



Financial Action Task Force
Groupe d'action financière

Keynote Address Sir James Sassoon
President of the FATF

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Countering Financing of Terrorism Seminar

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Keynote Address

1. Introduction

Ladies and gentleman, good morning.

I am delighted to have been asked to speak to you today in my role as President of the FATF. I would like to thank the Association of Banks in Singapore, the S. Rajaratnam School of International Studies and the Commercial Affairs Department for inviting me.

Forgive me if I don't mention all my Singapore friends in the front row but I would like to thank Benny Lim, Permanent Secretary at the Ministry of Home Affairs, for being here this morning.

I would also like to give particular thanks to Tan Siong Thye, Director of Singapore's Commercial Affairs Department, for his support as a member of the FATF Steering Group.

I am very pleased that this seminar is a joint public/private sector event. As I will explain later, one of my key themes is the need for ever closer joint working on the money laundering and terrorist financing agenda.

But let me start by reminding ourselves of why our work is so important. Combating money laundering and terrorist financing is critical to the reduction of social evils and human misery such as drug trafficking, human trafficking and finances terrorist attacks with which we have become only too familiar. The ultimate objective is quite simply to deter and detect organised crime and terrorism.

And the reality is that this crime is never far away. As Jeffrey Robinson, in his book, "The Laundrymen" wrote:

"If you walk one mile in any direction from the main central railway station in any major city in Europe or North America you will pass within an elbow's distance of a property that is owned by, managed by, or has been constructed by dirty money".

I dare say he could have said the same about Asia.

Money laundering and organised crime go hand in hand. And our attempts to fight it matter to us all as individuals and citizens.

International financial centres, such as London, New York or Singapore, are attractive to money launderers who want to clean their ill-gotten gains or terrorist financiers who want to use the financial sector to fund their activities. We must all play our part in identifying and mitigating the risks, both within our shores, and across the globally linked financial system. A key challenge for us all is to do this in an effective and cost-efficient way.

This morning I would like to touch, in particular, on the role of the FATF and some of the key themes of the UK Presidency of the FATF, including improved engagement with the private sector and enhancing our surveillance international threats.

2. The global fight against money laundering and terrorist financing

The role of the FATF

First, let me say a little about the core role of the FATF.

Since taking up my role as FATF President seven months ago, I have been struck by the immense amount of hard work across the globe going into fighting money laundering and terrorist financing, and by the commitment to the FATF standards. I chaired my first FATF Plenary meeting in October

last year, when we covered a wide variety of issues: from how we identify emerging threats, to highly technical discussions on mutual evaluations. This, along with the very real threat of terrorist attacks – we faced brazen terrorist bombing attempts in London and Glasgow, as recently as June 2007 – have really emphasised to me the importance of our work and the key role the FATF must continue to play in combating ever present threats.

The consistent application of recognised international standards is essential if we are to reduce the vulnerabilities in the global framework that terrorists and criminals exploit. The FATF performs three main functions in this regard:

- as a standard setter;
- as an assessor body; and
- as a research and policy developer on specific trends and threats – what we refer to as typologies.

As you know, the FATF Forty Recommendations and 9 Special Recommendations provide a framework to combat money laundering and terrorist financing. The FATF standards are dynamic and evolve as our knowledge develops. They have been recognised, endorsed and adopted by many organisations such as the United Nations, the Financial Stability Forum, the International Monetary Fund, the World Bank and ASEAN. They are also embraced by over 175 countries worldwide which have committed themselves to implement the FATF standards.

The FATF Recommendations are underpinned by a mutual evaluation process, based on peer review, which help us assess countries' compliance against these standards. It is a constant reality that criminals and terrorists quickly modify the techniques of their operations to avoid detection, exploiting the gaps between, as well as within, our national and international financial systems. For this reason, a truly global network of countries, with consistent application of recognised international standards, is essential if we are to ensure that criminals and terrorists do not have access to the financial system and hence to the resources they need to remain active.

It is recognised that the standards are tough and comprehensive. Much is expected of Governments, competent authorities, financial institutions and other businesses and professions. If, for example, one looks back at the recent UK Mutual Evaluation: we are proud that we achieved 24 fully compliant ratings, the highest number received to date. However, the target for all countries must be to be fully compliant with all the 40 + 9 Recommendations and so even the UK has much further work to do. Over the past six months Singapore has been undergoing its latest mutual evaluation and I am looking forward to the outcome of the discussions in a few weeks time at the FATF Plenary, in Paris.

We are, though, only as strong as our weakest members. Some jurisdictions continue to expose us all to unacceptable risk by failing to implement effective AML/CFT systems. To address this, the FATF is taking a twin track approach.

First, we must continue to assist our members who are struggling to meet the required standards. In order to support this work, under the UK Presidency, the FATF is working towards producing guidance for countries with limited capacity on implementing the FATF standards. By helping to ensure that countries are well prepared for assessments and take forward follow up actions efficiently, I believe we will all gain added value from the mutual evaluation process.

Second, the FATF has a process to identify, examine and engage with vulnerable jurisdictions. We have reached out privately to a number of countries to address concerns and achieved some good results with almost all countries in the process producing action plans and legislative improvements. However, when a country chooses not to engage or to reform their systems, the FATF must be ready to take firm action. It is in this context, last October the FATF took the step of publicly calling upon Iran to address its AML/CFT deficiencies. FATF members also advised their financial institutions to take the risk arising from the deficiencies in Iran's AML/CFT regime into account for enhanced due diligence.

While the FATF has made huge progress as a standard setter and assessor, it has also developed its capacity to analyse money laundering methods and trends through its annual typologies exercise. Bringing together experts from law enforcement, regulatory authorities and regional bodies it facilitates the exchange of information on significant money laundering cases and operations. Recent subjects have included VAT/carousel Fraud, the Real Estate Sector, the proceeds from narcotics trafficking and Trade Based Money Laundering.

We are also currently examining the financing of the proliferation of weapons of mass destruction to determine what an appropriate FATF response to this activity should be. To do all this joint work the FATF engages and involves experts from around the world and has for many years worked on joint projects with regional bodies, including the Asia Pacific Group (APG). In November last year our typologies exercise was held jointly with the APG in Bangkok. The event included presentations and discussions on Money Laundering Threat Analysis Strategies, Weapons of Mass Destruction Proliferation Financing, Vulnerabilities in Gaming and Casino Sector and Vulnerabilities of On-line Commerce. During the coming months I expect to see the release of further typologies reports drawing on that joint work.

2. Private sector engagement

One of my key priorities as FATF President this year is to develop a more open and constructive dialogue with the private sector to raise awareness of the FATF's work, to inform FATF policymaking and to encourage more effective implementation of AML/CFT measures. Having come from the private sector myself I believe that it is only through the closest consultation and co-operation with the private sector that we in Government are able to deliver the outcomes that we require. It is, after all, the simple fact that the private sector is to a very large extent the front line in the battle against the money launderers and terrorist financiers. As you know, the FATF standards have a very significant impact on the private sector as they underpin and have driven much of the legislation and regulation brought in by individual countries in the past 15 years in areas such as customer due diligence (identification, know your customer, monitoring customer activity), politically exposed persons, correspondent banking, record keeping, wire transfers and suspicious activity reporting.

I am pleased to report that we have made significant progress on this front. I want to highlight three particular initiatives:

Typologies

First, the FATF held a meeting in London in December 2007 with representatives from the private sector to discuss specific money laundering and terrorist financing methods. There were four workshops, looking in detail at trade finance (trade-based money laundering and proliferation financing), corruption, VAT/carousel fraud and pre-paid cards. Surprisingly, this was the first time that the FATF had held such a joint meeting. This proved very successful as it provided the public and private sector an opportunity to exchange ideas and experience on these issues. The FATF will continue to work with the private sector in furthering this dialogue and developing appropriate mechanisms for doing so. I very much hope that this type of engagement will become a model for the FATF's typology work going forward.

Risk-based approach guidance

Second, in June last year, the FATF, working closely with the financial sector, issued guidance concerning the application of a risk-based approach to countering money laundering and terrorist financing. This was a major step forward, both in terms of the subject matter addressed and the public-private partnership approach that developed the guidance. It is important to recognise that a risk-based approach to AML/CFT will not necessarily be cheaper and will be no less rigorous but it will help to target our efforts to ensure we deliver on outcomes.

Similar guidance on the risk-based approach is currently being developed for non-financial businesses and professions such as casinos, accountants, lawyers, real estate agents and dealers in precious metals and stones.

Private Sector Consultative Forum

Third, the October 2007 FATF Plenary also agreed to establish a Private Sector Consultative Forum which will provide a formal structure within which the private sector can be informed about the FATF's work and can contribute ideas to the FATF work programme. A number of global and regional private sector associations representing all sectors subject to the FATF standards have been invited to join. These include the ASEAN Bankers' Association and the ASEAN Insurance Council. I would encourage all members of the private sector here today to contact your associations and feed in ideas that you would like the FATF to consider. This could include ideas related to the implementation of the FATF standards or strategic issues where it would be helpful for the FATF and private sector to work together.

For example, one issue I have come across recently is that of transaction monitoring software which financial institutions are implementing to comply with their suspicious transaction reporting obligations. A global investment bank has suggested the private sector and the software providers should share the experiences of using the software and of the output from it. This may lead to the development of industry best practice for transaction monitoring.

I would be keen to hear your views on the type of issues you are facing that it may be helpful for the FATF to consider as part of its work programme and how we can best pursue enhanced engagement with the private sector at the international level.

I strongly believe in the strengthened partnership the FATF is building with the private sector as it will help us all be more effective and targeted in the fight against money laundering and terrorist financing.

3. Intelligence and information sharing: enhancing surveillance of international threats

Money laundering and terrorist financing

Next a few thoughts on combating terrorist financing. While both money laundering and terrorist financing have a number of features in common such as:

- the destination of money used to support terrorism and the source of laundered funds needs to be disguised; and
- both require the assistance of the financial sector,

there are a number of differences:

- the funding of terrorist activities may only require a small amount of money; and
- it could be derived from legitimate funds such as charitable donations.

It also has to be recognised that although the total funds required by terrorist networks may be large, the funding required to finance individual attacks may be small. For example, the US authorities have estimated that the attacks on 9/11 cost between \$400,000 to \$500,000.

Intelligence flows

Detecting suspicious transactions for terrorist financing where relatively small sums are involved is particularly challenging. The first line of defence will be the preventative measures set out in the FATF standards, such as customer due diligence and record keeping. However, these should only be seen as one element of a package of preventative actions and they need, wherever possible, to be supported by intelligence flows from law enforcement to the private sector to target their efforts. Intelligence is vital in the fight against organised crime and terrorism but the private sector complains that this does not happen enough. I recognise the difficulties here. If it was easy to create real intelligence to pass to the industry, law enforcement would have been doing it for years in response to repeated requests from the private sector. We all know the needles are in the haystack but we just

don't know how many or how big they actually are. Nevertheless, much work is now going on to improve information-sharing on this.

At an international level, the flow of information on money laundering and terrorist financing trends is increasingly taking place through the FATF. I have already mentioned the FATF's annual typologies exercise and the recent meeting with the private sector in London which are two examples of this. However, it is important that we build on these efforts. By building knowledge at both the international and national level of the actual money laundering and terrorist financing situation, this will allow policy makers to better target interventions against key priorities. This theme is consistent in the wider context where Ministers are keen for more forward looking work on trends, threats and vulnerabilities following the current crisis in the financial markets and the work that Financial Stability Forum is taking forward in this regard. This work by the FATF was re-emphasised by the G7 Ministers at their Tokyo meeting last weekend.

Enhancing surveillance of international threats

Money laundering and terrorist financing are not static phenomenon – launderers and terrorist financiers change their techniques in response to a number of factors including new legislation, law enforcement interventions, technological developments and changing risk profiles for financial products which are offered. But how are we to stay one step ahead of the criminals by constantly updating our understanding?

First, we are taking forward a project in the FATF to help countries prepare national threat assessments. Drawing upon current methodologies and examining the experiences of countries that already undertake some form of national assessment, it aims to provide material that will assist countries embarking on a national assessment process.

We are also establishing a new function within the FATF to identify and examine emerging threats. This will build on the current typologies process. In particular, it is likely to comprise a regular surveillance discussion of trends and threats as well as the production of a regular global threat assessment. This document will be a useful tool for governments which they could use to feed back into their national threat assessment processes.

At the national level it is important that the competent authorities, including the government, regulators, and law enforcement agencies, develop mechanisms to strengthen their relationships with the private sector which would allow intelligence information to be shared with them. The CFT consortium that will be formally launched today very much fits this bill. I welcome this type of initiative as it is completely consistent with the UK Presidency priorities on private sector engagement and enhancing the surveillance of international threat. I look forward to hearing more on what this will entail later this morning.

In order to uncover money laundering and terrorist financing we need a better targeting of all stakeholders' efforts including government, law enforcement, regulatory and the private sector. We need to better prioritise resources to where we can together deter this activity or identify where the risks and weaknesses are. The effective development and use of intelligence are key to this. The dismantling of the Jemaah Islamiyah threat here in Singapore in December 2001, with the associated freezing of terrorist assets, clearly shows what can be achieved by this approach.

4. Ministerial accountability

I would also like to highlight the importance I attach to enhancing the accountability of the FATF to ministers. This is central to the FATF's credibility and therefore its ability to undertake its mission. The UK Chancellor of the Exchequer has called a meeting of FATF Finance Ministers in Washington on the margins of the Spring Meetings to review and refresh the FATF mandate. I look forward to this opportunity to inform the Ministers of the FATF's achievements and for them to drive the FATF's strategic direction.

And it is not just Finance or Home Affairs Ministers that are interested in the work of the FATF. On a recent visit to India, the UK Prime Minister, Gordon Brown, raised the FATF with the Indian Prime Minister as key part of the of the fight against terrorism. This demonstrates that the work of the FATF is recognised by international leaders as essential in the fight against organised crime and terrorism.

5. AML/CFT: cost/benefit

The resources required to implement measures to combat money laundering and terrorist financing can be huge and very costly. A complaint I hear often from the private sector is about the burden that some of the AML/CFT regulation represents for financial institutions. Some have also queried the relevance or usefulness of some of the measures. When we think about the crimes we are trying to thwart – 9/11, the London bombings in July 2005 and the attacks in Bali in 2002 and 2005, the human misery associated with people and drug trafficking, organised crime – is the burden of regulation really too heavy? However, I do believe that we should be looking at the actual impact the FATF standards are having. I am keen that the FATF as a starting point should examine the available data to measure the impact of AML/CFT regimes on underlying criminal and terrorist activity, encouraging research into the effectiveness of its regime.

6. Conclusion

To conclude, I would like to emphasise how I believe that the work of the FATF has never been more important than it is today. We must remember what we are dealing with here: money laundering and terrorist financing do not simply undermine our financial systems but, in facilitating crime and murderous terrorist acts, they challenge our fundamental values of democracy, the rule of law and human rights. We will never completely eradicate money laundering and terrorist financing. However, through a truly joined up global effort comprising international organisations, national governments and the private sector we can realise our goal of minimising the opportunities for terrorist and criminal groups. The FATF has a key role to play and I will do my best during the remainder of my Presidency to ensure that our work is energetically taken forward.

I thank you for your attention.