

**FOR  
AGENDA**

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September 11, 2002

To: Members of the Executive Board

From: The Secretary

Subject: **Intensified Work on Anti-Money Laundering and Combating the Financing of Terrorism—Progress Report on Responses to the AML/CFT Questionnaire**

The attached paper provides background information to the joint progress report on the work of the IMF and the World Bank on intensified work on anti-money laundering and combating the financing of terrorism (SM/02/290, 9/11/02), which is tentatively scheduled for discussion on **Monday, September 23, 2002**. Conclusions appear on pages 8 and 9.

It is intended that following the Board discussion, this paper will be published on the Fund's external website.

Questions may be referred to Mr. Hardy, MAE (ext. 38490) and Mr. Thony, LEG (ext. 34933).

Att: (1)

Other Distribution:  
Department Heads



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**INTENSIFIED WORK ON ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF  
TERRORISM (AML/CFT)**

**PROGRESS REPORT ON RESPONSES TO THE AML/CFT QUESTIONNAIRE**

*Prepared by*

**Monetary and Exchange Affairs and Legal Departments**

*(In consultation with other departments)*

September 10, 2002

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## I. INTRODUCTION

1. As part of the Fund's intensified involvement in anti-money laundering work and combating the financing of terrorism (AML/CFT), the Executive Board approved in November 2001 the distribution over time to all members of a questionnaire on relevant aspects of their AML/CFT systems in the context of Article IV consultations. This paper reports on the finalization of that questionnaire, its distribution, and an analysis of the responses received to date.
2. The next section describes the questionnaire and explains its design. The third section provides information on its distribution to an initial batch of countries and the response rate. Following sections summarize the analysis of the responses received to date, and the treatment of AML/CFT issues in the context of Article IV consultations. The last section summarizes experience with the questionnaire and considers its future use.

## II. DEVELOPMENT OF THE QUESTIONNAIRE

3. The development and distribution of a limited AML/CFT questionnaire was suggested in SM/01/328 of November 5, 2001, "*Intensified Fund Involvement in Anti-Money Laundering Work and Combating the Financing of Terrorism*," which also contained a preliminary draft of possible questions. It was emphasized in the document that the questionnaire would serve to provide a broad overview of the current status of efforts to improve the application of financial regulatory principles in the areas of AML/CFT and related legal and institutional issues. Completion would be voluntary, but the questionnaire would eventually be circulated to all members; circulating the questionnaire over time was preferred on logistical grounds and to accord with the cycle of Article IV consultations.
4. As stated in the summing-up of the Executive Board meeting (BUFF/01/176, November 14, 2001), Directors supported "circulating to all Fund members over time in the context of Article IV consultations a voluntary questionnaire (based on the expanded AML methodology). This exercise should be seen as a complement and not as a substitute to FSAPs and OFC assessments, and should inform the Article IV discussions and help set priorities for technical assistance. The results of the exercise could, with the agreement of the member, be made available to the Board." A number of Executive Directors made explicit suggestions on the coverage of questionnaire.
5. The questionnaire was developed on the basis of the Executive Board discussion and the draft Bank-Fund AML/CFT methodology document as it was at that time.<sup>1</sup> The questionnaire was specifically designed so as to limit the burden on national authorities of preparing responses, primarily by limiting the number of questions and requesting responses

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<sup>1</sup> See SM/12/40, February 8, 2002, "*Fund/Bank Methodology for Assessing Legal, Institutional and Supervisory Aspects of Anti-Money Laundering and Combating the Financing of Terrorism*."

in the form of copies of existing legislation or regulations; responses could also take the form of responses to questionnaires from the Financial Action Task Force on Money Laundering (FATF) or FATF-style regional bodies.

6. The finalized questionnaire (see attachment) comprises 21 questions on primary and secondary AML/CFT legislation, the institutions involved in AML/CFT efforts, and major prudential supervisory requirements in this area, such as customer due diligence and the establishment of systems for internal control, record keeping, and reporting of unusual transactions. The first eight questions form the core of the questionnaire and are intended to allow the identification of the main elements of a country's AML/CFT system. Copies of relevant legislation and regulations are requested. The remaining questions go into some issues in greater detail.<sup>2</sup> The questionnaire is accompanied by a cover letter and a preamble, which reiterate that the questionnaire is voluntary and will be distributed to all members over time in the context of Article IV consultation discussions. A short glossary is attached to the questionnaire in order to help in understanding the questions, some of which include technical terms.

### **III. INITIAL DISTRIBUTION OF THE QUESTIONNAIRE**

7. As anticipated at the time of the Board discussion, the questionnaire began to be employed in early 2002. In consultation with area departments countries were selected to receive the questionnaire relatively early in order to achieve a representation distribution by geographical location and stage of economic development, and in the light of the schedule of Article IV consultations. Subsequently, the questionnaire has been sent out to countries in advance of Article IV consultation missions. The questionnaire was generally not sent to countries that had or would soon participate in a Financial Sector Assessment Program (FSAP) or an Offshore Financial Center (OFC) assessment that would cover AML/CFT issues in greater depth using the new methodology. Questionnaires are still being sent out to countries whose Article IV consultations are approaching.

8. Responses began to be received in February, with most arriving in March. The flow of responses has been steady since then, and 48 had been received by September 10.<sup>3</sup> The

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<sup>2</sup> For example, question 7 in the core section requests that the respondent identify legislation, regulations or guidelines that have been issued on the recognition and reporting of unusual transactions, and requests a copy of the relevant documents. The supplementary question 17 asks what information must be provided in a suspicious transaction report; question 18 asks whether all cash transactions over a threshold must be reported; and question 19 asks whether financial institutions are prohibited from informing clients when information relating to them is being reported to the competent authority.

<sup>3</sup> The responding countries as of that date were Angola, Armenia, Australia, Bahrain, Barbados, Belize, Benin, Brazil, Burkina Faso, Chile, China, Croatia, the Czech Republic, El Salvador, Estonia, France, Fiji, Grenada, Guatemala, Haiti, Iceland, Iran, Israel, Italy,

(continued)

sample of respondents represents all geographical areas and levels of development. There are currently about 15 questionnaires outstanding, and responses continue to be received.

9. Many countries responded in some detail: almost 60 percent of respondents addressed all questions, and about the same proportion provided copies of some or all relevant legislation and regulations. Some countries responded with very detailed answers and comprehensive collections of legislation—which may in itself be a sign of the relative importance attached to AML/CFT issues. Three countries responded with copies of responses to other FATF or other questionnaires. No country explicitly declined to respond. Responses were generally transmitted by the country's central bank or Ministry of Finance.

#### **IV. ANALYSIS OF RESPONSES**

10. Staff from the Legal and Monetary and Exchange Affairs Departments have begun analyzing the responses received to date. This analysis starts with the organization of the information contained in each response into a common format so as to facilitate the identification of the main elements of a country's AML/CFT system and comparisons across countries. This summary includes a list of any issues in need of clarification (for example, when it is not clear to which financial institutions a regulation applies), and other points for discussion (for example, on the main elements of any planned legislation, or whether the authorities seek technical assistance on some subject). The analysis is then provided to area departments to be available to inform their discussions of AML/CFT issues in the context of Article IV consultation missions.

11. For the purposes of this report, staff have attempted to identify some general characteristics of the structure of AML/CFT systems as they are reflected in the answers received. Since the questionnaire deliberately concentrated on legislation, regulations and institutions, the generalizations that can be made concern factual matters in these areas. It was not intended or feasible in the context of the questionnaire to address questions concerning the implementation or enforcement of these provisions.

12. The analysis is complicated by differences in the comprehensiveness of the responses, and the difficulty of judging their thoroughness. Gaps in responses arise not only when a question is not answered, but also when an answer is not complete; the latter are more difficult to identify. One possibility is that a gap in an answer indicates that provisions are lacking in the area covered by the respective question, but it could alternately indicate that the institution responding is unaware of provisions that exist. Even when an answer is provided, it may omit information on other relevant provisions that strengthen or contradict

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Jamaica, Malaysia, Mauritius, Mexico, Moldova, Myanmar, the Netherlands, Oman, Pakistan, Rwanda, Singapore, Slovenia, St. Vincent and the Grenadines, Suriname, Swaziland, Tajikistan, Thailand, Togo, Trinidad and Tobago, Tunisia, the U.S.A., Venezuela, Yemen, and FR Yugoslavia.

the provisions that are mentioned. Furthermore, the sample is limited in size. In addition, the responses were prepared and received in the course of more than six months, during which time many countries have been making efforts to refine their AML/CFT systems. Therefore, for example, the legislation that early respondents mentioned was in preparation might by now be enacted.

13. Nonetheless, the questionnaire responses do contain some information from which broad comparisons may be drawn and general characterizations may be extracted. Where sufficiently informative responses were available, the approach adopted was to categorize the major elements of each country's AML/CFT systems into three levels: relatively extensively developed, but perhaps with some weaknesses; available but with clear material weaknesses or gaps; or inadequately developed. Thus, for example, most responses allowed one to say whether the country had an AML law with most of the standard components; whether AML is addressed in some legislation but in a disjointed and incomplete fashion; or whether AML legislation is absent or very rudimentary.<sup>4</sup> The categorized responses can then be compiled. Since the number of responses differs from question to question, and recently received responses have not yet all been analyzed in detail, it is usually more meaningful to consider the proportions of available responses that fall into different categories, rather than absolute numbers.<sup>5</sup>

14. On this basis, the following generalizations may be noted:

- **The respondents can be divided into three groups:** the first, about half the sample, who appear to have in place most of the legislative and regulatory elements of an AML/CFT system; a group of about 30 percent of the sample that have established system, but with some significant material weaknesses; and the remaining group where the AML/CFT system is minimal or is just being established.
- **A large majority of countries (about three quarters) have adopted AML laws of varying degrees of comprehensiveness, but CFT provisions are generally weaker** (under 30 percent of respondents had dedicated CFT provisions in place, and another 30 percent had provisions relevant to CFT).

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<sup>4</sup> This simplification is necessary, but comes at the cost of obscuring finer distinctions. For example, one country might have good regulations on retaining records on customer identity, but provisions on retaining transaction records might be weaker, while in another country the relative strengths might be reversed.

<sup>5</sup> The term "available responses" will be used to denote the set of received responses to relevant questions that have been analyzed to date. Since some questions were not answered by many respondents, the number of available responses on certain issues is 20 or less. The text indicates the issues where available responses are especially scarce.

- **Many of the countries that have responded to the questionnaire have taken steps in the last two years to strengthen their AML/CFT systems.** As many as two thirds of the sample have passed AML/CFT laws or amendments since 2000, and about 40 percent reported that they had prepared such legislation and expected passage at the time the response was prepared. Almost 20 percent of the total sample had established a FIU in the recent past, or stated that they were planning to establish an FIU.
- **Most AML laws contain a wide definition of predicate crimes,** that is, the criminal activity that gives rise to the funds to be laundered. However, in about one third of cases the predicate crimes are limited to those on a list of specified crimes, which is often dominated by narcotics trafficking, rather than covering a defined set of offenses, such as “felonies” or “all offenses in the criminal code.” Except in a handful of instances, the questionnaire responses did not provide information on the treatment of crimes committed in other jurisdiction, which is an important issue given the international nature of money laundering and terrorist financing.
- **The maximum penalty for money laundering is usually between 5 and 10 years of imprisonment;** in two cases the maximum penalty is less than 5 years imprisonment, and in five cases the maximum penalty in aggravated circumstances is more than 10 years imprisonment. The forfeiture of the proceeds of crimes is mandated in the available law.
- **AML legislation from the sample of responding countries always applies to commercial banks.** About 90 percent of such AML legislation covers also some or all major non-bank financial institutions (NBFIs). Slightly over half the available responses provided information that non-financial institutions (NFIs) are directly addressed in their AML legislation, which in most cases comprise gambling establishments and the like.
- In responding countries with AML legislation, **the covered financial institutions are required to report unusual transactions.** However, only a small number of responses indicate explicitly that the authorities of those countries have provided financial institutions with detailed and updated guidelines on recognizing unusual transactions. **Almost all available AML laws expressly prohibit “tipping off” clients** whose transactions have been reported as unusual. Only about two-thirds of available AML laws or guidelines on reporting include a provision stipulating automatic reporting of cash transactions above some threshold.
- **Almost all AML legislation on which information is available requires covered financial institutions to establish internal procedures to identify and report unusual transactions.** In about 90 percent of such cases, the institutions are required to appoint a compliance officer and implement training for their staff.



- **About 85 percent of available responses reported requirements on commercial banks (and most often also NBFIs) to verify the identity of potential clients**, for example, by checking identity documents for individuals or by examining registration records for companies. These requirements usually applied even when the client wished to make a one-time transaction (above a threshold). Most customer identification rules also included special requirements to identify the ultimate beneficiary when a client is acting on behalf of a third party. However, except for about 15 percent of responses, little information was provided on the conditions under which financial institutions have to go beyond mere identity checks and perform more thorough “due diligence.”
- In reporting countries, **covered financial institutions are required to retain records on the identity of clients and transactions for five years or more**, except in two cases (5 percent of the sample).
- **Either the AML law or the commercial bank law in almost all reporting countries include clauses stipulating that major shareholders and senior management must meet certain criteria to be deemed “fit and proper.”** Such requirements on controlling interests of NBFIs were reported by three-quarters of respondents, and about two-thirds of respondents mentioned such requirements for some NBFIs.
- **About 55 percent of respondents had in place an FIU**, although it is not clear how many are fully operational. Of the FIUs in reporting countries, 85 percent (18 instances) were members of the Egmont Group of FIUs, which is a forum promoting FIU development and cooperation.
- **About 60 percent of responses indicated that the respective country was a signatory or had ratified important international treaties or conventions on AML or CFT issues**, such as the United Nations Convention on Illicit Traffic in Narcotic Drugs and Psychotropic Substances, 1988, and the International Convention for the Suppression of the Financing of Terrorism.<sup>6</sup> Very few responses provided significant information on the scope for sharing information on unusual transactions and the prosecution of money laundering or terrorist financing.

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<sup>6</sup> Further information on the ratification of international treaties is available from the relevant organization. The U.N., for example has a system for tracking ratification of its conventions.

- **Just two responses indicated explicitly that the reporting country was interested in receiving additional technical assistance** to improve one or more aspects of their AML/CFT system. A few other responses mentioned that the country was already receiving technical assistance in this area.

## **V. DISCUSSIONS OF AML/CFT POLICIES IN THE CONTEXT OF ARTICLE IV CONSULTATIONS**

15. Staff have begun to discuss AML/CFT issues in the context of Article IV consultation missions. The results of these discussions have been reflected in several staff papers, typically in a paragraph indicating the authorities' main instruments for combating money laundering and terrorist financing; the country's relationship with FATF and other international bodies, where relevant; any recent or planned initiatives in this area; and whether the country has responded to the questionnaire.<sup>7</sup>

16. The questionnaire responses and staff analysis of them seem to have informed these discussions. Many area department missions have relied on the analysis to anchor their discussions of AML issues, and to identify discussion partners. A few countries used the occasion of the Article IV consultation to provide further elaboration and explanation of their questionnaire responses.

## **VI. CONCLUSIONS**

17. The AML/CFT questionnaire has provided a means to obtain relatively quickly a general overview of many countries' legislative, regulatory, and institutional frameworks in this area, and some common characteristics. From the responses available so far, it appears that in many countries the AML/CFT framework is fairly well developed, and in others a framework exists which can be built upon, while extensive work is still required in a small but significant share of countries. CFT provisions seem relatively weak in many responding countries. Many countries have recently strengthened their AML/CFT frameworks, or are planning to do so. This recent activity may be a sign that countries are devoting increasing attention to the issue, but also perhaps that many countries need to concentrate on making new legislation and institutions operational. Relatively common weaknesses seem to include the coverage of NFIs; conducting "due diligence" on clients that goes beyond establishing identity; and the development of provisions and mechanisms for international cooperation in

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<sup>7</sup> Among issued staff reports, see for example SM/02/254 on Australia; SM/02/153 on Bahrain; EBS/02/119 on Benin; SM/02/84 on Burkina Faso; SM/02/215 on the Czech Republic; SM/02/230 on Croatia; SM/02/186 on Estonia; SM/02/201 on El Salvador; SM/02/158 on Iceland; SM/02/125 on Mauritius; SM/02/260 on Mexico; EBS/02/122 on Rwanda; EBS/02/128 on Thailand; EBS/02/74 on Togo; SM/02/147 on Tunisia; SM/02/200 on the U.S.A.; SM/02/262 on Venezuela; and EBS/02/130 on Yemen.

this field. Technical assistance, from the Fund or others, should perhaps concentrate on these areas and making AML/CFT frameworks operational.

18. The overview has important limitations. The coverage of the questionnaire was kept deliberately contained, so issues of effectiveness and implementation are not addressed. By the nature of the questionnaire process, the responses are uneven in thoroughness, and may be biased towards giving a favorable impression of countries' AML/CFT systems. It is difficult to identify what is omitted, cross-check information, or obtain additional information where an elaboration is needed.

19. The questionnaire has relatively significant resource costs as well as benefits. For the Fund, these costs include those incurred in many cases in translating materials, in compiling and analyzing the responses, and in the follow-up by the Article IV consultation mission. The resource cost for the Fund is offset by the value of the overview itself, and the value of having available a collection of information from numerous countries, for example, on AML/CFT legislation and the identity of relevant agencies. This information may be of use in Article IV consultation discussions; the preparation of technical assistance missions, including assessment missions; and determining where there may be major gaps in the international AML/CFT system. The net costs for the responding countries of preparing often extensive responses may be important. Many of these countries have had to respond to other questionnaires, notably from FATF and regional FATF-style bodies and some have expressed concerns that they are suffering from "questionnaire fatigue."

**COVER LETTER FOR THE AML/CFT QUESTIONNAIRE**

**INTERNATIONAL MONETARY FUND**

[Date]

Dear:

As you are aware, money laundering and the financing of terrorism are issues that potentially affect all countries, and the integrity and stability of the international financial system. These abuses can be combated most effectively when all countries contribute to the international efforts now under way. The Fund plays a facilitating role in these efforts within its mandate and expertise. In these circumstances, the Fund's Executive Board has recently decided on an action plan to intensify the Fund's involvement in anti-money laundering and combating the financing of terrorism (AML/CFT); this action plan was endorsed by the International Monetary and Financial Committee of the Board of Governors of the Fund at their meeting in Ottawa in November 2001. One element of the action plan is the circulation over time to all members, in the context of the Article IV consultation discussions, of a questionnaire on the current status of their efforts to combat money laundering and the financing of terrorism.

As part of the implementation of this decision, we are sending the attached questionnaire. We would be grateful for your consideration of it and would value your response, preferably by ...

This questionnaire is designed to gather information on the laws, regulations, institutions and policies in place to deter money laundering and terrorist financing, primarily in the context of financial sector supervision. Your response to the first eight questions would be especially valuable. Your response to the supplementary questions, which go into issues in more detail and are more concerned with the implementation of your legal framework, would also be very much appreciated.

The questionnaire is not meant to be exhaustive, nor does it cover law enforcement and individual cases. If you have recently provided information on your AML/CFT measures to another international organization or body, such as the Counter-Terrorism Committee of the United Nations established under Security Council Resolution 1373, your response to that organization could be used in completing parts of this questionnaire.

The answers to the questionnaire may prove useful in discussing your efforts in these areas with Fund staff in the context of the forthcoming Article IV consultation mission. Answering the questionnaire may also provide you with an occasion to reflect on your AML/CFT framework, and to identify how it could be strengthened and what technical assistance might be useful. In addition, the responses from different countries will play a role in building up a global picture of the international system to combat money laundering and terrorist financing.

We would like to emphasize that completion of the questionnaire is entirely voluntary. With your agreement, a summary of your response to the questionnaire may be provided to the Fund's Board as part of the Article IV consultation documentation. Should you for any reason

decide not to respond, the Board would be notified accordingly together with any reasons for your decision that you may wish to provide.

Sincerely,

## INTERNATIONAL MONETARY FUND

### QUESTIONNAIRE ON ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM (AML/CFT) POLICIES AND INSTITUTIONS

#### Preamble

The following questionnaire is designed to gather information on the laws, regulations institutions and policies in place to deter money laundering and terrorist financing, primarily in the context of financial sector supervision. The questionnaire concentrates on the overall legal framework for AML/CFT, the allocation of responsibilities among the government institutions involved, the role of financial sector supervisory agencies, and the relevant requirements placed on banks and other financial sector institutions and service providers. The financial sector institutions covered include the mainstream regulated sector (licensed banks, insurance companies, securities brokers/dealers). Other formal and informal institutions and intermediaries that play an important role in your financial system (e.g., exchange bureaus, fund transfer agencies, international business corporations, etc.) should also be covered; you may wish to explain the coverage of your response, and other issues you wish to raise, in the “Remarks” section. Attached to the questionnaire is a glossary of terms used.

In general, responses to the questions should provide an overview of your AML/CFT mechanisms and measures; detailed issues might be addressed in subsequent correspondence and meetings, especially during the Article IV consultation discussions. Many of the questions, especially in the core section of the questionnaire, ask for information on laws, regulations and guidelines that address money laundering and the financing of terrorism. It would be greatly appreciated if copies of these laws and other rules could be provided. The questionnaire focuses on the areas in which the Fund has a mandate, as determined by the Fund’s Board of Directors and the IMFC; it does not address law enforcement issues.<sup>8</sup>

In completing the questionnaire, it may be useful to obtain information from a number of agencies, such as Ministries responsible for implementation of the AML/CFT framework (notably the Justice Ministry or equivalent), the supervisory agencies for different segments of the financial sector, and the financial intelligence unit, if one exists. If you have completed a self-assessment or mutual evaluation in cooperation with the Financial Action Task Force on Money Laundering (FATF) or FATF-style regional body within the last twelve months, that assessment or evaluation might be provided as a response to some parts of the questionnaire. It may also be convenient to make use of any report you may have made to the United Nations in response to Security Council Resolution 1373 of September 28, 2001.

Completion of the questionnaire is voluntary. If you prefer not to answer some or all of the questionnaire, you may wish to provide an explanation in the concluding “Remarks” section.

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<sup>8</sup> The questionnaire does, however, include an assessment of the adequacy of the legal and institutional framework for combating money laundering and the financing of terrorism.

### **Core Questions**

- (1) Please name and describe the laws that address money laundering and the financing of terrorism. Is money laundering an offense? Is the financing of terrorism an offense? Copies of these laws would be appreciated.
- (2) How, if at all, is money laundering defined in your laws or regulations? How, if at all, is the financing of terrorism defined? What crimes (the so-called predicate offenses) do the relevant laws cover?
- (3) To what multilateral or bilateral conventions, treaties and agreements relating to money laundering and terrorist financing are you a party? What do the bilateral arrangements cover?
- (4) What institutions are involved in setting anti-money laundering and anti-terrorist financing laws, regulations, guidelines and codes of conduct? What institutions are involved in monitoring compliance, and in collecting and using financial information related to suspected or actual criminal activities, and what are their respective responsibilities?
- (5) What financial institutions and other intermediaries are covered by to your anti-money laundering and anti-terrorist financing laws and regulations?
- (6) What laws, regulations, guidelines or codes of conduct set standards for financial institutions with regard to knowing the identity of all customers (due diligence)? Copies of these documents would be appreciated.
- (7) What regulations or guidelines have been issued to financial institutions regarding the recognition of unusual or suspicious transactions, including those related to the financing of terrorism? What legislation, regulations or guidelines specify when financial institutions must report unusual or suspicious transactions to the supervisor or other authorities (for example, a Financial Intelligence Unit)? Copies of these documents would be appreciated.
- (8) What laws or regulations help ensure that financial institutions and other intermediaries are not controlled by criminals? Copies of these documents would be appreciated.

### **Remarks**

## **Supplementary Questions**

### **Legal framework**

- (9) What legislation provides the supervisory and other financial sector authorities with powers to supervise compliance with AML/CFT requirements? What legal powers do the financial sector supervisor(s) have to verify and enforce adherence to your AML/CFT laws, rules and guidance, or to sanction non-compliance?
- (10) Do laws allow for the freezing and confiscation of proceeds of crime or terrorist assets?
- (11) Are there specific provisions in the legislation in this area to protect the rights of innocent persons or businesses, such as privacy rights and the protection of bona fide third parties?

### **Institutional arrangements**

- (12) How does the financial sector supervisor(s), directly or indirectly, share with the relevant enforcement and judicial authorities, and with other domestic and foreign financial sector supervisory authorities, information related to suspected or actual criminal activities? Under what conditions? Is court authorization necessary?
- (13) What in-house resources and specialist expertise in financial fraud and anti-money laundering are available to the financial sector supervisor(s) and other agencies?
- (14) Are industry groups or associations involved in setting AML/CFT standards and codes of conduct? Do they provide training in this area for their members?

### **Requirements on financial institutions**

- (15) How must financial institutions establish the identity and bona fides of all customers (due diligence)? Under what circumstances can a financial institution take business referred to it without verifying the identity of the ultimate beneficial owner?
- (16) What requirement or guidance has been issued to financial institutions regarding records that must be kept on customer identification and individual transactions? What is the retention period for such records?
- (17) When a financial institution reports an unusual or suspicious transaction to the supervisor or other authorities, what information must be provided, and how?
- (18) Are financial institutions required to report all cash transactions over a certain amount, and if so, what is this amount?
- (19) Are financial institutions prohibited from warning their customers when information relating to them is being reported to the competent authority?



- (20) What standards of integrity are expected of major shareholders, Board members, and senior managers of financial institutions? To which institutions are these standards applied? Are these standards incorporated into licensing requirements? How does the relevant supervisor monitor maintenance of these standards?
- (21) Does the relevant supervisor require financial institutions to appoint a senior officer with explicit responsibility for ensuring that the financial institution's policies and procedures are in accordance with local AML/CFT requirements? Are financial institutions required to have an AML/CFT staff-training program?

## GLOSSARY

*The following explanations of the terms used in the AML/CFT questionnaire reflect common usage and should not be regarded as legal or otherwise formal definitions.*

**Financial institutions:** Institutions whose principal business activity includes the undertaking of financial transactions, and/or the holding of financial assets and liabilities. Typical financial institutions are commercial and other banks, other deposit taking institutions, insurance companies, securities dealers/brokers, and mutual funds (see also “Other intermediaries” below). These institutions are generally subject to regulation and supervision by the national authorities.

**Financial Intelligence Unit (FIU):** A government agency or institution designed to receive (and as permitted request), investigate, analyze, and disseminate to the competent authorities disclosures of financial and related information (i) concerning suspected proceeds of crime, or (ii) required by national legislation or regulation. The financial intelligence generated can typically be used to uncover both fraud against or by financial institutions, and crimes that use the financial system as an instrument, including money laundering and the financing of crime. Some FIUs provide information to be used in prosecutions; conduct investigations; set guidance with transaction reporting rules; or report to the competent authorities information on crimes that are not predicate offenses to money laundering under national law (e.g., tax evasion).

**Financial sector supervisor:** An agency responsible for regulating and supervising, through on- and off-site means, part or all of the financial sector. In some countries there may be several financial sector supervisors responsible for different parts of the sector.

**Financing of terrorism:** Processing or participating in the processing of property from any source (perhaps legitimately acquired) to be used to finance terrorist activity that has or will be committed.

**Industry groups and associations:** Associations or organized groups of institutions or professionals covering all or part of the financial sector.

**Money laundering:** Processing or participating in the processing of property known or reasonably suspected of being the proceeds of specified offenses so as to disguise their illegal origin.

**Other intermediaries:** Institutions other than financial institutions that intermediate funds, perform transactions, undertake investments on behalf of clients, or advise on the management and investment of funds. “Other intermediaries” may include for example attorneys, accountants, trustees, money exchange and transfer services, company service providers, and notaries.

**Predicate offense:** Specified offenses under money laundering and related laws that generate the proceeds that are to be laundered. Typical predicate offenses are drug trafficking, extortion, and bank robbery.

**Terrorism:** According to the 1999 International Convention for the Suppression of the Financing of Terrorism, which was adopted by the U.N. General Assembly, terrorism consists either of an offense within the scope of one of the treaties listed in an annex to the Convention (e.g., hijacking of aircraft, taking of hostages, etc.), or “any other act intended to cause death or serious bodily injury to a civilian, or to any other person not taking an active part in the hostilities in a situation of armed conflict, when the purpose of such act, by its nature or context, is to intimidate a population, or to compel a government or an international organization to do or to abstain from doing any act.”

**Unusual or suspicious transactions:** Transactions with no apparent economic or visibly lawful purpose. Typically such transactions cannot be explained in commercial terms, deviate from conventional business practices or habitual patterns, or are undertaken in a manner that might facilitate obscuring the origin of funds and the identities of the parties involved. Law, regulations, or guidelines may specify what constitutes an unusual or suspicious transaction. An unusual or suspicious transaction might involve dealing in large volume of cash, a sudden increase in inflows or outflows from an account (especially with an unusual counter party), or a refusal to reveal the beneficiary.