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April 17, 2001

Summing Up by the Acting Chairman
Enhancing Contributions to Combating Money Laundering
Executive Board Meeting 01/38—April 13, 2001

Executive Directors welcomed the opportunity to review issues related to money laundering, and to consider the staff's proposals for incorporating work on these issues into the Fund's and the World Bank's various activities, as requested by the International Monetary and Financial Committee. They agreed that money laundering is a problem of global concern, which affects major financial markets as well as smaller ones, and that to address it, international cooperation should be stepped up. Directors also agreed that the Fund has an important role to play in protecting the integrity of the international financial system, including through efforts to combat money laundering. They emphasized, however, that the Fund's involvement in this area should be strictly confined to its core areas of competence.

Directors recognized that more vigorous national and international efforts to counter money laundering are needed. These efforts should encompass the promotion of sound financial systems and good governance, the design and implementation of judicial and legal reform and other related capacity-building programs, and effective law enforcement. Directors pointed out that financial regulation and supervision, based on internationally recognized standards, play an important role in preventing financial abuse, including money laundering. However, they stressed that financial/supervisory regulation needs to be backed by legal/criminal enforcement. In this regard, Directors noted the efforts being made by the Financial Action Task Force (FATF), regional anti-money laundering task forces, and the United Nations and other multilateral organizations to assess and promote anti-money laundering measures, including those in the area of law enforcement. They also noted the important role played in law enforcement by various national and international agencies, but confirmed that it would not be appropriate for the Fund to become involved in law enforcement activities.

Directors generally agreed that the Fund should take the following steps to enhance international efforts to counter money laundering:

- intensify its focus on anti-money laundering elements in all relevant supervisory principles,
- work more closely with major international anti-money laundering groups,
- increase the provision of technical assistance,
- include anti-money laundering concerns in its surveillance and other operational activities when macroeconomic relevant, and
- undertake additional studies and publicize the importance of countries acting to protect themselves against money laundering.

Directors considered that intensifying the focus on anti-money laundering elements in supervisory principles will help ensure that financial institutions have in place the management and risk control systems needed to deter financial abuse. They noted that financial sector supervisory principles already assessed under the Financial Sector Assessment Program (FSAP) include elements that are relevant to money laundering and have an analogue in certain aspects of the FATF 40 Recommendations.

Directors endorsed the proposal to develop a methodology that would enhance the assessment of financial standards relevant for countering money laundering and could be used for preparing reports in each FSAP on observance of all relevant principles. The recently approved expansion of the FSAP and the ongoing offshore financial center (OFC) assessments will allow an increasing number of members to benefit from the Fund's work on strengthening financial systems and countering money laundering. Directors agreed that results from such FSAP and OFC assessments could be shared with the international community, with the agreement of the member. Publication and circulation to outside agencies of the assessments would be governed by existing Fund policies.

Directors stressed that money laundering issues should continue to be addressed in Fund surveillance when they have macroeconomic effects, including effects arising from financial instability and reputational damage. A number of Directors considered that the cross-border implications of money laundering should be raised during Article IV consultations, even if it is not macroeconomic relevant for that member but when it had significant externalities for other countries. In this context, Directors agreed that more research into the magnitude and the economic consequences of financial abuse, including money laundering, should be encouraged. They also agreed that the FSAP, OFC assessments, and Reports on the Observance of Standards and Codes (ROSCs) can help guide and inform surveillance. With regard to conditionality, many Directors were of the view that the "macro-relevance" test should continue to be applied, but a few Directors were opposed to applying conditionality to anti-money laundering measures.

Directors called on all governments, especially those with responsibilities for major financial markets, to put in place the necessary measures to counter money laundering. They endorsed the staff's proposals for increased cooperation with the FATF and regional anti-money laundering task forces, including those relating to the exchange of information with these groupings.

It was generally agreed that the FATF 40 Recommendations be recognized as the appropriate standard for combating money laundering, and that work should go forward to determine how the Recommendations could be adapted and made operational to the Fund's work. However, several Directors noted that recognizing the FATF 40 Recommendations did not constitute an endorsement of the non-voluntary and non-cooperative manner in which the FATF applies the Recommendations. Most Directors felt that the Fund should cover only those issues in the FATF 40 Recommendations that deal with financial regulation and supervision, and that responsibility for legal/crime enforcement should be left to others. Directors also stressed that the FATF process needs to be made consistent with the ROSC process—that is, the FATF standard needs to be applied uniformly, cooperatively, and on a voluntary basis—and that once this is done, the FATF could be invited to participate in the preparation of a ROSC module on money laundering. They called on the staffs of the Fund and the World Bank to contribute to the ongoing revision of the FATF 40 Recommendations and to discuss with the FATF the principles underlying the ROSC procedures and come back to the Board with a report and proposals.

Directors agreed that the expanded role in combating money laundering should include more technical assistance for members, particularly for capacity building in the preventive areas, with the extra work focusing on adherence to supervisory standards.

Regarding the resource costs arising from money laundering activities, it is clear that additional resources are required for these additional activities, and that the initial estimates will need to be reviewed in light of actual experience. It is noted that there is the potential for some external financing for this specific activity, and any such financing would reduce the impact on the budget. It is too early to request an exact amendment to the budget at this time, but depending on further assessments, management will return to the Board if necessary during the year should a supplemental appropriation be required.