

A semi-annual newsletter issued by the Secretariat of MENAFATF



H.H. Mr.
Marwan Turki
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In the Name of God, Most Merciful, Most Compassionate,

Dear All,

I have the pleasure to share with you this issue of our newsletter and I would like to seize the opportunity to highlight one of the most important topics that was addressed recently in many international fora.

Under the current developments in the region, the next phase involves a growing number of challenges and responsibilities, particularly the increase of terrorist attacks and the risks of terrorism financing. Many

terrorist organizations have surfaced on the international scene and have sharply increased the terrorist attacks and schemes lately in the MENA countries; with new techniques and risks of terrorist financing in gathering and transporting funds; which have attracted the attention of international organizations, FATF and FSRBs on top. MENAFATF has been keen on building and providing a framework to synergize efforts in order to protect the security and safety of the region and economies, thwart such attacks and mitigate the related risks; for this purpose, it has held and contributed to many training events which would enhance the compliance with the recommendations issued by FATF and UN in this regard; It has as well supported several regional and international meetings held in the MENA counties, namely Manama conference on fighting terrorism financing when MENAFATF 20th plenary meeting adopted

Manama declaration.

In continuous efforts to meet the requirements of the next phase, the MENAFATF is seeking to achieve many objectives within the scope of the second round of mutual evaluations, provide qualified experts and make sure they are available, if and when selected. On the international level, it will reinforce its relations with regional and international organizations, in particular, FATF and FSRBs as well as assist members in obtaining technical assistance and training of high quality to support its efforts in developing combating regimes that are effective and capable of facing such crimes, increase the awareness on ML/TF risks to combat them and identify new methods, trends and techniques used in ML/TF operations. At the end, I pray God to help us achieve our goals and I wish everyone the best of luck.

MENAFATF
President

21st Plenary Meeting

FATF statement and project on terrorism financing

MENAFATF held its 21st plenary meeting in Muscat, Sultanate of Oman from 28 to 30 April 2015 with the participation of a large number of AML/CFT experts from the following members: (Jordan, UAE, Bahrain, Tunisia, Algeria, Saudi Arabia, Sudan, Syria, Iraq, Oman, Qatar, Kuwait, Lebanon, Egypt and Morocco) and the following observers (Palestine, Somalia, France, UK, USA, World Bank, IMF, GCC, FATF, UN, AMF and EAG). Further, MEWG, TATWG, the 11th FIUs forum, the 10th FIU sub-committee and the 2nd NRA committee meetings were held in the 2 days preceding the plenary meeting.

Over 3 days, the plenary meeting discussed many topics with respect to the Group activity and took a series of decisions. The plenary reviewed and adopted the 10th annual report, closing account and external auditor's report for the year 2014; It has as well discussed the latest news in the area of AML/CFT and the related international activities; The Group also discussed FATF events, particularly its statement recently issued on how

to reinforce the fight against terrorism financing as well as other measures related to the review of international cooperation in the coming phase, FATF project on the de-risking principle and its drivers. On another part, the plenary meeting discussed the activities held by regional and international organizations and counterparties and the cooperation existing between MENAFATF and such bodies; He underlined the cooperation with the Arab Monetary Fund, in providing a working paper on the preparations for the second round of mutual evaluations, AML/CFT supervisory news and holding a workshop on this topic in the second half of the year. The plenary meeting adopted 8 follow up reports which revealed the extent of progress made by the concerned countries in improving their AML/CFT regimes in light of the comments set out in the respective mutual evaluation reports. The plenary recognized the large progress achieved by the State of Kuwait in complying with AML/CFT international standards and approved to be moved from regular follow up to biennial update.



**Adel Hamad
Al Qulish**

De-Risking

The issue of de-risking is greatly and largely discussed in the current period by international organizations and institutions which are attempting to identify first a clear concept, then define the related policies on how to deal with such an issue; Lately, de-risking has become a popular practice in financial institutions, particularly banks. The absence of an agreed definition leaves room for lengthy discussion and debate particularly in the banking industry. Some reports issued in this regard indicate that the term of de-risking refers to terminating the business relationship with customers, specifically correspondent banking relationship, instead of applying due diligence requirements to avoid the potential

risks involved. Some would understand de-risking as terminating the relationship with large categories of customers regardless of the risks levels and the mechanisms of dealing with such risks. De-risking may have negative impact on the short term such as closing banking accounts for a particular category of customers or prohibiting some financial services instead of applying due diligence in their regard and other effects on the long term such as reduction of the profits earned from services provided to customers, financial losses as well as the development of unofficial systems with a heavy reliance on them. As a result, a group of the society may be excluded from the financial regime and the country would bear the economic losses, not to mention the difficulty to take monitoring and prosecution measures if the operations involve crimes.

Hence, the current trend is to address such practice and adopt risk management. Some reports provide the causes and drivers for this issue, among others, lack of clear understanding by banks and FIs to AML/CFT international standards (FATF 40 recommendations),

particularly R.13 on the requirements of dealing with correspondent banks; The reports stated that some banks misunderstand this recommendation which requires applying due diligence against customers and the principle of KYC and not KYCC; which is not clear yet to many banks, and have caused many FIs to avoid any relationship with the correspondent banks as it is difficult to identify the customer in several cases; which have made it difficult to apply the principle of de-risking in an attempt to avoid any risks they may face in dealing with such correspondent banks. FATF has mentioned de-risking in its statement issued in October 2014 and confirmed that it is not consistent with the Risk Based Approach set out in the recommendations which is a key aspect in the topic. The 40 recommendations require financial institutions based on the risk based approach to identify, assess and understand ML/TF risks in order to take the proper measures proportionate to the size of risks; If the financial institutions are not able to deal with ML/TF risks specified based on the RBA, they should, in this case, terminate the relationship.

**MENAFATF
Executive Secretary**

Promoting the operational autonomy of FIUs

Some FIUs of the MENA region provided during the 11th FIUs Forum held on 26 April 2015 presentations on “promoting the operational autonomy of FIUs”, which tackled the most important topics that affect the operational autonomy of FIUs, such as: Establishing an FIU with operational autonomy, providing the financial resources, appointing full time employees and granting them required immunity. Operational autonomy contributes in supporting the exchange of information on the national and international level as well as enable the FIU obtain financial and administrative information and intelligence related to law enforcement authority required to perform its tasks and effectively use them in analyzing the suspicious transaction reports; Operational autonomy contributes in disseminating the information and the outcomes of its analysis, spontaneously and upon request, to relevant competent authorities based on applicable rules that govern protection and secrecy of information received or processed or maintained or analyzed or exchanged or used by FIU and use it accurately according to the procedures,



policies, laws and regulations agreed on. The FIUs participating in the forum underscored the importance of being operationally autonomous, by having full authority to exercise its powers including the decision to analyze specific information and/or disseminate it and coordinate with other local authorities or counterparts with regard to exchange of information. As well, among other

important factors, providing adequate financial, human and technical resources that warrant operational autonomy of FIUs and enable it perform effectively its tasks without any political, or governmental or industrial interference or influence; If the FIU exists within an established structure of another authority, the key functions of the FIU and that of the other authority should be clearly delineated.

AML/CFT developments - 40 Recommendations and the new assessment methodology

The Bureau of Investigation and Public prosecution authority in Saudi Arabia held in cooperation with the MENAFATF a seminar on “AML/CFT developments-40 Recommendations and the new assessment methodology” in Riyadh from 12 to 14 May 2015 with the participation of AML/CFT international experts from regional and international organizations. The seminar, which lasted for 3 days, discussed the latest developments on the 40 recommendations and the new assessment methodology as well as MENAFATF efforts in this regard and its preparations for the second round of evaluations. Further, the seminar discussed the requirements of assessing technical compliance and effectiveness of AML/CFT regimes, identifying the requirements of ML/TF risks on the



national level of member jurisdictions. As a result, the seminar has been a source of information to the attending governmental authorities about AML/

CFT requirements and the latest news in this respect and exchange of expertise among the participants on the mechanisms of applying FATF recommendations.

Technical Assistance Procedures

MENAFATF adopted at its 21st plenary meeting held in Muscat in April 2015 the procedures of the technical assistance in order to coordinate the provision of technical assistance and explain the procedures of joint work among members represented by a working group and liaison teams for technical assistance, the Secretariat and the donors. Based on MENAFATF experience, technical assistance is any form of support and assistance provided by the group in favor of its members on the regional or local level for a specific jurisdiction in order to improve the compliance of its members with international standards and to build and promote the capacities of the concerned institutions, such as reviewing and drafting the legislations, holding workshops to increase awareness, training sessions to train assessors, building capacities of competent authorities, issuing bulletins and guiding principles and others.

In order to warrant the effectiveness of technical assistance provided to the members, the needs should be identified

in line with the national strategies and the donors should understand those needs and reinforce the coordination process.

Technical assistance falls into either of the 2 categories: (1) assistance provided to support members to address the weakness in fighting money laundering and terrorist financing.

(2) Providing assistance with a view to improve the capacities of members and their understanding, skill and practices in the new AML/CFT areas (such as evaluating the new methodologies, approaches and technologies and the patterns of misusing them in ML/TF operations). Technical assistance is conducted via 3 phases: To start with identifying the needs of members and their priorities, followed by coordination and cooperation among relevant parties and applying technical assistance, to end with evaluating the assistance provided and the scope of its benefits.

Kuwait moves from regular follow up to biennial update

The plenary reviewed the large progress made by the State of Kuwait in complying with the international AML/CFT standards and praised

its achievements in reinforcing its AML/CFT regime based on the recommended action plan established in the mutual evaluation report.

The plenary meeting adopted the follow up report and approved to be moved from regular follow up to biennial update.

Cooperation with the Arab Monetary Fund

Within the scope of reinforcing the relation with regional organizations, in particular, the Arab Monetary Fund (AMF), the MENAFATF attended the 25th meeting of the Arab Committee on Banking Supervision of the Board of Arab Central Bank Governors and Monetary Institutions held on Wednesday and Thursday 13 and 14 May 2015 at the premises of the Arab Monetary Fund in Abu Dhabi, United Arab Emirates. The committee is composed of Directors of Banking supervision in Arab Central Banks and Monetary Institutions. The meeting was attended by the members of the committee and directors of banking supervision in such banks and institutions as well as AMF representatives.

The committee discussed several topics, namely "Improving the global prudential regulatory policies in Arab States" and "Dealing with regulatory developments in fighting money laundering operations" as well as "Regulatory

repercussions to apply the new international standards of the financial reports".

Further, the committee discussed several reports on the Financial Inclusion Task Force and the Financial Stability Task Force in the Arab States. The MENAFATF contributed in a presentations on the working paper on "the supervisory news in fighting ML operations and the importance of preparing for the second round of mutual evaluations". The paper focused on the content of FATF standards with respect to the developments in banking supervision particularly, highlighting the importance of preparing for the 2nd round of mutual evaluations and the most significant challenges that may face members during such process, as well as some solutions that may assist them overcome those challenges. The paper was approved with some modifications to be made on the second version that will be submitted to the next meeting of the Board of Arab Central Bank Governors and Monetary Institutions.

MENAFATF efforts in the preparations for and implementation of the second round

Implementing the procedures adopted by the Group within the preparations for the second round of evaluations, the MENAFATF adopted the timeline of the mutual evaluation process; The first mutual evaluation is expected to start in 2015. On the level of preparing the countries for the mutual evaluation process, the MENAFATF is putting in practice a program on preparing members which aims at introducing officials to the mutual evaluation process and the requirements of the new assessment methodology.

The preparations include, among others, training the assessors on using the new assessment methodology in order to contribute in the evaluations; the Group has held a training session in 2014 and is planning to hold another round of training for another set of assessors during 2015; assessors will reflect the skills learned in these training sessions over the coming years in the mutual evaluations to be conducted.

Chairing and Forming the Mutual Evaluation Working Group and the Technical Assistance and Training Working Group

Within the scope of improving the internal work, chairing and forming the MEWG and the TATWG was re-considered; Each working group is now co-chaired by 2 chairmen who handle jointly the working group mandate, among others, chairing the sessions of the meetings, the annual meetings of the typologies experts and contributing in drafting the agenda of the working group,

preparing the work plans in line with the Group yearly plans, drafting the Working Group papers for discussion, preparing regular reports for the plenary meeting on behalf of MEWG/TATWG members on their activities including the issues that require the decision of the plenary meeting and detect any news with respect to the Working Group activities and other tasks.

The Risk Committee discusses the members stance with respect to national risk assessment

The MENA members provided at the 2nd NRA committee meeting a briefing about its efforts in national risk assessment with the inherent challenges. The members were keen to include all competent bodies in the evaluation process and to benefit from the experience of other countries and FATF guidance issued in 2013 on national risk assessment. Within this scope, the discussions revolved around how to conduct a national risk assessment, how to identify the purpose of the NRA process, which is useful in many aspects, such as identifying, understanding and assessing ML/TF risks, making the results of the assessment

available to policy makers to assist in detecting the legislative and procedures required, identifying how to distribute the resources in accordance with the various needs of the country based on the risk level, assisting FIs and DNFPBs in scoring their risks and others. Further, the discussions indicated that the scope and scale of the evaluation should be identified for all the involved bodies and to confirm the political will and cooperation among all parties contributing in the process; the executive steps of the NRA process included forming a group or technical committee in charge of leading and coordinating the processes on the

national level. When reviewing the challenges of the last period, some countries stated that it was difficult to obtain data and statistics in a consistent form from all bodies with information gaps; such aspect was considered in the evaluation procedures to take measures in order to identify the reasons of the absence of such information and endeavor to provide them in the future; In parallel, the nature of such data that can be used is diversified and may include official statistics and reports, evaluation reports issued by FATF, experts opinions, supervisors reports and typologies reports.