering (ML) and Terrorist Financing (TF). It was formed in 1989.
- It is the global Anti-Money Laundering, Countering the Financing of Terrorism and Countering Proliferation Financing standard setter.
- FATF has limited membership. However, it makes standards for all jurisdictions and implements them through FATF-Styled Regional Bodies (FSRBs).
- FATF makes countries comply to its standards through a rigorous process called the Mutual Evaluation.
- Results of Mutual Evaluation have significant impact on the financial system and general reputation of a country.
- The FATF is a member-led organisation. The Plenary is the decision-making body of the FATF. It meets three times per year and takes its decisions by consensus.

## To achieve its objectives, the FATF:

- Develops International Standards
- Monitors members' compliance with the FATF standards through peer reviews or mutual evaluations
- Identifies and engages with countries that have strategic deficiencies
- Ensures a clear understanding of the FATF Standards and processes

Although the Standards are not binding laws, the FATF Standards set the foundation for each country's anti-money laundering, counter-terrorist financing, and counter-proliferation financing regime. They range from making laws to establishing specific departments in the government.

## **Mandate of FATF:**

- ❑ Money laundering is the process of hiding the source of illegally obtained funds. Countries are required to criminalise money laundering based on the Vienna and Palermo Conventions.
- ❑ The FATF Recommendations require countries to criminalise terrorist financing based on the Terrorist Financing Convention. According to the Convention, terrorist financing involves soliciting, collecting, or providing funds with the intention that they may be used to support terrorist acts or organisations.
- ❑ Proliferation financing risk refers strictly and only to the potential breach, non-implementation or evasion of the targeted financial sanctions obligations referred to in Recommendation 7 of FATF.

## FATF Members [38 countries and 2 regional bodies]

- |                      |   |                  |   |                                    |   |
|----------------------|---|------------------|---|------------------------------------|---|
| 1. Argentina         |    | 17. Ireland      |    | 33. Spain                          |  |
| 2. Australia         |    | 18. Israel       |    | 34. Sweden                         |  |
| 3. Austria           |    | 19. Italy        |    | 35. Switzerland                    |  |
| 4. Belgium           |    | 20. Japan        |    | 36. Türkiye                        |  |
| 5. Brazil            |    | 21. Korea        |    | 37. United Kingdom                 |  |
| 6. Canada            |    | 22. Luxembourg   |    | 38. United States                  |  |
| 7. China             |    | 23. Malaysia     |    | 39. GCC (Gulf Cooperation Council) |  |
| 8. Denmark           |    | 24. Mexico       |    | 40. European Commission            |  |
| 9. Finland           |    | 25. Netherlands  |    |                                    |   |
| 10. France           |    | 26. New Zealand  |    |                                    |   |
| 11. Germany          |   | 27. Norway       |   |                                    |   |
| 12. Greece           |  | 28. Portugal     |  |                                    |   |
| 13. Hong Kong, China |  | 29. Russia*      |  |                                    |   |
| 14. Iceland          |  | 30. Saudi Arabia |  |                                    |   |
| 15. India            |  | 31. Singapore    |  |                                    |   |

(\*Russia's membership suspended in February 2023)

## Associate Members (9)

### FSRBs (Associate Members)

- Asia/Pacific Group on Money Laundering (**APG**) - 42 members 
- Eurasian Group (**EAG**) - 9 members 
- Caribbean Financial Action Task Force (**CFATF**) - 27 members
- Eastern and Southern Africa Group (**ESAAMLG**) - 21 members
- Action Group against Money Laundering in Central Africa (**GABAC**) - 6 members
- Financial Action Task Force of Latin America (**GAFILAT**) - 18 members
- Inter-Governmental Action Group against Money Laundering in West Africa (**GIABA**) – 17 members
- Middle East and North Africa Financial Action Task Force (MENAFATF) – 21 members
- Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) – 33 members





## Working Groups

FATF operates through 5 working groups that spearhead the following key activities:

1. **Evaluations and Compliance Group (ECG)** – It conducts Mutual Evaluations, and assesses the quality of ME reports before they are published. The ECG interprets the criteria set in the FATF's recommendations, prepares the methodology, and also develops the Follow-up Reports (FUR).
2. **International Co-operation Review Group (ICRG)** – It monitors and supervises the progress of grey-listed and black-listed. It operates the process of taking jurisdictions into grey-list and removing them from grey-list. It administers four Joint Groups which review Action Plan of grey-listed countries. These are: Asia Pacific Joint Group (AP-JG), Europe Eurasia Joint Group (EE-JG), Africa Middle East Joint Group (AME-JG), and Americas Joint Group (A-JG).
3. **Policy Development Group (PDG)** – It develops and improves the FATF Standards, and provides guidance on how to implement them. It is the apex body for formulating standards, making amendments to standards, and developing guidance reports. It also spearheads the implementation of new amendments such as Virtual Assets and Beneficial Ownership.

## Working Groups (contd.)

4. **Risk, Trends and Methods Group (RTMG)** - It assesses regional and global risks of ML and TF. Its work includes analysis of new types of money laundering and terrorist financing typologies, and study of trends.

5. **Global Network Cooperation Group (GNCG)** – It serves as a forum for raising and resolving issues of interest to FSRBs and the FATF. It is also a mechanism for sharing good practices and ideas relevant to such bodies.

## The Mutual Evaluation Process

- ❑ FATF requires all countries to be evaluated on its standards. The evaluation is a *peer review*, in the sense that peers (other members) contribute assessors for the evaluation. Experts from different members should qualify for FATF/FSRB assessor training.
- ❑ Any country that refuses to go through a Mutual Evaluation (ME) gets black-listed by default. Currently two countries refuse to conduct ME: Iran & North Korea.
- ❑ ME is conducted by an 'Assessment Team' (AT) that consists of assessors contributed by peers and members of the Secretariat that the country is member of.
- ❑ For instance, India is a member of FATF, APG, and EAG, so its AT had assessors from members of all three organisations and secretariats of the three.
- ❑ FATF methodology is rigorous and requires countries to submit many technical documentation to demonstrate their effectiveness. Mutual evaluations provide focused recommendations to further strengthen countries' AML/CFT/CPF systems.
- ❑ A mutual evaluation is a strictly confidential process. The assessment team, assessed country, Secretariat, reviewers, and countries making comments should ensure the confidentiality of all information gained and all comments made.

## Main components of the ME process

- The technical compliance assessment addresses the specific requirements of the FATF Recommendations, principally as they relate to the relevant legal and institutional framework of the country and the powers and procedures of the competent authorities. These represent the fundamental building blocks of an AML/CFT/CPF system.
- The effectiveness assessment differs fundamentally from the assessment of technical compliance. It seeks to assess the adequacy of the implementation of the FATF Recommendations and identifies the extent to which a country achieves a defined set of outcomes that are central to a robust AML/CFT/CPF system. The focus of the effectiveness assessment is therefore on the extent to which the legal and institutional framework is producing the expected results. The evaluated country must provide evidence to the assessment team demonstrating that its measures are working and delivering the right results.

# FATF Methodology

Technical compliance over 40  
Recommendations

Effectiveness over 11  
Immediate Outcomes (IO)

## Ratings

C	Compliant-no shortcomings
LC	Largely Compliant-minor shortcomings
PC	Partially Compliant-moderate shortcomings
NC	Not Compliant-major shortcomings

## Ratings

HE	Highly Effective-minor improvements
SE	Substantial level of effectiveness-moderate
ME	Moderate level of effectiveness-major
LE	Low level of effectiveness-fundamental

## 40 Recommendations

Rec.	Area of Compliance
1-2	AML/CFT Policies and Coordination
3-4	Money Laundering and Confiscation
5-8	Terrorist Financing and Financing of Proliferation
9-23	Preventive Measures
24-25	Transparency and beneficial ownership of legal entities
26-35	Powers and responsibilities of competent authorities and other institutional measures
36-40	International cooperation

## 11 Immediate Outcomes

### IO Effectiveness Criteria

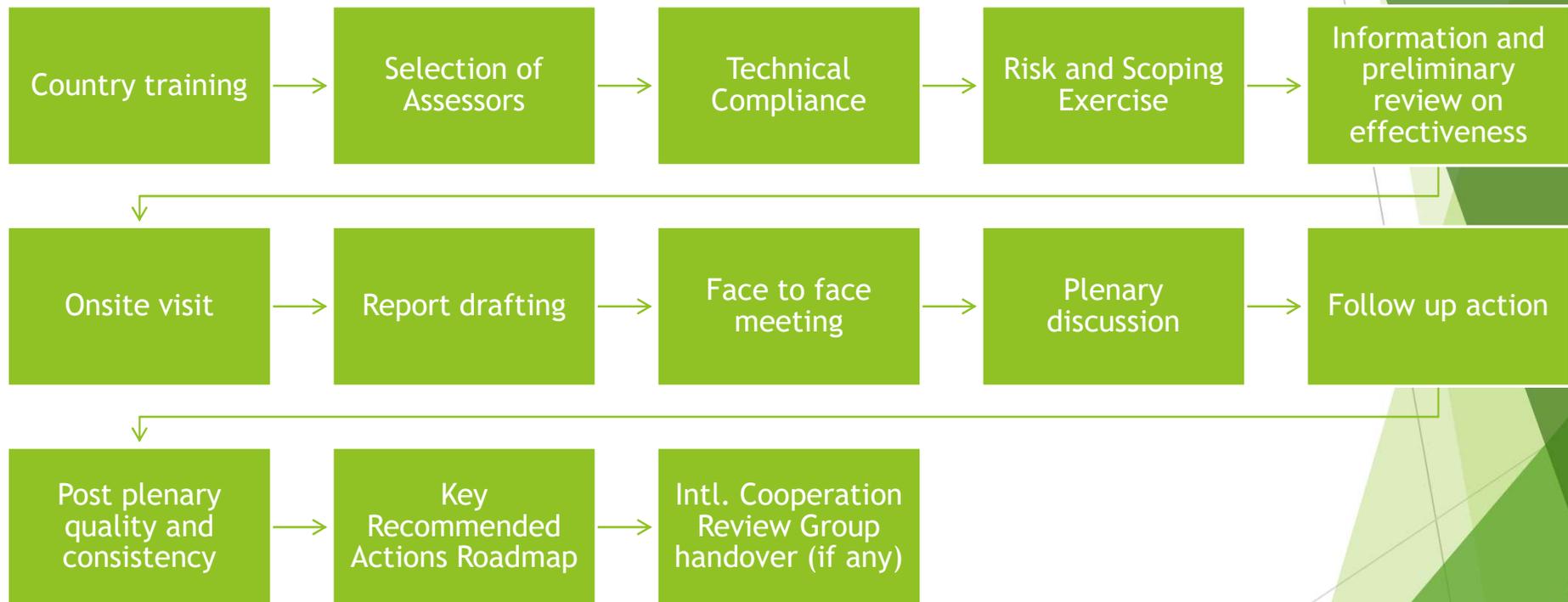
- 1 Money laundering and terrorist financing **risks** are understood and, where appropriate, actions **co-ordinated** domestically to combat money laundering and the financing of terrorism and proliferation.
- 2 **International co-operation** delivers appropriate information, financial intelligence, and evidence, and facilitates action against criminals and their assets.
- 3 Supervisors appropriately supervise, monitor and regulate financial institutions and VASPs for compliance with AML/CFT requirements, and financial institutions and VASPs adequately apply AML/CFT preventive measures, and report suspicious transactions. The actions taken by supervisors, financial institutions and VASPs are commensurate with the risks.
- 4 Same for DNFBPs
- 5 **Legal persons and arrangements** are prevented from misuse for money laundering or terrorist financing, and information on their **beneficial ownership** is available to competent authorities without impediments

## 11 Immediate Outcomes (CONTD.)

### 10 Effectiveness Criteria

- |    |   |
|----|---|
| 6  | <b>Financial intelligence</b> and all other relevant information are appropriately used by competent authorities for money laundering and terrorist financing investigations.                 |
| 7  | <b>Money laundering offences</b> and activities are <b>investigated</b> and offenders are <b>prosecuted</b> and subject to effective, proportionate and dissuasive sanctions.                 |
| 8  | Proceeds and instrumentalities of crime are <b>confiscated</b> .  |
| 9  | <b>Terrorist financing offences</b> and activities are <b>investigated</b> and persons who finance terrorism are prosecuted and subject to effective, proportionate and dissuasive sanctions. |
| 10 | Terrorists, terrorist organisations and terrorist financiers are <b>prevented from raising, moving and using funds, and from abusing the NPO sector</b> .                                     |
| 11 | Persons and entities involved in the <b>proliferation of weapons of mass destruction</b> are prevented from raising, moving and using funds, consistent with the relevant UNSCRs.             |

## STAGES OF ME PROCESS:

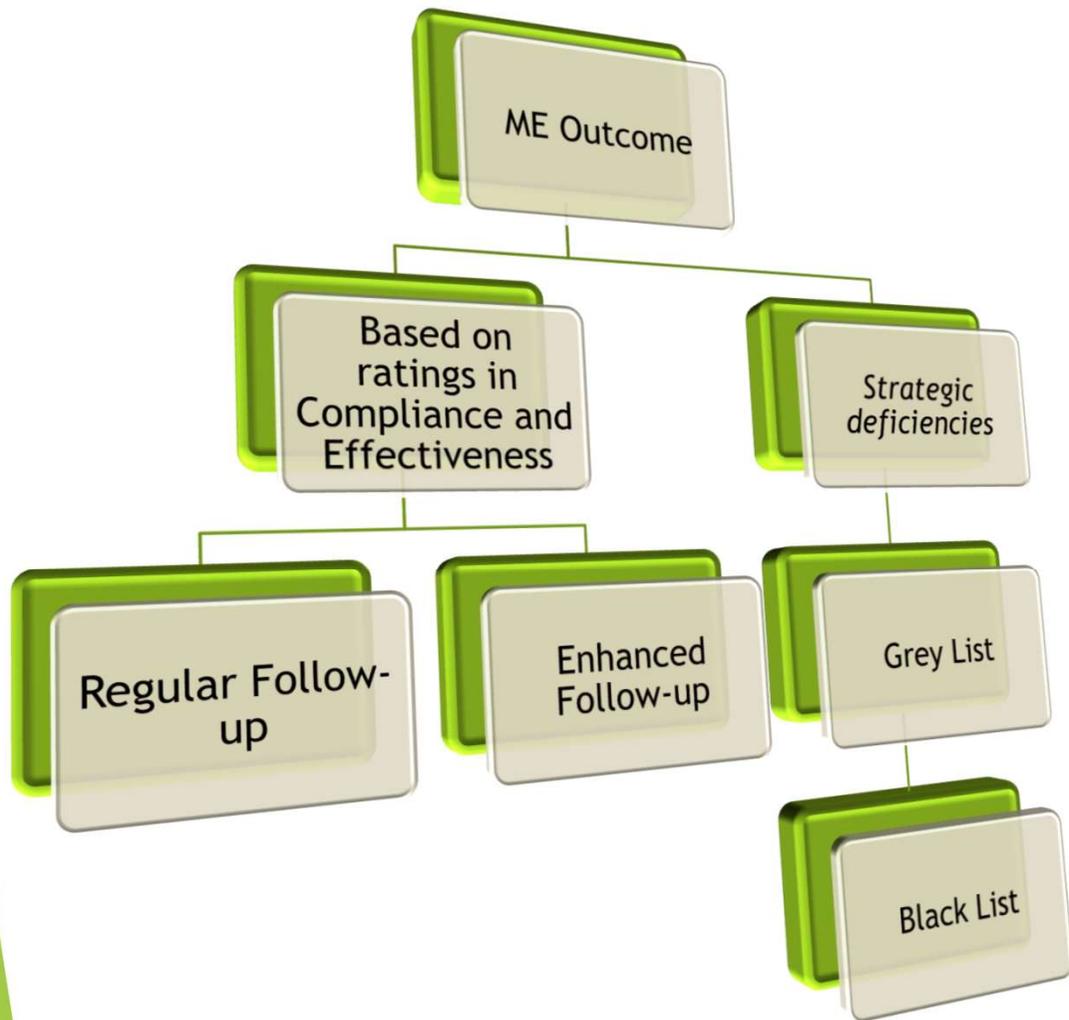


- ▶ **Stage 1 Country Training:** The FATF or assessment bodies organise training for representatives of the country being assessed so they know what they must provide and demonstrate during the process. The activity could include a brief session on the FATF Recommendations and how their effectiveness will be assessed or a mock mutual evaluation interview. This stage should be organised as far in advance of the on-site visit as possible.
- ▶ **Stage 2 Selection of Assessors:** The FATF and assessment bodies select the members of the assessment team, or AT, from a pool of trained assessors. An AT usually comprises five to six expert assessors, including at least one legal, financial and law enforcement expert. The team's composition depends on the required expertise for an assessment, including language and legal background. Assessors are appointed by the President of FATF or the assessment body. The selection should take place at least seven months before the on-site visit.
- ▶ **Stage 3 Technical Compliance:** The country provides information about its laws and regulations. The assessors analyse this information, checking if all the required laws and regulations are in place. About five months before the on-site, the AT should provide the country with a draft of the technical compliance annexe, which need not contain ratings or recommendations at this point. The technical compliance should be provided approximately seven months before the on-site.

- **Stage 4 Risk and Scoping Exercise:** In preparation for the effectiveness assessment and the on-site visit, assessors undertake a preliminary scoping exercise to determine the areas of focus of the on-site visit. Various elements are considered, including the type of threats, vulnerabilities and risks, the type of economy, the size of financial and other sectors, political stability and commitment, the rule of law, and the level of maturity of the country's system to combat ML, TF, and PF. The final risk and scoping exercise should occur at least 4 weeks before the on-site.
- **Stage 5 Information and Preliminary Review on Effectiveness:** Based on the information provided by the assessed country, the AT will examine the country's level of effectiveness regarding all 11 Immediate Outcomes. The final outline of key issues and potential recommended actions for discussion will be provided to the assessed country one month before the on-site visit. This stage should start 4 months before the on-site.
- **Stage 6: On-site Visit:** The on-site visit provides the best opportunity to clarify issues relating to the country's AML/CFT/CPF system. The assessors travel to the country for the on-site visit to verify whether the systems are effective. The ME visit generally takes 2-3 weeks. The on-site visit happens approximately 7 months before the Plenary discussion.

- **Stage 7 Report Drafting:** The AT coordinates and refines the first draft MER immediately following the on-site visit. The first draft MER includes the preliminary Recommended Actions, or RAs, and ratings. During this time, the AT should also consider which RAs should be regarded as Key Recommended Actions, or KRA, and compile the KRA in a separate list for the country, also called the KRA Roadmap. These documents are then sent to the country for comments. Independent reviewers also read the report. However, ultimately, the assessors are the only ones who decide on the text of the report and the final proposed ratings for effectiveness and technical compliance.
- **Stage 8 Face-to-Face Meeting:** After reviewing the second draft MER, the AT and the country participate in a face-to-face meeting. During this session, the AT and country should work to resolve any disagreements over technical compliance or effectiveness issues and identify potential key issues for Plenary discussion. During the face-to-face meeting, sufficient time should be allocated to discuss the KRA Roadmap. The face-to-face meeting is about clarifying the information gained during the on-site visit. This meeting should be organised at least 8 weeks before the Plenary.
- **Stage 9 Plenary Discussion:** The assessors present the draft report to the FATF Plenary at one of the three meetings it holds every year. The Plenary will discuss the assessors' findings and proposed ratings. Consensus among members - except for the assessed country, which has no vote - is required to overrule any draft findings and ratings by the assessors.

- **Stage 10 Follow-up:** After the report is adopted, the Secretariat will indicate to the Plenary which level of follow-up the assessed country should be placed in based on the final ratings and the date of the Plenary at which the assessed country will be expected to report on its progress in addressing the KRA. Based on the Plenary's decision regarding follow-up, the KRA Roadmap will be updated to reflect the expected reporting date.
- **Stage 11 Post-Plenary Quality and Consistency:** If the Plenary agrees, it may direct changes to the proposed mutual evaluation report, key recommended actions Roadmap or Executive Summary. These documents will be subject to Post-Plenary quality and consistency review.
- **Stage 12 Key Recommended Actions Roadmaps, also called KRA Roadmaps:** Following the post-plenary Q&C review, the MER will be published. The FATF President will provide a copy of the KRA Roadmap to the appropriate minister of the assessed country and advise the minister regarding the FATF's expectations for follow-up by the assessed country.
- **Stage 13 International Co-operation Review Group Handover, also called ICRG Handover:** This stage only applies to countries meeting the ICRG criteria. To ensure a shared understanding of the KRA Roadmap, the AT and the assessed country, supported by the assessment body that led the ME, should meet with the members and co-chairs of the ICRG Joint Group responsible for the country's geographical region.



Ratings	Outcome
<ul style="list-style-type: none"> <li>• More than 32 C/LC out of 40 Recommendations</li> <li>• 3 or more C/LC out of 'Big Five' Recommendations</li> <li>• More than 5 HE/SE out of 11 Immediate Outcomes</li> </ul>	<b>Regular follow-up</b>
<ul style="list-style-type: none"> <li>• Ratings that do not meet above conditions</li> </ul>	<b>Enhanced follow-up</b>
<ul style="list-style-type: none"> <li>• More than 20 PC/NC out of 40 Recommendations</li> <li>• 3 or more PC/NC out of 'Big Six' recommendations</li> <li>• 6 or more LE out of 11 Immediate Outcomes</li> <li>• 2 or more LE out of 11 Immediate Outcome and less than 3 SE</li> </ul>	<b>Grey List</b>
<ul style="list-style-type: none"> <li>• Failure to address the grey-list 'action plan' in time</li> </ul>	<b>Black List</b>

## Consequences of MER Outcomes

- ✓ Countries in regular follow-up report back once in 3 years
  - ▶ The reporting is voluntary
- ❑ Countries in enhanced follow-up report back once a year
  - ▶ The reporting is mandatory. A reviewer is appointed to monitor progress
  - ▶ If a country does not demonstrate progress, action is taken against it in stages
- ❑ Countries in grey-list are given an 'action plan'
  - ▶ A grey-listed country is required to report to FATF once in every 4 months on its action plan
  - ▶ If it does not show progress, it can be pushed to the black-list
- ❑ Countries in black-list are subject to counter-measures

## Consequence of 'listing'

### Grey List

- Financial Institutions of a grey-listed country face challenges in conducting international transactions
- All transactions with a grey-listed country's financial system are subject to Enhanced Due Diligence, which means more time and compliance
- Grey-listed countries face challenges in getting sovereign debt and IMF/WB loans

### Black List

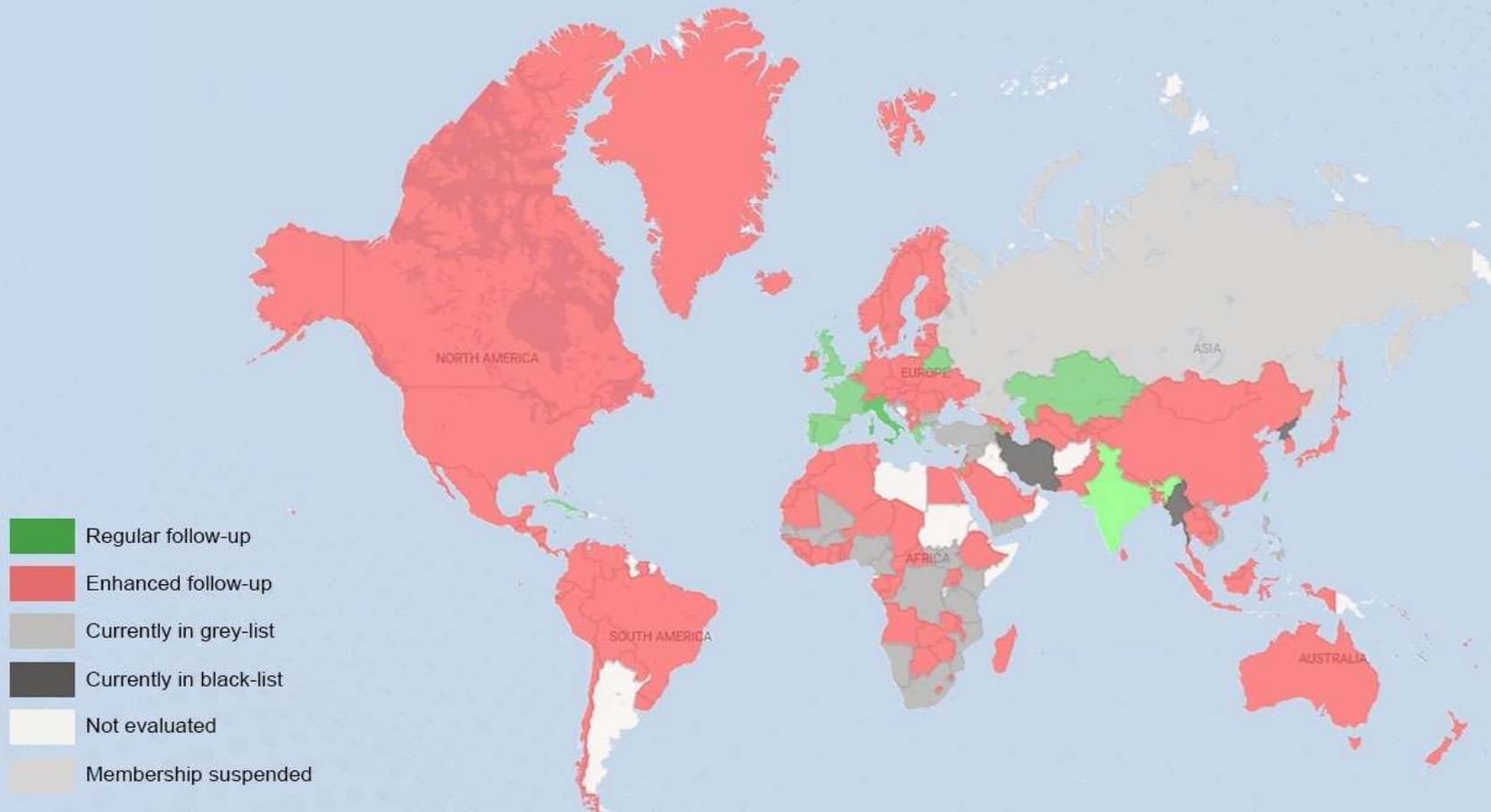
- Countermeasures
- Eg: Refusing the establishment of subsidiaries or branches of FIs from the black-listed country
- Eg: Prohibiting FIs from establishing branches in black-listed countries
- Eg: Limiting business relationships or financial transactions with persons in black-listed countries
- Eg: Requiring increased supervisory examination for branches and subsidiaries of FIs from black-listed countries

## India's 3<sup>rd</sup> and 4<sup>th</sup> Round of ME

- India underwent 3<sup>rd</sup> Round of Mutual Evaluation in 2010. The methodology and ratings were based on **40 Recommendations** and **9 Special Recommendations**. There was only Technical Compliance & **no** Effectiveness assessment. Based on India's Mutual Evaluation Report (published in 2010), 54 recommended actions were identified which were complied with, by India, during the course of 8 Follow-Up Reports, and final targets were met in 2013.
- In the 4<sup>th</sup> Round of Mutual Evaluation in 2023, both Technical Compliance & Effectiveness Compliance parameters are used.
- India's report was adopted in the June 2024 Plenary
- India is placed in the **Regular Follow-Up** category in the 4<sup>th</sup> Round.

# INDIA ACES FATF MUTUAL EVALUATION

## Classification of Countries as per FATF Assessment



*Note: The graph is based on ratings and lists published by FATF as of June 2024.*

# India's Effectiveness and Technical Compliance Ratings

R.1	R.2	R.3	R.4	R.5	R.6	R.7	R.8	R.9	R.10
LC	C	LC	LC	LC	LC	LC	PC	C	LC
R.11	R.12	R.13	R.14	R.15	R.16	R.17	R.18	R.19	R.20
C	PC	C	LC	LC	C	LC	LC	LC	LC
R.21	R.22	R.23	R.24	R.25	R.26	R.27	R.28	R.29	R.30
C	LC	LC	LC	LC	LC	C	PC	C	LC
R.31	R.32	R.33	R.34	R.35	R.36	R.37	R.38	R.39	R.40
LC	LC	C	LC	LC	C	LC	LC	C	LC

IO.1	IO.2	IO.3	IO.4	IO.5	IO.6	IO.7	IO.8	IO.9	IO.10	IO.11
SE	SE	ME	ME	SE	SE	ME	SE	ME	ME	SE

# India Excelled on following FATF Immediate Outcomes



## Immediate Outcome 1 Risk, Policy & Coordination

Strong understanding of ML/TF risks.

Strong cooperation amongst the authorities in India involved in AML/CFT.



## Immediate Outcome 2 International Cooperation

Provided and sought MLA and extradition to a large extent.

Authorities have been proactive in seeking and providing informal international cooperation in keeping with India's ML/TF risks.



## Immediate Outcome 5 Legal Persons & Arrangements

Good understanding of the inherent vulnerabilities associated with different types of legal person and arrangements through recent risk assessments.



## Immediate Outcome 6 Financial Intelligence

The Indian AML/CFT system features a wide range of sources of financial intelligence and other relevant information, including various types of reporting, that authorities systematically receive from the FIU.



## Immediate Outcome 8 Confiscation

Wide range of legislative measures available to LEAs to identify, seize and confiscate.

Strong measures implemented by India for depriving criminals from the benefits of their crimes.



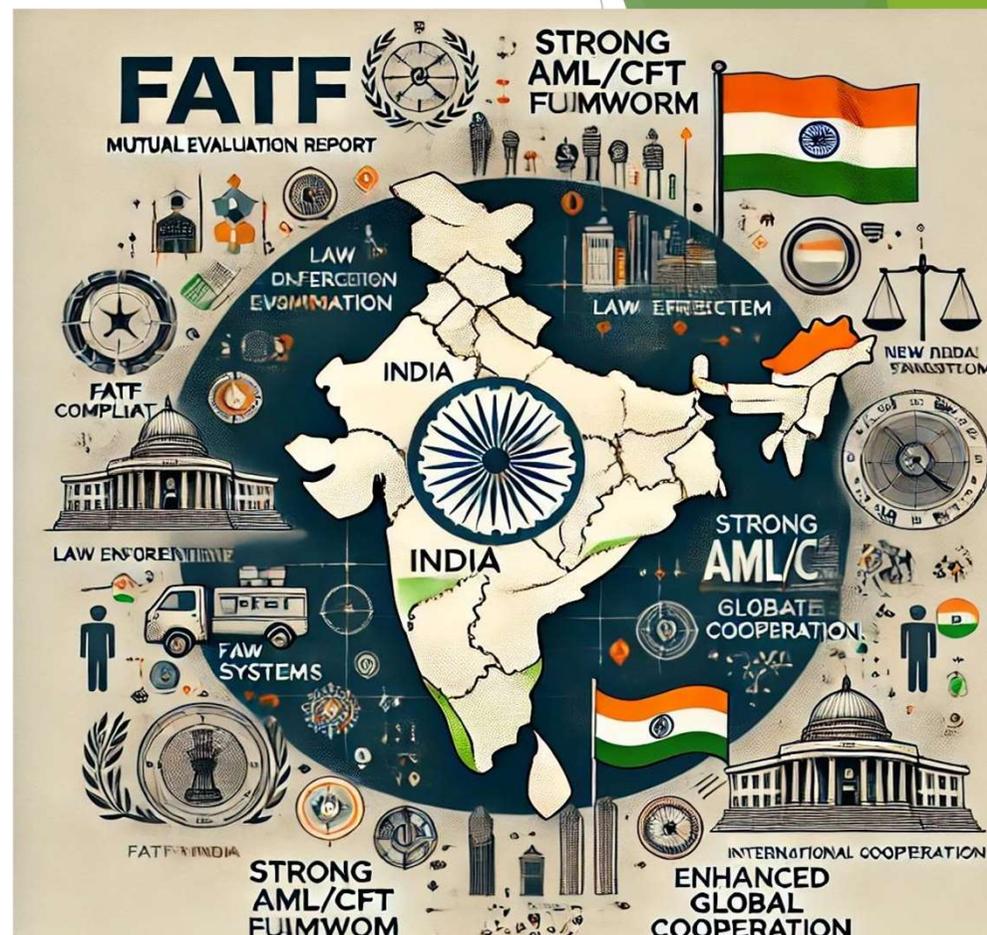
## Immediate Outcome 11 Proliferation Financing

Targeted Financial Sanction are fully and implemented without delay.

There is limited exposure of India to Proliferation Financing activity.

*Note: FATF has issued 11 immediate outcomes to establish the effectiveness of various AML/CFT requirements.*

Requirements for regular follow-up	India's MER Outcome
More than 32 C/LC out of 40 recommendations	India has received 37 C/LC out of 40 recommendations
3 or more C/LC out of 'Big 5 rec'	India is C/LC on ALL 'Big 5 rec'
5 or more 'Substantially Effective/Highly Effective' ratings in IOs	India has received 6 'Substantially Effective/Highly Effective' ratings
No requirements on 'low level of effectiveness'	India has not received 'low level of effectiveness' in any IO



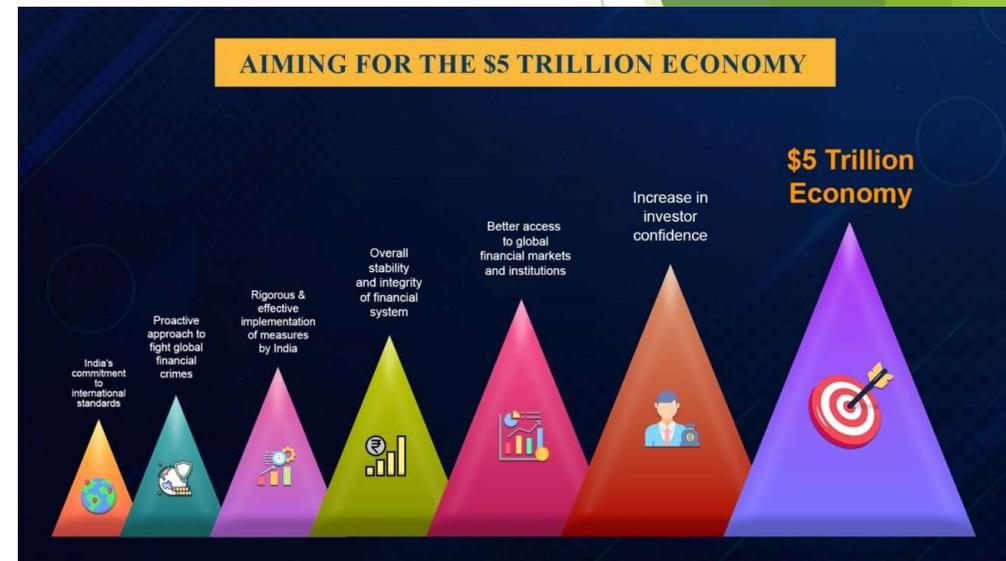
# How does the performance benefit India?

It improves the credibility and reputation of India as a financially stable and secure nation, making it more attractive for investments.

It increases access to international markets and lowers borrowing costs.

It improves cooperation with other countries in areas like countering terrorist financing, asset recovery, and law enforcement.

A good rating can lead to increased access to international trade by increasing the trust of India's trade finance instruments.



Thank You

