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IMF Executive Board Discusses Money Laundering

On April 13, 2001 the Executive Board of the International Monetary Fund (IMF) discussed money laundering, and how the Fund could enhance its contributions to the global efforts.

In preparation for that discussion, an informal question and answer session with the Fund Board was held in February 2001 on the basis of the staff paper *Financial System Abuse, Financial Crime and Money Laundering—Background Paper*, and a joint Fund/Bank workshop on financial abuse[1] took place at the Fund on February 27, 2001.

Background

Money laundering is a problem of global concern. It poses a threat to financial system integrity, and may undermine the sound functioning of financial systems, good governance and the fight against corruption. The important link between financial market integrity and financial stability is underscored by the key principles for financial sector supervision. Although the empirical evidence on the magnitude of financial abuse, financial crime and money laundering is limited, significant impacts on individual countries cannot be ruled out. The breadth and cross-cutting nature of the global agenda to curb money laundering calls for a cooperative approach among many different international institutions.

The International Monetary and Financial Committee (IMFC), at its September 2000, meeting, requested "the Fund to prepare a joint paper with the Bank on their respective roles in combating money laundering and financial crime, and in protecting the international financial system." The two institutions were asked to explore incorporating work on financial system abuse, particularly with respect to international efforts to fight against money laundering into their various activities, as relevant and appropriate.

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[1] Financial abuse encompasses not only illegal activities that may harm financial systems, but also other activities that exploit the tax and regulatory frameworks with undesirable results. Financial crime can refer to any non-violent crime which generally results in financial loss. It includes not only financial fraud and tax evasion but also money laundering—which involves the processing of criminal proceeds to disguise their association with criminal activities.

The IMFC recognized that the Fund has to play its role in protecting the integrity of the international financial system from abuse through its efforts to promote financial systems and good governance. The Fund and the World Bank are already active in this area, through expanded financial sector assessment program and work on standards and codes. These activities make an important contribution to the prevention of financial crime, and money laundering in particular, by helping our members to adopt appropriate legal, institutional, and procedural arrangements and develop more efficient supervisory systems.

The primary lead in anti-money laundering efforts rests with the specialized agencies that have the mandate and the expertise in this area. The Financial Action Task Force (FATF) and the regional anti-money laundering task forces lead the international efforts in directly combating money laundering, and are involved in both financial supervisory and law enforcement issues. FATF's 40 Recommendations are widely recognized as the key set of standards to deter the crime of money laundering; and FATF conducts evaluations of members and non-members. The FATF has published a list of 15 non-FATF members judged to be "non-cooperative". Other direct efforts to counter money laundering are undertaken by the International Criminal Police Organization (Interpol) and national financial intelligence units. The United Nations takes part in the direct efforts through the United Nations' Office for Drug Control and Crime Prevention Global Program Against Money Laundering. Indirect efforts to counter money laundering include entities such as the Basel Committee for Banking Supervision which are primarily concerned with financial and supervisory matters.

Executive Board Assessment on money laundering

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.

What the Fund should do

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.

This PIN summarizes the views of Directors as expressed during the April 13, 2001 Executive Board discussion based on two papers prepared by staff: Enhancing Contributions to Combating Money Laundering—Policy Paper, and Financial System Abuse, Financial Crime and Money Laundering—Background Paper.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.