



**ACCOUNTANCY
EUROPE.**

WHAT TO EXPECT?

Mutual Evaluations by the Financial Action
Task Force

Factsheet

FACTS.

**GOOD GOVERNANCE & SUSTAINABILITY
FEBRUARY 2017**

HIGHLIGHTS

Professional accountants are a vital part of ensuring that money launderers cannot integrate their ill-gotten gains into the financial system. With this factsheet, we aim to better prepare national professional accountancy bodies (such as our member organisations) when asked to assist in Mutual Evaluations (ME) by the FATF.

The Financial Action Task Force (FATF) is an inter-governmental body that develops recommendations to fight money laundering and terrorism financing. It uses Mutual Evaluations to assess countries' compliance with these recommendations.

INTRODUCTION

The Financial Action Task Force (FATF) assesses the compliance of their 37 member countries¹ with FATF recommendations and the effectiveness of their Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) systems. National professional accountancy bodies are often involved in these FATF Mutual Evaluations (ME).

In this factsheet, we provide an overview of what national professional accountancy bodies can expect and how they can prepare themselves to better assist the evaluators.

This paper is divided into three sections; (i) an overview of the process and the potential role of professional accountancy bodies, (ii) a discussion of three case-studies, and (iii) an overview of upcoming MEs in Europe, as stated in Table 2.

MUTUAL EVALUATION EXPLAINED

This section briefly explains the Mutual Evaluation process, its assessors, and the role of the accountancy profession. It is mainly based on the FATF *Methodology for Assessing Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems*².

MUTUAL EVALUATION PROCESS

During a Mutual Evaluation, assessors look at the country's institutional and legal framework (*technical compliance*) and its implementation in practice (*effectiveness*). Each Mutual Evaluation Report (MER) is then discussed and adopted by the FATF Plenary. Subsequently, there is a five-year review process that is concluded with the adoption of a follow-up assessment.

Following the Panama Papers revelations, the FATF announced it would start putting a greater emphasis on the implementation of the FATF recommendations on Beneficial Ownership (BO) in this follow-up process.³

THE ASSESSORS

An assessment team usually consists of:

- 4 expert assessors (including at least 1 legal, financial and law enforcement expert). These come mainly from FATF members
- members of the FATF Secretariat
- additional assessors (may be required depending on the country and the ML/TF risks)

The assessors are normally confirmed at least four months before the on-site visit. An assessed country can choose whether its Mutual Evaluation is in French or English.

PROFESSIONAL INSTITUTES/ PRACTITIONERS & THE MUTUAL EVALUATION

The main part of a Mutual Evaluation is examining the *effectiveness* of the AML/CFT system of the assessed country. An effective implementation of FATF recommendations should lead to certain behaviour or situations,

¹ <http://www.fatf-gafi.org/about/membersandobservers/>, accessed on 13/02/2017

² This section is based on: FATF (2013), *Methodology for Assessing Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems*, updated February 2016, FATF, Paris, France, <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatfissuesnewmechanismstostrengthenmoneylaunderingandterroristfinancingcompliance.html>

³ See: FATF, "FATF Report to the G20: Beneficial Ownership", September 2016, available at: <http://www.fatf-gafi.org/media/fatf/documents/reports/G20-Beneficial-Ownership-Sept-2016.pdf>; FATF, "Outcomes of the Plenary meeting of the FATF, Paris, 19-21 October 2016", available at: <http://www.fatf-gafi.org/publications/fatfgeneral/documents/outcomes-plenary-october-2016.html#BO>

i.e. a number of 'immediate outcomes' (IOs). Assessors measure to what extent these immediate outcomes are achieved.

This exercise includes looking at whether the accountancy profession is properly implementing FATF recommendations. The assessed country has the burden of proof for showing compliance with the recommendations. To gather evidence, it may thus organise meetings with professional institutes, as well as with individual accountants or external auditors.

Practitioners and institutes should keep therefore in mind that they might need to provide information on how they implemented the national AML/CFT system and what the outcomes of their efforts were. The most relevant immediate outcomes, as well as what information can be provided by practitioners to demonstrate compliance, are set out in the table below. This is further discussed in the next section on the case-studies.

Table 1 – Potential information requests to demonstrate AML/CFT effectiveness

Expected outcome of the AML/CFT system	Information that might be requested from practitioners and/or institutes
There is an understanding of ML and TF risks and, where appropriate, there are co-ordinated AML/CFT actions (IO 1).	The country's and private sector's risk-awareness. Information on the cooperation with the competent authorities. E.g. The procedures on how accountants are involved in developing national risk assessments.
Supervisors oversee and regulate the accountancy profession for compliance with AML/CFT requirements (in accordance with their risk) (IO 3).	Information on how institutes provide practitioners with adequate guidance on compliance with AML/CFT requirements. E.g. AML/CFT manuals developed by the institutes.
The accountancy profession adequately applies AML/CFT preventive measures (in accordance with their risks) and reports suspicious transactions (IO 4).	Information on whether the accountancy profession has adequately assessed and understood its exposure to ML and TF risks; whether their policies adequately address these risks; and whether regulatory requirements (including suspicious activity reports (SARs) are being properly implemented. E.g. Frequency of internal AML/CFT compliance review; nature of breaches identified and remedial actions taken or sanctions applied; quality of AML training or the number of SARs filed.

CASE-STUDIES

This section examines some of the latest Mutual Evaluations (MEs). Importantly, MEs are based on the context of the country under investigation, which may be different from your specific national context. When following a risk-based approach (RBA), countries may apply FATF recommendations considering their national context. Furthermore, the assessors' understanding of a country's risks forms the basis of each ME report.

The case-studies do not intend to be exhaustive. Rather they seek to provide some insight as to which relevant issues might come up during a ME. Therefore, the presentation of the case-studies is structured in accordance with the three immediate outcomes presented in the table above.

It is important to invest sufficient time to prepare for meetings with assessors. The case-studies show that on several occasions FATF assessors took into consideration the concerns expressed by accountancy professionals or national institutes. Besides, they interacted with the profession to measure the effectiveness of AML/CFT preventive measures.

ITALY

This case-study is based on Italy's latest ME report⁴.

RISK & COORDINATION (IO 1)

The assessors consulted the private sector to evaluate their understanding of ML/TF risks.

The ME report noted that professional associations undertake initiatives to provide guidance to reporting entities and to raise awareness of ML/TF risks. Nonetheless, the ME report concluded that accountants have a lower understanding of ML/TF risks than the financial sector or public interest enterprise auditors.

FATF Recommendation:

Issue secondary legislation (or, at least, guidance) for accountants.

SUPERVISION (IO 3)

The assessors noted the positive impact of the initiatives of the Association of Accountants⁵ and of the public interest enterprise auditors⁶ to "foster and verify" their members' compliance with the law.

However, the ME report pointed out that there is no mechanism through which the various sectors' perspectives on ML/TF risk can feed into the AML/CFT supervisor's strategy.

Criminal sanctions are foreseen for Designated Non-Financial Businesses and Professions (DNFBPs), such as accountancy practitioners or lawyers, that violate their customer due diligence (CDD) requirements. Administrative sanctions can only be applied to PIE auditors. However, some representatives of the DNFBP sector identified instances in which the sanction appears to be disproportionately harsh with respect to the violation.

FATF Recommendations:

- the supervisor should work more closely with industry associations to strengthen its understanding of the risks to which their members are exposed
- all DNFBPs should be subject to administrative sanctions

⁴ FATF (2016), Anti-money laundering and counter-terrorist financing measures - Italy, Fourth Round Mutual Evaluation Report, FATF, Paris www.fatf-gafi.org/publications/mutualevaluations/documents/mer-italy-2016.html

⁵ The Association of Accountants developed AML/CFT Guidelines for its members in 2008 and updated them in 2011.

⁶ The Association of PIE Auditors developed a paper for its membership that summarizes AML/CFT duties applicable to audit firms.

AML/CFT PREVENTIVE MEASURES (IO 4)

Interviews with a cross-section of DNFbps revealed different perceptions of what the law requires with respect to Beneficial Ownership identification. Unlike for public interest enterprise auditors, no clarifying regulations or guidance have been issued for accountants. Assessors expected that the 4th AMLD may address this situation.

Many institutions place undue reliance on the Chambers of Commerce database and the customer's self-declaration for Beneficial Ownership identification.

Assessors noted that the authorities have not extended customer due diligence requirements on domestic Politically Exposed Persons (PEPs) to accountants.

The ME report noted that accountants are not familiar enough with the application of a risk-based approach.

Finally, evaluators thought that the accountancy sector files little suspicious activity reports. The ME report explained that professional associations attribute this, in part, to a lack of updated secondary legislation and guidance.

FATF Recommendations:

- issue secondary legislation (or, at least, guidance) to cover the accountant sector, in consultation with the professional associations
- engage in an outreach program on AML/CFT obligations (in particular on customer due diligence, the submission of suspicious activity reports, and the application of a risk-based approach)
- provide further guidance and education to reporting entities' on identifying the Beneficial Ownership and clarify that reliance on the customer's self-declaration is not sufficient
- explicitly require the filing of suspicious activity reports in relation to the proceeds of criminal activity (and not just ML/TF) and stress the importance of the prompt filing of these reports

BELGIUM

This case-study is based on Belgium's latest ME report⁷.

RISK & COORDINATION (IO 1)

The ME report concluded that the supervisory bodies of the accountancy profession do not contribute to the national ML risk assessment and do not share its conclusions. These conclusions present the profession as very risky. However, the supervisory bodies consider that they have adequate controls in place and that misconduct is largely the preserve of those outside the regulated professions. The ME report considered these reservations problematic.

The evaluators thought that there is an incomplete dissemination of the non-confidential results of the national risk assessment to the accountancy profession.

FATF Recommendations:

- include information from the profession on the vulnerabilities in its sector in the national risk assessment
- communicate the non-confidential findings of the national risk assessments in a timely manner

SUPERVISION (IO 3)

The ME report explained that many non-financial sectors developed initiatives to engage professionals and raise their AML/CFT awareness. It also noted that the business practices of the profession are subject to conditions designed to avert the risks of infiltration by criminals or their accomplices.

The supervisors of DNFBPs generally identified the highest ML/TF risks. However, they have not developed risk assessments or guidelines for understanding the risks. The assessors thought that the supervision of DNFBPs remained extremely limited.

The evaluators explained that limited controls and significant lack of sanctions have a major impact on the effectiveness of AML/CFT measures.

FATF Recommendations:

- use a risk-based supervision approach
- increase resources for controls
- ensure that the professionals acting as AML/CFT supervisors set up the necessary procedures to achieve objective risk assessments and effective controls
- step up dialogue and discussions with the private sector on the applicable AML/CTF obligations

AML/CFT PREVENTIVE MEASURES (IO 4)

The report suggested that, although there are circulars on AML/ CFT rules and risks, the accounting/tax professions underestimate their exposure risk. The evaluators also noted the reservations of the accounting/tax sector on the national risk assessment.

The assessors concluded that AML/CFT obligations are understood but applied mechanically by the accounting/tax professions. They based this conclusion on interviews with and documentation provided by representatives of the profession.

The ME report noted that the profession generally complies with customer identification requirements. Assessors found no difficulties with record-keeping obligations.

⁷ FATF (2015), Anti-money laundering and counter-terrorist financing measures -Belgium, Fourth Round Mutual Evaluation Report, FATF. www.fatf-gafi.org/topics/mutualevaluations/documents/mer-belgium-2015.html

However, the evaluators pointed out that stakeholders rarely consider submitting a suspicious activity reports during their customer due diligence. They took note of the concerns expressed by some DNFBPs on the negative impact of these reports on the business relationship with a client. Nonetheless, the ME report emphasised that over the last years the quality and quantity of suspicious activity reports increased as a result of awareness-raising initiatives.

The MER found that no specific measures seemed to be implemented to detect PEPs. The customer's statement is almost the exclusive source of information. Certain professionals use PEPs' lists provided by 'specialised websites'. On the other hand, most interviewees indicated to be familiar with the FATF list of high-risk countries.

FATF Recommendations:

- ensure that supervisors and institutions take into account the findings of the national ML/TF risk assessments when developing risk analyses at sector level
- supervisors and industry trade groups should continue to take initiatives to promote and explain the applicable AML/CFT rules
- increase consultation and dialogue with the private sector to explain AML/CFT obligations

AUSTRIA

This case-study is based on Austria's latest FATF ME report⁸.

RISK & COORDINATION (IO 1)

The ME report concluded that Austria has a mixed understanding of its ML/TF risks. The assessors identified the lack of a holistic picture of the risks and a lack of national AML/CTF policies as the main issues.

The ME report pointed out that, while most obliged entities are aware of the national risk assessment, they do not consider it useful.

FATF Recommendation:

- revise the ML/TF risk assessments
- make sure that relevant sectors, including the accountancy profession, are aware of their ML/TF risks

SUPERVISION (IO 3)

The ME report indicated that supervision of DNFBPs is not based on risk analysis but on statutory requirements. The assessors also pointed out that local authorities do not always have the expertise to carry out their supervisory activities.

The assessors found limited data and information on how sanctions for DNFBPs were applied. One reason for this could be that various supervisors had not yet applied any AML/CFT sanctions. The report concluded that the possibility of losing a licence is an effective deterrent for most DNFBPs.

The assessors took note of the efforts of the Chamber of Accountants to promote a better AML/CTF understanding (website, workshops, guidelines, working group, etc.). However, the ME report stated that supervisors should increase their efforts in this area.

FATF Recommendations:

- increase resources for AML/CFT supervision.

AML/CFT PREVENTIVE MEASURES (IO 4)

The assessors were concerned that accountants might not effectively fulfil their gatekeeper role in the economic system. The ME report explained that accountants were reluctant to file suspicious activity reports because of confidentiality issues.

The assessors concluded that the auditors and accountants interviewed by them were aware of their ML/TF risks and implemented risk mitigating measures. The report categorised the identification of Beneficial Ownership information as the biggest challenge for DNFBPs.

The report also raised concerns on the protection of the customer relationship in liberal professions, which might pose a general obstacle to fulfilling AML/CFT obligations.

FATF Recommendations:

- ensure confidentiality of suspicious activity reports

⁸ FATF (2016), Anti-money laundering and counter-terrorist financing measures - Austria, Fourth Round Mutual Evaluation Report, FATF, Paris www.fatf-gafi.org/publications/mutualevaluations/documents/mer-austria-2016.html

WHO IS NEXT?

Table 2 – Upcoming evaluations for European FATF members⁹

Country	Possible onsite period	Possible Plenary discussion
Sweden	25 May - 10 June 2016	Feb 2017
Ireland	Oct/Nov 2016	Jun 2017
Denmark	Oct/Nov 2016	Jun 2017
Portugal	Feb/Mar 2017	Oct 2017
Iceland	Jun/Jul 2017	Feb 2018
United Kingdom	Feb/Mar 2018	Oct 2018
Finland	Jun/Jul 2018	Feb 2019
Greece	Oct/Nov 2018	Jun 2019
Turkey	Feb/Mar 2019	Oct 2019
France	Feb/Mar 2020	Oct 2020
The Netherlands	Jul/Aug 2020	Feb 2021
Luxembourg	Jun/Jul 2020	Feb 2021
Germany	Oct/Nov 2020	Jun 2021

⁹ [http://www.fatf-gafi.org/calendar/assessmentcalendar/?hf=10&b=0&r=%2Bf%2Ffatf_region_en%2Fmoneyval&s=asc\(document_lastmodifieddate\)&table=1](http://www.fatf-gafi.org/calendar/assessmentcalendar/?hf=10&b=0&r=%2Bf%2Ffatf_region_en%2Fmoneyval&s=asc(document_lastmodifieddate)&table=1), accessed on 9 February 2017

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