



F A T F ♦ G A F I

Financial Action Task Force
Groupe d'action financière

Current initiatives of the FATF

**Briefing to the United Nations Security Council Committee
established pursuant to resolution 1373 (2001)**

Mr Frank Swedlove
FATF President

New York
14 December 2006

1. Introduction

Madam Chairman, ladies and gentlemen. I thank you for inviting me to speak to you today. It is an honour and a great pleasure for me to address this Committee. The last time an FATF President briefed the UN counter Terrorism Committee was in May 2005, under the Presidency of Mr. Jean Louis Fort of France. Today I will provide you with an update on our work, focussing on our achievements in the past year and our priorities for the near future.

Relationship with the United Nations

First of all, I would like to reaffirm that the FATF places great importance on the relationship with the United Nations, in particular with this committee and its Executive Directorate, as well as with the United Nations Global Programme on Money Laundering based in Vienna. Indeed, I see a growing convergence in the work that the UN and the FATF do with respect to fighting both money laundering and terrorist financing.

The FATF and the CTC have developed a productive and mutually beneficial relationship. The FATF's work is advanced by the expertise and experience of the United Nations and, in turn, our work is clearly linked to implementation of United Nations Conventions and Security Council Resolutions. Your recently released 'directory of international best practices, codes and standards' very clearly demonstrates this link.

We were also particularly pleased to see that in July 2005, the United Nations Security Council specifically endorsed the work of the FATF when in Resolution 1617 it urged all members of the United Nations to implement the FATF's 40+9 Recommendations. And further, that the Secretary General has also urged all States to implement FATF Recommendations as part of his counter-terrorism strategy, endorsed this year by the General Assembly.

These significant steps taken by the United Nations will have an important impact on global efforts to combat money laundering and terrorist financing. I thank you, on behalf of the FATF, for helping to promote the FATF measures throughout the world.

On our side, we are committed to contributing to your work as much as possible, and were delighted to receive your recent invitation to participate in the UN CTED mission to assess India's implementation of Security Council Resolutions 1267 and 1373. This followed involvement of the FATF Secretariat in a similar UN-CTED mission to Morocco last year. I understand that the mission to India was very interesting and productive and I look forward to hearing more details. It was also timely as I have just invited India to attend the next FATF plenary in February as an observer.

We are also pleased that the FATF's standards have been endorsed by many other international organisations such as the Financial Stability Forum, the International Monetary Fund, and the World Bank. We are encouraged by this high level of recognition of

the FATF's standards in the international arena as this underscores the universality of their application. More importantly, it helps to enhance their effective implementation on a world-wide basis.

So as you can see, the linkages between the FATF and this Committee run deep. And the relationship is further bolstered by the participation of the CTED at our plenary meetings and at the FATF's various technical working groups. We highly value the relationship and I am committed to encouraging its growth during my Presidency.

2. The FATF's achievements over the past year

Next, let me turn to some of the achievements over the past year and some of the challenges ahead. Over the past year, the FATF has worked hard to advance its objectives in the three main areas of its mandate:

- as a standard setter;
- as an assessor body through our program of peer reviews referred to as mutual evaluations; and
- with respect to conducting research and policy development work on specific money laundering and terrorist financing trends and threats – what we refer to as typologies.

Standards

First, the FATF has continued to refine its standards - the 40 Recommendations to combat money laundering and the 9 Special Recommendations to combat terrorist financing.

These do not stand alone. The FATF has also developed interpretive notes and best practices papers to guide jurisdictions in their implementation of the standards. There is also a very comprehensive assessment methodology to assist assessors when evaluating a country's regime and to help to ensure that the FATF standards are applied in a consistent manner across jurisdictions regardless of who is conducting the assessment. It should be noted that along with the FATF, the IMF, World Bank and eight FATF-Style Regional Bodies conduct assessments on their member jurisdictions.

The FATF's standards are indeed dynamic: they evolve as our knowledge and understanding of money laundering and terrorist financing develops. In the past year, there have been two revisions to the standards. We issued revised Interpretative Notes in relation to Special Recommendation 7 on wire transfers and Special Recommendation 8 on the abuse of non-profit organisations.

First, on wire transfers, we lowered the threshold above which all cross-border wire transfers must include originator information in

order to discourage their use by terrorists and provide a better paper trail to track down illicit transactions.

The recent work on non-profit organisations was also to prevent their abuse by terrorists, which have exploited the non-profit sector to raise and move funds, provide logistical support to terrorists, and encourage terrorist recruitment or otherwise support terrorist operations.

The revised Interpretative Note now provides specific measures that countries should put into place for monitoring and supervision; and to promote effective information gathering and investigation.

Mutual evaluations

Beyond establishing standards, the FATF's priority is to monitor their effective implementation by its members by conducting comprehensive peer evaluations which we call mutual evaluations. Currently, this forms the bulk of our work.

In early 2005, the FATF started the 3rd round of mutual evaluations. Already 12 countries have been assessed by the FATF: Australia, Belgium, Denmark, Iceland, Ireland, Italy, Norway, Portugal, Spain, Sweden, Switzerland and the United States. Numerous others have been evaluated by the regional bodies and the international financial institutions.

Some preliminary issues in countries' systems have been identified from these evaluations:

- Countries should further enlarge the scope of predicate offences for money laundering, and a more proactive stance on prosecuting money laundering cases could be taken.
- Countries face challenges in implementing a risk-based approach to their institutions, as permitted by the Recommendations.
- More work needs to be done on the customer due diligence in financial institutions and in non-financial businesses and professions. This includes measures relating to identification of beneficial owners, politically exposed persons and correspondent banking.
- Little has been put in place to ensure transparency of corporate entities and legal arrangements, such as trusts.
- More meaningful information needs to be included on wire transfers if we are to use this tool effectively against the financing of terrorism.
- And finally, cash couriers. Obligations must be in place to declare or disclose cash or bearer negotiable instruments while entering or leaving jurisdictions.

FATF countries are aware of, and have committed to rectifying these shortcomings.

Typologies

The third area of focus for the FATF has been the Development of typologies. This refers to specific money laundering and terrorist trends and techniques which the FATF examines in detail and releases a report.

These studies provide important information that is valuable to the FATF for policy development purposes, to provide guidance to law enforcement as well as the private sector, and in reviewing the current standards. In some cases the typology work leads to amended or additional measures designed to mitigate money laundering and terrorist financing risks.

The FATF has finalised three major typologies projects in the past 6 months that have examined: trade-based money laundering, new payment methods, and the misuse of corporate vehicles. These reports will; help guide our future work into these new and important emerging areas.

3. Priorities for the Near Future

Now I would like to turn to the key priorities for the FATF in the near future. For the coming year we will continue to work on the on-going FATF priorities that make up the core parts of our mandate that I have already mentioned. This includes the 3rd round of mutual evaluations, which will continue with the FATF completing around 6

mutual evaluations each year. The international financial institutions and regional bodies are similarly completing a number of evaluations each year. A key issue for the FATF going forward is to secure agreements from each of the assessor bodies to share their reports, and to make them public. The ability for law enforcement, the private sector and individual jurisdictions to easily access these comprehensive reports will greatly add to their utility in the fight against money laundering and terrorist financing.

Also, in the area of research of money laundering and terrorist financing trends and techniques, the FATF is planning a number of typologies projects to examine the exploitation of the European Union's Value Added Tax system, real estate, drug-related money laundering techniques, and terrorist financing typologies. These will help the FATF to understand better how criminals and terrorists are undermining and abusing the financial system and the integrity of financial intermediaries.

Global Network

Another on-going area of our work, which has been identified as a priority for my presidency, is the steps we have taken to build a stronger international network of organisations to combat money laundering and terrorist financing.

In particular, the FATF encourages and supports the development of FATF-Style Regional Bodies. Like the FATF, each regional body

comprises jurisdictions that are committed to implementing effective systems to combat money laundering and terrorist financing. These regional groups play a pivotal role in this international fight. They make the FATF's standards truly global in their reach.

The broader FATF network now comprises 172 jurisdictions; 31 FATF member jurisdictions and a further 141 members in the 9 different regional bodies. Moreover, the FATF has offered regional bodies the possibility of becoming Associate Members and this year three regional groups have become Associate Members of the FATF.

Going forward, a priority for the FATF will be to continue the important outreach to the FSRBs in order to engage them more actively in the work of the FATF and to encourage them. As an example, the FATF would like the remaining FSRBs to work towards gaining Associate Membership status. Part of gaining Associate membership status is a clear demonstration that they have in place an effective system of mutual evaluations and typologies programmes.

At the same time, in order to expand the global network, the FATF is continuing its policy towards the enlargement of its membership. In June 2006, we established a membership committee to review and advise on membership issues going forward.

This group has a two year mandate. However, in the meantime, I am pleased to say that Korea has recently joined the FATF as an Observer, following China which became an Observer in January 2005, and I have recently invited India to attend the February plenary as an observer.

Again, I would note the important contribution of the UN to encouraging a more rigorous regime in India, which will assist that country in hopefully becoming a member of the FATF. Working together, such areas of collaboration will help both our organizations to meet their objectives more quickly.

Work with the private sector

Another of my priorities as President has been to enhance the FATF's outreach and dialogue with the private sector who are at the front line of implementing the FATF standards. It is essential that the FATF gets its message out to these entities, but it is also important for us to listen to them, and more strategically include them in our work through more effective and timely consultations.

In recognition of this important partnership, over the last year, we have considerably increased our dialogue and cooperation with the private sector. In 2005, the FATF began a new series of consultations with private sector representatives.

In Brussels in December 2005, we held a meeting with representatives from the banking, securities and insurance sectors. As a result of this meeting, a consultation group involving the private sector as well as government representatives from many countries was created to focus on the risk-based approach.

This group reported at the Vancouver Plenary and their report has been posted on the FATF website. The work of this group will help the FATF to more effectively integrate a risk-based approach into its work. In Amsterdam in November 2006 we held a meeting with lawyers and accountants. The objective was to discuss issues and challenges that these professionals face in implementing the FATF standards.

This year, for my presidency, I have also launched my own personal outreach initiative, which is designed to engage the private sector at more senior levels. My goal is to meet with senior people from among the private sector stakeholders that are responsible for implementing the FATF's standards.

So far, I have had very productive meetings with representatives of financial institutions in the US both here and in Washington. In January, I plan to have similar meetings in Asia, followed by outreach efforts in Europe in February. I believe that full participation of the private sector is instrumental to having effective controls in place to guard against the risks associated with money laundering and terrorist financing.

The FATF will continue outreach initiatives towards all areas of the private sector involved in the implementation of the FATF 40+9 Recommendations. It is my particular hope that my current efforts as President to raise awareness of the FATF's work and to listen to the concerns of private sector entities will become part of an on-going priority for FATF Presidents in the future.

Strategic Direction

Finally, I would like to mention what I see as the most significant priority for the FATF over the near term. This is the review of the FATF's strategic direction that I have launched this year under the Canadian presidency. This is a two year exercise that will come to fruition under the UK Presidency in 2007-2008 as part of the FATF's mid-term mandate review.

The strategic direction review will focus on a number of key issues for discussion by the FATF membership. The purpose of this exercise is to ensure that the mid-term review is meaningful: considering its mandate, structure, and the way in which it operates. This is important in order to reflect the dramatic changes that have occurred at the FATF, as well as in the international landscape, since the FATF was first conceived of by the G-7 Finance Ministers in 1989.

The Strategic Review is therefore important as it responds to an essential need to review the FATF mandate and, if necessary,

refocus the activities of the organisation and its role within the global infrastructure so that it continues to add value to the international AML / CTF framework. At the appropriate time, we will want to ensure that we benefit from the views of our global partners, including, of course, this Committee.

4. Conclusion

In conclusion, I would like to reiterate that the fight against money laundering and terrorist financing is a multi-dimensional and truly global endeavour. For this reason, close cooperation and collaboration between the FATF and our partner groups is critical.

Thank you for your attention and for this opportunity to speak to you today. I want to assure you of my high regard for your achievements and the importance I place on the relationship between the Financial Action Task Force and your committee.

And if I may, I might thank you Madam Chairman for your leadership of this committee over a time during which the relationship between the work of the FATF and the CTC has clearly strengthened.

Thank you.