

# What It Is Blacklisting?

## What It Is, How It Works, & FATF Blacklisted Countries

There are certain countries in the world that the [Financial Action Task Force](#) judges not to be making concerted efforts to cut down on financial crime. These countries end up on the blacklist, the FATF's record of countries that present high risks of money laundering, terrorism financing, or financing the proliferation of WMDs.

So exactly what is the blacklist? How does the FATF come up with it? What countries are currently on it? And how should other countries deal with the ones on the blacklist? We'll discuss the answers in this article.

### What is Blacklisting?

In terms of AML, a blacklist is when the Financial Action Task Force (FATF) determines a country does not meet its standards for preventing financial crimes—such as money laundering, terrorist financing, and proliferation financing—and is also not making any significant attempts to do so.

The FATF blacklist is officially called the “List of High-Risk Jurisdictions Subject to a Call for Action.”

### Blacklisting, Whitelisting, and Greylisting: The Differences

**Greylisting vs. blacklisting** comes down to a judgment as to whether a country that doesn't meet the FATF's anti-financial crime criteria is honestly trying to change to be compliant. If the country is—including agreeing to increased FATF monitoring and meeting certain deadlines—it's put on the greylist. If not, it's put on the blacklist.

**The whitelist vs. the blacklist** is a more extreme contrast. The whitelist represents countries that fully comply with FATF and are earnestly working to maintain that compliance. It's not an official list, instead consisting of all countries, not on the blacklist or greylist.

**Blacklisting** is reserved for countries that have financial crime-fighting systems that function well below the FATF's guidelines and don't show many signs of improvement. Countries usually need first to be promoted from the blacklist to the greylist by making plans for FATF-supervised financial reforms, and then to the whitelist later if their reforms are successful and timely.

### So, summaries of the FATF's blacklist, whitelist, and greylist are as follows:

- **Blacklist:** A country isn't complying with the FATF's standards for preventing financial crime, and isn't making any serious efforts towards compliance.
- **Whitelist:** A country is meeting FATF guidelines on fighting financial crime, and is making a continued effort to do so. An unofficial list that includes all countries not currently on the blacklist or greylist.
- **Greylist:** A country is under greater FATF supervision as it works to improve its ability to prevent financial crime, in accordance with the FATF's targets and set timelines.

## **But how does a country end up getting blacklisted? We'll explain that next.**

### **How Does Blacklisting Work?**

The FATF updates blacklists and greylists three times per year. It depends on evaluations of how closely each country's systems for fighting financial crime align with FATF benchmarks. An assessment judges both the technical and effective (i.e., practical) facets of a country's anti-financial crime mechanisms.

#### **Technical**

The FATF has 40 written recommendations on how countries should set up their laws, regulations, and enforcement instruments to effectively fight [financial crime](#). The technical part of the assessment looks at how many of these goals a country has met, and how completely.

For each recommendation, a country is rated compliant, largely compliant, partially compliant, or non-compliant.

#### **Effectiveness**

The effectiveness part of the assessment looks at how well a country is combating financial crime from a practical standpoint. It judges this based on 11 immediate outcomes that the FATF looks for to see if countries are working towards higher-level goals of strengthening economies and financial systems against money laundering, terrorist financing, and proliferation financing.

For each outcome, a country's effectiveness is rated as high, substantial, moderate, or low.

A downloadable version of the complete methodology can be found here: [FATF Methodology for assessing compliance with the FATF Recommendations and the effectiveness of AML/CFT systems](#).

### **What is FATF Blacklisting?**

The FATF is an intergovernmental organization designed to develop and set standards for [fighting financial crimes](#)—such as money laundering, terrorism financing, and proliferation financing—worldwide. So it acts as an authoritative judge of whether a country's mechanisms and efforts to limit financial crime are working effectively.

If the FATF puts a country on its blacklist, it has judged its systems for fighting financial crime to be severely inadequate and has concluded that no noticeable efforts are being made to improve them. Accordingly, it strongly encourages member states to conduct [enhanced due diligence](#) if dealing with that country. In some extreme situations, the FATF will urge member countries to actively take steps to protect the international financial system from financial crime happening in a blacklisted country.

### **FATF Blacklist Countries List**

For organizations looking to do a blacklist check, the FATF's blacklist and greylist are [available on its website](#). These lists are updated three times a year, so some countries on the blacklist could get promoted to the greylist if they commit to working with the FATF to reform their anti-financial crime systems.

Likewise, countries on the greylist could be demoted to the blacklist if they fail to implement their pledged reforms in a timely manner. On the other hand, they could be removed (i.e., promoted to the whitelist) if they meet their reform goals and timetables set in conjunction with the FATF.

As of June 2023, there are three blacklisted countries:

- North Korea
- Iran
- Myanmar

### **Make FATF Blacklist Lookups Part of Your Due Diligence Regime**

Being aware of which countries are blacklisted by the FATF is a critical step in the [due diligence](#) process of AML, whether onboarding or maintaining clients. That's why it's important to check the blacklist and greylist at least once every four months (usually February, June, and October) to see which nations the FATF recommends conducting enhanced due diligence or financial countermeasures against—or has at least put under stricter monitoring.

Some [Regtech tools](#) have a built-in blacklist checker that will automatically screen clients for associations with countries on the FATF's greylist or blacklist.

# **Financial Action Task Force (FATF)**

## **Purpose & Recommendations to Follow**

[Back to Fraud AML Dictionary](#)

How do you know if a country or financial institution has [an effective AML program](#)? The FATF can probably tell you. The Financial Action Task Force, or FATF, is an international organization that coordinates global efforts to prevent money laundering. In addition, it aims to curb the financing of both terrorism and trafficking in weapons of mass destruction.

To this end, the Financial Action Task Force sets recommendations for countries and their financial institutions to follow in their fight against the financing of crime. These standards cover topics like how to monitor transactions, give authorities sufficient investigative powers, and develop coordinated national and international AML systems.

We'll start by recapping in more detail what FATF is, as well as what FATF stands for.

### **What Does FATF Stand For?**

“FATF” stands for “Financial Action Task Force.” In French, it's known as “GAFI,” which stands for “Groupe d'Action Financière.”

### **What is the Financial Action Task Force (FATF)?**

The Financial Action Task Force is an intergovernmental organization that develops recommendations and techniques for identifying and preventing the financing of criminal activities. It also lobbies national governments to adopt legislative and regulatory reforms to comply with its standards.

### **What's the Purpose of the FATF?**

The original purpose of the FATF, when it was created in 1989, was to address growing concerns about money laundering's impact on financial institutions and national/international banking systems.

Based on the [FATF's 40 Recommendations](#), the organization continues to do so by studying new forms of money laundering, as well as new hotspots for the activity. It also reviews the effectiveness of national and international regulatory measures designed to prevent money laundering and lays out recommendations for next steps in this area.

After the terrorist attacks on the US in September of 2001, the functions of the Financial Action Task Force expanded to include developing techniques to prevent the financing of terrorism. The Financial Action Task Force's functions were broadened again in 2012 to confront financial crime being used for new threats, such as trafficking in weapons of mass destruction.

### **Financial Action Task Force (FATF) Greylist, Blacklist, and Whitelist**

Three times per year, the FATF publishes lists of countries separated based on their level of adherence to FATF standards. There are three lists colloquially known as the blacklist, greylist, and whitelist.

**FATF Blacklist:** Known officially as "[High-Risk Jurisdictions Subject to a Call for Action](#)," the blacklist contains what the FATF deems to be high-risk countries for financial crime. The countries on this list are judged to have severe shortcomings in their laws and other regulatory systems for preventing money laundering, terrorism financing, and WMD proliferation financing. FATF member countries are urged to exercise enhanced due diligence, or even actively apply AML countermeasures, in dealing with these territories.

**FATF Greylist:** Also called "[Jurisdictions under Increased Monitoring](#)," the [greylist](#) contains countries that are actively working with the FATF to fix gaps in their financial systems that could allow for large-scale crime. These countries are under increased FATF supervision and are given a timeframe within which to achieve certain AML objectives. However, the FATF advises its member nations to apply only a risk-based approach, as opposed to enhanced due diligence, when dealing with these countries.

**FATF Whitelist:** While not an official Financial Action Task Force list, the whitelist encompasses all countries and territories, not on the blacklist or greylist. These jurisdictions successfully maintain financial systems that comply with the FATF's AML recommendations.

The purpose of the blacklist and greylist is to serve as a public warning about the potential for being victimized by financial crime when dealing with the listed countries. Also, in doing so, these lists incentivize the named countries to strengthen their AML/CFT programs to improve the reputations of their national economies.

### **How the Financial Action Task Force (FATF) Handles Cryptocurrency**

The Financial Action Task Force's [crypto standards](#) were first implemented in June 2019. This was after the FATF adopted the term "virtual asset" (VA) to refer to tradable digital representations of value (such as cryptocurrencies), and "virtual asset service provider" (VASP) to refer to any person or business that exchanges, transfers, safekeeps, or facilitates the sale of virtual assets.

The FATF has two main concerns regarding virtual assets. The first is that conventions commonly used with virtual assets, such as peer-to-peer transactions that avoid regulated intermediaries, reduce transparency in financial flows. This can make virtual assets more vulnerable to being used to finance criminal activities.

The second is that the potential mass adoption of virtual assets – especially as alternatives to national fiat currencies – could amplify these issues. For example, it could make it very easy to launder illicit money through

multiple different types of virtual assets if one or more of those currencies don't have sufficient regulatory oversight.

The FATF aims to have VAs and VASPs subject to [AML regulations](#), either as their own class of entities or lumped together with traditional financial entities. These controls include the so-called FATF "travel rule," which states that VASPs must collect, store, and exchange information regarding parties involved in virtual asset transactions.

This information must be available to be turned over to the appropriate authorities when necessary.

### **FATF Recommendations that Organizations Need to Follow**

The [Financial Action Task Force's 40 Recommendations](#) are a set of guidelines for countries to follow in order to prevent money laundering, including for the financing of both terrorism and the trafficking of weapons of mass destruction. Generally, they are designed to direct countries in:

- Coordinating national institutions to identify a country's risks for financial crime
- Giving authorities the power to monitor for, and take action against, financial crime
- Taking preventive measures against financial crime at the institutional level
- Achieving transparency regarding [beneficial ownership](#) arrangements
- Cooperating with international authorities to combat globe-spanning financial crime

Financial institutions should have a vested interest in cooperating with their national governments to adhere to these standards. Failure to develop and enforce effective AML policies can lead to a country being put on the Financial Action Task Force's greylist or blacklist.

This can make it more difficult for a financial institution in that country to do business. The institution will likely be under increased international oversight and may lose customers as the FATF warns the public against doing business in the institution's home country. The institution may also find its business obstructed by sanctions and other proactive AML countermeasures.

### **Stay FATF Compliant with Unit21**

For financial institutions, complying with the FATF's standards (and cooperating with federal governments in doing so) has a positive ripple effect. It builds and maintains trust with clients, especially internationally, allowing for smoother business dealings without punitive obstructions or oversight.

Find out how Unit21's platform assists [compliance management](#) to help financial institutions adhere to the FATF's guidelines by [booking a demo](#) with us today.

- [Blacklisting: What It Is, How It Works, & FATF Blacklisted Countries \(unit21.ai\)](#)
- [Financial Action Task Force \(FATF\): Purpose & Recommendations to Follow \(unit21.ai\)](#)