



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

**ANNUAL REPORT
2003-2004**

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FINANCIAL ACTION TASK FORCE ON MONEY LAUNDERING

ANNUAL REPORT 2003–2004

SUMMARY

1. Sweden¹ chaired the fifteenth round (2003-2004) of the Financial Action Task Force (FATF). A major task of the round was the recent completion of the review of the future of the FATF from 2004 to 2012. Other significant achievements of the round were the issuance of further guidance for implementing the Eight Special Recommendations on terrorist financing, increased collaboration with the International Financial Institutions in assessing national systems for anti-money laundering (AML) and countering the financing of terrorism (CFT) at a global level, and the development of a more effective process for the study of trends and techniques in money laundering and terrorist financing.

2. On 14 May 2004, FATF Ministers and representatives from its 33 members reaffirmed their commitment to the FATF effort to combat money laundering and terrorist financing by renewing the Task Force's mandate for a further eight years. This was the third extension of the FATF mandate. While previous mandates were for a five-year duration, the latest extension for eight years demonstrates that FATF members remain united in their commitment to AML/CFT policies and see the FATF as a critical instrument in this effort.

3. The new mandate of the FATF, which covers the period from September 2004 to December 2012, sets out the main tasks for the FATF in the future. The priorities will be to continue to set standards to combat money laundering and terrorist financing; to carry out typologies and compliance work in order to ensure global action against money laundering and terrorist financing; to develop closer co-operation with the IMF and the World Bank; and to enhance FATF's relationships with FATF-style regional bodies (FSRBs). This new eight year mandate is a recognition of the obvious need to deepen and expand the international community's effort to fight money laundering and the financing of terrorism.

4. Given the relative newness of the Eight Special Recommendations on terrorist financing, the FATF has continued to interpret and refine guidance on how to implement individual Special Recommendations. The FATF published an interpretative note and a best practices paper on Special Recommendation III (freezing and confiscating terrorists' assets) in October 2003 and an interpretative note on Special Recommendation II (criminalisation of terrorist financing) in June 2004. Finally, in February 2004 the FATF held a seminar on terrorist financing with 13 countries from Asia and the Middle East.

5. Another important achievement was the significant reinforcement of FATF's collaboration with the International Financial Institutions to assess the AML/CFT systems of countries worldwide. Following last year's decision by the IMF and World Bank to recognise the Forty and the Eight Special Recommendations as the international standards for combating money laundering and terrorist financing, the two organisations worked with the FATF to develop a common methodology for assessing compliance with the revised Forty and Eight Special FATF Recommendations. In February 2004, the FATF issued the methodology. This will form the basis for a third round of mutual evaluations of FATF members which will start before the end of 2004. In March 2004, the IMF and World Bank agreed to use this same methodology in conducting the relevant portions of their financial sector assessment programme, and it is also expected that FSRBs will agree to use it in all evaluations and assessments they conduct.

6. As in previous rounds, a considerable part of the work of the FATF was devoted to monitoring the progress made by the non-cooperative countries and territories (NCCTs). This progress, which

¹ The FATF President was Mr. Claes Norgren, Chairman of the Competition Authority of Sweden.

constitutes a further success in the work of the FATF on NCCTs, is reflected in more detail in a separate update of the annual review on NCCTs.²

7. The FATF continued this year to monitor its members' implementation of the FATF Recommendations through the mutual evaluation process. Summaries of the four mutual evaluations which were conducted during the FATF-XV round (Mexico, the Kingdom of Saudi Arabia, Argentina and Brazil) are contained in this report.

8. The review of current and future money laundering and terrorist financing threats remained an essential part of the FATF's work during 2003-2004. The annual typologies exercise, chaired this year by Mexico, examined the following topics: wire transfers; non-profit organisations and their relation to terrorist financing; money laundering vulnerabilities in the insurance sector; politically exposed persons; and "gatekeepers" in money laundering schemes. The FATF also agreed on a more effective process for keeping typologies under review and working on particular areas of high risk.

² See *FATF Review to Identify Non-Cooperative Countries or Territories: Increasing the Worldwide Effectiveness of Anti-Money Laundering Measures*, July 2004. This report is available at the following website address: http://www.fatf-gafi.org/NCCT_en.htm.

INTRODUCTION

9. The Financial Action Task Force was established by the G-7 Summit in Paris in July 1989 to examine measures to combat money laundering. In 1990, the FATF issued Forty Recommendations to address this problem. The Recommendations were revised for the first time in 1996 and again in June 2003 so as to take into account changes in money laundering methods, techniques and trends. In October 2001, the FATF expanded its mandate and issued Eight Special Recommendations to deal with the issue of terrorist financing.

10. During FATF-XV, the membership of the FATF comprised thirty-three members³ representing major financial centres in all parts of the globe. The delegations of the Task Force's members are drawn from a wide range of disciplines, including experts from the Ministries of Finance, Justice, Interior and External Affairs, financial regulatory authorities and law enforcement agencies.

11. In July 2003, Sweden succeeded Germany to the Presidency of the Task Force for its fifteenth round of work. During 2003-2004, one Plenary meeting took place in Stockholm, Sweden, and the two other Plenary meetings were held at the headquarters of the OECD in Paris. A meeting of experts on typologies was held at the end of 2003 in Oaxaca, Mexico, to consider methods, trends and counter-measures related to money laundering and terrorist financing. A number of meetings of specialised Working Groups dealing with the review of the Forty Recommendations and terrorist financing took place outside the regular meetings of the Plenary.

12. The FATF remains fully committed to the work of FATF-style regional bodies (FSRBs), namely the Asia/Pacific Group on Money Laundering (APG), the Caribbean Financial Action Task Force (CFATF), the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), Moneyval Committee of the Council of Europe and South American Financial Action Task Force (GAFISUD). The FATF President and Secretariat, as well as several FATF members, attended the meetings of such groups.

13. Finally during FATF-XV, the FATF has continued to co-operate closely with international and regional organisations concerned with combating money laundering, and representatives of such bodies participated in the work of the FATF. Representatives from the African Development Bank, the Commonwealth Secretariat, the Egmont Group of Financial Intelligence Units, the European Central Bank (ECB), Europol, the International Association of Insurance Supervisors (IAIS), the International Monetary Fund (IMF), the Inter-American Development Bank (IDB), the Inter-American Committee Against Terrorism of the Organization of American States (OAS/CICTE), Interpol, the International Organisation of Securities Commissions (IOSCO), the Organisation for Economic Co-operation and Development (OECD), the Offshore Group of Banking Supervisors (OGBS), the United Nations Office on Drugs and Crime (UNODC), the United Nations Security Council Counter-Terrorism Committee, the World Bank (WB), and the World Customs Organisation (WCO) attended various FATF meetings during the year.

14. This report details the progress that the FATF has made over the past twelve months in the following five areas:

- Reviewing the future of FATF;
- Countering the financing of terrorism;
- Implementing the FATF Recommendations and standards;

³ Argentina; Australia; Austria; Belgium; Brazil; Canada; Denmark; Finland; France; Germany; Greece; Hong Kong; China; Iceland; Ireland; Italy; Japan; Luxembourg; Mexico; the Kingdom of the Netherlands; New Zealand; Norway; Portugal; Russian Federation; Singapore; South Africa; Spain; Sweden; Switzerland; Turkey; the United Kingdom and the United States. The European Commission and Gulf Co-operation Council are also members of FATF.

- Creating a global network to combat money laundering and terrorist financing;
- Trends and techniques in money laundering and terrorist financing.

I. THE REVIEW OF THE FUTURE OF FATF

15. A major initiative completed during 2003-2004 was the review of the mandate for the future of FATF. In April 1998, a Ministerial meeting of the FATF agreed that the FATF—which is not a permanent international organisation—should continue its work for a further five years, i.e. until August 2004. It was also agreed that no final decision on the future of FATF should be taken until 2003-2004, at which time there would be a further review to consider how the fight against money laundering and terrorist financing could be best carried forward. Therefore, an in-depth review of the FATF's needs, mission and work programme, which is summarised in the paragraphs below, was carried out during FATF-XV. On that basis, a new mandate of eight years was approved by the Ministerial meeting of the FATF which took place in Paris on 14 May 2004 in the margins of the OECD Council meeting at Ministerial level. In parallel, a review of the organisation of the work of the FATF was concluded during the final half of FATF-XV.

A. THE MANDATE FOR THE FUTURE OF FATF

16. Considerable progress has been made in the fight against money laundering since the inception of the FATF in 1989. However, the FATF still has a major task to perform in continuing to set and monitor the implementation of standards in the context of an ever more sophisticated international financial system.

17. The main tasks of the future mandate of the FATF⁴ will be as follows:

- to continue establishing the international standards for combating money laundering and terrorist financing. This is the *raison d'être* and the core of the FATF's long term mission.
- to ensure global action in combating money laundering and terrorist financing, including building stronger co-operation with the IMF and the World Bank. During 2003-2004, a key priority of the FATF was to ensure that the pilot programme of the IMF/WB, which expired at the end of 2003, would become permanent. At their Boards' meetings in March 2004, both institutions agreed to continue their assessments on a comprehensive, uniform and permanent basis as a regular part of their Financial Sector Assessment Program.
- to ensure that members implement the revised Forty and Eight Special Recommendations in their entirety and in an effective manner. A third round of mutual evaluations of all FATF members will start before the end of 2004 and the FATF is actively preparing the process and mechanism for this important work.
- to increase its membership appropriately. Since 1999, FATF has made significant progress in this area by extending membership to five target countries (Argentina, Brazil, Mexico, South Africa and the Russian Federation). However, the FATF should continue to work actively towards the membership of China and India⁵.
- to enhance relationships between the FATF and the FATF-style regional bodies (FSRBs), as well as between the FATF and non-member countries. An ad hoc group is considering specific proposals to further develop the co-operation between FATF and FSRBs.

⁴ The full text of the mandate for the future of FATF can be found at Annex A.

⁵ Any future identification of possible strategically important countries should address the issue of geographical balance and the impact of the efficiency of FATF.

- to intensify its study of the techniques and trends in money laundering and terrorist financing (i.e., the so-called typologies exercises). In 2003/2004, FATF members agreed on a more effective process for ensuring a continuous review of typologies and focussing on particular areas of high risk.

18. The expansion of the FATF mandate in October 2001 to include the fight against terrorist financing has opened up an entirely new and difficult area of work. Since that date, the FATF has fostered a concerted action by the international community to counter terrorist financing. The FATF has worked towards establishing and implementing measures to combat this threat; however, more needs to be done. In the future, FATF's efforts to drive terrorists out of the global financial system should be based on two principal strategies:

- the first is to improve regulation and supervision of the informal financial sector, including cash couriers, alternative remittance systems and non-profit organisations.
- the second follows the initiative of the G-7 Finance Ministers and Central Bank Governors to foster an open dialogue with non-member countries on areas of existing and emerging concern in the combat against the financing of terrorism.

19. During 2003-2004, the FATF took significant steps in these areas (see Section II on countering the financing of terrorism), but the work and efforts will need to continue in the future.

20. Finally, it should be stressed that the proposed mandate will cover a longer record period of eight years to provide more stability and continuity to the work of the FATF. This extension of the FATF mandate is a logical consequence of the widening of its remit to include terrorist financing. However, members agreed that there could be a mid-term review during that period.

B. REVIEW OF THE ORGANISATION OF THE WORK

21. While the mandate for the future of FATF deals with both strategic and operational issues, an important review of the current organisation of the work took place. An Ad Hoc Group, chaired by Italy, delivered its report at the June/July 2004 Plenary meeting of the FATF. The report introduces various changes in procedures to enhance the efficiency of FATF, particularly with regard to the structure of the Plenary meetings, the preparation of documents and the organisation of the working groups. The Ad Hoc Group also prepared concrete proposals to strengthen the relationships between the FATF and the FATF-style regional bodies (FSRBs). Through increased dialogue with the regional bodies, the FATF hopes that it will enhance relationships with them and will demonstrate its desire for a better understanding of the problems outside its membership.

II. COUNTERING THE FINANCING OF TERRORISM

22. Following the events of 11 September 2001 in the United States, FATF extended its mandate to include the combat of terrorist financing. Starting in June 2002, the FATF worked to identify weaknesses in the world-wide efforts to combat terrorist financing. This work has included the development of guidance on implementing the Eight Special Recommendations and the initiation of a process to identify priority technical assistance needs in implementing measures to combat the financing of terrorism. A working group, co-chaired by Spain and the United States, has served as the focal point for carrying out these tasks within the FATF.

A. GUIDANCE ON IMPLEMENTING THE EIGHT SPECIAL RECOMMENDATIONS

Interpretative Notes and Best Practices Paper

23. To reinforce efforts to implement the Eight Special Recommendations (SRs) on terrorist financing, the FATF issued guidance on two SRs during 2003-2004⁶. The FATF began this period by developing guidance for SR III (Freezing and Confiscating Terrorist Assets). The intent of the Recommendation is to ensure that terrorist funds and other assets are effectively frozen and confiscated. The FATF issued an Interpretative Note and a Best Practices Paper for SR III in October 2003. The Interpretative Note further clarifies obligations to freeze terrorist assets in accordance with SR III and relevant United Nations resolutions and to confiscate terrorist assets in accordance with SR III and the United Nations Convention for the Suppression of the Financing of Terrorism. The Best Practices Paper suggests, among other things, certain strategies for establishing effective freezing regimes, including: developing the necessary legal authority and procedures, and designating accountable competent authorities or courts responsible for freezing funds; facilitating communication and co-operation with foreign governments, international institutions and the private sector; ensuring adequate compliance, controls and reporting in the private sector; ensuring thorough follow-up investigation, co-ordination with law enforcement, intelligence and security authorities; and providing appropriate feedback to the private sector.

24. The FATF issued an Interpretative Note to SR II (Criminalising the financing of terrorism and associated money laundering) in June 2004. This document clarifies the obligation on jurisdictions to ensure that they have the legal capacity to effectively prosecute and apply criminal sanctions to persons that finance terrorism. In this regard, the United Nations International Convention for the Suppression of the Financing of Terrorism should be the basis for criminalising terrorist financing. SR II also emphasises the link between international terrorism and, inter alia, money laundering by obligating jurisdictions to include terrorist financing offences as predicate offences for money laundering.

Other Work

25. Following extensive discussions with its members, the FATF issued guidelines to help its members review their domestic non-profit sectors. Some FATF members have already undertaken domestic reviews of their non-profit sectors with a view to developing a more complete understanding of the NPO sector's characteristics, its associated terrorist financing risks, and current capabilities and limitations in sharing information about such risks. The FATF will use this information to develop new initiatives to address abuse of the non-profit sector by terrorist financiers and expects to issue additional guidance in this area sometime next year.

26. Through its Typologies Working Group, the FATF is now studying the issue of allowing thresholds for SR VII obligations (which pertain to requirements to attach complete originator information to a wire transfer).

27. The FATF is now assisting in the development of an early warning system targeted at alternative remittance systems, which will improve the quality and capability of international assistance in this area.

28. The Working Group on Terrorist Financing has been studying the utility of cross-border currency reporting requirements as a potentially effective means of identifying and interdicting illicit cash couriers. In this regard, the WGTF has developed a number of proposals which are currently being considered by the FATF Plenary. The FATF expects to issue additional guidance on cash couriers later in the year.

⁶ The guidance issued in 2003-2004 is at Annex B.

B. OUTREACH ACTIVITIES AND CURRENT INITIATIVES

Outreach Activities

29. As part of its efforts to further strengthen measures against the financing of terrorism, FATF held a special session before its Plenary meeting on the topic on 24 February 2004. The seminar focused specifically on the risks posed by alternative remittance systems, cash couriers, non-profit organisations and the links between narcotics trafficking and terrorist financing. The consensus of the participants was that the international community must develop improved mechanisms to collect and share information on terrorism financing. The seminar was attended by 44 countries,⁷ including some non-FATF members, as well as observer international organisations and the FATF-style regional bodies.⁸ It came in the wake of a political commitment to combat terrorist financing made by the Finance Ministers and Central Bank Governors of the G-7 and invited countries in Dubai in September 2003. The FATF has undertaken further work on the above-mentioned issues.

30. On the occasion of the G-7 meetings in September 2003 in Dubai and in April 2004 in Washington, D.C., the FATF President was invited to report on the FATF's recent initiatives on combating terrorist financing. G-7 Ministers at their April meeting welcomed the initiatives taken by the FATF and encouraged more work to be done in this area. Since then, the FATF President has approached the Chairs of the Basel Committee on Banking Supervision (BCBS), the International Association of Insurance Supervisors (IAIS) and the International Organisation of the Securities Commissions (IOSCO), to discuss further initiatives to counter the financing of terrorism. As a result of this dialogue, the need for more work in the area of international co-operation between financial supervisors and the Financial Intelligence Units was recognised. The FATF, BCBS, IAIS, and IOSCO are considering further steps that should be taken in conjunction with the Egmont Group.

Technical Assistance Needs Assessment

31. In September 2003, the FATF began co-operating with the G-8 Counter-Terrorism Action Group (CTAG) and the United Nations Counter Terrorism Committee (UNCTC) in conducting an outreach initiative aimed at improving the international community's delivery of technical assistance. The FATF began conducting technical needs assessments of countries which were willing to participate in a process to assess their technical assistance needs in developing an effective counter-terrorist financing (CFT) regime.

32. The objective of the technical needs assessment initiative is to determine where deficiencies exist in the country's CFT regime and to highlight the legislative and institutional defects that may be addressed through technical assistance and training. To facilitate this objective, seven aspects of the country's CFT regime are assessed: (1) the criminal justice system to fight terrorist financing; (2) capacity to freeze and confiscate terrorist assets; (3) suspicious/unusual transactions reporting system; (4) international co-operation; (5) alternative remittance systems; (6) wire transfers; and (7) non-profit organisations. The results of the technical assistance needs assessment are then reported to the CTAG which co-ordinates the efforts of the international donor community in delivering the technical assistance and training needed.

⁷ Invited non-member countries: Algeria, Bahrain, China, Egypt, India, Indonesia, Kuwait, Malaysia, Morocco, Pakistan, the Philippines, Saudi Arabia and the United Arab Emirates.

⁸ The Asia/Pacific Group on Money Laundering, the Caribbean Financial Action Task Force, the Eastern and Southern Africa Anti-Money Laundering Group, the MONEYVAL Committee of the Council of Europe and the South American Financial Action Task Force (GAFISUD). The Offshore Group of Banking Supervisors also attended.

III. IMPLEMENTATION OF THE FATF RECOMMENDATIONS AND STANDARDS

33. Since its inception, FATF has been committed to the discipline of monitoring and peer review. Therefore, a notable part of FATF's work has focussed on monitoring the implementation by its members of the FATF Recommendations, principally on the basis of a mutual evaluation procedure. This procedure provides a comprehensive monitoring mechanism, which examines the AML/CFT counter-measures in place in member countries, and the effectiveness of those measures. The resulting reports are detailed, comprehensive and consistent, and provide members with an accurate and independent analysis of their AML/CFT system, and recommendations for possible enhancements. The discussion of the mutual evaluation reports in the FATF Plenary, combined with the necessary follow up procedures, provides an effective peer pressure mechanism that has encouraged a thorough implementation of the FATF Recommendations by members.

A. MUTUAL EVALUATION OF FATF AND GCC MEMBERS

34. The second and major element for monitoring the implementation of the FATF Recommendations is the mutual evaluation process. Each member is examined in turn by the FATF on the basis of a report drawn up by a team of three or four selected experts from the legal, financial and law enforcement fields of other FATF members. The purpose of this exercise is to provide a comprehensive and objective assessment of the extent to which the country in question has moved forward in implementing effective AML/CFT measures and to highlight areas in which further progress may still be required.

35. During 2003-2004, the FATF performed second round mutual evaluations for Argentina (on-site visit in October 2003; discussion of report in June 2004), Brazil (on-site visit in November 2003; discussion of report in June 2004) and Mexico (on-site visit in September 2003; discussion of report in February 2004). The mutual evaluations of Argentina and Brazil were carried out by FATF in conjunction with GAFISUD (the Financial Action Task Force for South America). Additionally, the FATF completed the AML/CFT component of an IMF Financial Sector Assessment of Germany (on-site visit in May 2003; report provided to IMF in February 2004) and conducted a similar assessment for New Zealand (on-site visit in October 2003). Summaries for the reports on Argentina, Brazil and Mexico are included in Annex C to this report along with the Report on Observation of Standards and Codes (ROSC) prepared for Germany by the FATF.

36. In September 2003, the FATF also carried out – in conjunction with the Gulf Co-operation Council (GCC) – the mutual evaluation of Saudi Arabia. This evaluation was the sixth evaluation of the GCC member States and was performed on the basis of the common AML/CFT assessment methodology.⁹ Since 1999, GCC member states have made a notable effort to implement AML measures, and the objective of the GCC evaluation programme has therefore been to determine the level of implementation and effectiveness of anti-money laundering systems within the GCC. With the approval of the evaluation of Saudi Arabia in February 2004, all GCC member States have now undergone a mutual evaluation and the GCC first round of evaluations has been completed. A summary of the mutual evaluation of Saudi Arabia is included in Annex C to this report.

B. AML/CFT METHODOLOGY 2004

37. In 2003-2004, the FATF worked closely with the FSRBs, the IMF and World Bank to develop a common methodology for assessing the measures taken by jurisdictions to combat money laundering and to counter terrorist financing. A similar methodology (the Methodology 2002 finalised in October

⁹ The GCC is in the unique position of being a member of FATF, even though the individual member states of the GCC are not FATF members. The GCC member states are: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

2002) has already been used for assessing countries against the 1996 FATF Forty Recommendations and the FATF Eight Special Recommendations on Terrorist Financing 2001.

38. The revised AML/CFT Methodology 2004¹⁰ is designed to guide the assessment of a country's compliance with the international standards contained in the FATF Forty Recommendations 2003 and the FATF Eight Special Recommendations 2001. This Methodology was adopted by the FATF Plenary in February 2004 and endorsed by the IMF and the World Bank in March 2004. The FSRBs have also started their procedures for endorsing the 2004 Methodology.

39. Using this methodology will mean that the FATF, the FSRBs, the IMF and the World Bank will have a uniform procedure with which to assess the level of implementation of AML/CFT measures based on the FATF Recommendations. Evaluations conducted using the common methodology will also provide a basis for the World Bank, the United Nations and other providers of technical assistance to better assess needs and provide the necessary assistance to jurisdictions with deficiencies in their systems.

40. From the FATF perspective, the 2004 Methodology will be a very useful tool to carry out mutual evaluations. It will help identify the key elements of the systems and mechanisms developed by countries with diverse legal, regulatory and financial frameworks and determine whether those countries are in compliance with the current FATF standards. It is important to note that the 2004 Methodology also provides useful guidance on new topics or concepts introduced by the Forty Recommendations 2003, including the concepts of the risk based approach and the need for effective implementation of the standards.

C. THIRD ROUND OF MUTUAL EVALUATIONS OF FATF MEMBERS

41. The FATF monitors progress made by member governments in implementing the FATF standards, and the mutual evaluation process is the primary mechanism by which the FATF performs this exercise. Each member is examined in turn by the FATF on the basis of a report drawn up by a team of selected experts from other member countries of the Task Force. The purpose of this exercise is to provide a comprehensive and objective assessment of the extent to which the country in question has moved forward in implementing measures to counter money laundering and terrorist financing and to highlight areas in which further progress may still be required.

42. The FATF conducted two full rounds of mutual evaluations, 1992-1995 and 1996-1999, and this was followed by evaluations of several new members of the FATF, and of the member states of the Gulf Co-operation Council (jointly with GCC). All the evaluations proved to be very productive, indicating the strengths and weaknesses of these countries' anti-money laundering systems, and latterly also their counter terrorist financing systems. In addition, the recommendations in the evaluation reports usually led to expedited and enhanced AML/CFT measures.

43. The FATF has already agreed that it will conduct a third round of mutual evaluations for its members based on the 2003 FATF Forty Recommendations and the 2001 Eight Special Recommendations. These evaluations will commence before the end of 2004. The evaluations conducted during this third round will use the AML/CFT Methodology 2004 (see Section III B), as well as evaluation documentation that has been agreed between the FATF, IFIs, FSRBs and the OGBS, thus allowing for increased consistency at a global level. During the process, the FATF will continue to work closely with all the bodies that will be conducting evaluations/assessments, i.e. the FSRBs, the OGBS, the World Bank and the IMF.

¹⁰ The AML/CFT Methodology 2004 is available at the following address: http://www.fatf-gafi.org/pdf/Meth-2004_en.PDF.

D. DETERMINING THE COMPLIANCE OF FATF MEMBERS WITH THE FORTY & EIGHT RECOMMENDATIONS THROUGH A PERIODIC ASSESSMENT PROCESS

44. Since 1999, the FATF has conducted an annual self-assessment exercise based on objective questionnaire responses to the requirements of the 1996 FATF 40 Recommendations. The exercise has provided an annual snapshot of the legal and regulatory measures in place and areas for improvement. Summaries of these results, along with compliance ratings by members for the Recommendations, have been published as annexes in the FATF Annual Reports.

45. The revised 40 Recommendations, adopted in the June 2003, were significantly broader in scope and detail than the 1996 Recommendations. The AML/CFT Methodology adopted in February 2004, combined the detail and scope of the 40 Recommendations plus the detail of the 8 Special Recommendations on Terrorist Financing of 2001 and their Interpretative Notes, which have been adopted periodically since 2001. Based on the significant length and additional detail of these new requirements, the FATF has decided that it will no longer conduct self-assessments exercises modelled on previous exercises. Instead, the FATF will initiate a process of follow-up reports to mutual evaluations. The FATF will begin the third round of mutual evaluations in late 2004 using the AML/CFT Methodology 2004, which will provide comprehensive assessments of member's compliance with the new requirements as well as their implementation. The follow-up reports will directly build up the results from the mutual evaluation reports by providing an annual update of progress made on specific issues highlighted in the mutual evaluation.

E. NON-COOPERATIVE COUNTRIES AND TERRITORIES

46. Based on the progress they made during the year, Ukraine, Egypt, and Guatemala were removed from the list of NCCTs. The removal of these countries from the list confirms that the NCCTs process has been very successful in its objective of encouraging countries to eliminate deficiencies in their anti-money laundering systems. The work of the FATF on the non-cooperative jurisdictions in 2003-2004 is reflected in the separate Annual Review on NCCTs¹¹.

47. Since 1999, the FATF has engaged in substantial work on the problems raised by countries and territories which do not co-operate in the combat of money laundering. The aim of the work is to enhance the level of protection for the world's financial system and to prevent the circumvention of the anti-laundering measures introduced over the last ten years. The work that FATF has undertaken on non-cooperative jurisdictions is fully in line with measures elaborated by the international community to protect the global financial system from money laundering and render it more transparent.

48. For more than five years, the FATF has been working on this initiative which seeks to ensure effective prevention, detection and repression of money laundering. Four regional review groups (for the Americas, chaired by the United States; for Asia/Pacific, chaired by Japan; for Europe, chaired by France; and for Africa and the Middle East, chaired by Italy) meet regularly to prepare the non-cooperative countries and territories (NCCTs) discussions in the Plenary.

49. Throughout the NCCT process, the FATF has sought to ensure its openness, fairness and objectivity. When jurisdictions have been considered for review under this initiative, they have been notified of this fact, have had the opportunity to respond to the findings of the initial draft reports and later to meet with FATF experts in a face-to-face meeting to discuss any unresolved questions.

50. Four years after the release of the first review of NCCTs, it remains clear that this initiative has triggered significant improvements in anti-money laundering systems throughout the world. Of the 23 jurisdictions designated as NCCTs in 2000 and 2001, only six remain. No new jurisdictions were

¹¹ See *FATF Annual Review of Non-Cooperative Countries or Territories*, July 2004. This report is available at the following website address: http://www.fatf-gafi.org/NCCT_en.htm.

reviewed since 2001; however, the FATF continues to monitor progress as a priority item at each Plenary meeting and encourages jurisdictions to take further action to remedy the deficiencies identified in the process through public statements.

51. To decide whether a jurisdiction should be removed from the list, the FATF must first be satisfied that the jurisdiction has addressed the deficiencies previously identified by enacting significant legislation and regulations. In assessing progress by NCCTs, the FATF gives particular importance to the relevant aspects of criminal law, financial supervision, customer identification, suspicious transactions reporting and international co-operation. Any new legislation or regulations must not only have been enacted but also have come into effect. Furthermore, the FATF also takes steps to ensure that the jurisdictions concerned are indeed implementing effectively the necessary changes. The FATF has also designed a rigorous monitoring mechanism to ensure sustained efforts in implementation.

52. FATF members continue to express their willingness to provide technical assistance to jurisdictions identified through the NCCT initiative as these jurisdictions attempt to improve their anti-money laundering systems.

53. For those jurisdictions that were identified as non-cooperative in 2000 and in 2001 and that made insufficient progress, the FATF has the possibility of recommending further counter-measures in a gradual, proportionate and flexible manner. The purpose of these counter-measures is to reduce the vulnerability of the international financial system and to increase the world-wide effectiveness of anti-money laundering measures.

54. Due to Myanmar's failure to make adequate progress, the FATF recommended that counter-measures be applied to that country as of 3 November 2003. Although the FATF welcomes Myanmar's efforts since that time, sufficient progress has not yet been made to warrant their removal. Counter-measures have been applied to Nauru since December 2001. The FATF welcomes Nauru's recent legislation efforts to eliminate shell banks; however, Nauru must take additional steps to ensure that previous shell banks are no longer operating before the FATF will consider removing counter-measures.

IV. CREATING A GLOBAL NETWORK TO COMBAT MONEY LAUNDERING AND TERRORIST FINANCING

55. The FATF is committed to promoting anti-money laundering and countering the financing of terrorism initiatives on all continents and in all regions of the globe and to building a world-wide anti-money laundering network. This strategy consists of three main components: enlarging the FATF membership, developing credible and effective FATF-style regional bodies, and increasing co-operation with the relevant international organisations.

56. The FATF continued its collaboration with these relevant international organisations/bodies, and participated in several anti-money laundering events organised by other bodies. International anti-money laundering efforts are discussed at FATF Plenary meetings, which are attended by all the relevant organisations and bodies.

A. FATF EXPANSION

57. In 1998, the FATF decided to expand its membership to include a limited number of strategically important countries¹² which could play a major role in their regions in promoting AML efforts. Significant progress has been made insofar as five identified target countries have been

¹² Irrespective of their level of economic development.

granted membership status since 2000 (Argentina, Brazil, Mexico, South Africa and the Russian Federation). The FATF continues to discuss possible membership of two countries: China and India. With regard to India, following a high-level mission led by the FATF President, India expressed a political commitment to join the FATF. However, the issue is being pursued at a technical level to pre-assess India's position regarding the minimum criteria for membership. China has also expressed the desire to become a member of the FATF, and the dialogue between FATF and China is on-going.

58. The criteria for admission are as follows:

- to be fully committed at the political level: (i) to implement the FATF Recommendations, and (ii) to undergo regular mutual evaluations;
- to be a full and active member of the relevant FATF-style regional body (where one exists), or be prepared to work with the FATF or even to take the lead to establish such a body (where none exists);
- to be a strategically important country;
- to have already made the laundering of the proceeds of drug trafficking and other serious crimes a criminal offence; and
- to have already made it mandatory for financial institutions to identify their customers and to report unusual or suspicious transactions.

B. DEVELOPMENT OF FATF–STYLE REGIONAL BODIES AND THE OGBS

59. Active efforts continued during 2003-2004 to support or foster the development of FATF-style regional bodies (FSRBs) in all parts of the world. These groups, which have similar objectives and tasks to those of the FATF, use the same peer pressure mechanism to encourage their members to improve anti-money laundering systems. The FSRBs have expanded their mandates to include the fight against terrorist financing and to endorse the FATF Eight Special Recommendations. Such groups now exist in the Caribbean, Europe,¹³ Asia/Pacific, Eastern and Southern Africa, and in South America¹⁴. Other groups are in the process of being established for Western and Central Africa. In 2003-2004, two new initiatives to create FATF-style regional bodies in the Middle East and North Africa, and in Eurasia were started. In parallel, the Offshore Group of Banking Supervisors (OGBS) is implementing a strategic plan of action for the period 2001-2004 to combat money laundering and terrorist financing.

Caribbean Financial Action Task Force

60. The Caribbean Financial Action Task Force (CFATF), which the oldest of the FSRBs, has a membership of thirty States from the Caribbean basin.¹⁵ It was established as the result of meetings convened in Aruba in May 1990 and Jamaica in November 1992. The main objective of the CFATF is to achieve the effective implementation of and compliance with the nineteen CFATF and FATF Forty Recommendations and the Eight Special Recommendations on terrorist financing. The CFATF

¹³ For the non-FATF members of the Council of Europe.

¹⁴ A complete list of the members and observers of the FSRBs can be found on the FATF website at: http://www.fatf-gafi.org/Members_en.htm#OBSERVERS

¹⁵ The members of the CFATF are: Anguilla, Antigua and Barbuda, Aruba, the Bahamas, Barbados, Belize, Bermuda, the British Virgin Islands, the Cayman Islands, Costa Rica, Dominica, Dominican Republic, El Salvador, Guatemala, Grenada, Guyana, Haiti, Honduras, Jamaica, Montserrat, the Netherlands Antilles, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Turks and Caicos Islands, Trinidad and Tobago and Venezuela.

Secretariat monitors members' implementation of the Kingston Ministerial Declaration through the following activities: self-assessment of the implementation of the Recommendations; an on-going programme of mutual evaluation of members; the annual updating and publication of Country Reports, which are prepared on each member; the co-ordination of and participation in training and technical assistance programmes; plenary meetings twice a year for technical representatives; and an annual Ministerial meeting.

61. Pivotal to the work of the CFATF is the monitoring mechanism of its mutual evaluation programme. In October 2003 in Antigua and Barbuda, the CFATF Council of Ministers adopted the mutual evaluation reports of Antigua and Barbuda, Barbados and the Turks and Caicos Islands. The CFATF pursues its second round of mutual evaluations using as benchmarks the CFATF and FATF Recommendations as well as the 25 NCCTs criteria. The second round is set to end by December 2004. As a follow-up to the mutual evaluations, CFATF members report regularly to the CFATF Plenary on the improvements made in their individual legal/regulatory frameworks to combat money laundering and terrorist financing.

Asia/Pacific Group on Money Laundering

62. The Asia/Pacific Group on Money Laundering (APG), established in 1997, currently consists of twenty-eight members¹⁶ from South Asia, Southeast and East Asia and the South Pacific. The APG has expanded its typologies work in close consultation with the FATF and other regional bodies. A sixth typologies workshop was held in Kuala Lumpur, Malaysia in December 2003. The APG's Technical Assistance and Training strategy continues to expand with the support of international and regional organisations. As a consequence, the APG Secretariat acts as a focal point, where possible, for the co-ordination of anti-money laundering technical assistance and training in the region.

63. The APG held its sixth annual meeting in September 2003 in Macau, China. At this meeting, APG members adopted mutual evaluation procedures incorporating the standard October 2002 AML/CFT Assessment Methodology.

64. Since the publication of the FATF Annual Report 2002-2003, the APG has continued its first round of mutual evaluations. The mutual evaluation reports on the Republic of Korea and Palau were discussed and agreed in September 2003. In addition, the APG participated in the IMF/World Bank-led assessment of Bangladesh which was considered by APG members at the APG's sixth annual meeting. At this meeting, members adopted the 2004 Assessment Methodology, which will be used for the assessments conducted after December 2004. The mutual evaluation report on the Philippines was adopted at the APG's seventh annual meeting in June 2004, as was the IMF-led assessment of the Cook Islands in which the APG participated. Seven APG members remain to be evaluated as part of the APG's first round of mutual evaluations, which should be completed by the end of 2004 or by early 2005. The APG's seventh Annual Meeting and its Third Annual Forum on Technical Assistance took place in Seoul, Korea from 14-18 June 2004.

MONEYVAL

65. In 2002, the PC-R-EV Committee formally changed its name to Moneyval. It was established in September 1997 by the Committee of Ministers of the Council of Europe, to conduct self and mutual assessment exercises of the anti-money laundering measures in place in the twenty-six Council

¹⁶ The members of the APG are: Australia; Bangladesh; Brunei Darussalam; Cambodia; Chinese Taipei; Cook Islands; Fiji Islands; Hong Kong, China; India; Japan; Macau, China; Malaysia; Mongolia; Nepal; New Zealand; Niue; Pakistan; Republic of Indonesia; Republic of Korea; Republic of the Marshall Islands; Republic of Palau; Republic of the Philippines; Samoa; Singapore; Sri Lanka; Thailand; United States of America and Vanuatu.

of Europe countries which are not members of the Financial Action Task Force.¹⁷ Moneyval is a sub-committee of the European Committee on Crime Problems of the Council of Europe (CDPC). Since 2001, the Moneyval Committee has included the monitoring of counter-terrorist financing measures among its members as one of its terms of reference.

66. Since the publication of the last FATF Annual Report (2002-2003), Moneyval has continued its second round of mutual evaluations looking particularly closely at the effectiveness of national anti-money laundering systems. At its Plenary meeting in December 2003, reports were discussed on the former Yugoslav Republic of Macedonia, Monaco,¹⁸ Poland and Azerbaijan. At its Plenary meeting in May 2004, Moneyval discussed and adopted the reports on Estonia, Latvia, Bulgaria and Albania.¹⁹ Moneyval has in place a mechanism for written progress reports to be presented to the plenary by all countries one year after their report has been adopted.

The Eastern and Southern African Anti-Money Laundering Group (ESAAMLG)

67. The ESAAMLG, an FATF-style regional body of fourteen countries,²⁰ was launched at a meeting of Ministers and high level representatives in Arusha, Tanzania, on 26-27 August 1999. A Memorandum of Understanding (MoU), based on the experience of the FATF and other FSRBs was agreed. A permanent secretariat has now been established. The ESAAMLG held its sixth meeting of the Task Force of Senior Officials and Third Ministerial Council in Kampala, Uganda, in August 2003. A further meeting of Task Force officials took place in Dar es Salaam, Tanzania in March 2004. The ESAAMLG has launched a mutual evaluation programme of the anti-money laundering systems of its members. In August 2003, the fourth Ministerial and Task Force of Officials meetings of the ESAAMLG discussed and adopted the first ESAAMLG mutual evaluation report on Swaziland.

South American Financial Action Task Force (GAFISUD)

68. GAFISUD, the most recently formed FATF-style regional body, was created at a meeting of Ministers in Cartagena, Colombia on 8 December 2000. In the presence of the President of Colombia and the President of FATF, an MoU was signed by the nine members of the group.²¹ The objectives of this MoU are to recognise and to apply the FATF Forty Recommendations, the Eight Special Recommendations and any other recommendations that GAFISUD may adopt in the future, as well as to establish and make GAFISUD operational. A permanent secretariat is based in Buenos Aires, Argentina.

69. In July 2003, the sixth meeting of GAFISUD completed the first round of GAFISUD's mutual evaluations with the discussion and adoption of the reports on Chile, Ecuador, Peru and Paraguay. GAFISUD also agreed to convert their most recent mutual evaluation reports into reports based on the common methodology. GAFISUD was the first FSRB to send a ROSC – Bolivia – to the IMF. At its eighth Plenary meeting in December 2003, GAFISUD agreed to start its second round of mutual evaluations in July 2004 with the evaluations of Colombia and Paraguay.

¹⁷ The membership of the Committee is comprised of the following members of the Council of Europe: Albania, Andorra, Armenia, Azerbaijan, Bosnia & Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Latvia, Liechtenstein, Lithuania, Moldova, Malta, Poland, Romania, Russian Federation, San Marino, Serbia and Montenegro, Slovakia, Slovenia, "The Former Yugoslav Republic of Macedonia" and Ukraine. Monaco is the process of joining the Council of Europe.

¹⁸ Although it has not yet achieved formal membership status, Monaco has already undergone a Moneyval mutual evaluation based on a special agreement of the CDPC.

¹⁹ Summaries of all adopted Moneyval reports carried out in 2003-2004 appear at Annex D.

²⁰ Botswana, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

²¹ The members of GAFISUD are: Argentina, Bolivia, Brazil, Colombia, Chile, Ecuador, Peru, Paraguay and Uruguay. Venezuela joined GAFISUD in July 2003.

70. The GAFISUD Secretariat also continues to act as a clearing house for anti-money laundering training/educational efforts in the region. During 2003-2004, GAFISUD held a number of regional AML/CFT events.

Other initiatives in Africa

71. Following the December 1999 Summit of the Heads of State and Government of the Economic Community of West African States (ECOWAS) in Lomé (Togo), it was decided to establish an Inter-Governmental Action Group against Money Laundering (GIABA: *Groupe Inter-gouvernemental d'Action contre le Blanchiment en Afrique*). The statutes were approved at the ECOWAS Heads of State meeting in Bamako, Mali in December 2000. The headquarters of GIABA are in Dakar, Senegal. A permanent Secretariat is in the process of being established.

72. An Action Group against Money Laundering in Africa (GABAC: *Groupe d'Action contre le Blanchiment d'Argent en Afrique Centrale*) was created in December 2000, in N'Djamena, Chad, by the Conference of the Heads of State of the Economic and Monetary Community (CEMAC: *Communauté Economique et Monétaire d'Afrique Centrale*).

Initiatives in the Middle East and North Africa, and in Eurasia

73. In recent months, experts from the Middle East and North Africa (MENA) region have worked to draft an MoU establishing an FSRB for this region. Preparatory meetings (in Stockholm, Bahrain and Paris) involved representatives from the following countries: Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates and Yemen. Officials from the governments of France, United Kingdom, United States, International Monetary Fund, World Bank, Gulf Co-operation Council and FATF Secretariat played an important part in the preliminary discussions to establish MENA FATF. Once the various governments confirm that support of this initiative, an inaugural meeting will take place to launch the FSRB.

74. In October 2003, the Russian Federation began reporting to the FATF on its initiative to create an FSRB in Eurasia. As part of this effort, Russia organised an AML/CFT conference in Moscow on 10-11 February 2004. FATF members, the IMF and the World Bank have also participated in the discussion of ways to move forward with the establishment of an FSRB for Central Asian States.

Offshore Group of Banking Supervisors

75. The conditions for membership of the Offshore Group of Banking Supervisors (OGBS)²² include a requirement that a clear political commitment be made to implement the FATF's Forty and Eight Recommendations. Since June 2001, the OGBS has implemented its 3-year strategic plan of action to combat money laundering and terrorist financing. The OGBS supported the programme of assessment of financial regulation and anti-money laundering measures undertaken by the IMF and actively participated in developing the new methodology to be used for assessing compliance with the revised Forty Recommendations.

²² The Membership of the OGBS includes Aruba; Bahamas; Bahrain; Barbados; Bermuda; Cayman Islands; Cyprus; Gibraltar; Guernsey; Hong Kong, China; Isle of Man; Jersey; Labuan; Macau, China; Mauritius; Netherlands Antilles; Panama; Singapore and Vanuatu.

C. CO-OPERATION WITH OTHER INTERNATIONAL ORGANISATIONS

International Monetary Fund and World Bank

76. Over the past few years, the FATF has steadily increased its collaboration with the International Financial Institutions (IFIs). The International Monetary Fund (IMF) and the World Bank have recognised the revised Forty Recommendations 2003 and the Eight Special Recommendations 2001 as the international standards for combating money laundering and terrorist financing, and are working with the FATF, FSRBs and the OGBS on a programme of AML/CFT evaluations and assessments that extends to many countries throughout the world.

77. During the last year the FATF, the IMF and the World Bank have continued to work closely in a number of areas. Most of this collaborative effort has occurred through the FATF working group on international financial institutions issues (WGIFI). One major task of WGIFI has been to work with IMF and World Bank staff, and FSRBs to revise the common AML/CFT methodology, which was agreed by the FATF Plenary in February 2004 (see section III B above for more details on the Methodology).

78. The first version of such a Methodology was agreed by the FATF in October 2002 and was used by the IMF and World Bank during their pilot programme of AML/CFT assessments that finished in October 2003, as well as in a number of subsequent assessments. It was also used by the FATF in its mutual evaluations over the last year, and by a number of FSRBs. In the future, the FATF and IFIs will use the AML/CFT Methodology 2004 as a common tool in evaluations based on the FATF Forty and Eight Recommendations, and most FSRBs and the OGBS have decided to use the methodology while the remaining ones have expressed their will to do so.

79. The FATF, several FSRBs and the Egmont Group also assisted in the IFI pilot programme by providing independent AML/CFT experts to serve as law enforcement evaluators for IMF and World Bank assessments. In addition, the FATF contributed by conducting the AML/CFT component of two IMF FSAPs, namely for Germany and New Zealand (see section III A above and Annex C). At the end of the programme, both the IFIs and the FATF reviewed the assessments and evaluations that had been conducted using the AML/CFT Methodology 2002, and found that the use of the common Methodology and the co-operation between FATF, the IFIs and the FSRBs had resulted in significant progress in combating money laundering and terrorist financing. Certain issues relating to the 2002 Methodology and to procedures were noted and have been taken into account in the 2004 Methodology and in planning future evaluations.

80. In March 2004, WGIFI and FATF members assisted with and contributed to the review by the IFIs of the pilot program. Ultimately the Executive Boards of the IMF and World Bank decided that the IFIs would continue and intensify their work in the area of AML/CFT, and would adopt a comprehensive and fully integrated approach to their assessments.

81. WGIFI has also been working with the IFIs and FRSBs to develop a revised set of uniform assessment documentation, such as common templates of the mutual evaluation questionnaire and report, as well as a handbook of instructions and guidance. This documentation, which was agreed by the FATF Plenary in June 2004 will help to ensure that the processes and the results are consistent across the various bodies that are engaged in doing AML/CFT evaluations and assessments.

82. The FATF will continue to co-operate and co-ordinate closely with the IMF and the World Bank on a range of issues going forward, including future AML/CFT assessments and evaluations, awareness raising, training for assessments, and guidance and best practice on specific AML/CFT issues.

United Nations

UN Office on Drugs and Crime (UNODC)

83. The Global Programme against Money Laundering (GPML) is a technical co-operation and research initiative implemented by the UN Office on Drugs and Crime (UNODC). Its aim is to increase the effectiveness of international action against money laundering through comprehensive technical co-operation services offered to governments. The Programme is carried out in co-operation with other international and regional organisations. The GPML also coordinates the International Money Laundering Information Network (IMoLIN) website and the Anti-Money Laundering Information Database (AMLID), on behalf of the United Nations, the FATF, the Commonwealth Secretariat, the Council of Europe, Interpol, the Organisation of American States and the Asia/Pacific Group on Money Laundering.

84. UNODC's technical assistance focuses on training in the field (e.g., sponsoring financial investigators and mentors in the Pacific region, and at the Secretariat of ESAAMLG) and the development of practitioner tools. In a joint effort with the IMF and the World Bank, GPML has formed an expert working group to review and update the UNODC legislation on money laundering and the financing of terrorism.

UN Counter Terrorism Committee (UNCTC)

85. The United Nations Counter-Terrorism Committee (UNCTC) was established pursuant to United Nations Security Council Resolution S/RES/1373(2001) which obligates jurisdictions to freeze terrorist assets. The UNCTC monitors the implementation of S/RES/1373(2001) and works to enhance the ability of countries to combat terrorism. During the development of the Interpretative Note and Best Practices Paper to Special Recommendation III, the UNCTC provided a valuable contribution to interpreting the relevant UN instruments dealing with freezing obligations under S/RES/1373(2001). The FATF also co-operates with the UNCTC, along with the CTAG, in co-ordinating the international community's provision of CFT technical assistance and training.

UN Al-Qaida and the Taliban Sanctions Committee

86. The United Nations Security Council Committee Established Pursuant to Resolution 1267(1999) concerning Al-Qaida and the Taliban and Associated Individuals and Entities (Al-Qaida and Taliban Sanctions Committee) monitors the implementation of this resolution and works to facilitate its implementation along with its successor resolutions. During the development of the Interpretative Note and Best Practices Paper to Special Recommendation III, representatives of the monitoring group of this committee provided input to help better understand freezing obligations under S/RES/1267(1999).

Counter-Terrorism Action Group (CTAG)

87. The Counter-Terrorism Action Group (CTAG) was created by the G-8 countries at their 2003 Summit in Evian, France. The CTAG focuses on building political will in the fight against terrorism and, where necessary, co-ordinating the provision of technical assistance in that regard. The FATF has delivered technical needs assessments reports to the CTAG with a view to having the CTAG co-ordinate the international donor community's efforts in providing the technical assistance and training needed to enhance the CFT regimes of several countries.

Commonwealth Secretariat

88. The activities undertaken by the Commonwealth Secretariat in combating money laundering and terrorist financing include awareness raising and capacity building among its member countries, particularly its developing members, provision of policy advice, identification and placement of experts, and delivery of technical assistance to its member countries. AML/CFT issues were addressed by the Commonwealth Heads of Government at a meeting in Abuja, Nigeria in December 2003.

89. During the past year, the Commonwealth Secretariat has provided technical assistance to FATF-style regional bodies by funding experts or mentors in the Secretariats of the APG, CFATF and ESAAMLG. It works closely with the ESAAMLG Secretariat to prepare the meetings of the Task Force of Officials and the Ministerial Council.

90. Following the revision of the FATF's Recommendations, the Commonwealth Secretariat began the revision of its *Model of Best Practice for Combating Money Laundering in the Financial Sector*, which will be published in August 2004. As part of its Plan of Action to Combat Terrorism, adopted by Commonwealth Heads of Government, a number of workshops have been held to ensure member countries meet this obligation under UN Security Council Resolution 1373.

Egmont Group

91. The Egmont Group of Financial Intelligence Units (FIUs) became an observer to FATF in February 2002. Since its July 2003 annual meeting in Sydney, Australia, the Egmont Group²³ consisted of 84 FIUs. Over the past year, the Egmont Group has agreed to internal procedures (i.e., the functions and strategies of the Egmont Committee) and amended its statement of purpose to include terrorist financing in all references to money laundering. The most recent meeting of the Egmont Plenary took place in June 2004 when 10 new members were accepted, and the Egmont FIU definitions was amended to include the CFT function, and the 10th anniversary of the Egmont Group will be hosted in 2005 by FinCEN (United States).

Europol

92. Europol is developing a database on EU suspicious transactions (Sustran) that is still in the implementation phase. Europol is also setting up an Anti Seizure Knowledge Centre to facilitate the identification of criminal assets in the course of major criminal investigations carried out by member states. Europol, is also working in the area of terrorist financing (maintaining and facilitating entries on the EU list, non-profit organisations, micro financing project, alternative remittance systems, securities markets and terrorist financing).

Inter-American Development Bank (IADB)

93. The Inter-American Development Bank (IADB) has undertaken a number of anti-money laundering activities, mainly in co-operation with regional organisations and bodies such as the OAS/CICAD, CFATF and GAFISUD. The IADB, as a regional institution, will continue to collaborate with specialized agencies by helping the countries in Latin America and Caribbean to identify their region-specific ways to comply with international standards and also by encouraging their participation in the process of determining and reviewing such standards.

²³ The full list of Egmont recognised FIUs may be found at the following website address: http://www.fatf-gafi.org/Ctry-orgpages/org-egmont_en.htm

The International Association of Insurance Supervisors (IAIS)

94. On 1-3 October 2003 in Singapore, the IAIS General Meeting adopted new Insurance Core Principles and methodology (ICPs). As part of the new ICPs, a specific ICP on AML/CFT was adopted to ascertain compliance with the new FATF Recommendations.

95. The adoption of the FATF revised Forty Recommendations 2003 in June 2003 also led the IAIS to decide to revise its January 2002 Anti-Money Laundering Guidance Notes to create a new AML/CFT Guidance Paper. The IAIS also participated in the FATF-XV experts meeting on money laundering and terrorist financing typologies on money laundering vulnerabilities in the insurance sector.

The International Organisation of Securities Commissions (IOSCO)

96. IOSCO has pursued several anti-money laundering activities during the past year. Many IOSCO members have taken steps to adhere to the Multilateral Memorandum of Understanding (MoU) regarding information sharing and co-operation in enforcement matters, which was adopted at IOSCO's Annual Conference in May 2002. In addition, the IOSCO President's Committee meeting on 19 May 2004 adopted the Principles on Identification and Beneficial Ownership for the Securities industry.

Various international anti-money laundering events

97. In addition to the specific anti-terrorist events already mentioned and regular attendance at meetings of other international or regional bodies during 2003-2004, the FATF President accepted several invitations to participate in various international anti-money laundering conferences and seminars, including the 21st International Symposium on Economic Crime at Jesus College in Cambridge, United Kingdom in September 2002 where he gave a keynote address on the FATF and the fight against money laundering. He also gave a lecture at a Seminar for Financial Supervisors and Central Banking at Christ's College on 8 September 2003. He addressed the Twenty-Eighth Annual Conference of IOSCO in the context of a panel on Combating Financial Crime Globally. Finally, on 3 June 2004 he addressed the Wolfsberg Forum on the issue of FATF's cooperation with the banking industry.

98. During the period, the FATF Secretariat participated in several international events, including the Anti-Money Laundering/Countering the Financing of Terrorism Conference organised by the Russian Federation in Moscow in February 2004; an Organisation for Security and Co-operation in Europe (OSCE)/UNCTC/UNODC conference on the countering of financing of terrorism in Vienna in March 2004; the Second International Conference on Hawala organised by the Central Bank of the United Arab Emirates and the IMF in April 2004; the European Union Conference on Money Laundering in Santander, Spain in April 2004; the Anti-Money Laundering Seminar organised by the State Administration of Foreign Exchange (SAFE) in Dongguan, China in May 2004; and the Asia Pacific Economic Cooperation Symposium on Alternative Remittance Systems in Tokyo, in June 2004. The FATF Secretariat also participated in a series of global dialogues organised by the World Bank to raise AML/CFT awareness in various regions in the world.

V. TRENDS AND TECHNIQUES IN MONEY LAUNDERING AND TERRORIST FINANCING

A. ANNUAL TYPOLOGIES EXERCISE

99. The annual FATF typologies exercise brings together experts from law enforcement and regulatory authorities of FATF members and other jurisdictions to exchange information on significant

cases and operations related to money laundering or terrorist financing.²⁴ It thus provides a critical opportunity for operational experts to identify and describe current trends in these areas and to comment on the effectiveness of relevant counter-measures. The FATF-XV Typologies Exercise continued to examine both money laundering and terrorist misuse of the financial system and built on research conducted in previous typologies exercises in order to provide a better understanding of current money laundering and terrorist financing trends and techniques.

100. This year's exercise looked at money laundering vulnerabilities in the insurance sector. Although this topic had been included in previous FATF typologies exercises, the focus of this year's exercise was to gain a better understanding of the particular risks across the sectors that make up the insurance industry. It was noted that where low regulatory standards were applied the industry could be relatively easily exploited by money launderers. In general, however, all sectors of the industry were viewed to be most vulnerable at the integration stage of the laundering cycle. While there were a number of reported cases where significant amounts of money had been laundered through insurance policies, there was a low detection of money laundering in comparison to the overall size of the industry. These phenomena would require further research.

101. Understanding the emerging methods used by money launderers remains a key concern for FATF work on typologies. In recent years, FATF members have noted an increase in money launderers seeking advice or services of specialised professionals (referred to as gatekeepers) to facilitate their money laundering. This year's exercise confirmed that the sector remains vulnerable to exploitation by money launderers. Gatekeepers provide a range of services, such as providing advice; preparing legal documentation or establishing corporate vehicles and directly carrying out certain types of financial transaction (for example the purchase of real estate). These were all noted as being used in money laundering schemes by the typologies experts. It was concluded that many of the risks and vulnerabilities identified could be reduced if AML/CFT measures were applied consistently and thoroughly.

102. The FATF-XV typologies exercise conducted a brief examination of the money laundering risks associated with politically exposed persons (PEPs) – that is, individuals who are, or who have been entrusted prominent public figures in a particular country. The examination noted that PEPs, when involved in criminal activity, often launder their illicit gains through shell companies and off-shore banks located outside the PEPs country of origin. It was also noted that PEPs frequently used middlemen, or family members to hold assets on their behalf. The techniques employed by PEPs were observed to be similar to those of money launderers and that financial institutions may therefore be able to detect potential money laundering activity by PEPs by applying similar diligence methods that are applied in countering money laundering.

103. Terrorist misuse of non-profit organisations (NPOs) was a topic of this year's exercise as a direct follow-up to the previous year's typologies exercise. Building on this earlier work, participating typologies experts were able to identify various categories of non-profit organisations and within each category an associated set of risk profiles. Although most governments have some kind of regulation and oversight of the NPO sector, additional measures are likely to be necessary to reduce the misuse within the sector.

104. To lay the groundwork for more detailed study of terrorist financing techniques in relation to the use of wire transfers (as related to FATF Special Recommendation VII), this topic was also examined as part of the FATF-XV exercise. Wire transfers potentially allow a fast and efficient method of moving funds, which if not monitored in some way could be exploited by terrorist financiers. Complex wire transfer schemes can be used to create a deliberately confusing audit trail to disguise the

²⁴ The meeting of experts for FATF-XV took place in November 2003 in Oaxaca, Mexico, and was chaired by Mrs. María Concepción Patiño Cestafe, Head of the Dirección General Adjunta de Investigación de Operaciones (DGAIO), the Mexican Financial Intelligence Unit.

source and destination of funds destined for use by terrorists. Currently, there are a limited number of indicators to help identify potential terrorist wire transfers. It was acknowledged during this year's exercise that there was a need to identify further information to develop potentially suspicious transactions.

B. RENEWING THE FATF TYPOLOGIES PROCESS

105. The FATF typologies process was reviewed during the end of 2003 with the aim of ensuring that relevant information on money laundering and terrorist financing methods and trends can contribute effectively to the ongoing work of FATF policy makers. The goal would be to develop this information for use both in the context of the Plenary discussion or individual FATF working groups. The review also showed that there was still a need to produce an annual typologies report and potentially other FATF publications for specific audiences. In order to permit a more consistent and coherent approach to monitoring money laundering and terrorist financing methods and trends, the FATF created a new working group in February 2004. The working group began its work during the first half of 2004 by setting up a series of project teams to focus on specific topics. As additional subjects are identified, further project teams will be formed.

106. The WGTYP was initially tasked with researching three topics: (1) wire transfers; (2) vulnerabilities of the insurance sector to money laundering and (3) the development of the 2004-2005 FATF typologies exercise. Work on the first two topic areas is intended to develop further the findings from the FATF-XV typologies exercise. Additionally, the wire transfer project has the objective of providing information by October 2004 to support the working group on terrorist financing as it develops recommendations on the future of thresholds with regard to SR VII. The third project, which is on the 2004-2005 FATF typologies exercise, has developed proposals for the exercise and will continue its work in support of this initiative during the first half of FATF-XVI. A secure website for typologies issues was created during the first half of 2004 with the objective of providing information to FATF experts and policy makers on the various typologies initiatives undertaken by the new working group.

CONCLUSION

107. During 2003-2004, further significant progress was made in the fight against money laundering and terrorist financing, both within and outside the FATF membership. However, the need for continuing action against money laundering and terrorist financing is obvious. It was therefore decided that the Task Force should continue its work for a further eight years. Under its new mandate, FATF will continue to mobilise the international community in an ever deeper and more expansive effort to fight money laundering and the financing of terrorism.

108. As a consequence of the renewal of its mandate, the FATF will further strengthen its collaboration with the IMF and the World Bank in order to ensure global action to combat money laundering and terrorist financing. Moreover, there should be closer co-operation with FATF-style regional bodies and other international organisations throughout the world.

109. As the fifteenth year of the FATF comes to a close, it is now critical for the Task Force to look forward to the task of monitoring more closely the implementation of AML/CFT measures among FATF members through a third round of mutual evaluations which will start in 2004-2005, under the Presidency of France.

