

**Mexico: Report on the Observance of Standards and Codes—
FATF Recommendations for Anti-Money Laundering and
Combating the Financing of Terrorism**

This Report on the Observance of Standards and Codes on the FATF Recommendations for Anti-Money Laundering and Combating the Financing of Terrorism for Mexico was prepared by a staff team from the International Monetary Fund, using the assessment methodology adopted by the FATF in February 2004 and endorsed by the Executive Board of the IMF in March 2004. The views expressed in this document, as well as in the full assessment report, are those of the staff team and do not necessarily reflect the views of the government of Mexico or the Executive Board of the IMF.

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MEXICO

**Report on Observance of Standards and Codes (ROSC)—FATF Recommendations for
Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)**

Prepared by the Legal Department

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December 2008

ACCRONYMS

AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
CDD	Customer Due Diligence
CNBV	National Banking and Securities Commission
DNFBP	Designated Non-Financial Businesses and Professions
DGPOI	AML/CFT Unit (<i>Dirección General de Prevención de Operaciones Ilícitas</i>)
FATF	Financial Action Task Force on Money Laundering
FIU	Financial Intelligence Unit
FT	Financing of terrorism
LEG	Legal Department of the IMF
ML	Money laundering
NPO	Nonprofit organization
PGR	Office of the Attorney General (<i>Procuraduría General de la República</i>)
ROSC	Report on Observance of Standards and Codes
SAT	Tax Administration Service (<i>Servicio de Administración Tributaria</i>)
SIEDO	Office for the Investigation of Organized Crime (<i>Subprocuraduría de Investigación Especializada en Delincuencia Organizada</i>)
SOFOLES	Limited purpose finance companies (<i>Sociedades Financieras de Objeto Limitado</i>)
SOFOMES	Multi-purpose finance companies (<i>Sociedades Financieras de Objeto Múltiple</i>)
SRO	Self-regulatory organization
STR	Suspicious Transaction Report
UN	United Nations Organization
UNSCR	United Nations Security Council Resolution

A. Introduction

1. This Report on the Observance of Standards and Codes for the FATF 40 Recommendations for Anti-Money Laundering (AML) and 9 Special Recommendations on Combating the Financing of Terrorism (CFT) was prepared by the Legal Department of the IMF¹. The report provides a summary of the AML/CFT measures in place in Mexico and of the level of compliance with the FATF 40+9 Recommendations, and contains recommendations on how the AML/CFT system could be strengthened. The assessment is based on the information available at the time of the mission from January 14 through 30, 2008 and was conducted using the 2004 Assessment Methodology. The detailed assessment report (DAR) on which this document is based was adopted by the Financial Action Task Force on Money Laundering (FATF) on October 16, 2008 and by GAFISUD, the regional FATF-style body for South America. The views expressed here, as well as in the full assessment report, are those of the IMF assessment team and do not necessarily reflect the views of the Government of Mexico or the Executive Board of the IMF.

B. Key Findings

2. As has been the case in other countries, Mexico now faces an unprecedented threat to its national security and stability from drug trafficking and organized crime. Powerful drug cartels, resorting to extreme violence, have extended their activities across various parts of the country, and these activities pose significant challenges to the Government. This situation reflects the magnitude of financial and economic resources and power at the disposal of drug cartels and organized crime. The economic power of the criminal organizations helps them to continue operating and undermines good governance and the authority of the State.

3. In response, the Mexican government has instituted unprecedented measures to support law enforcement activities against organized crime and drug trafficking. The authorities have recently approved an “Integral Strategy Against Organized Crime” and various key national stakeholders have executed an interagency agreement entitled the “National Agreement for Security, Justice and Legality.” The Mexican authorities are also working to complete an AML/CFT National Strategy before the end of 2008.

4. There is strong political and institutional commitment to tackle crime and money laundering (ML) in Mexico. The authorities have taken a number of measures to counter the significant ML risks connected with drug trafficking, organized crime and related offenses, and they remain alert for any indication of terrorism or financing of terrorism (FT). The authorities perceive that the threat of terrorism financing in Mexico arises primarily from terrorist methods supported by organized crime, and from the proximity and close relation with other countries that face serious terrorism threats.

¹ The assessment team consisted of: Richard Lalonde (team leader), Manuel Vásquez, Ernesto López and Mariano Federici (all of LEG); Federico Di Pasquale and Bernardo Mota (both consultants for LEG); Alejandro Montesdeoca (observer, South American FATF-style Regional Body (GAFISUD)) and Rachel Fedewa (observer, FATF).

5. Overall, Mexico has made progress in developing its system for combating ML and FT since its last assessment by the FATF in 2004, but further work is needed to strengthen it. First, the laws criminalizing the ML and FT offenses are comprehensive but do not fully meet international standards, and there is scope to significantly improve their implementation. In particular, laws and procedures do not adequately provide for the freezing without delay of terrorist funds or other assets of persons designated in accordance with relevant United Nations Security Council resolutions (UNSCRs). Given the extent of drug trafficking, organized crime and other predicate criminal activities, the ML offenses are not being adequately investigated; the authorities have obtained only 25 convictions for ML since the criminalization of the ML offense in 1989. During the period 2004–2007, prosecutors secured 149 indictments for ML, but only two were related to financial intelligence reports produced by Mexico’s financial intelligence unit (FIU).

6. Coordination arrangements among the intelligence, investigation and prosecution agencies have been strengthened recently but need to be further developed as the new relationship evolves. The insufficient resources allocated to investigation units of the Deputy Attorney General’s Office for the Investigation of Organized Crime (SIEDO) have impeded Mexico’s capacity to conduct investigations and prosecutions of ML offenses in an effective manner. The structure and processes for case management by SIEDO also needs to be improved, and prosecutors and judges could also benefit from additional training on AML/CFT issues.

7. The FIU has made progress in developing its financial intelligence infrastructure and staff, and it has markedly improved its working relationship with the prosecutorial authorities at the Office of the Attorney General (PGR). The Tax Administration Service (SAT) and the FIU need to work together to ensure the full, timely and secure access to suspicious transaction reports (STRs) from exchange centers, money services businesses and certain other businesses. The FIU currently does not have direct access to criminal records due to legal constraints, except ex-post with respect to cases or subjects informed by the FIU to the PGR. The number of staff remains low relative to the large volume of reports it receives and the other activities assigned to it. However, to help it cope with the volume of STRs, the FIU has considered measures with reporting entities to reduce over-reporting and has adopted an automated “risk-based” system to filter cases that do not merit deeper analysis. As part of a restructuring of the FIU that is expected to conclude at the end 2009, the FIU has embarked upon a project to significantly increase its staff resources.

8. The AML/CFT preventive measures are comprehensive, contain risk-based elements, and are being implemented across all the principal sub-sectors of the financial system. Nonetheless, the AML/CFT regulations are still evolving, particularly for the non-deposit taking sectors, and they should be revised to add clarity and consistency. A key challenge is the lack of staff and resource capacity of the SAT to enforce registration requirements and conduct ongoing AML/CFT supervision of the very large number of foreign exchange centers and remittance operators. This challenge is being compounded by the increasing number of unregulated multi-purpose finance companies (SOFOMES) coming on stream, a product of deregulation of limited purpose finance companies (SOFOLAS) that are engaged in, e.g., lending, leasing, and factoring. Notwithstanding these challenges, all of the supervisory authorities are implementing fairly comprehensive on-site AML/CFT supervision which is largely focused on regulatory compliance and which could benefit from the introduction of more risk-based processes.

9. There are no AML/CFT legal or regulatory measures, nor supervision, for any of the categories of FATF designated non-financial businesses and professions (DNFBPs)², except for trust services which, by law, can be provided only by licensed financial institutions. The lack of measures with respect to the other categories of DNFBPs represents a significant gap in the AML/CFT regime. In addition, no review has been conducted of the domestic nonprofit organization (NPO) sector to support the adoption of measures to prevent the unlawful use of legal persons in relation to ML and FT.

10. Mexican authorities have been cooperating effectively with authorities from other countries, particularly in the area of mutual legal assistance and extradition involving ML and related crimes.

C. Legal Systems and Related Institutional Measures

11. The ML legislation applies to the proceeds of all crimes committed in Mexico and includes all of the designated categories of offenses under the FATF recommendations. The principal ML provisions are contained under Article 400-Bis of the Federal Criminal Code and complemented by the provisions in the Federal Law Against Organized Crime. The Federal Criminal Code applies more severe criminal sanctions for ML that is committed by members of a criminal organization.

12. Mexican law allows for the prosecution of persons who commit both the predicate offense and the ML offense (self-laundering). The offense of ML extends to any type of property, regardless of its value, that directly or indirectly represents the proceeds of a crime.

13. Criminal liability for ML or FT currently does not extend to legal persons but recently proposed legislation may allow for it. The law provides for administrative and civil sanctions against legal persons if a member or representative of a legal entity engages in criminal conduct in the name of, on behalf of, or for the benefit of the legal entity.

14. While the ML criminalization provisions are generally broad, there are a few technical deficiencies that could affect implementation. These include the lack of an explicit criminalization of the conducts of “concealment or disguise,” and the mere “possession or use of property regardless of the purpose”. Mexican criminal law provides a broad range of procedures and tools to attach and forfeit property. However, the legislation does not provide for the forfeiture of property “for the equivalent or corresponding value”. In addition, it makes no provision for preventing or voiding contracts or other acts in which the persons involved knew or should have known that as a result of those contracts or acts the authorities’ ability to recover property subject to forfeiture would be impaired. Mexico also has not implemented legislation or procedures to enable the freezing of terrorist funds or other assets *without delay* of persons designated in accordance with relevant UNSCRs.

15. The authorities are committed to increasing the number and significance of prosecutions and convictions for ML. Notwithstanding the 149 indictments for ML issued by the PGR since 2004, there have only been 30 judicial decisions, 25 of which resulted in convictions and five in acquittals.

² In Mexico, applicable DNFBPs include real estate agents, dealers in precious metals and stones, lawyers, notaries and other independent legal professionals and accountants, and company services providers.

These figures are indicative of a lack of capacity at the judicial level and the need to strengthen evidence used by PGR to support its indictments. Moreover, most of these convictions resulted from uncomplicated investigations arising out of seizures of cash at the airports and borders where the defendants were unable to demonstrate the legal origin of funds. Given the level and sophistication of organized criminal activity in Mexico, these results reflect a disappointing lack of effectiveness in implementation of the ML offense. The ongoing development of a national strategy to combat ML and FT should help lay the foundation for more effective implementation of the ML and FT legislation.

16. There is also currently close collaboration between the FIU and PGR, and the relationship between these two entities has been evolving and improving over time. Nonetheless, it could benefit from more formal arrangements as work processes are developed. Enhanced use of FIU-generated reports would also lead to more effective ML investigations and prosecutions.

17. In June 2007, terrorist financing was criminalized under the Mexican Federal Criminal Code, which distinguishes between “domestic terrorist financing” and “international terrorist financing”. Terrorism financing is also a predicate offense to money laundering and is a serious felony under the Federal Code of Criminal Procedures. When committed by members of organized crime, such offenses are subject to more severe sanctions.

18. The international terrorist financing offense extends to any “funds” as that term is defined in the United Nations’ (UN) Terrorist Financing Convention. However, the legal provisions do not fully comply with SR II. While the UN’s Terrorist Financing Convention focuses on the intention of the act to cause death or serious bodily injuries, the law seems to focus on what is used to carry out the act. The requirement to demonstrate that the terrorist act generates alarm, fear, or terror to a population or to a group or sector thereof is not consistent with Article 2 of the UN’s Terrorist Financing Convention, as the Convention only requires that “the purpose” of the act, by its nature or context, be to intimidate a population. Moreover, while the FT offense covers the financing of a significant number of terrorist acts, it does not extend the financing conduct to all of the acts that constitute offenses within the scope and definition of the treaties listed in the annex of the UN’s Terrorist Financing Convention. Nor does it extend to all situations where a person may willfully provide funds. It only covers the provision of funds through the “financing,” “contributing,” and “procuring” conducts. This would leave out the provision of funds “by any means” as required by the standard. Moreover, the collection of funds is not covered.

19. The FIU has made progress in developing its financial intelligence infrastructure and staff capacity, including improving its working relationship with the prosecutorial authorities at the PGR. At the time of the on-site visit, it was not fully receiving suspicious activity reports in a timely way sent through the SAT by foreign exchange centers and money remitters.³ Moreover, it does not have full legal authority to access criminal records to inform its analytical work. The number of staff relative to the volume of reports it receives and its current and future workload is inadequate, even though the FIU has implemented an automated risk-based system to filter out cases that do not merit

³ More recently, the authorities have indicated that these obstacles had been overcome but the mission is not in a position to verify the effectiveness of the reporting arrangement with the SAT.

deeper analysis. As part of an ongoing restructuring project of the FIU, its staff will be increased significantly.

D. Preventive Measures—Financial Institutions

20. The various financial sector laws establish the principal AML/CFT preventive obligations for financial institutions. In turn, the AML/CFT legal provisions are implemented through regulations (“*Disposiciones de Carácter General*”) issued under such laws. All the detailed AML/CFT requirements for financial institutions are contained in these regulations. In addition, the Ministry of Finance and Public Credit can also issue written communications (“*Oficios*”) to financial institutions for, inter alia, clarifying and interpreting the provisions in the regulations. Both laws and the subsidiary regulations are enforceable and sanctionable in accordance with the provisions established in the applicable financial sector laws. The FIU, National Banking and Securities Commission (CNBV), and financial sector representatives jointly issued a set of best practice guidelines to help improve the quality of STRs submitted to the FIU by financial institutions subject to CNBV’s supervision.

21. At the time of the mission, the AML/CFT laws and regulations covered all of the known financial activities applicable to Mexico as set out under the FATF definition of “financial institution”. The sectoral regulations impose detailed AML/CFT requirements on the financial sector for; inter alia, customer due diligence (CDD), record-keeping, large and suspicious transaction reporting, internal controls, compliance management arrangements, and training. However, Mexico has not yet issued implementing AML/CFT regulations for the recently deregulated SOFOMES. Unregulated SOFOMES are non-deposit taking financial institutions (e.g. engaged in lending, leasing, factoring) that are not members of a regulated financial group. The absence of such regulations, combined with a recent sharp increase in the number of SOFOMES in Mexico, constitute a significant vulnerability in the system.

22. The Mexican authorities acknowledge the need to upgrade and align the 2004 AML/CFT regulations (e.g. for the securities, insurance, money services sectors) with the 2006 regulations (for the banking, savings and loans, and SOFOLES sectors). There is also a need for greater clarity in some of the provisions, including for internal and cross-sectoral regulatory consistency with respect to CDD for business relationships and occasional transactions, risk-based provisions, and suspicious transaction reporting. The CDD requirements also need to be enhanced in key areas such as for recently established corporate entities that have not completed incorporation requirements, and for insurance policyholders. The authorities expect to issue new regulations by the end of 2008.

23. Implementation of the regulatory requirements by financial institutions is more advanced in the core financial sector entities (i.e., deposit-taking, insurance, and securities), but less so in some systemically important and risky sectors (i.e., foreign exchange centers, money remitters and unregulated SOFOMES). The authorities estimate that a large proportion of the thousands of foreign currency exchange centers and money remitters have now registered with the SAT (the designated AML/CFT supervisor), but a significant number has not done so.

24. All of the AML/CFT regulations include risk-based elements for purposes of CDD and the authorities are to be commended for implementing such practices. Going forward, these risk-based provisions could be better supported with sector-specific guidelines, and refinements to the simplified

CDD regime allowed for in the regulations. The authorities should also consider conducting a systemic assessment of ML and FT risks in Mexico to support the development and implementation of preventive measures regime.

25. Recordkeeping and CDD requirements for introduced business and third parties are generally comprehensive. However, they could be improved, as is now being contemplated by the authorities, by specifically requiring that the necessary CDD information be obtained immediately by the financial institutions. The threshold for recordkeeping and other requirements with respect to wire transfers should be reduced from the equivalent of US\$3,000 to US\$1,000 in line with the standard.

26. There is a clear obligation to report suspicions of ML and FT, but the obligation does not extend to suspected financing of international acts of terrorism (except in relation to lists issued by international organizations or foreign countries). Most sectors are actively filing reports but there is a need to improve their quality and reduce the occurrence of “defensive” reporting.

27. There are four principal supervisory authorities responsible for AML/CFT compliance supervision, and for the enforcement of requirements. All of them have broad powers to obtain access to and inspect the businesses under their jurisdiction and to sanction for noncompliance. In practice, they have applied administrative sanctions (e.g., fines) for noncompliance with the AML/CFT regulations. However, most fines have been applied by the CNBV and their average amount has been relatively low, particularly for the larger institutions.

28. Most supervisory agencies have implemented relatively comprehensive on-site supervisory systems for AML/CFT compliance. Supervision by the CNBV is more advanced in terms of processes and capacity, and it has developed a specialized AML/CFT supervisory unit. However, it could enhance its offsite AML/CFT processes, and undertake more risk-based and consolidated AML/CFT supervision.

29. Limited staff resources have prevented the SAT from fully implementing AML/CFT supervision of foreign exchange centers and money remitters. It has about 4,380 such entities subject to its supervision, and the transfer of unregulated SOFOMES (currently 634 entities and rapidly increasing) under its supervision will further compound this problem. There is a potential of contagion risk for other financial institutions, e.g., banks that transact with these businesses. Nonetheless, the SAT indicated that it has conducted around 800 inspection visits to-date.

30. With respect to the insurance and bonding sectors, there is a need to strengthen supervision of the channels of distribution, in particular enforcing the training and oversight requirement placed on insurance and bonding companies with respect to their agents. A review of the contracting arrangements between these companies and their agents is also recommended to support implementation of the regulatory requirements.

E. Preventive Measures – Designated Non-Financial Businesses and Professions

31. The AML/CFT preventive measures have not been extended to DNFBPs. The only requirement that applies to this group is an obligation under the Income Tax Law to report cash transactions to the SAT in excess of Mexican pesos \$100,000 (equivalent to approximately

US\$10,000). This is an obligation imposed on all taxpayers and NPOs. In addition, notaries public are required to report to the SAT every purchase of real estate in Mexico in which they participate regardless of the method of payment. This information is available to the FIU for AML/CFT purposes.

32. All types of DNFBPs are active in the Mexican economy. However, by law the administration of “*fideicomisos*” can be done only by designated licensed financial institutions. (A “*fideicomiso*” is broadly similar to a trust). Casinos are prohibited by law, including slot machines, except during regional fairs, in which case they require a temporary license. One to five such casino licenses are issued every year. The authorities are unable to prevent the existence of many unauthorized gaming-machine establishments due to resource limitations and gaps in the applicable legal framework which allow these businesses to pose as games of skill and not of chance. According to the authorities, these businesses are perceived as legitimate by the communities in which they operate, including by financial institutions, and this makes them vulnerable to money laundering and exposes the financial institutions that conduct business with them.

F. Legal Persons and Arrangements & Non-Profit Organizations

33. Mexico has not taken concrete measures to prevent the unlawful use of legal persons in relation to ML and FT. Moreover, competent authorities in Mexico are not able to obtain or do not have access to sufficient, accurate, and current information in a timely fashion, on beneficial ownership and control of legal persons.

34. Legal persons created under Mexican law are not able to issue bearer shares. However, the shareholder of a Mexican entity can be a foreign bearer share company incorporated in a jurisdiction that allows the issuance of such shares. Mexico does not have specific measures in place to help prevent Mexican subsidiaries of such bearer share companies from being used for illicit ML.

35. Only designated licensed financial institutions may administer “*fideicomisos*” in Mexico. Financial institutions are covered by the preventive measures applicable to them and are hence required to obtain, verify, and retain details of the “*fideicomisos*”, including beneficial ownership and control information. Such information would be available to the competent authorities. However, due to the lack of statistics on authorities’ requests for information, it was not possible to assess the effective implementation of these measures.

36. Mexico has not undertaken a review of the adequacy of domestic laws and regulations that relate to NPOs, nor has it undertaken outreach to the NPO sector with a view to protecting the sector from FT abuse.

G. National and International Co-operation

37. There are no legal impediments for cooperation among the various supervisory bodies and other domestic authorities in Mexico. It was evident prior to and during the mission, that there are adequate processes for national cooperation and that such processes has been very efficient and

effective. Cooperation between PGR and the FIU has been enhanced since 2007 and is currently working satisfactorily.

38. Mexican authorities have the power to collaborate with foreign counterparts in their respective areas of competence. In the majority of cases, international cooperation takes place directly between authorities exercising similar responsibilities and functions. They have cooperated with their foreign counterparts in the areas of mutual legal assistance and extradition. Supervisors have also entered into a number of memoranda of understanding with their foreign counterparts, and these have been put into practice especially as it concerns the banking sector. The mission received comments from various countries which highlight the significant improvements in international cooperation with Mexico last year. In particular, these countries underscored the constructive cooperation with Mexico's FIU and the PGR.

Summary Table of Observance and Key Recommendations

FATF 40+9 Recommendations ⁴	Key Assessor Recommendations
1. Legal System and Related Institutional Measures	
Criminalization of Money Laundering R.1 – PC R.2 – LC	<ul style="list-style-type: none"> ● Amend Article 400 Bis of the CPF to incorporate the conduct of “concealment or disguise of the true nature, source, location, disposition, movement, or ownership of or rights with respect to property” as a primary conduct and not as a purpose. ● Amend Article 400 Bis of the CPF to incorporate the conduct of “possession or use of property” into the money laundering offense. The possession or use of property should be criminalized without a specific purpose. ● Reinforce coordination among all relevant actors involved in investigating and prosecuting crime in Mexico and define clearer protocols for the processes followed by each of them. ● Place additional focus in conducting investigations of money laundering offenses committed through the financial system. ● Consider the possibility of amending the CPF to make legal persons criminally liable for money laundering offenses.
Criminalization of Terrorist Financing SR.II – PC	<ul style="list-style-type: none"> ● Amend the terrorist financing conduct in Section 148 Bis of the CPF to focus it on the intention of the act to cause death or serious bodily injury rather than on what is used to commit the act. ● Amend the terrorist financing conduct in Section 148 Bis of the CPF to require a purpose of generating alarm, fear, or terror rather than a showing. ● Extend the terrorist financing conduct in Section 148 Bis of the CPF to the financing of the acts that constitute an offense within the scope of, and as defined in, the treaties listed in the annex of the UN Terrorist Financing Convention consistent with its obligations under SR.II. ● Conduct an assessment of terrorism and terrorist financing threats and vulnerabilities, partially drawing from the findings of this assessment, in order to estimate the exposure to such risks.
Confiscation, freezing, and seizing of proceeds of crime R.3 – LC	<ul style="list-style-type: none"> ● Amend legislation to include the ability to forfeit property “for the equivalent or corresponding value”. ● Amended legislation to include specific provisions for preventing or voiding (nullifying) contracts or other acts in which the persons involved knew or should have known that as a result of those acts the authorities’ ability to recover property subject to forfeiture would be impaired.
Freezing of funds used for terrorist financing SR.III – NC	<ul style="list-style-type: none"> ● Establish effective laws and procedures to freeze terrorist funds or other assets of persons designated by the United Nations Al-Qaida and Taliban Sanctions Committee in accordance with S/RES/1267(1999) without delay and without prior notice to the designated persons involved.

⁴ **Compliant (C)**: the Recommendation is fully observed with respect to all essential criteria. **Largely compliant (LC)**: there are only minor shortcomings, with a large majority of the essential criteria being fully met. **Partially compliant (PC)**: the country has taken some substantive action and complies with some of the essential criteria. **Non-compliant (NC)**: there are major shortcomings, with a large majority of the essential criteria not being met. **Not applicable (NA)**: a requirement or part of a requirement does not apply, due to the structural, legal or institutional features of a country.

	<ul style="list-style-type: none"> • Establish effective laws and procedures to freeze terrorist funds or other assets of persons designated in the context of S/RES/1373(2001) without delay and without prior notice to the designated persons involved. • Establish effective laws and procedures to examine and give effect to, if appropriate, the actions initiated under the freezing mechanisms of other jurisdictions. Such procedures should ensure the prompt determination, according to applicable national legal principles, whether reasonable grounds or a reasonable basis exists to initiate a freezing action and the subsequent freezing of funds or other assets without delay. • Establish an effective system for communicating actions taken under the freezing mechanisms referred to above to the financial sector immediately upon taking such action. • Provide clear guidance to financial institutions and other persons or entities that may be holding targeted funds or other assets concerning their obligations in taking action under freezing mechanisms.
The Financial Intelligence Unit and its functions R.26 – LC	<ul style="list-style-type: none"> • Urgently address the technical problems that have prevented the FIU from receiving STRs filed by certain sectors through the SAT. • Seek to increase the FIU’s access to criminal information beyond that obtained in the course of its participation in investigations. • Establish with the Attorney General’s Office and the SAT a mechanism to evaluate the efficiency of the reporting and analysis system, and the quality of intelligence reports and usefulness to investigations and prosecutions. • As planned, increase the level of staff and other resources in light of the current and expected future volume of STRs, and other responsibilities assigned to the FIU.
Law enforcement, prosecution and other competent authorities R.27 – PC R.28 – LC	<ul style="list-style-type: none"> • Allow for the possibility of postponing or waiving the arrest of suspects and strengthen witness protection programs. • Strengthen the capacity, awareness-raising and training for judges to adjudicate financial crimes and ML and TF cases in particular. A comprehensive nationwide training program should be developed. • Increase staff and financial resources for the PGR’s and for SIEDO in particular. • Provide Mexican security forces the ability to apply special techniques of investigation, particularly “controlled deliveries” in the context of ML investigations and extend them to all underlying or predicate offenses listed in the FATF glossary.
Cross Border Declaration or disclosure SR IX – PC	<ul style="list-style-type: none"> • Enact legislation, as planned, to make false declarations an offense. • The Customs Authority, the FIU, and other law enforcement agencies should improve the coordination to work more closely and permanently to investigate cases of cross-border transportation of currency or bearer negotiable instruments in order to determine its country of origin, bearing in mind that such currency may be the proceeds of criminal conduct committed in the said country.
2. Preventive Measures: Financial Institutions	
Risk of money laundering or terrorist financing	<ul style="list-style-type: none"> • Conduct a systemic review of ML and FT risks in the financial sector.
Customer due diligence, including enhanced or reduced measures R.5 – PC R.6 – LC R.7 – LC R.8 – PC	<ul style="list-style-type: none"> • Issue CDD (and other AML/CFT) regulations for unregulated SOFOMES. • Casas de cambio and centros cambiarios that establish business relationships should be required to identify and conduct CDD regardless of the amount. • Review the adequacy of the mandatory simplified CDD regime for clients in Annex 1 of the regulations, and require a low risk classification before applying simplified CDD as provided in DCG 115. • Impose a reasonable period of time within which verification of identification should be completed for recently formed legal entities, including strict risk mitigating requirements such as prohibiting financial transactions.
Third parties and introduced	<ul style="list-style-type: none"> • Explicitly require in the regulations, (esp. for money remitters and insurance

business R.9 – PC	<p>companies), that FIs immediately obtain CDD information from parties that conduct CDD on their behalf.</p> <ul style="list-style-type: none"> • Enforce the requirement for insurance companies to monitor compliance by their agents with their AML/CFT regulatory obligations.
Financial institution secrecy or confidentiality R.4 – C	<ul style="list-style-type: none"> • The CONSAR and SAT should be expressly empowered to exchange information with foreign counterparts regarding AML/CFT.
Record keeping and wire transfer rules R.10 – C SR.VII – PC	<ul style="list-style-type: none"> • SR.VII: The authorities should lower the threshold for CDD on occasional wire transfers from USD 3 000 to USD 1 000 or lower. • SR.VII: The intermediary institutions in a wire transfer should be obliged to keep accurate and meaningful information throughout the transfer chain. • SR.VII: To the extent that money remitters conduct wire transfers, they should be subject to the same obligations as credit institutions for this service.
Monitoring of transactions and relationships R.11 – LC R.21 – LC	<ul style="list-style-type: none"> • R.11: Review the list of potentially suspicious transactions given in the regulations and clarify their correct use as triggers of additional review of the transaction, and not of a mandatory report to the FIU. Also provide additional guidance to reporting institutions in this area. • R. 21: Consider allowing the regulators to impose a broader range of countermeasures and to address the potential of countries of concern to Mexico before these are identified by an international organization.
Suspicious transaction reports and other reporting R.13 – PC R.14 – C R.19 – C R.25 – PC SR.IV – PC	<ul style="list-style-type: none"> • Ensure that reports from currency exchange centers, money remitters, and from bonding companies are available to the FIU and the investigative authorities. • Authorities should provide more guidance to reporting institutions on how to detect terrorist financing operations, and promote awareness of the risks of being misused by foreign terrorist organizations to channel their funds. • The FIU should start providing more regular feedback to reporting institutions including about money laundering techniques specific to the Mexican reality. • The obligation to report attempted transactions should be explicitly established in the regulations.
Internal controls, compliance, audit and foreign branches R.15 – LC R. 22 – C	<ul style="list-style-type: none"> • As in DCG 115, all of the other regulations should include an explicit requirement to have a well resourced and independent audit function.
Shell banks R.18 – LC	<ul style="list-style-type: none"> • Explicitly require FIs to satisfy themselves that their respondent institutions in foreign countries do not permit their accounts to be used by shell banks.
Supervisory and oversight system-competent authorities and SROs Role, functions, duties and powers (including sanctions) R.17 – PC R.23 – PC R.25 – PC R.29 – C	<ul style="list-style-type: none"> • Review and reconsider the current licensing policy and threshold for the money exchange and remittance sectors, with a view to regularizing and reducing ML and FT risks particularly in the unlicensed categories. • Bring all unregulated SOFOMES under effective AML/CFT regulation and supervision by an agency that has the capacity and resources to do so, including fit and proper tests for top management, owners, and controllers of such entities. <p>CNBV</p> <ul style="list-style-type: none"> • Strengthen AML/CFT supervision through the incorporation of additional risk elements into the offsite planning process and system. <p>CNSF</p> <ul style="list-style-type: none"> • Enhance the supervision of the channels of distribution for insurance and bonding entities, including oversight of agents' AML/CFT compliance by such companies. <p>SAT</p> <ul style="list-style-type: none"> • Consider the adequacy of its staffing resources particularly in light of the increased responsibility for SOFOMES, and the large number of foreign exchange centers and money remitters subject to its supervision.

	<p>Other:</p> <ul style="list-style-type: none"> • In view of the relatively low average amount of fines applied to date, review proportionality and dissuasive nature of fines and consider additional use of non-monetary measures.
<p>Money value transfer services SR.VI – PC</p>	<ul style="list-style-type: none"> • Issue regulations that require money transmitters to include CDD information on all wire transfers equal or higher than USD 1,000. • Include account files and business correspondence as part of the data for which money remitters must keep proper records, and require that these records must allow the reconstruction of the transactions. • Insert an explicit requirement in the regulations for Disperser Transmitters to maintain a list of the agents and Payor Transmitters with whom they operate. • The SAT should be explicitly empowered to inspect, instruct, and sanction as appropriate all the payor transmitters, and not only the disperser transmitters.
<p>3. Preventive Measures: Non-Financial Businesses and Professions</p>	
<p>Customer due diligence and record-keeping R.12 – NC</p>	<ul style="list-style-type: none"> • Impose CDD, recordkeeping and other obligations on DNFBPs as required by Recommendation 12 of the FATF.
<p>Suspicious transaction reporting R.16 – NC</p>	<ul style="list-style-type: none"> • Impose suspicious activity reporting, internal controls and other obligations on DNFBPs in the terms of the FATF Recommendation 16.
<p>Regulation, supervision, monitoring, and sanctions R.24 – NC R.25 – PC</p>	<ul style="list-style-type: none"> • DNFBPs should be subject to a risk-sensitive regulatory and supervisory framework and should be provided providing guidance to aid with compliance.
<p>Other non-financial businesses and professions R.20 – NC</p>	<ul style="list-style-type: none"> • Mexico should consider applying Recommendations 5, 6, 8-11, 13-15, 17 and 21 to non-financial businesses and professions (other than DNFBP) that are at risk of being misused for ML and FT. • Mexico should take measures to encourage the development and use of modern and secure techniques for conducting financial transactions that are less vulnerable to ML.
<p>4. Legal Persons and Arrangements & Nonprofit Organizations</p>	
<p>Legal Persons–Access to beneficial ownership and control information R.33 – NC</p>	<ul style="list-style-type: none"> • Mexico should take measures to prevent the use of legal persons in relation to ML/TF. • The Registry should ensure that it is able to obtain or have access to adequate, accurate, and current beneficial ownership and control information. • Take appropriate measures to ensure that legal persons using bearer shares are not misused for ML.
<p>Legal Arrangements–Access to beneficial ownership and control information R.34 – LC</p>	<ul style="list-style-type: none"> • Address the shortcomings identified under Rec. 33 as they may impact on a credit institution’s capacity to easily verify identification data in connection with a “fideicomiso” or other legal arrangements. • Maintain comprehensive statistics on the amounts of requests received by the CNBV or the amount of related sanctions applied to credit institutions.
<p>Nonprofit organizations SR.VIII – PC</p>	<ul style="list-style-type: none"> • Review the adequacy of domestic laws and regulations that relate to NPOs; use all available sources of information to undertake domestic reviews of or have the capacity to obtain timely information on the activities, size and other relevant features of their NPO sectors for the purpose of identifying the features and types of NPOs that are at risk of being misused for terrorist financing by virtue of their activities or characteristics; and conduct periodic reassessments by reviewing new

	<p>information on the sector’s potential vulnerabilities to terrorist activities.</p> <ul style="list-style-type: none"> • Undertake outreach to the NPO sector with a view to protecting the sector from terrorist financing abuse. This outreach should include raising awareness in the NPO sector about the risks of terrorist abuse and the available measures to protect against such abuse. • Promote effective supervision or monitoring of those NPOs (other than NPO’s authorized to issue tax deductible receipts) which account for: <i>i</i>) a significant portion of the financial resources under control of the sector; and <i>ii</i>) a substantial share of the sector’s international activities. • Require all NPOs (other than NPOs authorized to receive donations abroad) to maintain information on: <i>i</i>) the purpose and objectives of their stated activities; and <i>ii</i>) the identity of person(s) who own, control or direct their activities, including senior officers, board members and trustees. This information should be publicly available either directly from the NPO or through appropriate authorities. • Implement appropriate measures to sanction violations of oversight measures or rules by NPOs or persons acting on behalf of NPOs (other than NPOs authorized to issue tax deductible receipts). The application of such sanctions should not preclude parallel civil, administrative, or criminal proceedings with respect to NPOs or persons acting on their behalf where appropriate.
5. National and International Cooperation	
<p>National cooperation and coordination R.31 – LC</p>	<ul style="list-style-type: none"> • Establish formal arrangement between the PGR and financial supervisory authorities for processing PGR’s requests for information protected by bank secrecy. • Established joint cooperation and coordination mechanisms between the PGR and the Judiciary to implement joint policies and conduct activities aimed at fighting organized crime. • Institutionalize the current practices of close collaboration among the FIU and PGR authorities.
<p>The Conventions and UN Special Resolutions R.35 – LC SR.I – PC</p>	<p>R 35</p> <ul style="list-style-type: none"> • Amend Article 400 Bis of the CPF to incorporate the conduct of “conversion of property” into the money laundering offence. • Amend Article 400 Bis of the CPF to incorporate the conduct of “concealment or disguise of the true nature, source, location, disposition, movement, or ownership of or rights with respect to property” as a primary conduct and not as a purpose. • Amend Article 400 Bis of the CPF to incorporate the conduct of “possession or use of property” into the money laundering offence. The possession or use of property should be criminalized without a specific purpose. <p>SR I</p> <ul style="list-style-type: none"> • Amend the terrorist financing conduct in Section 148 Bis of the CPF to focus it on the intention of the act to cause death or serious bodily injury rather than on what is used to commit the act. • Amend the terrorist financing conduct in Section 148 Bis of the CPF to require a purpose of generating alarm, fear or terror rather than a showing. • Amend the CPF to extend the terrorist financing conducts to the financing of the acts that constitute an offense within the scope of, and as defined in the treaties listed in the annex of the SFT Convention. • Enact effective laws and procedures to freeze without delay funds or other assets of terrorists, those who finance terrorism and terrorist organizations in accordance with UN SCRs relating to the prevention and suppression of FT.
<p>Mutual Legal Assistance R.36 – LC R.37 – LC</p>	<ul style="list-style-type: none"> • Implement appropriate laws and procedures to freeze terrorist funds or other assets at the request of a foreign country.

R.38 – PC SR.V – PC	<ul style="list-style-type: none"> ● Introduce legal provisions for forfeiting property of equivalent value. ● Address the deficiencies in the money laundering and terrorist financing offenses described under R 1 and SR II respectively, as they can impact on Mexico’s ability to provide MLA. ● Address the deficiencies in the process for freezing terrorist assets described under SR.III as they impact on Mexico’s capacity to freeze, seize and confiscate terrorist assets at foreign request.
Extradition R.39 – LC R.37 – LC SR.V – PC	<ul style="list-style-type: none"> ● Address the deficiencies of the money laundering and terrorist financing offense described under R 1 and SR II respectively, which could impact on Mexico’s ability to extradite.
Other Forms of Cooperation R. 40 – C SR.V – PC	<ul style="list-style-type: none"> ● Address the deficiencies of the TF offence described under SR II, which could impact on the law enforcement authorities’ ability to provide international cooperation.
6. Other Issues	
Resources & Statistics R.30 – PC R.32 – LC	<ul style="list-style-type: none"> ● Enhanced training for risk-based supervision including for offsite surveillance of ML and FT risks. ● Increase the staff of the CNBV’s specialized AML/CFT supervisory unit (DGPOI) to enable it to better support all of the CNBV’s supervisory units and other outside authorities such as the FIU and the PGR.
Other relevant AML/CFT measures or issues	
General framework – structural issues	<ul style="list-style-type: none"> ● More strongly encourage the use of non-cash means for conducting financial transactions which could help reduce the size of the informal economy.