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Enhancing the synergy between the FATF and the Egmont Group

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Introduction

Mr. Chairman, Ladies and Gentlemen, it is my great pleasure to address the 21st Egmont Plenary here in Sun City, South Africa. I would like to thank the government of South Africa, and in particular the Financial Intelligence Centre (FIC), for organising this meeting in such a beautiful location.

Although I am not the first FATF President to come to an Egmont Plenary meeting, I understand that this is still a rather rare event. Financial Intelligence Units (FIUs) and the Egmont Group play an essential role in the anti-money laundering and countering the financing of terrorism (AML/CFT) world. Therefore, I am particularly pleased that the Egmont Plenary is the first official event in my capacity as the new President of the FATF.

In my remarks this afternoon, I would like to lay out some of the common challenges we are facing in the AML/CFT world and then highlight areas where we could use the individual strengths of the Egmont Group and the FATF to work more effectively toward our common goal of combating money laundering and terrorist financing. Many of the points I will mention are already areas that we hope to focus on during this year of the Russian Presidency of the FATF.

The New FATF Standards, Assessment Methodology and Mutual Evaluation Process

The FATF adopted a revised **Forty Recommendations** at the beginning of 2012, and in February of this year it adopted the new assessment methodology in preparation for the next round of mutual evaluations. Since February, the FATF has been working with its various stakeholders to develop an assessment process that can be accomplished by all assessment bodies (FATF, FATF-Style Regional Bodies and the IMF and World Bank). With the adoption of the revised standards and the start of a new assessment round, all of our countries are likely to face a number of challenges.

One of the most important of these is the full integration of the risk-based approach into the standards. Countries will have the option – indeed obligation – to know and understand the nature and level of ML/TF risks they face, both internally and to a degree externally. They will need this information to be able to determine how properly to mitigate these risks and adjust and adapt their AML/CFT regimes accordingly. Since each country's FIU is at the heart of its AML/CFT system, naturally the FIU will play an important role in developing national risk assessments to support the increased emphasis on risk.

However, I must stress that the FIU should not be alone in this process. Other authorities (operational and administrative), as well as private sector, will also need to be involved. This will be a good mechanism not only for reinforcing the role of the FIU but also ensuring helping to build synergies – where they are lacking – among operational authorities at the national level. The FATF has

already issued guidance on national level risk assessments. I believe that it will be critical for the FATF and the Egmont Group to work together on this in order to make sure that all of the countries in the global AML/CFT network can carry out balanced, timely and accurate risk assessments.

Another new element in the standards and the process for the next round of mutual evaluations is the increased emphasis on the effectiveness of AML/CFT systems. In the past, evaluations also focussed on effectiveness but this was done by examining it in the context of individual Recommendations. This "micro-level" focus often led to some peculiar results: For example, when the individual parts of country's system are considered effective; however, the overall picture does not seem to reflect that (few convictions for ML or low confiscation rates for criminal proceeds).

The new methodology adopted in February gives greater focus on systemic effectiveness by examining "outcomes", which are in effect groupings of the various parts of the AML/CFT process. Six of the eleven immediate outcomes relate to operational matters. What this means is that the effectiveness of the FIU will no longer be looked at in isolation but rather as part of the overall AML/CFT process. The advantage here is that it will be easier to see how successful a country's AML/CFT system is and whether it is doing what it is supposed to. Ultimately, this should highlight the need for good co-operation among all operational authorities to ensure a truly effective AML/CFT system.

There will be some challenges in making these judgments however, and for this reason, it will be absolutely critical to have properly trained and adequately experienced assessors. The Egmont Group and the FATF should work together to identify and train experts to take part in the evaluations of the next round. Egmont may also be able to contribute with training material in this area. One important point though: We must not forget that FIUs are not the only operational authorities being assessed. We will also need trained and experienced law enforcement experts, prosecutors, etc. Perhaps there is a way that the FIU connexions to other operational authorities could also be leveraged to develop this expertise.

Finally in this area, I would also like mention the importance of national co-operation and its new emphasis in the revised FATF Recommendations. National co-operation has always been an element addressed by the FATF standards; however, the focus on this as a key factor in effective AML/CFT systems was not always consistent before now. The new standards have this as a specific Recommendation, and it is also an element that will be closely scrutinised when looking at the effectiveness of a country's AML/CFT system. This means that we will need to look at ways to ensure that all authorities working in the AML/CFT area, including FIUs and other operational authorities, co-operate with each other and are fully integrated into their national AML/CFT system,.

Reinforcing the Global Network

A key objective of the FATF is to achieve implementation of its standards throughout the world. The FATF acknowledges the critical role that FATF-Style Regional Bodies (FSRBs) play in helping their member countries to implement these standards and thus helping to build a global AML/CFT network of FATF and FSRBs. Last year, the FATF adopted a series of **high-level principles and objectives** that apply to FATF and FSRBs. As well, we have established a working group to serve as the focal point for this engagement. Under the Russian Presidency of the FATF, we intend to continue momentum in this area.

The Egmont Group has always been engaged in outreach to countries throughout the world to help in establishing FIUs. Your process for accepting new members actually helps to reinforce the implementation of the FATF standards, and then the various training and other initiatives carried out by Egmont help further reinforce the development of established units.

FIUs frequently play a prominent role heading the member delegations in many

FSRBs and providing experts for their mutual evaluations. The FATF, FSRBs and the Egmont Group should use this leading position of FIUs in FSRBs to find the right balance between the regional and global components of our work. I am glad to hear that you are creating a more effective regional focus by mirroring the regional composition of the FSRBs in Egmont Group work. The idea of having FIUs in each region meet in the margins of their respective FSRB Plenary meetings – the “FIU forum” – shows a lot of promise. This could also become a mechanism for better synergy between the FATF and the Egmont Group. We would be happy to work with you more in further reinforcing this regional approach, especially with a view to ensuring that all regions are fully covered (including the FATF).

One other point I should make under reinforcing the global network: This is the need to continue fostering a more open interaction between our organisations. It is important that we encourage direct and open participation in our respective meetings and the discussions of AML/CFT issues and access to our documentation. It might seem, given the specialisation of our organisations, that there is no need to open up to others on issues that appear to concern us alone. This is, I believe, the wrong way to look at things. Participating in the discussions of other bodies especially – when the decisions are being made – helps ensure that those decisions are fully informed by all views. Open meetings and access to documentation on a reciprocal basis are a sign of maturity, confidence and recognition that there are indeed stakeholders with interest in our work beyond the immediate membership. Hearing the views of others does not mean losing independence but enriches the process of decision-making. I encourage you to look at further openness in your meetings, discussions and documentation as a further contribution to strengthening the global network.

Studying Risks, Trends and Methods

The FATF continues to work on the study of risks, trends and methods of money laundering, terrorist financing and other threats to financial system (what we all have traditionally called “typologies”). This is important work underlying the standard-setting role of the FATF but also serves as an important means of identifying and describing new trends and methods (for example, “shadow banking”) as well as updating information on old ones (for example, in relation to narcotics trafficking).

The FATF and the Egmont Group have always co-operated closely in this area. Indeed, it is often the FIUs of many FATF and FSRB members that are the main contributors to (and many cases carry out) the work of typologies research. In more recent years, we see co-operation at a different level – organisation to organisation – demonstrated by the increasing number of joint typologies meetings held with the FATF or FSRBs. The first joint FATF/Egmont typologies meeting took place here in South Africa in 2010, and a joint meeting between Egmont and MONEYVAL will take place in October of this year. I should not forget to mention that the FATF and Egmont routinely work together on individual research projects, as for example the ongoing work to look at ML/TF risks in the diamond industry.

There is obviously the need for continued engagement between our organisations in the traditional area of typologies research. I have also already mentioned the new FATF obligations regarding risk assessments, and FIUs will naturally have a role to play in this work. I am hopeful that the Egmont Group will also be able to help us to fine-tune the guidance on this subject over time. It is my intention under the Russian Presidency of the FATF to start again developing global-level risk information along the lines of the previous Global ML/TF Threat Assessment. The Egmont Group could definitely play a role in this work through the contribution of statistics and expertise.

There are some other operational where we could also consider more co-operation, such as the development of guidance on financial analysis as a follow-up to the **financial investigation guidance** published by FATF last year. I know that Egmont is currently working on a financial analysis project that could

feed into an eventual FATF guidance on the matter. Similarly, strategic analysis might be an area in which we might be able to build on Egmont work to develop useful guidance for the broader operational community.

Additionally, there appears to be a great interest among Egmont members in developing operational best practices on the role of AML/CFT measures in anti-corruption, asset recovery and tax investigations. These are all areas that the FATF has a broad interest in exploring further. This is reinforced by the calls on the FATF from the G8, the G20 Anti-Corruption Working Group, the OECD and others to better define the contribution of AML/CFT to these particular aspects of combating financial crime. It goes without saying that we should work together on these issues.

Other Areas

I would like to mention a few other areas as they could also be relevant in enhancing co-operation between the FATF and the Egmont Group.

The issue of financial inclusion is increasingly becoming important to be taken into account when implementing AML/CFT measures. Indeed, it appears increasingly that the promotion of financial inclusion and strong AML/CFT measures are not necessarily mutually exclusive. We hope this year to begin encouraging the FATF and FSRBs to take financial inclusion factors into consideration during the assessment process, specifically in judging the effectiveness of AML/CFT systems. These factors should also become part of national risk assessments, thus it may be relevant for the Egmont Group also to look at this issue to help FIUs understand financial inclusion in this context.

Financial institutions and other types of private businesses remain in the front line for detecting money laundering and terrorist financing. They need to be well informed about current rules and efficient methods for detecting and reporting STRs and conducting their own risk assessments now required by the revised FATF Recommendations. The FATF and the Egmont Group have a common interest in finding ways to facilitate the communication between FIUs and relevant parts of the private sector. The FATF will continue to work directly with the private sector through various mechanisms to encourage feedback (in both directions). It may be useful for the FATF and the Egmont Group to explore ways that we could make exchanging feedback more effective.

Conclusion

In conclusion, I would like to underscore the importance of the partnership between the FATF and the Egmont Group in combating money laundering and terrorist financing. We each have different but complementary roles to play, and there are a number of issues that concern both organisations. I have indicated a few areas where I believe we can enhance the synergy between our organisations by exploiting our particular areas of expertise. I hope that this will be the beginning of a dialogue that may find still other areas for co-operation in the future.

In any case, the FATF and the Egmont Group, together with the FSRBs and other stakeholders, must continue to ensure that the countries of the global network have effective AML/CFT systems and are thus able to combat money laundering and terrorist financing.

I would like to thank you for your attention and for the opportunity to speak to you this afternoon. I look forward to continued close co-operation between our two organisations.