



GROUP OF INTERNATIONAL FINANCE CENTRE SUPERVISORS

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FATF
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FRANCE

Dear Sir or Madam,

RE: Comments of GIFCS on the Proposed Revisions to R.16/INR.16

We write in response to the aforementioned consultation paper and welcome the opportunity to participate therein.

The GIFCS understands the importance of Recommendation 16 and is supportive of the FATF's attempts to modernise it in accordance with its 'same activity, same risk, same rules' principle. The GIFCS treats the illicit flow of funds – both across and within international borders – extremely seriously, and appreciates the FATF's attempts to prevent it without damage to financial inclusivity.

Nevertheless, we are concerned that the proposals set out in the consultation may be more onerous than is absolutely essential and take the requirements a step further than is required at the present time. The proposed revisions to the Recommendation are significant and broaden its scope substantially. In particular, we are concerned that the additional requirements will lead to unintended consequences through increased costs and the risk of financial exclusion, especially for smaller and less wealthy economies and contrary to the stated objectives within the consultation. We therefore suggest certain changes in the consultation attached, with our concerns primarily motivated by inclusivity considerations.

Whilst countering the financing of terrorism and preventing fraud of various kinds are of the utmost importance to the GIFCS, we also place great value in maintaining and broadening access to global finance allowed for by technological and economic development. If these priorities are to be balanced, then a proportionate approach to the regulation of payment transparency is required. Many of our member states are small in population, and do not enjoy the economies of scale which dilute the cost of additional regulation. By their nature, our members tend to be adopters, rather than originators, of technology and therefore commend the FATF's focus on 'technology-neutral' revisions to the rules. Avoiding the requirement for specific technological developments allows citizens greater access to the financial system, especially in these smaller states. We encourage the FATF to keep these considerations in mind throughout the revision process, both to Recommendation 16 and to subsequent amendment consultations.

As regulatory burdens increase across the globe, so do the competitive advantages accrued by larger and wealthier countries with greater resources to invest. The FATF should aim to ensure that compliance with its Recommendations does not become so burdensome that smaller and less wealthy countries become economically inoperable for financial services providers. We do not wish to see the emergence of a two-tier financial system, in which some nations implement the requirements in full while others either are unable to meet them in the prescribed timescales or are unwilling to impose the full burden of doing so within their jurisdiction because of the costs and risk that providers will choose to exit their market. We do not think such a system would be in the interest of the global community. In this regard, we feel that the organisation should continue to prioritise both technological neutrality and financial inclusivity, with due regard to the cost and benefits of additional regulation. To ignore these issues would add to the already considerable disparity of access enjoyed by citizens of different countries. In particular, we are concerned that a more burdensome regulatory regime will discourage payment service providers from operating in microstates and we have seen some evidence of this already where individual providers have withdrawn services ('de-risked') from smaller economies or simply excluded them from their operating services. Furthermore, burdensome or unattainable regulatory requirements may lead to the emergence of bad actors and payment practices in jurisdictions that struggle with implementing the standards, increasing the risk of ML and TF.

Ultimately, GIFCS members support the intention behind the proposed revisions, subject to certain concerns outlined in our response and would welcome a relaxation of some of the more onerous proposals within the consultation which risk financial exclusion. We applaud the FATF's

attempts to improve transparency around the payment process, and trust that our concerns around financial inclusivity will be given due regard.

Our specific responses to the individual questions are set out in the table attached.

Yours sincerely,

John Aspden, Chair

For and on behalf of GIFCS