



December 6, 2024

Ms. Violaine Clerc
Executive Secretary
Financial Action Task Force (FATF)
2 Rue André Pascal 75116
Paris, France

RE: Public Consultation on AML/CFT and Financial Inclusion – proposed changes to the FATF Standards

Dear Ms Clerc,

The Wolfsberg Group (“the Group”) appreciates the opportunity to provide comments on the draft Financial Action Task Force (“FATF”) amendments to Recommendations 1, 10, and 15, and the relevant Interpretative Notes. The Group agrees with the FATF’s goal to create an anti-money laundering/countering the financing of terrorism (“AML/CFT”) regulatory environment that reinforces the risk-based approach while also supporting financial inclusion. Requiring excessive AML/CFT measures that do not respond to the identified risks is inefficient and ineffective, while the unintended consequences of restricting under-served communities’ access to financial services decreases the reach and effectiveness of AML/CFT regimes. As noted in the Group’s original Statement on Effectiveness, an effective AML/CFT programme will “have the benefit of reducing friction on customers and helping governments with their objective of financial inclusion”.

The Group has reviewed the proposed changes to the FATF Standards and recommends edits that would, in our view, help deliver the FATF’s objectives. The Group sees the proposed changes, set out in more detail in Annex 1, as critical to creating an environment where competent authorities support financial institutions (FIs) in applying a risk-based approach. To that end, the Group strongly supports the inclusion of the term “proportionate” as a clear reminder of the importance of implementing a genuine risk-based approach at a national level.

The challenge we see under the existing proposal is the suggestion that financial inclusion can be solely addressed through simplified measures (including simplified due diligence). While the Group is wholly aligned with the view that lower risk situations should warrant less stringent AML/CFT measures (including, when appropriate, simplified due diligence), it is often the case that when FIs provide services to customers who would otherwise be excluded from the financial system, FIs undertake “alternative measures”, not “simplified measures”, focused on addressing the unique risks represented by the customer in a distinct manner. We provide examples of such alternative measures in Annex 2. As such, the Group recommends complementing the existing proposed text with an additional reference to “alternative measures” to facilitate financial inclusion, mitigating the risk that countries misinterpret a renewed R1 as limited to addressing financial inclusion only through “simplified measures”. We believe this proposed change maintains support for a risk-based approach while permitting FIs to design



their own AML/CFT framework, as determined by their size, scale, footprint, customers, and risk appetite in a way the current language does not.

Financial inclusion requires a national-level regulatory framework more sophisticated than “simplified measures”. Existing, successful strategies for financial inclusion often result in overall ML/FT risk reduction for the country but may result in FIs taking on more risk within their own portfolios (e.g., transitioning an economy off cash through the offering of basic bank accounts). In such circumstances where the ML/FT risk (including fraud risk) to the FI is not lower, end-to-end simplified measures are not being applied, nor can that be the expectation of the FI. What FIs are doing in those circumstances is tailoring their controls to the unique risks the customer represents – “alternative measures”. In ideal situations, those alternative measures are then paired with national initiatives to support FIs in maintaining an effective AML/CFT framework. For example, the Group’s members often find that those countries most committed to financial inclusion demonstrate that commitment through support for innovative identification channels, including accessible digital identification.

The Group stands ready to provide further examples of “alternative measures”, as well as identify the regulatory changes that can support their adoption. The Group can also share examples of where members have faced regulatory scrutiny, including enforcement actions or similar sanctions, for implementing alternative due diligence measures, or where simplified measures exist within the regulatory framework but are not encouraged/enabled in practice.

As with previous FATF guidance, the Group hopes the outcomes of this consultation will lead to an active discussion between national governments and the private sector, perhaps during the Private Sector Collaborative Forum (PSCF) in March 2025.

The Group thanks the FATF in advance for your consideration of our proposals. We remain at your disposal should any clarification be necessary.

Yours sincerely,

J. Edward Conway
Executive Secretary
The Wolfsberg Group

Annex 1: Detailed Responses

Seq.	Question	The Wolfsberg Group Response (suggested changes are highlighted in yellow)
1	<i>FATF is considering the replacement of the term “commensurate” with “proportionate” in Recommendation 1, in order to clarify how these concepts should be applied in the context of a risk-based approach; to set clearer expectations with regard to simplified measures; and to align the FATF’s language more closely with that of financial inclusion stakeholders and frameworks. For these purposes, the term “proportionate” is defined as follows: “In the context of the risk-based approach adopted by the FATF Recommendations, a proportionate or commensurate measure or action is one that appropriately corresponds to the level of identified risk and effectively mitigates the risks”. FATF would welcome views on whether to proceed with this change and on the proposed definition.</i>	The Group supports the proposed definition, with the inclusion of an additional passage on the importance of “alternative measures”. The Group fully supports the use of the term “proportionate” by the FATF. It is a clear reminder that an effective financial crime compliance framework depends on the practical application of the RBA, wherein FIs implement compliance measures pursuant to a financial crime risk management (FCRM) programme in line with their own business model (as determined by the FI’s size, scale, footprint, customers, and risk appetite). We propose an additional passage, however, to recognise that financial inclusion can be addressed through an array of measures, not only simplified measures. New text in highlights: R1. Where countries identify higher risks, they should ensure that their AML/CFT regime adequately addresses such risks. Where countries identify lower risks, they should allow and encourage simplified measures as appropriate. Where countries identify distinct risks that adversely impact financial inclusion, they should allow and encourage the application of alternative measures to facilitate financial inclusion while adequately addressing the identified ML/FT risks. INR.1. The general principle of an RBA is that, where there are higher risks, countries should require financial institutions and DNFBPs to take enhanced measures to manage and mitigate those risks; and that, correspondingly, where the risks are lower, countries should allow and encourage financial institutions and DNFBPs to take simplified measures. Countries should identify areas of lower risk, for example, through their national or sub-national risk assessments, to support financial institutions and DNFBPs to apply measures proportionate to those risks. Countries should provide guidance or information to financial institutions and DNFBPs on the possible approaches for the implementation of simplified measures where the risks are lower, or for the

		implementation of alternative measures where the risks are distinct and traditional approaches may be exclusionary. Note that “alternative measures”, in practice, may often include measures of simplified due diligence at some point in the customer lifecycle (e.g., tailoring the identification standards based on the specific scenario).
2	<i>FATF is considering amendments to require supervisors to “review and take into account the risk mitigation measures undertaken by financial institutions/DNFBPs”, to avoid overcompliance resulting from an only partial understanding of the risks, and also to consider proportionality in the engagements with them. FATF would welcome views on the potential impact of this change.</i>	The Group considers the proposal from the FATF important for driving the practical application of an RBA. To date, based on our examination outcomes, we are often incentivised to over-comply, including in instances where we can demonstrate customers as lower risk. National authorities should also work in tandem with FIs to avoid a supervisory regime that pushes FIs into adopting simplified measures to increase financial inclusion despite the increased risk that the approach may represent to the FI. The introduction of “alternative measures” provides a foundation that recognises the agency of the FI in designing an AML/CFT framework that can address the risks they face without being exclusionary. Overall, the changes to R.1, R.10, and R.15 are an excellent opportunity to reinforce the principles of an RBA, and the Group would welcome a more comprehensive discussion with competent authorities on how to determine proportionality.
3	<i>On adoption of simplified measures in lower risk situations, FATF proposes to replace “countries may decide to allow simplified measures” with “countries should allow and encourage simplified measures”. This would place an explicit requirement on countries to be more active in creating an enabling environment for implementation of simplified measures.</i>	Combined with the proposed textual additions cited above, the Group agrees with the FATF’s proposal but recommends the addition of a passage to recognise “alternative measures”. Without an explicit requirement that national authorities create an enabling environment for implementation of simplified measures, the FATF’s push for the practical application of an RBA will not be successful. However, and in line with our previous proposals, to promote the facilitation of financial inclusion within the context of the RBA, “alternative measures” must be supported as well. Providing the conditions for financial inclusion requires attentive FIs willing to apply alternative measures to due diligence where traditional approaches have proven to be exclusionary, supported by competent authorities who recognise that national level strategies aimed at decreasing ML/FT risk may on a local level represent an increased risk to an FI. Forcing an FI to

		apply measures (i.e., simplified measures) that do not address the underlying risk to the FI is not the solution; rather, competent authorities must embrace alternative approaches and collaborate with FIs to demonstrate that shared commitment, including in their supervision of FIs. This is as relevant for retail, mass market relationships as it is for correspondent relationships that facilitate country access to the international financial system. Accordingly, we recommend the following additional changes to paragraph 13: They should be required to monitor the implementation of those policies, controls and procedures, and apply standard, enhanced or simplified measures in line with the risks. They should also be permitted to apply alternative measures to address more effectively identified risks when appropriate, particularly when traditional approaches can be exclusionary.
4	<i>On “non-face-to-face customer-identification and transactions” as an example of potentially higher-risk situations, addition of qualification (“unless appropriate risk mitigation measures have been implemented”) to reflect technological advancements in digital identity systems that may reduce the risks associated with non-face-to-face interactions, and recognise that in many countries this has become the normal mode of interaction with financial institutions.</i>	The Group agrees that technological change has permitted the design of a risk framework for non-face-to-face interactions that can be considered equivalent with face-to-face engagement, when the appropriate controls are in place. The Group further develops the principles to apply in gaining that level of confidence in its 2022 publication, <i>Guidance on Digital Customer Lifecycle Risk Management</i>.¹ In the FATF’s efforts to update the guidance, we would welcome a discussion on the use of artificial intelligence (AI), including generative AI, to produce forged documents or mimic human interactions, and the positive role that governments could play in supporting the responsible use of non-face-to-face engagement going forward.²

¹ <https://wolfsberg-group.org/news/5>

² <https://www.theguardian.com/technology/article/2024/may/17/uk-engineering-arup-deepfake-scam-hong-kong-ai-video>

Annex 2: List of SDD and Alternative Measures

The Group recommends further examples of possible measures be included in paragraph 21. The chapeau text also has edits to conform with the above changes to the text in the Recommendation and Interpretive Note.

21. Where the risks of money laundering or terrorist financing are lower, financial institutions ~~should be allowed and encouraged~~ ~~could be allowed~~ to ~~implement~~ ~~conduct~~ simplified CDD measures, which should take into account the nature of the lower risk. The simplified measures should be ~~proportionate to~~ ~~commensurate with~~ the lower risk factors (e.g. the simplified measures could relate ~~only~~ to customer acceptance measures, aspects of ongoing monitoring, ~~or both~~). Where the risks may not be lower but are distinct, and the application of traditional CDD measures may represent a barrier to financial inclusion, financial institutions should be allowed and encouraged to implement alternative CDD measures that facilitate inclusion while adequately addressing the risk.

Examples of possible simplified measures **include but are not limited to:**

- Verifying the identity of the customer and the beneficial owner after the establishment of the business relationship (e.g. if account transactions rise above a defined monetary threshold).
- Reducing the frequency of customer identification updates.
- Reducing the degree of on-going monitoring and scrutinising transactions, based on a reasonable monetary threshold.
- Not collecting specific information or carrying out specific measures to understand the purpose and intended nature of the business relationship, but inferring the purpose and nature from the type of transactions or business relationship established.

Examples of possible alternative measures include but are not limited to:

- Providing limited purpose account types with simplified identification requirements, balanced by ongoing controls (e.g., application/device tracking, usage terms and conditions such as monthly deposit or transactions limits, prohibitions on transfers to certain geographies/jurisdictions, etc).
- Tailoring the monitoring of a customer relationship, for example a correspondent relationship, to recognise that even if the correspondent is located in a high-risk country, not all payments to/from that country are necessarily high risk (e.g., propriety payments, payments related to the provision of humanitarian services, payments to/from established sources, etc.).



- Maintaining the customer risk profile up-to-date through innovative approaches to monitoring and the incorporation of third party data sources, removing the need to contact the customer to confirm changes to information, especially on a periodic basis.

Simplified or alternative measures are not acceptable whenever there is a suspicion of money laundering or terrorist financing. Simplified measures are also not acceptable where specific higher-risk scenarios apply.