

Effective AML/CFT Programs and Regimes

GOPAC/APNAC

November 5, 2003

Presented by:

Francisco R. Figueroa

Monetary and Financial Systems
Department, IMF

AML/CFT Challenges

- Relatively new, especially the work on combating the financing of terrorism (CFT).
- Nature of the problem and the techniques for addressing it are still evolving.
- Education and outreach is required sensitize governments, parliaments, and the public and private sectors.

AML/CFT Challenges

- Lack of adequate legal framework.
- Lack of necessary resources.
- More difficult to implement than other financial standards and codes because required multidisciplinary, multi agency approach.
- To be effective there needs to be a global response.

Other ML/FT Related Issues and Concerns

- AML/CFT is part of a broader problem – that of financial abuse – covering larger issues such as:
 - Governance and integrity in financial institutions and corporations;
 - Corruption;
 - Accountability; and
 - Transparency in all sectors.

Therefore, dealing with ML/FT will require making progress on these related issues.

AML/CFT Programs

Developing, implementing and achieving compliance with effective AML/CFT programs will require a concerted effort by all stakeholders:

- Government
- Public sector agencies
- Private sector
- International organizations

AML/CFT Programs

- At the level of government and the parliaments there is a need for:
 - Political commitment to address financial abuse
 - New and updated laws, regulations and institutions
 - Appropriation and assignment of adequate resources

AML/CFT Programs

- The public institutions need:
 - Technical know how and expertise
 - Resources
 - Ability to work cooperatively and in a concerted manner on implementation

AML/CFT Programs

- In the private sector there is a need for:
 - Education
 - Upgrading of internal audit, control and compliance functions
 - Adequacy of AML/CFT regimes in decision making

Mechanisms to achieve compliance

- Current incentives between government and private sector:
 - “carrots” – for countries that meet or are striving to meet high AML/CFT standards.
 - “sticks” – for penalizing those which show little interest in implementing effective AML/CFT regimes.

Mechanisms

- Public sector creates incentives through coercion and the creation of Non-Cooperative Countries & Territories (NCCT)
 - For example: FATF's NCCT list – main focuses on countries with weak AML/CFT regimes; Financial Stability Forums classification of offshore financial centers; etc.

Effective mechanisms for AML/CFT

- Persuasion
- Financial and technical support rather than NCCTs

IMF/Bank Support

- Cooperation: IMF & World Bank are institutions that strongly believe in sharing responsibilities, where all members do their part.
- Transparency: provides the information on which the public and the private sector can act and thus creates the incentives for actions by national authorities.

IMF/WB Support

- Through increased transparency:
 - National supervisors and regulators give special attention to the ML and FT risks of banks engage with counterparties in countries with weak AML/CFT regimes.
 - Rating agencies can take account of the adequacy of AML/CFT regimes and the associated reputation risk to jurisdictions in making their evaluations.

IMF/WB Support

- Corporations and their shareholders can become attuned to the risks of doing business in particular centers.
- International support:
 - Technical and financial to countries in upgrading their AML/CFT regimes.

Conclusion

- The Fund and the World Bank are ready to provide assistance in their areas of expertise. We need your help to get the message out and to strengthen the commitments of countries to take actions to address weaknesses in their AML/CFT regimes.