April 9, 2021

The Financial Action Task Force

Japanese Bankers Association

# Comments on the *FATF Guidance on proliferation financing risk assessment and mitigation*

The Japanese Bankers Association[1] (the "JBA") appreciates the opportunity to comment on the Financial Action Task Force's ("FATF") Public Consultation on *FATF Guidance on proliferation financing risk assessment and mitigation* ("the Consultative Document"), released on March 1, 2021.

## I. General Comments

It's beneficial for making the guidance explicit that financial institutions should have in place processes to identify, assess, monitor, manage and mitigate proliferation financing risks, which may be done within the framework of their existing targeted financial sanctions and/or compliance programs, as well as national supervisors should oversee financial institutions by understanding it well. While this theme is present in the amended Interpretive Notes and is diluted throughout the guidance, it would be much more effective if featured prominently in the executive summary of the guidance in order for financial institutions not to create a duplicative risk assessment programs by misunderstanding it.

Although the guidance states it, in the context of Recommandation1 and the guidance, the proliferation financing risk refers strictly and only to the potential breach, non-implementation or evasion of the targeted financial obligations referred to in Recommendation 7, the obligations of which apply to two country-specific regimes for DPRK and Iran. These jurisdictions are subject to economic sanctions and some financial institutions already have comprehensive sanctions and AML risk assessment program requirements and already conduct them.

A well-designed risk assessment program looks at the full range of illicit finance whether it relates to proliferation finance, AML, sanctions, human trafficking, narcotics, etc. A proper financial crime program looks holistically across threat areas and develops and implements controls that can deal with the ever-changing world of illicit finance.

[1] The Japanese Bankers Association (JBA) is a premier financial organization whose members consist of banks, bank holding companies and bankers associations in Japan. As of April 9, 2021, The JBA has 115 Full Members (banks), 3 Bank Holding Company Members (bank holding companies), 73 Associate Members (banks & bank holding companies), 58 Special Members (regionally-based bankers associations) and one Sub Associate Member for a total of 250 members.

## II. Specific comments

### *1．Objectives and scope/ Paragraph 4*

This Guidance consists of the following three sections: “Section 1: Assessment of proliferation financing risks”, “Section 2: Mitigation of proliferation financing risks” and “.Section 3: Supervision of proliferation financing risk assessment and mitigation”. It would be more effective if Section 1 describe the guidance for countries as explicitly distinguished from for financial institutions and DNFBPs as is the case with Section 2.

### *２．Box 1. Question for consultation*

It would be much more effective if the introduction section describe the guidance for countries as explicitly distinguished from for financial institutions and DNFBPs in addition to the distinction between sanctions-centered PF and broader PF activity outside the context of targeted jurisdictions/designated persons.

### *３．Section 1: Assessment of proliferation financing risks/Paragraph 28*

We understand that the source of funding for proliferation financing is the country, (which is different from money laundering but recognized as a shared typology with country sponsored terrorism – e.g. Iran) but the means of illicit funds transfer are not dissimilar, as this paragraph indicates, to other types of illicit activity, including the use of fronts/shells etc.

### *４．Section 1: Assessment of proliferation financing risks/Paragraph 30*

We understand that there are many thousands of dual-use goods on the CCL (Commerce Control List), for example, (many of which are quite benign) it is the exporter rather than the bank involved that has the responsibility for identification and classification of these goods. We think it is not reasonable to expect financial institutions to mine transactional data involving dual use goods as part of a risk assessment process.

(End)