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Review of the Fund's Strategy on Anti-Money Laundering and Combating the Financing of Terrorism

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REVIEW OF THE FUND'S STRATEGY ON ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its November 19, 2018 consideration of the staff report.
- The **Staff Report**, prepared by IMF staff and completed on October 17, 2018 for the Executive Board's consideration on November 19, 2018.

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IMF Executive Board Discusses the Fund's Strategy on Anti-Money Laundering and Combating the Financing of Terrorism

On November 19, 2018, the Executive Board of the International Monetary Fund (IMF) discussed the staff report: "Review of the Fund's Strategy on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)."

The staff report provides an overview of the Fund's AML/CFT program, since the last review conducted in 2014 and seeks the endorsement of the Executive Board to continue on the basis of the directions given in 2014, with one minor adjustment proposed in relation to Fund-led AML/CFT assessments.

The staff report takes note of the multipronged approach which has enabled the Fund to address issues related to money laundering, terrorist financing, proliferation financing, and broader financial integrity-related issues, including developing and emerging issues such as those related to correspondent banking relationships (CBR) and financial technology (Fintech). It identifies staff's efforts to increase synergies between the different workstreams in order to strengthen the efficiency and impact of the Fund's AML/CFT work—including in surveillance, Fund-supported programs, Financial Sector Assessment Programs, and Fund's capacity development (CD) activities, including AML/CFT assessments and other related policy work. The staff report suggests that while the Fund's AML/CFT program remains appropriate, in order to expand its reach and maximize the impact of the Fund's overall involvement in AML/CFT assessment work, consideration should be given to shift to fewer Fund-led assessments but increase staff's participation in the quality and consistency review of other assessment, and training efforts. Going forward, the Fund will continue to cooperate in these areas with the World Bank, the Financial Action Task Force (FATF), the FATF-Style Regional Bodies (FSRBs), and other stakeholders.

Executive Board Assessment[1]

Executive Directors welcomed the opportunity to review the Fund's strategy on AML/CFT. They agreed that the Fund's work has significantly contributed to the international community's response to money laundering, the financing of terrorism and of the proliferation of weapons of mass destruction, and financial integrity concerns more generally. They welcomed the Fund's contributions to the global AML/CFT policy agenda and encouraged continued cooperation with the World Bank, the FATF, the FSRBs, and other stakeholders.

Directors welcomed the multipronged approach taken in addressing members' financial integrity issues and agreed that the Fund's AML/CFT strategy remains appropriate in addressing the risks and providing tailored advice to members in all relevant workstreams. They also welcomed staff's efforts in increasing the synergies between different workstreams to strengthen the efficiency and impact of the Fund's AML/CFT work. Looking ahead, a number of Directors saw a need to have better data to assess more comprehensively the effectiveness of the Fund's work in this area.

Directors noted that deficiencies in a country's AML/CFT regime can have important implications for macroeconomic and financial stability. They supported the direction taken by staff in addressing financial integrity issues in Article IV consultations and Fund-supported programs. They encouraged staff to continue its efforts to integrate financial integrity issues into Fund surveillance in line with the 2012 Guidance Note and the Integrated Surveillance Decision, and in Fund-supported programs when the requirements of the Guidelines on Conditionality are met. Directors emphasized the continued need for evenhandedness in the coverage of these issues in surveillance and Fund-supported programs, in a complementary manner with the framework for enhanced Fund engagement on governance, and paying due regard to countries' institutional, capacity, and resource constraints.

Directors reaffirmed that updates on AML/CFT issues are an important part of the FSAP, and noted the complementarity of staff's work on financial integrity issues in the FSAP and Article IV consultations. They welcomed the flexibility exercised with respect to the scope of the AML/CFT update, and staff's efforts to supplement, where necessary, the information derived from AML/CFT assessment reports. In this regard, a number of Directors stressed the need to avoid duplication of work and to be mindful of the resource implications for the Fund and the country involved. Directors noted that going forward, greater reliance on assessment reports is expected as more become available.

[1] An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors agreed that AML/CFT assessments are more complex and resource intensive than originally anticipated, mainly due to the 2013 FATF methodology for assessing the effectiveness of AML/CFT measures. They noted that, with the expansion of the FATF and the network of FSRBs in recent years, the Fund has increasingly drawn upon the FATF/FSRBs' assessments for purposes of its own work, in application of the burden-sharing arrangements between the Fund, the World Bank, and the FATF/FSRBs. Directors welcomed the steps taken by the FATF/FSRBs to strengthen the review mechanisms and stressed the continued importance of ensuring the adequate quality and consistency of assessment reports across the range of assessor bodies. In this context, they broadly agreed with staff's proposal to continue the current approach of conducting a minimum of one to two assessments per year while maintaining increased participation in global quality and consistency review mechanisms and in assessment related training. A number of Directors urged staff to exercise flexibility and undertake additional assessments as demand warrants, particularly in countries with systemically or regionally important financial sectors or that face high money laundering or terrorist financing risks. A number of Directors also felt strongly that Fund staff should participate, on an exceptional basis, in assessments led by other AML/CFT assessor bodies.

Directors welcomed the CD activities provided by staff to members' authorities on AML/CFT issues. They emphasized the importance of ensuring the efficiency and agility of the Fund's AML/CFT CD program to meet the increasing and evolving demand from the membership. They saw a role for CD in enhancing the effectiveness of implementation of AML/CFT regimes. They welcomed staff's efforts to prioritize CD engagement in low capacity countries, support surveillance and Fund-supported programs through CD activities, and coordinate with other AML/CFT CD providers to avoid duplication of work. They also supported staff's efforts to adapt and upgrade the CD program to address current and emerging issues, in particular those related to pressures on CBR and to Fintech. A few Directors also called for an increase in resources for the Fund's CD program for countries facing an imminent risk of withdrawal of CBR due to weaker AML/CFT frameworks. Directors took note of the need to re-evaluate the current CD funding model in the medium term to ensure that it remains appropriate, sustainable, and in line with the Fund's overall CD strategy. Directors looked forward to the results of the evaluation of the effectiveness of Phase II of the Thematic Fund. A few Directors also called for increased Board engagement in Fund AML/CFT CD to provide strategic guidance on both internally and externally financed activities.

Directors commended staff on its efforts to address financial integrity considerations in the context of broader current and emerging policy issues, such as with regard to CBR, Fintech, and illicit financial flows.

Directors looked forward to greater information on the resource implications of the increased demand for financial integrity work in all workstreams, which could require an incremental increase in resources over the medium term.

Directors noted that the next review of the AML/CFT program would be expected to be completed within the next five years.

October 17, 2018

REVIEW OF THE FUND'S STRATEGY ON ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM

EXECUTIVE SUMMARY

Safeguarding financial integrity is a priority for the international community, including the Fund. Money laundering (ML), related predicate crimes, terrorist financing (TF), and the financing of the proliferation of weapons of mass destruction (PF) pose serious threats to the integrity and stability of some countries' financial sector or to external stability and can also threaten the international financial system. It is increasingly recognized that effective anti-money laundering and combating the financing of terrorism (AML/CFT) frameworks, and financial integrity more broadly, are key to financial stability, and that efforts to this effect should be pursued. Strong AML/CFT policies and measures are therefore crucial to mitigate the attendant threats.

For close to two decades, the Fund has contributed significantly to global financial integrity efforts. What started as a relatively modest effort focused mainly on assessments and capacity development (CD) is now a comprehensive, multipronged program. AML/CFT and financial integrity issues have been increasingly integrated into the Fund's core activities. In line with the guidance provided by the Executive Board in 2014, they are raised in surveillance and Fund-supported programs when specific conditions are met, they are included in a flexible way in all Financial Sector Assessment Programs, and they are covered in the Fund's CD activities, including AML/CFT assessments, and in other policy work. The Fund plays an important role in the global AML/CFT architecture, which also includes the Financial Action Task Force (FATF, the AML/CFT standard setter), the nine FATF-Style Regional Bodies, and the World Bank, as well as a range of other international and regional bodies. To avoid the duplication of efforts, synergies have been built among the activities of the different stakeholders, and staff actively coordinates its efforts with others as needed.

Over the last four years, the Fund's AML/CFT program has proven effective, including in addressing emerging risks. The multipronged program has enabled the Fund to address ML, TF, PF, and broader financial integrity-related issues where necessary, and, in particular developing and emerging issues, such as those related to correspondent banking relationships, and to financial technology—Fintech. The program has assisted member countries in strengthening their AML/CFT frameworks and increasing their resilience to ML, TF, PF, and other crimes.

The Fund's AML/CFT program remains appropriate. The directions given by the Executive Board during the 2014 review of the Fund's AML/CFT strategy should continue to guide the Fund's work in this area within current budgetary constraints.

Only one adjustment is proposed, namely a shift to fewer Fund-led assessments but increased staff participation in global review and training efforts, to ensure the quality and consistency of AML/CFT assessments conducted by other bodies. This would enable the Fund to expand its reach and maximize the impact of its overall involvement in AML/CFT assessment work. A small, incremental increase in resources may also be needed in the medium term to address the membership's increasing needs for Fund engagement in AML/CFT and financial integrity across all workstreams. Initial cost estimates will be included in the FY20–22 medium-term budget proposal, as warranted.

Approved By
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Acronyms and Abbreviations

AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
APG	Asia/Pacific Group on Money Laundering
BCP	Basel Core Principles for Effective Banking Supervision
CBR	Correspondent Banking Relationship
CD	Capacity Development
CFATF	Caribbean Financial Action Task Force
DNFBPs	Designated Non-Financial Businesses and Professions
EAG	Eurasian Group
ECF	Extended Credit Facility
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSSA	Financial System Stability Assessment
FSRB	FATF-Style Regional Body
GABAC	*Groupe d'Action contre le blanchiment d'Argent en Afrique Centrale* (Task Force on Money Laundering in Central Africa)
GAFILAT	*Grupo de Acción Financiera de Latinoamérica* (Financial Action Task Force of Latin America)
GIABA	*Groupe Intergouvernemental d'Action contre le Blanchiment d'Argent en Afrique de l'Ouest* (Inter-Governmental Action Group Against Money Laundering in West Africa)
IO	Immediate Outcome
MENAFATF	Middle East and North Africa Financial Action Task Force
ML	Money Laundering
MONEYVAL	Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
NRA	National Risk Assessment
OFC	Offshore Financial Center
PEP	Politically Exposed Person
PF	Proliferation Financing
ROSC	Report on the Observance of Standards and Codes
SADC	Southern African Development Community
SB	Structural Benchmark
SBA	Stand-By Arrangement
SMP	Staff-Monitored Program
TA	Technical Assistance
TF	Terrorist Financing
UNSC	United Nations Security Council
UNODC	UN Office on Drugs and Crime
WMD	Weapons of Mass Destruction

INTRODUCTION

1. **Effective anti-money laundering and combating the financing of terrorism (AML/CFT) policies and measures are key to the integrity and stability of the international financial system and member countries' economies.** Money laundering (ML)[1] and related underlying crimes (the so-called "predicate offenses" or "predicate crimes"),[2] as well as terrorist financing (TF)[3] and the financing of the proliferation of weapons of mass destruction (WMD) or proliferation financing (PF)[4] are crimes with economic effects—they can threaten the stability of a country's financial sector and a country's external stability more generally. They can result in destabilizing inflows and outflows, as well as in banking crises, ineffective revenue collection, broader governance weaknesses, reputational risks for financial centers, and loss of correspondent banking relationships (CBRs). In an increasingly interconnected world, the harm done by these crimes is global, affecting the integrity and stability of the international financial system. AML/CFT policies and measures are designed to prevent and combat these crimes and are essential to protect the integrity and stability of financial markets and the global financial system. The Financial Action Task Force (FATF) 2012 "International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation: the FATF Recommendations" constitute the international AML/CFT standard that these policies and measures should reflect (see Annex I).[5]

2. **The integrity of financial systems and of the broader economy is increasingly recognized as a necessity**. Financial integrity is a high-level goal of the international community. It is a broad concept, which covers measures to prevent and combat ML, its predicate offenses, TF, and PF, as well as measures that, while not specifically covered by the AML/CFT standard, are nonetheless indispensable to support an effective AML/CFT system. These include, for example, measures aimed

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[1] ML is the process by which the illicit source of assets obtained or generated by criminal activity is concealed to enable these assets to enter the financial system.

[2] Pursuant to the AML/CFT standard, the ML offense should apply to all serious offenses, with a view to including the widest range of predicate offenses. At a minimum, it should apply to the 21 categories of offenses designated by the FATF in its glossary, including, inter alia, participation in organized crime, fraud, drug trafficking, corruption and bribery, and tax crimes. See also Annex I.

[3] TF involves the raising and processing of funds to supply terrorists with resources. While ML and TF differ in many ways, they often exploit the same vulnerabilities in financial systems that allow for an inappropriate level of anonymity and opacity in the execution of financial transactions.

[4] The FATF's mandate was amended in 2008 to include the fight against the financing of the proliferation of WMD. The 2012 FATF Recommendations now impose a requirement on countries to implement targeted financial sanctions to comply with the United Nations Security Council (UNSC) resolutions on the proliferation of WMD and its financing. This new requirement is similar in its approach to the targeted financial sanctions applicable in the context of the fight against TF but has a narrower application: it addresses exclusively the freezing without delay of funds or other assets of persons or entities designated by the UNSC as being involved in illicit proliferation of WMD and domestic cooperation.

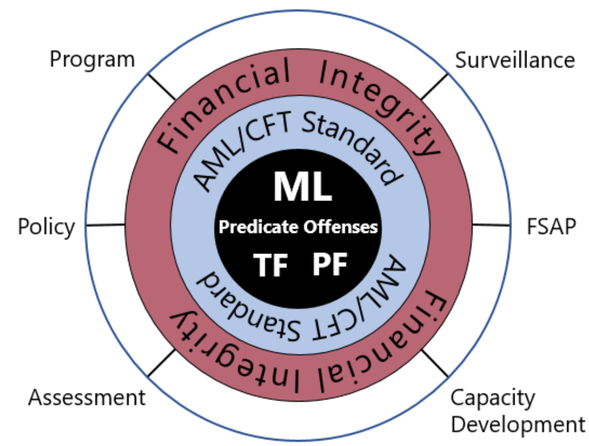
[5] The Executive Board endorsed the FATF 2012 Recommendations in 2014, in the context of the last review of the Fund's AML/CFT strategy, IMF Executive Board Reviews the Fund's Strategy for Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT), Press Release No. 14/167, April 11, 2014.

at preventing and combating specific predicate crimes, such as corruption and tax crime, as well as fostering good governance.

3. For close to two decades, the Fund has been playing an important role in global efforts to fight ML, its predicate crimes, TF, and, more recently, PF. In light of the negative consequences of crime mentioned above, the Fund has been actively involved in shaping the global AML/CFT agenda, assisting its member countries in implementing the AML/CFT standard, and strengthening financial integrity. The Fund's AML/CFT program has grown organically over the years. From a focus on ML (mainly in the context of assessments against the standard), the program has grown to cover ML, its predicate crimes, TF, PF, and broader financial integrity issues in several different workstreams (see below).[6]

4. Over time, AML/CFT and financial integrity have become an integral part of the Fund's core mandate. AML/CFT and financial integrity issues have been integrated into the Fund's various workstreams. Figure 1 illustrates the fact that ML, TF, PF, and the predicate offenses are part of the AML/CFT standard, which, in turn, is a central component of financial integrity. It also illustrates the workstreams in which financial integrity issues are addressed. These include a number of the Fund's priority areas of work, in response to calls by the International Monetary and Financial Committee (IMFC),[7] the Group of Twenty (G20),[8] and other bodies for intensified Fund efforts to support the global AML/CFT and financial integrity agenda. These various workstreams inform one another;

Figure 1. The Fund's Work on Financial Integrity Issues



[6] The policy discussions on AML/CFT that took place at the Executive Board from 2000 to the last review of the Fund's AML/CFT strategy in March 2014 are listed in Annex II, alongside other recent relevant policy discussions.

[7] For instance, the October 2017 Communiqué supported further efforts to strengthen policy frameworks, including on AML/CFT; the October 2016 Communiqué supported the IMF's work on CBRs including by intensifying AML/CFT and supervisory CD support in respondent banks' jurisdictions (see Communiqué of the IMFC of the Board of Governors of the International Monetary Fund, April 21, 2018, October 14, 2017, and October 8, 2016, respectively) https://www.imf.org/en/News/SPROLLs/IMFCCommuniques36.

[8] For instance, the March 2018 Communiqué committed to step-up the G20 fight against TF, ML, and PF. It also called for the full, effective, and swift implementation of the FATF standards worldwide; the March 2017 Communiqué highlighted the G20 advance on improving the transparency of legal persons and arrangements via the effective implementation of international standards and the availability of beneficial ownership information in the domestic and cross-border context as an important tool in the fight against corruption, tax evasion, TF, and ML (see Communiqué of the G20 Finance Ministers and Central Bank Governors, March 20, 2018 and March 17, 2017, respectively) http://www.g20.utoronto.ca/ministerials.html.

synergies are exploited, and, to the extent possible, the input on AML/CFT in one workstream is leveraged in others.

5. The Fund's efforts to strengthen financial integrity have evolved in light of new policy developments. Since the last discussion of the Fund's AML/CFT strategy in 2014, AML/CFT issues have been discussed in a number of important Fund policies and initiatives that have a financial integrity dimension. These policies include the new framework for enhanced Fund engagement on governance,[9] adopted in April 2018, the Fund's multipronged approach to addressing issues related to CBRs and ensuring the Fund's policies on financial stability in countries with Islamic banking. More recent initiatives relate notably to the financial integrity aspects of financial technology (Fintech), in particular of crypto assets. They include monitoring and analysis of crypto assets, as well as high-level policy efforts and advice on safeguarding financial integrity in the Fintech space, notably in the context of the recently endorsed Bali Fintech Agenda.[10] They also include participation in the ongoing discussions within the FATF of the potential changes to the AML/CFT standard to address crypto assets.

6. These efforts form an important part of the global AML/CFT architecture which involves a number of different actors. In addition to the Fund and the World Bank, a number of international and regional organizations or bodies are involved in various AML/CFT activities. They include, in particular the FATF, FATF-Style Regional Bodies (FSRBs), and several United Nations (UN) agencies that aim at bolstering countries' capacity to prevent and combat specific types of crime, such as terrorism, for the UN Counter Terrorism Committee (UNCTC), or drug trafficking, in the case of the UN Office on Drugs and Crime (UNODC). They also include groupings of agencies (such as the Egmont Group of Financial Intelligence Units). Figure 2 highlights the main functions of some of the actors in the global AML/CFT architecture and illustrates the synergies among their various efforts. The role and mandate of the Fund in particular are expanded upon in the following sections of this paper.

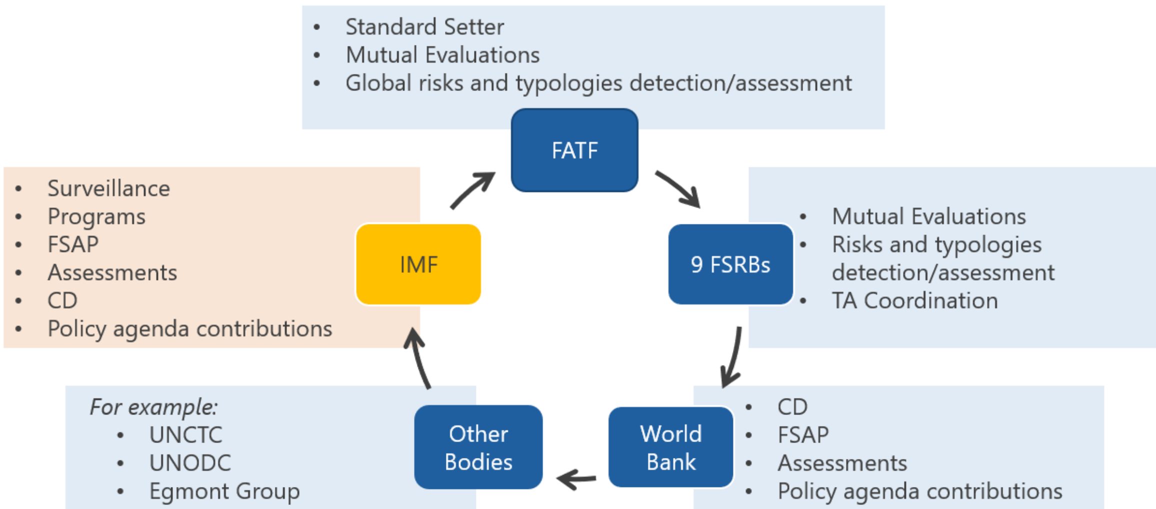
7. Staff regularly coordinates its AML/CFT policy and activities with other international and regional organizations to maximize the impact of its engagement and prevent duplication of efforts. In relation to policy design, staff contributes to the global policy dialogue by participating in FATF discussions of the AML/CFT standard and the assessment methodology and by contributing to the UN global counter-terrorism strategy. In relation to capacity development (CD) engagements, staff coordinates its AML/CFT activities with other technical assistance (TA) providers through forums and mechanisms provided by the FATF and the FSRBs. It also identifies TA synergies focused on CFT issues through the UN Counter-Terrorism Implementation Task Force (UN CTITF), and coordinates efforts on CBR-related CD activities through a forum established by the Financial Stability Board (FSB). Staff also leverages the work of others, for example, by building upon the

[9] Review of 1997 Guidance Note on Governance—A Proposed Framework for Enhanced Fund Engagement, March 9, 2018.

[10] Element VII of the Bali Agenda notably highlights that countries should safeguard the integrity of financial systems by identifying, understanding, assessing, and mitigating the Fintech-related risks of criminal misuse and by using technologies that strengthen compliance with AML/CFT measures.

findings of the FATF, FSRB, and World Bank assessments for the purposes of Fund surveillance or FSAPs, or directly contributing to global assessment efforts by leading the assessment of some members of the FATF and FSRBs, and participating in the review of FATF and FSRBs draft assessment reports.

Figure 2. The Global AML/CFT Architecture



8. The Fund's contribution to safeguarding financial integrity has proven effective. The Fund has made important contributions to the global financial integrity policy agenda. Staff is at the forefront of policy discussions related to AML/CFT, CBR, and Fintech among others. The multipronged approach (see Figure 1) has also enabled the Fund to address financial integrity issues and greatly contributed to members' efforts to strengthen their AML/CFT frameworks. By maximizing the synergy between different engagements, the Fund's AML/CFT program has assisted members in: (i) promoting and deepening their understanding of ML/TF risks and developing prioritized policies to mitigate those risks; (ii) contributing to members' efforts in enhancing the effectiveness of their AML/CFT frameworks and, in some cases, exiting from FATF monitoring and re-accessing financial markets; and (iii) addressing emerging issues in a holistic manner (e.g., CBRs and Fintech).

9. Continuing to enhance the effectiveness of the Fund members' AML/CFT frameworks is crucial. ML, predicate crimes, TF, and PF still pose a significant and evolving threat to the financial integrity of countries' financial sectors and the international financial system. This was notably highlighted by recent financial integrity-related scandals, such as the Panama Papers and the Paradise Papers, and the emergence of new risks associated with some aspects of Fintech. More, therefore, needs to be done, and the Fund continues to have an important role to play in the global AML/CFT architecture.

10. The AML/CFT strategy endorsed by the Executive Board in 2014 remains appropriate, but a slight modification to maximize the impact of the Fund's overall involvement in

AML/CFT assessment work would be useful. AML/CFT assessments—whether conducted by the Fund or other assessor bodies—are a key source of information for the Fund's work on financial integrity issues. Ensuring the quality and consistency of AML/CFT assessment reports throughout the global network is therefore crucial. But a correct application of the assessment methodology remains a challenge for many assessor bodies. As a result, some published reports do not meet the required level of quality and consistency. In order to support the global network, staff conducted one to two AML/CFT assessments per year (two to three were envisaged under the current policy) and participated to a greater extent in the review of the quality and consistency of other assessor bodies' reports and dedicated more resources to the training of FATF and FSRB assessors. A realignment of the policy (and its focus on assessments rather than quality and consistency efforts) with current practice would enable the Fund to expand its reach and maximize the impact of is overall involvement in AML/CFT assessment work. In addition, the current funding model for the Fund's AML/CFT CD program may also need to be re-evaluated in the medium term, following the review of the Fund's overall CD strategy, to ensure that it continues to be in line with that strategy and remains appropriate, sufficient, and sustainable. Finally, a small, incremental increase in resources may also be needed in the medium term to enable the AML/CFT program to continue to meet the membership's increasing demand for financial integrity work.

11. This paper reports on the implementation of the Fund's AML/CFT strategy since March 2014 and discusses the way forward.[11] Section II describes the evolution of the Fund's approach to financial integrity issues; Section III takes stock of the inclusion of ML, TF, PF, and underlying crimes issues in the context of Fund surveillance; Section IV reports on the coverage of financial integrity issues in the context of Fund-supported programs; Section V reports on the implementation of the mandatory and flexible inclusion of AML/CFT issues and discussions in all Financial Sector Assessment Programs (FSAPs); Section VI provides a summary of the Fund's implementation of its AML/CFT CD program (i.e., with respect to assessments of AML/CFT standard observance, as well as TA and training); Section VII highlights other relevant policy and research work, and describes the Fund's use of its convening powers in advancing the policy agenda in this respect; Section VIII discusses the resources dedicated to the Fund's AML/CFT efforts; Section IX provides staff's overall conclusion and recommendations; and, finally, Section X sets out the issues for discussion.

EVOLUTION OF THE FUND'S APPROACH TO FINANCIAL INTEGRITY ISSUES

12. Over the years, the context in which AML/CFT issues have been raised by the Fund has expanded considerably. What started in the late 1990s as a relatively modest effort is now a

[11] During the 2014 review of the Fund's AML/CFT strategy, Executive Directors noted that the next review of the AML/CFT program would be expected to be completed within the next four years, IMF Executive Board Reviews the Fund's Strategy for Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT), Press Release No. 14/167, April 11, 2014. Despite the five-year policy review cycle subsequently adopted by the Board, given the developments in the AML/CFT area, the next review has been moved forward ahead of the new review cycle.

comprehensive, multipronged work program that benefits the entire membership. The program originally focused mainly on ***assessments*** of countries' AML/CFT frameworks against the FATF standard[12] and ***TA***.[13] Since 2001, the Fund has also endeavored to ensure appropriate coverage of AML/CFT issues in the context of ***Fund surveillance***.[14] Following the Executive Board's 2011 guidance[15] and the 2012 Guidance Note,[16] ML, TF, and related predicate crimes issues have been raised increasingly and more systematically in the context of surveillance. The approach, together with the inclusion of financial integrity issues in ***Fund-supported programs and FSAPs***, were supported by Directors during the 2014 review of the Fund's AML/CFT strategy. Finally, in response to emerging events and global initiatives, financial integrity issues were addressed in broader ***policy*** discussions, including those on CBR, Fintech, and Islamic finance. Throughout this period, the terminology has evolved with respect to both the targeted criminal activities and the remedy.[17] The initial goal endorsed by the Executive Board, however, remains the same, namely to safeguard the integrity of the financial system[18] (see Annex II).

13. The coverage of the Fund's work grew from AML to CFT, combating PF, and addressing broader financial integrity-related issues. The Fund's work initially covered AML only. Following the events of September 11, 2001, it was extended to cover CFT.[19] It was further strengthened in 2011, when the Board explicitly endorsed the mandatory treatment of not only AML/CFT issues, but also their related predicate crimes in bilateral surveillance in specific circumstances, in recognition of their potential impact on the broader economy and in line with the broader legal framework for

[12] Reports on the Observance of Standards and Codes (ROSCs) in the FSAP and the Offshore Financial Center (OFC) Assessment Program.

[13] IMF Advances Efforts to Combat Money Laundering and Terrorist Finance, PIN No. 02/87, August 8, 2002.

[14] IMF Board Discusses the Fund's Intensified Involvement in Anti-Money Laundering and Combating the Financing of Terrorism, PIN No. 01/120, November 16, 2001.

[15] IMF Executive Board Reviews Efforts in Anti-Money Laundering and Combating the Financing of Terrorism, PIN No. 11/74, June 27, 2011.

[16] Anti-Money Laundering and Combating the Financing of Terrorism—Inclusion in Surveillance and Financial Stability Assessments—Guidance Note, December 17, 2012.

[17] Some of the references used for the targeted criminal activities include "financial system abuse," "ML and financial crime," and "ML, TF, and related predicate crimes," while the remedy has notably been addressed as "AML," "AML/CFT," and "financial integrity measures."

[18] In September 2000, the IMFC called on the Fund to partake in international efforts to protect the integrity of the international financial system against abuse, particularly with respect to ML. It recognized "that the Fund has to play its role as part of the international efforts to protect the integrity of the international financial system against abuse, including through its efforts to promote sound financial sectors and good governance." It therefore asked that the Fund explore incorporating work on financial abuse, particularly with respect to international efforts to fight against ML, into its various activities, as relevant and appropriate. (See Communiqué of the IMFC of the Board of Governors of the International Monetary Fund, September 24, 2000). The Executive Board recognized that ML is a problem of global concern that affects financial markets regardless of size, and it laid the foundations on how the Fund should contribute to international efforts to fighting ML (IMF Executive Board Discusses Money Laundering, PIN No. 01/41, April 29, 2001).

[19] IMF Board Discusses the Fund's Intensified Involvement in Anti-Money Laundering and Combating the Financing of Terrorism, PIN No. 01/120, November 16, 2001.

Fund surveillance.[20] The scope of the Fund's work was expanded further with the 2014 Board endorsement of the FATF 2012 standard,[21] which, alongside AML and CFT measures, also included specific measures to fight PF. During this discussion, the Board also supported staff's efforts in including financial integrity issues in Article IV consultations and Fund-supported programs. Moreover, to fully implement the objective of safeguarding financial integrity, the Fund has also relied on measures that are not specifically mandated by the FATF standard but are nevertheless necessary. For example, prior to the April 2018 adoption of the new framework for enhanced Fund engagement on governance issues, the Fund has addressed corruption issues not only through AML/CFT measures, but also, in some cases, through additional measures, such as the establishment of anticorruption agencies and the introduction of asset declarations.

14. AML/CFT issues are also addressed under the framework for enhanced Fund engagement on governance issues adopted in April 2018 (hereinafter the 2018 enhanced governance framework). Broader than the anticorruption angle covered under the AML/CFT policy, the 2018 enhanced governance framework aims to promote good governance in member countries given the adverse impact that systemic corruption can have on economic performance and sustainable and inclusive growth. The framework recognizes that AML/CFT, which is one of the six state functions that are most relevant to economic activity, can be a critical tool in addressing corruption.[22] Accordingly, AML/CFT issues are also addressed under this framework in cases where corruption issues are considered severe. In such cases, AML/CFT advice will be integrated into broader advice to bolster governance efforts.

FUND SURVEILLANCE

15. ML, TF, PF, and related predicate crimes issues are addressed in Fund surveillance when specific criteria are met, or on a voluntary basis. During the 2011 review of the Fund's AML/CFT program, in recognition of the threat that financial crimes pose to financial stability and macroeconomic performance, the Executive Board supported the mandatory coverage of financial integrity issues in specific circumstances,[23] which were further articulated in the 2012 Guidance

[20] IMF Executive Board Reviews Efforts in Anti-Money Laundering and Combating the Financing of Terrorism, PIN No. 11/74, June 27, 2011; IMF Executive Board Reviews Surveillance, Press Release No. 14/454, October 5, 2014.

[21] IMF Executive Board Reviews the Fund's Strategy for Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT), Press Release No. 14/167, April 11, 2014.

[22] This is in recognition that the ability of public officials to engage in corrupt practices (whether in the form of bribery or misappropriation of public funds) is facilitated by certain weaknesses in the AML/CFT framework (e.g., the availability of nontransparent corporate vehicles and entities provided by lawyers, accountants, and company service providers) that enable officials to hide and use the proceeds of such practices. Box 8 of the paper on the "Framework for Enhanced Fund Engagement on Governance" highlights the AML/CFT vulnerabilities relevant for the facilitation of corruption. Other vulnerabilities are: (i) fiscal governance; (ii) financial sector oversight; (iii) central bank governance and operations; (iv) market regulation; and (v) rule of law.

[23] See footnote 20.

Note.[24] Under the 2012 Guidance Note, AML/CFT issues should be discussed in the context of Article IV consultations in cases where ML, TF, and related predicate crimes may significantly influence a member's present or prospective domestic or balance of payments stability or may give rise to external spillovers that undermine global stability. The 2012 Guidance Note also sets out a number of specific questions and criteria to guide staff in determining whether financial integrity issues should be included in the surveillance discussion (see Box 1 for more details). AML/CFT issues may also be discussed in surveillance on a voluntary basis. During the 2014 review of the Fund's AML/CFT strategy, the Board encouraged staff to continue its efforts to integrate AML/CFT issues into surveillance when appropriate.

Box 1. Impact of ML/TF or Related Predicate Crimes on Members' Financial Systems or the Broader Economy 1/

Weak AML/CFT frameworks may lead to impeded or lost access to global financial markets. Developments with CBRs indicate that global banks take into account the strength of AML/CFT frameworks, at the country and financial institution level, when deciding to maintain or terminate relationships. Pressures on CBRs, in turn, can undermine affected countries' long-run growth and financial inclusion prospects by increasing the costs of financial services and negatively affecting bank ratings. 2/

Domestic and financial stability can also be threatened by criminal activities. For instance, significant levels of tax crimes (e.g., VAT fraud and tax evasion) may affect the government's revenue stream. Furthermore, the injection of large amounts of criminal proceeds arising from corruption, tax evasion, or drug trafficking may subject a country's banking system to volatile inflows and outflows that can threaten its stability. Incidents of terrorism may undermine the stability of a country's financial system—either because of a history of terrorist incidents or through the effect of a single but significant terrorist event. In instances where illegal transactions are conducted outside the formal sector (e.g., cash and virtual currencies), this may impede the development of the country's banking system which in turn would affect economic growth.

ML/TF and related predicate crimes may also have adverse spillover effects on the stability of other countries. For example, extensive criminal activities in one country may lead to illicit transfers from, and large short-term capital flows to, another country with potentially destabilizing effects on that country's economy.

1/ 2014 Review of the Fund's Anti-Money Laundering and Combating the Financing of Terrorism Strategy, February 20, 2014, paragraphs 21–24.

2/ Recent Trends in Correspondent Banking—Further Considerations, March 17, 2017.

16. The inclusion of financial integrity issues in surveillance has been applied in an even-handed manner. Staff included financial integrity issues in surveillance in line with the principle of uniformity of treatment and paying due regard to country circumstances, as called for under the Integrated Surveillance Decision (ISD) and reflected in the 2015 Guidance Note for Surveillance Under Article IV Consultations.[25] Staff assesses in all cases whether there is a need to discuss financial integrity issues and, when such a need arises, modulates the depth of the discussion according to the country's circumstances. When considering the inclusion of financial integrity issues, staff assesses: (i) the impact of financial integrity issues on the stability of a country's

[24] This exercise is guided by relevant Fund policy on surveillance, in particular, the 2012 Integrated Surveillance Decision and the 2014 Triennial Surveillance Review, July 30, 2014.

[25] Guidance Note for Surveillance Under Article IV Consultations, March 20, 2015.

financial system; (ii) the threats to financial sector stability arising from predicate crimes; (iii) the adverse impact of financial integrity issues on the stability of the broader economy; and (iv) their adverse spillover effects and impact on global stability. The greater the potential impact of ML, TF, and predicate crimes on the member's domestic or balance of payments or global stability, the more intensive staff's engagement.

17. Inclusion in surveillance assisted Fund members in identifying financial integrity risks and developing prioritized mitigating measures. Since 2014, staff has discussed financial integrity issues in around 40 percent of Article IV consultations, mostly on a mandatory basis (see Box 2). Discussions and policy advice assisted relevant members in promoting and deepening their understanding of financial integrity risks that could affect economic and financial stability,[26] and in developing prioritized AML/CFT and related policies to mitigate them, as well as addressing emerging issues (e.g., CBRs and Fintech).

Box 2. Selected Cases of AML/CFT Inclusion in Article IV Consultations

Angola —Staff reports highlighted the importance of addressing AML/CFT issues to deal with pressures on CBRs, following the loss of all direct U.S. dollar CBRs from Angola in October 2016. More specifically, staff recommended strengthening the AML/CFT framework, including risk-based AML/CFT supervision, to address corruption-related risks. Staff reports underlined that, in the longer term, it was imperative to enhance the effectiveness of the system to be better positioned for the next evaluation of Angola's AML/CFT framework and to prevent a FATF listing.

Iran—Since 2006, the FATF has publicly identified Iran as a jurisdiction with AML/CFT strategic deficiencies. AML/CFT issues have been discussed in Article IV consultations with Iran. In 2014 and successive Article IV reports, staff urged the authorities to strengthen the AML/CFT framework to facilitate the re-integration of the domestic financial system into the global economy, including by: (i) reconnecting to CBRs; (ii) reducing the size of the informal sector; (iii) and helping better detect proceeds of corruption and tax evasion. Staff also recommended the authorities to adopt a comprehensive CFT framework. The authorities have taken some initiatives to advance reforms to the AML/CFT framework. Iran joined the Eurasia Group (the FATF-style body for the region) as an observer in 2017 and is implementing an action plan agreed with the FATF to address its strategic AML/CFT deficiencies.

Mexico—The authorities viewed the cost of corruption to the economy to be a significant drag on business. Staff acknowledged the authorities' efforts in tackling corruption and ML and advised that further strengthening AML tools could support anticorruption efforts and improve governance, including by increasing the transparency of companies (to prevent their misuse to launder the proceeds of corruption), and by enhancing the implementation of due diligence measures on politically exposed persons (PEPs) and companies linked to the public sector.

Panama—Staff reports urged the authorities to strengthen the AML/CFT framework and highlighted the possible economic impact of FATF and Global Forum initiatives to increase compliance with their respective standards. In this context, staff highlighted that strengthening financing integrity through effective implementation of the AML/CFT framework must remain a strategic priority to safeguard Panama's role as a regional financial center. Recommended priority actions focused on improving compliance with the FATF standard, including by: (i) making tax crimes a predicate offense to ML; (ii) effectively implementing

[26] These discussions have also helped address illicit financial flows. While there is debate on the definition of illicit financial flows, there is broad agreement that a significant share of these flows relate to criminal activities which can be addressed by effective AML/CFT frameworks.

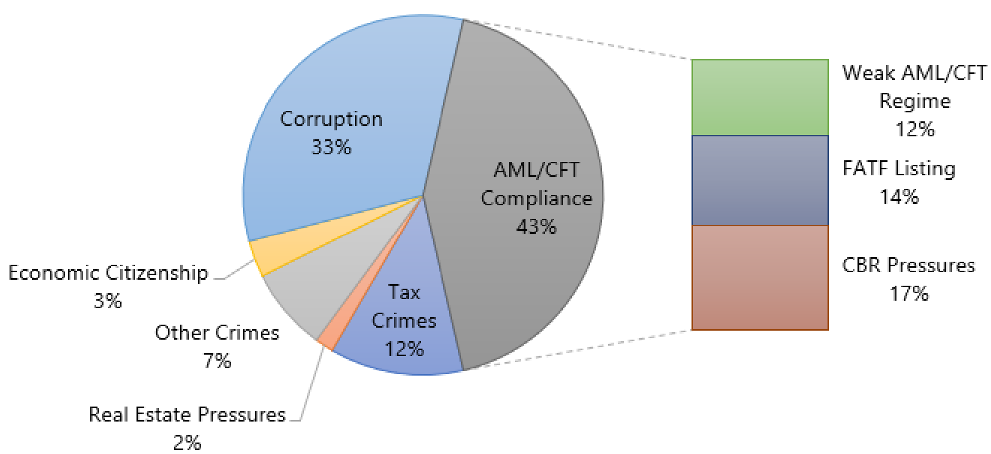
Box 2. Selected Cases of AML/CFT Inclusion in Article IV Consultations (concluded)

AML/CFT supervision both in the financial and non-financial sectors; and (iii) strengthening the transparency and availability of beneficial ownership information of legal persons and arrangements.

United Arab Emirates—Staff reports identified the open nature of the economy and its geographic location, as well as increased flows from abroad channeled to the banking and financial sector, real estate, and gold market, as factors creating potential vulnerabilities to the UAE's financial integrity. Staff recommended strengthening the effectiveness of the AML/CFT framework to mitigate these risks. Policy advice highlighted the need to improve the understanding of ML/TF risks, including those related to the origins of financial flows and to further refine the identification of the beneficial owners of deposits and loans, and enhance the compliance of financial and non-financial businesses and professions (e.g., lawyers, accountants, and real estate agents) with AML/CFT requirements.

18. **Overall the range of identified risks has been very broad.** These risks included: high ML/TF threats coupled with a weak AML/CFT system leading to the likelihood of a country being disconnected from the international financial system (e.g., in the case of FATF listing,[27] CBR withdrawal, or bilateral sanctions); macro-critical crimes that generate a significant amount of proceeds, (such as corruption, tax evasion, or drug trafficking); lack of transparency and unavailability of beneficial ownership of legal persons and arrangements information (e.g., as highlighted in allegations made following the publication of the Panama Papers and the Paradise Papers); and significant levels of criminal proceeds or "hot money" (both cross-border and domestic) flowing into and out of individual financial institutions in ways that are destabilizing for these institutions and the overall financial sector (see Figure 3).

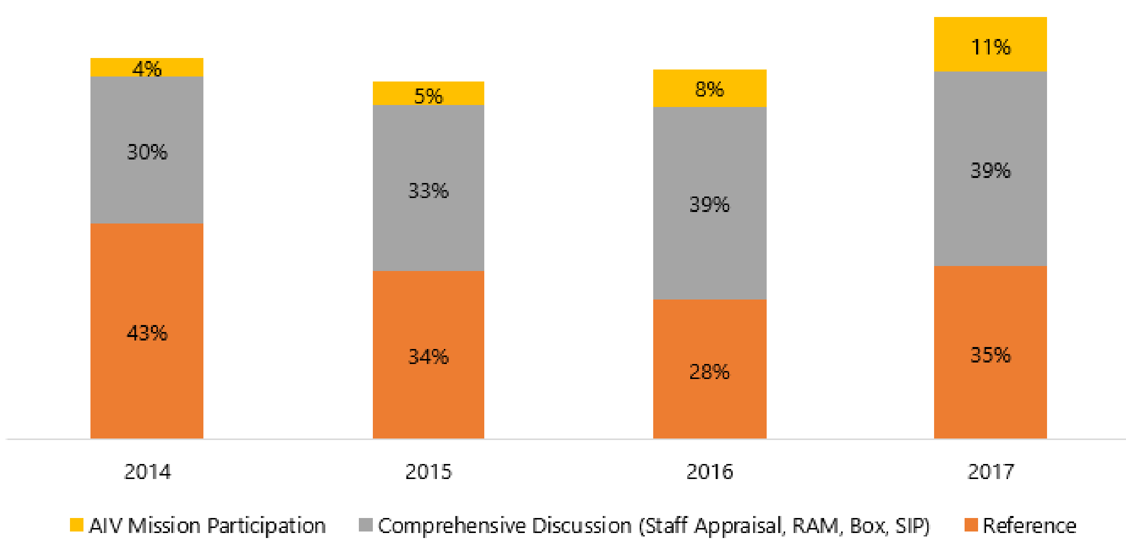
Figure 3. Rationale for Inclusion of Financial Integrity Issues in Article IV Reports per Consultation Cycle (2014–2017)



[27] As a regular part of its work, the FATF identifies jurisdictions with strategic AML/CFT deficiencies in two public documents that are issued three times a year. As of October 2018, the FATF had reviewed over 80 countries and publicly identified 68 of them. Of these 68, 55 had made the necessary reforms to address their AML/CFT weaknesses and so were removed from the process.

19. The advice provided by staff prioritized key financial integrity reforms tailored to members' risks and context. The policy advice on AML/CFT has sought to be concrete and actionable. Policy recommendations targeted identified risks and mostly focused on enhancing the effectiveness of the AML/CFT framework, including risk-based supervision of banks, nonbank financial institutions, and designated non-financial businesses and professions (DNFBPs) (e.g., lawyers, accountants, trust and company service providers), bolstering the role of financial intelligence units (FIUs), enhancing transparency and the availability of beneficial ownership information of legal persons and arrangements, enhancing international cooperation, obtaining convictions of money launderers, and confiscating ill-gotten proceeds. When issues were mostly related to proceeds of corruption, tailored measures included the criminalization of corruption offenses in line with the United Nations Convention against Corruption, publication of comprehensive asset declarations of senior public officials, and the establishment of independent anticorruption institutions. The modalities of staff's engagement varied depending on the significance of the AML/CFT issues, from participation in missions to HQ-based support (see Figure 4).

Figure 4. Inclusion of Financial Integrity in Article IV Staff Reports: Number of Reports and Depth of Coverage per Consultation Cycle (2014–2017)



20. Going forward, financial integrity issues should continue to be discussed in Article IV consultations in the manner described above. The criteria for mandatory inclusion of AML/CFT issues in Article IV consultations outlined in the 2012 Guidance Note continue to be appropriate and in line with the ISD. Staff will continue to exercise judgement and flexibility in the application of the criteria for engagement, and the coverage of AML/CFT issues will continue to be based on staff's ongoing analysis of member countries' economic developments from a financial integrity perspective. Finally, this will continue to be done in an even-handed manner and consistent with the 2018 enhanced governance framework. Specifically, when corruption is diagnosed in a country as severe, AML advice will be provided in conjunction with broader governance advice. In addition, on a voluntary basis, in the context of bilateral surveillance, staff will assess members' legal and institutional frameworks for purposes of determining whether: (i) they criminalize and prosecute the bribery of foreign public officials; and (ii) they have an effective AML/CFT system that is designed to prevent foreign officials from concealing the proceeds of corruption.

FUND-SUPPORTED PROGRAMS

21. Financial integrity-related issues are addressed in Fund-supported programs in line with the Executive Board's 2014 guidance. In the context of the 2014 review, Directors encouraged staff to continue its efforts to integrate AML/CFT issues into Fund-supported programs "when financial integrity issues are critical to financing assurances or to achieve program objectives."[28] Following the Board's guidance, and in line with the Guidelines on Conditionality,[29] staff reached understandings with members on the inclusion of financial integrity measures in Fund-supported programs to help achieve program objectives by, for instance, tackling corruption, addressing tax crimes to improve revenue collection, facilitating members' access to the international financial system, and combating TF. Such measures include those on AML/CFT and additional ones which, although not explicitly listed in the standard, are aimed at preventing and combating specific predicate offenses such as corruption and at fostering transparency and good governance. These issues have been covered in Fund-supported programs in line with the uniformity of treatment principles, taking into account countries' specific circumstances.

22. Since the 2014 review, an increasing number of Fund-supported programs have included a broad range of measures to address financial integrity issues. Thirteen Fund-supported programs, including ten ongoing and three staff-monitored programs (SMPs) included financial integrity-related measures in the form of program conditionality (compared to six programs between 2011 and 2014). This number further increases to a total of 36 Fund-supported programs, including those that encompassed financial integrity-related measures in the form of more general policy commitments. These instances of inclusion demonstrate the increased importance countries afforded to AML/CFT reforms in achieving program objectives.[30] The types of measures included in Fund-supported programs are of a wide range in terms of their nature and the underlying issues they cover. They range from legal reforms (e.g., upgrading AML/CFT legal and regulatory frameworks), institutional reforms (e.g., setting up anticorruption bodies and strengthening the AML/CFT supervisors), to implementation (e.g., risk-based AML/CFT supervision and targeted measures on PEPs). Implementation of these measures has helped achieve programs' objectives notably by tackling predicate crimes with macro-economic effects and facilitating the

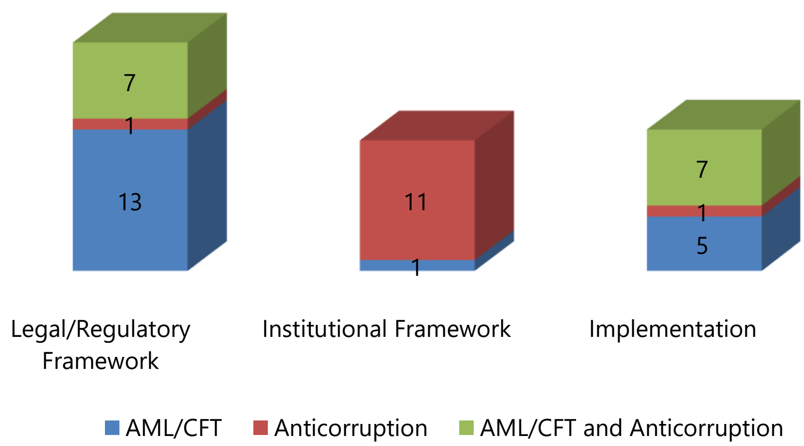
[28] IMF Executive Board Reviews the Fund's Strategy for Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT), Press Release No. 14/167, April 11, 2014.

[29] Selected Decisions and Selected Documents of the IMF, Thirty-Ninth Issue—2002 Guidelines on Conditionality, Decision No. 12864-(02/102), as amended.

[30] The total of 36 includes 30 that involve financial support (of which 18 are ongoing) and 6 that involve Fund policy support under Policy Support Instruments and Policy Coordination Instruments.

members' access to the international financial system. Figure 5 illustrates the range of measures included in Fund-supported programs, while Box 3 provides concrete examples of Fund-supported programs that included financial integrity-related conditionality.

Figure 5. Conditionality Included in Fund-Supported Programs (February 2014–July 2018)



Notes:

These figures include conditionality included in three SMPs.

Since some conditionality include multiple elements, the sum of these figures is greater than the total number of conditionality.

The category of "AML/CFT and Anticorruption" captures measures that concern both AML/CFT and anticorruption, such as criminalization of corruption and asset declaration by senior public officials.

23. Members have shown strong traction in implementing financial integrity-related measures, but the timeliness of implementation remains a challenge. While a majority of measures were implemented on time, others were either implemented with a delay or rescheduled. The delays were due to, among others, capacity constraints, legislative processes that took longer than expected, and difficulties in domestic coordination when the measures fall beyond the Ministry of Finance's or the central bank's purview.

24. AML/CFT measures should continue to be included in Fund-supported programs when they are reasonably within the member's direct or indirect control and are, generally, either (i) of critical importance for achieving the goals of the member's program or for monitoring the implementation of the program, or (ii) necessary for the implementation of specific provisions of the Articles or policies adopted under them. The inclusion of such measures in future programs will continue to be guided by the Guidelines on Conditionality. As is the case for Fund surveillance, the design of AML/CFT measures to tackle corruption in Fund-supported programs will also be guided by the 2018 enhanced governance framework. In light of the focus in the FATF assessment methodology since 2013 on the effectiveness of AML/CFT measures (see Annex I), staff envisages a growing need for, and greater traction to implement, measures aimed at improving effectiveness to achieve program objectives (as opposed to a focus on legal and regulatory frameworks only). Staff will continue to ensure that the design of measures (including their sequencing and pace) is tailored to a member's specific circumstances, such as capacity constraints. Finally, staff will continue to seek synergies between Fund-supported programs, surveillance, and CD activities to support members' reforms to tackle the threats presented by ML, TF, PF, and predicate crimes.

Box 3. Examples of Fund-Supported Programs with Financial Integrity-Related Conditionality

Afghanistan—Afghanistan has long suffered from ongoing violence, drug trafficking, corruption, and a weak AML/CFT framework. This notably resulted in Afghanistan being publicly listed by the FATF in 2012 as a country with strategic AML/CFT deficiencies. Building upon the progress made in the country's AML/CFT legal framework with the Fund's assistance, the SMP approved in 2015 included a structural benchmark (SB) on establishing a regulatory framework for monitoring cross-border transportation of cash. The implementation of this measure facilitated Afghanistan's exit from FATF monitoring in June 2017. Under the subsequent Extended Credit Facility (ECF) arrangement approved in July 2016, SBs were established to tackle corruption that has negatively affected the security, stability, and growth of the country. With the implementation of these measures, both the criminalization of corruption and the legal framework for asset declaration by senior officials have been strengthened.

Iraq—ISIS has posed a serious threat to the security and stability of Iraq. Disrupting ISIS's funding through the implementation of a robust AML/CFT framework has been considered as key to tackling that threat. The stand-by arrangement (SBA) approved in 2016 included an SB on the adoption of a by-law to set up a mechanism to comply with the relevant UNSC resolutions related to terrorism and TF in line with the FATF Recommendations, which was implemented on time. In addition, the authorities committed to a number of measures to bolster implementation of CFT measures, including strengthening key AML/CFT agencies such as the supervisory agency and the FIU, conducting risk-based AML/CFT inspections, and monitoring the cross-border transportation of cash. The implementation of these measures facilitated Iraq's exit from FATF's review.

Madagascar—When the ECF arrangement was approved in 2016, Madagascar suffered from pervasive corruption, which hamstrung the conduct of regulatory and budgetary policies, ultimately hurting inclusive growth. An SB was included to strengthen the AML/CFT framework regarding the collection, administration, and management of assets that have been seized following investigations related to corruption, embezzlement, ML/TF, or organized international criminal activities in line with the international standards. These measures complement reforms of fiscal governance and the anticorruption framework to help achieve a key objective of the program, i.e., to enhance economic governance and fight corruption.

Ukraine—Pervasive corruption and poor governance have long weighed on the country's economy. Under the SBA approved in 2014 and the subsequent Extended Fund Facility arrangement, a number of measures were introduced to tackle corruption. Among them were SBs and prior actions to ensure that financial institutions appropriately monitor the accounts of domestic PEPs, including by requiring the publication of comprehensive asset declarations by PEPs. Implementation of these measures, together with additional conditionality on the establishment of dedicated institutions in charge of investigating, prosecuting, and adjudicating acts of corruption and the laundering of their proceeds has been helping to detect and deter illegal proceeds generated by corruption.

FINANCIAL SECTOR ASSESSMENT PROGRAM

25. Current Fund policy requires timely and accurate input of AML/CFT[31] information into every FSAP. FSAPs are mandatory for jurisdictions with systemically important financial sectors as part of the Fund's bilateral surveillance under Article IV of the Fund's Articles of Agreement, and voluntary for all other jurisdictions. Inclusion of AML/CFT issues in the FSAP process is intended to enable staff to incorporate financial integrity issues into broader financial sector reform efforts. Prior to March 2014, the FSAP policy included a mandatory link between FSAPs and full AML/CFT assessments.[32] In 2014, in line with the Executive Board's guidance, input on AML/CFT remained mandatory, but became flexible in its scope.[33] Such input should, where possible, be based on an AML/CFT assessment against the prevailing standard finalized prior to the FSAP.[34] If such an assessment is unavailable, staff may derive key findings based on other relevant sources of information (e.g., previous AML/CFT assessment reports, FATF/FSRB follow-up and other reports, Fund reports, reports published by the authorities including national risk assessments (NRAs), the authorities' responses to questionnaires, and other reliable information). This policy applies solely to FSAPs. The more recent Financial Sector Stability Reviews, which provide diagnostic assessments for follow-up CD, do not include a discussion of AML/CFT issues since assistance is provided to members in the context of the Fund's AML/CFT CD program.

26. Since March 2014, staff provided updates on AML/CFT in all FSAPs and made use of the afforded flexibility in the depth and scope of the discussions.[35] Early consultation between the FSAP teams and the authorities helped identify the main risks in the relevant country and narrow the scope of AML/CFT issues, leading to more focused discussions and targeted recommendations. Depending on the availability of up-to-date information on the AML/CFT framework as well as the

[31] In keeping with the terminology used in 2014 (see IMF Executive Board Reviews the Fund's Strategy for Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT), Press Release No. 14/167, April 11, 2014), this chapter refers to "AML/CFT updates," which, in practice, covers financial integrity issues more broadly.

[32] Pursuant to the previous policy, every FSAP was to be accompanied by a comprehensive assessment conducted within 18 months prior to or after the main FSAP mission (IMF Executive Board Reviews Efforts in Anti-Money Laundering and Combating the Financing of Terrorism, PIN No. 11/74, June 27, 2011).

[33] IMF Executive Board Reviews the Fund's Strategy for Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT), Press Release No. 14/167, April 11, 2014.

[34] This includes comprehensive AML/CFT assessments, namely assessments against the full range of Recommendations and Immediate Outcomes, as well as, in due course, the targeted reassessments envisaged by the FATF network. Targeted reassessments are currently scheduled to take place five years following the adoption of the comprehensive assessment against the 2012 standard. They are intended to focus on the country's main ML/TF risks and AML/CFT deficiencies identified in the comprehensive assessment. The first targeted reassessment is scheduled for late 2019.

[35] Most of the AML/CFT discussions in joint FSAPs are currently led by Fund staff. While World Bank staff have contributed to the AML/CFT inputs in several joint FSAPs (e.g., preparation and drafting of technical notes), they have been unable to contribute to more recent FSAPs due to resource constraints.

level of ML/TF risks, the scope and depth of staff's analysis varied, with greater attention devoted to countries with greater ML/TF risks:

- Where an assessment against the 2012 standard was available, key findings were derived from that assessment and reflected in the Financial System Stability Assessment (FSSA) report, in line with the guidance provided by Directors in 2014.[36] In instances where the information in the assessment report was no longer up-to-date owing to the lapse of time, staff sought updated information on a selection of AML/CFT issues of particular relevance to the country.[37]

- In the absence of an assessment against the 2012 standard, staff sought information from the authorities on a few AML/CFT issues selected on the basis of available information (e.g., assessments against the previous standard, and Article IV staff reports) and in discussion with the authorities. Depending on the level of risks, AML/CFT discussions took the form of technical notes, annexes, background notes to the aide memoire, and/or a few paragraphs in the FSSA report.[38]

27. AML/CFT assessments and AML/CFT updates for the purposes of the FSAP differ in scope, modalities, and output. AML/CFT assessments include a comprehensive review of the country's AML/CFT framework against the FATF 40 Recommendations and 11 Immediate Outcomes on effectiveness. They are conducted by one or more of the AML/CFT assessor bodies (the Fund, World Bank, FATF, and nine FSRBs) and result in recommendations and ratings on technical compliance and effectiveness. In contrast, AML/CFT inputs into the FSAP take the form of targeted reviews focused on a few issues of greater relevance for the financial sector and its stability. They are prepared by Fund and World Bank staff and result in key findings and recommendations (but not ratings). All 46 FSSA reports published from March 2014 to July 2018 include a discussion of AML/CFT (see Figures 6 and 7), including seven published AML/CFT technical notes. Relevant updates were also provided in the context of assessments against the Basel Core Principles for Effective Banking Supervision (BCP), particularly, with respect to the relevant principle on the abuse of financial services (BCP 29).

28. Owing to the initial phase of comprehensive assessments under the current round, most AML/CFT updates in FSAPs have so far been based on sources of information other than assessment reports. While efforts to coordinate with the different assessor bodies are pursued, the alignment of the assessment schedules and the FSAP timelines continued to be challenging because

[36] In the context of Norway's FSAP, key findings were extracted from the FATF December 2014 mutual evaluation report and reflected in the FSSA (published in September 2015).

[37] For example, in the case of Spain's FSAP, key findings based on the FATF December 2014 mutual evaluation report were updated in the context of the FSAP and reflected in the October 2017 FSSA report.

[38] Technical notes focusing on a few AML/CFT issues were prepared in the context of the FSAP of some jurisdictions with systemically important financial sectors, or countries with regionally important financial sectors and higher ML/TF risks. A lighter touch approach (consisting of a few paragraphs only in the FSSA) was for example taken in the context of Finland's FSAP, where the ML/TF risks were considered relatively low.

assessments operate under different and longer planning horizons than FSAPs. At the beginning of the implementation of the current policy, few countries had been assessed against the 2012 standard.[39] As a result, most of the initial FSAPs conducted under the 2014 policy included key findings based on sources of information other than assessment reports (e.g., authorities' responses to questionnaires, NRAs, and information from the Article IV reports or program reviews).

Figure 6. FSAPs by Area Distribution (April 2014–July 2018)

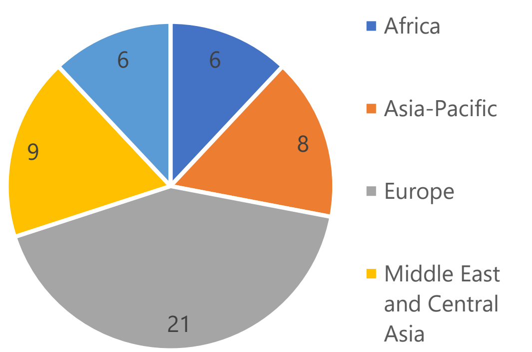
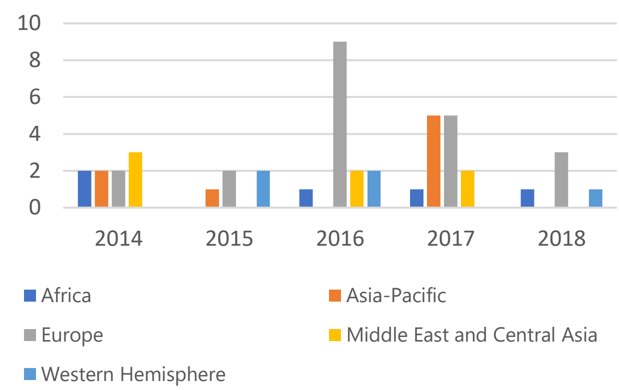


Figure 7. Published FSSA Reports by Year and Area (April 2014–July 2018)



29. Greater reliance on assessment reports is expected moving forward as the current assessment round advances. The trend observed so far is starting to reverse. Additional countries have now undergone an AML/CFT assessment against the 2012 standard and several more assessments are planned over the coming years (see next section on AML/CFT assessments). Thus, going forward, most of the FSAPs are expected to include key findings based on assessments—supplemented, if necessary, with more up-to-date information—as the current round continues to progress.[40] This, in turn, is expected to ease the workload related to the AML/CFT input and increase the reliance on the findings of assessment reports in FSAPs.

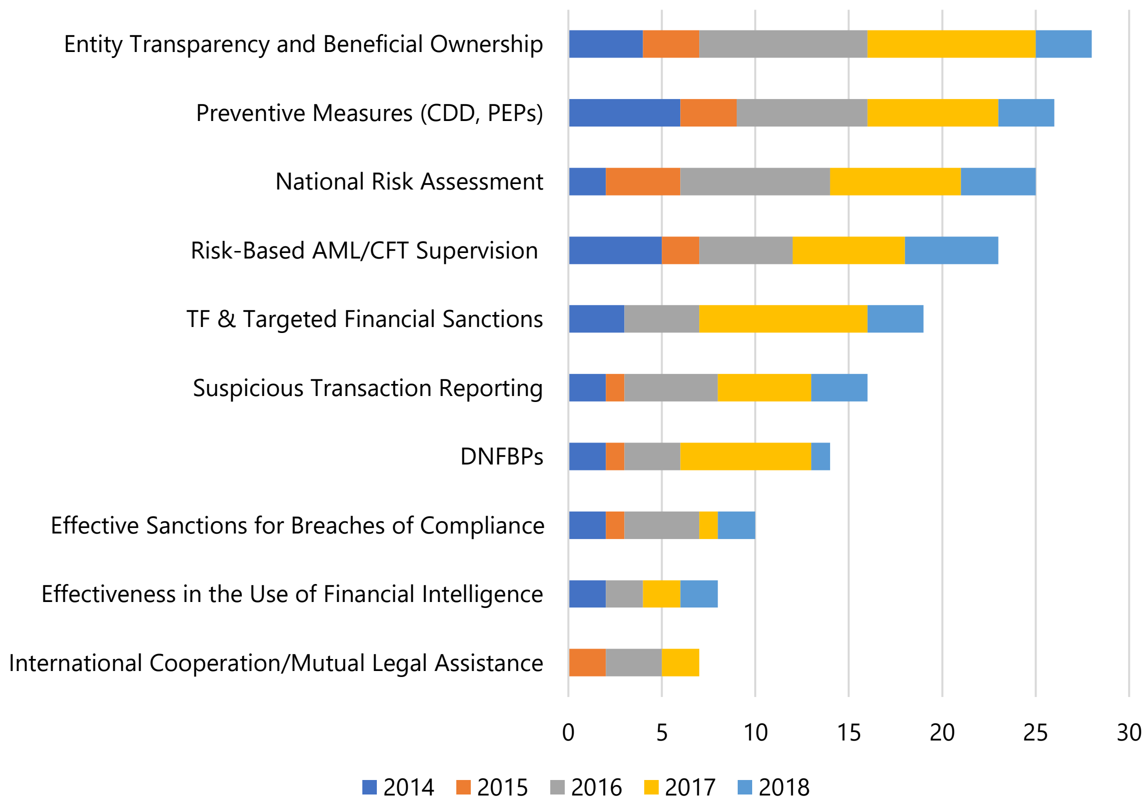
30. AML/CFT issues discussed in FSAPs vary, depending on the severity of the issues in the country and their relevance to the financial sector. Most of the key AML/CFT issues raised pertained to preventive measures (e.g., customer due diligence measures, including for PEPs), the country's assessment of its ML/TF risks, and risk-based AML/CFT supervision (see Figure 8). Since 2016, there has also been a greater number of discussions of the transparency of beneficial ownership of legal persons and arrangements under the 2012 standard, which reflects the global community's (e.g., the G20's) calls for greater efforts in this respect. Depending on the country's circumstances, other issues discussed included: TF and targeted financial sanctions, suspicious

[39] Of the 46 countries that have undergone FSAPs from 2014 to July 2018, only 3 had been assessed under the current round prior to the FSAP. See chapter on assessments and footnote 43 below for the start dates of the current round for each assessor body.

[40] Under current projections, some 90 percent of countries tentatively scheduled to undergo an FSAP by 2021 will have been assessed against the 2012 standard by the FATF, FSRBs, the Fund, or the World Bank.

transaction reporting, supervision of DNFBPs, effectiveness of sanctions for breaches of compliance, effectiveness in the use of financial intelligence, and international cooperation and mutual legal assistance matters. The inclusion of AML/CFT issues in the FSAP has helped deepen global understanding of the standards and made clear that robust AML/CFT implementation contributes to financial stability and development.

Figure 8. Key AML/CFT Issues in Published FSSA Reports (April 2014–July 2018)



31. While differing in purposes and modalities, the analysis of financial integrity issues in the FSAP and Article IV consultation are complementary workstreams. The AML/CFT findings in FSAPs inform the analysis of developments in the subsequent and more frequent Article IV consultations, especially in the case of mandatory FSAPs (conducted every five years). Conversely, the Article IV consultations (where financial integrity issues are included on a mandatory or voluntary basis) are one of the sources of information on AML/CFT for the FSAP, when an assessment against the standard is unavailable. This complementarity creates a virtuous cycle that enables robust and up-to-date analysis of AML/CFT issues and regular advice to countries. As can be seen from the enumeration of topics above, there has been broad alignment between the key financial integrity issues and risks identified by staff in the FSAPs and Article IV consultations. In particular, the recent increased focus on entity transparency and beneficial ownership provides additional opportunities for synergy between the workstreams (see Box 4).

Box 4. Examples of Synergies Between FSAPs and Article IV Consultation

The Fund continues to support the U.K. authorities' efforts in enhancing entity transparency through the 2016 FSAP and subsequent Article IV consultation. Staff welcomed the establishment of the register of people with significant control (PSC) in 2016 as a positive development in the transparency of U.K. companies. To enhance its effectiveness, staff recommended continued efforts to ensure that beneficial ownership information in the PSC register is accurate and verified. Implementation of AML/CFT controls in the trust and company service providers (TCSPs) sector was also raised as a key concern. In addition, the Office for Professional Body Anti-Money Laundering Supervision was established to oversee AML/CFT supervisors of legal and accountancy firms, some of which carry out TCSP activities, and to ensure consistent supervision in the sector. Finally, staff noted that high-end ML was facilitated by legal persons and arrangements, a high percentage of which are incorporated in Crown Dependencies and British Overseas Territories (BOTs). As a follow-up in the 2017 Article IV consultation, staff noted the U.K. authorities' agreements with Crown Dependencies and BOTs to exchange ownership information and encouraged continued engagement towards ensuring access to beneficial ownership information of companies and trusts registered in these jurisdictions.

The Fund's findings in the Eurozone FSAP are reflected as appropriate in Article IV consultations with individual members. The 2018 Eurozone FSAP notably highlighted a need for improved coordination and enhanced exchange of information between the prudential supervisors and the AML/CFT supervisors in the euro area. In this context, the FSAP recommended considering establishing a European-level institution responsible for aspects of AML/CFT supervision (which, at the moment, despite the supranational framework, remains within the purview of national authorities). This recommendation was reiterated in the context of Latvia's 2018 Article IV consultation, which noted that the suspension of the activities of Latvia's third largest bank highlighted the limitations arising from the absence of a common EU-wide AML/CFT supervision framework, and from the fragmentation in the bank resolution regime within the euro area.

32. Moving forward, the current policy of timely and accurate AML/CFT input into every FSAP should be maintained. The current policy has generated more targeted discussions than in the past. It has enabled a focus on issues of greater relevance to the country. It has also ensured that useful updates are provided without unnecessary duplication of assessment efforts. Inclusion of the AML/CFT analysis and recommendations in the FSAP has contributed to the broader discussion of the stability and soundness of the financial sector, and to advancing global understanding of the international AML/CFT standard, including its greater focus on the assessment of ML/TF risk and mitigation in light of these risks. As the current round of assessments progresses, the workload related to the AML/CFT input into the FSAP is expected to decline as staff will increase its reliance on the assessment reports (subject to updates to reflect subsequent developments). Staff continues to enhance its understanding of ML/TF risks faced by countries, mainly through its development of ML/TF risk assessment tools, access to an increasing number of national risk assessments conducted by countries, and staff analysis of ML/TF trends, financial flows, and interconnectedness, and their potential impact on financial stability.

CAPACITY DEVELOPMENT

33. The Fund helps its members build and strengthen their AML/CFT capacities through assessments against the AML/CFT standard[41] **and the provision of CD services.**

A. AML/CFT Assessments

34. AML/CFT assessments remain an important component of the Fund's AML/CFT work program. During the 2014 review, Directors reaffirmed that AML/CFT assessments are an important part of the ROSC and FSAP work, and stressed the importance of ensuring adequate, quality assessment reports across the range of the twelve assessor bodies.[42] They encouraged staff to participate actively, as resources permit, in the review mechanisms that were being set up at the time (see Box 5), and, in light of the resource implications of that and other workstreams, considered it appropriate for staff to reduce the number of Fund-led assessments from six to seven to two to three per year.

Box 5. Framework to Strengthen the Quality and Consistency of Assessments

Prior to launching the current round of AML/CFT assessments, the FATF took important steps to strengthen the quality and consistency of AML/CFT assessment reports by bolstering the review mechanism: a new framework consisting of training sessions (for assessors and for countries to be assessed) and separate reviews at different stages of the assessment process has been in place since 2014. It aims, inter alia, at ensuring the appropriate application of the assessment methodology and procedures across the range of assessor bodies. It is overseen by the FATF and includes the following measures:

Training for assessors: As a minimum requirement, assessors across the network must have a good understanding of the FATF Recommendations and must have successfully undergone a one-week assessor training. This training includes a detailed discussion of the assessment methodology and procedures, as well as a mock evaluation exercise.

Country training: To enable them to prepare successfully for the assessment process, countries are given the opportunity to have relevant public and private sector stakeholders 1/ trained on the assessment process. The training is usually delivered over the course of two days and includes an overview of the standard and of the assessment methodology and procedures, as well as a discussion of how to present information on the effectiveness of AML/CFT measures.

Pre-Plenary Reviews: The pre-plenary review consists of two separate measures:

- **External review:** This measure is the first of two key new features of the current review mechanism. For every assessment, three to four external reviewers (typically individuals who have undergone the assessor training and, where possible, conducted an assessment under the current methodology) are

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[41] For Fund purposes, assessments against standards and codes constitute TA.

[42] The nine FSRBS are the Asia-Pacific Group on Money Laundering (APG), Caribbean Financial Action Task Force (CFATF), Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), Eurasian Group (EAG), Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), Financial Action Task Force of Latin America (GAFILAT), Inter-Governmental Action Group Against Money Laundering in West Africa (GIABA), Middle East and North Africa Financial Action Task Force (MENAFATF), and the Task Force on Money Laundering in Central Africa (GABAC).

Box 5. Framework to Strengthen the Quality and Consistency of Assessments (concluded)

designated to conduct an in-depth review of: (i) the draft scoping note (i.e., the note that lays out the areas that assessors will pay increased attention to in the context of the assessment); and (ii) an early draft of the assessment report. The purpose of this new measure is to enable independent experts to raise quality and consistency issues before the assessors' onsite discussions (e.g., if the draft scoping note does not appear to steer the focus of the assessment to the right issues) and ahead of the finalization of the assessment report (e.g., if the analysis is incomplete or does not support the proposed ratings). The reviewers' comments and the assessment team's responses are made available to all delegations prior to the plenary discussion of the report.

- **Delegations' review:** This measure is a longstanding feature of FATF/FSRB mutual evaluation processes. Prior to their discussion at a plenary meeting, draft assessment reports are circulated to all delegations for comment. All comments submitted are shared with all delegations. From these comments, five to seven key issues that are relevant for the quality and consistency of the report are selected for discussion by the plenary. These discussions may result in changes to the reports and provide useful guidance for future reports.

Post-plenary (or ex-post) review: This is the second key new feature of the current review mechanism. Reports that have been adopted by the FATF or FSRB plenary are circulated to all delegations throughout the network for a final quality and consistency check. Should two or more delegations raise the same issue, the report is no longer considered to be adopted, and the issues raised are discussed at the FATF. This additional discussion can result in the report being amended to address the quality and consistency issues prior to publication.

1/ Pre-assessment trainings are conducted in collaboration with the FATF or the relevant FSRB and the authorities of the country to be assessed. The engagement with the private sector is done through the authorities.

35. **The current round of AML/CFT assessments against the 2012 standard began in 2014, and is now underway for all of the 12 assessor bodies.**[43] The current assessment methodology includes two separate but linked exercises: an assessment of the country's technical compliance with the standard (i.e., the assessment of the country's legal and regulatory framework against the FATF Recommendations), and an assessment of the effectiveness of the countries' AML/CFT framework in light of its risks. The main focus of the current round is on the second component, the assessment of effectiveness. The FATF methodology recognized that the high-level objective of an effective AML/CFT system is to protect the financial systems and the broader economy from the threats of ML, TF, and PF, thereby strengthening financial sector integrity and contributing to safety and security. Effectiveness is the extent to which financial systems and economies mitigate the risks and threats of ML, TF, and PF. This is measured by an assessment of the extent to which countries achieve a series of 11 Immediate Outcomes that range from the understanding of ML/FT risk to efforts against PF. See Annex I for an overview of the Immediate Outcomes, and additional information on the assessment process.

36. **Pursuant to a longstanding agreement, the global assessment burden is divided among the Fund, World Bank, FATF, and FSRBs.** The assessment reports prepared by any assessor body

[43] The FATF started the current round in December 2014; the World Bank, APG, ESAAMLG, and GAFILAT started in 2015; CFATF, MENAFATF, and MONEYVAL started in 2016; EAG and GIABA started in 2018 and GABAC is in the process of conducting its first assessment.

under the common assessment methodology are mutually recognized, avoiding duplication of assessment efforts. The vast majority of Fund members are also members of the FATF and/or one (or more) FSRB. As such, they are subject to regular mutual evaluations. Regardless of their participation in the FATF/FSRB network, Fund and World Bank members have the option of requesting that their AML/CFT assessment be conducted by the Fund (or the World Bank). The Fund focuses its assessments primarily on countries with systemically or regionally important financial sectors or facing high ML/TF risks. The Fund (or the World Bank) draft assessment reports are subject to the FATF review mechanism (see Box 5), and, in the case of reports for FATF/FSRB members, discussions in, and adoption by, the FATF or the relevant FSRB plenary. As of September 2018, 55 assessments have been completed and published, including four by the Fund.[44]

37. The current assessment methodology generates a better analysis of countries' AML/CFT frameworks, but it has also increased the complexity and resources implications of assessments. As anticipated by Directors in 2014, assessments now pay greater attention to the assessed country's specific ML/TF risks and context and result in more focused and meaningful discussions. An initial review by the FATF of the first five assessments conducted under the 2013 methodology indicated that assessors adequately paid increased attention to the specific ML/TF risks of the assessed country. At the same time, AML/CFT assessments have become particularly resource intensive for both assessor bodies and assessed countries. This is mainly due to the depth and complexity of the standard as well as of the assessment methodology, in particular with respect to the assessment of the effectiveness of AML/CFT measures. In addition, the average timeframe for an assessment is longer than under the previous round: it has increased from approximately 8 months under the previous round to 12 to 14 months under the current one, in order to: (i) allow countries sufficient time to gather and submit information and material to showcase their efforts, and to provide assessors with sufficient time to analyze the material received (see assessment timeline in Annex I); and (ii) enable a post-plenary review of assessment reports. Finally, assessors have had to devote more resources to the assessment of technical compliance than originally anticipated.

38. The Fund has played an active role in the global assessment process. In recognition of the criticality of assessments to global AML/CFT efforts and to the Fund's work on financial integrity, the Fund has actively contributed to the assessment process by leading assessments, participating in the review of the quality and consistency of other assessor bodies' draft reports, and providing training. Since 2014, considerable resources have been dedicated to assessment-related work:

- As anticipated in the context of the 2014 review of the Fund's AML/CFT strategy, at the request of the FATF and the Asia/Pacific Group on Money Laundering (APG), staff participated on an

[44] The Fund led the assessments of Italy, Canada, Mexico, and Colombia against the 2012 standard.

exceptional basis in the first five pilot assessments conducted by the FATF and the APG against the 2012 standard.[45]

- The Fund has also completed four assessments against the current standard (with three currently underway or planned).[46] This constitutes an average of one to two assessments per year, which is less than anticipated in 2014 due to the time-consuming nature and significant cost of assessments under the current methodology.

- Conducting fewer assessments enabled staff to play a greater role in strengthening the quality and consistency of assessments conducted by other bodies. In light of the challenges that the assessment methodology poses to assessors and assessed countries, and of the importance of AML/CFT assessments for all relevant Fund workstreams, staff dedicated a larger amount of resources than originally planned to the review process[47] and to pre-assessment trainings.[48]

- As of September 2018, in response to five countries' requests, staff issued AML/CFT ROSCs on the basis of final assessment reports.

39. Assessments conducted so far revealed that while technical compliance with the standard has improved, effective implementation of the AML/CFT framework is challenging. While each assessment shows a unique set of strengths and challenges,[49] some general trends are emerging. Technical compliance ratings are generally higher than effectiveness ratings, indicating that countries have made progress in bringing their laws and regulations in line with the standard, but their implementation is not as effective as it should be in mitigating the risks.

- Technical compliance with the standard: countries generally score well with respect to the requirements in the standard related to financial secrecy, reporting of suspicious transactions, and FIUs. The framework for mutual legal assistance is another area of relative strength. However, technical requirements related to targeted financial sanctions, transparency of BO, and DNFBPs continue to pose challenges, even though they are longstanding features of the FATF standard.

- Effectiveness of AML/CFT measures: many countries struggle with the assessment of their specific ML/TF risks and the implementation of an appropriate risk-based approach. This is in part due to the requirement to identify, assess, and understand the ML/TF risks, and to take

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[45] While staff played an active role in these pilot assessments, it was not subject to the FATF and APG's instructions, in line with the requirement under Rule N-3 of the Fund's Rules and Regulations.

[46] See footnote 44 above. The assessment of China is currently ongoing. The assessment of South Africa is scheduled to start in 2019. The dates of the planned assessment of Iran have not been firmed up yet.

[47] Fund staff participated as designated external reviewer in 11 assessments and provided comments in the context of seven post-plenary reviews.

[48] Staff was involved in the delivery of ten trainings for assessors, three bilateral trainings, and one regional training for countries to be assessed.

[49] A consolidated overview of the technical compliance and effectiveness ratings of all jurisdictions assessed to date is available at http://www.fatf-gafi.org/publications/mutualevaluations/documents/assessment-ratings.html.

appropriate mitigating actions under the 2012 standard. Similarly, many countries face difficulties in ensuring adequate transparency over the beneficial ownership of legal persons and arrangements, and in implementing targeted financial sanctions related to TF and PF. Several also struggle with the effective investigation and prosecution of ML activities and the sanctioning of offenders.

40. **Assessments provide countries with clear guidance on how to improve their AML/CFT system.** Assessment reports identify key findings, and list prioritized actions that countries should take to address the identified technical deficiencies and improve the effectiveness of their AML/CFT system in line with their respective risks and context. This guides the assessed country through the post-assessment follow-up process and assists Fund staff in identifying their needs for Fund policy advice and CD.

41. **The relatively low ratings on the effectiveness of AML/CFT measures have implications under the Fund's different workstreams.** Depending on the number of low ratings it has received in its assessment, a country may meet the FATF's criteria for monitoring and public listing. This, in turn, may have an impact on the country's access to financial markets and may therefore generate a need for Fund advice and assistance. For example, as a result of low ratings and a listing by the FATF, a country may face CBR pressures, which are highlighted in surveillance and may be addressed through CD. The deficiencies identified in assessment reports, in particular with respect to the effectiveness of AML/CFT measures, are also driving demand for AML/CFT CD. Staff is responding to these demands as outlined in the next section.

42. **The quality and consistency of assessments is improving but remains a challenge, especially with respect to the assessment of the effectiveness of AML/CFT measures.** The framework to ensure the quality and consistency of assessment reports is being implemented: most assessors have undergone the necessary training,[50] and most countries to be assessed have requested the (optional) pre-assessment training. The pre-plenary reviews, and especially the new external review, has enabled reviewers, including Fund staff, to assist assessors and assessor bodies by detecting at an early stage issues of quality and consistency in the draft reports. In most instances, those issues have been addressed prior to the plenary discussion. In instances where the issues raised by the assessors are so significant that they require major changes to the report, the plenary discussion of the relevant report is postponed. To date, this has occurred in five instances. The post-plenary review process has also been implemented and, as of September 2018, has resulted in eight reports being put on hold after their adoption by the relevant plenary and amended prior to their publication. While no formal review of the quality and consistency of published reports has been conducted, preliminary indications point to the usefulness of the pre- and post-plenary reviews. Nevertheless, the implementation of the assessment methodology remains challenging and despite the measures in place, some published reports still contain

[50] While there is currently no formal test at the end of the assessors' training, typically, the assessor body in charge of the training selects, amongst the participants, those who are deemed ready to conduct an assessment. All Fund assessors have undergone the training, with limited exception for assessors who had directly participated in the design of the current methodology.

deficiencies. Longer-term solutions to increase the capacity of assessor bodies to produce assessment reports of adequate quality and consistency are being discussed at the FATF. These include the sharing of assessment best practices.

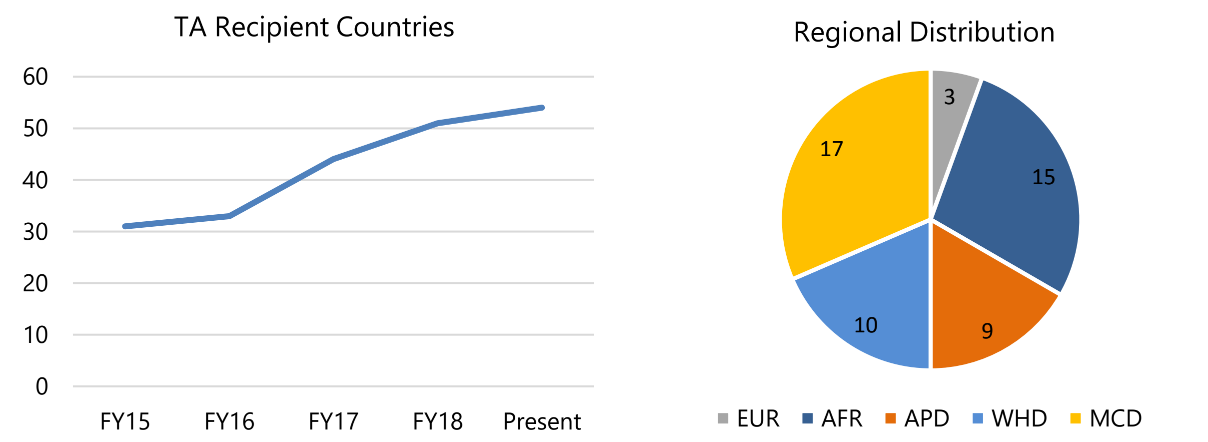
43. Moving forward, the Fund should continue its contribution to the global AML/CFT assessments process and increase its contribution to the quality and consistency efforts. The main findings of assessments continue to play a significant role in Fund work on financial integrity across workstreams. Ensuring the quality and consistency of assessment reports therefore remains key but is particularly challenging for some of the assessor bodies. Moreover, all Fund members, with a limited number of exceptions, are now part of the FATF network—the main responsibility for their AML/CFT assessments therefore falls on the FATF and the FSRBs. As a result, there is less of a need for the Fund to lead two to three assessments per year as was the case in 2014, but a greater need to devote efforts to strengthening the quality and consistency of assessments. To maximize the Fund's contribution to global assessment efforts while maintaining the current budgetary envelope, and in light of the challenges that the 2013 methodology raises, staff has devoted more resources to the review of other assessor bodies' reports and to pre-assessment trainings, in particular training for FATF and FSRB assessors. Given resource constraints and the need to strengthen the quality and consistency of assessment reports across the range of assessor bodies, staff proposes to devote more resources to the review and training processes and to conduct only one to two Fund-led assessments per year. Staff also proposes to continue to issue, upon request, AML/CFT ROSCs on the basis of final assessment reports following a pro forma review, in line with the 2014 Board guidance.

B. The Fund's AML/CFT CD Program

44. The Fund has an extensive CD program to assist members in strengthening their AML/CFT frameworks. Since 2002, the Fund has provided CD on AML/CFT and related issues to 118 countries through more than 385 projects across all regions of the world. Since 2014, TA has been provided to a total of 54 recipient countries in all area departments (see Figure 9). CD projects are typically delivered through long term (i.e., two to three years), deep, and focused engagements with a sequenced approach designed to lead to meaningful, measurable, and sustainable results. Fragile states (which are currently among the Fund's CD priorities) and low capacity countries, including small states, usually benefit from longer and more customized engagements to achieve results. Some projects were designed for specific and urgent needs for a shorter period of time. A small number of projects or components of projects were closed prior to their scheduled end date due to lack of traction from recipient country authorities.

45. A range of modalities is used to deliver AML/CFT CD. CD activities are delivered by HQ-based staff and a cadre of short-term experts together with long-term regional advisers located in four regions (Africa, Asia, Middle East and Central Asia, and Latin America and the Caribbean) to facilitate coordination and delivery of CD at the regional level. Staff also deployed different delivery modes to provide CD when onsite visits were not possible for security reasons (e.g., alternative locations and teleconferencing). The CD program also includes regular and diverse training, tailored to regional needs, and delivered through regional training centers like the Singapore Training Institute in Singapore, Joint Vienna Institute in Austria, the Center for Economics and Finance in Kuwait, and the Regional Technical Assistance Center for Southern Africa in Mauritius. In addition, staff was also engaged in research projects[51] to upgrade some TA modules and keep them relevant for Fund members.

Figure 9. TA Recipient Countries and Regional Distribution of AML/CFT TA (FY2015–Present)



46. The CD program includes several modules targeted at different AML/CFT issues. TA activities have been organized around modules which take into account members' circumstances and are designed to assist members in: (i) identifying key AML/CFT areas for reform; (ii) upgrading the legislative and regulatory framework in line with the FATF standard; (iii) conducting NRAs to improve their understanding of ML/TF risks; (iv) developing national strategies to strengthen their AML/CFT framework in a prioritized manner; (v) building capacity of AML/CFT supervisors of financial institutions and DNFBPs through improving their structures and tools; and (vi) improving the structure and tools of FIUs. More recently, the CD program has placed greater emphasis on the effectiveness of CD delivery including by implementing the Fund's results-based management approach. A program-level log frame for AML/CFT CD has been developed and accordingly, each country project was designed with clear pre-specified objectives, outputs, and indicators against which progress is monitored and measured. Monitoring and evaluation of projects are key components of the CD program to ensure accountability and assess their effectiveness and impact (i.e., donor mandated evaluations, peer review processes, and post-training feedback). The common evaluation framework for the AML/CFT Thematic Fund (see below) requires external evaluation of the delivery for every phase.

[51] For example, staff are engaging in research on challenges and best practices in: (i) enhancing the transparency of legal persons (e.g., companies) and arrangements (e.g., trusts); and (ii) improving the effectiveness of counter terrorism financing frameworks. These projects will lead to publications which will benefit the Fund membership on challenges and best practices in these areas and inform the design of TA modules.

47. AML/CFT CD activities have been responsive to members' evolving needs. CD demand has increased over the past four years, due to the 2012 revisions of the AML/CFT standard, which notably call on countries to assess their ML/TF risks and implement a risk-based approach to AML/CFT measures, as well as the focus, in the 2013 assessment methodology, on the effectiveness of the AML/CFT framework. Furthermore, the pressure on CBRs due to ML/TF risks, recent changes in the regulatory and enforcement landscape, and macroeconomic risks from proceeds of corruption and tax evasion led countries to step up their AML/CFT reforms.

48. The AML/CFT CD program is funded from external and internal sources. Since 2009, approximately 90 percent of AML/CFT CD activities has been externally financed following the launch of a multi-donor trust fund, the first in a series of Topical Trust Funds.[52] While donors' CD priorities regarding particular regions or countries do not always align with the Fund's priorities, donors' support has been crucial to help meet member countries' demand. In light of its success and the continuing high demand for AML/CFT CD, a new five-year phase of the Thematic Fund started in May 2014 and was recently extended to April 2020. Donor pledges now total approximately $28 million in support.[53] In addition, some CD projects are funded by the recipient, while others are funded by multilateral and bilateral sub-accounts. Finally, internal resources of the Fund are also used to fund about 10 percent of AML/CFT CD to support the implementation of Fund-supported programs or where urgent CD is needed (e.g., significant risk of CBR withdrawal).

49. AML/CFT CD engagements with Fund membership are guided by a set of criteria. The criteria for CD engagement have been developed taking into account the Fund's expertise, and its overall strategic CD priorities to meet country demand and guide the allocation of scarce resources across regions. In November 2017, the Committee on Capacity Building included AML/CFT TA as a priority area. The criteria generally include the level of ML/TF threats and the AML/CFT framework vulnerabilities (e.g., FATF listing); integration of CD activities with surveillance and programs; country ownership and absorption capacity; availability of resources (both financial and human); ensuring complementarity; and avoidance of duplication with other TA providers. In applying these criteria, staff seeks to implement the Fund's priorities, achieve regional representation and deliver high-quality CD, subject to resource limitations, which at times constrains staff's ability to meet certain CD demands.

50. Where appropriate, CD engagements are coordinated with relevant external stakeholders. Staff has been closely coordinating, formally and informally, with multilateral (e.g., the World Bank and UN) and bilateral (e.g., Australia and the United States) TA providers and other stakeholders (e.g., the FATF, FSRBs, and the Egmont Group) to address CD demands across the membership and avoid duplication of efforts, maximize limited available resources, and deepen the impact of CD. For example, frequent meetings are held with the World Bank and UNODC staff to

[52] Now renamed as Thematic Fund.

[53] Current donors are: France, Japan, Luxembourg, the Netherlands, Norway, Qatar, Saudi Arabia, Switzerland, and the United Kingdom.

discuss synergies between CD projects. Coordination can cover different aspects of CD delivery, including scope and timing.

51. The Fund AML/CFT CD program has been increasingly integrated into surveillance and Fund-supported programs and has helped countries strengthen their AML/CFT frameworks. With the Fund's CD support, several member countries made significant reforms to exit FATF monitoring and be removed from its public list of countries with strategic AML/CFT deficiencies (e.g., Afghanistan, Iraq, Kuwait, Nepal, and Sudan). Staff also provided CD to help countries implement measures under Fund-supported programs (e.g., Iraq, Tunisia, and Ukraine) and surveillance advice (e.g., Angola, Oman, and Qatar), as well as measures to ease CBR pressures (e.g., Angola, Guatemala, Jamaica, and Sudan). An independent evaluation of Phase I of the Thematic Fund in 2014 concluded that the program was successful and provided recommendations to further enhance the effectiveness of the CD program.[54] A similar evaluation for Phase II of the Thematic Fund, covering CD activities from May 2014 to December 2017, is underway. Box 6 provides examples of the impact of the AML/CFT CD program.

Box 6. Examples of Impact of the AML/CFT CD Program

Sudan—In 2010, the FATF identified Sudan as a country with strategic AML/CFT deficiencies and developed an action plan with the authorities to address them. IMF CD has been provided to Sudan under the AML/CFT Thematic Fund since December 2013. The CD helped the authorities address many of the deficiencies in Sudan's AML/CFT framework and develop implementing regulations, internal structures, and operational procedures and tools. In October 2015, the FATF plenary acknowledged the significant progress made in addressing the strategic AML/CFT deficiencies, removed Sudan from its monitoring, and encouraged Sudan to further strengthen its AML/CFT regime. In April 2016, the MENAFATF plenary decided to remove Sudan from its enhanced follow-up process. In 2017, for the first time, individuals were sanctioned for ML activities by the Sudanese courts, and Sudan joined the Egmont Group.

Ukraine—AML/CFT CD to Ukraine assists the anticorruption objectives of the Fund-supported program. As noted in Box 3, the Ukrainian authorities made strong commitments to fight corruption under the Fund-supported program. They requested AML/CFT CD to support their anticorruption efforts, particularly in light of the track record of massive transfers abroad of corruption proceeds going undetected and the impunity prevailing among complicit financial institutions. The CD focused on: (i) strengthening the AML/CFT supervision of financial institutions; (ii) enhancing the production of financial intelligence to support the investigation of corruption offenses; and (iii) improving the sharing of financial intelligence among anticorruption institutions. The project complemented other anticorruption measures undertaken by the authorities under the Fund-supported program to detect and deter the laundering of the proceeds of corruption, such as the publication of comprehensive asset declarations of senior officials, the criminalization of illicit enrichment, and the establishment of independent anticorruption law enforcement institutions. As a result of the CD project, risk-based AML supervisory tools were developed, which improved the quality of inspections of financial institutions and increased regulatory sanctions for AML/CFT violations. Increased suspicious transaction reporting by financial institutions analyzed by a dedicated anticorruption department of the FIU led to a marked increase in the investigation and prosecution of corruption offenses by high-level public officials.

[54] See Annex III for a summary of the evaluation.

52. The Fund will continue to enhance the efficiency and agility of the CD program to meet the increasing and evolving demand of member countries. The prioritization of CD engagements will continue to be guided by the criteria set forth above and to support surveillance and Fund-supported programs. Staff will continue to coordinate with other TA providers and leverage new technologies for CD delivery including through the development of online learning courses on AML/CFT. Staff expertise and CD delivery will continue to be adapted and upgraded to address current and emerging issues (e.g., CBRs, governance and corruption, Fintech, and PF). It is anticipated that those emerging issues may generate additional demand from the membership, though it is too early to quantify the magnitude of such demand. The current financing model for AML/CFT CD (i.e., a combination of external and internal financing) has thus far enabled the Fund to meet CD demand from the membership to a reasonable extent. Nevertheless, it may need to be re-evaluated in the medium term to ensure that it remains appropriate and sustainable, that the overall funding is sufficient to cover membership's CD demand, and that the funding model continues to be in line with the Fund's overall CD strategy. This issue will be considered in the context of Phase III of the AML/CFT Fund to be launched in 2020.

OTHER AML/CFT WORK

53. The Fund continues to make significant contributions to the global AML/CFT policy agenda. Notably, Fund staff continues to provide input to the FATF and FSRBs, as well as the G20, FSB, and other global standard setters who are developing policies around AML/CFT and related issues. The Fund's involvement has been wide-ranging, from participating in international dialogue in various fora, to reviewing and providing input on policy documents, and publishing on specific topics.[55] The Fund's contributions to the global AML/CFT policy agenda have been well received by other international bodies and have been instrumental in helping its members address financial integrity issues.

54. Staff has also introduced financial integrity considerations when relevant into the Fund's policy work on broader topics. For example, staff has raised AML/CFT issues in relation to the Fund's ongoing policy work on Fintech, governance and corruption, CBRs,[56] Islamic financing, and economic citizenship among others. Fund policies in these areas have identified how ML/TF risks may materialize and how AML/CFT measures can provide useful tools to countries in addressing some of these issues (see Box 7). Staff has engaged in these policy developments in close collaboration with other stakeholders, such as the World Bank.

[55] For example, as noted earlier, staff is currently undertaking research on best practices and challenges relating to entity transparency and in strengthening CFT frameworks.

[56] In March 2018, staff provided an update on the Fund's work on CBRs to the Executive Board in an informal meeting.

Box 7. AML/CFT Issues as Part of the Fund's Broader Policy Work

Fund staff has raised financial integrity issues in relation to the Fund's work on broader topics. For example:

- *Fintech:* Fintech presents new solutions to bolster the AML/CFT framework (e.g., through some so-called Regtech or SupTech tools, such as data collection and data analytics tools to facilitate the identification of suspicious transactions), as well as new threats to financial integrity (e.g., through some crypto assets). It also has broad implications, beyond AML/CFT, for example on a country's monetary policy. Staff has been actively following these developments from the different angles of relevance to the Fund, and has notably published the findings of its analysis, including with respect to financial integrity. 1/ Staff also discussed the potential financial integrity implications of Fintech in the context of the Bali Fintech Agenda. Staff is also actively participating in the FATF discussions on potential changes to the standard to address crypto assets. 2/ Staff has also started to address the potential threats to financial integrity—in particular those posed by crypto assets—in light of the current standard, in the context of Fund surveillance, 3/ and FSAPs when these threats appear to be of systemic importance or when this is requested by the member countries.
- *Governance and Corruption*: Staff has identified how AML/CFT tools can be put in place to prevent or detect the concealment of proceeds of corruption by foreign officials. 4/
- *Correspondent Banking:* ML/TF concerns and associated compliance costs for AML/CFT have been key drivers of pressures on CBRs. Fund staff has identified that strengthening the legal, regulatory, and supervisory frameworks for AML/CFT and capacity of banks to manage risks are important measures to help alleviate CBR pressures. 5/
- *Islamic Finance:* The Fund has looked at how some features of Islamic banking could alter the exposure to ML/TF risks. Fund staff has provided policy advice for re-assessing the adequacy of AML/CFT regimes in addressing such risks. 6/
- *Economic Citizenship*: Economic Citizenship Programs (ECPs), which allow foreigners to apply for citizenship through the payment of a fee and/or investments in a country, have been adopted or are being considered by a growing number of countries, particularly small states in the Caribbean and in Southern Europe. Such programs, which provide alternative citizenship, can be misused by criminals. Staff has provided advice on AML/CFT measures that can be implemented to address both the risks of misuse by ECP applicants, and the risk of mismanagement of ECP-related resources.

1/ See notably He, Dong et al, 2017, "Fintech and Financial Services: Initial Considerations," IMF Staff Discussion Note 17/05, June 19, 2017, International Monetary Fund, Washington.

2/ The Bali Fintech Agenda that was endorsed by the Executive Board in September 2018 includes one element (Element 7) on safeguarding financial integrity, which notably reminds countries of the need to assess and mitigate the ML/TF risks related to Fintech products.

3/ For instance, the 2018 staff report for the Article IV consultation with the Republic of the Marshall Islands and the accompanying Selected Issues Paper.

4/ *Review of the 1997 Guidance Note on Governance—A Proposed Framework for Enhanced Fund Engagement*, March 9, 2018.

5/ *Recent Trends in CBRs: Further Considerations*, March 17, 2017. In March 2018, staff provided an update on the Fund's work on CBRs to the Executive Board in an informal meeting.

6/ *Ensuring Financial Stability in Countries with Islamic Banking*, January 6, 2017.

55. The Fund has also been using its convening powers to bring together various stakeholders to discuss current and emerging issues with a financial integrity dimension, such as pressures on CBRs and Fintech. Recognizing the need to involve the private sector and others in addressing these issues, the Fund has played a good offices role by facilitating dialogue on these issues. In some instances, such dialogue has led to the adoption and successful implementation of public-private sector solutions. The Fund has organized such discussions through various fora including events held during the Annual and Spring Meetings, high-level workshops, seminars, panel discussions, and region-specific initiatives. For example, the Fund has launched regional initiatives to tackle CBR pressures (see Box 8) and held a series of Fintech-related events on the margins of the 2018 Spring Meetings. These efforts have provided an opportunity for various stakeholders to reach a shared understanding of the challenges and develop collective responses.

Box 8. Fund's Regional CBR Initiatives

Pressures on CBRs have been more acute in certain regions where drivers are common across several countries. In such instances, the Fund has focused its efforts on helping identify regional solutions. The Fund has launched regional initiatives to bring together public and private sector stakeholders to discuss regional solutions.

Caribbean

A first Caribbean roundtable on CBRs was held in Barbados in February 2017, which brought together 18 financial institutions representing global correspondent banks and respondent banks across Caribbean countries to discuss practical industry and regional solutions to address CBR pressures. Participants came up with a traffic light matrix to identify possible measures which were likely to have more significant impact than others. A second, follow-up roundtable was held in Jamaica in November 2017 to take stock of the implementation of measures identified during the first roundtable. A third roundtable has been scheduled for the end of 2018.

Pacific

Two roundtables were held in Sydney and Auckland in February 2018, which gathered about 70 private sector representatives—from global correspondent banks, respondent banks, and money transfer operators from Australia, New Zealand, and the Pacific to discuss CBR issues, pressures on remittances and identify solutions. Regulatory authorities from Australia and New Zealand, and international institutions also took part in the discussions. Participants identified a range of potential measures and follow-up actions that could be taken by the industry and the regulatory authorities.

Sub-Saharan Africa

Staff organized a high-level seminar on CBRs for Governors of Central Banks of Sub-Saharan African countries in October 2017. Following this, staff organized a high-level workshop on solutions to address the withdrawal of CBRs among member countries of the Southern African Development Community (SADC) in South Africa in May 2018. The high-level workshop was attended by over 150 participants representing global correspondent banks, regional banks, and regional money transfer operators, as well as respondent banks and regulatory authorities from SADC member countries. Staff facilitated discussions with participants on the feasibility of a range of industry-led solutions, public sector responses, and regional solutions.

Arab Region

In coordination with the Arab Monetary Fund, the Fund organized two workshops on correspondent banking in the Arab Region in October 2015 and September 2017. Participants from global correspondent banks and respondent banks, money transfer operators, and host country regulators shared experiences on addressing CBR pressures and discussed solutions, including efforts to improve the regulatory environment and strengthen local banks' capacity to assess and manage risks.

Box 8. Fund's Regional CBR Initiatives (concluded)

Caucasus and Central Asia (CCA)

A high-level workshop was held in April 2018, on the margins of the 2018 Spring Meetings. Representatives of global and regional correspondent banks and respondent banks, regulatory authorities from CCA countries and home jurisdictions of global correspondent banks, and officials from international institutions participated in the discussions.

56. The Fund should continue to remain engaged in these issues, as well as other emerging issues which may raise financial integrity concerns. Fund staff should continue to discuss financial integrity considerations in relation to these topics and other emerging issues, such as Fintech, illicit financial flows, and AML/CFT-relevant aspects of cybersecurity. The Fund should also continue to use its convening power to facilitate dialogue among relevant stakeholders to deepen understanding and develop responses.

RESOURCES

57. The current structure and budget envelope have enabled staff to make a significant contribution to international efforts on financial integrity issues within the allocated resources. The Fund's AML/CFT program is funded by a combination of internal and external sources. While most workstreams are internally financed, since 2008, the bulk of the Fund's AML/CFT CD work has been financed by a multi-donor Thematic Fund as discussed above. The Fund's AML/CFT work is undertaken by the Legal Department, and the related workforce is comprised of lawyers, financial sector experts, research officers, and support staff. Since the 2014 Executive Board discussion, the Fund's AML/CFT resources were strengthened, both in terms of the composition of the work force and the number of AML/CFT-dedicated positions. These changes were made in recognition of the integration of AML/CFT issues into the Fund's core mandate, and of the increasing demand for Fund advice and assistance on AML/CFT issues across all workstreams.[57] Figure 10 illustrates the average allocation of AML/CFT resources per workstream. Additional details per fiscal year are included in Figure 11.

58. The demand for financial integrity work may require considering an additional incremental increase in resources in the medium term. The prioritization measures taken by staff—in particular, the approach focused on addressing countries' main ML/TF risks, the reallocation of some assessment resources to address the need for greater contribution to quality and consistency efforts, and the leveraging of the different workstreams have enabled the Fund to make a meaningful contribution to international efforts and to have a significant impact on countries' AML/CFT frameworks. These measures may, however, not be sustainable in the medium term as demand continues to grow. While it is premature to quantify future demand for financial

[57] Specifically, eight limited-term and contractual positions were reclassified to Term staff positions under the Fund's new categories of employment framework (2015), and three additional Fund-financed positions were added to the Legal Department's structural budget.

integrity-related work, that demand is expected to increase, notably in light of the advancement of the fourth AML/CFT assessment round[58] and the emergence of new issues, in particular Fintech-related risks. A small, incremental increase in resources in this area may be needed in the medium term to address the membership's increasing needs. It is expected that any such additional resources would be allocated across all workstreams following a risk-based approach. Initial cost estimates will be included in the FY20–22 medium-term budget proposal, as warranted.

Figure 10. Average Allocation of AML/CFT Resources per Workstream FY2015–2018 (in percentage of total time)

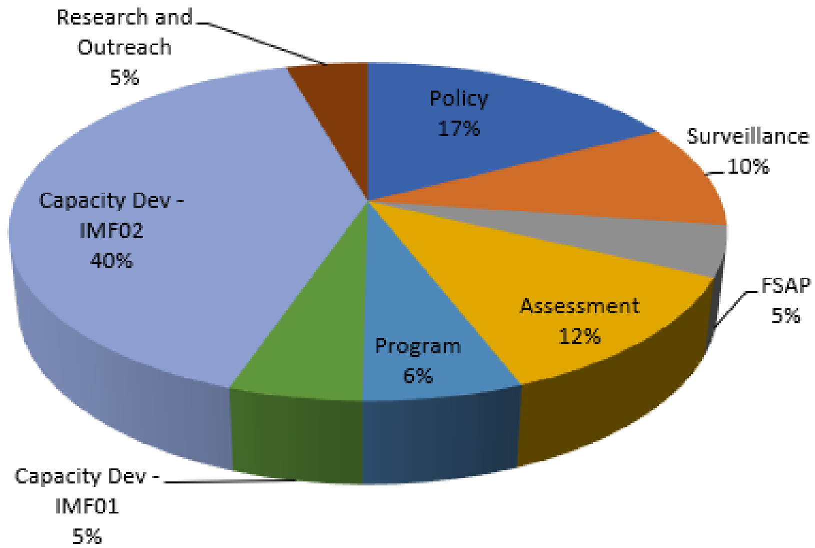
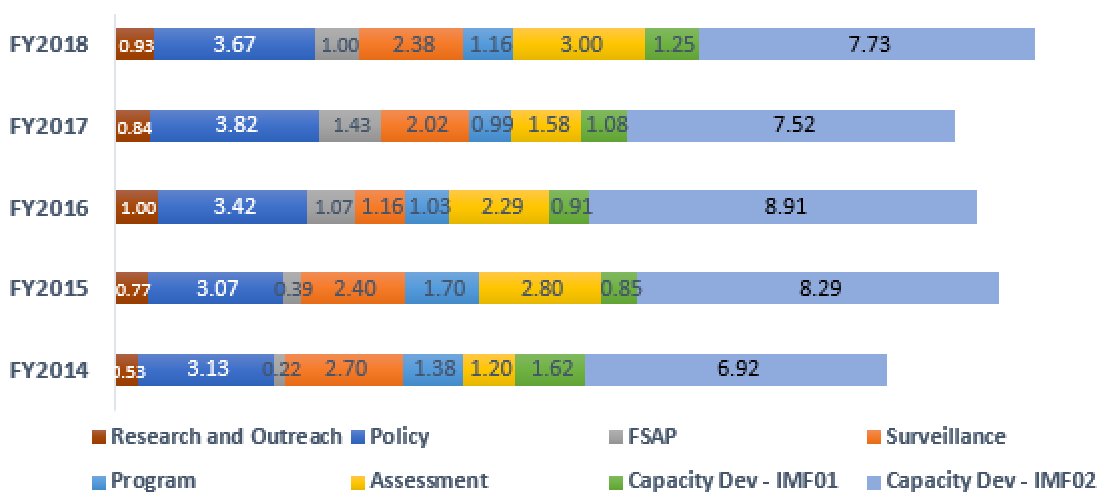


Figure 11. Financial Integrity by Output Areas (total FTEs) FY2014–2018



58 As the round progresses, assessment report findings, especially on effectiveness, may have repercussions on different workstreams, including surveillance and CD.

CONCLUSION AND RECOMMENDATIONS

59. The overall strategic direction of the Fund's AML/CFT program remains appropriate. A risk-based approach and a promotion of synergies among the different workstreams have enabled the Fund to remain at the forefront of the ML/TF and financial integrity challenges faced by its membership. They have contributed to maximizing the impact of the Fund's work in this area. In addition, as one among several players in the global AML/CFT architecture, the Fund has actively coordinated with others to achieve the necessary collaboration and cooperation of all in pursuit of the global goal of safeguarding financial integrity.

60. Greater Fund participation in global quality and consistency efforts would nevertheless be useful. Specifically, it is proposed that staff continue to conduct one to two assessments per year in lieu of two to three, in order to be able to contribute to the review of the quality and consistency of a greater number of assessment reports prepared by other bodies and conduct additional assessment-related training. This would maximize the impact of the Fund's overall involvement in AML/CFT assessment work.

ISSUES FOR DISCUSSION

61. Directors may wish to discuss the following issues:

- Do Directors support the approach taken to address financial integrity issues in Fund-surveillance and Fund-supported programs, as described in paragraphs 20 and 24?
- Do Directors agree with the proposal to maintain the 2014 policy on FSAPs as described in paragraph 32?
- Do Directors agree with the proposal to increase the Fund's contribution to global efforts to ensure the quality and consistency of AML/CFT assessments by conducting one to two AML/CFT assessments per year and increasing the Fund's participation in the review and training processes? Do Directors agree that staff should continue to issue, upon request, AML/CFT ROSCs on the basis of final assessment reports following a pro forma review, as described in paragraph 43?
- Do Directors agree with the overall approach taken to AML/CFT CD delivery as described in paragraph 52?
- Do Directors agree that staff should continue to address financial integrity concerns where relevant in emerging issues, including Fintech, as described in paragraph 56?

Annex I. Background Information on the FATF, AML/CFT Standard, and AML/CFT Assessments

The FATF Network

The FATF is an inter-governmental body whose purpose is the development and promotion of national and international policies to combat ML, TF, and, more recently, PF. It was established by the G7 in 1989 in response to mounting concern over ML. Its membership has grown from 16 members at its inception to 37 at present (35 jurisdictions and 2 regional organizations). The FATF is complemented by nine FSRBs; together, the FATF and the FSRBs comprise over 180 member jurisdictions. Staff from both the Fund and World Bank are observers to the FATF and the FSRBs. Together, the FATF, FSRBs, the Fund, and the World Bank constitute the FATF's global network.

The AML/CFT Standard

The FATF has developed a series of Recommendations that are recognized as the international standard for combating of ML, TF, and, more recently, the financing of the proliferation of WMD. They form the basis for a coordinated response to these threats to the integrity of the financial system and help ensure a level playing field. First issued in 1990, the FATF Recommendations were revised in 1996, 2001, 2003, and, most recently, in 2012 to ensure that they remain up-to-date and relevant. They are intended to be of universal application. Their full title is the "International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation." They are referred to as the AML/CFT standard, the FATF Recommendations, the FATF 40 Recommendations, or the FATF standard—those terms are used interchangeably.

The FATF Recommendations set out a comprehensive and consistent framework of measures which countries should implement in order to combat ML, TF, and the financing of proliferation of WMD. They set out the essential measures that countries should have in place to: (i) identify the risks, and develop policies and domestic coordination; (ii) pursue ML, TF, and PF; (iii) apply preventive measures for the financial sector and other designated sectors; (iv) establish powers and responsibilities for the competent authorities (e.g., investigative, law enforcement, and supervisory authorities) and other institutional measures; (v) enhance the transparency and availability of beneficial ownership information of legal persons and arrangements; and (vi) facilitate international cooperation.

The 2012 revision strengthened the existing Recommendations, and introduced some new elements, including the following:

- **Risk-based approach:** The new Recommendation 1 provides that countries should identify, assess, and understand the ML and TF risks they face and take appropriate measures to mitigate those risks.

- **Tax crimes:** The list of designated predicate offenses,[1] the underlying crimes that give rise to ML, has been expanded to include tax crimes.

- **Proliferation financing:** A new Recommendation provides that countries should apply UN targeted financial sanctions to persons and entities that finance the proliferation of WMD. Another Recommendation calls on countries to ensure national cooperation and coordination among their competent authorities, inter alia, in the prevention of the financing of proliferation.

- **Anticorruption:** Following calls from the G20, the revised recommendations place a greater emphasis on action against corruption.

AML/CFT Assessments

Assessments against the FATF Recommendations are conducted by twelve assessor bodies, namely the FATF, the nine FSRBs, the Fund, and the World Bank. All assessments are conducted on the basis of the FATF 2013 assessment methodology, following similar procedures.

The current methodology includes two interrelated components: it focuses equally on the legal and regulatory frameworks, and on the results achieved from their implementation against the country's specific ML/TF risk profile. It provides for an interrelated, two-step approach that consists of a mainly desk-based assessment of technical compliance with the AML/CFT standard, followed by an onsite assessment of the effectiveness of the AML/CFT regime as measured by the extent to which specific objectives (namely the 11 Immediate Outcomes set in the methodology; see Box 1) are being met. These objectives are the necessary measures to reach the high-level objective of an effective AML/CFT framework, which is that "financial systems and the broader economy are protected from the threats of ML, TF, and proliferation, thereby strengthening financial sector integrity and contributing to safety and security."

The starting point for assessors is to understand the country's risks and context. The concept of "risk" takes account of the threats (e.g., criminals with money to launder); the vulnerabilities (e.g., weaknesses in the financial system that criminals could use to launder that money); and the harm caused (e.g., actual or potential damage from the original crime and the laundering). The notion of "context" includes:

[1] Predicate crimes are the underlying crimes that give rise to ML. Traditionally, the most important of these crimes was considered to be narcotics trafficking. As the 1990s progressed, however, the increasing recognition of the significance of the proceeds generated by non-drug-related crimes led to the designation of such crimes as predicates to ML. The FATF standard designates the following categories of offenses as predicate offenses to ML: participation in an organized criminal group and racketeering; terrorism, including TF; trafficking in human beings and migrant smuggling; sexual exploitation, including sexual exploitation of children; illicit trafficking in narcotic drugs and psychotropic substances; illicit arms trafficking; illicit trafficking in stolen and other goods; corruption and bribery; fraud; counterfeiting currency; counterfeiting and piracy of products; environmental crime; murder, grievous bodily injury; kidnapping, illegal restraint and hostage-taking; robbery or theft; smuggling; (including in relation to customs and excise duties and taxes); tax crimes (related to direct taxes and indirect taxes); extortion; forgery; piracy; and insider trading and market manipulation.

- The country's situation (e.g., general makeup of the economy and financial sector);
- The structural foundations of the AML/CFT regime (e.g., an effective judicial system, sound government institutions, and rule of law); and
- Other factors that affect the implementation of AML/CFT measures (e.g., level of corruption or maturity of the country's regulatory regime).

This understanding of the country's risks and context then guides:

- The assessment of technical compliance, which looks at whether the country meets the requirements of the FATF Recommendations, principally as they relate to certain elements of the legal and institutional framework.
- The assessment of effectiveness, which looks at the extent to which the 11 Immediate Outcomes are met. The predefined outcomes are central to a robust AML/CFT system. This assessment differs fundamentally from that of technical compliance; assessors must, for each outcome, use their judgment to reach a holistic conclusion as to how well a country is mitigating its ML, TF, and PF risks. The focus is, therefore, on the extent to which the AML/CFT framework is producing the expected results.

Technical compliance and effectiveness are rated separately but are considered together in the conclusions. These conclusions provide prioritized and integrated recommendations for AML/CFT regime improvements, focusing on the key deficiencies identified in the context of the country's risks.

Box 1. The FATF 2013 Methodology for Assessing the Effectiveness of AML/CFT Systems

The high-level objective of an effective AML/CFT system is to protect the financial system and the broader economy from the threats of ML, TF, and PF, thereby strengthening financial sector integrity and contributing to safety and security.

Effectiveness is the extent to which financial systems and economies mitigate the context-specific risks and threats of ML, TF, and PF. Effectiveness is measured against 11 Immediate Outcomes (IOs). Each of these represents one of the key goals that an effective AML/CFT system should achieve. The following is a summary of the 11 outcomes that are assessed, as reflected in much more detail in the FATF assessment methodology.

IO.1 Risk, policy and coordination Money laundering and terrorist financing risks are understood and, where appropriate, actions coordinated domestically to combat money laundering and the financing of terrorism and proliferation.

IO.2 International cooperation International cooperation delivers appropriate information, financial intelligence, and evidence, and facilitates action against criminals and their assets.

IO.3 Supervision Supervisors appropriately supervise, monitor and regulate financial institutions and DNFBPs for compliance with AML/CFT requirements commensurate with their risks.

IO.4 Preventive measures Financial institutions and DNFBPs adequately apply AML/CFT preventive measures commensurate with their risks and report suspicious transactions.

Box 1. The FATF 2013 Methodology for Assessing the Effectiveness of AML/CFT Systems (concluded)

IO.5 Transparency of legal persons and arrangements Legal persons and arrangements are prevented from misuse for money laundering or terrorist financing, and information on their beneficial ownership is available to competent authorities without impediments.

IO.6 Financial intelligence Financial intelligence and all other relevant information are appropriately used by competent authorities for money laundering and terrorist financing investigations.

IO.7 Money laundering investigation and prosecution Money laundering offences and activities are investigated, and offenders are prosecuted and subject to effective, proportionate and dissuasive sanctions.

IO.8 Confiscation Proceeds and instrumentalities of crime are confiscated.

IO.9 Terrorist financing investigation and prosecution Terrorist financing offences and activities are investigated and persons who finance terrorism are prosecuted and subject to effective, proportionate and dissuasive sanctions.

IO.10 Terrorist financing targeted financial sanctions and nonprofit organizations Terrorists, terrorist organizations and terrorist financiers are prevented from raising, moving and using funds, and from abusing the NPO sector.

IO.11 Proliferation financing targeted financial sanctions Persons and entities involved in the proliferation of weapons of mass destruction are prevented from raising, moving and using funds, consistent with the relevant UNSCRs.

In light of the complexity of the current assessment methodology and the challenges that it poses (not only to assessors, but also to assessed countries), as well as of the strengthened review mechanism, the standard timeline for the conduct of assessments is longer than under the previous round of assessments. The formal process itself lasts on average 12 to 14 months, but countries need to start preparing and gathering the necessary information on average one year prior to submitting their contribution to assessors (see Figure 1).

Figure 1. Assessment Timeline

Country to prepare for assessement

1–2 years prior to start date of the assessment

↓

Country to provide information - Start of the 12–14 months assessment process

6 months before onsite for technical information	4 months before onsite for effectiveness information

↓

Drafting and scoping prior to the onsite

First draft technical compliance annex is drafted and shared with the country for comments	Assessors and country discuss scoping note to identify areas of focus for onsite

↓

Onsite meetings (2–3 weeks)

Meetings with public and private sector representatives

↓

Drafting and external review post onsite

At least two drafts of the report are shared with the country for comments	The second draft report is also shared with external reviewers

↓

Face-to-face meetings (2 days)

Discuss draft report and external reviewers' comments with the country

↓

Pre-Plenary Delegations' review

Share final draft report with all FATF and FSRB countries for review and comments

↓

Plenary discussion

Discuss comments made by the assessed country, by other FATF/FSRB countries, and adoption of the report

↓

Post-Plenary quality and consistency review

FATF and FSRB countries may raise significant quality and consistency issues

↓

Publication of the report

If no quality and consistency issues were raised, the report is published	If issues are raised, then the report is sent to the FATF for (re-)discussion

Annex II. Evolution of the Fund's AML/CFT Program

The Fund's AML/CFT program has evolved considerably from its origins in the early 2000s. This evolution reflects the growing recognition of the importance of financial integrity issues for the Fund. The policies that underpin the program are grounded in the Fund's mandate to promote economic and financial stability and have been guided by the specific needs and concerns of the Fund's membership.

Some of the Fund's early engagement on AML was in the context of the Offshore Financial Center (OFC) program in July 2000. The OFC program launched an assessment of the vulnerabilities stemming from the use of OFCs, including strict bank and corporate secrecy rules that hinder investigation, ineffective financial supervision, arrangements that facilitate ML and other financial crime, and loss of tax revenues onshore.

The April 2001 Board discussion laid much of the foundation for the Fund's AML program. While Directors emphasized that the Fund's role should be strictly confined to its core areas of competence, they endorsed steps to enhance AML efforts, notably in the context of financial stability assessments, TA, and Fund surveillance as well as other operational activities when AML issues are macro-relevant. Following the events of 9/11, a Board discussion on November 16, 2001 highlighted the linkage between ML and TF that could affect security and potentially harm economic prosperity and the international financial system. The Board supported expanding the Fund's involvement beyond AML to efforts aimed at CFT. In March 2004, the 12-month pilot program of AML/CFT assessment emphasized that a key element of raising global compliance with the FATF standard is the delivery of TA, and the Board agreed that assessment should be a regular part of the Fund's work.

In 2006, the Executive Board reaffirmed the principle, established in 2004, that every FSAP should be accompanied by a comprehensive AML/CFT assessment and specified the modalities under which this principle should be implemented, namely, that AML/CFT assessments should be conducted approximately every five years and, to the extent possible, within 18 months of the FSAP mission.

The April 2011 Board decision set the foundation for the inclusion of financial integrity issues into surveillance and Fund-supported programs, when deemed "macro-relevant." In 2014, the policy review considered the increasing inclusion of AML/CFT issues in surveillance and Fund-supported programs. Noting that deficiencies in a country's AML/CFT regime can have important implications for macroeconomic and financial stability, the Board broadly supported the direction taken by staff in including financial integrity issues in Article IV consultations and Fund-supported programs.

Since 2014, AML/CFT issues have been discussed as part of a number of important Fund policies and initiatives in areas that have a financial integrity dimension and in which the Fund is playing an increasingly important role. Fund policies in these areas, including governance, CBRs, Islamic finance, and Fintech, have identified how ML/TF risks may materialize and how AML/CFT measures can provide critical tools to countries in addressing some of these issues.

Annex III. Independent External Evaluation of AML/CFT Thematic Fund

In 2012, the AML/CFT Thematic Fund was subject to an independent external evaluation by a team of consultants competitively selected in accordance with Fund procurement rules. The evaluators conducted a thorough assessment and evaluation of the Thematic Fund from an operational, strategic, governance, and budget perspective including an examination of projects that were delivered during the period 2009–2012, including through three onsite assessments in TA recipient countries. Interviews were conducted with internal and external stakeholders as well as a survey of recipients', donors', and partners' views on effectiveness, implementation, and relevance.

The main results of the evaluation were as follows:

- The evaluation results taken overall were positive.
- The evaluators noted that Thematic Fund management achieved a great deal in a short time with tangible results.
- The survey of recipients yielded very positive feedback on quality of advice, results, speed of response, and the IMF's partnership approach.
- Suggestions were made on improving project and program design and on management and monitoring, including results-based management, to deliver equally strong outcomes at the end of the program. Recommendations were also made relating to the Thematic Fund's strategy and approach, as well as to the conduct of research projects.

A sample of modules were selected for rating and scoring purposes:

- 26 of 28 modules rated highly satisfactory or satisfactory with respect to relevance;
- 16 of 17 modules rated highly satisfactory or satisfactory with respect to meeting project outcomes or expected outcomes;
- 23 of 23 modules scored highly satisfactory (19) or satisfactory (4) at the level of outputs (TA reports, presentations, draft legislation, etc.) The evaluators noted that these very strong results at the output level confirmed the IMF's reputation for careful planning and delivering quality TA;
- At the efficiency level (cost effectiveness, monitoring systems, project design, etc.) 16 of 19 modules rated highly satisfactory or satisfactory;
- Sustainability (likelihood of results continuing after project finishes; financial independence likely to be achieved where relevant) was difficult to determine at the halfway stage of the phase, but where it was possible to rate sustainability, the Thematic Fund scored highly satisfactory (2) or satisfactory (11).

In September 2018, the second independent external evaluation of the Thematic Fund commenced. The results of the evaluation are expected in early 2019.

Annex IV. Policy Papers on AML/CFT

- Offshore Financial Centers: The Role of the IMF, June 23, 2000. https://www.imf.org/external/np/mae/oshore/2000/eng/role.htm

- Offshore Financial Centers: IMF Background Paper, June 23, 2000. https://www.imf.org/external/np/mae/oshore/2000/eng/back.htm

- Financial System Abuse, Financial Crime and Money Laundering—Background Paper, February 12, 2001. https://www.imf.org/external/np/ml/2001/eng/021201.htm

- Enhancing Contributions to Combating Money Laundering: Policy Paper, April 5, 2001. https://www.imf.org/external/np/ml/2001/eng/042601.htm

- IMF Executive Board Discusses Money Laundering, PIN No. 01/41, April 29, 2001. https://www.imf.org/en/News/Articles/2015/09/28/04/53/pn0141

- Intensified Fund Involvement in Anti-Money Laundering Work and Combating the Financing of Terrorism, November 6, 2001. http://www.imf.org/external/np/mae/aml/2001/eng/110501.pdf

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- Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)—Proposals to Assess a Global Standard and to Prepare ROSCs, July 17, 2002. https://www.imf.org/external/np/mae/aml/2002/eng/071702.pdf

- IMF Advances Efforts to Combat Money Laundering and Terrorist Finance, PIN No. 02/87, August 8, 2002. https://www.imf.org/en/News/Articles/2015/09/28/04/53/pn0287

- Report on the Outcome of the FATF Plenary Meeting and Proposal for the Endorsement of the Methodology for Assessing Compliance with Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Standard, November 8, 2002. https://www.imf.org/external/np/mae/aml/2002/eng/110802.htm

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- IMF Executive Board Approves 12-Month Anti-Money Laundering Pilot Project, Press Release No. 02/52, November 22, 2002. https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr0252

- Twelve-Month Pilot Program of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Assessments and Delivery of AML/CFT Technical Assistance—Joint Interim Progress Report of the Work of the IMF and the World Bank, April 1, 2003. https://www.imf.org/external/np/mae/aml/2003/eng/033103.pdf

- IMF Executive Board Reviews and Enhances Efforts for Anti-Money Laundering and Combating the Financing of Terrorism, PIN No. 04/33, April 2, 2004. https://www.imf.org/en/News/Articles/2015/09/28/04/53/pn0433

- Anti-Money Laundering and Combating the Financing of Terrorism: Review of the Quality and Consistency of Assessment Reports and the Effectiveness of Coordination, April 19, 2006. https://www.imf.org/~/media/Websites/IMF/imported-full-text-pdf/external/np/pp/eng/2006/_041806r.ashx

- IMF Executive Board Reviews the Quality and Consistency of Assessment Reports for Anti-Money Laundering and Combating the Financing of Terrorism and the Effectiveness of Coordination, PIN No. 06/72, June 30, 2006. https://www.imf.org/en/News/Articles/2015/09/28/04/53/pn0672

- Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)—Review of the Effectiveness of the Program, May 11, 2011. http://www.imf.org/external/np/pp/eng/2011/051111.pdf

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- Revisions to the Financial Action Task Force (FATF) Standard—Information Note to the Executive Board, July 17, 2012. https://www.imf.org/external/np/pp/eng/2012/071712a.pdf

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