

## INTRODUCTION

Since the mid-1980s, the need for a modern anti-money-laundering strategy has become widely accepted internationally. The negotiations of the 1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances can be seen as the starting point of this trend. Depriving criminal elements of the proceeds of their crimes has increasingly been seen as an important tool to combat drug trafficking and, more recently, all serious crimes. Progress in this area is becoming a critical element in fighting organized crime, corruption, and the financing of terrorism, and maintaining the integrity of financial markets.

As countries developed their anti-money-laundering strategies and found that law-enforcement agencies had limited access to relevant financial information, it became clear that the strategy required them to “engage the financial system in the effort to combat laundering while, at the same time, seeking to ensure the retention of the conditions necessary for its efficient operation.”<sup>1</sup> Countries also found that implementation of a system requiring disclosures of suspicious transactions on the part of financial institutions created the need for a central office or agency for assessing and processing these disclosures.<sup>2</sup>

The first few financial intelligence units (FIUs) were established in the early 1990s in response to the need for a central agency to receive, analyze, and disseminate financial information to combat money laundering. Over the following ten years, the number of FIUs increased to the point where the Egmont Group, the informal international association of FIUs, had 84 members in 2003. Also in 2003, the Financial Action Task Force (FATF) adopted a revised set of recommendations on combating money laundering that, for the first time, included explicit recommendations on the establishment and functioning of FIUs.<sup>3</sup> In recent years, recognizing the importance of an FIU in the anti-money laundering/combating the financing of terrorism (AML/CFT) framework, the International Monetary Fund and the World Bank, as well as a

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<sup>1</sup> William C. Gilmore, 1999, *Dirty Money: The Evolution Of Money-Laundering Counter-Measures*, 2<sup>nd</sup> ed. (Strasbourg: Council of Europe Press), page 103.

<sup>2</sup> Egmont Group, 1995, *The First International Meeting of Organizations Devoted to Anti-Money Laundering* (Brussels), page 1.

<sup>3</sup> FIUs have been included in the methodology used to assess AML/CFT frameworks since 2001.

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number of their member countries, have provided technical assistance to countries in the establishment and strengthening of FIUs.

Although the FIU members of the Egmont Group share the same core functions of receiving, analyzing, and disseminating financial information to combat money laundering,<sup>4</sup> they differ in many ways. Authorities intending to establish an FIU or improve an existing FIU's effectiveness face a number of choices concerning how the FIU is to be established and function. Similarly, providers of technical assistance regarding FIUs need access to a wide array of information as to the various aspects of FIUs. Thus, it is opportune to provide FIU officials, country authorities, and providers of technical assistance with an overview of the range of experience countries and FIUs have had up to now.

Moreover, FIUs currently face a series of unique challenges. The scope of their responsibilities is being widened to include dealing with the financing of terrorism, in addition to money laundering and the related predicate offenses. Financial information related to the financing of terrorism is, in many ways, different from financial information regarding other crimes, thus raising issues of methods of information analysis and of training for FIU staff. The range of reporting entities is also being widened to include nonfinancial professions, such as casinos, company service providers, and legal and accounting professionals. As a result, the nature of reports received has become more varied, and here again, issues of methods of analysis and staff training arise.

The purpose of this handbook is to respond to the need for information on FIUs. The information provided includes references to the relevant FATF standards wherever appropriate. It should be emphasized, however, that this handbook is neither an assessment tool nor a synthesis of the assessments of FIUs completed so far. The handbook does not contain a systematic exposition of the standards used in the assessment of AML/CFT frameworks as they relate to FIUs. Authorities wishing to ensure that the arrangements they put in place to combat money laundering and the financing of terrorism, including their FIU, meet international standards should refer to the FATF 40 Recommendations and the Methodology adopted by the FATF and the other bodies that perform AML/CFT assessments. Technical assistance on establishing and strengthening FIUs is available from the International Monetary Fund, the World Bank, and other sources.

Throughout the handbook, reference will be made to the Egmont Group of FIUs. The Egmont Group was established in 1995 "to encourage and assist in the exchange of financial intelligence between countries."<sup>5</sup> More

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<sup>4</sup> Egmont Group, 2001, *Statement of Purpose of the Egmont Group of Financial Intelligence Units* (The Hague), June 13.

<sup>5</sup> Egmont Group, 2003, audiovisual presentation.

specifically, it is “an informal organization to provide a forum for FIUs to improve support to their respective national anti-money-laundering programs.” “This support includes expanding and systematizing the exchange of financial intelligence information, improving expertise and capabilities of personnel of such organizations, and fostering better communications among FIUs through application of technology.”<sup>6</sup> (See Box 6 for more details.)

The text is organized as follows. Chapter 2 discusses the issues involved in establishing an FIU, including a description of the types of FIUs. Chapter 3 discusses the core functions of an FIU: receiving suspicious-transaction reports and other reports, analyzing them, and disseminating financial intelligence to the appropriate authorities. In Chapter 4, other functions exercised by some FIUs are discussed. Chapter 5 discusses the enhancement of the effectiveness of FIUs. Chapter 6 discusses the process of international assessment of FIUs. In Chapter 7, some conclusions are offered.

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<sup>6</sup> Egmont Group, (undated), *Information Paper on Financial Intelligence Units and the Egmont Group*, page 3.