



FATF's Grey List

For Prelims: FATF, G7, OECD, European Commission, Gulf Cooperation Council

For Mains: Money Laundering, India and its neighbourhood, Important international institutions

Why in News?

Recently, Pakistan got a reprieve from the [Financial Action Task Force \(FATF\)](#) as FATF announced that the country could be removed from the grey list. FATF is expected to decide whether to take Pakistan off the 'grey' list at the end of its plenary session in Berlin in October.

- Pakistan has been on the FATF grey list continuously since June 2018.

What is the Financial Action Task Force (FATF)?

▪ About:

- The FATF is an **inter-governmental body** that sets international standards seeking to prevent **international financial crimes that aid terrorism**.
- The FATF was **established** in July 1989 by a [G-7 Summit in Paris](#), initially to examine and develop measures to combat money laundering.

▪ Mandate:

- After the 9/11 attacks, the FATF in October 2001 expanded its mandate to incorporate efforts to **combat terrorist financing**.
- In April 2012, it added efforts to **counter the financing of proliferation of weapons of mass destruction**.
- The FATF has developed the **FATF Recommendations, or FATF Standards**, which ensure a **co-ordinated global response to prevent organised crime, corruption and terrorism**.
 - **Over 200 jurisdictions** around the world have **committed to the FATF Recommendations** through the global network of nine FATF-Style Regional Bodies (FSRBs) and FATF memberships.

▪ Composition:

- The FATF currently comprises **37 member jurisdictions** and two regional organizations ([European Commission](#) and [Gulf Cooperation Council](#)), representing most major financial centers in all parts of the globe.
 - **India** has been **a member of the FATF since 2010**.
 - **India** is also a member of its regional partners, the [Asia Pacific Group \(APG\)](#) and **the Eurasian Group (EAG)**.

▪ Headquarters:

- Its Secretariat is located at the [Organisation for Economic Cooperation and Development \(OECD\)](#) headquarters in Paris.

▪ Lists under FATF:

- **Grey List:**
 - Countries that are considered **safe haven for supporting terror funding and**

money laundering are put in the **FATF grey list**.

- This inclusion serves as a warning to the country that it may enter the blacklist.
- **Black List:**
 - Countries known as **Non-Cooperative Countries or Territories (NCCTs)** are put in the **blacklist**. These countries support **terror funding and money laundering activities**.
 - The FATF revises the blacklist regularly, adding or deleting entries.
 - Currently, **Iran and Democratic People's Republic of Korea (DPRK)** are under High-risk Jurisdiction or black list.
- **Sessions:**
 - The **FATF Plenary is the decision-making body** of the FATF.
 - It meets **three times per year**.

What is the grey list, and why is Pakistan on it?

- **About:**
 - **Grey listing** means **FATF has placed a country under increased monitoring to check its progress on measures** against **money laundering and terrorism financing**.
 - The **“grey list”** is also known as the **“increased monitoring list”**.
- **Countries in Grey List:**
 - As of March 2022, there are 23 countries on the FATF’s increased monitoring list — officially referred to as **“jurisdictions with strategic deficiencies”** — that include **Pakistan, Syria, Turkey, Myanmar, Philippines, South Sudan, Uganda, and Yemen**.
- **Removal from the List:**
 - To be pulled out of the grey list, **a country** has to **fulfill the tasks recommended by the FATF**, for instance, confiscating properties of individuals associated with terrorist groups.
 - If the FATF is satisfied with the progress, it removes the country from the list.
 - The FATF most recently took **Zimbabwe**, and before that **Botswana and Mauritius, off the grey list**.
 - Zimbabwe has strengthened the effectiveness of its AML/CFT regime and addressed related technical deficiencies to meet the commitments in its action plan regarding the strategic deficiencies that the FATF identified in October 2019.
 - **AML/CFT** refers to **“Anti-Money Laundering/Combating the Financing of Terrorism”**.
 - In the case of Pakistan, it first entered the list in 2008, left it, and then was on it from 2012 to 2015. Since 2018, it has not been removed from the list.
 - The FATF had issued the 27-point action plan after placing Pakistan on the ‘Grey List’ in June 2018. The action plan pertains to curbing money laundering and terror financing. A parallel action plan was handed out by the FATF’s regional partner - the Asia Pacific Group (APG) - in 2019.

How does grey-listing impact a country?

- If a country is on grey list, it signals to the **global financial and banking system about increased risks in transactions with the country** in question.
- Also, given that major financial institutions like the **IMF** and **World Bank** are affiliated with FATF as observers, a grey-listed country faces **complications in accessing international lending instruments**.
 - One instance is of a USD 6 billion IMF loan contract from July 2019 that emphasized the need for Pakistan to comply with the FATF’s action.
 - Pakistan’s economy **is in poor shape**, and it is staring at low reserves of foreign exchanges, despite loan assistance from Saudi Arabia and China.

Source: IE

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