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To: Members of the Executive Board

From: The Secretary

Subject: United States—Anti-Money Laundering Practices

Attached for the information of the Executive Directors is additional information regarding anti-money laundering practices in the United States, as requested by Executive Directors at the conclusion of the 2001 Article IV consultation discussion on the United States on July 27, 2001. It is intended that this paper will be published on the Fund's external website.

Questions may be referred to Mr. Dunaway (ext. 37343) and Mr. Abbott (ext. 38574).

Att: (1)

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INTERNATIONAL MONETARY FUND

UNITED STATES OF AMERICA

Anti-Money Laundering Practices

Prepared by the Western Hemisphere Department

(In consultation with the Monetary and Exchange Affairs Department)

Approved by Claudio M. Loser

November 8, 2001

1. At the July 27, 2001, Executive Board Meeting to discuss the 2001 Article IV consultation with the United States,[1] Executive Directors raised questions about anti-money laundering practices in the United States. Directors requested that the staff conduct follow-up discussions with the U.S. authorities on: (i) the reasons why the United States was not in full compliance with the Financial Action Task Force on Money Laundering (FATF) Forty Recommendations; (ii) what efforts were underway to reach full compliance; and (iii) what additional steps were being considered to enhance anti-money laundering practices.

2. *The Annual Report 2000–2001 of the Financial Action Task Force on Money Laundering* finds that the United States is in full compliance with 17 out of the 28 FATF Recommendations requiring specific country actions with respect to key legal, financial, and international cooperation measures.[2] The United States is not fully in compliance with Recommendations 8, 10–12, 14, 15, 19–20, 26, and 29 because necessary anti-money laundering measures have not been extended to insurance companies. The United States also is not fully in compliance with Recommendations 14, 15, 28, and 29 because not all obligations have been imposed on bureaux de change and money transmitters, in particular with respect to reporting of suspicious activities.

3. The U.S. authorities indicated that they attach great importance to the implementation of a comprehensive anti-money laundering system in the United States. The United States has developed an annual National Money Laundering Strategy since 1999 and has taken significant steps forward to strengthen anti-money laundering procedures, including passage of comprehensive anti-money laundering legislation, adoption of enhanced

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[1] EBM 01/79.

[2] Of the FATF Forty Recommendations, those requiring specific actions are Recommendations 1–5, 7, 8, 10–12, 14–21, 26–29, 32-34, 37, and 40.

regulatory measures, stronger domestic law enforcement efforts, increased collaboration between federal, state and local governments, and enhanced international cooperation and efforts. As part of the international effort to foster the adoption of standards and codes as well as to promote effective anti-money laundering strategies, in June 2001 the United States published its 2000 self-assessment against the FATF Forty Recommendations (see www.treas.gov/standards).

4. Regarding the specific issues involving insurance, neither U.S. assessments nor the FATF exercises have revealed substantial money laundering through this sector within or outside of the United States. Nevertheless, U.S. authorities recognize that a potential vulnerability exits, and consequently, the insurance industry is subject to important anti-money laundering provisions under U.S. criminal money laundering laws. The authorities explained that under U.S. law, insurance companies are treated as financial institutions for purposes of certain laws. Therefore, they are required to report to the Internal Revenue Service receipts of cash or certain monetary instruments totaling $10,000 or more from clients, and the identity of the persons conducting those transactions and the persons on whose behalf those transactions are conducted must be obtained, verified, recorded, and reported. In addition, a number of insurance companies voluntarily file reports on suspicious activities. These practices are considered to be working well, and without indications of money laundering abuses within the industry, the authorities see little basis for imposing additional federal regulations on what is largely a state-regulated industry in the United States. The authorities would continue to closely monitor the effectiveness of anti-money laundering practices. They indicated that there is a growing awareness within the insurance industry of the importance of due diligence in opening and handling accounts, and the need for close attention to money laundering prevention measures.

5. In the case of bureaux de change and monetary transmitters, key aspects of U.S. anti-money laundering laws apply to these institutions, as well as other nonbank financial institutions (NBFIs). For this reason, the U.S. authorities said that deficiencies in full compliance with FATF recommendations do not have significant macroeconomic implications, including in terms of reputational risk or financial stability. All NBFIs in the United States are required to obtain information about the true identity of a person on whose behalf an account is opened or when a transaction is conducted if it involves the receipt of currency or certain other monetary instruments over $10,000, the transfer of funds over $3,000, or the cross-border movement of currency or certain negotiable instruments over $10,000. In addition, many NBFIs obtain information on whose behalf a transaction is conducted in order to protect themselves against potential liability under existing criminal money laundering provisions and suspicious activity reporting rules.

6. While many NBFI transactions are relatively small in value, the U.S. authorities recognize the need to detect and deter money laundering and to combat the financing of terrorism. Therefore, the U.S. authorities have recently taken steps to strengthen regulations requiring that NBFIs report suspicious transactions. The U.S. Department of the Treasury's Financial Crimes Enforcement Network issued a rule in March 2000 (to become effective in early 2002) requiring money transmitters and money order and traveler's check businesses to

report suspicious transactions. Currency exchangers are not generally required to report suspicious transactions under this new rule, but must do so to the extent that they redeem or sell money orders or traveler's checks for currency or other monetary instruments, or offer money transmission services.

7. The U.S. authorities also reported that further anti-money laundering rules for various nonbank financial institutions are under consideration. In *The National Money Laundering Strategy for 2001,* the U.S. Treasury announced a proposed rule requiring securities brokers/dealers to file suspicious activity reports.[3]

8. Since the September 11 attacks, the United States has stepped up its focus on anti-money laundering issues, and particularly terrorist financing issues. The United States enacted an anti-terrorist and anti-money laundering bill in October that provides for broad new investigative and information-sharing powers with respect to terrorist financing. It expands the scope of U.S. counter-money laundering regulations, such as requiring broker/dealers in the securities industry to file suspicious activity reports. The law also gives new powers to take action against money laundering havens. In addition, the Financial Action Task Force decided in late October to expand its focus to include terrorist financing issues and adopted an action plan to implement eight new special recommendations directly related to terrorist financing. The United States looks forward to participating in the FATF self-assessment exercise on the new special recommendations, which is to be completed by the end of December 2001.

9. As discussed in the paper for IMF Board discussion on November 12 (SM/01/328), IMF staff propose that the IMF extend its standard surveillance activities in the money laundering area. In this context, staff propose to conduct a more extensive evaluation of the U.S. efforts in these areas in the course of the 2002 U.S. Article IV review, based on the anti-money laundering questionnaire described in Annex VI.

[3] Non-depository affiliates of banks, including brokers and dealers in securities, already must report suspicious transactions under rules established in 1996 by the federal bank supervisory agencies.