

**F A T F ▲ G A F I**

**Financial Action Task Force  
on Money Laundering  
Groupe d'Action financière  
sur le blanchiment de capitaux**

**Presentation by Mr. Patrick Moulette  
Executive Secretary of the FATF**

**ABCA Symposium  
on the role of African Central Banks  
in the fight against Money Laundering**

**Yaoundé, Cameroon  
29 July 2004**

## **INTRODUCTION**

Mr. Chairman, distinguished delegates, ladies and gentlemen. It is an honour and a great pleasure for me to address you today on the occasion of this symposium on the role of African Central Banks in the fight against money laundering. I would like to thank the organisers of this symposium for inviting me to be here so that I can provide you with a brief overview of the work of the Financial Action Task Force.

In this regard, I will focus on the revised FATF Forty Recommendations on money laundering and the assessment of their implementation. I will also describe the progress that the FATF has made in developing and implementing counter-measures to combat terrorist financing. Finally, I will say a few words on developments in the Non-Cooperative Countries and Territories initiative (NCCTs).

### **I. THE REVISED FORTY RECOMMENDATIONS AND THEIR IMPLEMENTATION**

A major priority for the FATF over recent years has been the completion of the review of its Forty Recommendations, the international anti-money laundering standard. The FATF brought this process to a successful conclusion at its Plenary meeting in Berlin in June 2003.

We all know that money laundering methods and techniques change in response to the counter-measures that are developed to combat this crime. In recent years, increasingly sophisticated combinations of techniques and an increased use of professionals to provide advice and assistance in laundering criminal funds have been noted. These factors and a number of national and international initiatives, led to the FATF revising the Forty Recommendations.

The revised Forty Recommendations, when combined with the Eight Special Recommendations on Terrorist Financing, now provide a comprehensive and consistent framework of measures for combating money laundering and terrorist financing. This new and updated international standard will require countries to enhance their efforts to fight serious crime and terrorism.

I would like to underline the most important changes that have been adopted:

- First of all, in relation to legal matters, the new Recommendations require countries to make all serious offences predicate offences to the crime of money laundering. It follows from this that they must also a list of specific predicate offences for the money laundering offence. This will help to provide a level playing field, which is an issue that has been of concern for both the private and public sectors.
- Another major aspect of the revised Recommendations is the development of expanded and more detailed requirements concerning the customer due diligence process for financial institutions. The new requirements set firmer and more detailed standards but also provide the necessary degree of flexibility. This is an important issue for many of you, and I will therefore focus on this in a little more detail. There are four basic steps to the customer due diligence or CDD:
  1. Identify and verify the customer;
  2. Identify and verify the beneficial owner – this means the natural person that ultimately owns or controls the account;
  3. Obtain sufficient information on the purpose and nature of the relationship; and
  4. Conduct ongoing due diligence.

Financial institutions need to perform all four steps, but the new Recommendations allow flexibility by recognising that the extent to which measure must be applied to a particular area should be based on the degree of risk for that particular. The new standard also allows some flexibility in relation to other elements of the CDD process. For example:

1. A customer's identity should normally be verified at the time the relationship is established. However, it may be done later provided that it is essential given the nature of the business and provided that there are appropriate risk management measures in place.
2. Simplified or reduced CDD measures are permissible for certain types of low-risk customers or transactions, for example, accounts held by other reputable financial institutions.

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The Recommendations and Interpretative Notes also set out detailed measures regarding all the other relevant aspects of CDD. I should mention that in formulating these Recommendations, which apply to all financial institutions and certain businesses and professions, the FATF benefited considerably from the work that had been done by the Basel Committee and other bodies dealing specifically with customer due diligence for banks.

- Consistent with a risk based approach, the Recommendations now set out enhanced measures for higher risk customers and transactions such as those associated with correspondent banking and politically exposed persons.
- There are also several other specific measures dealing with the financial sector such as a prohibition on having shell banks or dealing with them. The Recommendation in question is consistent with the principles set out in the recent Basel Committee publication on this issue.
- Another major point is the extension of anti-money laundering measures to certain designated non-financial businesses and professions. For many years the FATF has observed a displacement effect, whereby money launderers seek to use businesses or professions outside the financial sector. Therefore, it was agreed that the following businesses and professions should be covered by the Forty Recommendations: casinos; real estate agents; dealers in precious metals and dealers in precious stones; lawyers, notaries, other independent legal professionals and accountants; and trust and company service providers. This extended coverage of anti-money laundering measures will close a loophole that existed in the old Recommendations by providing an underpinning standard for guidance in this area that has already been prepared in some jurisdictions.
- The new standard also requires key institutional measures, including the establishment of a financial intelligence unit (FIU), which will receive suspicious transactions reports. Law enforcement agencies and the financial supervisors should have appropriate duties and powers, the necessary resources, and effective mechanisms to co-operate and co-ordinate in the fight against money laundering and terrorist financing.

- In the field of international co-operation, the Recommendations on mutual legal assistance and extradition have been further developed and refined. Importantly, new Recommendation 40 sets significant new requirements for other forms of co-operation, such as between supervisors, for example. It also calls for the development of the widest possible co-operation among all relevant authorities and the establishment of clear and effective gateways.
- Another point relates to requirements for minimum standards of transparency on the beneficial ownership of legal persons such as companies, or legal arrangements such as trusts. The measures required under commercial or other laws regarding the obtaining or access to such information vary widely from country to country. These Recommendations therefore set out the key objective of ensuring that adequate, accurate and timely information on the beneficial ownership and control of legal persons and arrangements is obtainable or accessible. In particular, countries must be able to show that companies issuing bearer shares cannot be misused for money laundering.
- Finally but also very significantly, many of the anti-money laundering requirements in the Forty are now extended to cover terrorist financing.

Although the Recommendations lay out many new and more detailed requirements, the element of flexibility has been retained. As I mentioned earlier, the underlying concept of a risk-based approach has been built in and is mentioned in a number of Recommendations and Interpretative Notes. The Recommendations also clarify that in relation to the obligations placed on financial institutions, it is only the basic requirements relating to CDD, record-keeping and reporting of suspicious transactions that must be set out in laws or regulations. Other requirements may be prescribed by guidelines or other enforceable means.

The next step now relates to implementation, and FATF members are committed to immediately start working on this process. The FATF encourages other countries and jurisdictions to do likewise. The FATF will next be moving to assess members' compliance with this standard as part of its programme of work for 2004-2005. This will occur through a further round of mutual evaluations starting at the beginning of 2005.

The IMF and World Bank have recognised the Forty Recommendations and the Eight Special Recommendations as the international standard for combating money laundering and terrorist financing. The FATF worked closely with the IMF and the World Bank to develop a common methodology for assessing the measures taken by jurisdictions to combat money laundering and to counter terrorist financing. In February 2004, the FATF, the IMF and the World Bank agreed on this common methodology, which can be used by the FATF and FSRBs for conducting the mutual evaluations of their members. The common methodology can also be used world wide by the IMF and the World Bank.

This means that the IMF, the World Bank, the FATF – and others, such as FATF-style regional bodies – now have a uniform basis with which to assess the level of implementation of anti-money laundering and counter terrorist financing measures. Its use will also facilitate assessment of the overall effectiveness of such systems. Evaluations conducted using the common methodology – regardless of the organisation or body using it – will also provide a basis for the World Bank, the United Nations and other providers of technical assistance to better assess jurisdictions' needs and assist in addressing their deficiencies. This, I believe, will significantly enhance the global framework for combating all serious crime.

## **II. FATF INITIATIVES TO COMBAT TERRORIST FINANCING**

The FATF expanded its mandate to include combating terrorist financing following September 11<sup>th</sup>. As a result of this new mission, the FATF issued the Eight Special Recommendations to combat terrorist financing and has worked hard to put them into effect.

To assist the implementation process the FATF has issued Interpretative Notes on Special Recommendations II, III, VI & VII (which relate to the criminalisation of terrorist financing, freezing terrorist assets, alternative remittance and wire transfers) and has also published best practice guidance on several issues linked to the combat of terrorist financing.

### **1. *Analysing terrorist financing techniques***

The FATF typologies exercise has provided an annual forum for examining terrorist financing methods. The work on non-profit organisations (Special Recommendation VIII)

and the issue of terrorist financing typologies related to wire transfers (Special Recommendation VII) were further developed during the 2003 - 2004 exercise. The FATF will continue to examine terrorist financing typologies, and during 2004 - 2005 will study narcotics trafficking in relation to terrorist financing.

## 2. *Encouraging dialogue*

The FATF has also been engaged in common efforts with other international organisations, in particular, the G8 CTAG, the IMF, the World Bank, the UN CTC and the UN 1267 Committee, wherever appropriate, to ensure that there is a consistent approach to counter-terrorist financing and to preclude as much as possible any duplication of effort. We are also attempting to develop further interaction with non-member jurisdictions. During a terrorist financing seminar held by the FATF in February 2004, thirteen non-member jurisdictions from Asia and the Middle East were invited to participate in an exchange of views on a selection of terrorist financing themes.

## 3. *Technical Assistance*

In order to build on its experience in assessing strengths and weaknesses of AML/CFT systems, the FATF has taken on a role in determining critical technical assistance needs in this area for a number of jurisdictions. This initiative, known as the “TANA initiative” (for “technical assistance needs assessments”), focuses on the aspects of a jurisdiction’s CFT regime that are required under the Special Recommendations. Since October 2003 the FATF has prepared reports on seven priority jurisdictions identifying their technical assistance needs.

# III. **NON-COOPERATIVE COUNTRIES AND TERRITORIES**

The NCCT process has triggered significant improvements in anti-money laundering systems throughout the world. Of the 23 jurisdictions placed on the NCCTs list in 2000 and 2001, only six remain. Three jurisdictions—including Egypt—have been removed from the list in 2004. The only African country remaining on the list—Nigeria—has now enacted comprehensive AML reforms, and the FATF has just invited Nigeria to submit an implementation plan for these reforms.



## V. CONCLUSION

Money laundering and terrorist financing pose a serious threat to the international community. Countering this threat requires a co-ordinated and co-operative response from all countries. The approach to dealing with money laundering must include not only repressive action by judicial authorities but also the active participation of the financial sector. In countries with effective anti-money laundering systems, the financial sector recognises that these measures are a necessary component of their own risk management and governance strategies. Fighting serious crime and particularly money laundering and terrorist financing, is now not only a key aspect of the worldwide battle against organised crime and terrorism, but also a significant step to strengthening the stability and integrity of the world's financial system.

Finally, I would like to express my thanks once again to the ABCA for giving me the opportunity to address you.