




FINANCIAL ACTION TASK FORCE  
GROUPE D'ACTION FINANCIÈRE

# The Revised FATF Standards

## 3. The Risk-Based Approach (RBA)

23-May-13 1




# The Risk-Based Approach (RBA)

### Overview

- Rules-based approach / Risk-based approach
- AML/CFT systems tailored to the nature of the risks - enhanced measures *must* apply to higher risks and simplified measures *may* apply to lower risks
- Objectives of a RBA:
  - more effective implementation
  - more efficient allocation of resources

23-May-13 2

FINANCIAL ACTION TASK FORCE | GROUPE D'ACTION FINANCIÈRE  
[www.fatf-gafi.org](http://www.fatf-gafi.org)



## The Risk-Based Approach (RBA)

### A new approach to the RBA

- Before the revision, specific risk-based requirements were located in several areas of the Standards (CDD, internal control, supervision and definition of financial institutions)
- A new over-arching Recommendation on the RBA (R.1) applies to all relevant parts of the FATF Standards
- In addition, some specific risk-based requirements remain in some Recommendations
- Clearer and more specific requirements for countries, including supervisory authorities, financial institutions and DNFBPs

23 May 13 FINANCIAL ACTION TASK FORCE | GROUPE D'ACTION FINANCIÈRE  
www.fatf-gafi.org 3




## The Risk-Based Approach (RBA)

### Rationale for the new approach

- Why this change?
  - Develop AML/CFT regimes tailored and adapted to the specific national risk contexts
  - Enable national authorities to focus on higher risks
  - Strengthen the efficiency of the international AML/CFT system
- Objectives of the RBA:
  - Better targeted measures and more flexible framework, which can be adapted as risks evolve
  - More efficient allocation of resources and more effective implementation
  - Facilitation of financial inclusion

23 May 13 FINANCIAL ww.fatf-gafi.org 4




## The Risk-Based Approach (RBA)

### Basic principles of the RBA

- The scope of FATF standards is risk-sensitive:
  - Possible extension to additional higher-risk activities
  - Possible exemptions for low-risk activities
- The extent of the AML/CFT measures is also risk-sensitive:
  - Enhanced measures must be applied to higher risks
  - Simplified measures may be applied to lower risks

23 May 13 FINANCIAL ACTION TASK FORCE | GROUPE D'ACTION FINANCIÈRE  
www.fatf-gafi.org 5



## The Risk-Based Approach (RBA)

### The different dimensions of the RBA

- Who determines the level of risks?
  - FATF
  - Countries
  - Countries-Financial institutions/DNFBPs
- Which measures are applicable?
  - Basic, standard measures
  - Additional, specific measures
- How intensively should the measures be applied?
  - Graduation possible depending on the level of risk
  - Enhanced measures
  - Simplified measures

23 May 13 FINANCIAL ACTION TASK FORCE | GROUPE D'ACTION FINANCIÈRE  
www.fatf-gafi.org 6




## The Risk-Based Approach (RBA)

**A two-step approach for the RBA**

- To identify, assess and understand the money laundering and terrorist financing risks
- To define and apply commensurate measures

23 May 13 FINANCIAL ACTION TASK FORCE | GROUPE D'ACTION FINANCIÈRE  
www.fatf-gafi.org 7




## The Risk-Based Approach (RBA)

**Risk assessment**

- Risk assessment is the basis of any effective risk-based AML/CFT regime – in particular for allocating resources or applying additional safeguards to the highest-risk areas
- Countries are required to identify, assess and understand their ML/TF risks
- Financial institutions and DNFBPs are required to identify, assess and understand their ML/TF risks
- FATF is developing guidance on national risk assessment.

23 May 13 FINANCIAL ACTION TASK FORCE | GROUPE D'ACTION FINANCIÈRE  
www.fatf-gafi.org 8




## The Risk-Based Approach (RBA)

### National risk assessment

- Based on practical, comprehensive and up-to-date understanding of the threats
- Joint effort between relevant ministerial bodies, supervisors, law enforcement authorities, FIU, regulators, financial institutions, etc.
- Up-to-date and accurate information and intelligence enabling relevant authorities to make well-informed judgments
- Indepth analysis of the national circumstances
- Dissemination of results and information sharing with all stakeholders

23 May 13 FINANCIAL ACTION TASK FORCE | GROUPE D'ACTION FINANCIÈRE  
www.fatf-gafi.org 9




## The Risk-Based Approach (RBA)

### An AML/CFT risk assessment should consider:

- Threats
  - Proceeds-generating crime in the country
  - Cross-border flows of illicit finance
  - Active terrorist groups
- Vulnerabilities
  - The nature, scale and complexity of the financial sector
  - The types of financial products and transactions normally undertaken
  - The regulatory environment and level of compliance
- Consequences
  - How much harm will be done if illicit funds are laundered successfully – by criminals? – or by terrorists?


23 May 13 FINANCIAL ACTION TASK FORCE | GROUPE D'ACTION FINANCIÈRE  
www.fatf-gafi.org 10

 **The Risk-Based Approach (RBA)**

**Specific obligations for FIs and DNFBNs**

- Updated and documented risk assessment, in accordance with nature and scale of business
- Relevant policies and procedures to manage and mitigate risks, approved by senior management, consistent with national requirements and guidance from relevant national authorities
- Higher-risk → Enhanced measures must be applied
- Lower-risk → Simplified measures may be allowed by countries


23 May 13 FINANCIAL ACTION TASK FORCE | GROUPE D'ACTION FINANCIÈRE  
www.fatf-gafi.org 11

 **The Risk-Based Approach (RBA)**

**Flexible scope of application**

- Countries are required to *consider* the extension of the scope to other institutions, activities, businesses or professions that are at risk of abuse
- Possible exemptions from preventive Recommendations in *low risk* cases under strict conditions:
  - proven low risk; strictly limited and justified circumstances; and it relates to a particular type of financial institution or activity or DNFBN; or
  - financial activity (other than MVTs) carried out on an occasional or very limited basis, such that there is low risk
- Exemption from some requirements only, not a full exception
- **No exemption from record keeping obligation**


23 May 13 FINANCIAL ACTION TASK FORCE | GROUPE D'ACTION FINANCIÈRE  
www.fatf-gafi.org 12

 **The Risk-Based Approach (RBA)**

**Enhanced measures for higher risks**

- Obligation for countries, and financial institutions and DNFBPs
- When they identify higher risks, countries:
  - should address those risks in their AML/CFT regime
  - should prescribe financial institutions and DNFBPs to take enhanced measures or ensure that this is incorporated into their risk-mapping
- Guidance on enhanced measures in the CDD context (R. 10)
  - Ex. of higher risks factors in relation to customers; product, services, transaction or delivery channel; countries
  - Ex. of enhanced measures


23 May 13 FINANCIAL ACTION TASK FORCE | GROUPE D'ACTION FINANCIÈRE  
www.fatf-gafi.org 13

 **The Risk-Based Approach (RBA)**

**Simplified measures for lower risks**

- Simplified measures are optional
  - Countries *may* allow simplified measures to be taken FIs or DNFBPs in lower-risk situations identified *by countries*
  - Countries *may* allow simplified measures to be applied by FIs and DNFBPs in lower-risk situations identified *by FIs and DNFBPs themselves*
- No simplified measures possible when suspicion of money laundering or terrorist financing
- Guidance on simplified measures in the CDD context (R.10)
  - Ex. of lower risks factors in relation to customers; product, services, transaction or delivery channel; countries
  - Ex. of simplified measures


23 May 13 FINANCIAL ACTION TASK FORCE | GROUPE D'ACTION FINANCIÈRE  
www.fatf-gafi.org 14



## The Risk-Based Approach (RBA)

- The extent of the measures applied may be differentiated depending on the different type and level of each of the risk factors identified
- The RBA also applies for cases identified by the FATF as higher risk activities and in which additional measures are required: the extent of these additional measures will depend on the specific level/nature of higher risk in a situation

23 May 13 FINANCIAL ACTION TASK FORCE | GROUPE D'ACTION FINANCIÈRE  
www.fatf-gafi.org 15



## The Risk-Based Approach (RBA)

### RBA to supervision

- Two aspects:
  - The general process by which a supervisor or SRB, according to its understanding of risks, allocates its resources to AML/CFT supervision;
  - The specific process of supervising or monitoring FIs and DNFBPs that apply an AML/CFT risk-based approach.
- Less detailed requirements for the supervision/monitoring of DNFBPs

23 May 13 FINANCIAL ACTION TASK FORCE | GROUPE D'ACTION FINANCIÈRE  
www.fatf-gafi.org 16






## The Risk-Based Approach (RBA)

### RBA to supervision

- Risk-based allocation of supervisory resources
  - Supervisors should have a clear understanding of the risks present in the country
  - Supervisors should have on-site and off-site access to all relevant information on the specific risks associated with the financial institution, incl. the quality of compliance
  - The frequency of supervision should be based on the risks present in the country and financial institutions individual risk profiles
  - Individual risk profiles should be reviewed

23-May-13 FINANCIAL ACTION TASK FORCE | GROUPE D'ACTION FINANCIÈRE  
www.fatf-gafi.org 17



## The Risk-Based Approach (RBA)

### RBA to supervision

- Specific supervisory process of institutions applying a RBA
  - Process should encompass review of the financial institutions risk assessments and the adequacy and implementation of its policies, internal controls and procedures
  - The degree of discretion allowed to the financial institution under the RBA should be taken into consideration

23-May-13 FINANCIAL ACTION TASK FORCE | GROUPE D'ACTION FINANCIÈRE  
www.fatf-gafi.org 18