



REMARKS TO FATF PLENARY: EGMONT GROUP OF FINANCIAL INTELLIGENCE UNITS, PARIS OCTOBER 2014

Mr President,
Colleagues

Let me begin by thanking you for this opportunity to address the Plenary on behalf of the Egmont Group of Financial Intelligence Units.

1. Introduction

The Egmont Group has developed and evolved from a small number of financial intelligence units that met in 1995 to a current membership of 147 - and growing. There are some individuals here who remember those first, informal meetings held on the margins of these FATF meetings, where FIUs were first conceived and how those with operational responsibilities considered how to find ways for FIUs to collect financial data and then, how to link these FIUs together into a global network to enable sharing.

In just 20 short years, Egmont has become a solid platform, enabling countries to share financial intelligence from FIU-to-FIU across all manner of divides. Through energetic and enthusiastic participation, often from a small core of people, but gradually involving larger circles, it is now in the process of consolidating into an established, recognised, international organisation. In this we recognise the important role and guidance of previous Chairs in getting the organisation to this point.

This growth is also the result of the partnerships that have been formed with others organisations – here the World Bank, UNODC, OECD, IMF, Interpol, and many others come to mind. But clearly it is the FATF and the FSRBs that are foremost in this relationship. We deeply appreciate and value these relationships. The partnership is expressed through assistance to law enforcement and for complex investigations, various projects to identify for example, new typologies, asset recovery processes, training and many others. These partnerships have been essential for knowledge development and the sharing of skills.

FATF delegations were central to formation of Egmont, and the FATF can be proud that Egmont's rapid development is an interesting indicator demonstrating that

countries are eager to embrace the AML/ CFT standard FATF has driven and that they want to be part of a system to stamp out money laundering and terrorist financing.

2. Today the Egmont Group stands at a crossroads.

With a membership as large as it has become, it should come as no surprise that Egmont members are very divergent in their respective sizes, capability, levels of maturity and the challenges they face. In each country FIUs have different responsibilities and powers and each FIU has a different relationship to its respective government – some sit within another government department or the central bank, while others are independent agencies. Of course they have varying relationships with their respective law enforcement authorities. Often overlooked is that FIUs see the world from a perspective depending on the size of their economies, the place these have within the world's financial architecture and the extent of flows moving through their financial institutions.

Today the Egmont Group stands at a crossroads. The world is a different place from that time two decades ago when the organisation came into being. Heads of FIUs were faced with a choice – to continue with a business-as-usual approach without really making an impact, or to grapple with the changes around them with a new sense of urgency, redefine their tasks and restructure so that they can make a tangible difference. They went with the latter course.

3. Internal developments

Two years ago the Heads of FIUs decided they had no appetite for two sets of standards concerning FIUs. As one EG member said “We now live in an FATF world” [although some will be horrified to hear that!]. So, the Heads of FIUs, in recognising R29 and R40, adopted the FATF standard, sharing it with FATF so that only one standard should apply. They incorporated this into the “Egmont Charter and Principles”, which now shapes the membership of the organisation and members' responsibilities.

This past June, Heads of FIUs approved a new Strategic Plan which seeks to focus the organisation in its work over the next few years. The plan identifies

- i) enhanced effective information exchange and international co-operation; and
- ii) adherence to international standards and the development of FIUs as the key outcome areas.

These focus areas will be supported through cooperation with international partner organizations and building an effective and sustainable infrastructure for the organisation. A process is now underway to turn these into specific action plans.

The EG has also endorsed an enhanced support and compliance process to hold member FIUs more accountable to the Charter requirements and provides for remedial support where deficiencies are found.

Of particular importance in the context of our discussion today is that the EG has created a regional footprint which is closely aligned to FSRBs and provides a number of advantages. Not least amongst these is that we now have the possibility of FIUs, clustered into regions, being able to liaise and interact with the FSRBs in their respective regions. While not forfeiting the overall objectives of the organisation, the regional bodies will be able to deal with more specific issues. Much of this will be dependent on the relationships formed by the various regional representatives and their interactions amongst one another.

All of this development is underpinned by large, active Working Groups and through training and awareness activities, which take on special importance so that member FIUs benefit from skills development and can address special interests and concerns they may have.

The preparation of documents, from draft to final products for approval has been driven by members of the Executive Committee, consisting of Chairs of Working Groups and Regional Representatives. Along with support of seconded individuals from some FIUs, they have contributed massively, doing so with dedication, energy and enthusiasm, sustained over months and added as extra work on top of their paid, day jobs. This is no mean feat.

But it is also important to stress that the burden of these processes is carried by a very small Secretariat, which is run on a shoe string. The individuals in that office will soon run out of steam and will be unable to provide the ongoing strategic and administrative support and more that they give, unless it is somehow replenished and re-stocked the near future. So, huge progress has been made. But, as always, much remains to be accomplished.

4. Challenges for Egmont – the external world

When Mr Vladimir Nechaev, FATF President at the time, addressed the Heads of FIUs meeting in South Africa a couple of years ago, he called for greater co-operation between the Egmont Group and FATF. The Egmont Group believes that today the harmonised AML/ CFT/ “FIU” standard together with our Charter, our newly-defined strategic objectives and the creation of our regional footprint and all the other activities, are a basis for the Egmont Group’s future and helps to redefine our relationship with the FATF.

As one of the first steps we take towards building new partnerships, and in particular the FATF, we extend an invitation to you Mr President, to participate in our meeting

in Berlin at the end of next January next year where we will appreciate your actively participation giving content to the finalisation of our strategic planning process.

Mr Nechaev also noted the importance of FIUs to ensure the effectiveness of national and international AML/ CFT efforts. He stressed that FIUs are particularly important for countries when developing their national risk assessments and, because of the particular place FIUs occupy within most countries' AML/ CFT systems, they should become actively involved in the new assessment methodology. This partly explains why FIUs have monitored the first MERs with such extreme interest.

FIUs are institutionally critical to countries wanting to impact on ML/ FT. I think it is now generally recognised that gone are the days when the FIUs received suspicious transaction reports, analysed them, and then dropped a report over the wall for the law enforcement authority to take up the investigation. There was very little interaction after that.

When FIUs process the data they have access to, the financial intelligence they produce is no longer necessarily only used for law enforcement purposes, as defined narrowly. It is also an essential ingredient in developing strategic analysis. And furthermore, those results are also important in the shaping of a country's assessment of risk.

Second, FIUs receive STRs/ SARS, along with a wide range of other data. Many of them process huge volumes of data and from multiple sources. No longer is there only a hand-over for investigation, but the FIUs often work closely with an investigation, on a reciprocal basis, helping to move the process forward. Critically, if there is an international, multi-jurisdictional component to the investigations, the FIUs are able to use their Egmont network to exchange information with their counterparts.

However, while there is frequently close co-operation between FIUs and other parts of government, FIUs frequently raise a concern that they are not able to access the data they need from law enforcement or other public sector agencies. Nor do they have the human or financial resources to carry out their mandates.

Thirdly, FIUs have other roles too. In many developing countries they hold together the whole AML/ CFT value chain. Often they have a greater role than those FIUs within some FATF member countries, where responsibilities for the system viewed end-to-end is spread between various authorities. But in many smaller countries the FIU is simultaneously the regulator, develops financial intelligence, actively provides investigative support and then gets involved in asset recovery matters.

Finally many FIUs are increasingly taking on a role in aspects of AML/ CFT regulation, an area of responsibility that is yet to be fully appreciated and supported.

I would challenge the FATF today to ask: if FIUs have these responsibilities and are so central to AML/ CFT successes, then how do we, collectively, ensure their voices can be properly heard? And how can they be heard loudest within a policy making environment such as this?

If the issues raised above are not enough, the Egmont Group and FIUs have serious operational challenges ahead. I've already suggested that gone are those days when it was assumed that an FIU only receives suspicion transaction reports, or the graver misconception that one such report received should be equal to one report disseminated for investigation.

A first issue involves the arrival of big data and the need to find ways to process huge volumes of data and make sense of it. Of course FIUs will need the IT capability to do this, as well as being faced with finding the balance between privacy issues and confidential information exchanges. But FIUs will need to decide what they want from the data and how they intend using the results.

In addition and looming on the horizon for FIUs includes being faced with the need to find ways to deal with issues such as illicit financial flows, tax crime as a predicate offense, the growth of virtual currencies and the like. Similarly, transnational organised crime has spread on a scale not known before and is a danger to the safety and well-being of all citizens. What role for FIUs in countering these threats? Certainly, partnerships between FIUs and with other international organisations engaged in these and similar matters will be important.

What does the Egmont Group seek from a relationship with the FATF?

We believe there are several benefits to be gained by both organisations through a closer relationship and collaboration. There are some simple things that can be done for a start:

Firstly, the Egmont Group and FIUs worked hard with the FATF on the revision of Recommendations 29 and 40, as well as IO6 and IO2, and would appreciate a continuing involvement in assessing issues such as operational independence, FIU access to information and FIU analytical support for financial investigations.

Secondly, the Egmont Group looks forward to the results from the first mutual evaluations of the current round. We need to better understand how issues such as operational independence, access to information, analytical support to investigations and so on are interpreted and applied by evaluators and the FATF. The EG needs to pick up on these and similar issues, make sure our membership can engage with

these interpretations and assists FIU members to meet the requirement if this is necessary.

The EG has many members with staff who are well-equipped and knowledgeable who can become involved in the Mutual Evaluations process and who will be able to provide useful perspectives on FIU and law enforcement matters during Mutual Evaluations. Their perspectives can potentially make for better standards-setting and policy making in future for the FATF.

Thirdly, the FATF-FIUs meeting on the margins of Plenary is an excellent initiative for sharing experience and know-how amongst FATF FIUs. Can these be extended to the FSRBs where interaction with FIU can be encouraged? How can the results of such interactions be fed into the EG in a constructive and meaningful way? FATF-FIUs on the whole have the most resources, capacity and maturity and they could take a leadership role within the Egmont Group. To be honest, on the whole, the participation of FATF-FIUs in the Egmont Group is not at the level it could be.

Fourth, can “thought leadership” be promoted by the FATF, FSRBs and EG? How can we do this? I extended the invitation for the President of FATF to attend our Heads of FIUs session in January. We want him to participate, to come with ideas, to generate constructive and creative ideas within Egmont. We need him to do this. Our Observers and our partners have views on Egmont. Egmont needs to hear those views, so that it can start considering them and doing something about them. We cannot work in environment where our thinking becomes tautologous. Equally operational practitioners must engage policy makers.

Fifth, surely there is a need for closer communication and co-operation, certainly between Secretariat and Secretariat. But also we need to get FIUs talking and engaging within delegations, so that policy makers are listening to operational challenges within their FIUs, and vice versa.

President, we must communicate. Our challenges are too great. We can't work in silos. The FATF has recognized the importance of global coordination hence the creation of the GNCG. We are all in this together.

Conclusion

I trust that these suggestions and other comments are taken in the spirit in which they are intended, which is one of constructive dialogue for better future interaction. We have an opportunity to impact seriously on ML/ CF.

I thank you once again for this opportunity to raise Egmont Group/ FIU issues in this forum.

Chair, Egmont Group of Financial Intelligence Units