October 4, 2001
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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 01/38

9:30 a.m., April 13, 2001

Contents

Executive Board Attendance

S. Fischer, Acting Chairman
E. Aninat, Acting Chairman
S. Sugisaki, Acting Chairman

Executive Directors	Alternate Executive Directors
	A.S. Alosaimi
A. Barro Chambrier	D. Ondo Mañe
T.A. Bernes	P. Charleton
M.J. Callaghan	
R.F. Cippà	W. Szczuka
B. Esdar	W.-D. Donecker
	G. Schlitzer, Temporary
D.I. Djojosobroto	Low K.M.
V.L. Kelkar	
W. Kiekens	J. Prader
	Å. Törnqvist
K. Lissakers	M. Lundsager
J.-C. Milleron	G. Bauche
A. Mirakhor	M.R. Shojaeddini, Temporary
	A. Lushin
H. Oyarzábal	
S. Pickford	
M. Portugal	R. Junguito
	I. Usman
	A.F. Al-Faris
Wei Benhua	Jin Qi
	Y.G. Yakusha
	A. Kapteyn, Temporary
Y. Yoshimura	H. Toyama
A.G. Zoccali	G.R. Le Fort

S.J. Anjaria, Secretary
A.S. Linde, Acting Secretary
Z.R. Ahmed, Assistant
P. Cirillo, Assistant

Also Present
Pei Cobb Freed and Associates: H. Cobb, C. Dumas, and Y. Szeto; Carr America: M. Malloy; Holland and Knight: W. Quin. IBRD: A. Bhattacharya, Poverty Reduction and Economic Management Network; M. Conthe, Financial Sector Vice Presidency; L. Promisel, Financial Sector Strategy and Policy Unit; A. Vedrenne-Lacombe, Banking and Financial Restructuring Unit. Asia and Pacific Department: H.P. Ma. European II Department: P. Alonso-Gamo, A. Banerji. External Relations Department: R. Chote, B.J. Mauprivez. Fiscal Affairs Department: M.J. Keen. Human Resources Department: M.R. Kelly, Director. Legal Department: F.P. Gianviti, General Counsel; W.E. Holder, Deputy General Counsel; R.K. Gordon, S. Hagan, N.S. Kyriakos-Saad, B.D. Patterson, J.S. Powers. Monetary and Exchange Affairs Department: S. Ingves, Director; U.S. Das, H. Evans, N. Grant, M.K. Moore, P. Quirk, L.B. Schumacher. Policy Development and Review Department: M. Allen, Deputy Director; L.J. Lipschitz, Deputy Director; P. Gajdeczka, R. Glennerster, G.R. Kincaid, M. Rossi, N. Tamirisa. Research Department: M. Mussa, Economic Counsellor and Director. Secretary's Department: L. Hubloue, K.P. Moran, P. Ramlogan, S. Soromenho-Ramos. Technology and General Services Department: B.C. Stuart, Director; I.E. Prebenson, Deputy Director; M.E. Gehringer, M.B. Kelly, R.D. Walker. Treasurer's Department: E. Brau, Treasurer. Western Hemisphere Department: G. Bindley-Taylor, A.M. Jul. Office of the Managing Director: A. Bauer, N.H. Bradshaw, S.B. Brown, C.T. Hayashi, P.J. McClellan, H.L. Mendis, R. Sahay, R.S. Teja, C.L. Vehorn. Advisors to Executive Directors: J.M. Abbott, M. Beauregard, M.P. Bhatta, J.A. Chelsky, B. Couillault, P.R. Fenton, A. Fidjestøl, A.R. Ismael, J. Mafararikwa, I. Mateos y Lago, M.F. Melhem, H. Mori, J. Ntamatungiro, L. Palei, H.E. Phang, S. Rouai, K. Sakr, R. Villavicencio, R. von Kleist, P.H. Whitehall, M. Yanase, F. Zurbrügg. Assistants to Executive Directors: A.S. Al Azzaz, S. Alcaide, S.A. Bakhache, V. Bhaskar, S. Bonomo, J.G. Borpujari, N.J. Davidson, G. De Blasio, V. de los Santos, M. di Maio, F. Haupt, S. Hinata, A. Jacoby, B. Kelmanson, S.K. Keshava, T. Koranchelian, T.-M. Kudiwu, S. Le Gal, A. Maciá, R. Manivat, T. May, J.A.K. Munthali, D. Nardelli, J. Nelmes, L. Redifer, C.A.E. Sdralevich, S. Sharipova, B. Siegenthaler, J. Sigurgeirsson, Sugeng, D. Vogel, S. Vtyurina, M. Walsh, D.B. Waluyo, Wei X., E.S. Weisman, A.Y.T. Wong, N. Yeritsyan, I. Zakharchenkov.

1. ENHANCING CONTRIBUTIONS TO COMBATING MONEY LAUNDERING

The Executive Directors considered a staff paper prepared jointly by the Fund and World Bank staffs on enhancing contributions to combating money laundering (SM/01/103, 4/5/01). They also had before them a statement by the Managing Director (BUFF/01/52, 4/12/01).

The Managing Director submitted the following statement:

> Money laundering poses a threat to the functioning of both national financial sectors and to the international financial system as a whole. Moreover, as money laundering operates in most cases across national borders, it is clearly an area in which effective action will require international cooperation. Thus, it is clear that the Fund needs to play an active role in the international efforts to fight money laundering. The issue before the Board today is, therefore, how—not whether—the Fund can contribute more effectively to this effort.
>
> The Fund and the World Bank are already active in this area, through our expanded financial sector assessment program and our work on standards and codes. These activities can 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.
>
> But I am convinced that the Fund can and should do more to help in the international effort to combat money laundering. The staff paper you have received proposes ways to achieve this, by stepping up the Fund's preventive role, while recognizing that law enforcement matters are beyond the scope of the Fund's mandate and expertise.
>
> First, the Fund, in close cooperation with the Bank, must deepen the focus on all relevant anti–money laundering elements in the assessment and implementation of standards, particularly the Basel Core Principles for Banking Supervision and the standards for insurance and securities markets. For this purpose, the proposal is to make more intensive and systematic use of our Financial Sector Assessment Programs, our OFC assessments, and our TA programs. Staff will report explicitly and in greater depth on compliance with anti–money laundering elements of these supervisory standards. And a new methodology will be developed to ensure both comprehensiveness and uniformity of these assessments. Ultimately, the objective should be to incorporate all relevant anti–money laundering elements as a specific module into the ROSC and FSAP process.
>
> Second, a more effective fight against money laundering calls for more effective collaboration: with the Financial Action Task Force, with the

regional anti–money laundering groups, and also with relevant UN agencies. We recognize the value of the FATF 40 Recommendations, and believe that the Fund should work more closely with the FATF. This includes a working process to secure a broad consensus on anti–money laundering criteria among the international community, which can be applied evenhandedly across the Fund's membership.

Third, we need to do more to help members strengthen their anti–money laundering defenses. In order to make the international efforts to combat money laundering more efficient, developing and emerging market countries need support to enable them to implement the appropriate measures. The developed countries should make the necessary resources available and contribute needed expertise. And the enhanced activities of the Fund in this area have resource implications for the Fund itself that will need to be addressed.

This statement has dealt mainly with the prevention of money laundering, in which the Fund and Bank can play a major role. Actions in the area of criminal law enforcement (in which Directors have indicated that Fund involvement would not be appropriate) is at least as important—and the fact that seizures tend to be modest by comparison with the large profits generated from serious crime makes it clear that there needs to be a stronger effort in this difficult area as well. Efforts on both of these fronts will require more effective action at the national level. And they will also require strengthened international cooperation among the many national and international agencies involved.

There is evidence that money laundering often involves the major financial centers. This is why it is so important that the major industrial countries take decisive action and lead by example (by adapting their own legislation and supervisory practices to rapidly changing practices in global financial markets; through more effective cooperation among the relevant supervisory bodies and agencies involved in the effort to combat money laundering, as well as improved cross-border cooperation; and by strengthening enforcement in their jurisdictions.

Mr. Faini and Mr. Schlitzer submitted the following statement:

We very much welcome this discussion on a topic that is of paramount importance for both the members' domestic economies and the international financial system. The paper concludes in favor of an active role of the Bretton Woods institutions in the fight against money laundering and financial abuses more generally, a conclusion that we fully share. Financial abuses are a pathological, if inevitable, feature of the increasing complexity of financial systems and of the globalization of capital markets. They have significant negative consequences for stability and growth that call for a coordinated

effort of all parties involved, both individual economies and international financial organizations.

For financial abuses we normally refer to a variety of activities of illegal nature that "exploit the tax and regulatory frameworks with undesirable results." Banking systems are the most important vehicle through which the profits from such activities are channeled for being recycled—what is called "money laundering." Yet, financial abuses have implications not only for financial flows and financial stability. They arguably result in a net loss of global output and thus welfare. Financial abuses, in fact, cause misallocations of capital flows, diverting the latter from the production of goods towards the production of "bads" (i.e., criminal acts). Even when illegal profits are recycled through a process of money laundering and end up in legal activities, the profits so generated are in turn used to finance new illegal activities, thereby feeding a perpetual illegal circle.

There have been several attempts at producing estimates of the cost of financial abuse or of money laundering, none of which can be said, for quite obvious reasons, to be particularly reliable. But it is a fact that most, if not all, of these estimates indicate that such costs are indeed sizable. In his address to the FATF Plenary session in February 1998, the then Managing Director of the IMF Michel Camdessus concluded that: "While we cannot guarantee the accuracy of our figures…the estimates of the present scale of money laundering transactions are almost beyond imagination—2 to 5 percent of global GDP would probably be a consensus range." As money laundering is only a subcategory of financial abuse, one may reasonably presume that the costs associated with the latter run much higher.

Financial abuse, financial crime, and money laundering are widespread phenomena that affect both advanced and developing economies. But it is certainly true that the latter most often fall victim to such activities. The related proceeds are then "laundered," possibly abroad, thereby complicating quite a bit the adjustment process that these economies have to sustain. Against this background, it is not by chance that the FATF, which was created to lead the fight against money laundering, has a membership that goes beyond industrial countries. Moreover, in addition to the emerging market economies that participate directly in the FATF, one should count all the members of the various regional anti–money laundering bodies that have endorsed the FATF's 40 principles (henceforth, FATF 40). This brings the number of countries that have endorsed the FATF 40 well beyond 100. By the same token, the significant involvement of the UN in the field is not only indicative of the global relevance of money laundering, but also of how geographically widespread the commitment to fight it is.

There should be no question that the Fund and the Bank have an important role to play in the fight against money laundering. Both institutions

are involved, within their respective mandates, in the promotion of the development, stability, and integrity of financial systems and capital markets, which, as said before, are preferred if not inevitable channels for money launderers. The Fund, with its increasing focus on financial system stability, cannot avoid being part of this process. The staff refers essentially to this dimension when they ask: "Do Directors consider that financial abuse (including money laundering in particular) is a major threat to the development and stability of financial systems and institutions of members?" (paragraph 55, page 21).

This being said, we believe that safeguarding financial stability cannot be seen as the sole rationale for having the Fund (and the Bank) in the anti–money laundering business. In fact, we should not forget that our institution's ultimate objective is promoting worldwide stable growth. First, from the point of view of domestic economies, it is now common knowledge that good governance is a fundamental element for economies to prosper. Through the promotion of anti–money laundering measures, the Fund promotes good governance and, hence, domestic economic growth. Second, as said at the onset, money laundering also distorts the allocation of international capital flows, thereby resulting in a loss of global output. By fighting money laundering, the Fund aims at ensuring the proper functioning of the international financial system and through this it promotes greater growth worldwide.

This said, let us turn to the course of action recommended by the staff. I think that the ways through which our institutions can contribute to international efforts in combating money laundering are well described in Box 1 of the staff report. The first step is certainly the recognition of the FATF 40 as the international standards in the field. This is clearly an absolute prerequisite for moving forward, one that should be easy to fulfill. As said, the countries that have committed to the 40 principles largely outnumber the FATF's members. We, therefore, expect these countries to confirm their commitment in the Boards of the two institutions.

Needless to say, like all sorts of standards, the FATF 40 are subject to a continuous process of revision, and are in fact about to be revised in light of the evolving nature of money laundering activities. This process of revision will be open to the participation of the various parties involved, namely the FATF-Style Regional Bodies as well as the Fund and the Bank.

The second crucial step consists of incorporating the FATF 40, once recognized, in the work of the Fund and Bank. In our view, it would be quite straightforward to treat the FATF 40 as simply as an addition to the set of standards that have become so deeply part of our institutions' business. Indeed, we would want them added to the list of core standards that was approved at our recent review of the implementation of standards and codes.

Like all other categories of standards, the FATF 40 would remain purely voluntary.

Ideally, the assessment of the implementation of the FATF 40 should follow the same scheme that is envisaged for the other codes and standards, namely a ROSC. In this regard, it is crucial to stress that the FATF 40 are conceived as a unified whole and, therefore, the assessment process would also be most effective if it encompassed all 40 principles. At the same time, we all agree that the Fund and the Bank should not engage in law-enforcement matters. But the apparent tension between these two factors should not be exaggerated, as it can be overcome by well-designed cooperation among international organizations. Indeed, staff even conceive the possibility that FATF be asked to prepare a ROSC module.

The staff, however, conclude that, for the moment, the conditions for the ROSC process are not met. They argue that FATF uses a different set of principles (the FATF 25 Criteria) to assess nonmember jurisdictions, which is at odds with the principles of uniformity of treatment. We do not think that this reading is correct. The 25 Criteria are derived from the FATF 40 as operational tools, but they are not reserved for non-FATF members. In fact FATF's third mutual evaluation round that is about to begin will use the 25 Criteria as well as the 40 Recommendations. The staff also argues that the threat from FATF of using sanctions against noncomplying jurisdictions would be at odds with the voluntary character of standards. Here it is necessary to clarify that countermeasures, which the FATF may only recommend but that remain ultimately a responsibility of the member states, would never be at odds with international rules. In any event, these problems are clearly not at all insurmountable and can be solved through a process of cooperation and dialogue.

On balance, we can go along with the staff proposal to limit, in the interim, its assessment of anti–money laundering measures to those aspects that are strictly related to financial supervision and to develop a new methodology to this aim. We think that this can be useful both to address the above concerns and to allow the Fund to influence the revision process of the FATF 40. But it should be clear that this is acceptable only as a transitional procedure. Perhaps the staff could provide us with an idea of how long the transition process could last. It would also be useful to know how staff intend to influence the ongoing revision of the FATF 40.

The proposed staff approach entails a number of other aspects with which we can only fully agree. First, the Fund and the Bank should contribute to increase the public attention vis-à-vis the need to combat money laundering, including through some research work on the subject, the economic implications of which are still, to a great extent, unknown. Second, they need to intensify their collaboration with other agencies involved in the

field. This is useful not only to better grasp what is a new subject, but also because, as we said at the onset, money laundering is a complex phenomenon that calls for a coordinated effort by all involved parties. We would add that the Fund and the Bank, with their expertise and responsibility on the surveillance of financial systems, should aim at becoming main actors in the process. Last but not least, there is a need to increase TA in parallel with the enhanced role of the two institutions in the field in order to help members to meet the FATF 40. This is, again, fully consistent with our current practice in the promotion of codes and standards more generally.

Finally, on resource implications, we note that these are not particularly high and that the additional activity that is envisaged under the FSAP and the assessments of OFCs does not necessarily fall strictly in the category of money laundering. This said, we can confirm that our authorities stand ready to contribute in the provision of technical assistance to those jurisdictions that commit to making improvements in their money laundering regimes.

Mr. Oyarzábal submitted the following statement:

I would like to begin by identifying this chair with the view that money laundering is a problem of global concern. It is clear that, because of its complexity, there is a need for concerted and cooperative action on the part of a broad range of institutions. The Bank and the Fund, which have a clear mandate to deal with financial sector issues, must be active in contributing to the fight against financial abuse. They must aim at strengthening supervision and promote sound legal and institutional frameworks for financial institutions for macroeconomic purposes, which include a broad range of financial sector abuses within which money laundering is an area of major concern.

There is a need for clear and concise definition of precisely the role the Fund can and should play in fighting money laundering. As stated above, one would envisage that these concerns can be addressed through the process of surveillance, basically Article IV consultations, FSAPs, and ROSCs, as well as when dealing with the overall issue of good governance. The Fund cannot and should not be in any way involved with issues relating to criminal law enforcement relating to money laundering or other aspects of financial abuse. Activities of law enforcement of this nature are neither within our mandate nor within our capacity. Evidently, more work is necessary so that the boundaries of Fund involvement can be defined.

Taking into account not only the diversity of the institutions involved in issues related to money laundering, but also considering their expertise, we would support greater Fund links with these organizations. This could contribute to greater information, better knowledge of the different objectives and roles of those institutions, helping in this way to better hone our actions in

this area, as well as being able to dispose of and analyze information relating to this important issue.

Along these lines, and definitely based on other institutions' work in money laundering, the Fund and Bank should carry out analytical work into the macroeconomic and development effects of financial crime, particularly money laundering. The proposal by staff to review the effects of financial crime on the macroeconomy, even taking into account the difficulties in quantitative issues, would certainly be useful in helping to determine the crime impact in industrial and developing countries' markets. This suggestion in no way is meant to minimize the significant effort that can and should be carried out to further emphasize publicly the importance of countries to act and protect against financial abuse and money laundering.

We envisage that technical assistance in this area is an essential part of the solution. We strongly support it. The technical assistance that can be provided by Fund and Bank can be envisaged within the context of complementary support of the same nature, but in areas pertaining to each institution's expertise that should be forthcoming to countries requiring such assistance.

The FATF 40 anti–money laundering standard can generally be accepted. Clearly, one thing is endorsing and another is implementing. As far as the Fund is concerned, and even taking into account that there is an evolutionary process where changes and modernization is made of the standards, the Fund can contribute in the area of its mandate and its capacity. It can, therefore, deal with issues relating to a financial supervision, as well as those dealing with the legal framework governing the financial system and financial abuse.

Concern about the assertion made on paragraph 38, where it appears to be "highly problematic" to separate those principles of a financial supervisory character from those of a legal criminal enforcement nature, we contacted Mr. Roldán, who is the president of FATF. He clearly informed this chair that the recommendations made by FATF could be easily split into two parts, those that could be implemented by the Fund within its core mandate that do not contravene its Articles of Agreement or By-Laws, and those that could be implemented by other institutions. We would support that the two staffs work together in their revision of the FATF 40, as well as how the FATF principles fall into the framework of Fund ROSCs, and report back to the Board for further recommendations.

We appreciate the efforts that FATF has recently taken in promoting a more participatory environment in dealing with such sensitive issues as money laundering. We urge them to maintain this attitude, which can not only lead to

enriching their own analytical base, but also serve as an educational process to all involved, whether industrial or developing country.

Mr. Portugal submitted the following statement:

Money laundering and other forms of abuse of the financial system represent significant international negative externalities that can adversely affect the financial system of many countries and may represent a threat to the development and stability of such systems. These are global public "bads" that require a firm and coordinated international response. Our authorities attribute a great priority to efforts by the international community to combat financial crime and money laundering on a global scale. Unregulated and unsupervised or poorly regulated and supervised financial systems can pose a potential risk of financial instability that, in some cases, may be transmitted to other countries. Both for economic and ethical reasons, the world cannot tolerate anymore to see the financial system being abused as a hideout place for ill-gotten money be it an on-shore or an offshore operation.

Our chair strongly supports a strengthening of international cooperation in combating money laundering and an intensification of the Fund's activities in support of the international efforts in this area in a way that is consistent with the Fund's mandate and principles. The Fund has a broad membership and a tradition of due process and equality of treatment of all members which make it well placed to contribute to this issue.

We have two general observations regarding the approach to be followed in this area. First, on this as on other international matters, we believe that an approach based on cooperation is preferable to one based on confrontation and would work better in the long run. We need to foster countries to work more closely together, devise constructive and cooperative multilateral approaches, and avoid the use of confrontational tactics and unilateral actions. Second, efforts to combat money laundering are needed everywhere. We should not unfairly target small countries where the proportion of financial transactions with nonresidents is high in relation to total financial transactions. In major international financial centers, nonresident financial transactions may be larger in absolute value than in many offshore centers, even if these transactions represent a smaller proportion of total financial transactions. As it is evident by the examples quoted in the staff paper, money laundering is an important problem in the most important international financial centers too. Also, global consolidated supervision with appropriate disclosure rules, incentives, and penalties for compliance can be a powerful instrument to combat financial crime. The solution lies not only in better supervision in OFCs, but also in more effective consolidated supervision by home countries. The provision of well-regulated and well-supervised international financial services is a legitimate type of financial activity that should be recognized as such.

We would be in favor of the Board recognizing the FATF 40 Recommendations as a standard for combating money laundering and of using those that are relevant for the Fund's mandate in operational activities in the areas of surveillance and technical assistance. We agree, however, with the staff that the Fund should not get involved or be expected to access those aspects of the FATF 40 Recommendations that are related to criminal and law enforcement matters.

The FATF 40 Recommendations are recognized as the key set of standards to deter money laundering by a large number of countries, including in our constituency. Brazil is a member of the FATF and of the Egmont Group, and accepts and complies with the FATF 40 Recommendations. In the last FATF on-site assessment, undertaken in February 2000, Brazil was found totally compliant with 38 of the FATF 40 Recommendations and partially compliant with 2. Since then, a new law approved in January 2001 on bank secrecy removed legal impediments to the exchange of information relating to financial transactions involving funds originating from any criminal activity, addressing the issues relating to the two recommendations where the country was found only partially compliant.

We are, however, sensitive to the fact that most countries have not participated in the drafting of the FATF 40 Recommendations and that this could make it more difficult for them to immediately endorse such recommendations. We believe, however, that it would be possible for countries that did not participate in the original drafting of the recommendations to endorse them. Brazil was a late member of the FATF and also did not participate in the drafting of the original recommendations either, but considered that the recommendations are relevant and helpful and decided to endorse them. This can happen with other countries too. An appropriately inclusive outreach process would help. In this connection, Brazil hosted, in August 2000, a meeting in Brasilia to launch a South American Regional Financial Task Action Force. The meeting was attended by Argentina, Bolivia, Chile, Colombia, Paraguay, and Uruguay. As a result, a memorandum of understanding creating the South American Regional FATF was signed in Cartagena, Colombia, last December 9.

The current process of revision of the FATF 40 Recommendations provides a good opportunity to listen to the concerns and suggestions of non-FATF members. We would like to encourage the staff to explore with the FATF forms by which this could be done.

While our authorities would prefer to recognize the FATF 40 Recommendations as an additional standard to the list of those relevant to the Fund, if there is no consensus at this stage in the Board for such decision, we agree with the suggestion made by the staff that, independent of such recognition, the Fund could deepen its emphasis on the assessment of

compliance with the anti–money laundering elements of the Basel Core Principles, the IOSCO and IAIS Principles, and to develop a methodology establishing criteria and procedures for the assessment.

We broadly agree with the steps proposed for the Fund's complementary role in the international efforts to combat money laundering outlined in Box 1, but we have a few comments and questions.

We believe that the use of the FATF-40 Recommendations in the Fund operational work should be limited to surveillance and technical assistance and not be extended to conditionality. We do not agree with the assertion made in paragraph 7 of the staff paper that, under the existing rules, anti–money laundering issues are covered under conditionality if they pass the macrorelevance test. If the FATF-40 Recommendations are approved as a standard by the Board, they would have the same voluntary nature as the other 11 international standards already adopted. It would be inconsistent with the voluntary nature of the adherence to standards to enforce them through conditionality. It would also run against the effort which is being discussed to streamline conditionality.

If ROSCs modules to assess the observance of anti–money laundering standards are conducted, they should be voluntary and undertaken under a cooperative approach. The publication and sharing with other institutions of any report that contains country-specific information should depend on the prior explicit consent of the country involved. We also agree, at this stage, with the staff's proposal for not inviting FATF or other groups to prepare ROSCs. We are interested in knowing more about how coordination between the Fund and the FATF would function in practice. Would the Fund undertake ROSCs for FATF members that have already been assessed by that organization? How would differences of view between both organizations be dealt with and solved, especially in the case of non-FATF member countries? We would appreciate staff comments on these issues.

In preparing ROSCs, it would be important to give full recognition to the efforts already undertaken and the results achieved. The countries of our constituency have been active both in participating in international efforts to combat money laundering and in strengthening their domestic efforts in this area. Brazil's efforts to combat money laundering date back to 1991 when it ratified the Vienna Convention. In 1996 the government submitted to Congress a new law, approved by the legislature in March 1998, involving a major overhaul of the legal and operational framework to combat money laundering. The new law expanded the list of antecedent crimes associated with money laundering, created a Financial Intelligence Unit (COAF), and extended the obligation of reporting suspicious transactions beyond the banking system to encompass stock exchange brokers, commodity dealers, real estate agents, credit card companies, leasing and factoring companies,

lotteries, jewelry and precious metals dealers, and fine arts dealers. The central bank has a special department in charge of combating financial crime which undertakes on site verification of banks for compliance with anti–money laundering legislation and conducts daily monitoring of these issues in the financial and foreign exchange markets. The reporting of suspicious transactions increased substantially to 7,451 as of December 2000 and led to 114 criminal inquiries in which 98 persons were indicted.

Colombia has been participating for a long time in the fight against money laundering and has strengthened its regulatory and institutional framework for that purpose. It has ratified the Vienna Convention, signed bilateral agreements, and is participating in the South American FATF. Since 1992, the government has issued regulations introducing the "know your customer" principle for financial sector operations. Later, through additional legislation, it became mandatory as well for insurance sectors, games of chance, and securities exchange. The creation of the Information and Financial Analysis Unit within the Ministry of Finance in 1999 strengthened the institutional framework. This unit operates as a financial intelligence unit and has ample legal powers to request information and to conduct investigations on money laundering. It centralizes and channels to the Attorney's office all reports regarding suspicious operations. The supervisory organizations, especially the Superintendency of Banks, have established procedures, in accordance with international standards, especially the 40 Recommendations of the FATF, for the prevention of money laundering and rely on a very strict system of penalties. Our Colombian authorities are convinced of the need to strengthen international cooperation to prevent money laundering and to comply with international standards and have been very active in this area.

Our Panamanian authorities, who believe to have been unfairly included in the Financial Stability Forum black list, approved last October two new laws that substantially strengthened Panama's anti–money laundering framework, which has been in operation since the early 1990s. The new laws broadened the definition of money laundering, enhanced the exchange of information with other jurisdictions, facilitated the transmittal of suspicious transactions reports, and brought the trust companies under the Superintendence of Banks' jurisdiction. A self-assessment of compliance with anti–money laundering legislation was completed with Fund assistance in November 2000. During the last Article IV consultation, the staff assessed positively the steps adopted by Panama and was of the preliminary opinion that the Panamanian banking regulatory and inspection practices comply with Basel Core Principle 15, related to money laundering. A module 2 assessment under the OFC initiative has been requested by our Panamanian authorities to the Fund and is scheduled to be conducted from next April 23 to May 4.

Article IV consultations are getting increasingly overburdened with a variety of issues. While we do not see a need for money laundering issues to be discussed in every Article IV report as a regular standard item, when such issues have macroeconomic relevance for the country concerned or can generate significant cross-border externalities for other countries, they could be reviewed in Article IV consultations. It is important, however, that fairness and uniformity of treatment be maintained in country coverage. Some major industrial countries, for instance, have under their jurisdiction territories and dependencies that have been identified as OFC. The staff indicates in paragraph 10 that a number of Article IV and use of Fund resources reports have covered money laundering, financial crime, banking secrecy, and tax avoidance issues. We would appreciate a break down of these figures by type of countries (industrial countries, transition economies, emerging markets, and developing countries) as well as by type of report (Article IV or use of Fund resources).

The area where we would see greater scope for deepening the Fund's involvement in anti–money laundering efforts is the provision of technical assistance to design adequate prudential regulatory and supervision schemes, capacity building, and other preventive aspects of the fight against money laundering. Technical assistance should be made available to the entire membership, and not targeted to specific groups of countries, such as the OFC listed as noncooperative. We agree with the staff suggestion that overall coordination of international technical assistance would be best left to another organization such as the UN or the FATF.

Another important medium-term role that the World Bank and regional development banks could play would be to devise development schemes that would help to diversify the economic structure of small states, as well as to examine the creation of international insurance schemes against climatic catastrophes that frequently affect many of these economies. Such initiatives could become important components of a cooperative international approach against money laundering.

We support the staff proposal to undertake additional research on empirical and analytical aspects of financial abuse and money laundering. We suggest, especially, exploring whether undetected, poorly regulated, and accounted offshore funds contribute to increased exposures to liquidity and foreign exchange and credit risks; pose risks of financial instability; and how these risks are transmitted to other countries.

We also agree that the Fund should work more closely with other major international anti–money laundering groups, but it should not be driven by the priorities and lists prepared by other bodies. The Fund should participate in meetings and workshops and could share information on a case-by-case basis and with prior consent of the country concerned.

The staff has presented preliminary estimates of the resource implications of the additional diagnostic, surveillance, and technical assistance work in these new activities. We are prepared to accept the requested increase of five extra staff years. We would be strongly opposed, however, to any redeployment from traditional technical assistance to meet these new demands.

Mr. Shaalan and Mr. Sakr submitted the following statement:

It has been recognized for sometime that financial abuse and money laundering can have serious macroeconomic implications in particular for financial sector stability and economic growth. This recognition has resulted in calls for the Fund to increase its role in this area. These calls have been endorsed by a wide range of countries, including OECD members as well as countries that fell victim of widely criticized "name and shame" classifications. The latter group believes that an increased involvement by the Fund would bring about more integrity and objectivity in the diagnosis and tackling of these problems in individual countries. The paper before us discusses the options to strengthen the roles of the Bank and the Fund in this area. We shall limit our remarks to the role of the Fund.

The paper rightly recognizes that money laundering is a problem of global concern requiring concerted action on the part of a wide range of institutions. This consideration would suggest that the Fund's involvement with this activity should be tailored to take into account the envisaged relationship between these institutions and the Fund in the areas within its mandate, focusing particularly on the area of financial supervision and regulation, as well as the provision of technical assistance to the membership. The Fund has already in place a number of vehicles that can be used for this purpose, in particular the FSAP and ROSC exercises. Having said that, let us not lose track of the proposition that participation in these initiatives is voluntary and should remain so. Furthermore, given the boundaries of the Fund's mandate and resources, we would not favor launching a ROSC module specific to money laundering. We prefer the current practice where existing ROSC modules integrate the necessary supervisory elements related to money laundering.

Like in other areas, the Fund's work in the area of money laundering should be based on a cooperative approach and symmetry of treatment to ensure integrity and fairness and to promote ownership. Unfortunately, these principles were not applied in the construction of and the assessment of compliance with the FATF recommendations, which were drafted by industrial countries and used to assess other countries in a nonvoluntary and noncooperative manner. The integrity and conduct of the whole exercise were widely criticized and resulted in the unfortunate "name and shame" practice, which negatively listed countries without an adequate due process. It is also

well to note that the FATF 40 are significantly outdated and are now under extensive revision. Against this background, we do not favor that the FATF 40 be adopted by the Fund as a standard.

Criteria used by the Fund in the area of regulation and supervision already overlap with the FATF 40 as well as standards set by other agencies. The Fund should aim to maintain a balance between benefiting from relevant standards developed by other bodies and maintaining flexibility and integrity by not adopting in totality criteria of exclusive organizations. Within this balanced approach, the Fund should continue to cooperate with other bodies, including the FATF, as long as safeguards are in place to avoid creating the perception that this cooperation implies the Fund's endorsement of these bodies' own assessments. In general, the Fund should continue to use its influence to discourage "name and shame" practices and promote a cooperative approach that is based on objective diagnoses and the provision of technical assistance to help countries identify and prevent money laundering.

As regards increasing the focus on money laundering in Fund surveillance and conditionality, we agree that this should be the case when there is evidence that money laundering is significantly affecting the macroeconomic situation in the country concerned or across borders. However, this should not be a regular feature of conditionality or surveillance; otherwise, the Fund would be stepping beyond its mandate and unnecessarily overburdening conditionality and surveillance. Furthermore, it is well to recall that financial abuse and money laundering activities are prevalent in major financial centers. Therefore, it is important that adequate attention be given to this problem in the Fund's surveillance of these centers.

Finally, we believe that increasing focus on money laundering in a wide range of the Fund's activities, including surveillance, FSAPs, and ROSCs, as well as technical assistance is bound to require much more resources than the additional five staff years suggested in the paper. It is likely that this proposed addition be almost totally absorbed by one task only; namely, the proposed research work to estimate the macroeconomic impact of money laundering. Let us learn from our past mistakes and refrain from creating and expanding new mandates without appropriate funding and risk an outcome that qualitatively is not worthy of the Fund.

Mr. Callaghan and Mr. di Maio submitted the following statement:

The staff paper provides a good summary of the Bank and Fund's existing activities, which are relevant to combating money laundering; a comprehensive overview of the anti–money laundering work being done by a wide range of international groups; and an outline of some options for strengthening the role of the Bretton Woods institutions in the international fight against money laundering.

On this latter point, the paper is a response to the IMFC request at its September 2000 meeting that the Bank and Fund explore incorporating work on financial system abuse, particularly with respect to international efforts to fight against money laundering into its various activities "as relevant and appropriate." This qualification is important and, while there can be no questioning that money laundering is a major global concern which needs to be combated via cooperative international action, it is essential that the Fund's activities in this area be directly linked to its mandate—namely, the promotion of macroeconomic stability and growth. This is our interpretation of what is "relevant and appropriate."

Moreover, the significant contribution that the Fund and Bank are currently making to the fight against money laundering is "relevant and appropriate," because it stems from the work of the two institutions in promoting stronger financial, economic, and legal systems in general, which in turn are central to the pursuit of macroeconomic stability and growth. We are pleased to see that this approach basically underlies the staff's discussion of the options for enhancing the Fund's contribution to combating money laundering, and it is one we fully support.

While we agree with the approach that the Fund's anti–money laundering measures should remain strictly related to financial supervision, we would note that the connection is not so much that combating money laundering is essential in order to ensure sound financial systems, but that measures aimed at strengthening the supervisory system and ensuring a robust legal and institutional framework, which are necessary for financial stability, are effective in combating money laundering. That said, we recognize that there is a risk that money laundering may weaken domestic financial systems by compromising financial institutions' reputations and undermining investors' trust. However, we are not aware of a compelling argument that money laundering poses a risk to international financial stability. Nor does there seem to be evidence to suggest that money laundering has been a source of macroeconomic instability in the case of an individual country. Many of the examples of disruption to the financial sector provided in the background paper deal with instances of financial fraud rather than money laundering.

While we agree that combating money laundering is one way of preventing crime, when considering possible enhancements of the Fund's activities in this area we think it important to recognize that combating money laundering is not in and of itself aimed directly at ensuring sound financial systems.

As the paper highlights, the Fund already makes a significant contribution to combating money laundering. The current methodology for assessment of the Basel Core Principles, which is usually completed as part of an FSAP, includes 11 essential criteria and 5 additional criteria that overlap

significantly with the principles of financial supervision included in the FATF 40 Recommendations. In addition, the Fund's overall focus on stronger financial systems through assisting countries to strengthen financial institutions and develop appropriate supervisory and regulatory frameworks is a necessary condition for preventing all types of financial abuse. It is notable that much of the focus of the FATF's work is now concerned with the implementation of frameworks and the effectiveness of the institutions that stand behind various attempts to combat money laundering.

Based on the basic principle outlined above that the Fund's activities in combating money laundering should directly stem from the pursuit of its core responsibilities, following are our views of the proposals outlined in Box 1 on how the Fund could enhance its anti–money laundering activities.

Publicize importance of countries acting to protect against financial abuse. We support the Bank and Fund emphasizing that anti–money laundering measures are the primary responsibility of national authorities and that the Bank and Fund can enhance their contribution to counter money laundering by helping countries strengthen their economic, financial, and legal systems broadly. Furthermore, we see considerable merit in the Bank and Fund promoting more effectively—be it through speeches, articles, seminars, and workshops—the contribution they are currently making to combating money laundering. In doing so, however, we feel it important that the Fund clearly indicate how its contribution to combating money laundering is related to its core responsibilities. We also support the Fund and Bank undertaking additional research into the macroeconomic and development effects of financial crime and money laundering.

Recognize the FATF 40 as a standard for anti–money laundering useful for Fund and Bank operational work. We support the staff's position that the FATF 40 Recommendations should not be used as a standard for Bank/Fund operational work. The staff has outlined a number of reasons why the FATF 40 Recommendations should not become a standard. We would add that if the Fund's current work adequately covers the aspects of money laundering relevant to the Fund's core mandate, then there is no justification for adding an additional standard, elements of which are outside the Fund's expertise and mandate.

For similar reasons, we do not support the idea that the Fund should invite the FATF to prepare a ROSC module on the FATF 40. Moreover, going down this route may risk undermining support for the Fund's overall approach to standards and codes and the valuable contribution it makes to the areas that are crucial to financial sector stability.

Intensity focus on anti–money laundering elements in relevant supervisory principles. Intensifying the focus on anti–money laundering

elements of the existing BCP, IAIS, and IOSCO Principles by developing a more detailed assessment methodology may provide a mechanism for highlighting the contribution the Bank and Fund can make to combating money laundering. However, we would withhold judgment on this proposal pending more information on what exactly is being envisaged, including the resource implications for the Fund and how it will relate to the existing FSAP program. It would be important to ensure that any assessment methodology is consistent with the methodologies used by other groups. We would not wish to see countries assessed on the same material twice, just to satisfy different approaches.

Work more closely with major international anti–money laundering groups. We support the concept of the Fund and Bank working more closely with other international anti–money laundering groups, including through participating in more meetings, joint workshops, and exchanging information. Closer cooperation would allow other groups to understand the contribution the Fund and Bank are making, allow them to benefit from the experience of the Bretton Woods institutions, and enhance links between different regional groupings. Most importantly, it would eliminate duplicate assessments of the supervisory principles, which are relevant to anti–money laundering. This is a significant issue for many of the Fund's smaller members, given their limited resources. In addition, greater consultation may result in better coordination of technical assistance. However, we agree with staff that the Bank and the Fund should not undertake joint missions with the FATF or regional task forces.

Increase the provision of technical assistance. We support enhanced technical assistance in this area, provided it is limited to helping countries strengthen their economic, financial, and legal systems. In particular, we should aim to give adequate support to countries to address weaknesses identified as part of the FSAP. However, even if technical assistance is provided to ensure a sound legal and supervisory framework is in place, this might not be effective if there are no investigative and enforcement capabilities. As such, it may be necessary to coordinate technical assistance for the latter areas to enhance effectiveness in the former.

On surveillance and conditionality, we support a continuation of the current approach. Anti–money laundering issues other than those core issues relating to supervision and financial sector regulation should be covered only if they are clearly macrorelevant.

On the issue of extra resources, we would not favor revisiting the budget discussion again at this stage and would strongly suggest that any additional resources considered necessary be made available by reprioritizing existing programs. This will help ensure sensible trade-offs are made about the effectiveness of any new activities relative to those already underway. It will also help ensure that the Fund's activities in this area are directly related

to its core responsibilities. We note that the initial estimate in the staff paper is that six staff years would be required in the first year to undertake all the proposals included in the paper. In terms of trade-offs, this would translate into three less full FSAPs for countries of regional systemic importance.

Mr. Milleron submitted the following statement:

I welcome this paper which explores possible options to better incorporate work on financial system abuse into the Bretton Woods institutions' activities, particularly with respect to international efforts to fight against money laundering, in line with the IMFC request.

I have no difficulty to admit that financial abuse, and money laundering in particular, represent a major threat to the stability of members' financial institutions.

Among many reasons, I believe that such activities have the potential to cause serious distortions in the global allocation of resources; increase the risks to a country's financial sector when loopholes are used by criminal activities and money laundering; and harm not only the effectiveness of national policies but also the integrity of the international financial system.

I am also convinced by the staff's arguments that money laundering is a problem of global concern and that, the preservation of the integrity of the international financial system being part of our mandate, the IFIs must resolutely strengthen their efforts in the fight against money laundering.

Such a conviction is also at the root of our action to promote good governance. Indeed, such efforts will in the end be largely ineffective if we do not also work to eradicate the financial mechanisms that allow people to hide the profits of bad governance and crime.

I am also deeply convinced that financial crime imposes a major reputational challenge for the IFIs. Given the increased awareness of the public and the mounting pressures for more accountability of the IFIs, failure of our institutions to be at the forefront of this fight would undermine our credibility and weaken the political support the IMF needs from our capitals.

Previous informal discussions in this Board have demonstrated that the principle of cooperative action against money laundering activities, including the IFIs, is now widely accepted. As stated by the Managing Director in his useful preliminary statement, the issue is how—not whether—the IFIs can contribute more effectively to this effort: now is the time to focus on the ways and means by which the we can further improve our contribution to the promotion of what I would not hesitate to qualify as a "global public good."

True, both the Fund and the World Bank are already contributors to the fight against money laundering in their common work to promote sounder financial systems, through FSAPs and ROSCs exercises. By the same token, the Fund has opened promising avenues in the offshore financial centers assessments, while it is also worth noting, as recalled by staff, that our surveillance and technical assistance activities are increasingly imbedding money laundering related considerations. We are off to a good start here, and I consider that we must not refrain to continue to tackle such issues in Article IV reports. While I am on the core activities of the Fund, let me add that country programs should also incorporate appropriate measures designed to help countries make real and measurable progress in combating money laundering.

In that regard, the proposed measures summarized in Box 1 of the report, provide us with a good start. In fact, given the reputational risks at stake, I believe that a large part of our membership would be interested in dissipating any doubt that could exist in relation with their financial practices, and that they could only but benefit from the swift implementation of the proposed measures. Let me list those proposals and comment on each of them.

I have no doubt that the publicization, through various forms of outreach, of the need to establish the necessary systems to protect against money laundering activities would be useful to promote greater awareness of the dangers (and their scale) involved by money laundering activities. In the same vein, we support additional research that the Fund and the Bank could undertake on those matters, in the line of the paper that Vito Tanzi published in May 1996 on "money laundering and the International financial system," a very interesting paper that covered, already at that time, a great deal of the issues before us today. To start this outreach efforts, I indeed welcome, as proposed by staff, the publication of today's paper for discussion, with serious caveats on the wording of some formulations present in the report, that I will develop later.

The recognition of the FATF 40 as the international anti–money laundering standard must not pose any difficulties to the Fund and the Bank. After all, beyond the 29 member countries of FATF (not including the 6 members of the Gulf Cooperation Council, of which are part Bahrain, Kuwait, Oman, Qatar, and the United Arab Emirates, which collectively are a member of FATF), 9 regional and multilateral organizations, representing over 130 countries and territories, have acknowledged the FATF 40, taken as a unified whole, to be the global anti–money laundering standard.

Of course, such a recognition implies uniformity of application to developing as well as developed countries; there is no such thing as a two-track approach of a standard. Footnote 22 on page 15 seems to suggest that the FATF 40, having been primarily drafted by industrialized countries, should

only apply to them. I would totally disagree with such an assertion—what counts for a standard is its degree of recognition. Once again, 130 countries and territories, representing 90 percent of the world's population and 90 percent of global economic output, having acknowledged the FATF 40 to be the global anti–money laundering standard seems to me a fair amount of international recognition.

At this stage, let me raise a few terminology issues on the description, in the staff's paper, of the FATF endeavors and methodology. I do not intend to enter too much on the detail because I am not indeed an expert of the FATF functioning, and indeed much less of an expert than staff, who attends FATF meetings. But I must say that I am quite surprised by some of the misleading comments on the FATF works that I could find on the report.

For instance, let me underscore what I feel is an unfortunate wording in paragraph 39 ("…the FATF applies the FATF 40 when conducting mutual evaluations of its members, but the FATF uses a different standard, the FATF 25 Criteria, to assess jurisdictions that are not FATF members"). To my knowledge, the 25 Criteria agreed by the FATF for defining noncooperative countries and territories, are derived from and are fully consistent with the international anti–money laundering standards set out in the FATF 40. They reflect the basic principles of the FATF 40 Recommendations as they cover prevention, detection, and penal provisions. Thus, I feel that speaking of "a different standard" is misleading and that such a wording must be corrected in the staff's paper.

Also, stating in paragraph 37 that "the FATF recommendations have become outdated" is quite a shortcut. Indeed, the FATF is revisiting its existing 40 Recommendations (a healthy process, by the way, given the rapid pace with which money launderers adapt themselves to their environment). But that does not mean that all of them have now reached their "expiration date"—an assertion, which, if it was kept as such in the staff's report, could well be seen as a welcome encouragement by money launderers to deepen their dubious activities.

On top of that, I would add that stating in the paragraph 38 that "Evaluations by the FATF of nonmembers are involuntary and involve a 'name and shame' approach to induce compliance" is also a very abrupt shortcut. The same can be said of the formulations found in paragraph 47 ("Although the NCCT list is published, the NCCT process is not transparent and deliberations determining whether to list jurisdictions are held in closed sessions."). The draft reports prepared by the FATF have, in fact, been sent to the jurisdictions concerned for comment; in all cases, the reviewed jurisdictions were asked to answer specific questions designed to seek additional information and clarification. Each reviewed jurisdiction was in a position to send comments on their respective draft reports. These comments

and the draft reports themselves were discussed between the FATF and the jurisdictions concerned during a series of face-to-face meetings which took place in May and June 2000. Plus, the IMF and the World Bank now receive all NCCTs documents and are entitled to attend all NCCTs sessions.

The fist step to promote good cooperation with other institutions, as advocated by staff, and rightly so, is to correct the tone slippages in this paper. I would see advantages, if it has not been done yet, for the staffs to contact the FATF Secretariat, in order to make sure that other potential factual mistakes concerning the FATF mandate and endeavors are rectified before the publication of this report.

As for any other codes and standards, the assessment of the implementation of the FATF 40 should follow the ROSC procedure, within or outside the FSAP process. We strongly believe that possibilities to engage into stand-alone ROSCs on money laundering must be offered to members willing to set their record straight. On the scope of the assessment, I can go along with staff's proposal to focus its assessment of anti–money laundering measures to those aspects relevant to our mandate and to develop a new methodology to this aim. Naturally, I see room for a collaborative approach between staff and the FATF in that regard. To avoid associating a negative image to such ROSCs, let me also underscore that my authorities, whose commitment in the fight against money laundering is well known, are willing to undertake such a ROSC on money laundering

Closer cooperation with major international anti–money laundering groups is indeed of the essence when trying to define a globally coordinated approach to the fight against money laundering. Such a process is already well underway, with Fund and Bank's attendance to the FATF meetings as well as in some of its regional groupings. I could but only see merits in deepening such collaboration, with further information sharing between the Bretton Woods institutions and the FATF, participation in FATF-style regional groups and in the review of the FATF 40, which would provide our staffs with more in-depth knowledge and ownership of the FATF recommendations.

To sum up on the cooperation issue, every action that would increase each institution's awareness of the principles guiding their respective actions—as well as their specific constraints—would be welcomed by this chair. This said, I can support the proposal not to undertake joint missions with the FATF so as to avoid any confusion between the respective missions and mandates of the institutions.

On technical assistance, I can go along with the staff's preferred option (increased TA in relevant prevention areas, with work by the Fund and the Bank focusing on adherence to relevant standards, outside law enforcement).

Finally, on resource implications, I can agree with the proposed allocation of additional resources (which, incidentally, does not appear excessively costly).

To sum up, this report, taken away the wording issues that I raised earlier, constitutes a positive breakthrough. I expect the IFIs to continue to play their part in the increased awareness of the stakes related to money laundering, through various forms of outreach and increased TA, and to adopt the FATF 40, as a whole, as the global and unique standard, while incorporating those recommendations relevant to their mandate in the existing toolbox (FSAPs and ROSCs, surveillance, TA).

Mr. Fidjestøl submitted the following statement:

Financial abuse is a serious threat for member countries and for the international financial system. The Fund should continue to support efforts to counter financial abuse and increase its involvement, while respecting its mandate. As the evidence on the economic effects of financial abuse is limited, we believe more analytical work might be helpful in clarifying the importance of money laundering for macroeconomic and financial stability.

We welcome the increased emphasis on financial sector issues in Fund surveillance, including financial abuse. We believe that international anti–money laundering efforts will benefit from the Fund surveillance activity. In the dialogue with member countries, the Fund should concentrate on issues that have macroeconomic relevance, including issues relating to financial stability and the integrity of financial markets.

We consider the staff's proposal to develop a methodology document for assessing compliance with anti–money laundering elements in the relevant BOP, IOSCO, and IAIS Principles as the most appropriate and effective way for the Fund to deepen its involvement in anti–money laundering efforts. This methodology document would also cover the essence of the FATF 40 Recommendations, insofar as they relate to financial stability and supervisory matters.

In our view, FSAPs, ROSCs, and OFC assessments would be appropriate tools for the Fund to assess compliance with anti–money laundering principles as set out in a methodology document. If the assessment were to point to a risk of impact from financial abuse to macroeconomic performance or financial stability, the issue should be taken up during Article IV consultations and, where relevant, in discussions on policy and program design. This is an important part of the Fund's surveillance, which is aimed at improving the functioning of the international financial system.

In addition to surveillance activities, we agree that the Fund can provide extra technical assistance to facilitate compliance with anti–money laundering principles. The extra resources allocated to anti–money laundering efforts should be supplied by redeployment.

We believe that the existing FATF 40 Recommendations should not be recognized as a standard for Fund operational work. It is clear that the Fund cannot assess compliance with those of the FATF 40 Recommendations, which relate to legal/criminal enforcement matters. In this connection, we refer to the July 2000 Board discussion of OFC assessments where Directors noted that law enforcement measures were not deemed appropriate for the Fund to assess. We agree with staff that the FATF should not be invited to prepare ROSCs in the basis of the FATF 40, e.g.,, since the FATF perspective is broader than the mandate of the Fund.

We believe the Fund should strengthen its cooperation and exchange of information with the FATF and other relevant organizations in the field. This should include active Fund involvement in the ongoing revision of the FATF 40.

We think it is important that the Fund recognize the FATF 40 Recommendations as a major benchmark in countering money laundering. We strongly support that the Fund makes a clear statement to endorse the FATF 40 Recommendations as one of the 12 key international financial standards. A statement in line with the view taken by the FSF and other international bodies would strengthen the incentive to enforce the FATF 40. The Fund should state that, while the FATF 40 exceeds the mandate of the Fund and hence should not be included as a standard for the Fund's operational work, the importance of the FATF 40 as an international standard is not reduced. In fact, a large part of the criteria for the Fund's assessments of countries' anti–money laundering efforts will be closely related to the relevant FATF criteria.

Mr. Toyama submitted the following statement:

Money laundering would not only compromise the reputation of individual financial institutions, but would also threaten the soundness of the financial sector through systemic repercussions. In addition, widespread money laundering would hamper the accuracy of economic statistics, making it difficult for the authorities and others to grasp true economic conditions. At the same time, income tax slippage, that would otherwise have become government revenue, would occur. Quite possibly the business community would become reluctant to invest in a country where they perceive that money laundering has become widespread. Since financial transactions, in particular abusive ones, can easily cross international borders, money laundering would have serious impacts on other countries or regions. All in all, the macroeconomic relevance of money laundering is no less serious than in the

case of the financial sector in general and of governance. It would be a great contribution to an enhanced general understanding of the macrorelevance of money laundering if the Fund studies the money laundering issue from the macroeconomic perspective. I strongly expect such a study would analyze its impact on the international financial system, as well as on the economy of a particular country.

Reducing money laundering cannot be fulfilled without international initiatives. In this regard, I would like to express gratitude to efforts made by international bodies, such as the Financial Action Task Force (FATF). As staff rightfully points out, however, these efforts have not been satisfactorily coordinated. Now that various international fora have called for involvement by the Fund and the Bank in anti–money laundering, it would be appropriate for the Fund to actively contribute to combating money laundering in a way consistent with its mandate, its expertise and resources, and its cooperative nature for the enhancement of members' interests.

First of all, the FATF's 40 Recommendations should be recognized as one of the principle standards that the Fund and the Bank will work with in their ROSCs programs along with 11 other standards to which the Boards have attached importance in their operational works in their review of the implementation of standards and codes earlier this year. While the 40 Recommendations are currently under review, it is important for as many countries as possible to involve themselves in the review process. In this regard, participation of the Fund and Bank, both of whom boast large memberships, would be significant in that views of developing countries such as those presented at today's Board meeting would be duly reflected.

I wonder why the Fund cannot decide to recognize the 40 Recommendations for the ROSCs program unless the review is completed. There are other standards currently under review among those that the Fund and Bank Board have identified as those that are useful to their operational work. The review of the 40 Recommendations is undertaken primarily for adding measures to tackle newly evolving money laundering schemes. It is not that the existing recommendations have become outdated.

Surveillance activities should take up the issue of money laundering as long as to do so is judged important to restore confidence and contribute to sound economic growth for that particular member, although it will not be necessary to touch upon this issue each time for every member. Most important, technical assistance should be provided when needed. This assistance can be provided to nonmember countries or regions, although with less priority.

If combating money laundering is not regarded as one of the Fund's major activities—as it is now—a mission fielded to a country where money

laundering is the central economic issue may not deal squarely with this issue, and thus fail to provide the very advice that is longed for by that country.

However, the money laundering issue is the one in which Fund staff lacks expertise. Law enforcement is not an area in which the Fund should devote its resources. The most the Fund can contribute in assessment practice is perhaps in the field of financial sector supervision, to check whether the country in question has the proper framework to deal with money laundering, and to advise corrective measures for any weaknesses. Irrespective of whether to recognize the 40 Recommendations as an anti–money laundering standard for Fund operational work, I agree it is appropriate as a starting point to deepen assessment of compliance with the anti–money laundering elements of BCPs and so forth under the FSAP. When the 40 Recommendations are recognized for the ROSCs program, all of them should be basically blended into the program, as illustrated by staff. Under this assumption, I would like to urge staff to promptly study how to undertake an assessment based on the agreed principles of ROSCs exercise, as I will describe later in paragraph 10. Also, I would like to point out the fallaciousness of the view that FATF applies different standards from the 40 Recommendations to its nonmembers, since mutual assessment within regional groups is based on these recommendations.

It is true that substantial additional resources will be required if the Fund attempts to actively contribute to anti–money laundering through ROSCs, surveillance, conditionality, and technical assistance. In particular, human resources must be secured either by calling for outside experts' participation or by enhancement of staff capability by nurturing expertise on its own or by hiring experts. When the 40 Recommendations are recognized for the ROSCs program, it will become unavoidable to call for outside experts' participation to work on issues in which the Fund does not have adequate expertise. In such a case, Fund staff should maintain leadership in a mission and obtain FATF's commitment to not using the outcome from the mission for its "name and shame" approach. In the case of mobilizing Fund staff in the area of financial sector supervision, utmost efforts to restrict an increase in the number of staff should be made through redeployment and so forth.

Under the assumption that 40 Recommendations would be recognized for ROSCs program, it is appropriate for the Fund, the Bank, and FATF to discuss promptly technical issues, including how 40 Recommendations should be treated in the ROSCs program, how the Fund and Bank should cooperate with FATF, and how the three institutions should avoid redundant work. I expect staff to complete such a dialogue in time for the Board to discuss the issue by the 2001 Annual Meetings or, at latest, by the end of this year.

Staff questions whether cross-border implications of money laundering should be raised by staff during the Article IV consultation even if it is not macrorelevant for that member. When cross-border implications exist, however, I wonder if they might compromise that member's reputation and eventually affect its macroeconomy.

Finally, I would like to hear the General Counsel's official view on the question of whether the sanctions envisaged by FATF would violate Article VIII 2(b) of the Fund's Articles.

Mr. Kelkar submitted the following statement:

At the outset, we wish to commend the staff for providing an exceedingly useful paper in response to the IMFC's request for a joint paper with the Bank on the respective roles of the two institutions in combating money laundering and financial crime, and in protecting the international financial system. We recognize that financial abuse and money laundering in particular can have detrimental effect on the national economies and can threaten the stability of the international financial system. This could also compromise stability and reputation of the domestic financial institutions and undermine investors' trust in them and lessen ability of the country to attract foreign investment, and thereby increase the volatility of international capital flows and exchange rates. We fully support the need for a concerted global action to deal with the problem. The ongoing efforts of the various international bodies including the Fund, Bank, UN, FATF, etc. need to be strengthened. Like Mr. Shaalan and Mr. Sakr, we also feel that the Fund's work in the area of money laundering should be based on a cooperative approach and symmetry of treatment to ensure integrity and fairness and to promote ownership.

The Fund and the Bank are already contributing to the fight against money laundering through their work on promotion of stronger financial, economic, and legal systems. While we welcome additional efforts of the Fund and the Bank towards countering money laundering, these should not lead to regulatory overlap with other international bodies. They can make significant contribution by providing necessary technical assistance to countries/financial centers in designing and implementing effective anti–money laundering policies.

We broadly agree with the proposal that the FSAP assessment could include diagnostic work analyzing the relevance of money laundering to the macroeconomy, reviewing related legislation, and assessing implementation of the corresponding Basel, IAIS, and IOSCO Principles. But before taking these tasks, a proper cost-benefit analysis also needs to be undertaken. We also reiterate the voluntary nature of participation of member countries in these initiatives.

On whether the FATF 40 should be recognized by the Fund/Bank as anti–money laundering standards, we feel that, since these sets of standards were developed by the FATF comprising a limited number of countries, it may perhaps not be reflective of the needs of many countries, including developing countries, and hence it may be premature to adopt these standards as relevant to all countries without detailed examination. Moreover, it has been mentioned in the paper that revisions of these standards are underway and they also include matters relating to legal/criminal enforcement whereas Fund and Bank need to confine themselves to financial regulatory/supervisory issues. The existing legal framework in different countries would also differ.

Our chair agrees with the staff that the FATF process lacks conformity with the principles of the Bank/Fund ROSC initiative, and hence it would not be advisable to invite FATF to prepare ROSC modules on the FATF 40. However, we acknowledge that regulatory/supervisory coordination among various domestic regulators as well as the international institutions/agencies—financial and nonfinancial—are crucial for dealing with a complex issue like money laundering. The Fund staff should contribute to the ongoing revision of the FATF 40.

In so far as providing extra technical assistance is concerned, it is desirable that the Fund may give greater emphasis to the assessment of principles directly relevant for money laundering and help in strengthening of the standards in close cooperation with domestic regulators. However, given that there are numerous international/regional agencies looking after the entire spectrum of money laundering activities, it may not be desirable for the Fund to expand its role to an extent that would necessitate a substantial increase in the Fund's financial and staff resources to bear these expenses, particularly since these expenses cast a burden at the margin on the borrowing developing countries. Developed countries should make available additional technical specialists and resources to help meet the demand.

We feel that the Fund need to develop and publish more analytic work on financial abuse with a focus on methodologies for estimating the magnitude of problem, preparation of a checklist highlighting different avenues for money laundering, and techniques to assess the impact of money laundering on national economies. They can also undertake cross-country comparisons of the regulatory, supervisory, legal, technological, and other practices, which may contribute to money laundering.

It is our view that cross-border implications of money laundering should not be raised by the staff during Article IV consultation if it is not macrorelevant for that member. However, if they do have a definite bearing or definite impact on the macroeconomic framework/situation of that country with possible destabilizing impact on the economy, this may be raised. This

approach would be in keeping with the basic mandate of consultations under Article IV.

In so far as India is concerned, realizing the serious threat that money laundering can pose to the financial stability and integrity, a Prevention of Money Laundering Bill is under consideration of the Indian Parliament. Money laundering in the bill has been defined in an exhaustive manner. Special courts would be set up for trial under the proposed Act.

Ms. Lissakers and Mr. Abbott submitted the following statement:

We appreciate the joint work of the Bank and Fund staffs in outlining a coordinated strategy for dealing with the problems of financial abuse. The paper brings together a good deal of material that has been touched on tangentially in earlier Board discussions of FSAPs, codes and standards, governance, conditionality, and offshore financial centers. The recommendations for enhanced economic analysis and increased technical assistance are useful elaborations of existing policies, and we support these recommendations. On crucial issues, however, the staff paper shrinks from recommending any advances over the status quo of current practices. This hesitancy, which may be due to uncertainty about where the Board wants to go, is particularly noticeable in the discussion of the FATF 40 principles and proposed working relations with FATF. Based on the question and answer session in February, we believe Board thinking has evolved and that there is now substantial support for a stronger interaction with FATF. Thus, I hope our discussion today will lead to a summing up that will take our policy a step beyond the status quo. Most of my remarks will be addressed to this point.

The staff paper ties itself in knots struggling with the question of whether the FATF 40 Recommendations should be considered the recognized international standard or only one of several competing standards. By now, this is a debate of mainly academic interest. As a practical matter, the international community has overwhelmingly adopted the FATF 40 as the recognized global standard on anti–money laundering. In addition to the members of FATF itself, the 40 Recommendations have been adopted by the five FATF-style regional bodies (APG, CFATF, ESAAMLG, GAFI-SUD, PC-R-EV). The 40 Recommendations have also been endorsed at a political level by numerous groups including the Asia-Europe Ministers' Meeting, the Committee on Hemispheric Financial Issues, the Commonwealth, the Financial Stability Forum, and the Gulf Cooperation Council (as members of FATF).

By our count, over 130 countries and territories, representing more than 85 percent of global population and 90 percent of global production, have made a commitment to adhere to the FATF 40 Recommendations. Sixty finance ministers have explicitly called for international financial institutions

to recognize the FATF 40 as a priority standard. The FSF has included it as 1 of the 12 standards in its Compendium of Standards. In all our work on codes and standards, it would be hard to find another standard that has been as broadly and repeatedly endorsed as the FATF 40.

Given the breadth of global support for the FATF 40, it is also clear that the world has also come to terms with some secondary issues that still vex the staff. The staff frets that the FATF 40 were originally drawn up by a group of industrial countries. True, like the Basel Core Principles, the FATF 40 did have their origins a dozen years ago in a grouping of industrial countries but, like the BCP, adherence is now global. Likewise, the staff posits that the FATF 40 may not be entirely appropriate for the developing countries. This is an issue the developing countries have settled for themselves. In the past year alone, two new regional FATF-style bodies have been created in South America (GAFI-SUD) and in Eastern and Southern Africa (ESAAMLG). These groups have been created with the FATF 40 Recommendations as the basis for their work.

As a first proposition, then, we think the Board should join the dominant international consensus and endorse the FATF 40 as the recognized international standard in combating money laundering. And when we do endorse the FATF 40, what implications should this have for the work of the Fund and the Bank? As the staff paper notes, the Fund and the Bank are already doing considerable work on aspects of anti–money laundering. This is currently a by-product of our work in strengthening financial systems, but it is an integral part of the Fund and Bank mandates. The standards that presently guide this work are not clearly articulated. In the case of the Fund, the main hook for our involvement in anti–money laundering is Principle 15 of the BCP, which deals with "know your customer" regulations, or the equivalent principle in the IOSCO and IAIS standards. This hook lets us root around in money laundering issues without requiring us to be specific about the scope of our work or the standards we are applying. That is insufficient, since the overlap between the financial supervision standards and the FATF 40 Recommendations is only partial, even with respect to that subset of the FATF 40 that deals exclusively with financial matters. Transparency and good governance would both be greatly advanced if we stated up-front that our work on anti–money laundering issues will be guided by the well-developed financial elements of the FATF 40 Recommendations. This would be far better than relying on an expansive but vague interpretation of Principle 15 of the BCP.

The staff paper makes a strong point that elements of the FATF 40 deal with criminal law enforcement matters that are outside the Fund's core areas. We agree. On numerous occasions my authorities have stated our view that Fund work on anti–money laundering issues should not take it into criminal law enforcement matters. Still, we believe the staff has greatly

exaggerated the difficulties in this area. Most of the FATF 40 Recommendations that address criminal law enforcement matters deal with questions such as: does a country have laws that define predicate offenses? Or, does a country have a financial intelligence unit?

We do not think it breaches the core competency of the Fund or the Bank to inquire about matters of this sort. Staff identifies 15 of the 40 Recommendations as pertaining to the broad areas of law enforcement. My authorities conducted a similar review and identified only four recommendations that dealt with law enforcement matters outside the scope of Fund competence.

A key feature of the FATF 40 Recommendations is that they spell out a structure for cross-border international cooperation in controlling money laundering. The structure of cross-border cooperation is not addressed in any detail in the financial supervision principles. Hence, building our work solely around the financial supervision principles will not allow us to fully grasp this crucial dimension of combating money laundering. In our view, it is precisely the cross-border dimension of the money laundering problem that makes this an issue that the Fund and Bank should take up. Without cross-border cooperation, national anti–money laundering regulations quickly become unenforceable because the money flow becomes untraceable. There is a multilateral surveillance dimension to the work we are being asked to do that deserves much more prominence than it gets in the staff paper. Countries that have lax anti–money laundering procedures are likely to do more damage to others than they do to themselves. Promoting compliance with the FATF 40 is the best contribution the Fund can make to reducing the damage from money laundering.

So, as a second proposition, we believe the Board should agree that the FATF 40 will be incorporated into our work as a separate ROSC module.

As it is acknowledged that some elements of the FATF 40 Recommendations go beyond the competence of the Fund and the Bank, we also believe it is entirely appropriate to ask FATF specialists to participate in Fund and Bank missions that are reviewing compliance with the anti–money laundering standards. FATF has offered cooperation, and we should take up that offer.

Thus, our third proposition is that, contrary to paragraph 44, the Board should agree that joint missions by the staffs of the Fund and the Bank with FATF or regional task forces are to be encouraged.

With increasing frequency, Article IV reports are including discussions of anti–money laundering practices in countries where money laundering is a concern. We welcome this and hope to see it expand.

As a closing remark, my authorities have identified several inaccuracies in the paper. If the paper is to be published, we would hope to see these corrected before publication. Most of these points can be reviewed bilaterally with staff, but we would like to call the attention of the Board to two items of misstatement or misinterpretation that we consider particularly troublesome. Footnote 25 indicates that the FATF, as a part of its NCCT exercise, is contemplating countermeasures that could violate IMF Articles of Agreement and possibly WTO rules, and suggests that FATF's approach may be at odds with international law. The United States is a member in good standing of all three of these organizations, and we believe this statement concerning compliance with international law is dubious, at best, and should not have been asserted in a Board paper that might be widely circulated without a detailed discussion of both sides of the relevant legal arguments. On a different subject, contrary to paragraph 38, it is my authorities' understanding that, in public meetings, the president of FATF has stated that he did not expect the Fund or Bank to enter into areas beyond their mandates, and that it is possible for them to focus on only those FATF standards that are relevant for the work of the Fund and the Bank.

Mr. Mozhin and Mr. Palei submitted the following statement:

We thank the staff for a balanced and a comprehensive report on possible enhancements in the current activities of the Fund and the Bank in combating financial abuse and money laundering. Money laundering is a global problem and, being a part of the fight against underlying crimes, it calls for a multilateral approach and for enhanced cooperation among various agencies.

The FATF 40 principles are widely recognized as a leading international standard to guide the anti–money laundering efforts in many countries and, in one form or another, these principles are reflected in other relevant standards. The reputation of the FATF is also high and the fact that last year Argentina, Brazil, and Mexico joined the organization bodes well for further strengthening of the FATF's status. Russia is among 15 countries that were placed on the NCCT's list. During the last year our authorities benefited from the technical assistance provided by the FATF experts, and they intend to resolve outstanding issues as soon as possible.

When deciding on the use of the FATF 40 by the Fund, we should consider whether this standard contains enough elements relevant to the Fund's mandate that would justify its active use by the Fund. The answer to this question is not straightforward. It is no accident that, despite an extremely intensive search by the Fund for international standards relevant to its mandate during the last three years, the FATF 40 are not among them. One of the major reasons, from our point of view, is the fact that the main goal of this standard does not aim at the soundness of macroeconomic policy, the

provision of the reliable and timely data, or the soundness of the financial sector recently added to the list of the Fund's core areas. The main objective of the FATF 40 is the fight against crime. Such understanding leads us to the following answers to the questions listed in the issues for discussion: the FATF 40 should not be endorsed as a standard useful for the Fund's operational work; the FATF should not be invited to prepare a ROSC module; and the Fund is not a suitable forum for coordinating technical assistance in the area of money laundering.

Similar to the situation with OFCs and for obvious reasons, there is no conclusive empirical evidence on the economic effects of money laundering, let alone on the scale of its macroeconomic effects. In light of the attention and the amount of resources devoted to combating money laundering in many industrial countries, we doubt that additional research could advance much further in gathering data and generating missing empirical evidence.

This is not to deny that, for some countries, money laundering issues could probably pass the macroeconomic relevance test. In our view, and consistent with the intention to focus the activities of the Fund on its core areas, only in such cases the Fund in its surveillance or conditionality could and should address money laundering directly. If called for, the staff should explicitly and in sufficient detail explain the need to address money laundering in a particular country.

Having said that, we believe that the Fund can still enhance its contribution to combating money laundering and we now turn to some of the more useful proposals presented by the staff.

Given the importance of money laundering issues, it would be a mistake not to use the already existing capacity of the Fund to assist the authorities and, if the authorities agree, the FATF in detecting and eliminating problems with money laundering. As the staff has clearly explained in their paper, the Fund and the Bank are already doing a lot of work on combating money laundering, primarily, under the FSAP framework. This is clearly demonstrated in Table 3 of Annex II, which shows that all of the FATF 40 principles relevant to the Fund's work are already covered by three other standards (BCP, IAIS, and IOSCO). Given this fact, the staff claims that it would be possible and reasonable from the resources availability point of view, to focus the existing FSAP analyses on money laundering issues and, for some countries, to prepare a technical assistance note. While realizing that the main target of the FSAP is the soundness of the financial systems in member countries and not the fight against crime, we would welcome the preparation of such TA notes on money laundering as a by-product of the FSAP. Accordingly, we support the staff's proposal to prepare a methodology paper on this subject.

We favor a closer cooperation between the Fund and the FATF. As the staff has explained in their paper, at a current stage, there is room for improvements in the activities of the FATF. As the staff have emphasized, several characteristics of the FATF, of the FATF principles, and of their application give reasons for concerns. We would refer to the still-limited membership of the organization (31 countries) and the organization's intention to limit membership. Some of the FATF principles are treated more comprehensively in other international standards, and the standards are ripe for a major revision. The application of the standards to nonmember countries when only 29 countries have been covered (which resulted in "name and shame" approach) is broadly seen as a controversial practice. Finally, again, as the staff have pointed out, threats of applying sanctions that could be in violation of Article VIII 2(b) of the Fund's Articles and of the WTO rules call for an enhanced dialogue between the FATF and other multilateral organizations. Hopefully, the intensified cooperation between the FATF and the Fund and other organizations will lead to a more consistent and efficient approach.

We agree with Mr. Shaalan's concern about the pressure on the Fund's resources. The staff's proposal to allocate additional 200 staff weeks to the work on money laundering, in our view, is barely sufficient to cover the degree of Fund's participation favored by this chair.

Mr. Wei submitted the following statement:

Staff is right that financial sector issues are central to the Fund's mandate. Anti–money laundering activities potentially pose a threat to the development and stability of the financial system. A number of anti–money laundering issues are closely related to financial supervision and regulation and, therefore, have systemic implications. This falls into the Fund's core responsibilities. I fully support that the Fund strengthens efforts in anti–money laundering in relation to its core responsibilities, through (a) intensifying focus on anti–money laundering elements in relevant supervisory principles; (b) working closely with major international anti–money laundering groups; and (c) increasing the provision of technical assistance.

In regard to noncore anti–money laundering issues, the Fund has to be careful. Macrorelevance may not be the best guideline. The "if can't rule out, then rule in" test, as suggested in footnote 3, worries me more. Almost everything under the sun, including religion, the political system, the legal system, and the environment, can arguably be macrorelevant. We have to ask ourselves if the Fund is the most appropriate organization to do the job, and if it has the expertise and resources to do it. In my view, for noncore issues, we have to qualify "macrorelevance" in the context of the Fund's mandate (promotion of macroeconomic stability and growth).

The issues of resource implication and international cooperation/coordination are linked. Better coordination with other international organizations or task forces can reduce the resource requirements. A number of international organizations are already fighting against money laundering, with some focusing on financial/supervision matters, some on legal/criminal enforcement matters, and the rest addressing both. I am particularly impressed by the efforts of the UN. I note that the UN has essentially the same membership as the Fund's, and its anti–money laundering work has a wide coverage/focus and deals with matters in greater detail compared with FATF 40. Its mandate is probably different, and hence its methods of assessment or assistance to improve compliance are unlikely to be exactly what we want. I am interested in how different we are in all this. Is it possible for the Fund to work with the UN, perhaps just on the Fund's core areas, and share findings? Alternatively, is the UN willing to share its findings with the Fund? The Fund can do additional work to meet its objectives, and share its findings with the UN in return.

Resources are only one concern. The world wants to see a more focused IMF. We have to be sensitive about the issue of division of labor with other international organizations.

The issue of recognizing FATF 40 Recommendations as the standard for the Fund's operational work requires careful consideration. On the one hand, the fact that many international organizations or groups use standards, criteria, treaties, measures, and so forth that are consistent with FATF 40 suggests that FATF 40 must be a good, useful, and well-respected standard. On the other, the fact that they all develop their own tools, rather than using just FATF 40, means that FATF 40 does not fit the mandates of these organizations all that well. For the Fund, since FATF has a much smaller membership (comprising relatively well-developed economies), there is clearly the issue of whether the standard is applicable to developing countries. This Board works in the interests of its entire membership, including those who are members of FATF as well as those who are not. If the Board wants to consider adopting FATF 40 as its own standard for the Fund's work, it should go through the formality of approving it. I believe this is an important standard and the Board should look at it more closely.

On the issue of separating legal/criminal enforcement matters from financial regulation and supervision, staff says that the experts from FATF and UNDCP view it as highly problematic, while Mr. Oyarzábal confirms in his preliminary statement that the president of FATF thought that this could easily be done. The experts themselves may be changing their minds. Nonetheless, this highlights the fact that whether the FATF 40 can be split or not is probably a matter of opinion (not a technical matter). This Board perhaps also has its own opinion after looking at it more closely. Moreover, if a paper on FATF 40 is to come to the Board, I would prefer seeing a revised,

up-to-date version, which staff has thoroughly examined and discussed issues such as applicability to all members, including the developing countries. The existing FATF 40, according to staff, is outdated and has inconsistencies. Given the state of the existing FATF 40 and the reasons I have given above, I have strong reservations that (a) this Board should rush it through today and say "we'll take it anyway" and (b) FATF is to be invited to prepare a ROSC module based on FATF 40.

To develop expertise in anti–money laundering work, I support the proposal that the Fund conduct more research or analysis in both the core and noncore issues. Part of it can focus on providing evidence that supports the Fund's involvement in some of the noncore issues. However, it is imperative that we also encourage and be prepared to publish research, which may find that some issues generally have little relevance for macroeconomic stability and growth. For those issues, the Fund should not be involved. At this stage, I believe the level of publicity that can be achieved through publishing more research on money laundering and hosting seminars and workshops is probably enough. It is premature for the Fund to make public statements, which tend to pre-empt research findings.

Finally, in many places the paper does not always make a clear distinction in its references to financial abuse and money laundering. Many terms, such as "financial abuse," "money laundering," "financial abuse, including money laundering," "financial abuse, and money laundering specifically," and "financial abuse and money laundering" are not used carefully enough. According to the background paper, financial (or financial sector/system) abuse has a much wider definition, which even covers tax avoidance and stock manipulation. Financial crime is a subset of financial abuse, and money laundering is a subset of financial crime. I understand that, in some cases, it is necessary to say financial abuse and not money laundering, because it is referring not only to money laundering but also to other financial abuses. However, there are so many places in which terms such as "financial abuse including money laundering" are used when it is not really necessary. I am concerned that Directors may unconsciously follow the usage of these terms in their statements, which will then go into the summing up. For example, a sentence like, "Directors agree that the Fund should fight against financial abuse including money laundering" suggests that the Fund also has to fight against tax avoidance, low tax rates, and exchange controls, which are considered legitimate in some jurisdictions as noted in the background paper. Today's meeting, as the topic suggests, is to discuss anti–money laundering, but not other financial abuses. I hasten to add that I am not suggesting that we should not fight other financial abuses. We should. But it is not sensible to say we are going to fight something, without knowing for sure and precisely what we will fight and what we will not.

Mr. Cippà submitted the following statement:

We thank the staff for providing us with a useful overview of how existing Fund and World Bank work in the area of financial abuse and money laundering fits into the wide-ranging activities of other international organizations. Let me stress at the outset that this chair attributes great importance to addressing the global issue of financial system abuse through international cooperation. Today's discussion is a welcome opportunity to see how this objective can be enhanced by addressing the fundamental questions on how the work of Fund and the World Bank can be better integrated in the fight against financial abuse and money laundering.

We think our deliberations on how to strengthen the Fund's role in this area should be based on two important premises. First, like Messrs. Callaghan and di Maio, we are convinced that any additional activities regarding financial abuse and money laundering should be limited to those that are clearly within the Fund's core mandate, i.e., the promotion of financial and macroeconomic stability and growth. We welcome the fact that the paper narrows down the scope to the issue of money laundering and rightly stresses the subsidiary role of the Fund relative to other more specialized organizations. Our cautious approach to extending the Fund's tasks on anti–money laundering is guided by the desire to avoid overlaps with other organizations and take into account the limited availability of in-house technical expertise. We are reassured in our position by the staff's own assessment that the provision of technical assistance in this area would represent a significant resource commitment by the Fund and the World Bank, which would take both institutions into areas outside their expertise and mandates.

Second, we have to accept the fact that while financial abuse is a legitimate concern and deserves high priority on the international agenda, the linkage between financial abuse—as just one of the many concerns of financial sector supervision—and financial instability is unclear. In our view, it would seem straightforward to acknowledge that the overriding objective of combating money laundering is tackling predicate crimes.

To our knowledge, no practicable methodology exists to measure the magnitude of "dirty money" generated by criminal activities. Moreover, we think that the macroeconomic dimension of money laundering has not yet been sufficiently understood, e.g., the plausibility and the extent of adverse impacts on national and international financial stability due to illegal financial transactions. While one can argue that money laundering corrupts the financial institutions and thus impedes the development of the financial system, this argument would also benefit from further analysis.

Staff correctly points out that anti–money laundering issues have already gained importance within the Fund, particularly in the area of promoting international standards. In our view, many of the calls for increasing the Fund's contribution to combating money laundering have, to some extent, already been answered in the context of its ongoing activities with respect to financial sector regulation and supervision. However, so far, the Fund's involvement in members' efforts to combat money laundering has been a by-product of the assessments of members with sizable financial markets. The systematic coverage of anti–money laundering efforts would thus represent a new (and much more resource intensive) approach rather than being merely a reinforcement.

Staff proposes five areas in which the Fund and the Bank's contribution to existing efforts to combat money laundering could be enhanced. We see merit in helping to better publicize the importance of countries taking measures to protect against financial abuse and money laundering. As we have already mentioned, the Fund and the Bank also have an important role in filling the large analytical gaps in areas such as the macroeconomic dimensions of money laundering.

We also support the general proposition to recognize the FATF 40 as a useful standard for the Fund's operational work. In doing so, however, questions arise concerning those members that are not yet members of the FATF and have not started the exercise of "benchmarking" against these recommendations. Furthermore, the issue whether the standard is a meaningful measure for countries with rudimentary financial systems is not yet clear. We are also not sure how the Fund, the World Bank, or others would support countries in moving toward the FATF standard. We can support a Fund involvement that concentrates on relevant supervisory principles and corresponding technical assistance. From a practical point of view, we wonder how technical assistance in this area would be coordinated with other bilateral and multilateral providers of which there are very few.

As regards the inclusion of assessment by the FATF and others into the ROSC process, we agree with staff that this would raise a number of difficult questions, primarily related to the assessment process. This possibility should only be considered at a later stage.

As regards to the proposal to draft a methodology document, we have some reservations. Based on the information in the staff report, we see a risk of creating a new "de facto" code that would duplicate existing FATF recommendations and principles by other bodies and would serve for assessing compliance. Crucial questions should be clarified before moving ahead with this initiative.

Who would be subjected to such an assessment and how would the equal treatment of members and transparency be assured? In monitoring the compliance with anti–money laundering standards, the evaluation of FATF members should, in our view, be left to the FATF itself. Since money laundering is primarily conducted through financial systems at a certain advanced stage of development, it may not be warranted to subject all non-FATF members to this exercise. Also, ways must be found to avoid duplicating the monitoring activities of FATF regional groupings.

In what context would such assessment possibly be conducted? The FSAP seems to be the vehicle of choice for such assessments. While we agree that the FSAP is the appropriate instrument for monitoring members financial sectors, including their regulatory and supervisory framework, we strongly believe that the agreed purpose and focus of the FSAP should not be altered. It is not clear to us whether the proposed closer assessment of compliance with anti–money laundering principles will lead to a shift in the focus of the FSAP, thus diminishing the overriding stability objective that is its hallmark. In our view, the assessment of the five core standards is already a heavy burden. While additional guidance derived from the FATF 40 is useful, we have doubts about the benefit of adding a further standard assessment geared towards money laundering based on a methodology document.

As stressed before, we can support an involvement of the Fund in anti–money laundering issues provided the focus is maintained on relevant supervisory principles and corresponding technical assistance. However, it is not clear to us what the staff means by suggesting a "strengthened policy dialogue." Would this strengthened dialogue take place within the framework of the FSAP and the OFC Assessment? Or would the strengthened policy dialogue also refer to contacts in the context of the Fund's program and surveillance discussions? Since the macroeconomic relevance of money laundering cannot a priori be established for most countries, we see no justification for making these issues a standard feature, in the sense of a further "checklist item," of Article IV consultations. In addition, it is difficult to see in what form cross-border implications of money laundering would be raised during such consultations, given the clandestine nature of this activity and the lack of data. This does, on the other hand, not preclude discussions where the problem is pertinent.

Given the many open questions and incomplete guidance about the Fund's role with regard to the issues discussed, we suggest to postpone drawing conclusions on additional resource needs. We consider it timelier to lay the groundwork before deriving resource estimates. Given the specific expertise needed in this field, we have good reasons to believe that a broadening of the mandate as suggested by the staff will require more that five extra staff years.

Mr. Usman submitted the following statement:

The staff paper before the Board today has provided some useful insights on a somewhat complex subject that involve issues of legal and criminal enforcement as well as regulation and supervision of financial institutions. We commend the staff for being candid in describing the current work by both the Fund and the World Bank in helping the membership to effectively counter financial abuse. The staff has been careful in proposing the extent of further involvement of the two institutions in combating money laundering. Undoubtedly, this paper has benefited from the informal question and answer session and the joint Fund/Bank workshop on financial abuse both of which helped to clarify some important issues that should circumscribe the role that the Fund and the Bank in the fight against financial abuse.

We can all agree that money laundering is a serious and widespread problem that should be countered by effective and cooperative action by both developing and developed countries, including the active involvement of all relevant international institutions. The request by the IMFC for this joint exercise by the Fund and the World Bank was a clear recognition of the complexity of the problem and the important contributions that the two Bretton Woods institutions can make to reinforce existing efforts to help member countries improve their regulatory and supervisory systems to prevent money laundering and financial abuse. We believe that the current role of the two institutions should be strengthened in the context of their overall mandates.

Before discussing the proposals set out in the paper, it would be proper to make some general remarks in order to provide the background to our position on the specific questions to which the staff have has invited our comments. First, it should be recognized that money laundering is a global problem and not necessarily confined to those developing countries with weak regulatory and supervisory systems. The examples included in Annex III clearly suggest that the problem is equally serious and intense in the major financial centers. It is, therefore, somewhat surprising that the overall tone of the paper seems to emphasize the weakness of institutions in developing countries. Perhaps more significantly, FATF membership and procedures also seem to indicate that the problem is more significant in other non-FATF countries which are evaluated using 25 Criteria, reformulated and derived from the FATF 40 Recommendations. Moreover, there are serious punitive consequences when FATF considers a country noncooperative. Indeed, there appears to be some serious inconsistencies in the application of the principles and we would appreciate if the staff could elaborate on instances where sanctions were applied to a FATF member.

Second, this dichotomy in the treatment of countries outside FATF membership serves to underline the importance of the cooperative character of

Fund membership as an essential element that ensures uniformity of treatment. In the context of its underlying core purposes of promoting macroeconomic stability, the Fund rightly focuses on prevention of financial abuse and money laundering by assisting member countries in developing robust frameworks for effective regulation and supervision. We strongly believe that this role should be reinforced since prevention could be more sustainable over time. The anti–money laundering issues, which are mainly associated with law enforcement, are beyond and should remain outside the scope of the Fund. Besides, the Fund does not have the capacity nor the expertise to undertake these activities. To effectively combat money laundering, the attention of the international community should continue to focus on tackling the problem at its source. FATF and other specialized institutions represent a significant effort that perhaps require improvement.

Third, the possibility of increasing the role of the Fund in combating money laundering, therefore, should be considered in the context of macrorelevance and some have attempted to draw this link. The arguments emphasize governance issues, which again imply that financial abuse and money laundering are problems mainly associated with weak institutions. This is not certainly the case, especially considering that financial crime has often occurred in countries with well-developed institutions. Moreover, although attempts have been made to measure the cost of financial abuse, crime, and money laundering, there is little evidence linking this problem to financial instability. Nevertheless, there are still compelling reasons why we should consider strengthening the role of the Fund and the World Bank to combat money laundering.

This being said, we find the proposals by staff to be appropriately cautious, requiring careful consideration before they are fully incorporated in the work of the Fund. In this regard, we are somewhat troubled by the proposition to endorse as an international standard the FATF 40 Recommendations. As already indicated, a significant number of these principles are associated with law enforcement for which the Fund does not have the mandate and the expertise. Besides, the ongoing revisions should add clarity to the mission of the task force and it remains unclear how much others are being involved in shaping the principles and procedures in order to achieve greater inclusiveness. In this connection, we place emphasis on uniformity of treatment if the FATF is to be invited to prepare a ROSC module. Accordingly, we agree with staff that FATF should not be invited to prepare a ROSC module at this stage.

Likewise, while we have no difficulty with the Fund increasing its working relationship with the major anti–money laundering groups, we cannot support joint missions with FATF that would involve criminal law enforcement activities. Here, considerable caution should be exercised to avoid overburdening Article IV consultations or conditionality. Instead, we

see greater Fund involvement through existing vehicles such as FSAP and ROSC exercises and the provision of technical assistance. Otherwise, we would have no difficulty with proposed publications of the relevant information and the intensification of anti–money laundering elements in relevant supervisory principles. While acknowledging that technical assistance could form an important vehicle for combating financial crime, such assistance should be made in response to requests by the authorities in the context of their national priorities.

We note that the Fund is now being asked to undertake additional work and we would support the proposal to provide adequate resources. In any case, any provisioning for this work should be made in the context of budget priorities. To the extent possible, redeployment should be minimized to avoid needless adjustments with in core priority areas.

Mr. Bernes submitted the following statement:

My authorities welcome the opportunity to discuss how the Fund can enhance its contribution to the international effort to combat money laundering. My Caribbean constituents, in particular, look forward to the Fund playing an enhanced role. Under the Fund's auspices, they can be assured of appropriate representation, and a process that is fair, transparent, cooperative, and delivers uniformity of treatment. Such principles have not always been evident in the approach taken by other fora to date.

Let there be no misunderstanding about this: my constituents take the fight against money laundering very seriously. Abuses of the financial system, particularly the large-scale abuses that occur in the major financial centers, can seriously weaken the integrity of the international financial system, thereby posing serious risks to its soundness and stability. Such risks are particularly worrisome for the smaller countries that are staking their economic diversification plans, and in some cases their economic futures, on the provision of international financial services. As the Prime Minister from Barbados recently stressed, all countries must be committed to a zero tolerance policy towards money laundering. And while they are at different starting-point levels in terms of implementation, this is indeed the prevailing attitude among my constituents.

I agree that the policy and background papers should be published. For the remainder of my statement, I would like to concentrate on the most important issues brought to light in the policy paper.

Recognizing the FATF 40 as an international anti–money laundering standard for the Fund's operational work

A major challenge will be to recognize the relevant FATF recommendations without endorsing—or being seen as endorsing—the FATF process. Facilitating (even implicitly) the punitive sanctions process envisaged by the FATF would do significant damage to our standards assessment exercise, thereby undercutting an important pillar of our effort to strengthen the international financial architecture.

There are two issues here: recognition of the FATF 40, or subset thereof, as an international standard, and the modalities by which the FATF recommendations could be used in the Fund's operational work. With respect to the first issue, I agree that those FATF 40 Recommendations that are relevant to the Fund's mandate should be adopted for use as an anti–money laundering standard in the Fund's operational work. There is a question, however, about whether the Fund should recognize all of the FATF 40 as a standard for operational use, or if only a subset of the FATF 40 should be recognized.

On the one hand, because all of the FATF 40 Recommendations—both those relating to financial/supervisory issues and those relating to legal/criminal enforcement issues—were designed to deter and prevent criminal activity, it is highly problematic to split them up for assessment purposes. On the other hand, the Fund's mandate is not to deter and prevent criminal activity per se, but (in part) to strengthen financial systems. Given that our mandate is different from that of FATF, and therefore the way in which we operationalize anti–money laundering recommendations will be somewhat different, I do not think that the FATF's argument against splitting up the 40 Recommendations has any relevance for the Fund.

Clearly, those of the FATF recommendations relating to legal/criminal enforcement are not within the Fund's mandate or expertise and should not be incorporated into our operational work. It makes little sense, therefore, to recognize this subset of the recommendations as a standard to be used in Fund/Bank operational work. Moreover, at their meeting in Toronto last week, Western Hemisphere Finance Ministers agreed to "adopt, as a recognized international standard in ROSCs, those of the FATF 40 Recommendations that are relevant to the Fund's mandate." I agree with the approach advocated by the Western Hemisphere Finance Ministers.

This brings me to the second issue, namely how should the relevant FATF recommendations be incorporated into our operational work? As a general principle, this must be done in conformity with the recently-agreed modalities for assessing our existing standards, as outlined in the Summing Up by the Acting Chairman on Assessing the Implementation of Standards—A Review of Experience and Next Steps (SUR/01/13). It will also be important, in this context, to ensure that the relevant FATF recommendations themselves ascribe to the attributes of the existing standards.

Among other things, this implies that

the adoption and assessment of the relevant FATF recommendations will remain voluntary;

there must be uniformity of treatment, where the same standard is used to assess all Fund members (be they FATF members or not);

the standard should not be constructed or assessed in such a way as to resemble a pass-fail test or a country rating;

the assessment should report on progress made in implementing the recommendations and plans for further implementation;

the authorities' views on the assessment, as a right of reply, should be incorporated into the resulting report; and

the use of the relevant FATF recommendations in Fund surveillance should follow "Option 2" as agreed in our recent discussion on standards assessments.

There is one point that I would like to emphasize in particular, and that is the need to ensure a voluntary and cooperative approach. A lot of work remains to be done on this front. To date, the FATF has adopted what is seen by many outsiders as a coercive approach vis-à-vis nonmembers. Sovereign, but non–FATF-member states, have been assessed involuntarily, according to a process that does not allow for their participation, and followed by the threat of sanctions for alleged noncompliance. Clearly, the Fund cannot implicitly or explicitly condone such an approach.

It follows that the main implication to be drawn concerning the preparation of ROSC modules is that, as the staff paper points out, in order to avoid confusing different purposes and methods, we have to rule out either inviting the FATF to prepare a ROSC, or joint Fund/Bank/FATF missions. The staff paper recommends that the Fund/Bank staff could contribute to the ongoing revision of the FATF 40, discussing the principles behind the ROSC procedures and the attributes of existing standards, and come back to the Board with a report and recommendations. I support this proposal.

The Fund and Bank need not wait for the results of the above-mentioned report to begin enhancing its contribution to combating money laundering. As suggested by staff, a new methodology document could be created that would deepen assessments of compliance with the anti–money laundering aspects of the BCPs, and the IOSCO and IAIS Principles.

I think this approach contains significant merit, and I support it. Preparation of such a document would be relatively quick, and the focus would be consistent with the Fund's mandate, while at the same time coverage would be broad enough to encompass the essence of the FATF recommendations relating to anti–money laundering financial/supervisory

issues. Indeed, such a document would benefit from the comments of the FATF, regional FATF bodies, the UNDCP, and other relevant groups.

I would make one recommendation. In developing the proposed methodology document, and/or when the resulting assessment reports are drafted, it would be useful to explicitly recognize where the BCPs, and the IOSCO and IAIS Principles overlap with the FATF recommendations. This would reinforce the recognition given to those FATF 40 Recommendations that are relevant to the Fund's mandate as a standard for operational work, and it would clarify countries' performance relative to the relevant FATF recommendations.

Publication of the detailed assessments should follow that agreed for other ROSCs. Publication could take place with the member's agreement and after notice has been given to the Board. Publishing would allow countries to bring into the international public domain an unbiased evaluation of the quality and comprehensiveness of their anti–money laundering regimes, thereby clearing potential misperceptions that may have arisen from the process followed to date.

I agree with the proposals to enhance our public pronouncements with respect to financial abuse and money laundering, including by the IMFC.

I also support the proposal to undertake more research on the macroeconomic and development aspects of money laundering. Countries will be more willing to commit scarce resources to the implementation of anti–money laundering policies if the evidence of a payoff is convincing. Among other things, I would like this work to incorporate an assessment of the relative degrees of prevalence of financial abuse across different financial centers.

I agree with the staff's proposals on deepening cooperation with the FATF and the regional FATF bodies. I also believe that it would be in members' interest to share voluntarily information with the FATF on the observance of relevant principles.

I see no reason why the cross-border implications of money laundering should not be raised informally in discussions with authorities whenever useful and relevant. However, as noted above, in Article IV consultations, the modalities for using those FATF recommendations that are recognized as a standard will have to follow the so-called "Option 2" process agreed at our recent discussion on standards assessments. This process spells out the need for relevance with respect to the Fund's mandate, and with respect to the member's macroeconomic circumstances. On the latter point, I would note that macroeconomic relevance can be viewed from governance and macroeconomic/financial/external stability perspectives.

Technical assistance will be required for many countries to implement effectively anti–money laundering measures. I concur with the staff's proposal to increase Fund-provided TA for those recommendations that are relevant to our mandate and to leave the coordination of the broader money laundering technical assistance to the FATF and the UN. The prioritization of our TA requests should follow the procedures agreed by the Board at our discussion on the alignment of technical assistance with the Fund's policy priorities (see Preliminary Statement/01/2).

Financial sector issues are part of the Fund's core mandate, and those anti–money laundering issues that relate to financial supervision and regulation, and contribute to macroeconomic and financial stability, are encompassed by the Fund's mandate. The financial implications of enhancing the Fund's focus on such issues will need to be met in the context of our budget.

The increased resource burden resulting from enhancing technical assistance, however, should be met from external resources. Canada, for its part, announced last week that it will contribute $8 million toward the creation of the Caribbean Regional Technical Assistance Centre, and a further $5 million per year for a program of technical assistance to help strengthen financial sectors in the Caribbean and elsewhere. In this context, I recognize the ongoing resources G7 countries have devoted to providing technical assistance for anti–money laundering purposes and very much welcome the G7 offer to provide further TA resources to those countries committed to improving their anti–money laundering regimes, and I look forward to them making good on this offer in the near future.

Mr. Djojosubroto submitted the following statement:

We would like to thank staff for providing a useful summary of existing international efforts in combating money laundering. This, together with the earlier background paper (SM/01/46), provide a good basis for our discussion today.

As noted in the background paper, there is no precise definition of what constitutes financial abuse. In its broadest meaning, financial abuse encompasses illegal activities that may harm financial systems as well as other activities that exploit the tax and regulatory frameworks with undesirable results. Financial fraud falls under the first category while money laundering under the latter category. The impact on the financial institution is different in either case. In the case of financial fraud, the financial institution itself is the victim and may incur losses as a result. In the case of money laundering, however, the financial institution is merely the instrumentality through which proceeds of crime are transferred or kept.

While we agree that money laundering may cause disruptions to the proper functioning of the financial system, like Mr. Callaghan, we do not believe that a case has been made to support the notion that money laundering threatens the stability of financial systems and institutions. There is more than sufficient evidence that fraud can cause the collapse of financial institutions and hence threaten the stability of financial systems, but so far, to our knowledge, there has been no incidence of a financial institution's failure caused by money laundering. We would, therefore, argue that financial fraud poses a much greater danger to financial system stability than money laundering, but unfortunately, our discussion is focused only on money laundering. It is difficult for us to appreciate the contention that money laundering is a threat to financial stability and hence, on this basis, falls within the mandate of the Fund. Staff may wish to comment on this.

Another often-misguided impression is that money laundering is more prevalent in developing countries and offshore centers. In this regard, we note with interest a recent report by a U.S. Senate subcommittee which estimated that US$1 trillion is laundered each year, of which about US$500 billion is laundered through the U.S. Yet despite the sizable amount of funds being laundered through the U.S. financial system, no one has ever questioned the stability of the U.S. financial system on the basis of massive money laundering activities. It is our view that money laundering poses a problem to both developed and developing countries alike. We would not be surprised if a careful investigation of every money laundering chain reveals the involvement of a major financial institution with a wide international presence. As such, we fully share Mr. Portugal's sentiments that we should not only focus on small countries where the proportion of financial transactions with nonresidents may be high in relation to total financial transactions, but loose sight of the significantly larger volume of nonresident financial transactions in the major financial centers.

Having said that, however, we fully agree that money laundering is a matter of global concern and there is a role for the Fund in this regard. Combating money laundering per se is not within the Fund's mandate, but promoting sound and prudent financial supervisory systems are. An effective supervisory system and a robust legal framework can form the basis for effective anti–money laundering efforts. We, therefore, agree with the Managing Director that the issue before us is how, not whether, the Fund can contribute more effectively to this effort. As staff and other Directors have already noted, the Fund and the Bank have already been complementing global anti–money laundering efforts through their efforts in helping to strengthen supervision and promoting sound legal and institutional frameworks in member countries, and through their work in FSAPs, ROSCs, and improving governance.

We agree that the general approach as outlined in Box 1 of the staff report provides a useful basis for enhancing the Fund's and the Bank's contribution to international efforts in combating money laundering. However, we would appreciate staff's clarification on how to avoid duplication of efforts with the various international bodies, in particular, the FATF. In this regard, further clarification on the proposal to develop a methodology document for determining compliance with key anti–money laundering elements would be helpful given that the FATF has already been conducting evaluations of its members and nonmembers based on its own methodology. Also, this could impose additional resource requirements on countries that have to deal with both an assessment by the Fund as well as the FATF and other international bodies. Staff's comment will be appreciated.

With regard to the question of whether the Fund should recognize the current FATF 40 Recommendations as an anti–money laundering standard, we do not think it is appropriate at this juncture given the reasons already outlined by staff. We also share Mr. Callaghan's view that the Fund's current work already adequately covers aspects of money laundering that is relevant to the Fund's mandate. We would also like to emphasize that, given the wide international membership of the Fund, any standard to be adopted or developed by the Fund should have wide acceptance or participation by its entire membership. In addition, the FATF's approach of "naming and shaming" noncompliant countries runs directly counter to the principle that there should not be a "pass or fail" test of compliance with standards and codes which this Board had endorsed. Perhaps, the forthcoming revision to the FATF 40 Recommendations will be a good opportunity for us to address these concerns before we can seriously consider recognizing the FATF 40 Recommendations as a standard for the Fund's work.

We also have reservations with the idea that staff could raise issues relating to cross-border implications of money laundering during Article IV consultation irrespective of their macrorelevance. We are of the view that the Article IV consultation should be focused only on issues of macroeconomic relevance. We would, however, support the Fund/Bank providing technical assistance to member countries, especially those that have limited resources, in their efforts to combat money laundering.

Mr. Zoccali and Mr. Le Fort submitted the following statement:

We commend the staff for the well-written paper, and welcome the Managing Director's candid statement on a complex subject that has important implications for every country. Criminal and illegal activities, whose proceeds are channeled through the financial system, should be of utmost concern since they are an important source of institutional weakening and may be a source of perverse incentives that restrict the development of welfare enhancing policies and of an efficient public sector. We concur with

other Directors that these negative global externalities require a firm and coordinated international response, as poorly regulated and supervised financial systems can pose a potential risk of transmitting financial instability to other countries.

We consider it important that all member countries participate in this effort and endorse the recommendations of the Financial Action Task Force. In our constituency, Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay participated in the initiative to create the South American Regional Financial Action Task Force and are actively working in implementation of anti–money laundering legislation and enhancing supervisory and monitoring systems consistent with FATF principles.

Regarding the Fund involvement in the fight against money laundering, three main concerns should be taken into account. First, money laundering and financial abuse are closely related to criminal and illegal activities, and the fight against these should be integral since such crimes are unlikely to be eliminated exclusively through appropriate financial regulation; second, although it is important to address the issue of money laundering and financial abuse holistically, Fund involvement in this issue should clearly exclude the many aspects that fall outside the Fund's expertise and responsibility, in particular those related to investigation and enforcement of criminal activities; and third, combating money laundering in itself becomes a relevant Fund responsibility to the extent that it fosters international cooperation and helps member countries to implement adequate policies to maintain macroeconomic and financial stability. The allocation of Fund resources to this end should be guided by these considerations.

The Fund undoubtedly plays an important role in helping its members maintain macroeconomic and financial stability through its surveillance, conditional financial support, and the provision of technical assistance, including for the design of prudential banking regulation and supervision. From this angle and taking into account the critical importance of a sound financial system to preserve macroeconomic stability, one of the main contributions of the Fund should be to help its members to develop institutions and regulations for the efficient and orderly functioning of the domestic financial sector.

In the aftermath of the Asian financial crisis, special emphasis has been placed on consolidating financial sector soundness. Central to these efforts has been the introduction of FSAPs and ROSCs, which are closely linked to the development and implementation of best practices and international standards. A well-functioning financial system should be predicated on a robust legal and institutional framework to prevent a broad range of financial abuses. In this connection, adequate disclosure and dissemination requirements facilitate not only orderly market conditions but

also the investigation and enforcement of anti–money laundering or financial abuse legislation. The increasing involvement in recent years of the Fund and the Bank in strengthening governance and institution building in member countries is a welcome recognition that without a strong institutional framework, the formulation and implementation of appropriate and timely policies would suffer.

In this regard, we generally agree with the staff's recommendations for enhancing the Fund's efforts in countering money laundering, as summarized in Box 1. We support the proposition that all countries, including those with major financial centers, act against money laundering and financial abuse, and recognize the FATF 40 as an international standard against money laundering, since they broadly overlap with the Basel, IOSCO, and IAIS Principles of supervision. On coordination between the Fund and FATF and the ROSC process, suffice it to underscore the need for uniform but a voluntary application to all members to ensure consistency and absolute ownership. We look forward to staff comments on the related questions raised by Mr. Portugal in his preliminary statement. Actions in the domain of law enforcement, or which relate to specific investigations, should in no way be seen as within the Fund's purview. Care must be taken to ensure that scarce human and financial resources are not diverted away from other more directly relevant tasks or simply an inefficient use of staff expertise which differs clearly from the specific skills required for investigation and law enforcement.

In attempting to define the extent of staff involvement, in Article IV consultations or other forms of surveillance, we see at most a role in analyzing existing regulations to prevent money laundering, as is the case with other financial sector issues. Money laundering issues per se should not constitute a regular or standard item of surveillance and be considered to the extent that these have macroeconomic relevance, the potential to affect the future stability of the national financial system, or to generate significant cross-border externalities. We concur fully with Mr. Portugal on the need for fairness and uniformity of treatment in country coverage and that industrial countries' territories and jurisdictions with special provisions on financial or corporate regulations also be included for the surveillance process.

In view of the importance of the task of prevention of money laundering and financial market abuse, we can go along with the proposed use of up to five staff years to accommodate the Fund's participation in the international anti–money laundering effort. In this regard, we also deem it important to avoid mission creep and agree with Mr. Portugal that technical assistance resources in this area should not be redeployed away from existing demands.

In sum, the Fund should help to strengthen governance and institution building and, more specifically, help consolidate financial sector soundness by

fostering national and international cooperation with relevant supervisory bodies and agencies to combat money laundering activities affecting its membership.

Extending his remarks, Mr. Wei noted that the Fund should not become involved in law enforcement activities. In addition, while Fund surveillance could usefully address anti–money laundering issues, it should not address such issues regularly as part of the Article IV consultation process unless there were good reasons to believe that they were threatening the macroeconomic or financial stability of a member. Nevertheless, anti–money laundering efforts should not be incorporated into Fund conditionality. Furthermore, the Fund should not use a "name and shame" approach with respect to members' adoption of international standards and codes, as the adoption of such standards and codes was voluntary. Finally, it was not clear that money laundering posed a threat to international financial stability.

Extending his remarks, Mr. Portugal observed that many of the requests to change some of the language in the staff paper were not based on fact, but were rather a matter of opinion. In that light, the only changes that should be made were those that corrected factual inaccuracies.

Extending his remarks, Mr. Milleron asked the staff to describe in greater detail its contact with the FATF and whether there were, or would be, any written exchanges between the Fund and the FATF.

Extending her remarks, Ms. Lissakers said that she was puzzled as to why several speakers were questioning the legitimacy of the FATF 40 Recommendations and the idea that standards relating to anti–money laundering efforts could not be incorporated into the Fund's work. There were other standards—such as the Basel Core Principles—with which the Fund worked with that not every member had been involved in designing or, like the FATF 40, were in the process of being revised—the two main reasons to which those speakers pointed when objecting to the Fund incorporating the FATF 40.

The Fund should not in any way become involved in law enforcement activities, Ms. Lissakers remarked. However, the Fund could ask members questions that may have some connection with law enforcement, such as whether a member had effective tax collection procedures or tax laws, or whether a member had a criminal statute against money laundering. Therefore, although some of the 40 Recommendations were related to law enforcement, the Fund could still ask questions relating to them in order to assess how effective a member's anti–money laundering efforts were, as the Fund did not need to have any expertise in those areas to ask such questions.

The major financial centers certainly needed to take the lead in anti–money laundering efforts, Ms. Lissakers noted. However, all jurisdictions would need to provide information on money laundering activities if those efforts were to be effective.

Mr. Callaghan observed that Ms. Lissakers seemed to be advocating a checklist approach to the FATF 40 Recommendations, an approach the Board had opposed using with

respect to the Fund's work on international standards and codes. Furthermore, how could the staff be expected to assess a response to a question relating to the law enforcement aspects of money laundering if it did not have the requisite expertise to analyze it?

Ms. Lissakers replied that the Fund would be assisting members through surveillance to determine whether they were meeting the requirements of the FATF 40 Recommendations. Furthermore, the Fund drew on outside expertise in areas where the Fund was lacking for both ROSCs and the FSAP exercise. Therefore, why could the Fund not proceed the same way with respect to the FATF 40 Recommendations?

Mr. Pickford asked whether the FATF 40 Recommendations had to be used as an integrated whole, or whether the financial/supervisory ones could be separated out from those relating to law enforcement.

Ms. Lissakers appeared to be saying that one could not determine whether the financial/supervisory standards would be effective unless one also knew whether there was an effective anti–money laundering enforcement regime, Mr. Pickford continued. For example, the Board had recently agreed that in the case of Kenya, anticorruption governance measures would not be effective unless an anticorruption authority also existed. In that connection, how would the staff expect to be satisfied that a member had an effective law enforcement regime in place if the staff did not possess sufficient expertise to make that determination itself?

Mr. Bernes observed that the problem revolved around the process the FATF had used to assess observance of the 40 Recommendations, not around the recommendations themselves. The conflict was between the process the FATF had used and the way ROSCs were used. The FATF 40 Recommendations could result in sanctions against a member, unlike the other standards and codes the Fund worked with, whose adoption was voluntary. Therefore, if the Fund recognized the FATF 40 would it also be condoning the sanctions applied on some countries? The solution would be to find a way for the Fund to disassociate itself from the penalty part of the FATF 40 Recommendations, but still use them as an anti–money laundering standard.

Mr. Milleron noted that money laundering was a global public bad. Therefore, a concerted effort was necessary to combat it, an effort that could best be carried out through the Fund's work on standards and codes, which would allow for equal treatment across the membership.

Mr. Oyarzábal said that the Fund would need to carry out more work on how to combat money laundering before any decisions could be made. The Fund would have to analyze the characteristics of the expertise that was available within the Fund and how outside expertise could complement it. In addition, the Fund would also need to examine the limits as to how far it could go in its efforts to combat money laundering.

Mr. Donecker remarked that the FATF 40 Recommendations should be kept together, and that the Fund should acknowledge the FATF 40 Recommendations in their entirety while

making it clear that the Fund would concentrate on those aspects of the FATF 40 Recommendations that were relevant to its mandate, leaving the criminal and law enforcement aspects to other bodies. In that connection, the Fund should discuss anti–money laundering efforts during Article IV consultation discussions only to the extent that they were connected to the Fund's mandate.

Mr. Portugal generally agreed with the ideas expressed by Messrs. Bernes and Donecker. While the Fund should recognize the FATF 40 Recommendations in their entirety, the staff should not ask questions relating to areas in which it did not have expertise, as the staff could not be expected to assess the answers given to those questions. Therefore, other institutions should be expected to delve into those matters with countries.

The "name and shame" approach that had been used by the FATF should not be duplicated by the Fund, as once a member was publicly criticized it would be hard for that member, even in the long run, to rebuild its reputation, Mr. Portugal said. Therefore, the Fund would need to pursue a cooperative rather than a confrontational approach in that area.

The Director of the Monetary and Exchange Affairs Department noted that the staff had intended to propose a way forward for the Fund to start addressing as part of its surveillance activity many of the issues that were connected with anti–money laundering efforts. However, the subject was complex, and the staff paper was intended to provoke debate among Directors in order to provide the staff with a better idea of how it should proceed in that area. One approach mentioned in the paper was, as a first step, to add anti–money laundering efforts to the preexisting work the Fund did based on the Basel Core Principles as well as the relevant IOSCO and the IAIS Principles. At the same time, the staff could continue to talk to the FATF and try to develop other means of incorporating efforts to combat money laundering into its work, such as through a ROSC.

Mr. Milleron asked how the FATF decided to use the process that it did and how was it carried out, and what contacts the Fund had with the FATF during that time.

Mr. Donecker noted that the paper required some editing before it was published in order to use language that would avoid hurting the Fund's relations with other institutions.

Mr. Portugal said that Mr. Donecker's proposal should be applied to future staff papers as well.

Mr. Kiekens made the following statement:

> The fight against financial abuse and money laundering is an issue of general interest for the financial system. Close international cooperation is essential for effectively combating financial abuse. I agree that an increased involvement of the Fund and the Bank in this area is beneficial. I support the proposal for a closer cooperation between the IMF and other international fora involved in money laundering and welcome the initiative already taken in this direction by the Financial Action Task Force (FATF).

The Fund should recognize FATF's 40 Recommendations as the anti–money laundering standard for its own operational work, following the earlier endorsement of these standards by the Financial Stability Forum. This recognition by the Fund will support the FATF's efforts.

FATF experts should be invited to help prepare the ROSC modules that review the compliance of member countries with those FATF recommendations that are relevant for financial stability. For the Fund to be involved in such ROSCs is in compliance with its mandate.

Determining which FATF recommendations are relevant for financial stability needs further research and ROSCs on compliance with the FATF standards might be a medium-term objective. Nonetheless, we agree with the suggestion of the staff to pay more attention during Financial Sector Assessments to supervisory rules and practices to combat money laundering.

It would be useful to further clarify the link between money laundering and financial stability, and thus the extent of the Fund's mandate in helping combat money laundering. I suggest that the Fund undertakes additional research in this area to clarify which FATF recommendations are essential for preserving financial stability. This will also provide a more solid basis for determining whether to require measures against money laundering as conditions for Fund financial support.

Mr. Kapteyn made the following statement:

Chairman, I very much enjoyed reading the paper and am in broad agreement with it. I welcome the key point in the Managing Director's preliminary statement that we macroeconomists should stay out of the law enforcement business. I also agree though—and I think that there is near consensus on this—that money laundering is important and that we should do what we can to help, within our mandate and within the bounds of our expertise. Such an approach sits well with the vision that this institution should focus on its core business and that we should avoid mission creep. I would also fully support publication of this paper.

Let me touch on the main issues in the paper.

Should the Fund, as an institution, endorse the FATF as the standard for anti–money laundering? In light of the discussion we just had, there is no need for me to go into the various pros and cons. Conceptually, one could maybe view the FATF 40 as two separate sets of standards, one set that has a financial focus and one set with a law enforcement focus. I believe it is fair to say that if this were the case, we would only support one set and not the other. Given that this is not the case, however, I have no problem with highlighting the importance of the FATF 40 Recommendations in combating money

laundering, while at the same time, making clear that we, as an institution, will only focus on those aspects relevant to our mandate and within our expertise.

I then turn to the issue of intensifying our efforts. The paper lays out that the Fund already does a substantial amount of work that has a bearing on money laundering issues—and there is no need for me to repeat the various aspects here. This work is not confined to technical assistance but also stretches out to surveillance and conditionality, and now more recently to FSAPs and ROSCs. I think this is wholly appropriate. After all, we have existing guidelines on surveillance and conditionality, which stipulates a macrorelevance test. If something is sufficiently macrorelevant and it is also crucial to a program, we should obviously do it. At the same time, our existing guidelines preclude a shopping list approach where we ask staff to look at a long list of potentially important/relevant issues. Staff thus has flexibility to focus on the most important issues. If they believe money laundering is one of the key issues confronting a country they should by all means address it and indeed this is what has happened in the past.

The question now put before us is if we should do more. While I understand the reaction to say "of course we can do more and try harder" it is not a priori clear to me what "doing more" means. If we assume, for instance, that our budget is capped, then increased attention for money laundering would be a zero sum game with other important macroeconomic areas, and these could be crowded out. And even if we were to increase the budget, as is being proposed in this paper, it is still not clear whether we should spend these extra resources on money laundering. Indeed, many of us would probably just as eagerly use the resources on addressing other vulnerability issues or providing technical assistance in core areas. I think it is illustrative to recall the data that surfaced in our conditionality discussion. Only 40 percent of structural conditionality was actually deemed to be critical to the macro-objectives of the program. In other words, we already have a quite liberal interpretation of what constitutes macroeconomic relevance in programs, and perhaps the same is true of surveillance. The point is that even despite this liberal interpretation of what constitutes macrorelevance we still did not address certain anti–money laundering issues. They must, thus, not have been important.

So for me "intensifying" our efforts is not as logical, operationally at least, as it might seem at first sight. Further analytical work on the macroeconomic implications of money laundering—particularly in identifying the importance at a country level—would be useful. I also agree with Mr. Bernes that this work should incorporate an assessment of the relative degrees of prevalence of financial abuse across different financial centers. In this regard, I cannot for instance, accept the fact that money laundering is a global

negative externality as an excuse to address these issues in every single country.

Where I do see scope for improvement though is in being more efficient and targeted in the way we conduct ROSC assessments. Here, I think staff makes a useful proposal in the form of its so-called methodology document. Suppose you do decide that a country's key problem is the financial aspects of money laundering, than under our existing practice the relevant standards are spread out over the Basel Core Principles and standards for securities and insurance markets, and of course the FATF. The methodology document would pull all this together and even provide more detail, allowing us to be more targeted towards countries' needs. Frankly, I could also live with a carve out of the FATF standards with the law enforcement aspects excluded, although staff's proposal seems superior in that it approaches the issue from a financial stability rather than a law enforcement angle. I am also in agreement with staff that, due to the current redefinition of the FATF recommendations and the lack of conformity of the FATF process with the principles of the ROSC imitative, the FATF should not be invited to prepare a ROSC module at this stage.

Another question that was posed is whether the Fund should coordinate technical assistance activities in the area of money laundering. I can be brief on this. I see no reason why the Fund should do this. We are late to the anti–money laundering game and have limited in-house expertise. We could leave it to FATF or the UN, which is already making efforts in this regard. I do agree though that we should participate actively in the coordination process and share our assessments on financial sectors with other bodies, so as to avoid duplication.

Should we provide more technical assistance for anti–money laundering issues? Well, as long as it falls within our existing policy on allocating technical assistance—in other words, if it is indeed identified as a priority—increased technical assistance is fine. If some members feel that the Fund is not doing enough on anti–money laundering technical assistance, for instance because the Fund is resource constrained, those members can set up earmarked technical assistance accounts for this purpose. In any event, we should only provide technical assistance in those areas within our mandate and expertise.

Mr. Alosaimi made the following statement:

There is general agreement that money laundering and financial abuse are global concerns that require a broad and coordinated international response. The Fund and the Bank have an important role in combating money laundering. It is essential to stress, however, that the Fund's involvement in this area should be directly related to its core activities. It is also important

that the Fund's work on money laundering be based on a cooperative approach as noted in the preliminary statement of Mr. Shaalan and Mr. Sakr. Here, let me stress that the Fund is already playing a very constructive role in global anti–money laundering efforts through its focus on strengthening financial systems and helping improve supervision and prudential regulations. I would also like to note that Saudi Arabia has been among the first countries to enact an anti–money laundering law that included all 40 provisions of the FATF.

Turning to the proposals to enhance the Fund's anti–money laundering role, I will make a few comments.

First, I can endorse the proposal to publicize the importance of countries acting to protect against financial abuse and money laundering. In particular, it will be useful for the Fund to publicize relevant information on its activities. I can also support the Fund undertaking additional studies related to the macroeconomic impact of money laundering.

Second, on the issue of recognizing the FATF 40 by the Fund and Bank as the anti–money laundering standards, it may be useful to have a further discussion given the concerns raised by some Directors in order to reach a consensus on this issue. I also agree that the FATF should not be invited by the Fund to prepare a ROSC module on anti–money laundering for the reasons detailed in the paper.

Third, I agree with Mr. Portugal and others that money laundering should be discussed in Article IV reports only in cases when there is evidence that this issue has direct macroeconomic relevance for the country concerned or have significant cross-border externalities. Here, I welcome the recognition in the Managing Director's statement that money laundering often involves the major financial centers and that decisive action is needed in some of these countries.

Fourth, I endorse the proposals for close cooperation between the Bretton Woods organizations and other bodies engaged in anti–money laundering activities. As Mr. Callaghan and Mr. di Maio stress in their preliminary statement, such cooperation will not only improve understanding of the contribution of the Bretton Woods organizations, but more importantly it could eliminate duplicate assessment of supervisory principles and help coordinate technical assistance.

Fifth, I fully endorse increasing the provision of technical assistance provided that it is well coordinated and that the Fund remains focused on its core activities.

Sixth, the budgetary estimates of additional involvement by the Fund in anti–money laundering activities appear to be on the low side. Staff comments will be appreciated.

Mr. Donecker made the following statement:

We welcome the opportunity to discuss this important issue before the spring meeting of the IMFC and the preparatory meeting in London on Wednesday. It is of great importance to keep the momentum in our discussion and to make progress in strengthening the role of the Fund and of other relevant international institutions in the global fight against money laundering.

On the issues for discussion, let me start by saying that of all of the 13 statements received by yesterday evening, Mr. Milleron's is the closest to our thinking. He has made my job much easier today. I support what he said in his statement about the global acceptance of the FATF 40 Recommendations as the standard for anti–money laundering efforts, and its role in the Fund's surveillance activities as well as in its conditionality. I thus can be reasonably brief, highlighting a few aspects of this complex issue for emphasis.

Financial abuse, including money laundering in particular, does indeed pose a significant threat to members. First of all, countries that do not combat financial abuse in a decisive manner may draw some short-term or even medium-term profit from it, but will face reputational damage. Furthermore, financial abuse may threaten the financial stability of a member country, depending on the soundness of its financial system and the magnitude of the financial abuse. Financial abuse can also damage an economy in other important respects. For example, in some transition economies and emerging markets, financial abuse is a cause for concern because it severely hampers structural change and economic development, and it often encourages the misuse of external aid.

As to paragraphs 56 and 57 of the staff paper, that is, on the role of Fund and the World Bank, I strongly agree on both scores. Yes, the Bretton Woods institutions already make significant efforts to prevent financial abuse and, yes, their efforts can and should be reinforced further. I can also support the proposals set out in Box 1. It is important that these efforts take place in close cooperation with major international and appropriate regional anti–money laundering groups. We agree with many speakers that as far as the Fund's involvement in the anti–money laundering effort is concerned, it must remain within the Fund's mandate.

Before touching on the issue of FSAPs and ROSCs, let me emphasize that we expect the FATF 40 Recommendations to be recognized by the Fund and Bank, not as a, but as the standard in the area of financial abuse and serve as the framework for the operational work in this field.

Mr. Milleron, Ms. Lissakers, and others have rightly reminded us that 130 countries representing 85 or 90 percent of the world population and 90 percent of global economic output have acknowledged the FATF 40 Recommendations to be the global anti–money laundering standard. The Fund and the World Bank should, therefore, fully join this worldwide recognition of FATF 40 Recommendations. The Fund should clarify once and for all that it is not in the business of setting additional standards or another competing set of standards for anti–money laundering, but is fully committed to cooperating closely with the FATF in this field, including the apparently ongoing revision and updating by the FATF of its 40 Recommendations. I agree with the Director of the Monetary and Exchange Affairs Department that we must take a constructive approach and add to the existing anti–money laundering momentum here. In view of the importance of developing a comprehensive and mutually consistent approach among the various institutions involved, the Fund and the World Bank should also recognize the FATF 40 Recommendations in their entirety, regardless of whether or not they are going to apply each and every one of the recommendations in their own work.

On the question of how to organize country assessments of anti–money laundering measures, our aim should be to carry out stand-alone ROSCs. In addition, the Fund should go on sharpening its focus on anti–money laundering issues in Article IV consultations, OFC assessments, and its FSAP assessments of the BCPs as well as the relevant IOSCO and IAIS Principles. Nevertheless, ROSCs based on the FATF 40 Recommendations are the most effective and inclusive way to allow countries to document their progress in the fight against money laundering. Clearly in this process, collaboration between the staff and the FATF will be important. However, the Fund should not become deeply involved in activities beyond its mandate, and I am confident that the FATF will respect this. I hope that our various member governments will respect this, too, and will endeavor to ask the other relevant national and international agencies involved in the fight against money laundering to contribute their fair share of the needed work in this field.

I agree with the sentiments of one of the previous speakers on the importance of the second pillar of this anti–money laundering campaign, namely efficient and effective law enforcement with regard to money laundering in each of our member states. We are confident that ways can be found to get the FATF closely involved in the ROSC procedure. In this regard, the staff may have somewhat overstated the problems on conformity between the FATF process and the ROSC procedures, as has also been indicated by Mr. Milleron.

We support the staff's proposals for enhancing cooperation between the Fund and major international anti–money laundering groups and for providing extra technical assistance in this field. Increased information

sharing and joint attendance at meetings is clearly warranted in order to avoid duplication of activities and to make the overall efforts more effective.

On technical assistance, the staff's proposal appears reasonable, that is, to provide further assistance on a selective basis and in prevention areas relevant to the Fund's mandate and expertise.

Finally, there is no denying that these demands will require some additional resources, including within the staff. We can, thus, go along with the proposed allocation of additional staff resources, but trust that the Fund and the Bank will be able to draw on substantial outside expertise from our member governments and central banks in this field, too.

To sum up, I am convinced that the measures considered in the staff paper will contribute to a noticeable improvement in the international fight against money laundering. The Fund need not take over the leading role in this fight, but with its instruments as well as its expertise, and in close coordination with the FATF and other relevant agencies, it can certainly make a very valuable contribution. Given the magnitude of the problem, this is a contribution the global economy can ill afford to do without.

Mr. Ondo Mañe made the following statement:

We agree that financial abuses, including money laundering, can have adverse macroeconomic consequences and can pose a threat to the international financial system. The staff report enumerates the efforts that the Fund and the World Bank through their broad operational activities already undertake to help the membership fight money laundering activities. These efforts have been supplemented by close cooperation with specialized agencies. The FSAP exercise and the promotion of international standards and codes have been of critical importance in this area.

Nevertheless, there may be scope for the Fund to increase its role in anti–money laundering activities within the present framework. However, as there are specialized agencies with the appropriate expertise in this sector, we should cooperate with them and take advantage of their work. We would agree that we should confine our efforts in our areas of expertise, and focus more on helping member countries strengthen their financial systems and make them more transparent. This can be done through assessments of observance of international standards and codes, best practices in the areas of financial supervision, prudential regulation, transparency of fiscal and monetary policies, and data provision and dissemination. In this respect, our Surveillance and FSAP exercises provide important vehicles for such assessments, and could be enhanced. In this regard, we agree with the steps described in Box 1 of the staff report. Moreover, the Fund needs to follow closely the work of the other specialized agencies, even in areas that are not

within the Fund's mandate so as to get a broad picture of the risks involved and be in a better position to advise the membership.

On the FATF 40, we note the contradictions between the staff and that reported by Mr. Oyarzabal in his preliminary statement. In our view, if there is no problem in splitting the recommendations so that the Fund can focus on the part covered by its mandate, then we would have no objection to their use as a standard, especially as these recommendations appear to be accepted by a large number of countries.

On the preparation of the ROSC module, we can go along with the staff's proposal.

We can also support a strengthening of policy dialogue with members on relevant money laundering concerns, especially in the context of Article IV consultation. Cross-border implications, if they are relevant to the member, can be raised during the discussions. However, like Mr. Portugal and Mr. Shaalan, we insist on the voluntary nature of the exercise and that it should not be a regular feature of conditionality.

We broadly agree with the provision of technical assistance within our present framework of assisting countries to strengthen their financial system and improving their supervisory and regulatory systems. If the Board decides to take on these new responsibilities, then we would recommend an increase in the TA budget in order to ensure that TA in this area does not come at the expense of other important areas. Similarly, as regards the development and publication of more analytical work on financial abuse, we think that they can be very helpful, but we recognize that they have resource implications. In this context, we are of the view that adding new responsibilities without the provision of additional resources can undermine the Fund's credibility. Therefore, we commend the staff for the section in the paper on resource implications, and we strongly support the proposed allocation of additional resources.

Mr. Shojaeddini made the following statement:

Given the excellent preliminary statements and other oral presentations so far, I shall be brief:

As a general principle, this chair can support additional activities for the Fund, if, and only if, resources needed to carry out these activities are committed at the same time when the Board takes the decision to undertake the new tasks. This being said, let me move on to the issues under discussion.

We share the views of other Directors that financial abuse, in general, and money laundering, in particular, are serious problems and deserve equally

serious attention. But, the justification for Fund involvement has to rest on grounds other than what is posed in the first question in paragraph 55 of issues for discussion of the staff report: namely, that it "is a major threat to the development and stability of financial systems and institutions of members."

For one thing, as other Directors have pointed out, analytic evidence is not available to allow making an informed judgment on this question, and, for another, even anecdotal evidence suggests that the problem is serious enough that whatever could be done by an international organization to eradicate it, should be done.

The Fund can help, but two problems exist that, in our view, seem insurmountable at this time. First, the institution is now focusing on its core mandate; involvement in the financial abuse case will stretch the logic of establishing the core mandate to breaking limits. Second, Fund involvement requires commitment from the Board to increase Fund resources substantially in order to do an effective job with the expected professionalism. We do not see the Board, at this time, willing or ready to make this commitment of involving the Fund to an extent greater than it is already. Thus, the institution is left to do everything possible to help in the fight against financial abuse within the limits set by these constraints.

It, therefore, follows that our answers to the questions posed in paragraphs 56, 57, 59, 61, and 62 of the staff paper will have to be all in the affirmative.

On the question in paragraph 58, under the present circumstances, we support staff's position that FATF 40 Recommendations should not be used as a standard for Fund operational work.

Similarly, on the question in paragraph 59, we do not think, at this stage, it would be helpful to invite FATF to prepare a ROSC module.

Finally, we reiterate this chair's position that whatever this institution decides to do in this area must be done symmetrically for all members, keeping in view the principle of uniformity of treatment among all members.

Mr. Pickford made the following statement:

There is not a lot to be said after 17 statements and other oral interventions. I am pleasantly surprised at the degree of consensus that I see emerging around this table. I think nobody disputes the critical importance of fighting money laundering. It has been broadly endorsed by the international community and has been specifically endorsed by a large number of member states represented around the table. More specifically, everybody pretty much agrees that helping to fight money laundering is important for the Fund's

mandate in terms of its possible implications for macroeconomic stability and financial system stability. There is also agreement that the Fund should in its work concentrate on those aspects where it clearly has expertise. The issues then are really more to do with, as the Managing Director put it, how, not whether, the Fund can contribute more effectively to these ongoing efforts.

The Fund and the World Bank are already very active in this area, but I think there is agreement that we do need to build on this, and in my own view I think it is important that that the additional work should complement the work of the Financial Action Task Force (FATF) and its sister organizations, which cover a large number of members in an effective fashion.

What I would like to do is comment briefly on the five bullets set out in Box 1 in the staff paper, on which I think again there is a broad measure of agreement. The first one, which is publicizing the importance of countries acting to take action against financial abuse, and I think everybody agrees about that. However, I think it would be useful, as Mr. Milleron points out in his statement, that the Fund might do some more work on a couple of aspects of analytical work. One is trying to establish the extent of money laundering. There was a paper by Vito Tanzi a few years ago on that, and it might be worth revisiting that. Work that would identify the macroeconomic and financial system implications of money laundering should also be undertaken.

The fourth and the fifth bullets are also pretty uncontentious, yet I think it is important that the Fund should work more closely with the major groups, as I have said, and also I think the proposal on technical assistance is sensible. The issues are really to do with how the Fund can most effectively carry out its surveillance or enhance its surveillance work in this area, and I think I also detect a large measure of agreement that we should endorse the FATF 40 Recommendations. The paper says that the FATF 40 Recommendations are widely recognized as the key set of standards to deter the crime of money laundering, and I think that it has got it right in that regard.

How do we operationalize that? I personally think that we ought to have a ROSC module on this, and I think the ROSC module will be most effective if it takes as its starting point the FATF 40 Recommendations, but then concentrates, as it says in the paper, on the financial/supervisory aspects. I think you do need to have some assurance that the ways in which those legislative or whatever administrative rules are put in place will actually have an impact on whether the whole system is effective, and I think that is what the staff is proposing, but it might want to confirm that I understand that correctly—that we should have basically a two-stage approach. In the first instance, we should look at the bits of the Basel Core Principles as well as the relevant IAIS and IOSCO Principles, and intensify the money laundering elements of those in our surveillance work. We should also work toward

trying to put together an integral ROSC module on money laundering. I would, therefore, like to hear from the staff as to whether I understood correctly what the proposal is, and whether there is acceptance in principle that we should move toward developing a separate ROSC module that is based on the FATF 40 Recommendations.

Mr. Palei remarked that he had reservations about the approach of endorsing the FATF 40 Recommendations in their entirety but only addressing those useful for the Fund's operational work. The Fund should first assess what implications such an endorsement would have for the Fund's operational activities. Moreover, the Fund should not be seen as endorsing the law enforcement elements of the FATF 40 Recommendations or the "name and shame" approach used by the FATF.

The Acting Chairman noted that Directors did not appear to object to the staff paper. In addition, it seemed as the Board endorsed the idea of moving forward in the area of combating money laundering. However, there were some disagreements of how the Fund's operational work should move forward in that area; the staff was proposing a two-step approach.

The Director of the Monetary and Exchange Affairs Department noted that the staff would need to assess carefully how the methodology document should be designed in order to build upon the work the Fund already did in relation to the Basel Core Principles as well as the relevant IOSCO and IAIS Principles. The staff expected that the methodology document could be created in a relatively short period of time, probably in a preliminary form by June 2001. In addition, the staff intended to involve as many interested parties as possible, such as member governments and other organizations, including the FATF, in order to ensure that a broad-based outreach approach was followed in the design of the methodology document. Such an approach would be similar to the one followed when the Fund was designing the debt management guidelines.

The staff expected to use the methodology document to address anti–money laundering issues separately in the FSAP exercise, OFC assessments, and ROSCs, the Director explained. The countries that would be examined would be those already selected for the FSAP exercise, OFC assessments, and ROSCs. The staff would also try to avoid duplicating the work already done by the FATF.

The methodology document would most likely propose that the exchange of information between the Fund and other organizations and countries be limited to financial/supervisory matters, although some of that information would be related to law enforcement activities, the Director remarked.

It was difficult to estimate the impact the work on combating money laundering would have on the budget, the Director noted. However, the staff expected that the process would be similar to the one the staff had started the previous year on OFC assessments. The resource costs of the work on combating money laundering would only be fully known once the work was well underway. However, the staff hoped that donors would make

contributions for the work to be carried out in that area, especially to ensure that staff at headquarters could coordinate the work of experts in the field.

The staff's discussions with the FATF started to intensify about one year ago, at the time the Fund was embarking on the OFC assessments, the Director said. In addition, the staff had kept the FATF abreast of the work it was doing in preparing the Board paper for that day.

The staff would reexamine the staff paper to ensure that none of the wording was inaccurate or inappropriate, the Director remarked.

Mr. Milleron asked whether anti–money laundering efforts would only be assessed for those members participating in the FSAP exercise or a ROSC, or whether a separate ROSC module could be prepared for those members that were not undergoing those procedures. In addition, did the staff have a more precise timetable as to how the work on combating money laundering would proceed?

Mr. Cippà noted that the Fund and the FATF should avoid duplicating each other's work, as they would most likely be interested in many of the same countries when they carried out their work. Therefore, the two organizations would need to coordinate their efforts.

Mr. Callaghan asked how the work based on the methodology document could be carried out in the context of the FSAP exercise, but yet also be presented separately from it.

The staff representative from the Monetary and Exchange Affairs Department commented that the Basel Core Principles and the relevant IOSCO and IAIS Principles overlapped to some extent with those FATF 40 Recommendations that dealt with financial sector supervisory issues, but not those that were related to law enforcement. The Fund and the World Bank, given their respective mandates, were therefore interested in those elements that related to financial sector supervision and thus financial sector stability. As money laundering represented a risk to the international financial system, the BWIs were interested in addressing and mitigating that risk, and were addressing that issue as part of the FSAP exercise by concentrating on the BCPs and the relevant IOSCO and IAIS Principles.

The Fund had been an observer at the FATF since 1990, the staff representative noted. However, the relationship between the two organizations had grown considerably over the preceding 18 months, with the staff having attended many of the FATF's meetings and having maintained a regular dialogue with the FATF.

The FATF did use different criteria to assess members as compared to nonmembers, the staff representative explained. However, the FATF was intending to incorporate the 25 Criteria it used to assess nonmembers into the 40 Recommendations as part of the revision of the 40 Recommendations that was underway.

The staff representative from the Policy Development and Review Department noted that the staff also viewed money laundering as a global public bad. The Board appeared to agree with the Managing Director's statement that the central issue was not whether the Fund should contribute to anti–money laundering efforts, but rather how the Fund should contribute to that effort, consistent with its mandate and expertise.

In moving forward with this effort, certain issues required resolution. In particular, the approach used by the FATF to assess observance with its 40 Recommendations was inconsistent with the approach the Fund used in the ROSC process, the staff representative explained. The main difference was that the ROSC process was a voluntary one, and the FATF conducts assessments on non-FATF members without their consent. In addition, the FATF publicly identifies countries it deems not to be complying with the FATF 40 Recommendations, the so-called "name and shame" approach. In contrast, the Fund does not make public the names of those countries that are not observing certain standards and codes. In addition, the FATF did not treat all countries equally, as it had different criteria for members and nonmembers. The Fund in the ROSC process, on the other hand, uses the same standard across the membership. Furthermore, the FATF intends to imposed sanctions or countermeasures—the term preferred by the FATF—on those countries or territories it deems as noncomplying in order to induce compliance. The Fund did not impose any sanctions on its members for not observing internationally recognized standards and codes, which would be contrary to the voluntary nature of the ROSC process. All those differences needed to be kept in mind if the Fund were to recognize the FATF 40 Recommendations as an internationally accepted standard for the operational work of the Fund and to prepare ROSCs.

The staff expected that it would work closely with the FATF in the future in order to make its processes consistent with the ROSC process, the staff representative remarked. In addition, the two organizations could collaborate in designing an anti–money laundering ROSC module based on the FATF 40 Recommendations, if the Board supported such work. However, such work would take some time to complete.

The staff was not proposing that anti–money laundering issues become a regular part of Fund surveillance, the staff representative explained. The staff would use its discretion based on the macroeconomic relevance test when deciding whether to raise anti–money laundering issues with a member during an Article IV consultation mission. In addition, the staff would also raise anti–money laundering issues if it felt that there were cross-border implications for other members of the money laundering activities occurring within that member country. Major financial centers would probably fall within that category.

The staff would not assume that evidence was insufficient to determine that money laundering was macroeconomic relevant; it would assume that it was, the staff representative commented in response to a remark by Mr. Wei, thus, the presumption was not one of macroeconomic relevance, unless proven otherwise. So, to shed further light on this question, the staff intended to undertake further analytical work on the macroeconomic effects of money laundering.

The staff representative from the Legal Department noted that the FATF 40 Recommendations were all in some sense connected to law enforcement. That would have some repercussions on the how the Fund treated them in its work, as unlike the BCPs and the relevant IOSCO and IAIS Principles, the FATF 40 Recommendations did not only apply to financial systems, but were broader in scope. Therefore, the staff would have to bear those issues in mind if the Board asked it to design a ROSC module based on the FATF 40 Recommendations.

The exchange of information was an essential part of the efforts to combat money laundering, as most money laundering issues were cross border by nature, the staff representative said. However, there was a difference in exchanging information related to financial/supervisory issues and those related strictly to criminal matters, as jurisdictions had different definitions relating to law enforcement matters. The Board would be expected not to become concerned with information connected with law enforcement unless it was macroeconomic relevant, such as in the case of Kenya that was mentioned earlier.

The FATF was discussing the idea of placing restrictions on payments and transfers among jurisdictions as possible countermeasures to be taken against Noncooperative Countries and Territories, the staff representative remarked. However, the Board should recall that Article VIII, Section 2(a) of the Fund's Articles of Agreement defined the obligations of Fund members to avoid restrictions on payments and transfers for current international transactions, and to require Fund approval for such restrictions.

Mr. Pickford noted that almost all of the FATF 40 Recommendations also related to financial/supervisory matters. As such, separating law enforcement issues from financial/supervisory ones would be difficult.

The Acting Chairman noted that the staff would have to study carefully how to operationalize the FATF 40 Recommendations into its work given that they commingled law enforcement and financial/supervisory matters. The Board's guidance in that regard would be critical.

Mr. Pickford remarked that those countries that were worried about sanctions should not volunteer for a ROSC.

All financial centers, not just major ones, needed to tackle the problem of money laundering better, Mr. Pickford added.

Mr. Abbott observed that 36 out of the 40 Recommendations seemed to fall within the mandate of the Fund. Consequently, the Fund should work with the FATF to operationalize those relevant for the Fund's work.

Mr. Schlitzer said that the term "countermeasures" was more appropriate than "sanctions," as sanctions were generally used in the context of violations of international law.

Mr. Bernes noted that the idea of sanctions ran counter to the Fund's view that the observance of standards and codes was voluntary.

As the Fund's work on combating money laundering was in its early stages and as the issues were complex, the staff should carefully consider the implications of its work going forward in that area, Mr. Bernes continued.

Mr. Callaghan observed that the FATF and the Fund had different mandates, and thus each of their respective approaches to the issue of combating money laundering would differ. Nevertheless, there were many areas of overlap, and although the efforts of the two institutions should be complementary, each of them should stick to its core mandate. Rather than focusing on how to proceed based on the FATF 40 Recommendations, the Fund should instead examine how it could address the issue of money laundering in a more general sense.

Mr. Oyarzábal generally agreed with the remarks made by Mr. Callaghan.

Mr. Abbott noted that cross-border cooperation was necessary if the efforts to combat money laundering were to be successful, and the FATF 40 Recommendations established guidelines for such cooperation, which raised the possibility of including those issues as part of the Fund's multilateral surveillance. Furthermore, it was widely recognized that money laundering did pose a threat to the stability if the international financial system, not just to domestic systems. Therefore, the Fund should endorse the entire 40 Recommendations and work with those relevant to its mandate.

Mr. Donecker also agreed that the Fund should only address those 40 Recommendations relevant to its mandate.

Mr. Portugal suggested that the Fund recognize the entire 40 Recommendations. However, it should only address those that were relevant to its mandate in its work based on a voluntary and cooperative approach.

Mr. Schlitzer asked whether the eventual ROSC module that would be prepared on anti–money laundering efforts would address the entire 40 Recommendations, with outside experts assisting the staff in those areas where it lacked expertise? In addition, the suggestions of Messrs. Callaghan, Donecker, and Portugal were reasonable.

The Acting Chairman noted that the Fund should recognize the FATF 40 Recommendations. However, the staff intended to explain how and which of the 40 Recommendations would be useful for the Fund's operational as part of its work on the new methodology document.

The Director of the Monetary and Exchange Affairs Department said that the work on combating money laundering would be carried out through the FSAP exercise as well as stand-alone assessments, such as those conducted on OFCs.

Simply relying on Basel Core Principle 15 (CP 15) to frame the Fund's work on anti–money laundering efforts was not enough, the Director continued. As such, the staff was trying to identify what was needed to complement CP 15, and was naturally looking at the FATF 40 Recommendations in that regard with the intention of developing a methodology document, with the help of others, that would address all of the complex issues on which the Fund's work on combating money laundering would be based. However, such a process could take time, but might also lead to substantial consensus on how to move forward among the groups involved in the area of combating money laundering. The eventual methodology document would be in the form of a technical assistance note.

The staff representative from the Policy Development and Review Department noted that the staff felt that there should be only one standard in the area of combating money laundering in order to avoid confusion. If the Fund were to focus on a subset of the FATF 40 Recommendations, two standards would exist—the FATF standard and the Fund standard. This would cast doubt on the legitimacy of the FATF 40 Recommendations. In addition, outside groups might feel that by only focusing on a subset of the FATF 40 Recommendations, the Fund was not accepting the FATF 40 Recommendations. Therefore, the staff had proposed that the Fund, given its specific mandate, look at how it could contribute to the ongoing work of the FATF. Furthermore, the modalities of assessing countries would need to be coordinated between the Fund and the FATF in order to avoid duplication efforts and confusion. For that reason, the staff was proposing that a methodology document be created so that a common approach could be followed.

One way for the Fund to address the issue of how to treat those 40 Recommendations that related to law enforcement and, hence, fell outside the Fund's mandate was to ask the FATF to assess observance in those areas based on a voluntary and cooperative ROSC approach, the staff representative continued. Such an approach would be consistent with the Board's view expressed at the last Board discussion on international standards and codes that the Fund could invite outside experts to participate in the ROSC process. The staff hoped that the Board would endorse such an approach with respect to the FATF as well.

The Acting Chairman made the following summing up:

> 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 macroeconomically relevant for that member except 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 "macrorelevance" 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 nonvoluntary and noncooperative 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.

Mr. Schlitzer noted that the summing up did not explicitly mention that the staff would follow a two-stage approach in its work on combating money laundering.

Mr. Palei observed that the summing up did not provide a sufficiently detailed explanation of the various views expressed by Directors, particularly with regard to recognizing the FATF 40 Recommendations. In addition, the summing up appeared to blur the distinction between the methodology document the staff would be designing and a possible anti–money laundering ROSC, which the Board had not yet agreed would be an appropriate instrument.

The Acting Chairman noted that the summing up did not reflect many differences of views because the intention was to highlight those areas where a broad consensus had emerged.

Mr. Sakr noted that some Directors did not support the Fund recognizing the FATF 40 Recommendations as a standard, and asked whether those Directors' view could be reflected in the summing up.

The Acting Chairman replied that it would be important to indicate clearly to the public what was the Fund's general view with regard to combating money laundering. As such, if too many divergent views were contained in the summing up, the public and other organizations may misinterpret what the Board had agreed to.

Mr. Shojaeddini agreed with the proposal made by Mr. Sakr. Furthermore, the Fund did not necessarily have to recognize the FATF 40 Recommendations at that time, especially as it would be carrying out further work on how to combat money laundering.

The Acting Chairman replied that the summing up would indicate that the staff would be returning to the Board with further considerations on the issue of combating money laundering.

Mr. Callaghan noted that recognizing the FATF 40 Recommendations would also be a de facto recognition of the process the FATF had used, something several Directors had

concerns with. In addition, the legitimacy of the FATF 40 Recommendations did not depend on whether the Fund endorsed them.

The Acting Chairman replied that the summing up would indicate that several Directors were of the view that recognizing the FATF 40 Recommendations did not imply an endorsement of the way the FATF applied the Recommendations.

Mr. Sakr observed that the estimate for the resource costs arising from the work on combating money laundering appeared significantly underestimated.

The Acting Chairman replied that it was only a preliminary estimate and could be revised in the light of the resource demands resulting from the work that would go forward on combating money laundering.

Mr. Sakr also noted that some speakers had emphasized that the Fund's work on money laundering should also cover major financial centers.

The Acting Chairman noted that the staff paper and the summing up from that day's Board discussion would be published and forwarded to the International Monetary and Financial Committee.

Mr. Sakr said that any editorial changes to the staff paper should be balanced and take into account the concerns of those countries that had been unfairly "named and shamed" by the FATF.

The Acting Chairman responded that appropriate language would be used in that regard.

2. HEADQUARTERS 2 BUILDING PROJECT—REPORT BY STAFF

The staff reported on the status of the Headquarters 2 Building Project.

3. EXECUTIVE DIRECTOR

The Chairman bade farewell to Ms. Lissakers on the completion of her service as Executive Director for the United States.

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/01/37 (4/12/01) and EBM/01/38 (4/13/01).

4. APPROVAL OF MINUTES

The minutes of Executive Board meetings 98/98, 99/103, and 00/81 are approved.

APPROVAL: October 11, 2001

SHAILENDRA J. ANJARIA
Secretary