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Regulatory Alert

Regulatory Insight Center

July 2019

FATF Report: Terrorist Financing Risk Assessment Guidance

Standards for risk monitoring.

Key points

— FATF's report, Terrorist Financing Risk Assessment Guidance, builds on the organization's previously issued 2013 Guidance on National Money Laundering and Terrorist Financing Risk Assessments, and is intended to guide countries as they implement or refine their risk based approach towards counter terrorist financing.

— FATF's Guidance highlights the importance of countries establishing regular mechanisms to monitor terrorist financing on an on-going basis, and to stay vigilant in identifying and monitoring threats and trends while being alert to blind spots.

— While the Guidance is directed at countries, it also provides useful insights for financial institutions, and other organizations, about the risk inherent in pre-paid cards, person-to-person fund transfers, correspondent banking services, MSBs, hawalas, and non-profit organizations. The Guidance sets forth examples of activities that should be closely monitored.

— FATF's guidance also reminds countries (and market participants) of the need to collect quantitative and qualitative data, and to consider all stages of terrorist financing in their risk assessments as well as different sources, channels, destinations and origins of funds and other assets.

In July 2019, the Financial Action Task Force (FATF) published its 2019 Terrorist Financing Risk Assessment Guidance (the FATF Guidance), building on its previously issued 2013 joint guidance for national money laundering and terrorist financing risk assessments. In the Guidance, FATF recognizes that, for countries to effectively dismantle and disrupt terrorist networks, they must first identify, assess, and understand their terrorist financing risks.

The FATF Guidance highlights the importance of countries establishing regular mechanisms to monitor terrorist financing risks on an on-going basis and the need to understand evolving risks and trends. To this end, all countries, even low risk jurisdictions, should closely review their current approaches to assessing risks and to identifying blind spots, potential threats, and emerging trends. The FATF Guidance acknowledges that there are certain unique challenges in this maintenance exercise, such as the low value of the funds or assets, the cross border nature of the terrorist financing, and the fact that transactions can appear routine. The Guidance is an effort to help countries overcome some of these challenges by providing practical examples and considerations.

In terms of the risk assessment process itself, the FATF Guidance sets standards for member countries to collect both quantitative and qualitative information, including on the environment, threats, and vulnerabilities in specific sectors or products. The FATF Guidance recommends that new factors be included in the Risk

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Assessment, such as: domestic and foreign intelligence information, source of funding, channels utilized, geographic location of the origin and destination of the funds or other assets, amongst others. FATF encourages countries to consider holistically all stages of terrorist financing- raising and moving and using funds and other assets—in their risk assessment.

Throughout the Report, FATF reinforces the importance of collaboration and coordination during member countries' risk assessment processes. This includes across agencies within a country, as well as with regional partners. FATF points out that there are further opportunities for countries to share multi-agency information and information technology tools to manage "big data." According to FATF, such sharing and collaboration is critical to ensure holistic and credible assessments of countries' terrorist financing risks.

The Guidance also touches upon countries' continuous vigilance, apart from completion of their Terrorist Financing Risk Assessment. However, the Guidance makes clear that it does not cover or extend to the implementation measures countries should take to address identified risks.

The Guidance defines terrorist financing risk, threats, vulnerabilities, and consequences for countries to utilize in their Terrorist Financing Risk Assessments, creating a consistent library of terminology.

United States' Terrorist Financing Risk Assessment: In 2018, the United States released its Terrorist Financing Risk Assessment, an update from its 2015 assessment. In its assessment report, the United States addressed key terrorist organizations that are targeting Americans for donations or support (e.g. ISIS, Hizballah, AQ/AQAP/ANF, Al Shabaab). The Report also identified vulnerabilities that may be faced by Banks, MSBs and Money Transmitters, U.S. dollar activity overseas, cash smuggling, charitable organizations, and virtual currency exchanges or dealers. The U.S. Terrorist Financing Risk Assessment can be accessed here.

KPMG perspective

FATF's update to its risk assessment guidance on Terrorist Financing reflects an increased focus globally on terrorist financing, separate and distinct from money laundering risks. The United States' most recent Terrorist Financing Risk Assessment appears to align to the FATF Guidance standards—including with respect to the definitions set forth in the Guidance, incorporating both qualitative and quantitative data including from SAR filings, and reflecting the inter-agency collaboration that FATF urges. However, it is likely further refinement will occur in the next U.S. iteration.

Financial Institutions should continue to refer to the most recent United States Terrorist Financing Risk Assessment results and the more recent considerations set forth in the FATF Guidance, to further evaluate if their Risk Assessments should be revisited, or if refinements to their AML/Counter Terrorist Financing Programs and businesses should be undertaken.

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