



Importance of National Risk Assessments to the Mutual Evaluation Process

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What is a ML/TF Risk Assessment?

At the national level:

*An **ML/TF risk assessment** is a product or process based on a methodology, agreed by those parties involved, that attempts to **identify, analyse and understand** ML/TF risks and serves as a first step in addressing them. Ideally, a risk assessment, involves making judgments about **threats, vulnerabilities and consequences**.*

Source: FATF Guidance on National Money Laundering and Terrorist Financing Risk Assessment, 2013



Understanding Risk

Risk can be seen as a function of three factors: **threat**, **vulnerability** and **consequence**.

- ✓ A **threat** is a person or group of people, object or activity with the potential to cause harm.
 - ✓ In the ML/TF context this includes criminals, terrorist groups and their facilitators, their funds, as well as past, present and future ML or TF activities.
- ✓ **Vulnerabilities** comprise of those things that can be exploited by the threat or that may support or facilitate its activities.
- ✓ **Consequence** refers to the impact or harm that ML or TF may cause and includes the effect of the underlying criminal and terrorist activity on financial systems and institutions, economy and society more generally.

Source: FATF Guidance National Money Laundering and Terrorist Financing Risk Assessment, 2013



Basic Principles for Assessing Risks

Recommendation 1

- ✓ Use of a Risk Based Approach.
 - Countries, financial institutions (FIs) and DNFBPs should “identify, assess and understand” their ML/TF risks.
 - Designation of “an authority or mechanism to co-ordinate actions to assess risks”.
 - Used for determining higher and lower risks.
 - Efficient allocation of AML/CFT resources.

Immediate Outcome 1

- Ensure AML/CFT measures are commensurate with the “risks identified”.
- Specific obligations and decisions for countries, FIs and DNFBPs.



Why is it important to assess ML/TF risks?

1. Provides the basis of any effective risk-based AML/CFT regime
 - Adapted to the specific national risk contexts.
2. Identify effective risk mitigation strategies.
3. Prioritize risk mitigation activities, commensurate to the level of the identified risk
4. Design appropriate and proportionate policy responses.
5. Make and justify decisions about limiting AML/CFT coverage of financial institutions and products on the basis of risk levels (high vs. low risk)
6. Improve and strengthen national AML/CFT regimes.



Users of ML/TF risk assessments

- ✓ Policy makers and other related authorities.
- ✓ Operational agencies, including law enforcement agencies (LEAs), other investigative authorities, financial intelligence units (FIUs), relevant border agencies.
- ✓ Regulators, supervisors and self-regulatory bodies (SRBs).
- ✓ FIs and DNFBPs.
- ✓ Non-profit organisations (NPOs).
- ✓ AML/CFT assessors and assessment bodies more broadly, along with other international stakeholders.
- ✓ The general public, as well as academia and specified individuals.



General Principles for a National ML/TF Assessment

- ✓ **Clear agreement on purpose**
 - All parties involved should agree on purpose, scope, expectations and overall goals.
- ✓ **Determining scope**
 - Determine whether ML and TF risks should be assessed separately or together.
 - Assessments carried out at supranational, sectoral and other levels should relate to each other consistently.
 - Assessments should be comprehensive.
- ✓ **Need for high-level commitment to the ML/TF risk assessment process.**

Source: FATF Guidance National Money Laundering and Terrorist Financing Risk Assessment, 2013



Stages of ML/TF Risk Assessment

1. Identification

- Developing an initial list of potential risks or risk factors countries face when combating ML/TF.

2. Analysis

- Involves consideration of the nature, sources, likelihood and consequences of the identified risks or risk factors.
- The goal of this stage is to gain a holistic understanding of each of the risks.

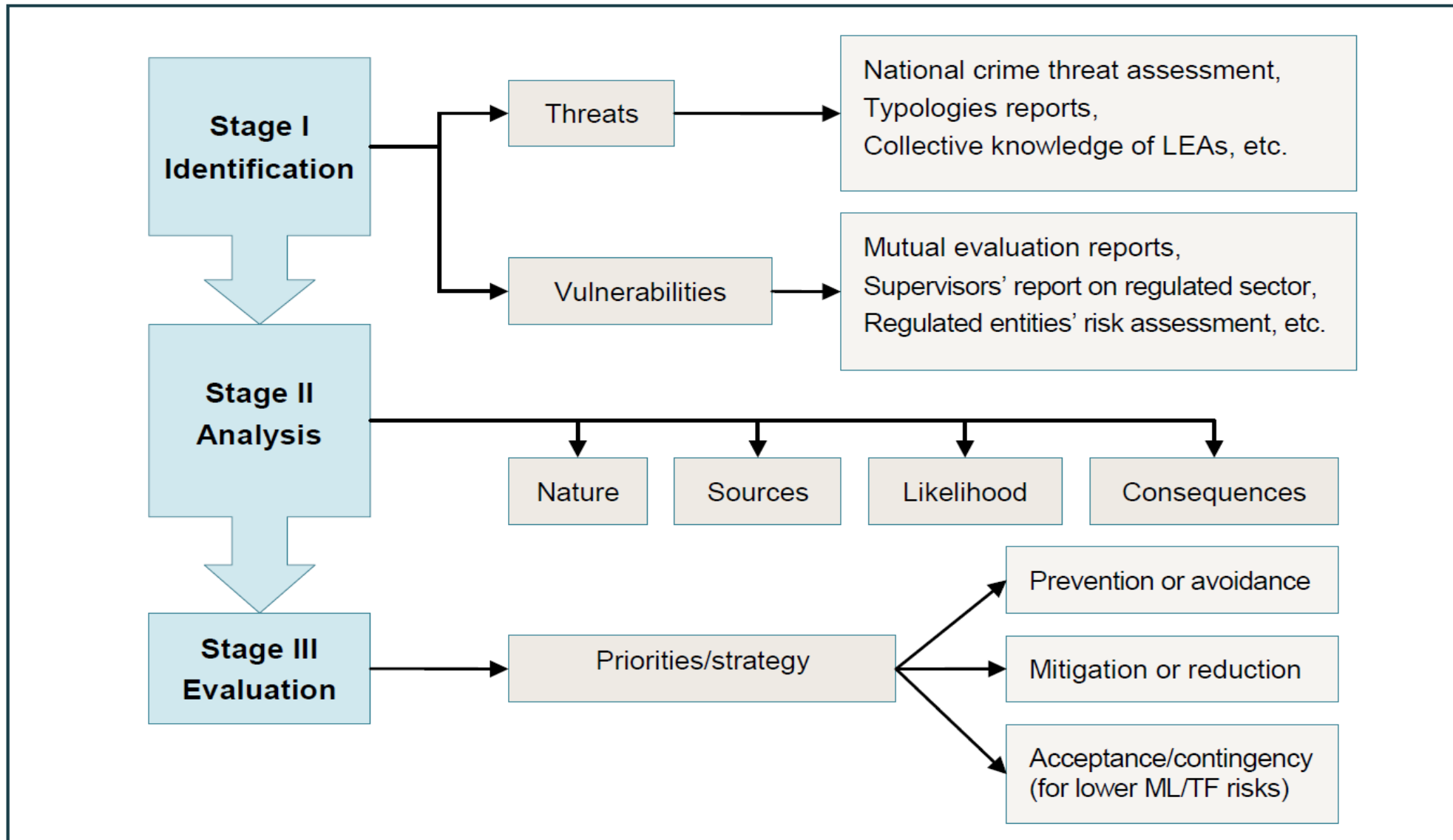
3. Evaluation

- Determines priorities for addressing the risk analyzed in previous stages.

Source: FATF Guidance National Money Laundering and Terrorist Financing Risk Assessment, 2013



Overview of the ML/TF Risk Assessment Process





Importance to the Mutual Evaluation Process

- ✓ Assessors evaluate how well FIs and DNFBPs are implementing the RBA, which involves reviewing the following:
 1. Their understanding of customer, country, geographic, product and transaction risks;
 2. Documentation of risk assessments and keeping them up-to-date;
 3. Ability to provide risk assessment information to competent authorities (CAs).



Importance to the Mutual Evaluation Process

✓ Assessors evaluate:

1. Approved policies, controls and procedures in place to manage and mitigate the identified risks
 - The risk assessment can be on the national and sectoral levels
2. Monitoring of the implementation of policies, controls and procedures and if they are enhanced as necessary; and
3. Whether enhanced due diligence (EDD) is being done for high-risk customers, products, business relationships, financial transactions and so on.