

# FINANCIAL INTELLIGENCE UNIT

Republic of Palau

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## OVERVIEW: the Financial Action Task Force Standards, Palau's Obligations as a Member of the Asia/Pacific Group, and Impact of Non-Compliance

Established in 1989, the FATF is the international anti-money laundering and counter financing of terrorism (“AML/CFT”), and anti-proliferation financing standard-setting body. It now has 39 member states (including the United States); 30 observers (including the Organization for Economic Co-operation and Development [“OECD”], the Asia Development Bank [“ADB”], the World Bank, the International Monetary Fund [“IMF”], and various U.N. Entities); and 9 Associate Members (including Asia/Pacific Group, to which both Palau and the United States are members), which have their own membership and observers.<sup>1</sup> Member states are subject to the FATF’s mutual evaluation process, which assesses member states’ AML/CFT and anti-proliferation financing regime against the FATF Standards.<sup>2</sup>

APG was established in 1997 by 13 founding members who agreed that money laundering was an issue that required global action.<sup>3</sup> That same year APG members agreed that the FATF 40 Recommendations were guiding principles to create an effective anti-money laundering framework and that members would implement the Recommendations based on their own values and frameworks.<sup>4</sup> APG has since included the FATF standards around anti-terrorism and proliferation financing, and the 11 Immediate Outcomes. APG members are required to commit to the six requirements of membership, which includes, among others, committing to the FAFT Standards “without reservation” and developing and passing legislation to combat money laundering, and terrorism and proliferation financing.<sup>5</sup>

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<sup>1</sup> “FATF Members.” FATF, accessed February 10, 2024, <https://libanswers.snhu.edu/faq/48009#:~:text=General%20format,access%20date%20if%20available%2C%20URL>

<sup>2</sup> “Mutual Evaluation,” FATF, accessed February 10, 2024, <https://www.fatf-gafi.org/en/topics/mutual-evaluations.html#:~:text=During%20a%20mutual%20evaluation%2C%20the,is%20a%20country's%20effectiveness%20ratings.>

<sup>3</sup> Asia/Pacific Group. *APG Terms of Reference* (Sydney, 2023) 4 <https://apgml.org/about-us/page.aspx?p=c735e62b-802b-4895-bda8-b7cf81766943>

<sup>4</sup> Asia/Pacific Group. *APG Terms of Reference* (Sydney, 2023) 4 <https://apgml.org/about-us/page.aspx?p=c735e62b-802b-4895-bda8-b7cf81766943>

<sup>5</sup> Asia/Pacific Group. *APG Terms of Reference* (Sydney, 2023) 6 <https://apgml.org/about-us/page.aspx?p=c735e62b-802b-4895-bda8-b7cf81766943>

APG has 42 member states, with 12 members who are also members of the FATF<sup>6</sup>; 8 observer member states<sup>7</sup>; and 33 observer organizations<sup>8</sup>. These observer organizations include the Asia-Pacific Economic (“APEC”) Cooperation Secretariat, ADB, ADB/OECD Anti-Corruption Initiative for Asia-Pacific, Pacific Islands Chiefs of Police (“PICP”), Pacific Islands Forum Secretariat (“PIFS”), Pacific Islands Law Officers’ Network (“PILON”), the United Nations office of Drug and Crime (“UNODC”), and the World Bank.<sup>9</sup>

Palau joined APG in 2002. As a member, it is required to comply with the membership requirements and is subject to the APG mutual evaluation process, which evaluates the country’s compliance against the FATF Standards. It is a 14-month process in which assessors from other member states evaluate Palau’s AML/CFT regime against the FATF standards for both technical and effective compliance, culminating in a report that goes before the APG membership for debate and adoption. Palau has gone through two mutual evaluations – one in 2008 and one in 2018<sup>10</sup> – with its next round set to begin in 2028. Due to its 2018 ratings of non- and partial compliance with the Recommendations, Palau is currently in the expedited follow-up process. This means that Palau has to report on its progress towards compliance with the FATF Standards every June, and seek re-ratings on non-compliant and partially compliant recommendations.

As an APG member, Palau is expected to work towards compliance with the FATF Standards. Non-compliance or reversion of compliance with the FATF Standards can not only result in grey- or black-listing, but can also result in additional pressure from the APG membership to comply throughout the mutual evaluation and follow-up process. Based on the experiences of other countries in the region, this can impact not only Palau’s reputation internationally, but could impact interest rates on loans from international funding providers, the ability to obtain loans or grants from international funders, correspondent banking relationships, use of Palau debit cards abroad, and, as a result of the heightened international pressure, require a whole government approach to address deficits. Finally, and importantly, this could further impact relationships with funding and technical assistance partners, including from those listed as observer organizations to both APG and FATF.

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<sup>6</sup> “APG Members and Observers, Members, Overview of APG Members.” APG accessed February 10, 2024, <https://apgml.org/members-and-observers/page.aspx?p=8c32704a-5829-4671-873c-7b5a23ced347>

<sup>7</sup> “APG Members and Observers, Observers, Observer Jurisdictions.” APG, accessed February 10, 2024: <https://apgml.org/members-and-observers/page.aspx?p=5b94a42a-cbbe-4915-adc0-0c8b337821da>

<sup>8</sup> “APG Members and Observers, Observers, and Observer Organizations” APG, accessed February 19, 2024: <https://apgml.org/members-and-observers/page.aspx?p=adbf954c-3fb5-415e-bc11-b333b61316d0>

<sup>9</sup> *Id.*

<sup>10</sup> “Documents, Search Results for Palau, Palau MER 2008 and Palau MER 2008” APG, accessed February 10, 2024: <https://apgml.org/documents/search-results.aspx?keywords=palau>

## Additional Resources

- FATF Website: <https://www.fatf-gafi.org/en/home.html>
- APG Website: <https://apgml.org/default.aspx>
- FATF Recommendations: <https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Fatf-recommendations.html>
- FATF Methodology: <https://www.fatf-gafi.org/en/publications/Mutualevaluations/Fatf-methodology.html>
  - Used to assess countries against FATF Recommendations and Immediate Outcomes
- APG Mutual Evaluation Process: <https://apgml.org/about-us/page.aspx?p=ac38f87e-2341-43e6-84b2-4dbd6346f6c3#:~:text=How%20does%20the%20APG%20conduct,to%20as%20%20%E2%80%9Cmutual%20evaluations%20%9D>
  - Process for both the Mutual Evaluation and Follow-up process. To access the APG Third Round Mutual Evaluation Procedures, please use the search function.
- Palau 2018 Mutual Evaluation Report: <https://apgml.org/documents/search-results.aspx?keywords=palau>