

**FATF-VIII**

**FINANCIAL ACTION TASK FORCE ON  
MONEY LAUNDERING**



**ANNUAL REPORT  
1996-1997**

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# **FINANCIAL ACTION TASK FORCE ON MONEY LAUNDERING**

## **ANNUAL REPORT 1996-1997**

### **SUMMARY**

1. Italy chaired the eighth round of the Financial Action Task Force on Money Laundering (FATF). Several important tasks were conducted in 1996-1997, in particular a broad-ranging review of money laundering trends and techniques which included the specific examination of the threat posed by the development of new technologies in payment methods. The FATF also pursued its work in a number of areas concerning the implementation and refinement of anti-money laundering measures. In addition, an intensive programme of contacts with non-member countries was conducted. Finally, the FATF began to consider the review of its future work which will be taken forward during FATF-IX.

2. A major task conducted during 1996-1997 was the annual survey of money laundering methods and countermeasures which covered a global overview of trends and techniques.<sup>1</sup> It was observed that the most noticeable trend is the increasing use by money launderers of non-bank financial institutions, in particular bureaux de change, remittance businesses and non-financial professions. Special attention was paid to the money laundering threats of new payment technologies with the participation of private sector financial services experts. It was clear that law enforcement and regulators must look ahead now to identify potential problems and new challenges. Through continued partnership with the industry, the FATF intends to continue to study this issue as payment systems develop, and to work towards the effective implementation of anti-money laundering measures before the system is abused.

3. In the same spirit of co-operation with the financial services industry, the FATF addressed the issue of identifying the ordering client in electronic funds transfers in relation to S.W.I.F.T., and has examined ways to improve the provision of feedback to financial institutions.

4. A significant part of the FATF's work was dedicated to monitoring the implementation by its members of the forty Recommendations. In addition, six mutual evaluations, focusing on the effectiveness of counter-measures in place, were conducted during FATF-VIII — Australia, the United Kingdom, Denmark, the United States, Austria and Belgium. Summaries of the evaluation reports are contained in Part II of the Report. The FATF also completed two important studies of measures taken by its members in the areas of confiscation of proceeds of crime and customer identification.<sup>2</sup>

5. In co-operation with the interested international and regional bodies, the FATF pursued its task of encouraging non-member countries to take action against money laundering. The round witnessed an increased involvement of the international organisations in discussions of FATF policy and external relations. During 1996-1997, the FATF also reviewed its external relations strategy and working level relationships were increased with all the relevant organisations and in particular with the Caribbean Financial Action Task Force (CFATF). Application of the policy for encouraging other bodies to carry out mutual evaluations of their members' anti-money laundering measures commenced. In this respect, the

<sup>1</sup> See Annex A.

<sup>2</sup> See Annexes B and C.

the mutual evaluation procedures of the CFATF, the Council of Europe and the Offshore Group of Banking Supervisors (OGBS) were assessed as being in conformity with the FATF's principles.

6. The external relations activities of the FATF resulted in contacts and meetings with various countries of each continent. The formation of a regional anti-money laundering group in the Asia/Pacific region was very significant. At a Southern and Eastern African Money Laundering Conference, jointly sponsored by the Commonwealth Secretariat and the FATF, the participants agreed in principle to establish a regional FATF. In Europe, FATF organised, together with the European Commission and the Council of Europe, a joint mission to Russia to advise on the need to implement a complete anti-money laundering system.

7. Finally, the FATF started to consider what will be the main challenges in the future for the international combat of money laundering. In this respect, the Task Force will undertake, in 1997-1998, an in-depth review of its future activities, structure and membership. This essential task will be carried out under the Presidency of Belgium, which will begin on 1 July, 1997.

## INTRODUCTION

8. The Financial Action Task Force was established by the G-7 Summit in Paris in 1989 to examine measures to combat money laundering. In 1990 it issued forty Recommendations of action against this phenomenon. These were revised in 1996 to reflect the changes in money laundering trends. Membership of the FATF comprises twenty six governments<sup>3</sup> and two regional organisations<sup>4</sup>, representing the world's major financial centres.

9. In July 1996, Italy succeeded the United States in holding the Presidency of the Task Force for its eighth round of work. Three Plenary meetings were held in 1996-1997, two at the headquarters of the OECD in Paris and one in Rome. In addition, a special experts meeting was held in November 1996 to consider trends and developments in money laundering methods and counter-measures.

10. The delegations attending the meetings of the Task Force 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. The FATF co-operates closely with international and regional organisations concerned with combating money laundering. Representatives from the Caribbean Financial Action Task Force (CFATF), the Council of Europe, the Commonwealth Secretariat, the International Monetary Fund (IMF), the Inter-American Drug Abuse Control Commission (CICAD), Interpol, the International Organisation of Securities Commissions (IOSCO), the Offshore Group of Banking Supervisors (OGBS), the United Nations Crime Prevention and Criminal Justice Division (UNCPCJD), the United Nations International Drug Control Programme (UNDCP), the World Bank and the World Customs Organisation (WCO) attended various meetings during the year.

12. The FATF's work in the 1996-1997 round concentrated on three main areas:

- (i) reviewing money laundering methods and countermeasures;
- (ii) monitoring the implementation of anti-money laundering measures by its members; and
- (iii) undertaking an external relations programme to promote the widest possible international action against money laundering.

13. Parts I, II and III of this report outline the progress made in these respective areas during the year.

<sup>3</sup> Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, Ireland, Italy, Japan, Luxembourg, the Kingdom of the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

<sup>4</sup> European Commission and Gulf Cooperation Council.

## **I. REVIEWING MONEY LAUNDERING METHODS AND COUNTER-MEASURES**

14. The FATF carried out several projects in this area during 1996-1997, but a major achievement was the annual survey of money laundering methods and countermeasures which provides a global overview of trends and techniques. In this context, the issue of money laundering through new payments technologies (smart cards, banking through Internet) was given particular attention. Two other areas of scrutiny were the issue of electronic fund transfers and the examination of ways to improve the appropriate level of feedback which should be provided to reporting financial institutions. Finally, the FATF launched important work on estimating the magnitude of money laundering.

### **A. 1996-1997 Survey of Money Laundering Trends and Techniques**

15. The FATF promotes the exchange of information and intelligence on prevailing trends in money laundering and effective countermeasures through an annual meeting of experts from member law enforcement agencies and regulatory authorities. The following paragraphs summarise briefly the conclusions of this year's survey.<sup>5</sup>

#### *(i) Trends in FATF Members*

16. In most members, drug trafficking remains the single largest source of illegal proceeds, although the experts agreed that non-drug related crime is increasingly significant. As regards techniques, the most noticeable trend is the continuing increase in the use by money launderers of non-bank financial institutions and non-financial businesses relative to banking institutions. This is believed to reflect the increased level of compliance by banks with anti-money laundering measures. Traditional methods also remain popular e.g. cash smuggling across national borders. Outside the banking sector, the use of bureaux de change or money remittance businesses remains the most often cited threat, and money launderers are receiving increasing assistance from professionals who assist them to mask the origin and ownership of tainted funds.

17. FATF members have continued to expand their money laundering laws to counter the new threats. The most common measures include extending the money laundering offence to non-drug related predicate offences, improving confiscation laws, and expanding the application of their laws in the financial sector to apply preventive measures to non-bank financial institutions and non-financial businesses. Increased efforts are also being made to make the administrative structures which deal with suspicious transaction reports more efficient and effective, and to improve international co-operation. However, it was clear that further work needs to be done to improve international co-operation.

#### *(ii) The situation in non-FATF countries*

18. All regions of the world are being used by money launderers, with Eastern Europe, the former Soviet Union and Latin and South America most often cited in money laundering cases. Similar money laundering techniques and methods appears to be used in these regions as in FATF countries, and whilst drug trafficking remains the major problem, corruption, organised crime and fraud also generate huge proceeds. The development of counter-measures varies widely and is often closely linked to the impact of international anti-money laundering initiatives in the area. It is also evident that there is increased

<sup>5</sup> The Report of FATF-VIII on Typologies is at Annex A.

movement by money launderers to geographic areas where the money laundering counter measures are weak. Whilst most FATF members and a few non-FATF countries have comprehensive measures in place, the vast majority of countries do not, and this is where increased attention needs to be focused.

*(iii) Developments in New Technologies*

19. In line with its policy of co-operation with the financial services industry, the FATF invited the major providers and issuers of electronic money (e-money) to discuss the money laundering threats that may be inherent in the new e-money technologies. There are three categories of such systems : stored value cards, Internet/network based systems, and hybrid systems. There is no single design feature of the various e-money systems which will make them especially attractive to money launderers, and important features of these systems which will affect this are : the value limits placed on accounts/transactions; to what degree stored value cards become interoperable with Internet based systems; if stored value cards are able to transfer value between individuals; whether intermediaries remain in the new payment systems; and in what detail account/transaction records are kept.

20. Issues of concern which emerged included : the need to review regulatory regimes; whether adequate records will be available; the difficulties in detecting and in tracking or identifying unusual patterns of financial transactions. However, it was agreed that the application of new technologies to electronic payment systems is still in its infancy, and that it is important for law enforcement and regulators to continue to work together with the private sector to understand the issues that need to be considered and addressed as markets and technologies mature.

## **B. Policy Issues**

*(i) Electronic fund transfers*

21. For many years, the law enforcement community has been concerned about the difficulty in tracing illicit funds that have passed through the international funds transfer system. Partly as a result of this concern, a number of governments have asked banks and funds transfer system operators to obtain the names and identifying information of originators and beneficiaries of funds transfers. In response to related discussions with FATF in 1992, the S.W.I.F.T.<sup>6</sup> board issued a broadcast to its members and participating banks encouraging users to include full identifying information for originators and beneficiaries in S.W.I.F.T. field tags 50 (Ordering Customer) and 59 (Beneficiary). Since then, many countries have undertaken measures to encourage compliance among their financial communities with the S.W.I.F.T. broadcast message.

22. However, the increased compliance with the 1992 broadcast raised the difficulty in some instances of identifying the true originating parties in international funds transfers even where their identities were known to the bank or other financial institution which originated the transfer. In certain cases, the concern was attributable to the lack of a specific sub-field specifically designated area for an account number or sufficient space for all the data in the message MT 100.

23. To resolve this matter, FATF explored with SWIFT the possibility of devising a mechanism which would permit all the data relating to the identification, including the account number and the complete address of an ordering party to appear in the SWIFT message format. In this respect, a new

<sup>6</sup> Society for Worldwide Interbank Financial Telecommunications s.c.



optional format (MT 103) will be implemented after November 1997. The message format will have a new optional message field which will be able to contain all the data relating to the identification of the sender and the receiver (beneficiary) of the telegraphic transfer. In addition, SWIFT has issued guidance to users of its current system to describe where such information may appear in the MT 100 format. Financial institutions are encouraged to use the new message format.

*(ii) Providing feedback to financial institutions*

24. The importance of providing appropriate and timely feedback to financial institutions which report transactions suspected to be linked to money laundering is widely recognised. Feedback improves the quality of the reports institutions will make in the future, provides evidence to the institutions that the information they provide is valuable and can benefit institutions by reducing the risks and vulnerabilities they have with respect to customers they report. To follow-up on the conclusions of the Financial Services Forum in January 1996, FATF carried out an initial study on the methods of feedback currently in use, whether certain methods are more effective than others, and the legal or other limitations which may prevent effective feedback being given. This study was made on the basis of information and presentations provided by several FATF members and the financial services industry. It is intended to give this subject further attention.

25. Feedback can be divided into general feedback on results and specific feedback on particular reports made by financial institutions. The first category includes: (a) information on current trends and typologies; (b) statistics on the total number of disclosures and appropriate breakdowns; and (c) sanitised examples of actual money laundering cases. This last method was regarded as particularly helpful and should include examples of cases where the report was unfounded and a description of the lessons to be learnt from the case described.

26. Legal or practical restrictions apply to specific feedback in many FATF members, however, the provision of timely information to institutions will enable them to improve the effectiveness of their reports and make important decisions with respect to that customer. As a minimum, receipt of the report should be acknowledged, and if the report will be subject to a fuller investigation, the institution could be advised of the agency that is going to investigate the report, or the name of a contact officer. If a case is closed or completed, then the institution should receive timely information on the decision or result.

27. The types and methods of feedback are undoubtedly improving, and many members are working closely with their financial sectors to try to reduce any limitations, but it is clear that the provision of feedback is still at an early stage of development in most countries. Further co-operative exchange of information and ideas is thus necessary for the partnership between units which receive suspicious transaction reports, general law enforcement and the financial sector to work more effectively, and the FATF will continue to promote this co-operation.

*(iii) Estimate of the magnitude of money laundering*

28. The desirability of estimating the amount of money laundering that is occurring has been recognised for some time and attempts to do this were made as part of the survey of money laundering trends and techniques. However, insufficient data was available and therefore the FATF has created an Ad Hoc Group which will consider the available statistical and other information concerning the proceeds of crime and money laundering, define the parameters of a study on the magnitude of money laundering, and agree upon a methodology and a timetable for the study. This important work has already begun with the consideration of the various alternative approaches and methods which could be followed, and this study will continue in 1997-1998.

## **II. MONITORING THE IMPLEMENTATION OF ANTI-MONEY LAUNDERING MEASURES**

29. A considerable part of FATF's work has continued to focus on monitoring the implementation by its members of the forty Recommendations. FATF members are clearly committed to the discipline of multilateral surveillance and peer review. All members have their implementation of the Recommendations monitored through a two-pronged approach:

- an annual self-assessment exercise; and,
- the more detailed mutual evaluation process under which each member is subject to an on-site examination.

30. In addition, the FATF carries out cross-country reviews of measures taken by its members to implement specific Recommendations. In 1996-1997, the Task Force completed a review of asset confiscation and provisional measures in place in its members. A survey of laws and regulations dealing with customer identification was also carried out.

### **A. 1996/1997 Self-assessment exercise**

31. In this exercise, each member is asked to answer questions concerning the status of their implementation of the forty Recommendations. The responses are then compiled and analysed, and provide the basis for assessing to what extent the forty Recommendations have been implemented by both individual countries and the group as a whole. To take into account the changes which were made to the Recommendations in June 1996, the self-assessment process and questionnaires were revised. Additional information was also sought when members were not in full compliance with a Recommendation. In this transition year, the 1996-1997 self-assessment exercise used the new questionnaires based on the 1996 forty Recommendations. However, it was recognised that the criteria for compliance should be further refined. The 1996-1997 self-assessment survey will therefore be concluded in September 1997.

### **B. Application of the FATF Policy for Non-Complying Members**

#### *(i) Principles*

32. Recognising that it could not expect others to do what certain of its members fail to do, FATF defined in 1996, a policy for dealing with the few of its members which are not in compliance with the initial forty Recommendations. The measures contained in this policy represent a graduated approach aimed at enhancing peer pressure. The process of administering preliminary sanctions against certain members was already applied in 1995-1996.

#### *(ii) Steps applied in 1996-1997*

33. While a Decree dealing with customer identification had been enacted in August 1996, in September of that year, Turkey was still the only FATF member which had not passed anti-money laundering legislation and whose compliance with the forty Recommendations was seriously deficient.

Therefore, on 19 September 1996, the FATF issued a public statement in accordance with its Recommendation 21,<sup>7</sup> that Turkey was insufficiently in compliance with the forty Recommendations.

34. On 19 November 1996, Turkey enacted Law no. 4208 on the Prevention of Money Laundering which was published in the Turkish Official Gazette and which entered into force on the same day. The law makes it a crime to launder the proceeds of a range of serious offences and contains provisions dealing with seizure, confiscation and the controlled delivery of illegal funds. It also establishes two Boards, one of which will deal with operational matters relating to the prevention of money laundering, whilst the other will address policy issues. As another step forward, banks are no longer allowed to issue certificate of deposits (anonymous accounts) according to Communiqué No. 97/1 of the Central Bank which entered into force on 31 January 1997.

35. Given the adoption of the new law which it welcomed, it was decided to lift the application of Recommendation 21. This decision was based on the assumption that complementary regulations concerning money laundering counter-measures in the financial sector would be issued by the Council of Ministers within the next six months. The regulations which have been prepared by the Turkish Government contain measures which are necessary for the implementation of the Law. However, the aforementioned regulations were not enacted within the time-span mentioned in the Law, i.e. before 19 May 1997. The FATF Plenary expressed concern about the continuing failure to implement these regulations. It resolves to apply Recommendation 21 if these regulations are not in place by the time of its next meeting in September.

### **C. Mutual Evaluations**

#### *(i) Objective and process of the second round of mutual evaluations*

36. 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 drawn from the legal, financial and law enforcement fields of other 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 measures to counter money laundering and to highlight areas in which further progress may still be required.

37. In 1995, the FATF concluded its first round of mutual evaluations which dealt with the question of whether all members had adequately implemented the forty Recommendations. The mutual evaluation process is an irreplaceable mechanism to expedite the enactment of money laundering countermeasures.

38. A second round of mutual evaluations, focusing on the effectiveness of members' anti-money laundering measures in practice, commenced in 1996. The second round also checks any follow-up action taken in response to the suggestions for improvement made in the first round. In September 1996,

<sup>7</sup> **21.** Financial institutions should give special attention to business relations and transactions with persons, including companies and financial institutions, from countries which do not or insufficiently apply these Recommendations. Whenever these transactions have no apparent economic or visible lawful purpose, their background and purpose should, as far as possible, be examined, the findings established in writing, and be available to help supervisors, auditors and law enforcement agencies.

it was decided to enhance the process by establishing a fixed schedule, better preparation of the examiners and the issuance of guidelines to ensure consistency between the examinations. The process has also been supplemented by requests made to certain countries to make further reports in relation to any suggestions for improvement of their anti-money laundering systems. This was the case for Sweden, which had been requested at the June 1996 meeting to report back in June 1997. At the June 1997 Plenary meeting, Austria was asked to provide a further report in February 1998 on any changes it had made to its anti-money laundering regime, as well as on the action it proposed to remove deficiencies identified in the mutual evaluation report, particularly the existence of anonymous passbooks which is in contradiction with FATF Recommendation 10. Summaries of the reports discussed during FATF-VIII are given below.

*(ii) Summaries of reports*

**Australia**

39. In Australia, the significant sources of illegal proceeds are major fraud and drug trafficking. Both forms of crime appear to be increasing since they are facilitated by the impact of regulatory and technological change on financial systems, and increasing globalisation of world markets. This type of crime tends to be organised and to involve criminals with international connections.

40. The Australian Government has adopted a “whole system” approach to dealing with money laundering by putting in place appropriate law enforcement structures, legislation and operational techniques. Australia has taken the FATF philosophy and extended it to areas such as money laundering associated with tax evasion and extending the cross-border reporting requirements to international wire transfers. The Australian system gives high priority to the use of financial reports and related information to locating the money trail, particularly with regard to organised crime and serious criminal offenders. In this respect, the Australian Government has established AUSTRAC (Australian Transaction Reports and Analysis Centre), a specialised regulatory agency to work with the financial sector, to receive reports of significant and suspicious transactions and to analyse financial transaction data. That data in the form of intelligence is made available to Australia’s major law enforcement agencies and the Australian Taxation Office (ATO) to assist them in their actions against criminal activity and tax evasion.

41. A major feature of the Australian use of financial transaction data is the operation of a Task Force of agencies. The members include the Australian Bureau of Criminal Intelligence (which represents the States and Territories), the Australian Customs Service, the Australian Federal Police, the Australian Taxation Office, AUSTRAC and the National Crime Authority. This process ensures that information of importance is quickly and efficiently distributed to relevant law enforcement agencies. Major law enforcement initiatives are taken as a result of this information being used by task forces co-ordinated by the National Crime Authority. It has particular importance in the investigation of organised criminal activity but also assists in dealing with major tax avoidance and in uncovering practices which seek to defeat the reporting obligations of Australian law.

42. The Australian system has matured significantly since the first evaluation which was conducted in March 1992. AUSTRAC has grown in importance and effectiveness. In this regard, it is to be commended for its untiring efforts in working closely with the financial sector, in receiving and analysing financial transaction data and in providing the data in the form of intelligence to the appropriate agencies. It is clear that, if AUSTRAC had not taken a major leading role, the anti-money laundering regime in Australia would have been far less successful. However, recognising that the integrity of financial markets depends on financial institutions establishing strong anti-money laundering practices and

oversight, the financial supervisory authorities should take a more active role in counter money laundering programmes.

43. However, Australia can pride itself on a well-balanced, comprehensive and in many ways exemplary system, and must be congratulated accordingly. It meets the objectives of the FATF Recommendations and is constantly reviewing the implementation of their anti-money laundering provisions, simultaneously looking well ahead in the future. Of course, there is always room for improvement, but most of the weaker points of the system — such as the control of the bureaux de change, the reliability of the identification and the extension of the FTR requirements to other operators such as solicitors — have already been identified by the Australian authorities and are under consideration. Considering the high standard of the Australian system, there is however, a regrettable deficiency of clear and comprehensive statistical data on the performance of the system, of which the real effectiveness of the system is therefore difficult to assess

44. Finally, and most of all, in spite of Australia's active commitment to international anti-money laundering initiatives, in particular the sensitisation of the Asian and Pacific countries, there is an uncharacteristic arrear in the international administrative co-operation between AUSTRAC and other financial investigation units which should definitely be made up in the near future.

## **United Kingdom**

45. The United Kingdom remains a drug consumer country, with relatively little production or transiting of drugs, and the estimated level of drug consumption in the United Kingdom has probably not changed significantly since the first mutual evaluation. Although drugs is still the major source of illegal proceeds for laundering, proceeds of other offences such as financial fraud and the smuggling of excise goods appear to have become increasingly important. Amongst the money laundering trends that have been observed since the first evaluation are :

- an increasing use by money launderers of smaller non-bank financial institutions and non-financial businesses such as lawyers, accountants and bureaux de change;
- an increasing tendency to smuggle cash out of the United Kingdom for easier placement abroad;
- greater investment of illegal proceeds into high value assets; and
- an increasing inflow of funds from the former Soviet Union.

46. There have been significant changes since the first evaluation. Several major pieces of penal legislation have been enacted, creating new all crimes money laundering offences and strengthening the confiscation legislation. The Money Laundering Regulations 1993 lay down requirements as to customer identification, record-keeping, supervision and the reporting of suspicious transactions for a wide range of businesses. Active measures have also been taken with respect to international co-operation and many new bilateral confiscation agreements have been entered into. These measures have been complemented by administrative steps such as improving the guidance notes for financial institutions and the procedures relating to the reporting and investigation of suspicious transaction reports, improving feedback to financial institutions, and increasing the awareness of money laundering for non-financial businesses.

47. Several refinements could make the system even more impressive. The National Criminal Intelligence Service has an important role in the United Kingdom's anti-money laundering initiative, and it is important that it has the human and technological resources which are necessary for it to operate effectively. In addition, the lack of statistical information on the results from the suspicious transaction reports makes it difficult to properly analyse how effective the reporting system is, and this could be rectified. Other small areas for improvement could include widening the scope of the legislation dealing

with the seizure and forfeiture of drug cash being smuggled across the border, and an extension of the Money Laundering Regulations 1993 to cover all financial activity conducted by lawyers. A thorough analysis should also be made of the situation regarding all the bureaux de change and whether there needs to be some form of formal registration or supervision.

48. Overall though, the United Kingdom anti-money laundering system is an impressive and comprehensive one, which has been subject to consistent review and improvement, which meets the FATF forty Recommendations and indeed in many areas goes beyond them. Many parts of the United Kingdom system provide a model which could be followed by other countries, with the system of education, training and Guidance Notes for the financial sector seeming to be particularly successful. The active system of supervision, co-operation, education and training in the financial sector are complemented by strong and effective penal legislation. The attitude and measures taken in regard to co-operation and co-ordination, and the willingness to review the existing measures, even if they are relatively recent, could also provide a lead to other countries.

## **Denmark**

49. Denmark is not a producer country for drugs, and is regarded as a transit country - primarily transshipment to the rest of Scandinavia. There appear to be increases in the levels of drug-consumption, and though Denmark is not a significant country on the international narcotics trafficking scene, the evidence suggests that the drugs trade nevertheless is generating significant volumes of illicit proceeds. There has also been an increasing problem with economic crimes such as investment and advanced fee frauds, frauds against creditors, illegal pyramid selling, and smuggling, which are considered to generate significant proceeds. The main methods used to launder illegal proceeds are believed to be through the use of money transfers, and cash couriers taking criminal proceeds out of Denmark. An area which appears to be a problem is the use of "collection accounts" by foreign nationals who are living in Denmark.

50. The Danish anti-money laundering system is predicated on the small size of the country and its financial sector, with an emphasis on close co-operation, both within government and with the private sector. Since the first evaluation the major initiatives have been the introduction of the Danish Act on Measures to Prevent Money Laundering ("the Act"), which came into force on 1st July 1993, and the establishment of the Money Laundering Secretariat within the Public Prosecutor's office. The Act implemented the EU Directive, and covers the range of basic measures which are required in the financial sector, including customer identification, record keeping and mandatory suspicious transaction reporting. The Money Laundering Secretariat provides a central point for collection of all intelligence relating to money laundering, and the Public Prosecutor's office has a significant role in all anti-money laundering initiatives that are implemented in Denmark. The introduction in November 1996 of a Bill to amend the confiscation legislation, and create measures such as the reversal of the burden of proof for serious offences, can only strengthen an apparently comprehensive and effective confiscation system, and is a commendable step forward.

51. Some further changes are recommended though. The acquisitive/receiving offences which are used to criminalise money laundering activity do not cover all types of activity which can amount to money laundering. The sophistication of modern money laundering requires effective legislation, and it is recommended that a new separate offence, using in part the definition of money laundering set forth in the Act, be enacted. Further education and training, combined with the ability to provide improved feedback would also lead to better results in both the banking and non-bank sectors. The Financial Supervisory Authority should take a more active role in checking the implementation of effective anti-money laundering measures in the non-bank financial sector. Consideration should be given to the anti-money laundering measures which apply to bureaux de change and casinos, and to the application of the Act to the financial

business of professionals such as lawyers and accountants. The absence of statistics in a number of areas proved an impediment to the examiners' ability to assess critical components of the Danish anti-money laundering system, and the Danish authorities should supplement existing efforts to collect statistics.

52. Overall though, the Danish anti-money laundering system meets the FATF Forty Recommendations, and on the information available, appears to be reasonably effective in implementing them. Measures in the financial sector such as customer identification and record keeping, and the number of suspicious transaction reports received from the banks suggests the system is working effectively, and the level of awareness and commitment in the banking sector is fairly high. Although there also appears to be a preparedness to adopt these measures by non-bank financial institutions, the progress in these industries has been considerably slower. Measures in the area of law enforcement appear to be fairly successful, with strong co-operation between agencies, and with the financial sector facilitating investigations, prosecutions and confiscation, though the lack of data prevents comprehensive conclusions being drawn. Similarly, a strong willingness to co-operate internationally was expressed, but again it is difficult to assess how effective this is in practice. In addition, an ability to co-operate directly to a higher degree with operational units in other countries which receive suspicious transaction reports and which are not part of the police should be given serious consideration. In summary, the system works reasonably well given Denmark's size, but as outlined above, there are some refinements and improvements which would enhance its deterrent and enforcement capability.

## **United States**

53. Due in part to the size and sophistication of the United States financial system and the country's geographical proximity to the drug producing countries of South America, the U.S. continues to have a very serious money laundering problem. It is estimated that 60-80% of federal money laundering cases involve narcotics proceeds. Significant illegal proceeds are also generated by offences connected to organised crime and white collar crime, where criminal groups are often formed along ethnic or national lines. In addition there is considerable laundering of the proceeds from foreign crimes.

54. Few new money laundering methods have been identified since the last evaluation. The most common techniques continue to be structuring or smurfing, cross border currency smuggling, and the abuse of funds transfers, foreign bank drafts, money orders and various types of cheques. Other common techniques or mechanisms that are used at various stages of the money laundering process are : offshore bank accounts, front companies, nominee companies, assets and monetary instruments purchased with cash, false invoicing, commingling of funds, payable through accounts and elaborate methods of cash conversion such as commodities or precious metals. Two more general trends have been identified, both of which reflect the success the U.S. authorities have had in reducing the use of traditional banking institutions to launder illegal proceeds : first, there appears to have been a considerable increase in the amount of cash being smuggled out of the United States in the last five years, with the money laundering problem being particularly serious on the South West border; and second there is clear evidence that launderers are now making greater use of non-bank financial institutions.

55. Since the previous evaluation the U.S. have taken a number of major steps to strengthen their anti-money laundering regime, including :

- a) the introduction of a new suspicious activity reporting (SAR) system and more comprehensive civil safe harbour provisions;

- b) the modification of the currency transaction reporting system so as to reduce regulatory burdens on the U.S. banking industry by the expansion of exemptions, and the use of a simplified currency transaction reporting (CTR) forms;
- c) extending the list of money laundering predicate offences to cover terrorism, health care and immigration offences;
- d) improved co-operation between government and financial industry representatives in meeting anti-money laundering objectives through the establishment of various co-ordinatory groups;
- e) the implementation of Project Gateway which provides on-line financial intelligence to state and local government authorities;
- f) new funds transfer record keeping rules; and
- g) the efforts to encourage the states to enact laws and co-ordinate law enforcement and regulatory activity against money laundering.

56. Generally the U.S. money laundering offences and forfeiture provisions are sound and are actively used in practice. Indeed there have been a large number of money laundering prosecutions in the U.S. over recent years, both in absolute terms and relative to the practice in other countries. The money laundering offence currently applies only to a limited number of foreign predicate offences, but that should be substantially improved by proposed amendments. Substantial amendments are also proposed for the civil and criminal forfeiture provisions, and it is to be hoped that changes, such as requiring the government to prove that the property is forfeitable on the preponderance of the evidence, will not reduce the effectiveness of the current civil forfeiture provisions, which have been a key feature of the U.S. anti-money laundering regime.

57. U.S. law enforcement agencies are increasingly co-ordinating their activities through the use of task forces and other means. The efforts being currently made to extend this co-operation and co-ordination to regulatory and state agencies is to be encouraged. However some agencies appear to be reluctant to use the suspicious activity reports to instigate investigations. It is also essential that the U.S. law enforcement agencies make more effort to provide feedback on the utility of SARs to the Financial Crimes Enforcement Network (FinCEN) and thus to financial institutions.

58. International co-operation has been strongly promoted at all levels, and the U.S. authorities are to be commended on the leadership role they have provided in the relevant international fora. The only area of weakness relates to assistance regarding the forfeiture of criminal proceeds or instrumentalities, and proposed amendments should strengthen this position. However, the ratification and implementation of the measures required by the Council of Europe Convention would provide a broader and more uniform basis for providing assistance, and more active consideration should be given to becoming a party to this Convention.

59. In the financial sector the positive and innovative approach of FinCEN, the banks and banking regulators has done much to tighten money laundering controls in the banking sector. However, the failure to comply fully with the detail of the FATF Recommendations regarding customer identification and beneficial ownership should be addressed, given the need to establish uniform and consistent requirements. As the authorities fully recognise, there is also an urgent need to strengthen the efforts to introduce effective anti-money laundering measures for non-bank financial institutions (NBFIs), particularly those not currently subject to financial regulation. Given the number of NBFIs, the decision to try to co-ordinate



certain aspects of the regulation of these businesses with state authorities seems sensible, and if a federal registration scheme is adopted careful consideration needs to be given to its implementation, so that it is both effective and cost efficient. Duplication of effort will need to be avoided, and it can only be effective if adequate resources are devoted to compliance. It is essential that all NBFIs, including insurance companies and commodities futures brokers, are uniformly subject to the full range of anti-money laundering requirements, and particularly the new SAR system, as soon as possible. Compliance then needs to be encouraged by user friendly guidance and regular on-site visits by fully trained regulators. The SAR system is a central part of the U.S. anti-money laundering effort and other refinements to the SAR system such as better feedback, a shorter time to file reports and increased computerisation, would help make it even more effective.

60. The U.S. anti-money laundering system is very complex; and the large number of law enforcement and regulatory agencies, the huge number of financial institutions, the diversity of federal and state laws, and the absence of comprehensive statistics to inform resource allocation decisions militate against a fully effective and efficient system. However, the U.S. commitment to combating money laundering at all levels of government is outstanding. Overall, the United States anti-money laundering system meets the FATF's forty Recommendations in most respects and in a number of areas it takes the lead in developing counter-measures against money laundering. By continuing to respond to the challenges energetically, and by expeditiously continuing the program of change which it has commenced, particularly in the NBFIs sector, it will create an even more effective system to combat money laundering.

## **Austria**

61. The most significant money laundering problem for Austria relates to funds with an unknown source originating in the former Soviet Union and Eastern European countries and flowing into Austrian banks. It is believed that the majority of money laundering relates to economic crimes, with large-scale investment fraud schemes being a significant problem, though drug trafficking, corruption and other crimes are often involved. Generally evidence suggests that Austria is a "transit country" for money launderers, with the criminal funds being almost entirely generated abroad, and then deposited in Austria or sent through Austria in the layering or integration stage. It is believed that there has been a marked increase in the flow of cash across Austrian borders.

62. Austria has adopted a policy of gradually tightening their anti-money laundering measures, with governmental institutions working closely with the Austrian banking community to increase its awareness of the money laundering issue. A number of significant changes have been made since the first evaluation : money laundering was made a criminal offence in October 1993; Articles 39 to 41 of the Banking Act, introduced on 1 January 1994, create important obligations for the financial sector such as customer identification, an obligation to report suspected money laundering transactions, record keeping requirements, and obligations to train staff and take organisational measures against money laundering; the creation of the Money Laundering Reporting Unit within the police provided a central point for the receipt of suspicious transaction reports; and in 1997 there were amendments to the Austrian law concerning confiscation, extradition and mutual legal assistance, and the passage of legislation which will allow the ratification of the Vienna and Council of Europe Conventions.

63. Despite these commendable advances there are still significant deficiencies in some areas, particularly of the financial system. Anonymous passbooks may be a traditional savings instrument in Austria for anyone qualifying for Austrian residency. However, they are vulnerable to money laundering, even if they are not the most widely used method of laundering money. They can and have been used to

launder illegal proceeds in several cases. The retention of these instruments is contrary to Recommendation 10, and steps should therefore be taken to remove this form of anonymous account.

64. A review should also be undertaken of the common note of interpretation which allows clients of lawyers, notaries and certified public accountants to avoid customer identification requirements. This appears to undermine the relevant provisions of the Banking Act, and is not in accordance with the FATF Recommendations. Steps should be taken to broaden the provisions of the Banking Act relating to customer identification and suspicious transaction reporting to cover these professionals as well as casinos. Importantly also, the authorities, in conjunction with the financial sector, should prepare a comprehensive set of guidelines, which will provide a single set of detailed instructions and assistance on all the matters covered by the Banking Act. Such guidelines, together with increased training, and greater and more varied general and specific feedback, would be of considerable assistance to the financial sector.

65. The money laundering offences and the new confiscation laws provide a solid foundation for penal action in the future, though the lack of money laundering convictions, and the low success rate with confiscation is a matter of concern. Consideration could be given to legislative changes such as providing a lower level of scienter, removing the monetary threshold and raising the penalty for the offences. The other reasons for the lack of success are the lack of resources for the Reporting Unit relative to the tasks it has to perform, and the administrative structure for investigating and taking legal action in relation to money laundering and confiscation. The investigation and prosecution structures need to be altered so as to more effectively attack the proceeds of crime. Effective and efficient international co-operation is necessary to deal with the money laundering problem in Austria. Recent amendments to the relevant legislation and the ratification of the Vienna and Council of Europe Conventions will assist in this, but it is essential that bilateral agreements are entered into where necessary.

66. The anti-money laundering system meets the majority of the FATF Forty Recommendations. The legislative structure is substantially in place in most areas, though there needs to be further significant changes in relation to both the financial and non-financial sectors. However, while the new legislation, combined with these further changes, and a review of the administrative structures should lead to a substantially more effective system, changes to the system of passbooks are needed as a matter of urgency.

## **Belgium**

67. Most of the money laundering cases detected in Belgium are related to the drugs traffic, principally with its neighbouring countries. However, other forms of crime also generate large profits in money laundering operations. The main laundering techniques identified are money-changing, international transfers and payments, and payments into accounts. The use of corporate structures and off-shore companies is frequent.

68. Belgium put in place an anti-money laundering arsenal with penal, preventive and international aspects. The penal component was introduced by the Act of 17 July 1990, amended by an Act of 7 April 1995. The offence of money laundering is very wide since it covers pecuniary advantages derived from any criminal offence.

69. The preventive measures were introduced by an Act of 11 January 1993, supplemented by Acts of 11 July 1994 and 7 April 1995, as well as by implementing decrees and circulars. These measures aim to prevent the financial system from being used for money laundering purposes and to oblige financial institutions to co-operate with the Financial Intelligence Processing Unit (CTIF-CFI). The Belgian

legislator chose to create an independent administrative authority in order to establish a relationship of trust with the financial sector. The role of the financial regulatory authorities, notably the Banking and Financial Commission, through its wide powers to regulate, inspect and impose penalties, contribute to the effectiveness of the preventive measures. Interaction between these authorities and the CTIF-CFI is a crucial part of the system.

70. Belgium is endeavouring to improve international co-operation and to implement the relevant conventions. Also, the CTIF-CFI together with FinCEN (Financial Crimes Enforcement Network) have founded the Egmont Group, which comprises agencies to which suspicious transactions are reported and has also concluded numerous bilateral co-operation agreements with similar agencies from other countries. A recent Act of 20 May 1997 should probably improve judicial co-operation for seizures and confiscation with foreign authorities.

71. Since its first evaluation report, Belgium has made great progress both from the legislative standpoint and from the standpoint of preventive measures to combat money laundering. Almost all of the Recommendations have now been translated into domestic law, except for a few items that are now under discussion or being formulated some of which go beyond the letter of the 1990 Recommendations. These are namely, the Bill extending the scope of application of the Act of 11 January 1993 to certain non-financial professions (notaries, bailiffs, chartered accountants, auditors, fund conveyors, estate agents and casinos). Due to their possible vulnerability to money laundering, the Belgian government has taken the decision to include lawyers in the scope of the Act of 11 January 1993. Other measures being considered (including the regulation of funds transfer activities) or incorporated in the government's action plan against organised crime should also make the system more effective. Against this general background, it is noted that a draft Bill is proposed on the criminal liability of corporate entities. In addition, the enforcement agencies still have no adequate legal instrument giving them a secure legal basis for using the most appropriate investigation techniques to combat international laundering networks.

72. Most of the cases forwarded to the legal authorities relate to the placement stage, and to a lesser degree, the layering and integration stages. Despite the importance of results already achieved by credit institutions in the detection of suspect transactions, the sector could further improve its contribution particularly at the layering and integration phases. On the basis of the files forwarded by the CTIF-CFI to the prosecutor, Belgium can show a relative large number of convictions and current judicial investigations.

73. Overall, the system put in place by the Belgian authorities is extremely coherent and very effective, particularly in the area of laundering operations involving cash currency exchange transactions. With more legal instruments and staff resources, the enforcement agencies would be able not only to continue with their work in this sector but to make progress in the area of second and third level money laundering activities.

*(iii) Follow-up to mutual evaluation reports*

74. In accordance with the request made at the June 1996 FATF meeting, Sweden reported back to the FATF on the measures it had taken to improve its anti-money laundering regime since that date. It advised that the Council of Europe Convention had been ratified, and that bureaux de change had been made subject to its Money Laundering Act since 1 January 1997. It also indicated that the Government Commission of Inquiry on Money Laundering had completed its work, and had made a number of proposals to the Swedish government, including:

- a new, broader definition of money laundering, and a new specific money laundering offence;

- widening the range of companies required to report suspicious transactions to include insurance brokers;
- new powers to allow suspicious transactions to be frozen for up to 48 hours;
- requiring persons who transport funds in excess of SEK 50,000 (US\$ 7,000) into or out of Sweden to notify the Custom authorities;
- certain relaxations regarding secrecy provisions.

75. Hearings of the proposals are presently proceeding, and it is expected that based on the proposals and the comments received, a Bill will be prepared after September 1997.

#### **D. Cross-Country Evaluations**

76. This type of evaluation is conducted on the basis of questionnaires which seek information on the nature and results so far achieved of measures taken by FATF members to implement specific Recommendations. The Secretariat then prepares a paper summarising the responses which are considered by the Plenary. In 1996-1997, an evaluation of confiscation and provisional measures which was started during FATF-VII was completed. During the year, the FATF also completed a review of measures taken by its members on customer identification.

##### *(i) Evaluation of laws and systems in FATF members dealing with asset confiscation and provisional measures<sup>8</sup>*

77. An effective confiscation system is a necessary component of the anti-money laundering measures taken by any country. An analysis was prepared on members' systems in relation to confiscation and provisional measures, both domestically and internationally, and on confiscated asset funds, co-ordination of seizure and confiscation proceedings, and asset sharing. There is a wide range and variety of confiscation laws and systems, and many members have enacted new confiscation legislation or made significant amendments in recent years.

78. The study found that an effective confiscation scheme should extend to a range of serious offences and that it should also be possible to take action in appropriate cases to confiscate the proceeds of crime where it is held in the name of third parties. Countries should also consider widening confiscation laws to allow confiscation without conviction in certain cases, or the more limited alternative of freezing, and where possible, confiscation action against absconders and fugitives from justice. The most important issue though for most members was the question of the burden of proof upon the government and whether it can be eased or reversed. Measures that had been enacted or were being considered by countries include: applying an easier standard of proof than the normal criminal standard; reversing the burden of proof and requiring the defendant to prove that his assets are legitimately acquired; and enabling courts to confiscate the proceeds of criminal activity other than the crimes of which the defendant is immediately convicted. Other options which have been enacted, are to give the court a discretion to confiscate a convicted drug trafficker's assets, or to require the court to order the confiscation of all assets which are disproportionate to the person's legitimate income.

<sup>8</sup> See Annex B.

79. All members have legislation which provides the power to seize or freeze property which may become subject to a confiscation order. There are no general difficulties with the taking of provisional measures, though a number of countries had a practical problem with the payment of legal expenses out of money which was frozen. As regards operational issues, it was found that an effective confiscation regime usually requires prosecutors and investigators who are dedicated to this type of work.

80. In relation to mutual legal assistance the primary difficulties are that insufficient members have ratified the relevant international Conventions, or they do not have the necessary domestic legislation in place. There has been relatively limited mutual assistance experience amongst members in the confiscation field, and asset sharing and co-ordinating seizure and confiscation proceedings are also in their infancy at present. A majority of members can share assets and co-ordinate proceedings, but very few have any practical experience and only seven members have confiscated asset funds.

*(ii) Evaluation of measures taken by FATF members dealing with customer identification<sup>9</sup>*

81. As the “know your customer” policy and record-keeping rules constitute the basis of the preventive aspect of money laundering countermeasures, all FATF members have generally implemented the relevant Recommendations (nos. 10, 11 and 12). However, there was a need to examine the effectiveness of the identification regimes in place and to see whether some refinements were necessary to solve the problems encountered by financial institutions in the most difficult situations.

82. Although it is difficult to quantify the impact which identification regimes have on global money laundering activity, there is no doubt that customer identification requirements have a substantial deterrent effect. However, due to an earlier and stricter application of identification checks by the banking sector, non-bank financial institutions, and in particular bureaux de change, have become more attractive avenues for money launderers.

83. Much has been done in the area of customer identification since the establishment of FATF. However, there is still a need to refine and improve the systems in cases such as: legal entities (especially overseas and nominee accounts, the structuring of large non-financial business intermediaries and situations where there is no face-to-face contact between the customer and the financial institution). Another issue which needs to be addressed further by the FATF is the application of identification measures in the context of the rapid development of electronic transactions and financial services through new technologies.

<sup>9</sup> See Annex C.

### III. EXTERNAL RELATIONS

84. As the third component of its mission, the FATF sponsors an external relations programme designed to raise consciousness in non-member nations or regions to the need to combat money laundering, and offers the forty Recommendations as a model for doing so.

#### A. General

##### *(i) Description of the current strategy*

85. The FATF's strategy for contacts with non-member countries is based on three main principles. First, activities are oriented towards encouraging countries to adopt and implement the FATF Recommendations and on monitoring and reinforcing this process rather than on the provision of routine training and technical assistance. In certain cases, however, technical assistance may be the most useful method of promoting the Recommendations. Second, the FATF co-operates and co-ordinates, to the maximum extent possible, with all the international and regional organisations concerned with the combat of money laundering. Third, a flexible approach should be pursued, tailoring external relations activity to the circumstances of the region or countries involved.

##### *(ii) Assessment of the FATF's external relations strategy*

86. In FATF-VIII, an in-depth review of the external relations activities of the Task Force was carried out. From June 1990 to November 1996, FATF participated in, or organised 44 conferences and missions with non-members. The external relations programme of FATF has increasingly been carried out in co-operation with the international and regional organisations which are concerned with the combat of money laundering. It is clear that FATF's external activities have benefited from this co-operation which will likely increase in the future.

87. A mission or a seminar does not always provide immediate and concrete results in terms of anti-money laundering measures. To judge better the results, it should be borne in mind that FATF has sometimes conducted activities in countries in which there was no good prospect for effective action in the short term but where it was necessary to convey the anti-money laundering message. Activities undertaken since 1991 have made a significant contribution to the promotion of anti-money laundering action in Central and Eastern Europe, Asia and the Caribbean. Many countries involved in FATF external relations in these regions have responded positively. The results achieved in terms of global awareness of the money laundering phenomenon and the need to combat it, are undoubtedly satisfactory.

88. The task of encouraging non-members to adopt and implement the forty Recommendations will be of increasing importance in the future. Firstly, initiatives or actions launched since 1991 should be pursued. In addition, renewed interest in FATF's work, and sometimes membership, has recently been expressed by an increasing number of countries. In this context, it would be important to define a strategic plan for the long term in collaboration with the other relevant international organisations. Above all, external relations should become the main priority of FATF's work.

##### *(iii) FATF website*

89. In order to provide wider and easier access to the FATF forty Recommendations and other public FATF documents, the FATF has created a website. The site (located at <http://www.oecd.org/fatf/>) not

only contains copies of these documents, but also a summary of the background work of the FATF, its programme of work for 1997-1998, the membership and its links with other international organisations.

## **B. Co-operation with Regional and International Organisations**

### *(i) Collaboration and working relationships*

90. To facilitate international co-operation in anti-money laundering efforts, the FATF has reached out to other organisations and groups with infrastructures and relationships which can strengthen its efforts. In order to co-ordinate the activities of the regional and international bodies concerned with money laundering, the FATF organises regular meetings with various organisations<sup>10</sup> which are most useful. In the context of an increase in the policy and working-level relationships with all relevant international bodies, these meetings are now co-chaired by one of these bodies. To enhance the promotion of anti-money laundering policies world-wide, the President of the FATF sent letters to the President of the World Bank and the Managing Director of the International Monetary Fund to request their assistance, particularly in the area of ensuring the safety and soundness of the financial sector.

91. The FATF also participated in various events organised by these bodies during 1996-1997. FATF representatives attended meetings of the Caribbean Financial Action Task Force, the Offshore Group of Banking Supervisors and the FOPAC Group of Interpol. FATF also attended the sixth session of the United Nations Commission on Crime Prevention and Criminal Justice, the FinCEN/Interpol Working Group meeting on the analysis of financial records and a session of the OAS/CICAD Experts Group on Money Laundering and the 21st Conference of the European Ministers of Justice on corruption and organised crime.

### *(ii) Implementation of the policy for assessing non-members*

92. In 1996, the FATF adopted both a policy and implementing rules for assessing the implementation of anti-money laundering measures in non-member governments. The rationale for this policy is that the implementation of a mutual evaluation procedure will encourage countries and jurisdictions not only to get on with implementing anti-money laundering laws but also to improve the counter-measures already in place. The Task Force has started to validate and support the mutual evaluation process of other bodies which have agreed to carry out mutual evaluations of their members. The FATF assessed the CFATF and the Council of Europe's mutual evaluation procedures as being in conformity with its own principles and also approved the mutual evaluation procedures of the OGBS. As the latter is comprised of representatives of banking supervisory authorities, the FATF has sought formal political endorsement of the procedures and the forty Recommendations from the governments of some members of the OGBS.

<sup>10</sup> These organisations or bodies are: the CFATF, the Council of Europe, the Commonwealth Secretariat, the International Monetary Fund, the Inter-American Drug Abuse Control Commission (CICAD), Interpol, the International Organisation of Securities Commissions (IOSCO), the Offshore Group of Banking Supervisors, the United Nations Crime Prevention and Criminal Justice Division, the United Nations International Drug Control Programme, the World Bank and the World Customs Organisation .

93. The implementation of the FATF's policy for non-members will concern a number of countries and jurisdictions. The FATF hopes that the mutual evaluation procedures of the CFATF, the Council of Europe and the OGBS will be productive. In this context, the FATF also decided to extend its co-operation with these bodies. While the second round of mutual evaluations of FATF members is being carried out, the FATF could consider providing examiners, if requested by one of the three bodies/organisations mentioned above. In order to provide them with a better understanding and knowledge of the FATF's standards and procedures, the relevant bodies may also attend the discussions of FATF mutual evaluation reports.

### **C. Initiatives Undertaken in 1996-1997**

94. In 1996 and 1997, several important developments occurred in the international fight against money laundering:

- the creation of an Asia/Pacific Group on Money Laundering; and
- the Southern and Eastern African Money Laundering Conference.

95. In the regions or countries covered by these events, in general, the FATF has continued to provide the necessary support to the relevant bodies rather than launching new initiatives. It is also important that the international organisations or structures concerned (Commonwealth Secretariat, OAS/CICAD, CFATF, Asia/Pacific Group on Money Laundering) continue to co-operate with the FATF so that it can observe the developments taking place in these regions (Asia, Latin America, Caribbean), and in particular on the adoption of money laundering counter measures. The new global project of the UNDCP/UNCPCJD on money laundering will contribute to the implementation of these measures through the provision of training and technical assistance.

#### **Caribbean**

96. With regard to the Caribbean, the FATF supported the endorsement of the Memorandum of Understanding (MOU) at the 1996 Ministerial meeting of the CFATF. Under the Chairmanship of Costa Rica, the CFATF finalised mutual evaluation reports of the Cayman Islands and Trinidad and Tobago and has planned six evaluation visits for 1997. The CFATF also launched its typologies exercise. Through this exercise, the CFATF proposes to develop and share among its members the latest intelligence on money laundering and other financial crime techniques used in the Caribbean region and elsewhere, and to establish a factual foundation for the analysis of the FATF revised Recommendations.

#### **Asia/Pacific**

97. The major initiative undertaken in the region during the round was the fourth Asia/Pacific Money Laundering Symposium which took place in Bangkok on 25-27 February 1997 and which was attended by representatives of 38 countries/jurisdictions and international organisations. The Symposium was jointly organised by the FATF and the Office of the Narcotics Control Board of Thailand and was supported by the UNDCP. The role of the FATF in this region is to support fully the effective establishment of the Asia/Pacific Group on Money Laundering.

98. The reports of the delegations present at the Symposium on progress made on the enactment of anti-money laundering measures indicated that a number of governments were in the process of passing legislation. Representatives at the Symposium shared their experiences in combating money laundering and discussed various measures to combat this threat. They were also briefed on a Disposal of Proceeds



of Crime Money Laundering Methods Workshop which was organised by the FATF Asia Secretariat and Interpol in November 1996.

99. The Asia/Pacific Group on Money Laundering was established to take forward anti-money laundering initiatives in a co-operative manner. Based on the recognition that money laundering is a significant international issue and one which affects the Asia/Pacific region, it was agreed to develop a regional plan of action to facilitate the enactment of anti-money laundering measures in the region. This Group is initially comprised of Australia, Bangladesh, Chinese Taipei, Hong Kong, Japan, New Zealand, People's Republic of China, Philippines, Singapore, Sri Lanka, Thailand, the United States and Vanuatu. It should be noted that on 6 April 1997, the Finance Ministers of the Asia Pacific Economic Cooperation (APEC) issued a ministerial statement which welcomed the establishment of the Asia/Pacific Group on Money Laundering. The FATF noted that the important work in the Asia/Pacific region will require urgent funding from FATF members and those of the Asia/Pacific Group on Money Laundering.

### **Southern and Eastern Africa**

100. Representatives of 13 African countries (Botswana, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe) attended the first Southern and Eastern African Money Laundering Conference in Cape Town, South Africa, on 1-3 October 1996. The Conference was jointly sponsored by the Commonwealth Secretariat and the Financial Action Task Force on Money Laundering.

101. The Conference agreed on the urgent need to enact anti-money laundering legislation based on the forty FATF Recommendations and the Commonwealth model laws. It was also agreed that the national strategies for combating money laundering should rely on a multi-disciplinary approach involving officials from the legal, financial and law enforcement ministries and agencies. However, it was also recognised that it is essential to establish a national co-ordinating group on anti-money laundering matters for each country. Finally, the Conference agreed on a proposal to set up a regional mechanism which would establish a Southern and Eastern African Financial Action Task Force.

### **Latin America**

102. In this continent, the FATF supports the work of the OAS/CICAD which has been given a role in the ongoing assessment referred to in the Ministerial Communiqué of the 1995 Summit of the Americas Money Laundering Conference.

103. The OAS/CICAD has established a Group of Experts on Money Laundering which will meet twice a year. This Group has instituted its assessment procedures and will develop a typologies exercise in the future. It also made a recommendation to amend CICAD's Model Regulations on Money Laundering to reflect the desirability of establishing financial investigation units.

### **Central and Eastern Europe**

104. A joint FATF/Council of Europe/European Commission mission, led by the President of the FATF, visited Moscow in the autumn of 1996 to discuss money laundering issues with the competent Russian authorities. Since the last FATF mission in 1994, some progress has been made. During the summer of 1996, Russia enacted two provisions in its new Penal Code which address the offence of money laundering. These provisions were brought into effect on 1 January 1997. In addition, a draft law "On Countering the Legalisation (Laundering) of Illegal Income Gained" was tabled in November 1996 in the State Douma. However, it is uncertain when it will be passed through Parliament.

105. The FATF was invited by the UNDCP to participate in an International Conference on Drug Cooperation with the Russian Federation which took place in April 1997 in Moscow to address money laundering issues. The FATF Secretariat also carried out a preliminary visit to the Bank of Russia to prepare the way for a money laundering seminar, which is planned for October 1997.

106. In a Declaration, the governments of Estonia, Latvia and Lithuania made a commitment to implement the measures which are set out in the Vienna and Strasbourg Conventions, the European Union Directive as well as in the FATF Recommendations. The Riga Declaration on the fight against money laundering was also signed by the UNDCP, the European Commission and the FATF on the occasion of an EC/UNDCP Money Laundering Seminar for the Baltic States which took place on 14-15 November 1996 in Riga.

### **Middle East**

107. The FATF has initiated contacts with Cyprus, Israel and Lebanon with a view to conducting missions in these countries. A mission to Cyprus will take place in September 1997 for discussions with the relevant ministries and bodies concerned with the combat of money laundering.

108. The Gulf Cooperation Council (GCC), which is in the unique position of being a member of FATF, but with non-FATF member countries as its own constituents, has been encouraged by the FATF to develop a programme to implement and monitor anti-money laundering measures in its member States. The adoption and use of self-assessment and mutual evaluation procedures would strongly contribute to the implementation of the forty Recommendations in the Gulf region.

## CONCLUSION

109. During 1996-1997, further progress was made in the fight against money laundering, both within and outside the FATF membership. Implementation of the forty Recommendations by FATF members has again improved and the monitoring mechanisms have been further strengthened and refined. The international anti-money laundering activities undertaken by the FATF and the other organisations concerned have been intensified. Knowledge of money laundering methods and trends has developed. The FATF has also continued to undertake valuable work on refining money laundering counter-measures. As a whole, the extent and quality of the work carried out during this round confirms that the FATF remains an efficient forum for combating money laundering.

110. However, the war against money launderers is not over. While the FATF's forty Recommendations have become widely accepted standards for fighting money laundering, there are still significant areas which deserve further work and guidance. In addition, FATF's members must continue to improve the effectiveness of the measures in place. Above all, a large number of countries and territories around the world still need to enact anti-money laundering laws.

111. There is an absolute need for continuing action at the international level to deepen and widen the fight against money laundering. This vital issue will be fully addressed in the review of the FATF's future activities, structure and membership, which will take place in 1997-1998 under the Presidency of Belgium.