

Letter from the Executive Board

It gives us immense pleasure to welcome you to this simulation of the **Financial Action Task Force at OakMUN'25** . We look forward to an enriching and captivating experience.

“Reevaluting the international standards for countering money laundering and hawala systems with emphasis on black and grey list countries.”

We have prepared this background guide, which is essentially to give you some idea about the agenda at hand and to cater your basic research. As far as the committee and discussion goes, please note that this Background Guide is exactly what its name suggests (and nothing more).

The information provided here is precise and abstract, and in no way is it complete for you, as a delegate. It is merely a starting point, from where one needs to go into the depth of every facet of the agenda.

You will be apprised of the Rules of Procedure once again at the start of the committee, but it is recommended that you center your arguments against what has already been told to you.

During your research, please stick to credible sources like any United Nations official website, Human Rights Watch Reports, Security Council Documents, FATF Reports and Documents, Government reports, etc. Any information from Wikipedia, Amnesty International , Al Jazeera, personal blogs or unheard-of news reports will not be regarded as substantial proof.

“About the Agenda” has been prepared with meticulous research and analysis. Please ensure you go through this background guide thoroughly, since it also indicates and explains the mandate, the working and purpose of FATF.

Best Regards

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About the Committee

The Financial Action Task Force (FATF) is the global money laundering and terrorist financing watchdog. The inter-governmental body sets international standards that aim to prevent these illegal activities and the harm they cause to society. As a policy-making body, the FATF works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas.

The 40-member body sets international standards to ensure national authorities can effectively go after illicit funds linked to drugs trafficking, the illicit arms trade, cyber fraud and other serious crimes. In total, more than 200 countries and jurisdictions have committed to implement the FATF's Standards as part of a co-ordinated global response to preventing organised crime, corruption and terrorism.

The FATF researches how money is laundered and terrorism is funded, promotes global standards to mitigate the risks, and assesses whether countries are taking effective action. In total, more than 200 countries and jurisdictions have committed to implement the FATF's Standards as part of a co-ordinated global response to preventing organised crime, corruption and terrorism. Countries and jurisdictions are assessed with the help of nine FATF Associate Member organisations and other global partners, the IMF and World Bank.

The FATF's decision-making body, the FATF Plenary, meets three times per year and holds countries to account if they do not comply with the Standards. If a country repeatedly fails to implement FATF Standards then it can be named a Jurisdiction under Increased Monitoring or a High Risk Jurisdiction. These are often externally referred to as "the grey and black lists".

The FATF was established in 1989 and is based in Paris.

FATF suspended membership of the Russian Federation on **24 February 2023**.

Mandate of the FATF

Money laundering, terrorist financing and the financing of weapons of mass destruction are enduring concerns for the integrity of the financial system. They require a sustained political commitment to fight these threats.

This is why, in 2019, FATF Ministers gave the FATF an open-ended mandate after three decades of operation under a time-bound mandate.

FATF's mandate recognises the need for FATF to continue to lead decisive, co-ordinated and effective global action to counter the threats of the abuse of the financial system by criminals and terrorists, and strengthens its capacity to respond to these threats that all countries face.

Objectives of the Financial Action Task Force

1. The Financial Action Task Force (FATF) is an intergovernmental body established in 1989 by the Ministers of its Member jurisdictions.
2. The objectives of the FATF are to protect financial systems and the broader economy from threats of money laundering and the financing of terrorism and proliferation, thereby strengthening financial sector integrity and contributing to safety and security.

Functions and tasks of the FATF

3. In order to fulfil its objectives and working as necessary with other international stakeholders, the FATF carries out the following tasks:
 - a) Identifying and analysing money laundering, terrorist financing and other threats to the integrity of the financial system, including the methods and trends involved; examining the impact of measures designed to combat misuse of the international financial system; supporting national, regional and global threat and risk assessments;
 - b) Developing and refining the international standards for combating money laundering and the financing of terrorism and proliferation (the FATF Recommendations) to ensure that they are up-to-date and effective;
 - c) Assessing and monitoring its Members, through 'peer reviews' ('mutual evaluations') and follow-up processes, to determine the degree of technical

compliance, implementation and effectiveness of systems to combat money laundering and the financing of terrorism and proliferation; refining the standard assessment methodology and common procedures for conducting mutual evaluations and evaluation follow-up;

d) Identifying and engaging with high-risk, non-co-operative jurisdictions and those with strategic deficiencies in their national regimes, and co-ordinating action to protect the integrity of the financial system against the threat posed by them;

e) Promoting full and effective implementation of the FATF Recommendations by all countries through the global network of FATF-style regional bodies (FSRBs) and international organisations; ensuring a clear understanding of the FATF standards and consistent application of mutual evaluation and follow-up processes throughout the FATF global network and strengthening the capacity of the FSRBs to assess and monitor their member countries, including through standards training and outreach;

f) Responding as necessary to significant new and emerging threats and risks to the integrity of the financial system consistent with the needs identified by the international community, including the United Nations Security Council, the G20 and the FATF itself; preparing guidance as needed to facilitate implementation of relevant international obligations in a manner compatible with the FATF standards (e.g. continuing work on money laundering, terrorist financing, including new and emerging trends, and other misuse of the financial system relating to corruption);

g) Assisting jurisdictions in implementing financial provisions of the United Nations Security Council resolutions on terrorism and non-proliferation, assessing the degree of implementation and the effectiveness of these measures in accordance with the FATF mutual evaluation and follow-up process, and preparing guidance as needed to facilitate implementation of relevant international obligations in a manner compatible with the FATF standards;

h) Maintaining engagement with other international organisations and bodies, in particular the United Nations, to increase the outreach of the activities and objectives of the FATF;

i) Engaging and consulting with the private sector and civil society on matters related to the overall work of the FATF, through the annual consultative forum and other methods for maintaining regular contact to foster transparency and dialogue towards more effective implementation of the FATF standards;

j) Undertaking any new tasks agreed by its Members in the course of its activities and within the framework of this Mandate; and taking on these new tasks only where it has a particular additional contribution to make while avoiding duplication of existing efforts elsewhere.

Composition and Participation

4. In the development of the FATF standards, guidance and other policy, the FATF consults widely amongst its Members, Associate Members, the international financial institutions and other observer organisations, as well as with other stakeholders including the private sector

Members

5. FATF Members are the jurisdictions and organisations that have agreed to work together in the form of a task force toward the common objectives laid out in this mandate.

6. Member jurisdictions commit to:

- a) Endorse and fully implement the FATF Recommendations for combating money laundering and the financing of terrorism and proliferation, using guidance and other policy endorsed by the FATF where appropriate; and
- b) Undergo and actively participate in systematic 'peer reviews' ('mutual evaluations') and follow-up processes using the agreed assessment methodology and procedures; evaluations will be published by the FATF.

7. Member organisations commit to:

- a) Endorse and promote the effective implementation of the FATF Recommendations among their member jurisdictions; and
- b) Support systematic 'peer reviews' ('mutual evaluations') and follow-up processes using the agreed assessment methodology and procedures.

8. Member jurisdictions and organisations commit to:

- a) Pursue the development of the FATF standards, guidance and other policy for combating money laundering and the financing of terrorism and proliferation and other threats to the integrity of the international financial system through active participation in the work of the FATF (chairing meetings, drafting reports, etc.); and
- b) Work together to meet the objectives and carry out the tasks of this Mandate;

- c) Contribute to FATF outreach to the private sector, including through active participation in FATF initiatives with the private sector.

Associate Members

- 9. Associate Members are FATF-style regional bodies (FSRBs), as designated by the FATF, that participate in the work of the FATF.
- 10. The relationship between the FATF and its Associate Members is governed by a set of high-level principles.
- 11. The FATF Plenary takes the decision as to whether a body qualifies as an FSRB and is thus eligible to participate in the FATF as an Associate Member.
- 12. Associate Members commit to:
 - a) Endorse the FATF Recommendations, guidance and other policy as determined by the FATF for combating money laundering and financing of terrorism and proliferation;
 - b) Promote effective implementation of the FATF standards in their member jurisdictions through the conduct of systematic 'peer reviews' ('mutual evaluations') and follow-up processes using the agreed assessment methodology and procedures, and publish completed evaluations; and
 - c) Participate in the development of the FATF standards, guidance and other policy for combating money laundering and the financing of terrorism and proliferation and other threats to the integrity of the international financial system.

International Financial Institutions

- 13. Within and in furtherance of their respective mandates to promote financial and economic stability and development, the International Monetary Fund and the World Bank play a special role in the development, promotion and dissemination of measures for combating money laundering and the financing of terrorism and other related threats. In particular, the IMF and the World Bank:

- a) Contribute to the development of the FATF standards, guidance and other policy for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system;
- b) Help to promote the effective implementation of the FATF Recommendations through country assessments conducted in the context of the Financial Sector

Assessment Program using the agreed assessment methodology and promoting publication of detailed assessment reports; and;

c) Provide technical assistance and capacity building on combating money laundering, terrorist financing and other related threats.

Observers

14. The FATF works closely with international bodies and organisations that participate in the work of the FATF, in particular with the United Nations and with the Egmont Group of Financial Intelligence Units. Other bodies are eligible to participate in the work of the FATF as observers.

15. The decision as to whether a body may participate as an observer to the FATF is taken by the Plenary. The Plenary reviews the eligibility of observers periodically in light of FATF objectives.

16. Observers have a stated role related to combating money laundering and the financing of terrorism and proliferation and commit to:

- a) Endorse the FATF Recommendations, guidance and other policy for combating money laundering and the financing of terrorism and proliferation; and
- b) Contribute to the work of the FATF in accordance with their respective legal frameworks and policies.

About the Agenda

Reevaluating the international standards for money laundering and hawala systems with emphasis on the grey and black list countries.

The agenda predominantly focuses on the working of the FATF and its efforts in countering the funding of terror groups via money laundering and hawala systems through state cooperations.

The agenda shall be understood in the following components:

1. Money Laundering
2. Hawala Systems
3. Funding to terror groups and Non State Actors through Money Laundering and Hawala systems
4. Black & Grey list countries

Money Laundering

Money laundering involves disguising illegally obtained money or assets to make them appear lawful.

Money laundering is an illegal activity. It makes large amounts of money that's generated by criminal activity such as drug trafficking or terrorist funding appear to have come from a legitimate source. The money from the criminal activity is considered dirty and the process “launders” it to make it appear clean.

Financial institutions employ anti-money laundering (AML) policies to detect and prevent this activity.

- Money laundering disguises financial assets while protecting the illegal activity that produced them.
- Online banking and cryptocurrencies have made it easier for criminals to transfer and withdraw money without detection.
- The prevention of money laundering has become an international effort that includes terrorist funding among its targets.
- The financial industry also has its own set of strict anti-money laundering (AML) measures in place.

Money laundering is essential for criminal organizations that use illegally obtained money. Criminals deposit money in legitimate financial institutions to make it appear as though it comes from legitimate sources. Laundering money typically involves three steps although some stages may be combined or repeated.

- **Placement:** Injects the “dirty money” into the legitimate financial system.
- **Layering:** Conceals the source of the money through a series of transactions and bookkeeping tricks.
- **Integration:** Laundered money is disbursed from the legitimate account.

Money laundering can take one or more forms:

- **Structuring or smurfing:** Large allotments of illegally obtained cash are divided into multiple small deposits and spread over many accounts.
- **“Mules” or cash smugglers:** Cash is smuggled across borders and deposited into foreign accounts.
- **Investing in commodities:** This uses gems and gold that can be easily moved to other jurisdictions.
- **Buying and Selling:** Cash is used for quick turnaround investments in assets such as real estate, cars, and boats.
- **Gambling:** Gambling uses casino transactions to launder money.
- **Shell companies:** Inactive companies or corporations are established that exist on paper only.
- **Under invoicing - Over Invoicing:** Under-invoicing involves deliberately under-reporting the market value of a commercial transaction (a deal) on an invoice, whereas over-invoicing sees the value of the deal falsely overstated on the invoice.

Electronic Money Laundering

The rise of online banking institutions, anonymous online payment services, and peer-to-peer (P2P) transfers with mobile phones have made detecting the illegal transfer of money increasingly difficult. Proxy servers and anonymous software make integration, the third component of money laundering, difficult to detect because money can be transferred or withdrawn with little or no trace of an internet protocol (IP) address.

Money can be laundered through online auctions and sales, gambling websites, and virtual gaming sites where ill-gotten money is converted into gaming currency and then back into real, usable, and untraceable “clean” money.

Laundering may involve cryptocurrencies such as Bitcoin. They're not completely anonymous but they can be used in blackmail schemes, the drug trade, and other criminal activities due to their relative anonymity compared with fiat currency.

Hawala Systems

Hawala is an informal method of transferring money without any physical money actually moving. It is described as a "money transfer without money movement." Another definition is simply "trust."

Hawala is used today as an alternative remittance channel that exists outside of traditional banking systems. Transactions between hawala brokers are made without promissory notes because the system is heavily based on trust and the balancing of hawala brokers' books.

The system primarily works on large cash transactions that are not to be traced by the authorities within the sovereign borders of a state and/or region.

- Hawala (sometimes referred to as underground banking) is a way to transmit money without any currency actually moving.
- Hawala networks have been used since ancient times. Today they are found among expats of developing countries sending remittances home.
- Hawala provides anonymity in its transactions, as official records aren't kept and the source of money can't be tracked.
- Hawala is also finding a footing in the world of financial technology, which grants access to money transfers among the unbanked and underbanked populations of the world.
- Some countries, like India, have made hawala illegal due to its informal nature and absence of regulation or oversight.

Hawala originated in South Asia during the 8th century and is used throughout the world today, particularly in the Islamic community, as an alternative means of conducting funds

transfers.¹ Unlike the conventional method of transferring money across borders through bank wire transfers, money transfer in hawala is arranged through a network of "hawaladars" or hawala dealers.

Hawala dealers keep an informal journal to record all credit and debit transactions on their accounts. Debt between hawala dealers can be settled in cash, property, or services. A hawaladar who doesn't keep their end of the deal in the implied contractual system of hawala will be tagged as one who has lost their honor and will be excommunicated from the network or region.

Migrant workers who frequently send remittances to relatives and friends in their countries of origin find the hawala system advantageous. Hawala facilitates the flow of money between poor countries where formal banking is too expensive or difficult to access.

The very features that make hawala an attractive avenue for legitimate patrons also make it attractive for illegitimate uses. Thus, hawala is frequently referred to as underground banking. This is because money launderers and terrorists take advantage of this system to transfer funds from one location to another.

In addition, corrupt politicians and the wealthy who would prefer to evade taxes use hawala to anonymize their wealth and activities. Cash generated from business transactions that aren't recorded can't be taxed.

Hawala is also used to fund terrorism, which makes it more difficult to stop terrorism. A large portion of discovering terrorist cells involves tracing the movement of money, as terrorist organizations are funded and need money to buy weapons and feed their people. Hawala transactions make this movement of money easy as there is no paper trail from the source of funds to the terrorist organization.

Because hawala transfers aren't routed through banks and, hence, aren't regulated by governmental and financial bodies, many countries have been led to re-examine their regulatory policies in regard to hawala.

For example, in India, the Foreign Exchange Management Act (FEMA) and the Prevention of Money Laundering Act (PMLA) are the two major legislative systems that

deter the use of hawala in the country. India prohibits informal hawala transactions and people from entering into them by strictly defining the types of transactions not allowed, which include the creation or procurement of any asset outside India.

In Pakistan, informal Hawala transactions are prohibited as well. The country specifies what entities are allowed to make remittances and currency exchanges. There are laws in place that require money changers to register and comply with regulations to become foreign exchange companies within two years and if they don't register, they aren't allowed to operate.

Afghanistan's more than 300 money exchangers have organized themselves into a self-regulatory body that has created rules and regulations that all members must comply with. It has been more difficult for the country to bring unregistered money exchangers into the fold to prevent illegal activities through hawala exchanges.

Some fintech companies are implementing the hawala system in providing financial services to the unbanked and underbanked populations of the world. Mobile banking and payment platforms, such as Paga and M-Pesa, are revolutionizing the financial system in certain African countries by promoting financial inclusion through the hawala system of financial services.

Funding to Terror and NSAs

Hawalas and other similar service providers (HOSSPs) arrange for transfer and receipt of funds or equivalent value and settle through trade, cash, and net settlement over a long period of time. What makes them distinct from other money transmitters is their use of non-bank settlement methods. This typology seeks to provide a facts-based review of the extent of their vulnerability to money laundering and terrorist financing.

This typology reviews three major types of HOSSPs:

- pure traditional (legitimate) ones
- hybrid traditional (often unwitting) ones
- and criminal (complicit) ones

Distinct money laundering / terrorist financing risks apply to each and there are several reasons why HOSSPs continue to pose a money laundering and terrorist financing vulnerability. These include:

- a lack of supervisory will or resources
- settlement across multiple jurisdictions through value or cash outside of the banking system in some cases
- the use of businesses that are not regulated financial institutions
- the use of net settlement and the commingling of licit and illicit proceeds

While the settlement through value or trade that masks the individual fund transfers is a source of vulnerability, the most significant reason for concern is lack of supervisory resources and commitment to effective regulation.

Black & Grey List Countries

The FATF identifies jurisdictions with weak measures to combat money laundering and terrorist financing (AML/CFT) in two FATF public documents that are issued three times a year. The FATF's process to publicly list countries with weak AML/CFT regimes has proved effective. As of February 2025, the FATF has reviewed 139 countries and jurisdictions and publicly identified 114 of them. Of these, 86 have since made the necessary reforms to address their AML/CFT weaknesses and have been removed from the process.

High-Risk Jurisdictions subject to a Call for Action (i.e. "black list")

This statement, (*previously called "Public Statement"*), identifies countries or jurisdictions with serious strategic deficiencies to counter money laundering, terrorist financing, and financing of proliferation. For all countries identified as high-risk, the FATF calls on all members and urges all jurisdictions to apply enhanced due diligence, and in the most serious cases, countries are called upon to apply counter-measures to protect the international financial system from the ongoing money laundering, terrorist financing, and proliferation financing risks emanating from the country.

Countries in Black List:

1. Democratic People's Republic of Korea (North Korea)
2. Iran
3. Myanmar

Jurisdictions under Increased Monitoring (i.e. "grey list")

This statement identifies countries that are actively working with the FATF to address strategic deficiencies in their regimes to counter money laundering, terrorist financing, and proliferation financing. When the FATF places a jurisdiction under increased monitoring, it means the country has committed to swiftly resolve the identified strategic deficiencies within agreed timeframes and is subject to increased monitoring.

Countries in Grey List:

1. Algeria
2. Angola
3. Bolivia
4. Bulgaria
5. Burkina Faso
6. Cameroon
7. Cote d'Ivoire
8. Democratic Republic of Congo
9. Haiti
10. Kenya
11. Lao People's Democratic Republic
12. Lebanon
13. Monaco
14. Mozambique
15. Namibia
16. Nepal
17. Nigeria
18. South Africa
19. South Sudan
20. Syria
21. Venezuela
22. Vietnam
23. Virgin Islands (UK)
24. Yemen



Questions to think upon

1. Why do we require a reviewed international standard for hawala and money laundering?
2. How can terror funding be cut down without state cooperation?
3. What are the methods to identify and persecute financiers of terror and NSAs?
4. What all legal instruments can be used to revamp the economic breakdown on terror financing?
5. How can crypto be used, regulated and controlled to aid governments and welfare?
6. What auditing and review mechanisms can be used to set up/rectify the international standards?
7. Which international/regional organisation can assist the FATF in various aspects of terror financing especially to groups such as Hamas, Hezbollah, LeT and TrF?
8. Can the FATF set up new tribunals or special courts for the prosecution of terror financing states/groups/individuals? If yes, how will these tribunals/courts work? If not, why not and what is the alternative?

Links for Further Research

1. <https://www.fatf-gafi.org/en/the-fatf.html>
2. <https://www.fatf-gafi.org/en/the-fatf/mandate-of-the-fatf.html>
3. <https://www.fatf-gafi.org/en/countries/black-and-grey-lists.html>
4. <https://www.investopedia.com/terms/h/hawala.asp#:~:text=Hawala%20is%20an%20informal%20method,outside%20of%20traditional%20banking%20systems.>
5. <https://www.investopedia.com/terms/m/moneylaundering.asp>
6. <https://www.fatf-gafi.org/en/countries/global-network/committee-of-experts-on-the-evaluation-of-anti-money-laundering-.html>
7. <https://www.fatf-gafi.org/en/countries/global-network.html>
8. <https://www.fatf-gafi.org/en/countries/global-network/middle-east-and-north-africa-financial-action-task-force--menafa.html>
9. <https://www.fatf-gafi.org/en/topics/Terrorist-Financing.html>