UPSC CURRENT AFFAIRS NOTES 28-02-2024

FATF PLENARY

The Financial Action Task Force (FATF) finalized modifications to its assessment methodology, particularly concerning the **protection of non-profit organizations (NPOs)** from potential abuse for terror financing.

Details

The Financial Action Task Force (FATF) is an intergovernmental organization that sets international standards for combating money laundering, terrorist financing, and other threats to the integrity of the international financial system.

The recent modifications to its assessment methodology, as discussed in the plenary, primarily focus on addressing terrorist financing risks related to non-profit organizations (NPOs).

Changes to Assessment Methodology:

The FATF has finalized modifications to its assessment methodology to align with the revisions made to its standards for the protection of non-profit organizations (NPOs) from potential abuse for terrorist financing. These changes are crucial in preparing for the next round of mutual evaluations.

Protection of Non-Profit Organizations (NPOs)

The modifications emphasize the obligation to apply risk-based measures to protect NPOs that are particularly vulnerable to potential terrorist financing abuse. The goal is to prevent unintended consequences resulting from the incorrect application of FATF requirements.

Recommendation 8

In October 2023, the FATF made changes to **Recommendation 8, which aims to safeguard NPOs from potential terrorist financing abuse through the effective implementation of risk-based measures**.

Best practices were also updated to guide countries, the non-profit sector, and financial institutions in taking relevant steps without unduly disrupting legitimate NPO activities.

Understanding Degrees of Terrorist Financing Risk

The draft suggests that countries should develop an understanding of the varying degrees of terrorist financing risk posed to NPOs. **It recommends considering different levels of mitigating measures based on the assessed risk**. Countries are urged to be mindful of the potential impact of measures on legitimate NPO activities and apply them as needed to address the assessed terrorist financing risks.

Risk-Based Approach

The draft emphasizes a risk-based approach, suggesting that countries should have focused, proportionate, and risk-based measures to address terrorist financing risks. This aligns with the broader global effort to adopt risk-based approaches in regulatory frameworks.

Other Outcomes of the Plenary

Besides addressing NPO-related issues, the FATF plenary resulted in new risk-based guidance for implementing Recommendation 25 on beneficial ownership and transparency of legal arrangements. Additionally, the identification of jurisdictions with materially important virtual asset activity was emphasized to assist in implementing FATF requirements in the context of evolving financial technologies.

FATF Plenary Outcomes Summary

Changes to NPO Assessment Methodology   Emphasizes risk-based approach to assessing terrorist financing (TF) risk for NPOs.

Encourages proportionate measures based on identified risk.

Aims to avoid hindering legitimate NPO activities. Balances security needs by protecting NPOs' ability to operate freely and provide essential services.

Revision of Recommendation 8 Updated in October 2023 to guide countries on applying proportional measures based on NPO-specific TF risks.

Focuses on preventing excessive restrictions and protecting legitimate NPO operations. Addresses concerns raised about potential harm to NPOs due to overly restrictive measures.

New Guidance for Recommendation 25 Provides guidance on implementing Recommendation 25, which focuses on beneficial ownership and transparency of legal structures.

Aims to combat money laundering and terrorist financing facilitated by such structures. Strengthens efforts to prevent the misuse of legal structures for financial crimes.

Identification of Jurisdictions with Significant Virtual Asset Activity Identifies jurisdictions with high levels of virtual asset activity.

Targets these jurisdictions for specific support in implementing FATF's standards to prevent abuse of virtual assets for financial crimes. Focuses resources to combat emerging financial crime risks associated with virtual assets.

Financial Action Task Force (FATF)

The Financial Action Task Force (FATF) is an intergovernmental organization established in 1989 by the G7 countries. Initially focused on combating money laundering, its mandate was expanded in 2001 to include the prevention of terrorism financing.

The primary objectives of FATF include setting standards and promoting the effective implementation of legal, regulatory, and operational measures to combat money laundering, terrorist financing, and related threats to the global financial system.

FATF Recommendations

The organization **sets international standards on Money Laundering and Special Recommendations on Terrorism Financing.** These recommendations cover principles for action, allowing countries flexibility in implementation.

They are intended to be implemented at the national level through legislation and other legally binding measures.

Recommendations cover various aspects, including implementing international conventions, criminalizing money laundering, establishing financial intelligence units, and fostering international cooperation.

In 2012, FATF **codified its recommendations into one document**, including new rules on weapons of mass destruction, corruption, and wire transfers (commonly known as the **"travel rule"**).

In 2019, FATF released guidance on a risk-based approach for virtual assets and virtual asset service providers, emphasizing anti-money laundering and countering the financing of terrorism obligations.

Compliance Mechanism

FATF uses a methodology for assessing compliance with its recommendations, evaluating technical compliance and effectiveness. The compliance mechanism includes criteria for assessing whether countries meet FATF standards in their legal and financial systems, criminal justice systems, and preventive measures by specified businesses and institutions.

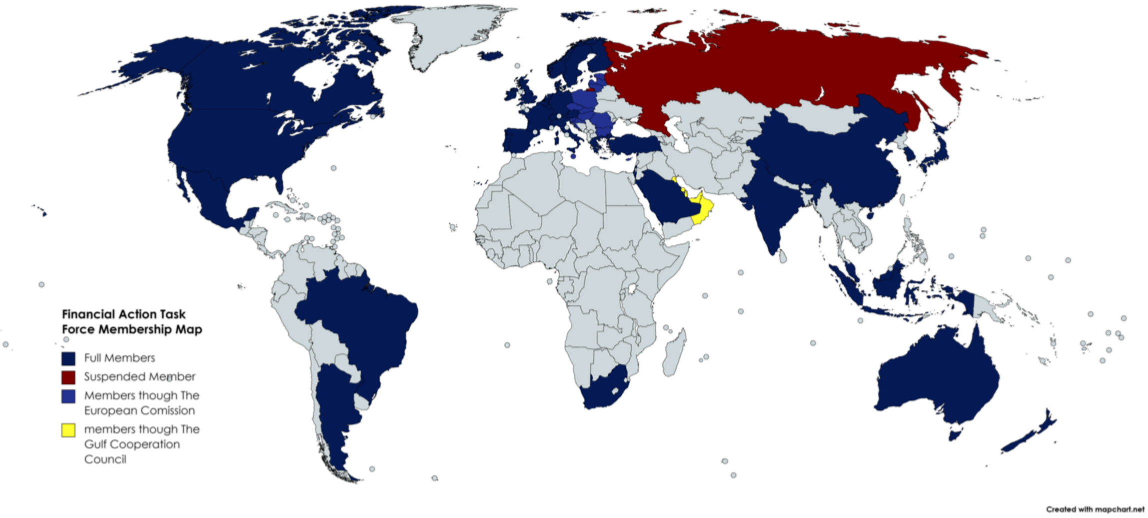
Non-profit organizations are under scrutiny, especially when associated with "suspect communities" or operating in conflict zones.

Black or Greylisting of Non-Compliant Nations

FATF issues a list of "Non-Cooperative Countries or Territories," commonly known as the FATF Blacklist. In 2000, 15 jurisdictions were listed, motivating changes in those countries. As of December 2022, countries on the blacklist include Iran, Myanmar, and North Korea. There is also a "greylist" of jurisdictions under increased monitoring.

Members and Affiliate Organizations

As of 2023, FATF has 38 full member jurisdictions and two regional organizations. It collaborates with international and regional organizations closely. Countries are subjected to evaluations by FATF to ensure compliance with its standards and regulations.



FATF plays a crucial role in setting global standards to combat money laundering, terrorist financing, and related threats. Its recommendations and evaluations influence international efforts to maintain the integrity of the financial system and prevent illicit activities. The organization's focus on compliance, transparency, and cooperation reflects its commitment to global financial security.

Pey Jal Survekshan Awards

Recently, the Ministry of Housing & Urban Affairs announced the first Pey Jal Survekshan Awards.

About Pey Jal Survekshan Awards

A distinguished array of 130 awards is set to be bestowed, reflecting the remarkable accomplishments of cities and states.

The award consists of various categories;

Pey Jal Gold, Silver, and Bronze City Awards, where Gold signifies top performers in their respective population categories (1 to 10 Lakh, 10 to 40 Lakh, and More than 40 Lakh),

Silver denotes the 2nd position, and Bronze the 3rd.

The awards extend to commendations for Best Water Body, Sustainability Champion, Reuse Champion, Water Quality, City Saturation, and AMRUT 2.0 Rotating Trophy of the Year.

Parameters: It encompassed diverse parameters, including access, coverage, water quality at treatment plants and households, and sustainability regarding the health of water bodies, availability of SCADA/ flowmeters, and reuse of treated used water.

Cities will be graded on a star rating scale, ranging from 5 stars to No star, encapsulating their performance across these critical criteria.

Pey Jal Survekshan ensured clean water through independent NABL lab testing at source and citizen-end.

Using a GIS-enabled web portal, geo-tagging, and infrastructure mapping, the survey collected accurate and transparent data.

Significance: Its results are expected to drive ULB decision-making, enhance service delivery, and foster citizen engagement, instilling a sense of ownership and knowledge dissemination about water conservation and optimal use.

AMRUT Mitra initiative

It aims to actively involve women Self-Help Groups (SHGs) in the urban water sector, designating women as key contributors and emphasizing their role in household water management.

The Mitras will be engaged in executing AMRUT 2.0 projects, focusing on activities such as billing, collection, leak detection, plumbing works, water quality sampling, and maintenance of infrastructure.

The overarching goal of AMRUT Mitra is to instill a sense of ownership among women, promoting inclusivity and diversity in traditionally male-dominated sectors while ensuring access to safe drinking water for households and addressing gender inequality.

The anticipated outcomes include upliftment of the socio-economic status of women SHGs, aligning closely with the objectives of AMRUT 2.0, increased awareness, positive community impact, and a model for future initiatives.

Self Help Groups (SHGs)

These are small groups of poor people. The members of an SHG face similar problems. They help each other to solve their problems. SHGs promote small savings among their members.

NATO started its largest military exercise in Europe, the Steadfast Defender 2024, recently.

The North Atlantic Treaty Organization (NATO) started its largest military exercise in Europe, the Steadfast Defender 2024, recently. Blog Image

The North Atlantic Treaty Organization (NATO) started its largest military exercise in Europe, the Steadfast Defender 2024, recently.

It is NATO's most extensive military exercise since the Cold War era.

It involves 90,000 forces from 31 member countries and NATO partner Sweden and is conducted across various NATO nations.

The exercise will feature an impressive array of military hardware, including over 50 naval vessels ranging from aircraft carriers to destroyers, and a formidable air contingent of more than 80 units comprising fighter jets, helicopters, and drones.

The ground forces are equally robust, with at least 1,100 combat vehicles, including 133 tanks and 533 infantry fighting vehicles, demonstrating NATO's ground capabilities.

The purpose of Steadfast Defender 2024 is to put NATO's new regional defense plans to the test.

These plans, the first of their kind in decades, outline the alliance's response mechanisms to potential threats, notably addressing concerns regarding Russian aggression.

Formed in 1949 with the signing of the Washington Treaty, NATO is a security alliance of 31 countries from North America and Europe.

NATO's fundamental goal is to safeguard the Allies' freedom and security by political and military means.

It is a system of collective defence where independent member states agree for mutual defence in case of any attack by an external party.

Article 5 of the Washington Treaty states that an attack against one ally is an attack against all.

This article forms the core of the Alliance, a promise of collective defense.

Headquarter: Brussels, Belgium.

Functions:

Political: NATO promotes democratic values and enables members to consult and cooperate on defence and security-related issues to solve problems, build trust, and, in the long run, prevent conflict.

Military: NATO is committed to the peaceful resolution of disputes. If diplomatic efforts fail, it has the military power to undertake crisis-management operations. These are carried out under Article 5 of the Washington Treaty or under a United Nations mandate, alone or in cooperation with other countries and international organisations.

The Washington Treaty – or North Atlantic Treaty – forms the basis of the North Atlantic Treaty Organization – or NATO. The Treaty was signed in Washington D.C. on 4 April 1949 by 12 founding members. The Treaty derives its authority from Article 51 of the United Nations Charter, which reaffirms the inherent right of independent states to individual or collective defence. Collective defence is at the heart of the Treaty and is enshrined in Article 5. It commits members to protect each other and sets a spirit of solidarity within the Alliance. The Treaty is short – containing only 14 articles – and provides for in-built flexibility on all fronts.

General Agreement on Goods in Services

Around 72 nations have agreed to take on additional obligations in services under the General Agreement on Goods in Services (GATS) to ease non-goods trade among themselves and extended the similar concessions to all other members of the World Trade Organisation (WTO).

About General Agreement on Goods in Services

It is a treaty of the World Trade Organization (WTO).

It was created to extend the multilateral trading system to the service sector, in the same way, the General Agreement on Tariffs and Trade (GATT) provides such a system for merchandise trade.

It was signed at the Uruguay Round of Multilateral Trade Negotiations's conclusion and entered into force on January 1, 1995.

Members: All WTO members are at the same time members of the GATS including India.

Basic obligations under the GATS may be categorized into two broad groups:

General obligations that apply to all members and services sector.

Specific commitments: These are obligations that apply only to the sectors inscribed in a member's schedule of commitments. Such commitments are laid down in individual schedules whose scope may vary widely between members.

The GATS applies in principle to all service sectors, with two exceptions.

Services supplied in the exercise of governmental authority: These are services that are supplied neither on a commercial basis nor in competition with other suppliers.

These include social security schemes and any other public service, such as health or education that is provided at non-market conditions.

The Annex on Air Transport Services exempts from coverage measures affecting air traffic rights and services directly related to the exercise of such rights.

New obligations

The new obligations under their schedules in GATS seek to mitigate the unintended trade-restrictive effects of measures related to licensing requirements and procedures, qualification requirements and procedures and technical standards among themselves.

The disciplines will be applied on a "most-favoured nation" principle, meaning that they will benefit all WTO members.

These disciplines have been named Services Domestic Regulation (DSR) and came into force in the 13th Ministerial Conference of the WTO.

World Trade Organisation

It was created in 1995, it is an international institution that oversees the rules for global trade among nations. The WTO is based on agreements signed by most of the world's trading nations. The main function of the organisation is to help producers of goods and services, as well as exporters and importers, protect and manage their businesses.

Additional Tier-1 (AT-1) Bonds

The State Bank of India (SBI) is unlikely to utilize the enabling provision to raise nearly Rs 11,900 crore through additional tier-I (AT-1) bonds due to pricing issues in the current fiscal.

About Additional Tier-1 (AT-1) Bonds

AT-1 bonds are perpetual bonds with no maturity date.

Investors in these bonds do not get their principal back.

However, the interest continues forever. AT-1 bonds have a higher interest rate than other bonds.

Due to the perpetual nature of AT-1 bonds, these are often treated and viewed as equity, not debt.

How are AT-1 Bonds Issued?

AT-1 bonds are issued by banks in accordance with the directions of the Reserve Bank of India (RBI).

Financial institutions usually issue such bonds to fulfil their capital adequacy requirements (CAR).

CAR is an assessment of a bank's capital and its risk-weighted assets.

Capital adequacy norms were formulated under the Basel III accord of 2009 after the credit crisis of 2008.

The money raised through these bonds is kept aside as a shock absorber by the bank.

These bonds are contingent convertible bonds (CoCos), a type of debt instrument that the bank can convert into equity if its capital levels fall below the specified levels. This helps the bank reduce debt while managing capital.

AT-1 bonds have a call option, which allows the banks to buy back the bonds from the investors.

These bonds provide high returns but also carry greater risk.

If the banking institution fails, these bonds are at risk.

Suppose the RBI finds a bank in an unstable condition, under pressure, and in a situation where it demands rescue. In that case, it can ask the bank to immediately withdraw their AT-1 Bonds without seeking permission from the investors, therefore making AT-1 Bonds risky.

Further, the issuer can also skip the interest payout if it is under financial stress. Investors cannot return their bonds to the bank as there is no put option against these bonds. However, these bonds are listed on the stock exchanges, so the investor can liquidate these whenever in need.

Subordinate debt: In case of default, these bonds rank lower than the other debt, which is why these are subordinate debts.

A bond is a fixed-income instrument that represents a loan made by an investor to a borrower (typically corporate or governmental) for a set period of time in return for regular interest payments. The time from when the bond is issued to when the borrower has agreed to pay the loan back is called its ‘term to maturity’. The bond issuer uses the money raised from bonds to undertake various activities, such as funding expansion projects, refinancing existing debt, undertaking welfare activities, etc.