

Engagement Session :

**5th Round Mutual Evaluation 2024-2025
(ME 2024-25) by Financial Action Task Force**

11 July 2023

Presentation Outline

- 01 | **The FATF Evaluation Process**
- 02 | **Mutual Evaluation Ratings - *MER 2015***
- 03 | **Preparatory Process - *ME 2024-25***

Objective : *Mutual Evaluation by FATF*

Why do Mutual Evaluations?

- ▶ Assess Compliance with the FATF Standards in order to:
 - ▶ Highlight risks and provide information to i.e governments, private sector and civil society
 - ▶ Set clear direction for policymakers
 - ▶ Enable peer pressure on countries to improve compliance

Why are Evaluations important to the country?

- ▶ Feeds into country risk assessments in both public and private sectors internationally
 - ▶ e.g. Impact on credit ratings, supervisory authorisations, IFI lending
- ▶ Adverse assessment
 - ▶ Can have material impact on reputational risk
 - ▶ Leads to enhanced follow-up process within FATF/APG
 - ▶ Can ultimately lead to counter-measures

Peer Review Process

Peer Review achieved by:

- ▶ Expert assessors from national authorities, supported by a professional secretariat (previous assessment by APG)
- ▶ Plenary adoption and publication of all evaluations

Role of assessors is to:

- ▶ Apply common methodology consistently
- ▶ Deliver independent and objective conclusions

FATF Recommendations

- ▶ The FATF Recommendations are the international standard for AML/CFT
- ▶ They set requirements for both technical compliance and effectiveness with respect to:
 - ▶ criminal justice
 - ▶ financial sector preventive measures
 - ▶ transparency
 - ▶ institutional framework
 - ▶ international co-operation
- ▶ “Methodology” reflects all requirements and is the tool to be used for assessments

What is Technical Compliance?

- ▶ Are the right laws and regulations in place?
- ▶ Authorities powers
- ▶ Processes in place to allow for use of Authorities powers

What is Effectiveness ?

- ▶ The extent to which a country achieves a set of 11 defined immediate outcomes that are central to a robust AML/CFT system
- ▶ The extent to which a country's legal and institutional framework is producing the expected results

Outputs vs. Outcomes

RIs have AML/CFT policies and procedures manuals	Criminals are preventing from accessing the financial system – <i>sufficient and effective</i>
STRs are filed with the FIU	Intelligence is sound and helps in successful investigations – <i>quality of STRs</i>
RIs run training courses	Staff are knowledgeable and understand their obligations – <i>good understanding of ML/TF risk</i>
Supervisory Inspections conducted	RIs have a good level of compliance - <i>higher compliance rate</i>
Risk Assessment undertaken	The risks are understood and properly addressed – <i>appropriate steps to identify, assess and understand</i>

On-site Meetings

- ▶ Labuan will be incorporated into overall report on Malaysia
- ▶ Initial engagement with **Authorities**
- ▶ Subsequent meetings with sample of **financial sector**
 - Discussion between equals, not an inspection
 - Key objective to assess extent to which financial sector understands ML/TF risks, and has taken appropriate measures to mitigate them
 - Conclusions based on input from authorities and financial sector

MER 2015 : Ratings for Technical Compliance and Effectiveness

Technical Compliance – 40 Recommendations (40 Recs)

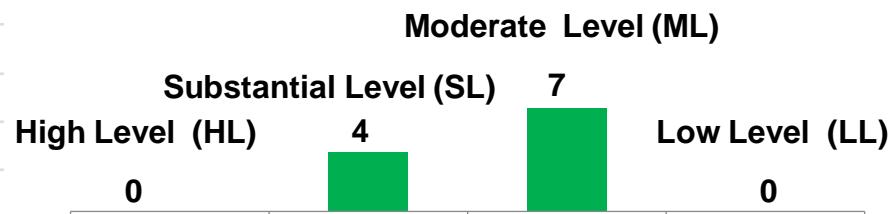


Rec	Scope of Assessment	Rating	Rec	Scope of Assessment	Rating
1	Risk Assessment	LC	21	Tipping off	C
2	National Coordination	C	22	Designated Non-Financial Businesses & Professions (DNFBPs) : CDD	LC
3	Money Laundering Offence	LC	23	DNFBPs : Other Measures	LC
4	Confiscation	LC	24	Transparency of Legal Person	PC
5	Terrorism Financing (TF) Offence	C	25	Transparency of Legal Arrangement	PC
6	Targeted Sanctions on TF	C	26	Regulation and supervision of financial institutions (FIs)	C
7	Targeted Sanctions on Financing of Proliferation (FOP)	PC	27	Powers of Supervisors	C
8	Non-Profit Organisations (NPO)	LC	28	Regulation and Supervisions of DNFBPs	LC
9	Financial Secrecy	LC	29	Financial Intelligence Unit (FIU)	C
10	Customer due diligence (CDD)	C	30	Authorities of Law Enforcement Authorities (LEAs)	C
11	Record Keeping	LC	31	Powers of LEAs	C
12	Politically Exposed Person (PEPs)	LC	32	Cash Couriers	LC
13	Correspondence Banking	LC	33	Statistics	C
14	Money and Value Transfer Service (MVTs)	C	34	Guidance and Feedback	LC
15	New Technologies	C	35	Sanctions	LC
16	Wire Transfers	C	36	International Instruments	LC
17	Reliance on Third Parties	LC	37	Mutual Legal Assistance (MLA)	LC
18	Internal Control	C	38	MLA: Freezing and Confiscation	LC
19	High Risk Countries	C	39	Extradition	LC
20	Reporting of suspicious transactions	C	40	Other forms of International Cooperation	LC

MER 2015 : Ratings for Technical Compliance and Effectiveness

Effectiveness – 11 Immediate Outcomes (IOs)

IO	Scope of Assessment	Rating
1	Understanding of ML/TF risks	SL
2	International cooperation	ML
3	Supervision of FIs & DNFBPs	SL
4	Preventive Measures by FIs & DNFBPs	ML
5	Legal Person & Arrangement	ML
6	Financial Intelligence	SL
7	ML Investigation	ML
8	ML/TF Confiscation	ML
9	TF Investigation	ML
10	Prevention of TF	SL
11	Prevention of PF	ML



Re-rating assessment on **technical compliance** :-

- I. FUR1 (2016)
- II. FUR2 (2017)
- III. FUR3 & TC re-rating (2018)

Progress update to FATF (annually)

Rating	MEE 2014	FUR3 2018
Compliant	16	20
Largely compliant	21	18
Partially compliant	3	2
Non-compliant	0	0

ME 2024-25 : *Roadmap 2023-25*

Timeline	 2023 Q1 & Q4 .2024	Q3.2024	Q4.2024	 2025 Q1, Q2 & Q3.2025
	<p><i>Feb'24 & Nov-Dec'24</i></p> <p>Mock On-Site Assessment</p> <ul style="list-style-type: none"> Submit required data under 40 FATF Recommendations & 11 Immediate Outcomes to secretariat Submit draft report to secretariat, identify and rectify gaps <i>Identify internal stakeholders and reporting institutions</i> 	<p><i>Jul'24</i></p> <p>Technical Compliance</p> <ul style="list-style-type: none"> Submit final data of 40 FATF Recommendations to assessors Submit report and rectify gaps based on assessor's feedback 	<p><i>Oct'24</i></p> <p>Effectiveness</p> <ul style="list-style-type: none"> Submit final data of 11 Immediate Outcomes to assessors Submit report and rectify gaps based on assessor's feedback 	<p><i>Feb' & Sept' - Oct'25</i></p> <p>On-Site Assessment</p> <ul style="list-style-type: none"> Meeting with assessment team Prepare additional evidences to support draft assessment ratings for all agencies <i>Face to face meeting with ME assessors</i>

THANK YOU

www.labuanfsa.gov.my