

Appendix A. Compliance with Financial Action Task Force on Money Laundering (FATF) Recommendations 5, 12, 33, and 34

As shown by an evaluation of 159 countries (24 FATF member countries and 135 non-FATF member countries)

Texts of FATF Recommendation 5 and Recommendation 12⁸⁵

B. MEASURES TO BE TAKEN BY FINANCIAL INSTITUTIONS AND NONFINANCIAL BUSINESSES AND PROFESSIONS TO PREVENT MONEY LAUNDERING AND TERRORIST FINANCING

Recommendation 5: Customer Due Diligence and Record-Keeping

Financial institutions should not keep anonymous accounts or accounts in obviously fictitious names.

Financial institutions should undertake customer due diligence measures, including identifying and verifying the identity of their customers when

- establishing business relations;
- carrying out occasional transactions: (i) above the applicable designated threshold; or (ii) that are wire transfers in the circumstances covered by the Interpretative Note to Special Recommendation VII;
- there is a suspicion of money laundering or terrorist financing; or
- the financial institution has doubts about the veracity or adequacy of previously obtained customer identification data.

The customer due diligence (CDD) measures to be taken are as follows:

- (a) Identifying the customer and verifying that customer's identity using reliable, independent source documents, data or information.⁸⁶

85. Financial Action Task Force, "The 40 Recommendations," Recommendations 5 and 12 available at www.fatf_gafi.org/dataoecd/7/40/34849567.pdf.

86. Reliable, independent source documents, data or information will hereafter be referred to as "identification data."

- (b) Identifying the beneficial owner, and taking reasonable measures to verify the identity of the beneficial owner such that the financial institution is satisfied that it knows who the beneficial owner is. For legal persons and arrangements this should include financial institutions taking reasonable measures to understand the ownership and control structure of the customer.
- (c) Obtaining information on the purpose and intended nature of the business relationship.
- (d) Conducting ongoing due diligence on the business relationship and scrutiny of transactions undertaken throughout the course of that relationship to ensure that the transactions being conducted are consistent with the institution's knowledge of the customer, their business and risk profile, including, where necessary, the source of funds.

Financial institutions should apply each of the CDD measures under (a) to (d) above, but may determine the extent of such measures on a risk sensitive basis depending on the type of customer, business relationship or transaction. The measures that are taken should be consistent with any guidelines issued by competent authorities. For higher-risk categories, financial institutions should perform enhanced due diligence. In certain circumstances, where there are low risks, countries may decide that financial institutions can apply reduced or simplified measures.

Financial institutions should verify the identity of the customer and beneficial owner before or during the course of establishing a business relationship or conducting transactions for occasional customers. Countries may permit financial institutions to complete the verification as soon as reasonably practicable following the establishment of the relationship, where the money laundering risks are effectively managed and where this is essential in order not to interrupt the normal conduct of business.

Where the financial institution is unable to comply with paragraphs (a) to (c) above, it should not open the account, commence business relations or perform the transaction; or should terminate the business relationship; and should consider making a suspicious transactions report in relation to the customer.

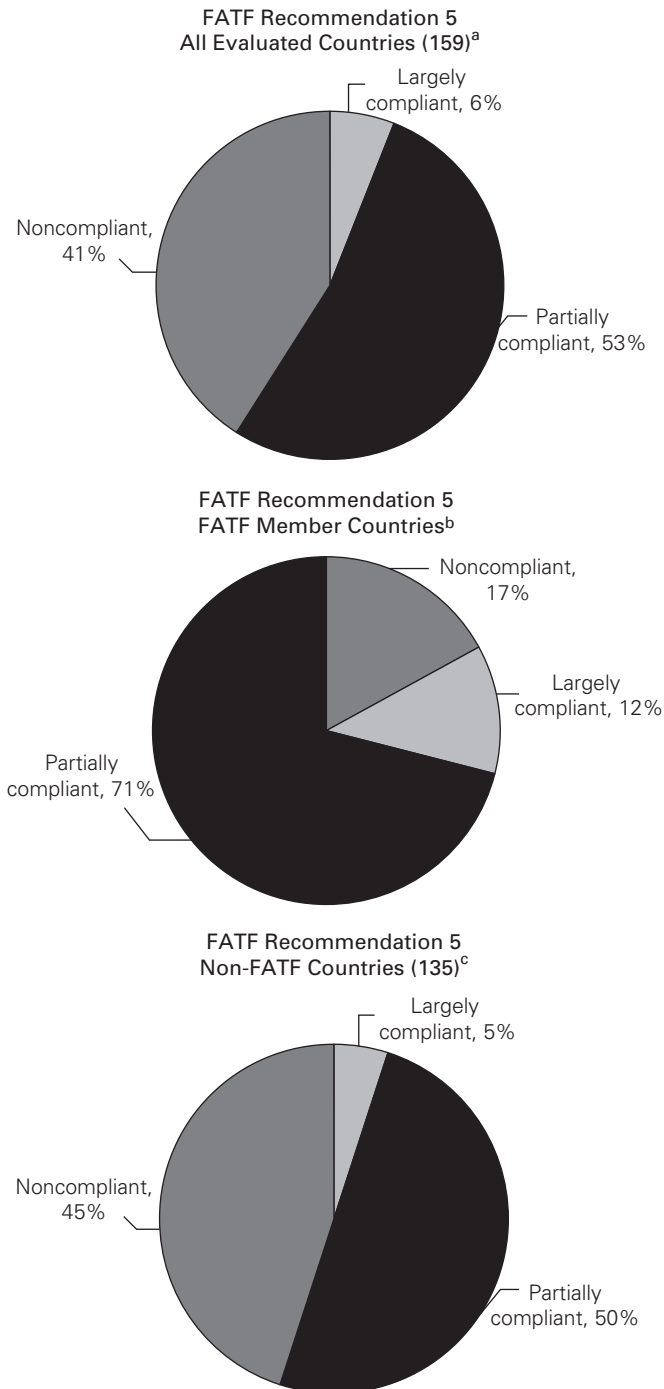
These requirements should apply to all new customers, though financial institutions should also apply this Recommendation to existing customers on the basis of materiality and risk, and should conduct due diligence on such existing relationships at appropriate times.

Recommendation 12: Customer Due Diligence and Record-Keeping

The customer due diligence and record-keeping requirements set out in Recommendations 5, 6, and 8 to 11 apply to designated non-financial businesses and professions in the following situations:

- (a) Casinos—when customers engage in financial transactions equal to or above the applicable designated threshold.
- (b) Real-estate agents—when they are involved in transactions for their client concerning the buying and selling of real estate.

FIGURE A.1 FATF Recommendation 5



Source: Authors' compilation and illustration.

Note: FATF = Financial Action Task Force on Money Laundering.

a. No countries are classified as 'compliant' and this classification does not appear in the figure.

b. No countries are classified as 'compliant' and this classification does not appear in the figure.

c. No countries are classified as 'compliant' and this classification does not appear in the figure.

- (c) Dealers in precious metals and dealers in precious stones—when they engage in any cash transaction with a customer equal to or above the applicable designated threshold.
- (d) Lawyers, notaries, other independent legal professionals and accountants—when they prepare for or carry out transactions for their client concerning the following activities:
 - Buying and selling of real estate;
 - Managing of client money, securities or other assets;
 - Management of bank, savings or securities accounts;
 - Organisation of contributions for the creation, operation or management of companies;
 - Creation, operation or management of legal persons or arrangements, and buying and selling of business entities.
- (e) Trust and company service providers—when they prepare for or carry out transactions for a client concerning the activities listed in the definition in the Glossary.

Texts of FATF Recommendation 33 and Recommendation 34

C. INSTITUTIONAL AND OTHER MEASURES NECESSARY IN SYSTEMS FOR COMBATING MONEY LAUNDERING AND TERRORIST FINANCING

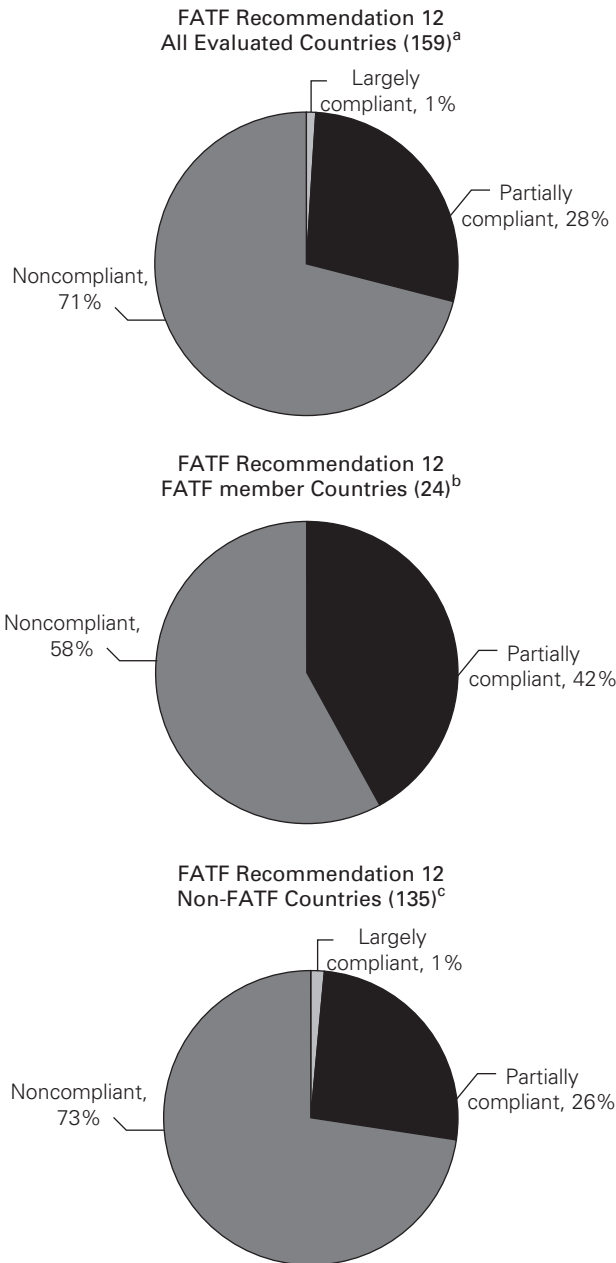
Recommendation 33: Use of Legal Persons; Beneficial Ownership

Countries should take measures to prevent the unlawful use of legal persons by money launderers. Countries should ensure that there is adequate, accurate and timely information on the beneficial ownership and control of legal persons that can be obtained or accessed in a timely fashion by competent authorities. In particular, countries that have legal persons that are able to issue bearer shares should take appropriate measures to ensure that they are not misused for money laundering and be able to demonstrate the adequacy of those measures. Countries could consider measures to facilitate access to beneficial ownership and control information to financial institutions undertaking the requirements set out in Recommendation 5.

Recommendation 34: Transparency for Legal Arrangements/Trusts

Countries should take measures to prevent the unlawful use of legal arrangements by money launderers. In particular, countries should ensure that there is adequate, accurate and timely information on express trusts, including information on the settlor, trustee and beneficiaries, that can be obtained or accessed in a timely fashion by competent authorities. Countries could consider measures to facilitate access to beneficial ownership and control information to financial institutions undertaking the requirements set out in Recommendation 5.

FIGURE A.2 FATF Recommendation 12



Source: Authors' compilation and illustration.

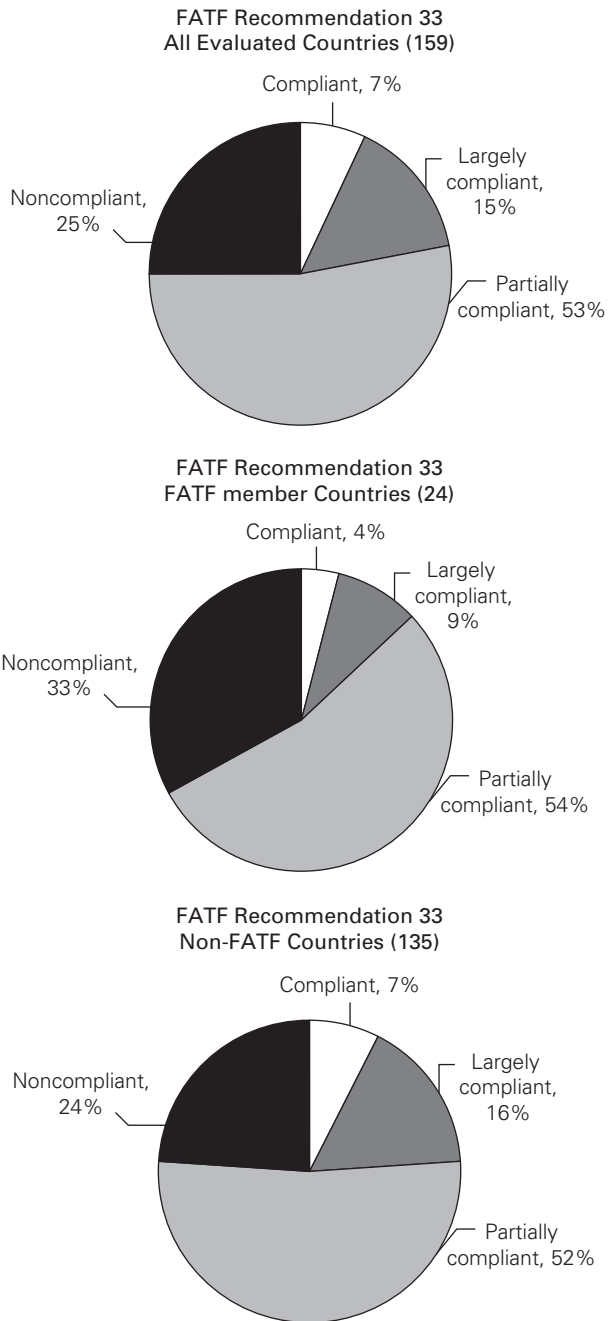
Note: FATF = Financial Action Task Force on Money Laundering.

a. No countries are classified as 'compliant' and this classification does not appear in the figure.

b. No countries are classified as 'compliant' or 'largely compliant' and these classifications do not appear in the figure.

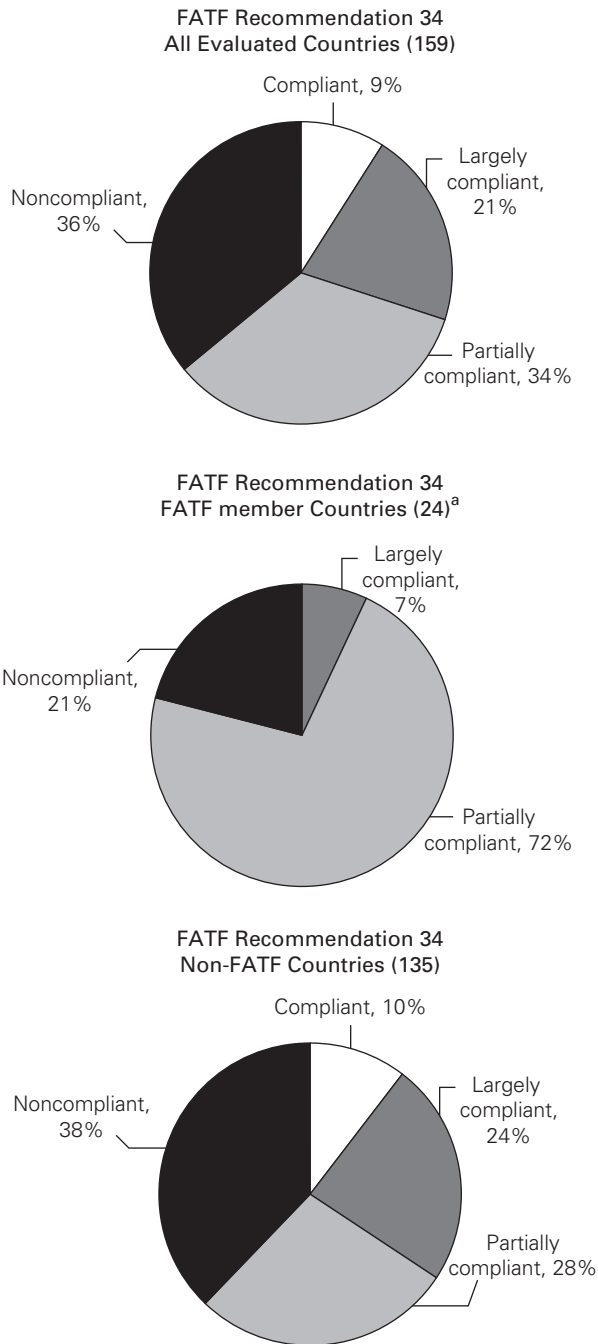
c. No countries are classified as 'compliant' and this classification does not appear in the figure.

FIGURE A.3 FATF Recommendation 33



Source: Authors' compilation and illustration.
Note: FATF = Financial Action Task Force on Money Laundering.

FIGURE A.4 FATF Recommendation 34



Source: Authors' compilation and illustration.

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a. No countries are classified as 'compliant' and this classification does not appear in the figure.