

BUFF/02/122

July 31, 2002

**Summing Up by the Acting Chair
Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)—
Proposals to Assess a Global Standard and to Prepare ROSCs
Executive Board Meeting 02/80
July 26, 2002**

Executive Directors welcomed the opportunity to discuss proposals that would significantly advance the Fund's contribution to international efforts to combat money laundering and the financing of terrorism. They noted that the Fund has begun a new chapter in its work in this area by taking two key steps:

- conditionally adding the Financial Action Task Force (FATF) 40 Recommendations on an effective anti-money laundering framework and the 8 Special Recommendations on Terrorism Financing (FATF 40+ 8) to the list of areas and associated standards and codes useful to the operational work of the Fund; and
- endorsing a 12-month pilot program of AML/CFT assessments and accompanying Reports on the Observance of Standards and Codes (ROSCs) that would involve participation of the Fund and the World Bank, the Financial Action Task Force, and FATF-Style Regional Bodies (FSRBs).

Directors expect that such assessments and ROSCs will play an important role in the further development of an effective global AML/CFT framework.

Directors noted that, in its Communiqué of April 20, 2002, the International Monetary and Financial Committee (IMFC) stated that the Fund's AML/CFT efforts should now be focused on completing the comprehensive AML/CFT methodology being developed jointly by Fund/Bank staff and the FATF, based on a global standard covering the FATF 40+8 Recommendations; on the development of assessment procedures compatible with the uniform, voluntary, and cooperative nature of the ROSC process; and on enhancing the delivery of related technical assistance. Directors had committed the staff to work collaboratively with the FATF and other financial sector standard setters to implement these goals.

In moving forward, Directors emphasized that the following four key principles should guide the Fund's role in AML/CFT assessments and accompanying ROSCs:

- the staff's involvement in assessing non-prudentially-regulated financial sector activities should be confined to those that are macroeconomically relevant and pose a significant risk of money laundering/terrorism financing;

- all assessment procedures should be transparent and consistent with the mandate and core expertise of the different institutions involved, and compatible with the uniform, voluntary, and cooperative nature of the ROSC exercise;
- the assessments should be followed up with appropriate technical assistance at the request of the countries assessed in order to build their institutional capacity and develop their financial sectors; and
- the assessments would be conducted in accordance with the comprehensive and integrated methodology.

Directors considered the staff paper to have set out a pragmatic and forward-looking framework by which the Fund can begin to operationalize its intensified work on AML/CFT and cooperation with relevant international bodies. For this reason, they endorsed adding AML/CFT to the list of 11 areas where standards and codes are useful to the operational work of the Fund and for which assessments are undertaken, and to adopt the FATF 40+8 Recommendations as the associated standard, provided that four conditions are met:

- i. the FATF Secretariat, in consultation with Fund/Bank staff, satisfactorily completes the draft of the comprehensive and integrated assessment methodology by the Annual Meetings for consideration at the October FATF Plenary;
- ii. the FATF endorses in its October Plenary the comprehensive and integrated assessment methodology and its use in undertaking FATF/FSRB mutual evaluations and Fund/Bank staff-led assessments;
- iii. the FATF agrees in its October Plenary to undertake its mutual evaluations consistent with the ROSC process as elaborated in Section II of SM/02/227; and
- iv. the FATF does not undertake a further round of the non-cooperative countries and territories (NCCT) initiative, at least during the period of the 12-month pilot project.

Directors endorsed the proposal to use two approaches to conduct the assessments:

- FATF and FSRBs-led assessments and associated ROSCs, which would be undertaken in the context of FATF/FSRB mutual evaluations and would not include Fund/Bank staff; and
- Fund/Bank staff-led assessments and associated ROSCs, which would be undertaken by both Fund/Bank staff (including experts under staff supervision), who would assess and take responsibility for part of each assessment and associated ROSC, and other experts not affiliated with Fund/Bank staff who would assess and take responsibility for the rest of the assessment and associated ROSC.

In the case of Fund/Bank-led assessments, a number of Directors would have preferred a more unified approach under which the Fund/Bank would have responsibility for the whole process.

Most Directors, in order to enhance cooperation further with the FATF, agreed that reports on observance associated with FATF-led assessments would be considered ROSCs provided that there is compliance with the conditions outlined above. However, several Directors expressed concern that condition 4 did not go far enough. They preferred that the FATF also state that it did not expect to undertake a further round of the NCCT process after the end of the 12-month pilot program. These Directors also preferred that reports on observance associated with FATF-led assessments not be designated ROSCs unless the FATF undertook a blanket commitment not to undertake any further country assessments without the consent of the country, and acknowledge that it would accept the results of any Fund/Bank-led assessments. Directors hoped that the Fund/Bank's cooperative relationship with the FATF on AML/CFT assessments based on the ROSC principles would continue even after the 12-month pilot program had expired. It was generally agreed that duplication of assessments should be avoided, to the extent possible. However, some Directors felt that instances of duplication could allow comparison of the two methods and be a source of useful information on the assessment procedure. It was also noted that these assessments are meant to be an ongoing process, and it is possible that over a period of time countries may undergo assessment under both approaches. At the same time, a few Directors also considered it important to avoid creating the impression that the two approaches implied that there are two tiers of membership: those countries eligible for FATF/FSRB-led assessments and others eligible for Fund/Bank-led assessments.

Directors agreed that, while both approaches would encompass a comprehensive treatment of AML/CFT covering all FATF 40+8 Recommendations, Fund staff (and experts under staff supervision) would not be involved in assessing implementation of criminal laws and the activities of those parts of the non-prudentially-regulated financial sector that are not macro-relevant and do not pose a significant risk of money laundering or financing of terrorism. Although it would not be responsible for assessing these areas, several Directors underscored that the Fund would need to select the outside experts who would be assessing them in a manner that ensures the independence of the assessors and the confidentiality of information.

Directors supported the proposed process for reviewing the assessments and associated ROSCs, while emphasizing the need to ensure that they conform with the principle of uniformity. Some Directors, however, advocated a higher level of substantive review of assessments and associated ROSCs prepared by the FATF and FSRBs so as to ensure uniformity with those prepared by the Fund and the Bank. They saw the 12-month pilot program as a sensible and practical vehicle to learn lessons about the assessment methodology, the two assessment approaches, and coordination. A comprehensive review at the end of the pilot study was expected, focusing, inter alia, on the various lessons learned, and the consistency and quality of assessments.

Directors emphasized the importance of the delivery of technical assistance to help countries address gaps in the AML/CFT frameworks that are identified in assessments, and the associated allocation of additional resources to this effort. However, it was stressed that this should not come at the expense of more traditional core technical assistance.

Given the high priority that the international community has attached to the Fund's AML/CFT efforts, Directors supported the assignment of additional resources to AML/CFT work as outlined in the supplementary paper, noting that resource costs will need to be further refined in light of experience with the 12-month pilot program as part of the FY 2003-2004 budget preparation process.

Directors noted that a timetable for completion of the draft comprehensive and integrated assessment methodology for circulation to the Board by the time of the Annual Meetings and endorsement at the FATF October Plenary was agreed to by the staff and representatives from the FATF, other financial standard setters, and the Egmont Group at a meeting held in Basel on July 23, 2002. The comprehensive and integrated assessment methodology would be presented to the Fund's Executive Board for its endorsement following endorsement at the FATF Plenary.

Directors looked forward to a report from the staff on the completion of the four conditions prior to the commencement of the 12-month pilot program.