

IMF Publication

Status Report of the Work of the IMF and the World Bank on the Twelve-Month Pilot Program on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Assessments and Delivery of AML/CFT Technical Assistance

INTERNATIONAL MONETARY FUND AND THE WORLD BANK
ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM
(AML/CFT)

**Status Report of the Work of the IMF and the World Bank on the
Twelve-Month Pilot Program of AML/CFT Assessments and
Delivery of AML/CFT Technical Assistance**

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ACRONYMS

AML	Anti-Money Laundering
APG	Asia Pacific Group on Money Laundering
CFATF	Caribbean Financial Action Task Force
CDD	Customer Due Diligence
CFT	Combating the Financing of Terrorism
ECCU	Eastern Caribbean Currency Union
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
FSAP	Financial Sector Assessment Program
FSRB	FATF-Style Regional Bodies
GAFISUD	Grupo de Acción Financiera de Sudamérica
IAE	Independent AML/CFT Expert
IFI	International Financial Institution
Moneyval	Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures
OFC	Offshore Financial Center
OGBS	Offshore Group of Banking Supervisors
ROSC	Report on Observance of Standards and Codes
SARS	Severe Acute Respiratory Syndrome
STR	Suspicious Transaction Report
TA	Technical Assistance
WG-IFIs	FATF Working Group—International Financial Institutions

I. INTRODUCTION

1. This paper provides a status report on the 12-month pilot program of AML/CFT assessments, using the AML/CFT methodology, and an update on Bank/Fund technical assistance on AML/CFT since the *Joint Interim Progress Report—Twelve-Month Program of AML/CFT Assessments and Delivery of AML/CFT Technical Assistance* (SM/03/111, April 1, 2003 and SecM2003-0155, April 7, 2003). The paper also reports on the Financial Action Task Force's (FATF) completion in June 2003 of the revised FATF 40 Recommendations.
2. As discussed in the Joint Interim Progress Report, the Fund and the Bank staffs will prepare a report on the results of the 12-month pilot period following its completion in the fourth quarter of 2003. That report will be circulated to the Boards of the Fund and Bank prior to the 2004 Spring meetings.
3. In the sections that follow, Section II provides the status of assessments undertaken by the Bank and the Fund, and by the FATF and the FATF-Style Regional Bodies (FSRBs). Section III reviews the technical assistance efforts by the Bank/Fund; and Section IV reports on the revised FATF 40 Recommendations. Section V outlines the next steps in the pilot program.

II. AML/CFT ASSESSMENTS AND ACCOMPANYING ROSCs

4. There has been good progress in conducting AML/CFT assessments for the 12-month pilot. The Bank/Fund will complete up to 33 assessments, and the FATF and FATF-style regional bodies are expected to complete up to 18 assessments.
5. For the pilot program, there are two types of assessments, those led by the Fund/Bank staffs and those led by the FATF/FSRBs. The 12-month pilot period will conclude at the end of October 2003. By that time, the Fund/Bank and the FATF/FSRBs will have completed the field work of up to 51 assessments.¹
6. The Fund/Bank staffs expect to lead up to 33 AML/CFT assessments during the pilot (see Table 1). Through September 5, 2003, the staffs have finalized 8 assessments, including

¹ The number of assessments considered within the review of the pilot program will depend on whether drafts or final detailed assessment reports and associated ROSCs are available to Fund/Bank staff in time for inclusion in the report to the Bank/Fund Boards. The time needed in the preparation of the assessment reports and ROSCs will reduce the number of assessments available for review. For purposes of the review, the Fund/Bank staff would consider those drafts or final reports received through mid-November 2003.

the preparation of ROSCs, with an additional 20 assessments in progress—most of these are in advanced stages—and up to 5 others where the field work will be completed before the end of October 2003. All Fund/Bank-led pilot program assessments are being undertaken in the context of the Bank/Fund Financial Sector Assessment Program (FSAP), the Fund’s offshore financial center (OFC) assessment program or as stand-alone assessments that are country-requested follow-ups to earlier FSAPs.

Table 1. AML/CFT Assessments by the IMF and World Bank as Part of the Pilot
(as of September 5, 2003)

	Completed	In Progress	Scheduled
	Assessed by IMF and World Bank Staff/Experts		
FSAP	Bangladesh	FYR Macedonia	Algeria
	Hong Kong SAR	Japan	Austria
	Honduras	Jordan	Kenya
	Malta	Mozambique	Kuwait
	Mauritius	Oman	
	United Kingdom	Romania	
		Singapore	
		Tanzania	
	Assessed by IMF Staff/Experts		
OFC	Liechtenstein	Anguilla	Cayman Islands
		Bahamas	
		Belize	
		Bermuda	
		British Virgin Islands	
		Guernsey	
		Isle of Man	
		Jersey	
		Labuan	
		Montserrat	
		Turks & Caicos	
	Assessed by IMF and World Bank Staff/Experts		
Stand Alone	Israel	Czech Republic	

7. In Fund/Bank-led assessments, staff (and experts under staff supervision) assess compliance with all criteria except those relating to the implementation of (i) criminal justice measures and (ii) preventive measures for financial activities that are not of macroeconomic relevance (e.g., wire-transfer agents). For these two areas, one or more independent

AML/CFT experts (IAEs) are provided by the members of the FATF, FSRBs, or the Egmont Group.² The substantive work of the IAE is not supervised by Bank/Fund staff and their participation is not financed by the Fund/Bank.

8. In addition to the Bank/Fund program, the FATF and the FSRBs are contributing to the assessment process by carrying out their own evaluations of members' compliance with the FATF Recommendations. For the FATF/FSRB-led assessments, representatives from FATF/FSRB member jurisdictions and from the relevant FATF/FSRB Secretariat will conduct the entire assessment following the AML/CFT methodology. To date, one such assessment has been completed including the preparation of a ROSC, 13 assessments are in progress, and four are scheduled to begin prior to the end of October 2003 (see Table 2). The following is a summary of the participation by the FATF and each of the FSRBs in the pilot program.

Table 2. AML/CFT Assessments by the FATF and FSRBs as Part of the Pilot
(as of September 5, 2003)

	Completed	In Progress	Scheduled	
FSAP	Bolivia (GAFISUD)	Azerbaijan (Moneyval)		
		Dominica (CFATF)		
		Ecuador (GAFISUD)		
		Germany (FATF)		
		Grenada (CFATF)		
		New Zealand (FATF and APG)		
		Saudi Arabia (FATF)		
		St. Kitts and Nevis (CFATF)		
		St. Lucia (CFATF)		
		St. Vincent and The Grenadines (CFATF)		
	Stand Alone		Swaziland (ESAAMLG)	Argentina (FATF)
			South Africa (FATF)	Armenia (Moneyval)
			Russia (FATF)	Mexico (FATF)
			Namibia (ESAAMLG)	

² The Egmont Group is an association of financial intelligence units (FIUs) established to facilitate cooperation in the exchange of financial intelligence by its members in the interest of combating money laundering and terrorist financing and to actively encourage the development of FIUs.

9. **Financial Action Task Force (FATF).**³ The FATF has concluded mutual evaluations of South Africa and Russia using the AML/CFT methodology as part of the FATF membership process.⁴ The detailed assessment reports were presented to the June 2003 FATF plenary and the FATF is in the process of preparing ROSCs on the basis of these detailed assessment reports.

10. In conjunction with the Bank/Fund FSAPs, the FATF has completed its field work for the assessment of Germany and is scheduled to begin assessments of New Zealand and Saudi Arabia starting in September 2003. The New Zealand assessment will be a joint assessment with the Asia Pacific Group on Money Laundering (APG) of which New Zealand is also a member.

11. Additional mutual evaluations by the FATF are planned using the AML/CFT methodology for Argentina, Brazil, and Mexico in the coming months, which will conclude with the preparation of ROSCs. Mutual evaluations of Argentina and Mexico are scheduled to get underway before the end of October 2003. The timing of the preparation of reports for these assessments will determine whether they will be included also within the review of the pilot program.

12. **Asia Pacific Group on Money Laundering (APG).**⁵ In June 2003, the APG endorsed the AML/CFT methodology for mutual evaluations. As noted, the APG will participate jointly with the FATF in the AML/CFT assessment of New Zealand in October 2003. At its annual plenary in September, the APG will discuss the results of the AML/CFT assessment of Bangladesh, which was conducted as part of the joint Fund/Bank

³ FATF members are Argentina, Australia, Austria, Belgium, Brazil, Canada, Denmark, European Commission, Finland, France, Germany, Greece, Gulf Cooperation Council (Bahrain, Kuwait, Qatar, Saudi Arabia, Sultanate of Oman, and the United Arab Emirates), Hong Kong SAR, Iceland, Ireland, Italy, Japan, Kingdom of the Netherlands, Luxembourg, Mexico, New Zealand, Norway, Portugal, Russia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom, and the United States.

⁴ FATF mutual evaluations are assessments of members' compliance with the FATF Recommendations carried out by other FATF countries. Some FSRBs also conduct mutual evaluations of their own membership.

⁵ The APG members are Australia, Bangladesh, Cook Islands, Fiji, Hong Kong SAR, India, Indonesia, Japan, Macao SAR, Malaysia, Marshall Islands, Nepal, New Zealand, Niue, Pakistan, Republic of Korea, Palau, Philippines, Samoa, Singapore, Sri Lanka, Taiwan Province of China, Thailand, the United States, and Vanuatu.

FSAP in October 2002. The APG has also scheduled a mutual evaluation of the Philippines using the methodology, but this would commence after the end of the 12-month pilot period.

13. **Caribbean Financial Action Task Force (CFATF).**⁶ The CFATF will discuss the formal endorsement of the AML/CFT methodology at its forthcoming Council of Ministers Meeting in October 2003. Although CFATF has not yet endorsed the AML/CFT methodology, five of its member countries have requested to be assessed by the CFATF using the methodology.⁷ These assessments are being carried out starting in September 2003, in conjunction with the ECCU FSAP. This will enable the CFATF to participate in the pilot program. The Bank is providing technical assistance to the CFATF missions to the ECCU countries.

14. **Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG).**⁸ ESAAMLG formally endorsed the AML/CFT methodology at its ministerial council meeting in the last week of August 2003. As part of the pilot program, ESAAMLG has completed the field work on the mutual evaluation of Swaziland, for which they received technical assistance from Bank staff. In addition, ESAAMLG representatives participated as observers in the FATF mutual evaluation of South Africa using the AML/CFT methodology.

15. **Grupo de Acción Financiera de Sudamérica (GAFISUD).**⁹ At its December 2002 plenary, GAFISUD endorsed the AML/CFT methodology. GAFISUD assessed Bolivia, using both its traditional mutual evaluation approach and the AML/CFT methodology, and has completed the detailed assessment report and associated ROSC. GAFISUD will use the same approach for assessments of Ecuador and Chile. The report on Ecuador will soon be available to the Fund and Bank staffs and will be included as part of the review of the pilot

⁶ The CFATF members are Anguilla, Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Costa Rica, Dominica, Dominican Republic, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Turks and Caicos Islands, and Venezuela.

⁷ The five ECCU members that will be assessed using the AML/CFT methodology are Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

⁸ ESAAMLG members are: Botswana, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe. Progress has been made in the formation of an FSRB for West Africa—Groupe Intergouvernemental d'Action Contre le Blanchiment d'Argent en Afrique de l'Ouest (GIABA).

⁹ GAFISUD members are Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, and Uruguay.

program. The timing of the completion of the report and associated ROSC for Chile will determine whether it too will be included in the review.

16. **Moneyval.**¹⁰ In December 2002, Moneyval endorsed the AML/CFT methodology for its use starting with the third round of mutual evaluations and for first round evaluations of new members. Two new members of Moneyval—Armenia and Azerbaijan—will undergo mutual evaluations using the AML/CFT methodology. For Azerbaijan, the field work for the mutual evaluation was completed in May 2003, and the reports are now being prepared. For Armenia, the field work will begin in September 2003.

17. **Offshore Group of Banking Supervisors (OGBS).**¹¹ The OGBS has endorsed the use of the AML/CFT methodology. However, the OGBS has not scheduled any mutual evaluations during the period of the pilot.

III. IMF/WORLD BANK TECHNICAL ASSISTANCE/CAPACITY-BUILDING DELIVERY

18. The IMF/World Bank continue to provide broad-based technical assistance (TA) to countries to help develop and strengthen their AML/CFT infrastructures, with increased emphasis on regional projects including capacity-building for FSRBs. Staff continue to work with regional and international organizations in the identification, coordination and delivery of technical assistance. With the increased use of the AML/CFT methodology by FSRBs in assessing the AML/CFT regimes of their member countries, requests for TA are likely to increase.

19. Since March 2003, there has been a marked increase in Bank/Fund technical assistance on AML/CFT with some 40 projects undertaken or planned benefiting 115 countries (Table 3).

- **Regional TA projects.** Sixteen regional TA projects were completed or are being organized mainly in the form of seminars/workshops. Four of these are workshops in Africa, the Caribbean, and South America to train mutual evaluators of FSRBs on the

¹⁰ Moneyval was formerly known as the Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV); its members are Albania, Andorra, Armenia, Azerbaijan, Bosnia-Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Latvia, Liechtenstein, Lithuania, Malta, Moldova, Poland, Romania, Russia, San Marino, Serbia and Montenegro, Slovakia, Slovenia, FYR Macedonia, and Ukraine.

¹¹ OGBS members are: Aruba, Bahamas, Bahrain, Barbados, Bermuda, Cayman Islands, Cyprus, Gibraltar, Guernsey, Hong Kong SAR, Isle of Man, Jersey, Mauritius, Netherlands Antilles, Panama, Singapore, and Vanuatu.

use of the AML/CFT methodology. Similar TA projects are being scheduled for the Asia/Pacific and European regions. Technical assistance on the use of the AML/CFT methodology is also being provided to FSRBs during and post mutual evaluations.¹² An outreach and training seminar on the use of the AML/CFT methodology has also been held for a regional central bank and finance ministries. A regional workshop on legislative drafting for CFT was recently completed, for seven countries in Europe, the Middle East, and Central Asia. A regional training program on AML/CFT for financial sector supervisors in Asia, which earlier was postponed due to the SARS concerns, is now scheduled for mid-September 2003.

- **Individual country TA projects.** About half of the individual country TA projects relate to legislative drafting. Assistance is provided both through review and comments on draft legislation by headquarters staff and through TA missions. Most of this type of TA now covers both AML and CFT issues. The remainder of the assistance to countries has focused on strengthening the capacity of regulators for AML/CFT and in establishing FIUs, including in one case, joint training for supervisors and FIU officials.

Table 3. New Bank/Fund AML/CFT Technical Assistance Projects Undertaken or Planned since March 2003

Region	TA provided to individual jurisdictions	TA provided regionally	No. of participating jurisdictions (individual and regional)
Africa	6	2	16
Asia	5	1	7
Europe	5	4	22
Middle East	1	1	7
Pacific	4	1	26
Western Hemisphere	<u>3</u>	<u>7</u>	<u>37</u>
<i>Totals</i>	<i>24</i>	<i>16</i>	<i>115 1/</i>

1/ Number participating is adjusted for duplicates, as some jurisdictions benefit from individual and regional TA projects.

¹² The Bank staff is providing TA during CFATF and ESAAMLG mutual evaluation missions; and both Fund and the Bank are providing pre- and post-mutual evaluation training of assessors, and establishing “help desks” for mutual evaluation missions.

IV. REVISIONS TO THE FATF RECOMMENDATIONS AND IMPLICATIONS

20. After completing an extensive review that included the participation of Fund/Bank staff, the FSRBs, and other interested organizations, the XIV Plenary Meeting of the FATF (June 16-20, 2003) issued a revised version of the FATF 40 Recommendations. Major changes to the revised Recommendations include:

- specifying a minimum list of designated categories of predicate crimes for money laundering;
- extending several AML requirements to cover financing of terrorism, including suspicious transaction reporting (STR) requirements;
- introducing risk-based application of customer due diligence (CDD), including enhanced measures for higher risk customers and transactions, correspondent banking, non-face-to-face customers, and politically exposed persons and allowing simplified CDD in certain circumstances;
- imposing specific conditions and CDD for business and transactions where third parties are relied upon for completing CDD;
- extending required AML/CFT measures, including CDD, record keeping and STR, to certain nonfinancial businesses and professions consisting of casinos, real estate agents, dealers in precious metals and stones, lawyers, notaries, other legal professionals and accountants, trust and company service providers;
- including additional key institutional measures, notably regarding financial intelligence units and to strengthen international cooperation;
- prohibiting shell banks; and
- improving transparency of legal persons, including trusts and companies issuing bearer shares.

21. The new FATF 40 Recommendations are effective immediately and the plenary encouraged countries to start to take the necessary steps to implement the Recommendations, but noted that there is no fixed date for implementation. The FATF intends to assess members' compliance through a new round of mutual evaluations which could start before the end of 2004.

22. The FATF is coordinating a revision of the AML/CFT Methodology, consistent with the revisions to the 40 Recommendations through its Working Group on International Financial Institutions (WG-IFIs). Fund and Bank staffs, and the secretariats of the FSRBs, are participating in the working group and are assisting with the revisions to the methodology. The FATF has indicated that a new round of mutual evaluations of FATF

members will depend on the completion of a revision of the AML/CFT methodology, expected in the first half of 2004.

23. Once the FATF has adopted the revised methodology, it will be presented to the Fund and Bank Boards and to the FSRB plenaries for their consideration.

V. NEXT STEPS

24. The following steps remain for the 12-month pilot.

- **Implement assessment program.** Staff will continue to carry out the assessments using the AML/CFT methodology for the pilot program as indicated in Table 1. Staff will collaborate closely with the FATF and FSRBs in the completion of the assessments as indicated in Table 2, with the goal of avoiding duplication.
- **Implement TA delivery program.** Staff will continue with implementation of the TA delivery plan, as described in Section III.
- **Prepare a report on the pilot program.** Bank and Fund staffs will prepare their joint report on the pilot program for discussion by the two Boards in advance of the Spring 2004 meetings. Fund/Bank staff are in discussion with the FATF and FSRBs to encourage the transmittal of reports from their mutual evaluations to the Fund/Bank by mid-November, so that they can be included in the review.
- **Continue use of the current AML/CFT methodology.** Following the end of the pilot period in October 2003 and until the Fund and the Bank Boards decide whether to continue or modify the approach to AML/CFT assessments or to endorse a revised AML/CFT methodology, the staff would continue to prepare AML/CFT assessments and accompanying ROSCs based on the current AML/CFT methodology. As noted, a revised methodology based on the revised FATF 40 Recommendations, is expected to be completed by the FATF in the first half of 2004. The Fund and Bank Boards would therefore have the opportunity to review the pilot program and the approach to AML/CFT assessments before a revised methodology becomes operational.
- **Revise the AML/CFT methodology.** The Fund/Bank staff will continue working with the FATF and the FSRBs to revise the AML/CFT methodology based on the revised FATF 40 Recommendations.