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**EFFECTIVE TOOLS FOR PREVENTING AND MITIGATING THE IMPACTS OF MONEY LAUNDERING: A
RISK-BASED APPROACH (RBA)**



Effective tools for preventing and mitigating the impacts of money laundering: A Risk-Based Approach (RBA)

**Financial Intelligence Unit
Superintendent for Banks, Insurance
Companies and Pension Fund
Administrators
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Financial Action Task Force (FATF)

- ◇ 34 member jurisdictions and 2 regional organizations.
- ◇ The FAFT 40 Recommendations – International standards.
- ◇ Mutual Evaluations and training.
- ◇ 8 Regional Groups (FSRB) – GAFILAT.
- ◇ Fourth Round of Mutual Evaluations
- ◇ Assessed countries: Norway, Spain, Belgium, Australia, Ethiopia, Malaysia, Cuba, Italy and Costa Rica.
- ◇ Peru: 2003, 2005, 2008 and 2017.
- ◇ ICRG: countries with serious deficiencies in their AML/CFT systems (relevant consequences).



**198 jurisdictions are
part of the FATF
global network**



Negative consequences of failure to enforce 40 FATF recommendations

- ◆ **ICRG:** Gradual international listing of countries with serious deficiencies in their ML/TF prevention systems.

- ◆ Causes to include a country in an ICRG process.

- ◆ Some consequences:
 - Country risk.
 - Increased costs in credit lines.
 - Difficulties to foreign trade transactions.
 - Limits and filters to international financial transactions.

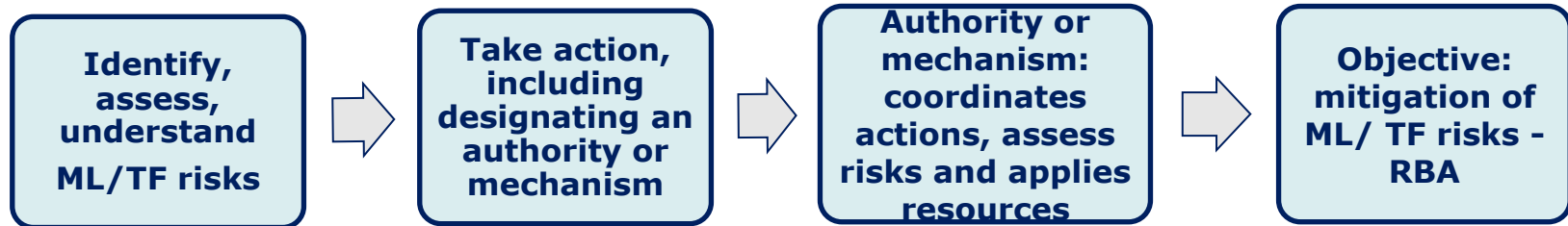


Recommendation 1 - FATF

- ❖ Until 2012, risk-based specific requirements were only applied to some of the Recommendations, such as: CDD, internal control, supervision.
- ❖ The new Rec. 1 on identifying and understanding a country's risks and the application of a RBA is a transversal recommendation.
- ❖ In some cases, it may not be applied or be restricted by imperative requirements and obligations in certain recommendations. For example: PEP, STR, TR.
- ❖ A risk assessment and the adoption of a RBA allows:
 - To properly allocate resources.
 - Application or not of additional safeguards: higher or lower risk.

Recommendation 1 - FATF

❖ Country obligations:



1. Requirements necessary to evaluate a country's risks or NRA:

- Designation of an authority or coordination mechanism.
- Institutional commitment –at the highest political level.
- Joint effort of the public and private sectors.
- Complete information for well-informed decisions.
- Communicate results to stakeholders.

2. Supervisor: apply a RBA.

3. Reporting Entities (RE): evaluate their ML/ TF risks and apply a RBA.

Competent authority or mechanism for the evaluation of a country's ML/TF risks or NRA

- ◆ Sufficient human resources to develop, in a coordinated manner, an assessment of the country's ML/TF risks.
- ◆ Reliable sources of information to perform:
 - National, sectorial and regional analyses.
 - Macro and microeconomic analyses.
- ◆ Provide information to all stakeholders in the system, in order for them to properly direct their initiatives.
- ◆ Serve as a support in the update and/or design of new actions to evaluate the country's ML/ TF risks.



Key aspects in the evaluation of a country's ML/TF risks or NRA

The country should identify, assess and understand the following:

- ❖ Funding sources to support ML/TF.
 - Activities and economic sectors.
 - Criminal acts (extortion, human trafficking, drug trafficking, fraud, etc.).
 - Geographic scope: national or trans-national.
- ❖ Techniques and typologies mostly used in the country for ML/TF activities.
- ❖ Domestic ML/TF legal and regulatory framework.
- ❖ Measures adopted by international organizations and jurisdictions in addressing ML/TF risks.
- ❖ ML/TF threats and vulnerabilities.
- ❖ Potential solutions and mechanisms to address identified ML/TF risks.



Risk Based Approach (RBA)

Potential benefits

Better management of risks and costs-benefits.

FI – DNFBP will focus on actual and identified threads.

Flexibility to adapt to risk over time.

Potential challenges

Recognize the existence of risks.

Perform a risk assessment.

Develop strategies to address such risks.



Risk Based Approach (RBA)

❖ **Who determines risk levels?**

- FATF: Cooperating jurisdictions or not.
- Countries: countermeasures decided independently.
- Countries / supervisors / FI / DNFBP: Rec. 1

❖ **Which measures apply?**

- Basic measures, standard: risk factors (geographic area, economic activity and RE).
- Additional specific measures: by economic sector or activity.

❖ **What are the degrees of these measures?**

- By risk level.
 - ✓ Intensified measures.
 - ✓ Simplified measures.



“De - Risking”

- ❖ The application of defensive and extreme policies by RE (particularly the financial system) to exclude sectors that are considered “riskier”.
- ❖ Originated by an erroneous understanding and application of a RBA:
 - Regulatory pressure.
 - Cost of implementing counter ML/TF policies.
 - Economic penalties (high cost sanctions).
 - Reputational impact.
- ❖ Consequences:
 - Excluded clients will use little or non regulated channels, or jurisdictions where ML/TF measures are deficient
 - Impact on financial inclusion.



Initiatives to identify, assess and understand ML/TF risks in Peru

At the national level:

- ❖ Implementation of actions to enforce the 40 FAFT Recommendations (Swiss Cooperation Agency- SECO).
- ❖ “National Risk Assessment”: to identify, assess and understand ML/TF risks in Peru, that will be the basis to implement a RBA (IDB)
- ❖ Updating of the National anti-ML/TF Plan (CONTRALAFT).
- ❖ Studies on the relationship between ML and corruption, informality and border controls, respectively (German Cooperation-GIZ).
- ❖ Integrated Statistical System on criminality and public safety – ML/TF Module (CONTRALAFT).
 - FIU-Peru, Police, Prosecutors Office and Judiciary Power, coordinated by the National Statistics Institute (INEI)



Initiatives to identify, assess and understand ML/ TF risks in Peru

At the sectorial level

- ❖ “FIU-Peru strategic studies consultancy”: evaluation and analysis of high risk sectors.
- ❖ “Implementation of risk-based supervision for sectors under the FIU-Peru’s supervision”: to improve the allocation of resources in supervision (Swiss Cooperation-SECO).
- ❖ Sectorial ML/FT risk analysis (German Cooperation – GIZ):
 - Financial System
 - Mining sector
 - Fishing sector

Pending regulatory challenges for ML/ TF risk prevention or mitigation

- 1 • UIF-Peru access to bank and tax secrecy.
- 2 • Autonomous criminal liability of legal persons.
- 3 • Enforcement of Resolutions 1267 and 1373.
- 4 • SBS integral supervision of cooperatives.
- 5 • Open stock transfers records.
- 6 • Banking of registerable transactions above a certain threshold.
- 7 • Creation of the linked persons registry (family tree) at the National Registry of Identification and Civil Status (RENIEC).



Thank you