



Public Consultation on the Revision of the Interpretive Note to Recommendation 8

Non-Profit Organisations (NPOs)

The NPO sector and the threat environment in which it operates have evolved, governments' experiences in implementing Recommendation 8 have advanced, and self-regulatory mechanisms have also evolved. The FATF therefore sees the need to revise the Interpretive Note to Recommendation 8, as a matter of priority, to align with the results of the [Typologies Report](#) and the recently updated [Best Practices Paper](#).

The FATF wishes to receive your views and specific proposals to the text of the Interpretive Note to Recommendation 8, in English or French, to FATF.NPOconsultation@fatf-gafi.org no later than **Friday 27 November, 18:00, CET**.

Please note that this exercise is intended to be a focused revision of the Interpretive Note to Recommendation 8 and the FATF currently has no plan to re-open the revision of the FATF Standard as a whole.

Due to resource constraints, the FATF Secretariat can only accept input which is submitted according to the instructions and following the template, and/or is submitted before the above deadline.

The FATF will not be able to consider any submission that does not meet the above criteria.

At its next meeting in February 2016, the FATF will discuss the input received through this consultation process and will determine the next steps towards finalising the Interpretive Note to Recommendation 8 later in 2016.

For further details concerning this public consultation, please see:

www.fatf-gafi.org/publications/fatfrecommendations/public-consultation-npo-INR8.html

1. Name of organisation represented and/or person submitting comments (if applicable)

Global NPO Coalition on FATF

2. Country in which your organisation is based/primarily resides (mandatory field)

Co-chairs Lia van Broekhoven (Netherlands) and Kay Guinane (United States)

3. All the countries in which your organisation operates (mandatory field)

The 119 members of the coalition come from 39 countries in Africa, Asia, Australia, the Caribbean, Europe and North America.

4. Which of the following entities do you represent (mandatory field)

Please indicate the entity or entities you represent

B and C

A. Government; or

B. A service NPO (meaning an NPO which primarily raises or disburses funds for charitable, religious, cultural, educational, social or fraternal purposes, or for carrying out other types of “good works”); or

C. An expressive NPO (meaning an NPO which primarily focuses on sports and recreation, arts and culture, interest representation or advocacy such as political parties, think tanks and advocacy groups); or

D. A donor/concerned member of the public

5. General comments

Please limit your general comments to one page only. Comments exceeding this length will not be considered.

1. We urge the FATF to bring Recommendation 8 in line with the risk-based approach

We welcome this open consultation on the revision of the R8 Interpretive Note (IN). However, it is important to bring both the IN and R8 itself in line with the risk-based approach in order to avoid over-regulation and the disruption of the work of legitimate nonprofit organizations (NPOs). The existing wording of R8 is clearly not in line with the FATF's current risk-based approach, stating as it does that the entire NPO sector is "particularly" vulnerable to terrorism financing abuse. There is no evidence that NPOs are particularly vulnerable compared to other sectors. The FATF Typologies Report, based on 102 case studies, acknowledges that cases of abuse are rare. The language currently used sends out the message that the NPO sector is inherently high-risk, leading to consequences such as bank derisking of NPO accounts and sector over-regulation. Our suggestions for the revision of the IN (in section 6 below) clearly show that the language of R8 needs to be revised to be aligned with the IN. Otherwise, the two documents will remain at odds. We suggest the following revision for the second sentence of R8: "Non-profit organisations may in specific situations be vulnerable, and countries should apply a targeted and proportionate approach to limit the risk of abuse: (a) by...." We strongly request that this revision of Recommendation 8 be placed on the agenda for discussion at the next FATF plenary.

2. We urge the FATF to bring the IN fully in line with the risk-based approach

Significant parts of the IN that are inconsistent with the risk-based approach should be revised. The IN should make it clear that countries should take a targeted and proportionate approach, with a risk assessment being the first step. Measures to mitigate risk should only be applied to NPOs then identified to be at risk, either through laws, self-regulatory measures or a combination of both. The IN should clearly state that the FATF's definition of NPOs is a starting point for the risk assessment and not a description of all organizations to be subject to supervision and monitoring measures. Introduction to Section 5b should be aligned with the current BPP, para. 28 and 29, on the scope of NPOs falling under supervision and monitoring measures. The rest of 5b should be deleted as it provides a checklist of supervision and monitoring measures that may or may not be appropriate under the risk-based approach. The IN should also make it clear that risk mitigation measures must be flexible so that small NPOs are not subjected to unfeasible and inappropriate requirements. In addition, the FATF should ensure that the evaluation methodology and, documents (and questions) for the evaluators reflect the revisions of both the IN and the Best Practices Paper (BPP).

3. Concerning the overall process of the revision of IN we recommend that the FATF:

- publish full drafts of the revised documents for input by civil society
- organize, with adequate notice and meaningful opportunity to participate, public consultations with NPOs on the draft versions – especially prior to the plenary session where it will be discussed;
- allow for a meaningful consultation process with a broad group of NPOs by allocating more time and opportunity for the sector to provide input.

- 4. Regarding longer term NPO engagement with the FATF we ask that FATF adopt guidelines/principles for systematic (annual and ad hoc) engagement with. This issue should be placed on the agenda for discussion at the next FATF plenary. NPOs can contribute to the FATF country reviews under the new methodology by providing independent expert advice.**

6. Specific proposal to amend the text of the Interpretive Note to Recommendation 8 (INR.8)

Please provide your specific proposals to amend the text of INR.8, if any, in tracked changes. This exercise is intended to be a focused revision of INR.8 and the FATF currently has no plan to re-open the revision of the FATF Standard as a whole.

INTERPRETIVE NOTE TO RECOMMENDATION 8
(NON-PROFIT ORGANISATIONS)**A. INTRODUCTION**

1. Non-profit organisations (NPOs) play a vital part ~~role~~ in the world and national economies.~~y~~ ~~and in many national economies and social systems.~~ They play a key role in social systems, increasing social cohesion and maintaining and securing human rights and piece on the ground. They reduce the conditions that drive radicalisation by resposning to communities expressed needs. ~~Their efforts complement the activity of the governmental and business sectors in providing essential services, comfort and hope to those in need around the world.~~ The ongoing international campaign against terrorist financing has indicated ~~unfortunately demonstrated, however,~~ that terrorists and terrorist organisations may exploit some ~~the~~ NPOs in specific circumstances or create sham charities in order ~~sector~~ to raise and move funds, provide logistical support, encourage terrorist recruitment, or otherwise support terrorist organisations and operations. This misuse not only facilitates terrorist activity, but also undermines donor confidence and jeopardises the very integrity of NPOs. Therefore, protecting the NPO sector from terrorist abuse is both a critical component of the global fight against terrorism and a necessary step to preserve the integrity of NPOs.
2. NPOs may be vulnerable to abuse by terrorists for a variety of reasons. NPOs enjoy the public trust, have access to considerable sources of funds, and are often cash-intensive. Furthermore, some NPOs have a global presence that provides a framework for national and international operations and financial transactions, often within or near those areas that are most exposed to terrorist activity. **Terrorists and terrorist organisations may in specific cases take advantage of NPOs to infiltrate the sector and misuse NPO funds and operations to cover for, or support, terrorist activity. Depending on the country, some governments may over-regulate NPOs in the name of security. The tendency toward radicalization increases in such settings, where citizens have inadequate independent and protected space to organize around community needs.** ~~Depending on the legal form of the NPO and the country, NPOs may often be subject to little or no governmental oversight (for example, registration, record keeping, reporting and monitoring), or few formalities may be required for their creation (for example, there may be no skills or starting capital required, no background checks necessary for employees). Terrorist organisations have taken advantage of these characteristics of NPOs to infiltrate the sector and misuse NPO funds and operations to cover for, or support, terrorist activity.~~

B. OBJECTIVES AND GENERAL PRINCIPLES

3. The objective of Recommendation 8 is to ensure that NPOs are not misused by terrorist organisations: (i) to pose as legitimate entities; (ii) to exploit legitimate entities as conduits for terrorist financing, including for the purpose of escaping asset freezing measures; or (iii) to conceal or obscure the clandestine diversion of funds intended for legitimate purposes, but diverted for terrorist purposes. In this Interpretive Note, the approach taken to achieve this objective is based on the following general principles:

(a) Past and ongoing abuse of the NPO sector by terrorists and terrorist organisations requires countries to adopt measures **to assess the risk of the NPO sector and to apply a risk-based and proportionate approach (RBA) to ensure that measures to prevent or mitigate terrorist financing are commensurate with the risks identified. Strict safeguards are essential to prevent politically motivated restrictions on NPOs in order to avoid the public perception that there is no protected space of NPOs. Limits on fundamental rights of association, assembly and expression are key push factors in driving violent extremism. both: (i) to protect the sector against such abuse, and (ii) to identify and take effective action against those NPOs that either are exploited by, or actively support, terrorists or terrorist organisations.**

(b) Measures adopted by countries to prevent and mitigate ~~protect the NPO sector from~~ terrorist financing abuse of NPOs at risk should not disrupt or discourage legitimate charitable activities. ~~Rather, such measures should promote transparency and engender greater confidence in the sector, across the donor community and with the general public, that charitable funds and services reach intended legitimate beneficiaries.~~ **Based on a national risk assessment, countries should apply a risk-based and proportionate approach (RBA) to ensure that measures to prevent or mitigate terrorist financing are commensurate with the risks identified, do not inadvertently suppress protected political and human rights and ensure that NPOs can maintain access to established and regulated financial services.** ~~Systems that promote achieving a high degree of transparency, integrity and public confidence in the management and functioning of all NPOs are integral to ensuring the sector cannot be misused for terrorist financing.~~

(c) A targeted approach in dealing with the terrorist threat to the NPO sector is essential given the diversity within individual national sectors, the differing degrees to which parts of each sector may be vulnerable to misuse by terrorists, the need to ensure that legitimate charitable activity continues to flourish, and the limited resources and authorities available to combat terrorist financing in each country.

(f) Flexibility in developing a national response to terrorist financing in the NPO sector is also essential, in order to allow it to evolve over time as it faces the changing nature of the terrorist financing threat.

Measures adopted by countries to identify and take effective action against NPOs that either are exploited by, or actively support, terrorists or terrorist organisations should aim to

prevent and prosecute, as appropriate, terrorist financing and other forms of terrorist support. Where NPOs suspected of, or implicated in, terrorist financing or other forms of terrorist support are identified, the first priority of countries must be to investigate and halt such terrorist financing or support. Actions taken for this purpose should, to the extent reasonably possible, avoid any negative impact on innocent and legitimate beneficiaries of charitable activity. **Such action should conform to the rule of law and due process, including adequate notice of the substance of charges and a meaningful opportunity to respond for NPOs subject to enforcement action. In all cases charitable funds must be used solely for charitable purposes.**~~However, this interest cannot excuse the need to undertake immediate and effective actions to advance the immediate interest of halting terrorist financing or other forms of terrorist support provided by NPOs.~~

(d) Developing cooperative relationships among the public, private and NPO sector is critical to increase ~~raising~~ awareness and fostering capabilities to ~~combat~~ address potential risks of terrorist abuse within the sector. Countries should encourage the development of academic research on, and information-sharing in, the NPO sector to address terrorist financing related issues to prevent the FATF standards from silencing the legitimate NPO sector, countries should encourage and support research that monitors and reports on the effects of R8 and other R have on the sector.

(e) ~~A targeted approach in dealing with the terrorist threat to the NPO sector is essential given the diversity within individual national sectors, the differing degrees to which parts of each sector may be vulnerable to misuse by terrorists, the need to ensure that legitimate charitable activity continues to flourish, and the limited resources and authorities available to combat terrorist financing in each country.~~

(f) ~~Flexibility in developing a national response to terrorist financing in the NPO sector is also essential, in order to allow it to evolve over time as it faces the changing nature of the terrorist financing threat.~~

C. MEASURES

4. Countries should undertake domestic reviews of their NPO sector, or have the capacity to obtain timely information on its activities, size and other relevant features. In undertaking these assessments, countries that use open source information should examine and verify it prior to relying on it ~~should use all available sources of information~~ in order to identify features and types of NPOs, which, by virtue of their activities or characteristics, are at risk of being misused for terrorist financing.¹ In addition, data protection and the right to privacy should be respected. Countries should also periodically reassess the sector by reviewing new information on the sector's potential vulnerabilities to terrorist activities.

¹ For example, such information could be provided by regulators, tax authorities, FIUs, donor organisations or law enforcement and intelligence authorities.

Countries should assess whether a potential risk for terrorist financing abuse may have already been addressed by existing laws/regulations including self-regulatory tools (even though the laws may have not been drafted with this intention in mind). Countries should only consider appropriate and targeted measures if a risk has been identified

5. There is a diverse range of approaches of how countries could mitigate risks which were potentially identified by the review of the sector. An effective approach, should involve the following elements: (a) ongoing outreach to the sector (b) proportionate and risk based supervision or monitoring c) effective investigation and information gathering and d) effective mechanisms for international cooperation. The following measures represent specific actions that countries should take with respect to each of these elements, in order to mitigate an identified risk of the sector.

~~There is a diverse range of approaches in identifying, preventing and combating terrorist misuse of NPOs. An effective approach, however, is one that involves all four of the following elements: (a) outreach to the sector, (b) supervision or monitoring, (c) effective investigation and information gathering and (d) effective mechanisms for international cooperation. The following measures represent specific actions that countries should take with respect to each of these elements, in order to protect their NPO sector from terrorist financing abuse.~~

(a) Outreach to the NPO sector concerning terrorist financing issues

~~(i) Countries should have clear policies to promote transparency, integrity and public confidence in the administration and management of all NPOs.~~

~~(ii) Countries should encourage or undertake a two way dialogue and outreach programmes to deepen the raise awareness in the NPO sector about potential the vulnerabilities of NPOs to terrorist abuse and terrorist financing risks, and the measures that NPOs can take to protect themselves against such abuse.~~

~~(iii) Countries should work with the NPO sector to develop and refine best practices to address terrorist financing risks and vulnerabilities and thus protect the sector from terrorist abuse.~~

(iv) Countries should encourage NPOs to conduct transactions via regulated financial channels, wherever feasible, keeping in mind the varying capacities of financial sectors in different countries and in different areas of urgent charitable and humanitarian concerns. Countries should facilitate access to regulated financial channels for NPOs and encourage NPOs to conduct transactions via regulated financial channels.

(b) Proportionate and risk based supervision or monitoring of the NPO sector

~~Countries should to take steps to promote effective supervision or monitoring of their "NPO sector", meaning those organisations that fall within the scope of the FATF definition of NPOs and ultimately those NPOs that are the subset of NPOs deemed to be at higher risk of TF abuse. Countries should avoid overregulation which disrupts~~

~~legitimate activities of NPOs. Recommendation 8 does not require the same measures to be applied to all NPOs. Indeed, a “one size fits all” approach would not be consistent with Recommendation 1 and proper implementation of a risk-based approach. Countries should implement measures that are commensurate with the risks identified through their domestic review of the NPO sector and their understanding of the TF risks facing the sector, and should apply enhanced measures where the TF risks are higher (either through laws or self-regulatory mechanisms). It is also possible that existing regulatory or other measures may already sufficiently address the current TF risk to the NPOs in a jurisdiction, although TF risks to the sector should be periodically reviewed. Countries should take steps to promote effective supervision or monitoring of those NPOs at risk and avoid over-regulation, which disrupts the activities of legitimate NPOs. In practice, countries should consider standards that apply only to NPOs which have been identified to be at risk (either through laws or self-regulatory mechanisms). Countries should take steps to promote effective supervision or monitoring of their NPO sector. In practice, countries should be able to demonstrate that the following standards apply to NPOs which account for (1) a significant portion of the financial resources under control of the sector; and (2) a substantial share of the sector’s international activities.~~

~~(i) NPOs should maintain information on: (1) the purpose and objectives of their stated activities; and (2) the identity of the 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.~~

~~(ii) NPOs should issue annual financial statements that provide detailed breakdowns of incomes and expenditures.~~

~~(iii) NPOs should be licensed or registered. This information should be available to competent authorities.²~~

~~(iv) NPOs should have appropriate controls in place to ensure that all funds are fully accounted for, and are spent in a manner that is consistent with the purpose and objectives of the NPO’s stated activities.~~

~~(v) NPOs should follow a “know your beneficiaries and associate NPOs” rule, which means that the NPO should make best efforts to confirm the identity, credentials and good standing of their beneficiaries and associate NPOs. NPOs should also undertake best efforts to document the identity of their significant donors and to respect donor confidentiality.~~

~~(vi) NPOs should maintain, for a period of at least five years, records of domestic and~~

² ~~Specific licensing or registration requirements for counter terrorist financing purposes are not necessary. For example, in some countries, NPOs are already registered with tax authorities and monitored in the context of qualifying for favourable tax treatment (such as tax credits or tax exemptions).~~

~~international transactions that are sufficiently detailed to verify that funds have been spent in a manner consistent with the purpose and objectives of the organisation, and should make these available to competent authorities upon appropriate authority. This also applies to information mentioned in paragraphs (i) and (ii) above.~~

~~(vii) Appropriate authorities should monitor the compliance of NPOs with the requirements of this Recommendation.³ Appropriate authorities should be able to apply effective, proportionate and dissuasive sanctions for violations by NPOs or persons acting on behalf of these NPOs.⁴~~

~~(c) Effective information gathering and investigation~~

~~(i) Countries should ensure effective cooperation, coordination and information-sharing to the extent possible among all levels of appropriate authorities ~~or organisations~~ that hold relevant information on NPOs.~~

~~(ii) Countries should have investigative expertise and capability to examine those NPOs suspected of either being exploited by, or actively supporting, terrorist activity or terrorist organisations.~~

~~(iii) Countries should ensure that full access to information on the administration and management of a particular NPO (including financial and programmatic information) may be obtained during the course of an investigation.~~

~~(iv) Countries should establish appropriate mechanisms to ensure that, when there is suspicion or reasonable grounds to suspect that a particular NPO: (1) is a front for fundraising by a terrorist organisation; (2) is being exploited as a conduit for terrorist financing, including for the purpose of escaping asset freezing measures; or (3) is concealing or obscuring the clandestine diversion of funds intended for legitimate purposes, but redirected for the benefit of terrorists or terrorist organisations, this information is promptly shared with relevant competent authorities, in order to take preventive or investigative action.~~

~~(d) Effective capacity to respond to international requests for information about an NPO of concern~~

~~Consistent with Recommendations on international cooperation, countries should identify appropriate points of contact and procedures to respond to international requests for information regarding particular NPOs suspected of terrorist financing or other forms of terrorist support.~~

~~³ In this context, rules and regulations may include rules and standards applied by self regulatory organisations and accrediting institutions.~~

~~⁴ The range of such sanctions might include freezing of accounts, removal of trustees, fines, de-certification, de-licensing and de-registration. This should not preclude parallel civil, administrative or criminal proceedings with respect to NPOs or persons acting on their behalf where appropriate.~~

D. RESOURCES FOR SUPERVISION, MONITORING, AND INVESTIGATION

6. Countries should provide their appropriate authorities responsible for supervision, monitoring and investigation of their NPO sector with adequate financial, human and technical resources.

Glossary of specific terms used in this Recommendation: Add the definition of expressive organizations used in this survey: an NPO which primarily focuses on sports and recreation, arts and culture, interest representation or advocacy such as political parties, think tanks and advocacy groups

Appropriate authorities refers to competent authorities, including accrediting institutions, and self-regulatory organisations.

Associate NPOs includes foreign branches of international NPOs.

Beneficiaries refers to those natural persons, or groups of natural persons who receive charitable, humanitarian or other types of assistance through the services of the NPO.

Non-profit organisation or NPO refers to a legal person or arrangement or organisation that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of “good works”.

INTERPRETIVE NOTE TO RECOMMENDATION 8 (NON-PROFIT ORGANISATIONS)

A. INTRODUCTION

1. Non-profit organisations (NPOs) play a vital role in the world economy and in many national economies and social systems. Their efforts complement the activity of the governmental and business sectors in providing essential services, comfort and hope to those in need around the world. The ongoing international campaign against terrorist financing has unfortunately demonstrated, however, that terrorists and terrorist organisations exploit the NPO sector to raise and move funds, provide logistical support, encourage terrorist recruitment, or otherwise support terrorist organisations and operations. This misuse not only facilitates terrorist activity, but also undermines donor confidence and jeopardises the very integrity of NPOs. Therefore, protecting the NPO sector from terrorist abuse is both a critical component

of the global fight against terrorism and a necessary step to preserve the integrity of NPOs.

2. NPOs may be vulnerable to abuse by terrorists for a variety of reasons. NPOs enjoy the public trust, have access to considerable sources of funds, and are often cash-intensive. Furthermore, some NPOs have a global presence that provides a framework for national and international operations and financial transactions, often within or near those areas that are most exposed to terrorist activity. Depending on the legal form of the NPO and the country, NPOs may often be subject to little or no governmental oversight (for example, registration, record keeping, reporting and monitoring), or few formalities may be required for their creation (for example, there may be no skills or starting capital required, no background checks necessary for employees). Terrorist organisations have taken advantage of these characteristics of NPOs to infiltrate the sector and misuse NPO funds and operations to cover for, or support, terrorist activity.

B. OBJECTIVES AND GENERAL PRINCIPLES

~~3.— THE OBJECTIVE OF RECOMMENDATION 8 IS TO ENSURE THAT NPOS ARE NOT MISUSED BY TERRORIST ORGANISATIONS: (I) TO POSE AS LEGITIMATE ENTITIES; (II) TO EXPLOIT LEGITIMATE ENTITIES AS CONDUITS FOR TERRORIST FINANCING, INCLUDING FOR THE PURPOSE OF ESCAPING ASSET FREEZING MEASURES; OR (III) TO CONCEAL OR OBSCURE THE CLANDESTINE DIVERSION OF FUNDS INTENDED FOR LEGITIMATE PURPOSES, BUT DIVERTED FOR TERRORIST PURPOSES. IN THIS INTERPRETIVE NOTE, THE APPROACH TAKEN TO ACHIEVE THIS OBJECTIVE IS BASED ON THE FOLLOWING GENERAL PRINCIPLES:~~

~~(A)— PAST AND ONGOING ABUSE OF THE NPO SECTOR BY TERRORISTS AND TERRORIST ORGANISATIONS REQUIRES COUNTRIES TO ADOPT MEASURES BOTH: (I) TO PROTECT THE SECTOR AGAINST SUCH ABUSE, AND (II) TO IDENTIFY AND TAKE EFFECTIVE ACTION AGAINST THOSE NPOS THAT EITHER ARE EXPLOITED BY, OR ACTIVELY SUPPORT, TERRORISTS OR TERRORIST ORGANISATIONS.~~

~~(B)— MEASURES ADOPTED BY COUNTRIES TO PROTECT THE NPO SECTOR FROM TERRORIST ABUSE SHOULD NOT DISRUPT OR DISCOURAGE LEGITIMATE CHARITABLE ACTIVITIES. RATHER, SUCH MEASURES SHOULD PROMOTE TRANSPARENCY AND ENGENDER GREATER CONFIDENCE IN THE SECTOR, ACROSS THE DONOR COMMUNITY AND WITH THE GENERAL PUBLIC, THAT CHARITABLE FUNDS AND SERVICES REACH INTENDED LEGITIMATE BENEFICIARIES. SYSTEMS THAT PROMOTE ACHIEVING A HIGH DEGREE OF TRANSPARENCY, INTEGRITY AND PUBLIC CONFIDENCE IN THE MANAGEMENT AND FUNCTIONING OF ALL NPOS ARE INTEGRAL TO ENSURING THE SECTOR CANNOT BE MISUSED FOR TERRORIST FINANCING.~~

- (c) Measures adopted by countries to identify and take effective action against NPOs that either are exploited by, or actively support, terrorists or terrorist organisations should aim to prevent and prosecute, as appropriate, terrorist financing and other forms of terrorist support. Where NPOs suspected of, or implicated in, terrorist financing or other forms of terrorist support are identified, the first priority of countries must be to investigate and halt such terrorist financing or support. Actions taken for this purpose should, to the extent reasonably possible, avoid any negative impact on innocent and

~~legitimate beneficiaries of charitable activity. However, this interest cannot excuse the need to undertake immediate and effective actions to advance the immediate interest of halting terrorist financing or other forms of terrorist support provided by NPOs.~~

- ~~(d) Developing cooperative relationships among the public, private and NPO sector is critical to raising awareness and fostering capabilities to combat terrorist abuse within the sector. Countries should encourage the development of academic research on, and information-sharing in, the NPO sector to address terrorist financing related issues.~~
- ~~(e) A targeted approach in dealing with the terrorist threat to the NPO sector is essential given the diversity within individual national sectors, the differing degrees to which parts of each sector may be vulnerable to misuse by terrorists, the need to ensure that legitimate charitable activity continues to flourish, and the limited resources and authorities available to combat terrorist financing in each country.~~
- ~~(f) Flexibility in developing a national response to terrorist financing in the NPO sector is also essential, in order to allow it to evolve over time as it faces the changing nature of the terrorist financing threat.~~

C. MEASURES

~~**4.— COUNTRIES SHOULD UNDERTAKE DOMESTIC REVIEWS OF THEIR NPO SECTOR, OR HAVE THE CAPACITY TO OBTAIN TIMELY INFORMATION ON ITS ACTIVITIES, SIZE AND OTHER RELEVANT FEATURES. IN UNDERTAKING THESE ASSESSMENTS, COUNTRIES SHOULD USE ALL AVAILABLE SOURCES OF INFORMATION IN ORDER TO IDENTIFY FEATURES AND TYPES OF NPOS, WHICH, BY VIRTUE OF THEIR ACTIVITIES OR CHARACTERISTICS, ARE AT RISK OF BEING MISUSED FOR TERRORIST FINANCING.⁵ COUNTRIES SHOULD ALSO PERIODICALLY REASSESS THE SECTOR BY REVIEWING NEW INFORMATION ON THE SECTOR'S POTENTIAL VULNERABILITIES TO TERRORIST ACTIVITIES.**~~

- ~~5. There is a diverse range of approaches in identifying, preventing and combating terrorist misuse of NPOs. An effective approach, however, is one that involves all four of the following elements: (a) outreach to the sector, (b) supervision or monitoring, (c) effective investigation and information gathering and (d) effective mechanisms for international cooperation. The following measures represent specific actions that countries should take with respect to each of these elements, in order to protect their NPO sector from terrorist financing abuse.~~
- ~~(a) Outreach to the NPO sector concerning terrorist financing issues~~
- ~~(i) Countries should have clear policies to promote transparency, integrity and public confidence in the administration and management of all NPOs.~~
- ~~(ii) Countries should encourage or undertake outreach programmes to raise awareness in the NPO sector about the vulnerabilities of NPOs to terrorist abuse~~

⁵—For example, such information could be provided by regulators, tax authorities, FIUs, donor organisations or law enforcement and intelligence authorities.

~~and terrorist financing risks, and the measures that NPOs can take to protect themselves against such abuse.~~

~~(iii) Countries should work with the NPO sector to develop and refine best practices to address terrorist financing risks and vulnerabilities and thus protect the sector from terrorist abuse.~~

~~(iv) Countries should encourage NPOs to conduct transactions via regulated financial channels, wherever feasible, keeping in mind the varying capacities of financial sectors in different countries and in different areas of urgent charitable and humanitarian concerns.~~

~~(b) Supervision or monitoring of the NPO sector~~

~~— Countries should take steps to promote effective supervision or monitoring of their NPO sector. In practice, countries should be able to demonstrate that the following standards apply to NPOs which account for (1) a significant portion of the financial resources under control of the sector; and (2) a substantial share of the sector's international activities.~~

~~(i) NPOs should maintain information on: (1) the purpose and objectives of their stated activities; and (2) the identity of the 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.~~

~~(ii) NPOs should issue annual financial statements that provide detailed breakdowns of incomes and expenditures.~~

~~(iii) NPOs should be licensed or registered. This information should be available to competent authorities.⁶~~

~~(iv) NPOs should have appropriate controls in place to ensure that all funds are fully accounted for, and are spent in a manner that is consistent with the purpose and objectives of the NPO's stated activities.~~

~~(v) NPOs should follow a "know your beneficiaries and associate NPOs" rule, which means that the NPO should make best efforts to confirm the identity, credentials and good standing of their beneficiaries and associate NPOs. NPOs should also undertake best efforts to document the identity of their significant donors and to respect donor confidentiality.~~

~~(vi) NPOs should maintain, for a period of at least five years, records of domestic and international transactions that are sufficiently detailed to verify that funds have been spent in a manner consistent with the purpose and objectives of the~~

⁶— Specific licensing or registration requirements for counter terrorist financing purposes are not necessary. For example, in some countries, NPOs are already registered with tax authorities and monitored in the context of qualifying for favourable tax treatment (such as tax credits or tax exemptions).

~~organisation, and should make these available to competent authorities upon appropriate authority. This also applies to information mentioned in paragraphs (i) and (ii) above.~~

~~(vii) Appropriate authorities should monitor the compliance of NPOs with the requirements of this Recommendation.⁷ Appropriate authorities should be able to apply effective, proportionate and dissuasive sanctions for violations by NPOs or persons acting on behalf of these NPOs.⁸~~

~~(c) Effective information gathering and investigation~~

~~(i) Countries should ensure effective cooperation, coordination and information-sharing to the extent possible among all levels of appropriate authorities or organisations that hold relevant information on NPOs.~~

~~(ii) Countries should have investigative expertise and capability to examine those NPOs suspected of either being exploited by, or actively supporting, terrorist activity or terrorist organisations.~~

~~(iii) Countries should ensure that full access to information on the administration and management of a particular NPO (including financial and programmatic information) may be obtained during the course of an investigation.~~

~~(iv) Countries should establish appropriate mechanisms to ensure that, when there is suspicion or reasonable grounds to suspect that a particular NPO: (1) is a front for fundraising by a terrorist organisation; (2) is being exploited as a conduit for terrorist financing, including for the purpose of escaping asset freezing measures; or (3) is concealing or obscuring the clandestine diversion of funds intended for legitimate purposes, but redirected for the benefit of terrorists or terrorist organisations, this information is promptly shared with relevant competent authorities, in order to take preventive or investigative action.~~

~~(d) Effective capacity to respond to international requests for information about an NPO of concern~~

~~Consistent with Recommendations on international cooperation, countries should identify appropriate points of contact and procedures to respond to international requests for information regarding particular NPOs suspected of terrorist financing or other forms of terrorist support.~~

~~D. RESOURCES FOR SUPERVISION, MONITORING, AND INVESTIGATION~~

~~6. Countries should provide their appropriate authorities responsible for supervision,~~

⁷ ~~In this context, rules and regulations may include rules and standards applied by self-regulatory organisations and accrediting institutions.~~

⁸ ~~The range of such sanctions might include freezing of accounts, removal of trustees, fines, de-certification, de-licensing and de-registration. This should not preclude parallel civil, administrative or criminal proceedings with respect to NPOs or persons acting on their behalf where appropriate.~~

~~monitoring and investigation of their NPO sector with adequate financial, human and technical resources.~~

Glossary of specific terms used in this Recommendation

Appropriate authorities	refers to competent authorities, including accrediting institutions, and self-regulatory organisations.
Associate NPOs	includes foreign branches of international NPOs.
Beneficiaries	refers to those natural persons, or groups of natural persons who receive charitable, humanitarian or other types of assistance through the services of the NPO.
Non-profit organisation or NPO	refers to a legal person or arrangement or organisation that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of “good works”.