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Groupe d'action financière

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FOREWORD BY THE FATF PRESIDENT

It is my pleasure to present you with the 16th Annual Report of the Financial Action Task Force (FATF), which details the progress we have made over the course of 2004-2005 in combating money laundering and terrorist financing under the French Presidency of the FATF.

The main focus for this year has been on widening the community of jurisdictions committed to fighting money laundering and terrorist financing. Under the French Presidency, we have made significant progress towards FATF membership for the People's Republic of China. Indeed, in January 2005 China was granted observer status in the FATF and then in February 2005 took part in its first Plenary meeting in Paris. China will become a member of the FATF after the successful completion of a mutual evaluation of its anti-money laundering / counter-terrorist financing (AML/CFT) system and they fulfil all requirements of membership. This will be an important step for the FATF which would like to include among its members the most important jurisdictions of the international financial community. In this vein, we have also engaged in a dialogue with India with a view to eventual FATF membership.

Again with a view to increasing the number of jurisdictions that are combating money laundering and terrorist financing, the world-wide network formed by the FATF and FATF-style regional bodies (FSRBs) has expanded through the creation of the Eurasian Group (EAG) in Central Asia and the Financial Action Task Force for the Middle East and North Africa (MENAFATF). The FATF has also continued to strengthen its relations with the FSRBs. In this regard, I have been eager to participate in the meetings of these bodies as much as possible. The Plenary meeting that the FATF held jointly with the Asia Pacific Group in Singapore, as well as the typologies exercise undertaken with the Council of Europe MONEYVAL Committee in Moscow, are further examples of the types of partnerships with FSRBs that the FATF would like to build on in the future.

Under the French Presidency, three countries were removed from the list of non-cooperative countries and territories (NCCT) thanks to the progress they have made. They have thus joined the community of jurisdictions fighting against money laundering and terrorist financing. More generally, we have carried out a complete review of this exercise thus allowing us to show the significant progress that has been made. The FATF remains firmly engaged in countering practices that go against international AML/CFT standards.

During 2004-2005, the FATF commenced its third round of mutual evaluations, this time on the basis of the new and more demanding FATF Recommendations.

The willingness of the FATF to respond rapidly and systematically to emerging threats was shown in its adoption of a ninth Special Recommendation, which adds yet another weapon to the arsenal of AML/CFT measures. This Recommendation, which calls on States to implement measures for detecting physical cross-border transportation of cash and bearer monetary instruments, will allow a more efficient approach to dealing with cash couriers.

This past year has been one of change for the position of FATF Executive Secretary. Mr. Patrick Moulette, who had held this post since 1995 and to whom I express many thanks for the major contribution he has made to the work of the FATF during these past ten years, moved to another position. The Plenary selected Mr. Alain Damais to replace him, and I wish Mr. Damais all the best in his new and challenging position.

I would like finally to thank the members of the FATF for the confidence that they have afforded me over this past year and I would like to wish my successor, Prof. Kader Asmal of South Africa, the very best for his term as President.

Jean-Louis Fort

INTRODUCTION BY THE FATF EXECUTIVE SECRETARY

It is my pleasure as the new Executive Secretary to introduce for the first time the FATF Annual Report. You will notice that its format and its contents have changed so as to better reflect the current work of the FATF. It now includes a concise but complete overview of the FATF budget and expenses reflecting the high standard of transparency and accountability that the FATF stands for in the broader sense.

The sixteenth year of the FATF has been particularly eventful. As the FATF President indicated, this is the year during which the FATF has seen the most significant progress in building the world-wide AML/CFT network. China's acceptance as an observer and the recognition of two new FATF-style regional bodies (FSRBs), the Eurasian Group (EAG) and the Financial Action Task Force for the Middle East and North Africa (MENAFATF), in two particularly important regions from the AML/CFT perspective, have of course been the most notable successes. The joint Plenary meeting between the members of the FATF and those of the Asia Pacific Group was another high point in this policy, together with the joint typologies exercise undertaken with the Council of Europe MONEYVAL Committee.

Special Recommendation IX on cash couriers, which augments international AML/CFT standards, was published together with an Interpretative Note and a paper on international best practices in this area.

The third round of mutual evaluations started at the beginning of this year. This work is based on the FATF 40+9 Recommendations and uses the common evaluation methodology developed in February 2004. Two evaluation reports were discussed and adopted during the June 2005 Singapore Plenary, the reports on the Kingdoms of Belgium and Norway. This round of mutual evaluations will continue until mid 2008, at which time all FATF members will have been evaluated against the current standards.

The FATF has undertaken a review of the Non-Cooperative Countries and Territories (NCCT) initiative. In total, the AML systems of 47 countries and territories were examined, and 23 jurisdictions were listed. With the exception of the three countries remaining on the list at present (Myanmar, Nauru and Nigeria), all listed countries have made legislative reforms and put concrete measures into place as required in order to comply with international AML standards. The FATF removed 20 jurisdictions from the list only after thorough examinations as to the effective implementation of measures in this area.

The annual typologies exercise took place using the format of small project teams for reasons of increased efficiency. The exercise also opened a new channel for co-operation between the FATF and the FSRBs through the joint experts' meeting held with the Council of Europe MONEYVAL Committee. Through efforts made under the French Presidency to reinforce the FATF typologies initiative, the foundations have been laid for an exercise that will bear fruit during the South African Presidency.

In conclusion, I would like to thank FATF members for the confidence they showed in appointing me to lead the work of the FATF Secretariat for the next four years. I would also like to thank the members of the Secretariat who perform a considerable amount of excellent quality work and to whom the FATF and the overall AML/CFT effort owe a great deal.

Alain Damais

I. OVERVIEW OF THE FATF

1. The Financial Action Task Force (FATF) is an inter-governmental body whose purpose is to establish international standards, and develop and promote policies, both at national and international levels, to combat money laundering (ML) and the financing of terrorism (FT). The FATF is a "policy-making body" which works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas. The FATF also regularly examines methods and techniques of money laundering and terrorist financing to ensure the continued relevance of its policies and standards. The mandate of FATF was renewed in 2004 for an eight-year period.

2. The FATF was established by the G-7 Summit of Paris in July 1989 in response to mounting concern over money laundering. Originally comprised of the G-7 member States, the European Commission, and eight other countries, the FATF was mandated to examine money laundering techniques and trends, review existing national and international legislation and enforcement, and define further measures needed to combat money laundering. In April 1990, less than one year after its creation, the FATF issued Forty Recommendations which provide a comprehensive plan of action needed to fight against money laundering.

3. In 1996, the Forty Recommendations were revised to strengthen anti-money laundering (AML) measures. In October 2001, in response to the September 11 attacks in the United States, the FATF's mandate was expanded to include measures to combat terrorist financing, and the FATF immediately issued Eight Special Recommendations on Terrorist Financing. The continued evolution of money laundering techniques, along with the increasing experience of its member countries, led the FATF to undertake the review of the FATF 40 Recommendations, which resulted in June 2003 in a thorough updating of these Recommendations to their present form. In October 2004, the FATF published a new Special Recommendation, making its overall standard – the Forty plus Nine Recommendations - a comprehensive framework for governments to use in developing their own efforts against money laundering and terrorist financing.

4. The FATF monitors its members' progress in implementing AML/counter-terrorist financing (CFT) measures, reviews money laundering and terrorist financing techniques and counter-measures, and promotes the adoption and implementation of appropriate measures globally. In performing these activities, the FATF collaborates with other international or regional organisations and bodies involved in combating money laundering and the financing of terrorism.

5. The FATF is currently comprised of 31 member jurisdictions (from six continents) and two regional organisations (the European Commission and the Gulf Co-operation Council). The FATF's member jurisdictions are: Argentina; Australia; Austria; Belgium; Brazil; Canada; Denmark; Finland; France; Germany; Greece; Hong Kong, China; Iceland; Ireland; Italy; Japan; Luxembourg; Mexico; Kingdom of the Netherlands; New Zealand; Norway; Portugal; the Russian Federation; Singapore; South Africa; Switzerland; Spain; Sweden; Turkey; the United Kingdom; and the United States. Additionally, the People's Republic of China became an observer on 21 January 2005.

6. The FATF has developed multiple partnerships with an important number of international and regional organisations in order to constitute a global network of organisation against money laundering and terrorist financing. The FATF's primary partnerships are with the seven FATF-Style Regional Bodies (FSRBs) and the Offshore Group of Banking Supervisors (OGBS), which group countries that have committed to implementing the FATF Recommendations and have agreed to undergo a mutual evaluation of their AML/CFT systems. In addition, the FATF has developed partnerships with various international organisations, in particular, the United Nations, the Egmont Group, the International Monetary Fund and the World Bank.

7. The FATF performs the following tasks:

- **Setting international AML/CFT standards:** The FATF develops international AML/CFT standards (the “FATF 40+9 Recommendations”) as well as additional interpretation or guidance and best practices.
- **Monitoring compliance with AML/CFT standards:** The FATF monitors the compliance of its members with the FATF 40+9 Recommendations through a peer or mutual evaluation process.
- **Promoting worldwide application of the FATF standards:** The FATF encourages the universal implementation of FATF standards by supporting FATF-style regional bodies (FSRBs) in all parts of the world and through partnerships with international and regional organisations.
- **Encouraging compliance of non-FATF members with FATF standards:** The FATF urges non-member countries to implement AML/CFT standards through its co-operation with the FSRBs, as well as through various mechanisms designed to encourage countries to adhere to international standards, such as the non-cooperative countries and territories (NCCT) initiative and technical assistance needs assessments (TANAs).
- **Studying the methods and trends of money laundering and terrorist financing:** The FATF examines current typologies on an ongoing basis to ensure that its AML/CFT policy making is relevant and appropriate in dealing with the evolving ML/FT threat.

8. In addition, the FATF is dedicated to developing better mechanisms for international co-operation, conducting outreach to the private sector, conducting training seminars for assessors in the use of the new methodology and working to improve international co-ordination of AML/CFT efforts with the FSRBs, the OGBS, international financial institutions and other relevant international organisations.

II. CHINA WELCOMED AS AN OBSERVER TO THE FATF

9. In December 2004, the FATF President headed a high level mission to China for the purpose of considering whether it met all of the requirements for observership. The outcome of the mission was successful. The FATF decided to grant observer status to the People’s Republic of China in January 2005 and welcomed delegates from China at the February 2005 Plenary meeting in Paris. China’s observer status is an important step toward its ultimately becoming a full FATF member. The final membership requirement is that China undergo an FATF mutual evaluation in which it demonstrates satisfactory compliance with key FATF Recommendations relating to the criminalisation of money laundering and terrorist financing (Recommendation 1 and Special Recommendation II), customer identification and due diligence (Recommendation 5), record keeping (Recommendation 10) and suspicious transaction reporting (Recommendation 13 and Special Recommendation IV). The date for China’s mutual evaluation has not yet been set.

10. The acceptance of China as an observer to the FATF is a step toward completing the FATF enlargement process started in 2000 with the admission of Argentina, Brazil and Mexico and continued in 2003 when the Federation of Russia and South Africa became members. The FATF has ongoing dialogue with India regarding a possible future membership.

III. REINFORCING COUNTER TERRORIST FINANCING MEASURES

11. The FATF has refined and strengthened the Eight Special Recommendations on terrorist financing first issued in October 2001. During 2004-2005, this work continued with the development of an additional standard relating to cross-border movement of cash and the publication of further interpretative guidance and best practices on this subject. FATF assessment procedures were also updated to reflect these changes. In the same period, the FATF made significant progress toward

resolution of implementation issues related to Special Recommendation VII and continued to focus on non-profit organisations.

Targeting Cross-border Cash Movements by Terrorists and Criminals

12. The FATF issued a new standard that closes a gap in international measures regarding the physical transportation of funds related to terrorist financing or money laundering across borders. Special Recommendation IX (SR IX), issued on 22 October 2004, calls on countries to:

- Implement a declaration or disclosure system for detecting physical cross-border transportations of currency and bearer monetary instruments;
- Give competent authorities the legal power to stop or restrain currency and monetary instruments that are suspected of being related to money laundering or terrorist financing, or that are falsely declared or disclosed;
- Have effective sanctions available to deal with people who make false declarations or disclosures; and
- Confiscate currency and monetary instruments that are related to money laundering or terrorist financing.

13. SR IX, along with its interpretative note issued at the same time, significantly strengthens the international standards in this area. An earlier measure (set out in Recommendation 19) only required countries to *consider* implementing measures to detect or monitor physical cross-border transportations of currency and monetary instruments. Now that implementation of such measures is mandatory, the related provisions in Recommendation 19 are unnecessary. Recommendation 19 has been revised accordingly.

14. The FATF issued a Best Practices Paper on SR IX on 12 February 2005. This document gives additional details and guidance for implementing the new FATF standard. Key topics covered include: general considerations when implementing a declaration or disclosure system; targeting and identifying cash couriers; collecting data; restraining and confiscating currency; conducting inspections; and co-operating at the international and domestic level.

FATF Standards on Wire Transfers

15. The FATF has revised its standards related to wire transfers. Special Recommendation VII (SR VII) requires financial institutions to include the name, address and account number of the originator on all fund transfers and related messages throughout the payment chain. In 2003, the FATF issued an Interpretative Note to Special Recommendation VII (INSR VII) which allowed jurisdictions to apply a threshold (of up to USD 3,000) to this obligation and committed the FATF to conducting a subsequent review of this issue after a one-year period. [Having completed this review, the FATF published a revised INSR VII on 10 June 2005. The revised INSR VII differs from its predecessor in the following respects:

- The exemption for batch transfers has been clarified. Batch transfers now only need to include, for each individual transfer contained within the batch, the originator's account number or unique reference number—provided that the batch file contains full originator information that is fully traceable within the recipient jurisdiction.
- Balancing the terrorist financing concerns associated with originator information on low value funds transfers against those terrorist financing risks associated with underground banking, the FATF has agreed to allow a USD/EUR 1,000 threshold on the requirements for identifying, verifying, and transmitting originator information on cross-border wire transfers.

Preventing Misuse of Non-profit Organisations

16. After conducting reviews of their domestic non-profit sectors, some 16 FATF members submitted these reviews to the FATF for consideration as part of an initiative to develop a better understanding of the characteristics of the NPO sector, related terrorist financing risks and current capacities for sharing information on such risks. The information obtained through this initiative will help the FATF to elaborate and further refine guidance on implementing appropriate measures in the NPO sector.

IV. THIRD ROUND OF MUTUAL EVALUATIONS LAUNCHED

17. The FATF started a third round of mutual evaluations for its members in January 2005. The assessment of the implementation of FATF standards is the major focus of FATF's current work. These evaluations are based on the Forty Recommendations 2003 and the Nine Special Recommendations 2001 and use the Anti-Money Laundering/Combating Terrorist Financing (AML/CFT) Methodology 2004. The scope of these evaluations is to assess whether the necessary laws, regulations or other measures required under the new standards are in force and effect, that there has been a full and proper implementation of all necessary measures and that the system in place is effective.

18. The evaluations are conducted by a team of experts (from the financial, legal and law enforcement areas) and the FATF Secretariat. A key feature of the process is an on-site visit to the jurisdiction and comprehensive meetings with government officials and the private sector over a two week period. The FATF has developed comprehensive and detailed procedures to conduct its mutual evaluations, and these help to ensure fair, proper and consistent evaluations. The "*Handbook for Countries and Assessors*"¹ lays out the necessary instructions and guidance for all countries and bodies that are conducting assessments.

19. The findings of the FATF assessment team are compiled in a Mutual Evaluation Report, which describes in detail the system in place and assesses and rates its effectiveness. As part of the new process, a summary of each Report will be published on the FATF website and FATF members have agreed in principle to make public the full mutual evaluation reports (with the ultimate decision being left to each FATF member for its own report). The FATF intends to provide comprehensive information on its members' actions in combating money laundering and terrorist financing.

20. Belgium, Norway, Australia and Switzerland were the first FATF countries to be evaluated in the third round of mutual evaluations. On-site visits to these countries took place the first semester of 2005. The FATF discussed and agreed the reports on Belgium and Norway in June 2005² and reports on Australia and Switzerland will be discussed at the FATF Plenary meeting in October 2005. The FATF is promoting increased transparency and co-operation through the open distribution of the reports to all FATF members and observers and the discussion of the reports in open session in the FATF Plenary.

21. The FATF is also encouraging wider dissemination and sharing of evaluation and assessment reports by all bodies and organisations responsible for compiling them (i.e. the FSRBs, the OGBS, the IMF and the World Bank). To ensure global consistency, the FATF has agreed similar or common processes, documents and procedures with all the bodies and organisations that produce assessment reports based on the FATF Recommendations and the 2004 AML/CFT Methodology and an FATF Working Group has been created to discuss common application of the standards. The FATF carries out these important functions in close co-operation with its main partners, i.e. the FSRBs, the IMF and the World Bank, in the assessment process.

¹ The Handbook is available on the FATF website at the following address: www.fatf-gafi.org.

² The Summaries of the Belgian and Norwegian evaluations are available at the following address: www.fatf-gafi.org..... The reports will be published on the FATF website in July 2005.

V. EXPANDING THE GLOBAL AML/CFT NETWORK

22. The FATF welcomed the creation of two new FATF-style regional bodies—the Eurasian Group (EAG) and the Middle East and North Africa Financial Action Task Force (MENAFATF). Together, they significantly expand the global network to combat money laundering and terrorist financing.

23. The EAG, founded in Moscow on 6 October 2004, has six member countries: Belarus, Kazakhstan, Kyrgyzstan, the People's Republic of China, the Russian Federation and Tajikistan. The EAG held its second Plenary meeting on 12-14 April 2005 in Shanghai. The Russian Federation and the People's Republic of China also participate in the FATF as a member and an observer respectively.

23. The MENAFATF, founded in Manama, Bahrain on 30 November 2004, has 14 member countries: Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Tunisia, United Arab Emirates and Yemen. The MENAFATF held its first Plenary meeting on 11 April 2005 in Bahrain.

24. Like other existing FATF-style regional bodies, the EAG and MENAFATF are committed to implementing the FATF Recommendations and assessing their members' compliance with those Recommendations through a mutual evaluation process. The first round of mutual evaluations for both the EAG and MENAFATF is scheduled to commence in 2006. The FATF has provided training to assessors of these groups to allow them to start their mutual evaluation processes, and the FATF Secretariat has also provided advice and training to the Secretariats of these groups to assist them with organisational procedures. The FATF will continue actively participating in the work of these new regional groups.

25. In western Africa, progress has been made towards the creation of an FATF-style regional body. The Intergovernmental Action Group against money laundering in West Africa (GIABA) was granted observer status by the FATF in July 2004, thus acknowledging the efforts of the countries in west Africa in establishing effective AML/CFT co-ordination in the region. The GIABA Secretariat attended an FATF Plenary meeting for the first time in October 2004. In January 2005, Dakar, Senegal was selected as the official location of the Secretariat. At its third ad hoc ministerial committee meeting in May 2005 in Nigeria, GIABA adopted a plan of action for 2005-2006 and defined priority activities for the short and medium term. At the FATF Plenary in June 2005, GIABA made an official request to be recognised by the FATF as an FSRB.

VI. CO-ORDINATED ACTION WITH INTERNATIONAL ORGANISATIONS AND REGIONAL GROUPS

Joint Initiatives with FATF-Style Regional Bodies

26. The FATF held a joint Plenary with the Asia/Pacific Group on Money Laundering in June 2005 in Singapore - the first FATF Plenary with an FATF-Style regional body in attendance. Members of the APG and the FATF discussed issues of common interest, including challenges for Asia-Pacific jurisdictions in implementing the FATF standards. Continuing these outreach initiatives, the FATF will hold a joint Plenary session with ESAAMLG in February 2006 in Cape-Town. The meeting will allow eastern and southern African countries to share their experiences in implementing the FATF standards and to focus on the specific needs of essentially cash-based economies in fighting money laundering and terrorist financing.

27. The FATF continues to encourage the work of ESAAMLG in promoting AML/CFT initiatives in eastern and southern Africa. ESAAMLG made progress and has drafted a three year strategic plan, due for final approval at its August 2005 Council of Ministers Meeting. In 2004-2005, ESAAMLG

performed the mutual evaluations of Malawi, Lesotho, and Namibia, which complement the assessment of Uganda conducted by the World Bank. Continued efforts by ESAAMLG members, with the assistance of donor nations and organisations, particularly in relation to mutual evaluations, will be required to maintain and promote AML/CFT initiatives in the region.

28. The FATF held a joint Typologies meeting with MONEYVAL in December 2004, which was hosted by the Federal Financial Monitoring Service of the Russian Federation (*Rosfinmonitoring*) in Moscow (see Chapter VIII below). The FATF will hold a joint Typologies meeting with GAFISUD in November 2005, which will be hosted by COAF, the Brazilian financial intelligence unit. In addition, the FATF has decided to conduct joint mutual evaluations with FSRBs in the case of countries which are members of both the FATF and an FSRB: the evaluation of Australia, conducted jointly with the APG, was the first example of this kind in the third round of mutual evaluation.

Co-operation with the United Nations

29. The FATF's co-ordination with the United Nations was enhanced a level this year, with the FATF participating in the first of a new programme of on-site visits conducted by the United Nations Counter-Terrorism Committee Executive Directorate (CTED). In March 2005, an FATF expert joined a UN-CTED-led team in Morocco, to monitor implementation of UN Security Council Resolution 1373(2001).

Co-operation with the World Bank and the IMF

30. Over the last year the FATF has been working closely with the IMF and World Bank to co-ordinate AML/CFT evaluations and assessments. It was jointly agreed that Fund and Bank staff would be able to conduct a limited number of assessments of FATF members, with the resulting reports being discussed in the FATF Plenary. This collaborative process has already commenced with the IMF assessment of Italy, with the resulting report to be discussed in the FATF Plenary in October 2005. The common documentation and similar processes, combined with FATF Plenary review of assessment reports of FATF members, will see the FATF working even more closely with the IMF and World Bank over the coming years.

VII. ENGAGEMENT WITH THE PRIVATE SECTOR

31. The FATF regards engagement with the private sector as critical to effective implementation of the FATF Recommendations. The Secretariat has had regular contact with the various representatives of the banking sector, such as the Wolfsberg Group (an association of twelve global banks) and more recently the International Banking Federation (IBFed is the representative body for the Australian, Canadian, European, Japanese and US banking associations).

32. The FATF has taken three steps to improve dialogue in the private sector during the year. First, the FATF decided on publishing, as a general rule, all future mutual evaluation reports. These reports will assist the private sector by providing detailed information on the quality of the AML/CFT systems of FATF members.

33. Second, the FATF typologies work has been redesigned to emphasise more in-depth analysis of money laundering / terrorist financing methods. The published typologies reports thus may serve as a reference for the private sector on typologies and trends in this area.

34. Third, the FATF has decided to improve its dialogue with the private sector by developing new contacts and maintaining a principle of consultation with the private sector on a systematic basis when creating new standards.

VIII. THREE COUNTRIES REMOVED FROM THE NCCT LIST

35. The FATF removed the Cook Islands, Indonesia, and Philippines from the list of non-cooperative countries and territories (NCCT) in February 2005 after these countries implemented AML systems that include strict customer identification, suspicious transaction reporting, bank examinations, capacities to investigate and prosecute money laundering, and financial intelligence units. As with other de-listed NCCTs, the FATF will monitor these countries for a period of time to ensure that they sustain their recent commitments and progress. The work of the FATF on the non-cooperative jurisdictions in 2004-2005 is reflected in the separate Annual and Overall Review of NCCTs.³

36. The current NCCT list includes Myanmar, Nauru, and Nigeria. However, it is noteworthy that these countries have enacted substantial AML reforms, and the FATF has requested implementation plans from them so it can measure the actual implementation of these reforms. The situation in each NCCT is a priority item for discussion at each FATF Plenary meeting.

37. The FATF has also reviewed the overall process and results of the NCCT exercise so far. The initiative, begun in 1998, aims to increase protection of the world's financial system by securing adoption by all financial centres of effective measures to prevent, detect, and suppress money laundering. Throughout the NCCT process, the FATF has sought to ensure its openness, fairness and objectivity.

38. The FATF reviewed a total of 47 jurisdictions and listed 23 jurisdictions as NCCTs based on their overall regulatory framework, customer identification, suspicious transaction reporting, criminalisation of money laundering, and international co-operation. All jurisdictions unwilling to respond to requests or having laws or regulations prohibiting international exchange of information between judicial authorities were placed on the NCCTs list.

39. The NCCTs exercise has proven to be a very useful and efficient tool. Of the 23 jurisdictions designated as NCCTs in 2000 and 2001, only three remain. The de-listing of three countries in 2005 and progress by the remaining three NCCTs confirm that this initiative triggered significant improvements in anti-money laundering systems throughout the world and demonstrates the continued willingness and commitment of countries to improve their AML systems. FATF members' willingness to provide technical assistance to jurisdictions identified through the NCCT initiative has been an important element as these jurisdictions attempt to improve their anti-money laundering systems.

40. Since 2001, the FATF has not reviewed any new jurisdictions under the NCCT process. However, the FATF continues to monitor for weaknesses in the global financial system that could be exploited for money laundering or terrorist financing purposes. The FATF will also ensure that it remains aware of new challenges where deficiencies in AML/CFT systems impede effective international co-operation against money laundering and terrorist financing, and the FATF will react appropriately. If need be the FATF will apply Recommendation 21 to jurisdictions identified as posing a particular money laundering or terrorist financing risk, and if necessary the FATF will recommend the application of additional counter-measures.

IX. MONITORING TRENDS & TECHNIQUES IN MONEY LAUNDERING & TERRORIST FINANCING

41. The study of money laundering and terrorist financing methods and trends – typologies – plays a key role in the FATF standard-setting process. Last year the FATF established a new Working Group on

³ The 2005 Annual Review of NCCTs can be found at [http://www.fatf-gafi.org/document/51/0,2340,en_32250379_32236992_33916403_1_1_1_1,00.html#Annual NCCTs Reports](http://www.fatf-gafi.org/document/51/0,2340,en_32250379_32236992_33916403_1_1_1_1,00.html#Annual%20NCCTs%20Reports).

Typologies (WGTYP) and the subsequent creation of project teams and a co-ordination mechanism within the working group to ensure that relevant information on methods and trends is available to the FATF as it considers further anti-money laundering policies.

The 2004-2005 Typologies Exercise

42. For the 2004-2005 typologies exercise, the FATF undertook a series of five studies, which were conducted by small project teams over the course of several months. Each of these topics (with the exception of the wire transfer topic⁴) was the subject of a workshop during the annual meeting of experts on typologies:

- Alternative remittance systems
- Drug trafficking related to terrorist financing
- Money laundering associated with human being trafficking and illegal immigration
- Money laundering vulnerabilities in the insurance sector
- Methods and trends in money laundering and terrorist financing
- Wire transfers and terrorist financing techniques

43. A joint FATF / MONEYVAL typologies meeting took place from 6 to 8 December 2004 and was hosted by the Federal Financial Monitoring Service of the Russian Federation (*Rosfinmonitoring*) in Moscow. The meeting was attended by over 170 experts representing some 45 jurisdictions, along with representatives of 15 observers. The meeting itself was organised as a series of workshops that further examined the material prepared by the typologies project teams. Project leaders then presented the conclusions of each workshop during a round table meeting attended by all experts on the final day.

44. Building on the workshop discussions held during the typologies meeting, the project teams conducted further analysis as necessary and then completed reports on their findings. These reports then became the basis for the FATF / MONEYVAL typologies report published in June 2005. The project examining drug trafficking as related to terrorist financing concluded that a different approach was necessary before the FATF could adequately address the issue; therefore, this project did not result in a report of findings.

Future Typologies Work

45. The new organisation of FATF typologies work has led to an increased attention by FATF members to the utility and necessity of such work. The effort has required more intensive participation from both operational and policy-making experts and has begun improving the dialogue on typologies issues. Moreover, the organisation of the annual exercise as a joint effort between the FATF and an FATF-style regional body – in 2004-2005 with the Council of Europe MONEYVAL Committee – appears to be a further means of reinforcing both the individual and collective efforts to understand money laundering and terrorist financing methods and trends.

46. The format used and tested during FATF-XVI for conducting typologies research will therefore continue into FATF-XVII. Extensive discussion on the specific topics, as well as preparation for the next exercise began during the second half of the 2004-2005 FATF Presidency. While the final list of topics has not yet been agreed, the decision has already been made to organise the 2005-2006 typologies exercise jointly with GAFISUD, and Brazil will host the annual experts' meeting in November 2005.

⁴ The project on wire transfers and terrorist financing vulnerabilities focussed on the issue of thresholds and their potential utility regarding implementation of Special Recommendation VII. The work on this issue was completed during the first part of FATF-XVI and resulted in an internal report that was presented to and used by the FATF Working Group on Terrorist Financing (WGTF) in its discussions of SR VII issues.

X. SUPPORT SERVICES AND FINANCIAL STATEMENTS

47. The FATF is supported by a Secretariat based at the Organisation for Economic Co-operation and Development (OECD) in Paris, France. The work of the Secretariat has expanded considerably over the years. It is now composed of 10 staff members: an executive secretary, 2 principal administrators, 4 administrators, 1 administrative assistant, and 2 assistants/secretaries.

48. The role of the FATF Secretariat is to organise and support the FATF meetings (Plenary and working groups meetings) and to support the President and the Steering Group. The Secretariat prepares and produces the policy papers discussed in working groups and/or in the Plenary, organises mutual evaluation missions, and produces the related assessment reports. The Executive Secretary and his staff liaise on an on-going basis with FATF's partners and represent the organisation at their meetings. They ensure contacts and communication with the media as appropriate.

49. Funding for the FATF is provided by its members on an annual basis and in accordance with the scale of contribution to the OECD. This scale is based on a formula related to the size of the jurisdiction's economy. Non-OECD members' contributions are calculated using the same scale as OECD members.

50. The overall budget figures of the FATF budget for fiscal years 2004 and 2005 are reflected in the table below. These figures show a budget increase of 6.34% from 2004 to 2005, which reflects the increased costs related to the development of partnerships with other organisations and the additional cost related to the start of the third round of mutual evaluations.

Budget Items	Budget FY 2004	Budget FY 2005
Emoluments, allowances and employer's contributions for permanent staff	1,135,900	1,142,900
Official travel	148,200	220,000
Consultants, contracts, auxiliaries and conferences	4,900	4,900
Entertainment expenses	1,100	1,100
Operating expenditure	73,300	103,400
Share of OECD's overheads	113,900	116,100
Documentation and Library	2,200	1,000
Meetings, documents, translation and interpretation	112,600	115,900
Miscellaneous and unforeseen expenditures	3,600	1,800
Capital expenditure	3,000	3,000
Information technology	37,600	30,000
TOTAL	1,636,300	1,740,100

(Amounts indicated are in Euros.)