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## EVOLVING PHENOMENON: The FATF

### Abstract

The Financial Action Task Force (FATF)'s journey commenced when the drug trade became destructive for the international financial system in the late 1980s. Over the years, thanks in part to its capability to promote cooperation amongst nations, the G7 has played a determining role in setting the FATF's agenda and acting as a catalyst for revising the FATF's role. This study aims to examine the evolution of the FATF's role created by the Group of Seven (G7) in 1989 through to the present day by providing a historical analysis of the evolution of the FATF's mission. For this purpose, all the FATF's annual reports and associated documents on its website plus the G7/20 Summit Declarations have been examined up to the present. The study is assessed to make a unique contribution to the literature as it puts forward the 36-year evolution of the FATF. The study reveals that the FATF, created as a measure to address drug related issues by the G7 in July 1989, has made tremendous progress since its establishment. Today the FATF is known as reformist organisation that sets international standards and monitors the compliance with those standards in the fields of anti-money laundering, counter financing of terrorism and proliferation financing (AML/CFT/CPF). The study also argues that the FATF has always been successful in setting standards, owing to its flexibility, adaptability and global network. However, as its mandate expands to global security, the FATF is likely to be in danger of losing sight of the basic building blocks of combating the illicit finance.

**Keywords:** FATF, G7/20, Anti-Money Laundering, Counter Terrorism Financing, Counter Proliferation Financing

## EVİRİMLEŞEN FENOMEN: FATF

### Öz

Mali Eylem Görev Gücü'nün (FATF) yolculuğu, 1980'lerin sonlarında uyuşturucu ticaretinin uluslararası finans sistemi için yıkıcı hâle gelmesiyle başlamıştır. G7; uluslararası iş birliğini teşvik etme kapasitesi sayesinde yıllar süren bu yolculukta, FATF'in gündeminin belirlenmesinde belirleyici bir rol oynamış ve FATF'in rolünün revize edilmesinde katalizör görevi görmüştür. Bu çalışma, FATF'in misyonundaki evrimin tarihsel bir analizini sunarak 1989'da G7 tarafından FATF'a biçilen rolün bugüne kadarki gelişimini incelemeyi amaçlamaktadır. Bu amaçla FATF'in bugüne kadarki tüm yıllık raporları ile internet sitesindeki diğer dokümanlar ve G7/20 Zirve Bildirileri incelenmiştir. FATF'in 36 yıllık evrimini ortaya koyması itibarıyla çalışmanın literatüre özgün bir katkı sağladığı değerlendirilmektedir. Çalışma, G7 tarafından Temmuz 1989'da uyuşturucuyla ilgili sorunlara önlem olarak oluşturulan FATF'in kuruluşundan bu yana büyük ilerleme kaydettiğini ortaya koymaktadır. Bugün FATF, karapara aklamanın önlenmesi ile terörizmin ve nükleer silahların yayılmasının finansmanı ile mücadele (AML/CFT/CPF) konularında standart belirleyen, bu standartlara uyumu denetleyen reformist bir örgüt olarak bilinmektedir. Çalışmada ayrıca FATF'in esnekliği, uyarlanabilirliği ve küresel ağı sayesinde standartları belirlemede her zaman başarılı olduğu ifade edilmektedir. Ancak görev alanı küresel güvenliğe doğru genişledikçe FATF'in, yasa dışı finansmanla mücadelenin temel yapı taşlarını gözden kaçırma tehlikesiyle karşı karşıya kalması muhtemeldir.

**Anahtar Kelimeler:** FATF, G7/20, Karapara Aklamanın Önlenmesi, Terörizmin Finansmanı ile Mücadele, Nükleer Silahların Yayılmasının Finansmanı ile Mücadele

## **INTRODUCTION**

The leaders of the seven industrialized and advanced economies have been using their influence through the non-treaty-based Group of Seven (G7) to eliminate the obstacles to the liberalization of global finance. In the 1980s, this obstacle was and can still be called, the drugs trade. Money laundering (ML) first emerged as laundering of drug money, which was the big threat to the removal of global capital mobility and liberalization of the global finance. ML has been seen as the dark side of globalization which has been recognized as the lifeblood of transnational criminal networks (Toronto Star, 2000, as cited in Rudich, 2005, 4).

Given the gravity of the threat posed by money derived from drug activities, G7 nations came together to address this issue in July 1989 to establish the FATF to tackle laundering drug money; the fight against financial flows of the international drug trade became the main reason behind the creation of the FATF. Since then, the FATF has evolved into a dynamic international initiative, which expanded its mandate from the guardian of the financial system's integrity to the contributor to the world's peace and security. Its mandate was broadened to tackle terrorist financing (TF) in 2001 and the proliferation of financing (PF) of the weapons of mass destruction (WMD) in February 2012.

Due to the transnational character of ML, the FATF's principal focus has been to create a global network. It has always been aware of the importance of building external relations with other nations to strengthen this global network. Moreover, the FATF has always engaged with the private sector and civil society through either consultative forums or experts meeting. Today, it has a huge global network with nine FATF-Style Regional Bodies (FSRB), two hundred six governments and twenty-four observer international organisations, which are brought together for a common purpose to combat illicit finance, apply consistent standards and undertake a worldwide system of mutual evaluations (FATF, 2023, 4&58).

This article seeks to answer the question of "Why and how the FATF has evolved in the course of years?" by providing a historical analysis of the evolution of the FATF's mission. The emphasis is on changes in the FATF's mandates, its responsibilities and the impact of different actors on the FATF's role. This article consists of three sections. The first section provides background information on the FATF's first three years, which is crucial to its continued existence. The second section presents historical analysis of its missions from its establishment

up to date. The third section focuses on assessment of the factors in setting the FATF's roles.

## **1. THE FATF'S APPEARANCE ON THE SCENE**

This section is concerned with why and how the FATF was established and explores its first three years, which were vital in its continued existence.

### **1.1. Birth of the FATF**

In the 1980s, the world began to be confronted with serious problem from hard drugs such as heroin and cocaine; a highly profitable drug trade had developed and evolved worldwide. Drug traffickers preferred financial systems to launder their profits. As the financial system advanced and international transactions became easier to perform, the proceeds of drug trade would enter the financial system and vanish as soon as they crossed international borders (FATF, 2019c, 9).

There was an urgent need to respond to the drug threat collectively in a coordinated way. This need was met by the G7 in July 1989. The G7 and the European Communities' Commission met in Paris and discussed "drug issues". They identified the drug trafficking as an enormous destructive problem and highlighted the urgent need for determined actions on international and national level. They asked all countries to counter illegal drug production, decrease demand and continue to address all issues including combating the drug ML. As a measure, they asked summit participants and other countries concerned with drug problem to convene a financial action task force (referred to later as the FATF) with the aim of assessing the outcome of cooperation already conducted at international or national level to prevent the use of financial systems for ML purpose and considering preventive measures in this field. The task force's first meeting was decided to be held by France and its report would be completed by April 1990 (G7, 1989). Thus, the FATF was founded as a sixteen-member task force, which was the G7 countries, the European Commission, Belgium, Netherlands, Luxemburg, Spain, Sweden, Switzerland, Austria, Australia, with a one-year mandate (Nance, 2018a, 115).

### **1.2. Initial Period of the FATF**

In the first year, as called for by the G7, participants from sixteen members held several meetings in Paris and Washington D.C. which were attended by the experts from various ministries, law enforcement agencies (LEAs), bank supervisory and regulatory agencies. A report was prepared and endorsed by

participating countries' Finance Ministers in May 1990 (FATF, 1991, 4) and thereafter by the Heads of the G7 States and EU in July 1990 at the Houston G7 Summit (G7, 1990).

The report contained information on the extent and nature of the ML process; international and national programmes already in place to combat ML and, most importantly, what would become known as the Forty Recommendations. Those recommendations were denoted as "the actions to be taken by countries against ML" focusing on improving national legal systems, enhancing the financial system's role and international cooperation. The FATF offered regular assessment of the progress in implementing those recommendations, which would contribute to improvement of national systems to combat ML (FATF, 1990, 28-35). Accordingly, the G7 asked the FATF to reconvene for a second year to evaluate and facilitate implementation of the Recommendations; recommended the FATF to invite OECD and financial centre countries to participate in this exercise; supported broadening geographical coverage of the FATF's practice (G7, 1990).

For the first time, there emerged united international effort to combat ML through using the recommendations as a tool for facilitating international cooperation and implement necessary Anti-Money Laundering (AML) legislation. This showed that the FATF's AML approach was working. As Hülse (2007, 158) identifies, whether the problems can be solved depends not only on the quality of rule-making but also on compliance with the rules. The solution to the ML problem depends not only on the existence of the G7/FATF, but also on whether the Recommendations are enforced by all countries.

In its second year, the FATF devoted considerable time to the self-evaluation process and prepared detailed questionnaire (FATF, 1992, 3). It started to implement this process requiring each member to report on the steps taken to comply with the Recommendations. On the other side, it addressed the issues of possible refinement of existing Recommendations and monitoring new ML practices. Over a period of six months, a series of five technical meetings were held in Paris with many technical experts from several public institutions, bank supervisory and regulatory agencies. Working groups were established focusing on the implementation of the Recommendations, legal matters, the role of financial systems and international co-operation and follow-up. FATF members also discussed the FATF's future role and institutional arrangements including presidency, secretariat and future membership. They agreed to keep up the self-

evaluation process for measuring their progress in implementing the Recommendations and to initiate mutual evaluation process. They decided to continue on an informal basis in order to avoid rigid bureaucratic approach, to be flexible and to ensure the FATF's programme success against ML (FATF, 1991, 3, 17-19) because this structure was giving a kind of flexibility to adjust the Recommendations to rapidly changing environment. As threats and challenges evolved, the FATF was able to respond by refining its Recommendations promptly (Nanyun&Nasiri, 2021, 240). At the end of the second year, FATF members agreed to continue for five years with a decision to make mid-point review of its progress and the continued need and mission (FATF, 1994, 6). Nine OECD countries (Denmark, Finland, Greece, Iceland, Ireland, New-Zealand, Norway, Portugal, Türkiye) were invited to join FATF family on 17 December 1991. Seven countries including Türkiye endorsed the Recommendations (FATF, 1991, 13).

At the London Summit in July 1991, the G7 declared strong support in implementing the Recommendations, especially for the mutual evaluation of each member country's progress; and endorsed the continuation of the FATF's work on an ongoing basis with a secretariat provided by the OECD (G7, 1991a), which was established in June 1992 (FATF, 1992, 30).

The mid-point review has conducted during 1993 and 1994. FATF members unanimously agreed that the FATF's work was far from completed and the FATF should keep focusing on AML matters until 1999 (FATF, 1994, 6). Their decision was approved by the G7 at the Naples Summit on 9 July 1994 (G7, 1994).

By its third year, the FATF set about dual approach based on mutual and self-evaluation. It defined the scope and methodology of mutual evaluation, providing an unbiased and technical review of assessed country's legislations and systems in place to combat ML. Several interpretative notes were drawn up to clarify the scope of existing Recommendations so as to ensure their compatibility in rapidly changing environment (FATF, 1992, 3). In September 1991, for the first mutual evaluation, France, Sweden and the United Kingdom became volunteers (FATF, 2019c, 51); France became the first to be evaluated in January 1992 (FATF, 1992, 8). Thus, the FATF had begun to monitor its members' implementation for the Recommendations. It grew into one of the first global standard-setting bodies that not only set standards, but also monitored its members' implementation (FATF, 2019c, 11). It no longer seemed enough for countries just declaring political

support for the recommendations, what really counts became the implementation of them.

By 1992, the FATF continued to expand its membership with Iceland and Singapore. As it became increasingly aware of the worldwide nature of ML, it emphasized the expansion of its membership. The FATF believed that “No country is immune from the risk of being penetrated by money launderers” (FATF, 1992, 5&20). At the end of the third year, in July 1992 at the Munich Summit, the G7 highlighted the fight against drugs as a major challenge. They emphasized international cooperation to combat drug trafficking and identified it as being a part of FATF’s work (G7, 1992).

## **2. EVOLUTION OF THE FATF: A HISTORICAL PERSPECTIVE**

This section explores the FATF’s evolving history in four phases with regard to the duration of its mandate. The changes in the mandate’s duration are thought to be a good indicator to understanding the approach towards the FATF’s existence.

### **2.1. Phase 1: the FATF with One-Year Mandate**

In its first five years, the FATF’s mandate was determined by the G7. In 1989 the G7 tasked the FATF with combating the drug ML in general; considering measures needed to be taken in order to prevent ML in specific (G7, 1989). Thereafter the FATF prepared and issued measures called “Forty Recommendations” to have powerful tools to detect, prevent and punish the drug ML (FATF, 2010, 4). In 1990, the G7 charged the FATF by assessing and facilitating the implementation of these Recommendations (G7, 1990). Thereafter, the FATF conducted its self-evaluation process to measure the progress in implementing the Recommendations (FATF, 1991, 3). In 1991, the FATF was charged with conducting its mutual evaluation process to systematically verify the level of implementation of the Recommendations (G7, 1991a; FATF, 1992, 3). Major tasks conducted in the FATF’s fourth and fifth years, were similar to the previous ones (FATF, 1993, 3; 1994, 3). In those years during the summits, the G7 was observed to carry out a robust initiative in establishing an international AML network within the context of combatting drug trafficking (Rudich, 2005, 10).

### **2.2. Phase 2: the FATF with Five-Year Mandate**

After the first five years, FATF members agreed to maintain the FATF for a further five years to combat the laundering of the proceeds of other serious crimes generating significant funds. First at the 7-8 June 1994 ministerial meeting, the

OECD Council approved the extension of the FATF's work for five years (FATF, 1994, 4). Then at the Naples Summit in July 1994, the G7 reaffirmed its support for the FATF's decision and called for the implementation of AML efforts to tackle transnational organized crime (G7, 1994).

In 1995 and 1996, the FATF's major task was the revision of the Recommendations. The most critical revision was the extension of criminalisation of ML predicate offences beyond drug trafficking, as non-drug related crimes also constituted the main source of laundered proceeds in some countries. Another important revision was the enlargement of the application of financial recommendations to include non-financial businesses and professions. This was reflection of the increasing role of non-financial business in ML schemes on the refinement of the Recommendations. After seven years, this showed that the FATF had identified current ML trends, remained flexible and been the leading policy maker in AML context (FATF, 1996, 3-9, 20).

At the Halifax (1995) and Lyon (1996) Summits, the ML issue was superseded by other public order issues including crime and drugs issues (Rudich, 2005, 11). At the Halifax Summit, transnational organized crime, at the Lyon Summit drug trafficking was highlighted as serious threat to society and the world's nations (G7, 1996). At the Denver Summit (1997), AML was incorporated into discussion on combating financial crime and corruption. For the first time, ML was identified by the G7 as continuing threat to the democratic values and financial integrity of all countries (G8, 1997). To Rudich, the identification of ML as an obstacle to democracy could be an indication of a breakthrough in G7/8 approach (2005, 11). The G7 assigned the FATF to review ways to advance its essential work before considering renewal of its mandate for second five-year until the 1998 Birmingham Summit (G8, 1997). Accordingly, the FATF reviewed its works for the 1999-2004 term and highlighted the need for continued mobilisation at the international level to deepen and expand AML action. On 28 April 1998, FATF Ministers approved the plan to spread AML message to all continents through fostering the establishment of worldwide AML network and FSRBs (FATF, 1998, 4&7) which was endorsed by G7 Finance Ministers on 8 May 1998 (G8, 1998a).

Since its first year, the FATF had conducted a regional mobilisation programme in order to ensure its worldwide implementation (FATF, 1991, 15). Geographically, the FATF focused on three regions during 1992-1993: Caribbean, Central & Eastern Europe and Asia. Accordingly, the first FSRB, the

Caribbean FATF (CFATF), in 1992 (FATF, 1993, 21); the Asia Pacific Group on ML (APG) in 1997 (FATF, 1997, 24); the Committee of Experts on the Evaluation of AML measures and Financing of Terrorism (MONEYVAL-formerly PC-R-EV)) in 1997 was founded (FATF, 1998, 32). Thereafter in line with G7's decision, several FSRBs were founded in different parts of the world. Respectively the Eastern and Southern African AML Group (ESAAMLG) in 1999 (FATF, 2000b, 15); South American FATF (GAFISUD) in 2000 (FATF, 2001, 7); Inter-Governmental Action Group against ML in West Africa (GIABA) in 2000 (FATF, 2004, 15); Action Group against ML in Africa (GABAC) in 2000 (FATF, 2002, 11); the Eurasian Group (EAG) in 2004; the Middle East and North Africa FATF (MENAFATF) in 2004 (FATF, 2005, 10) was founded.

On 8 May 1998, G7 Finance Ministers highlighted the fight against financial crime as one of the major problems, in this scope encouraged countries to strengthen AML capacity to deal with tax related crimes, asked the FATF to review its position by the Cologne Summit and make recommendations to Ministers on what can be done (G8, 1998a). And the G7 agreed on gathering intelligence through AML systems to tackle tax crimes (G8, 1998b). On 17 May 1998 at the Birmingham Summit, G8 leaders welcomed the FATF's decision to continue and enlarge in partnership with regional groupings and placed special emphasis on AML and financial crimes including issues raised by offshore financial centres (G8, 1998c).

At the Cologne Summit (1999), AML was incorporated under the title of "financial crime, harmful tax competition and international tax evasion" in G7 statement (G8, 1999a). In order to protect the international financial community, G7 Finance Ministers asked the FATF to take action to make offshore centres, under-regulated and non-cooperative jurisdictions compliant with the FATF Recommendations (G7, 1999b). The FATF had already adopted the policy for its non-compliant members in 1996, which had taken graduated approach in order to enhance peer pressure on them to strengthen AML systems (FATF, 1997, 10). In 1998, the FATF had created an ad-hoc group to discuss in depth what could be done regarding those jurisdictions (FATF, 1999, 13). At the Cologne Summit, G7 leaders welcomed these works and asked the FATF to take concrete steps to bring them into compliance with the Recommendations (G8, 1999a).

In response to this call, the FATF embarked on substantive work in its 1999-2000 term (FATF, 2000b, 18). It determined twenty-five criteria for defining non-cooperative jurisdictions (FATF, 2000a) and set up four regional review groups

for reviewing the jurisdictions in line with the criteria. Consequently, fifteen jurisdictions were identified as the ones having serious systemic problems in AML. Thereafter, the FATF called for special attention to be paid to business relations and transactions with persons from those jurisdictions. It also provided technical assistance for those jurisdictions to design and implement AML systems (FATF, 2000b, 1-23).

The 9/11 terrorist attacks in the United States (US) became milestone in the FATF's lifecycle. Following the terrorist attacks on 11 September 2001, on 6 October 2001, G7 Finance Ministers developed holistic and comprehensive action plan to block the assets of terrorists and their associates. They assigned the FATF to undertake work of issuing Special Recommendations (SR) on TF, issuing special guidance for financial institutions and developing a process to identify jurisdictions that enable TF (G8, 2001). Accordingly, the FATF convened an extraordinary session on 29-30 October 2001 in Washington DC to discuss the steps to be taken, and opened up an entirely new area of work by expanding its mandate to include the combatting financing of terrorism (CFT). Thereafter, the FATF prepared and approved SRs; immediately embarked on assessing SRs' implementation level through self-assessment (FATF, 2002, 1-5). These SRs provided strong tools for countries to track and withhold terrorists' assets and identify countries or individuals involved in TF (FATF, 2019c, 12). Bayne (2002, 35) also argues that the G7/8's effort on AML "proved its worth" after 9/11 as the FATF provided the G7/8 with the economic weapon to have direct impact on terrorism.

The TF was first tackled by the United Nations (UN) in a Convention of 1999, adopted only by a few countries in its first years (Jakobi, 2018, 181). Then, TF became the area where the UN Security Council (UNSC) and the FATF have worked more closely. Many of the SRs were similar to measures required by UNSCR 1373 adopted 28 September 2001 and the Counter-Terrorism Committee (CTC) that the Resolution established (Gardner, 2007, 331). In March 2005, the FATF joined the UNCTC Executive Directorate (CTED) led team to monitor the implementation of UNSCR 1373 (FATF, 2004, 11). Finally, the UN endorsed the FATF standards by UNSCR 1617 adopted 28 July 2005 which urged all members to implement the FATF's 40 Recommendations on ML and 9 SRs on TF (FATF, 2006, 8).

### **2.3. Phase 3: the FATF with Eight-Year Mandate**

On 14 May 2004, FATF Ministers reaffirmed their commitment to the FATF's effort on AML/CFT by renewing its mandate for eight years. Eight-year extension after five years showed that FATF members viewed the FATF as a critical instrument in AML/CFT effort. This was also recognition of the need to deepen and broaden the FATF's effort in AML/CFT (FATF, 2004b, 1). The FATF's new mandate (2004-2012) set out the objectives as determining and reviewing AML/CFT standards, promoting effective implementation of those standards and enlarging the FATF's network (FATF, 2004b, 1-5). The mandate allowed for mid-term review to be carried out to make sure that the FATF's activities focused on the requisite issues (FATF, 2004a). The mandate was revised after this review in 2007. Accordingly, the FATF was tasked with working on and responding to new and emerging threats that could undermine the international financial system's stability (FATF, 2008a).

Until 2008, the FATF had focused on three core areas: setting standards, ensuring effective compliance with standards and identifying ML/TF threats (FATF, 2008c, 11). After 2008, the FATF was at the centre of international efforts with the aim of protecting the global financial system's integrity and expected to respond to significant emerging threats that may fall outside its core activities such as Proliferation Financing (PF) where the FATF was expected to react consistent with the needs identified by UNSCRs. (FATF, 2008a). Before the latter's mandate renewal, the UNSC and FATF had worked closely on PF consistent with the needs identified by UNSCRs. In June 2007, the FATF published "Guidance on Implementing Financial Provisions of UNSCRs 1540, 1673, 1695, 1718, 1737, 1747 to Counter WMD Proliferation (FATF, 2007, 10). In October 2007, the FATF published another guidance on implementing financial prohibitions of UNSCR 1737 (FATF, 2008c, 5).

The FATF's revised mandate was endorsed by G7 Finance Ministers in April 2008 (FATF, 2009, 6). They declared strong support for the FATF to protect the global financial system from the ongoing ML, TF and PF risks of illicit finance and agreed that the FATF should continue performing its expertise in providing guidance for countries in meeting their financial obligations under UNSCRs to combat WMD proliferation (G7/8, 2008). Accordingly, in June 2008 the FATF published a typologies report including policy options related to UNSCR 1540 and in-depth analysis of the PF threat (FATF, 2008c, 11; 2008b). In October 2008, the FATF published a guidance on the implementation of financial

provisions in UNSCR 1803. All these published guidelines were not directly correspond to the FATF Recommendations. They were designed to facilitate countries' implementation of the financial provisions of UNSCRs (FATF, 2009, 10-11).

In June 2009, consistent with the revised mandate, the FATF began revising all Recommendations to consider evolving threats to the global financial system which took nearly three years as an inclusive process, including public and private sector, civil society involvement (FATF, 2012b:14-17). In September 2009 at the Pittsburgh Summit, the G20 asked the FATF to help detect and deter the proceeds of corruption by enhancing its Recommendations (G20, 2009b). As a response, in 2010 the FATF developed an information note (FATF, 2010b) on how to use its Recommendations to combat corruption (FATF, 2011a, 9). In 2011, it published a report on the links between corruption and ML (FATF, 2011b). Consequently, in 2012, in general the FATF introduced a new area "corruption" to focus on and expanded its mandate to cover PF (FATF, 2019c, 46&12); in specific the corruption related Recommendations were strengthened, PF of WMD was addressed by the FATF's new Recommendations (FATF, 2012b, 16).

In February 2012, the revised recommendations were adopted by FATF members (FATF, 2012b, 15). On 20 April 2012, FATF Ministers acknowledged PF as new threat that can result in clandestine use of the international financial system. They endorsed a new 8-year mandate for the FATF (FATF, 2012a). The renewed mandate reaffirmed the FATF as the international standards-setter for the PF of WMD (FATF, 2012b, 10). Now the FATF became the standards-setter for AML/CFT/CPF. Those standards are seen as operative, not an expression of States' consent to be bound by them (De Vido, 2018, 3).

Being tasked with responding to the emerging PF threat in 2008 and setting CPF standards in 2012, the FATF has seemed to refocus its direction formally to the new significant threats identified by the UNSC and the G-20 since 2008.

#### **2.4. Phase 4: the FATF with Open Ended Mandate**

In April 2019, the FATF passed a considerable milestone. FATF Ministers unanimously decided to make the FATF's mandate open-ended starting in 2020 after a time-bound thirty years mandate (FATF, 2019a, 29; FATF, 2019b). The FATF evolved from a temporary task force to one with a permanent mandate to AML/CFT/CPF on its 30th anniversary (FATF, 2019c:13). They declared the FATF's objective as "to protect the integrity of the financial system and to

strengthen its transparency that contribute towards global security”. The FATF clearly defined its objective as “to protect the financial system and economy from ML, TF, PF threats by strengthening financial sector integrity and contributing to safety and security” (FATF, 2019b) which seems to be much broader than specifically setting standards on AML/CFT/CPF and promoting their implementation.

FATF Ministers also agreed to meet every two years starting from 2022 to discuss strategic issues and review FATF progress with its mandate (FATF, 2019b). Having met on 21 April 2022, they declared that the FATF is at the centre of the global effort to achieve determined, coordinated and effective action against the threats of illicit finance to global security and safety (FATF, 2022). On 18 April 2024, they put FATF Global Network at the centre of the global effort to tackle illicit finance and reaffirmed their unwavering commitment to combat financial crime. They mentioned terrorism, corruption, fraud, drug trafficking, tax evasion and environmental and cybercrime (including online child sex exploitation) and other organised crime as current threats arising from illicit finance. They also underlined their recognition of the unique role the FATF plays in supporting global security and stability. (FATF, 2024a)

### **3. ASSESSMENT OF THE FATF’S MISSION**

Several factors have aided the FATF's course in setting its agenda since its establishment. This section explores these factors under three headings.

#### **3.1. “The USA” Effect**

ML, the FATF’s founding purpose, has been a recognised practice since the 1920s in the USA when Al Capone purchased or set up laundrettes to disguise the origin of his illegal money (Williams and Baudin-O’Hayon, 2002, 129). Drug abuse, that later led to fight against ML, was declared by USA President Nixon as a serious national threat following his victory in the 1968 presidential election (Nixon, 1969). On 17 June 1971, Nixon stated drug abuse to be “public enemy number one”. Soon after, he declared officially the war on drugs (Nixon, 1971).

In the scope of the war on drugs, the USA became the first country in the world to criminalise ML in 1986 (Hülsse, 2007, 166). The USA participated actively in negotiations to adopt the 1988 UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, the first international agreement addressing ML. It managed to reflect its legal approaches and devices in place in

its legislation into many provisions of this convention. Even much of the language was derived from USA statutes on ML (Stewart, 1990, 388&392).

The USA was also able to persuade its G7 partners to participate in the fight against ML (Hülse, 2007, 166) owing to its hegemonic dominance within the G7 (Kirton and Daniels, 1999, 6). It first addressed the need globally to curb ML at the G7 Toronto Summit in June 1988. Participants declared their support for “the USA’s initiative for a special task force to be convened to propose methods for developing cooperation in national, bilateral, and multilateral efforts in the fight against the drug trade” (G7, 1988). It was the USA, which transformed its foreign policy’s AML agenda into a worldwide discourse and an almost worldwide weapon against crime (Sharman, 2008, 652). To D’Koker, the primary factor in achieving global consensus on AML agenda was the establishment of predominant consensus recognising that drug trafficking and organised crime constituted threats requiring universal and standardized response (2023, 213).

The USA’s influence was also felt significantly in preparing the FATF’s first set of recommendations and establishment activities. For instance, to facilitate the FATF’s work, three working groups were established in 1991, one of them was chaired by USA until 1994 (FATF, 1991, 4; FATF, 1992, 5; FATF, 1993, 5; FATF, 1994, 5). After that date, working group chairman ceased to be identified in the Annual Reports except the 2002-2003 one where a new working group on TF was established which was co-chaired by USA and Spain (FATF, 2003, 7).

It was the USA proposing the World Bank and the International Monetary Fund’s (IMF’s) involvement in the FATF network (De Oliveira, 2018, 162). Then the G7 brought the IMF and World Bank into play for strengthening safeguards on the use of their funds in order to strengthen governance and AML measures (G7, 2000). These prominent international financial organisations, dealing with securing global financial integrity, have always lent their support to the FATF (Nanyun & Nasiri, 2021, 239-242). The IMF recognized the FATF Recommendations as appropriate AML Standards in 2001; added those Recommendations to the list of areas for its operational work in 2002; decided to make the AML/CFT assessments a part of the IMF’s core mandate in 2004 (Saad et al., 2008, 527-533).

The extension of the FATF’s mandate to include CFT was driven by the USA subsequent to 9/11. The USA and its allies decided immediately to work through the FATF. As the FATF standards are regarded as club standards, which make peer pressure the important tool, its technical nature has been affecting members’

decision-making. After 9/11, the USA moved towards FATF members more aggressively than it did in the past to support its preferences. Therefore, the FATF adopted a more coercive strategy in CFT efforts (Nance & Cottrell, 2014, 288-292).

To some scholars, the USA is a hegemon in making regulations but is unwilling to pay the enforcement costs for imposing binding standards. The FATF can do this through relying on peer pressure to shame recalcitrant governments even though the FATF publishes standards set by the USA (Nance, 2018b, 133). To D'Olivieria (2018), the leading power behind AML/CFT is the USA. To Bayne (1997), the USA and its leadership have always been highly influential in steering and developing the G7's agenda with the aim of protecting the international economic system. To me, as a former Head of the Turkish delegation to the FATF, it has been the USA and the G7/8, which have unduly imposed control over the discussions by dominating proceedings at the expense of other members at FATF meetings. And the USA still heavily influences the FATF today.

### **3.2. The Effect of the FATF's Structure**

The FATF was formed as an ad-hoc group including experts from OECD member countries tasked with determining AML policy (Sharman, 2008, 640). An international treaty did not establish it. It is not a formal international organisation. Therefore, the need for any formal negotiation procedure charged by its members is not required while expanding its mandate (De Video, 2018, 4). The FATF's mandate also clearly affirms that there is no intention to create any legal rights and obligations; the FATF is only accountable to its ministers. (FATF, 2019b). This structure provides noteworthy flexibility to the FATF in responding rapidly to the changing environment. For example, through the mid-term revision of the mandate, which was approved by FATF Ministers in 2004 for eight years, the FATF was charged with responding to new and emerging threats that could undermine the international financial system in 2007 (FATF, 2004b, 4; 2008a). With this revision, the FATF's mandate has experienced its greatest expansion in the wake of the 2008 financial crisis by noting other related threats to the integrity of the global financial system. (Nance, 2018b, 137). To Nance, through revision, G20 leaders included the FATF alongside other financial institutions such as the IMF and OECD as crucial player in efforts to create a new international financial regulatory architecture (2018a, 110).

The FATF was structured to facilitate the exchange of expertise and experiences (Jakobi, 2015, 400). This situation has been documented in all FATF annual reports. There is not a single annual report, which does not note the fact that FATF's meetings are expert-meetings (Hülse & Kerwer, 2007, 630-631). FATF processes including mutual evaluations are driven by technocrats from its members' ministries, LEAs and regulators, not by foreign ministries or political figures, so, its recommendations and judgements have been recognized to be fair (Winer, 2002, 44).

The FATF has constructed a robust dialogue, which started in 1996, with the private sector in order to utilize their experience in the implementation and revision of its Recommendations. (FATF, 1996, 9). This dialogue continued with the Financial Services Forum held in 1998 (FATF, 1998, 25). Other subsequent meetings were held in 2000, 2002, 2005, 2006 (FATF, 2000, 27; 2003, 21; 2007, 11). In 2007, the FATF initiated an online forum called the Private Sector Consultative Forum (PSCF) with the aim of bringing together the FATF and key private sector bodies (FATF, 2008c, 15). The first meeting of the PSCF was held in 2009 with participants from the financial sector and FATF members (FATF, 2010a, 32). The last PSCF was held in 2024 with participants from the financial sector, civil society, non-financial businesses and professions, academia and FATF members (FATF, 2024b). Over thirty years, collaboration between the FATF and the private sector has changed forms, become more frequent and now turned into an institutionalised practice as the annual PSCF meetings.

Thanks to those efforts, the FATF Recommendations are perceived as standards influencing UN and EU regulations on AML/CFT even though the FATF is not a formalized international organisation (Jakobi, 2018, 176). The G20, UN, IMF and World Bank have also recognized the FATF as the major authority for setting standards (FATF, 2010c, 3). Even UN embedded an FATF standard in international law through UNSCR 2462 adopted on 28 March 2019 (FATF, 2019a; 15; UNSC, 2019). Because of taking practical advice from various professions and organizations, which assumed to be representative of the particular subject matter, not of the member states, the FATF has been giving the message that the FATF is an organisation where expertise matters. This have led to the establishment of the members' natural reliance on practitioners in FATF's works. To be influenced by expertise may have made the FATF into an exclusive club in order to establish robust standards and lead the public. Therefore, the FATF seems to have the necessary ability to present a problem as global security

concern in the form of objective description based on expertise. By doing so it can easily expand its mission.

### **3.3. The G7 Effect**

The hardest thing to set an agenda of an inter-governmental body may be to construct common consensus about the problem and to create the need and legitimacy to do something about it. The way to construct this idea is to justify the claim about the global nature of the problem then it may become easy to convince decision makers. This is where the G20 (G7/8) appears as a global decision maker. Debates about the legitimacy of the G20 have a long history, as most developing countries are not the G20 members. Apart from this, the G20 is seen as an instrument in giving rise to the collective effort to address challenges to international financial stability. It plays important role in building policy consensus on all major international economic issues ([www.g20.utoronto.ca](http://www.g20.utoronto.ca)).

Global consensus on an AML agenda was also achieved at G7 summits. This is clearly seen in the Paris Summit Declaration (1989) where leaders issued a firm commitment to strengthen international cooperation on drug related issues and established the FATF in order to examine the methods used to launder drug money, review national and international actions already taken and develop recommendations for combating them (G7, 1989; FATF, 2019c, 7). At the Huston Summit (1990), they endorsed FATF's Recommendations and pledged to implement them in the best interests of the fight against drug money (G7, 1990). At the London Summit (1991), they focused on stepping up the fight against ML (G7, 1991b). At the Munich Summit (1992), they reaffirmed involvement in the FATF's work to fight against drug ML (G7, 1992).

Rudich (2005, 25) asserts that the G7/8 has adopted leadership role in setting the FATF's agenda, in acting as a catalyst for the formation of AML regime owing to its capacity and ability to promote cooperation among states and coordinating national policies. D'Oliveira (2018, 156) states that the G7 has been operating as a coordination tool, communicator, and great power<sup>1</sup> agenda setter across time guiding the FATF's actions and network. There are many clear examples to show G7 leadership in shaping the FATF's agenda. For example, after the 9/11 terrorist attack, G7 Finance Ministers issued "Action Plan to Combat the Financing of Terrorism" on 6 October 2001 and asked the FATF to issue SRs (G8, 2001). On 31 October 2001, the FATF did what was asked (G8,

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<sup>1</sup> IMF, World Bank, UN, FATF, OECD, EU, the UK, USA and France.

2002). Another example was the 2007–2008 financial crisis that emerged as priority on G7 agenda (D'Oliveira, 2018, 157). In February 2008, the G7 Finance Ministers repeated the concerns about the PF issues and the need for enhanced scrutiny of transactions involving Iran. They asked the FATF to renew its mandate to address those concerns (G8, 2008a). In April 2008, the FATF expanded its mandate as called for by the G7 (FATF, 2009: 6). In April 2009, the G20<sup>2</sup> asked the FATF to strengthen its process for assessing member countries' compliance with AML/CFT standards (G20, 2009a). In September 2009, the G20 asked the FATF to list high-risk jurisdictions by February 2010 in the light of economic crisis (G20, 2009b). As a response, a number of high-risk jurisdictions was publicly identified in February 2010 (FATF, 2010a, 14)

The FATF has not planned to become principal in setting global standards for AML/CFT/CPF. Its first Recommendations prepared in 1990 were not the result of comprehensive research but prepared solely based on the experience and wish lists of a small expert group (D'Koker, 2022, 265). However, the G20, as global rule maker, has seem to find smart ways to expand the FATF's agenda just like "the mission of fight against emerging threats that pose significant concern to the security and integrity of the international financial system". Since 2008, the FATF has explicitly aimed to protect the integrity of the international financial system from misuse (FATF, 2008a; FATF, 2012a; FATF, 2019b). Since 2019, the FATF has clearly aimed to contribute to global security through protecting the integrity of the financial system and fight against threats to global security (FATF, 2019b). As the environment of the FATF evolves, the FATF's objective seems to have expanded to cover more than financial system integrity and even to address global security issues, through the G20's involvement.

#### **4. CONCLUSION**

Established in 1989 with the purpose of keeping drug money out of the financial system, the FATF has evolved over thirty-five years. In 2001, it developed its new role, CFT, following the 9/11 terrorist attack. Over the years, it has broadened to protect the financial system's integrity by addressing new and emerging threats, even though they might fall outside its core activities, and implementing new initiatives that contribute to safety and security of global economy (FATF, 2019c: 25; 2008a). In 2012, it expanded its agenda with CPF

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<sup>2</sup> In 2009, the G20 took up the G-7's role in setting AML/CFT agenda. The change of leadership did not change the G7's role because the G20 was seen to be still part of the original collective strategy (D'Oliveira, 2018, 157).

as global security concerns related to North Korea and Iran's proliferation programmes grew (D'Koker, 2023, 213- 214). Throughout the years, the FATF has become an important voice on global policy issues influenced by the G7 whose agenda has expanded to include transnational, political-security issues such as the arms control, environment and terrorism (G7, 2016).

The analysis of the change in the FATF's role indicates that the FATF has done its best in adjusting its mandate to the changing political environment because of its unique characteristic in providing flexible and dynamic response to new threats through global action as the global rule maker G20's mandate has evolved. However in practice, while global commitment in AML/CFT context has been succeeded, this does not seem to be the case for CPF because of the differences in countries' approach having nuclear weapons or not and the context of the CPF standards tied to mainly UNSC TFS measures, which seem to add limited value to the existing AML/CFT framework (D'Koker, 2023, 213-214).

Today having such a huge global network, which constitutes more than 200 countries, the FATF has moved its focus more to safety and security concerns, similar to that of the G20. The FATF has achieved something unique in how to protect the global financial system's integrity from abuse since its creation. However, there remains much to be done in responding to the ever-changing threats to the integrity and security of international financial systems which may be abused not only by criminals but also by professionals appearing to be innocent whilst acting as gatekeepers by providing services in order to facilitate those wishing to launder proceeds of their illicit activities. As the FATF moves forward and spreads its *raison d'être* ever wider beyond its original mission, such as corruption, TF, PF, it is in serious danger of diluting its original mission and commensurate level of impact to such an extent that the nations it is trying to develop and influence will lose sight of the core issues and basic building blocks of combating the illicit finance.

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