FATF • GAFI

Financial Action Task Force

Groupe d'action financière

ANNUAL REPORT

2005-2006

23 June 2006

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FOREWARD BY THE FATF PRESIDENT

It is the first time that a country from the African continent holds the Presidency of the Financial Action Task Force (FATF), which is why it is a particular honour for me to present the 17th Annual Report of the FATF, which summarises the advances the FATF has made under the South African presidency in combating money laundering and terrorist financing.

Strengthening the global network to combat money laundering and terrorist financing has been a priority during the South African Presidency. We are especially pleased with the United Nations Security Council Resolution 1617 (2005), which "strongly urges all Member States to implement the comprehensive, international standards" embodied in the FATF Forty Recommendations on money laundering and the Nine Special Recommendations on terrorist financing. The formal endorsement of the FATF standards by the Security Council is a major step toward effective global implementation of the Recommendations.

The focus of the FATF's efforts towards this end has been on the enhancement of its partnerships with all the FATF-style regional bodies (FSRBs) and strengthened engagement with the more than 140 jurisdictions which are members of those FSRBs but are not themselves members of the FATF. In pursuing this objective I have endeavoured to participate in as many of the annual meetings of the FSRBs as possible. In the same context we also embarked on a process to further enhance the role of FSRBs within the FATF, initiating a process which has already led to the recognition of some FSRBs as "Associate Members" of the FATF. This process will afford members of FSRBs much greater participation in the processes within the FATF.

As a practical example of our efforts to forge closer alliances with FSRBs, the FATF conducted a joint Plenary with the Eastern and Southern Africa Anti-Money Laundering Group in Cape Town, at which the two organisations explored common issues and challenges faced by their members in implementing the FATF standards. The FATF also undertook a joint typologies exercise with the Financial Action Task Force of South America (GAFISUD) in Rio de Janeiro.

I have sought during the year of my Presidency to introduce into FATF discussions, perspectives and issues that are important to developing nations in all regions of the world. One such example is the examination of the devastating effects of money laundering linked with corruption. As a result a Project Group was established to explore ways in which these links can be taken into account more systematically in the FATF's work. While FATF consolidates its activities, there should be a greater awareness of other issues looming on the horizon.

The process to strengthen the global network to combat money laundering and terrorist financing also involves expanding the membership of the FATF itself. The membership process concerning the People's Republic of China has been progressing steadily and a high-level visit was undertaken to assess India's readiness to attaining observer status. The FATF has begun to address the issue of opening up its membership to ensure a higher degree of participation and geographical balance and to engender a greater sense of ownership of the work against money laundering. This should be an urgent priority.

During the South African Presidency, Nauru and Nigeria were removed from the list of non-cooperative countries and territories (NCCTs) thanks to the strong progress made by these nations. In addition, the FATF continued its third round of mutual evaluations during 2005-2006 and developed a more streamlined process which will allow us to settle into a steady rhythm in the discussion of our reports.

We have embarked on a process of dialogue with the private sector. A very successful first event was held involving representatives of financial institutions and is being followed up by dialogue with certain categories of designated non-financial businesses and professions.

In continuing our efforts to address terrorist financing, we adopted the text of an interpretative note on Special Recommendation VIII on non-profit organisations which clarifies the objectives and general principles underlying the Recommendation.

It has been a most stimulating and rewarding year for me. I would therefore like to thank the members of the FATF, and of the Secretariat in particular, for the support and confidence they have afforded me during the year of my Presidency. I would like to wish my successor, Mr. Frank Swedlove of Canada, the very best for his term as President.

Kader Asmal
President 2005-2006

INTRODUCTION BY THE FATF EXECUTIVE SECRETARY

It is my pleasure as the Executive Secretary to introduce the FATF Annual Report. It gives an overview of the work and the progress we have made over the course of 2005-2006.

Since its creation the FATF has spearheaded the effort to adopt and implement measures designed to counter the use of the financial system by criminals. So it proceeds with this mission.

In its seventeenth year the FATF strengthened the fight against money laundering and terrorist financing and enlarged the world-wide AML/CFT network. As the President indicated, one of the notable successes has been the creation of a new status for our closest partners – the FATF-style regional bodies (FSRBs). The FSRBs may now become Associate Members to the FATF; and this will provide them enhanced access to and influence on FATF policies and decisions. This is being done in a spirit of inclusion of all of our partners in the fight against money laundering and terrorist financing. The FATF Plenary has already determined that the Asia/Pacific Group on Money Laundering (APG), the Grupo de Acción Financiera de Sudamérica (GAFISUD) and the Council of Europe's Select Committee of Experts on the Evaluation of Anti-money Laundering Measures – Moneyval) be granted the status of Associate Members of the FATF.

The FATF continued its third round of mutual evaluations of its members. Assessment of the implementation of FATF standards across the globe is a major focus of FATF's current work. Since the beginning of 2005, ten countries have been evaluated, and the large majority of the FSRBs have also engaged in an evaluation process of their member jurisdictions. Mutual evaluation reports are now published in their entirety and available on our website (www.fatf-gafi.org).

In February 2006 the FATF adopted an interpretative note which clarifies the requirements of Special Recommendation VIII on non-profit organisations (NPO). This note calls on countries to (i) reach out to the NPO sector, (ii) supervise and/or monitor the sector, (iii) investigate effectively and gather information, and, (iv) set up effective mechanisms for international cooperation in these matters.

The FATF, together with GAFISUD, the FSRB for South America, held a joint experts' meeting in Rio de Janeiro in November 2005. This meeting is part of the ongoing initiative of the FATF to study money laundering and terrorist financing methods and trends on a global scale (the typologies exercise). There were around 240 participants registered, and representatives from nearly 50 countries were present making this the largest ever experts' meeting on typologies. A number of projects were progressed and an important report on money laundering through the international trade system has now been released.

Furthermore, the FATF has taken steps to improve dialogue with the private sector during the year, by developing new contacts and maintaining a principle of consultation on a systematic basis when creating new standards. In December 2005, the FATF conducted a round of consultation with representatives of the banking and securities sectors. About 80 participants attended the meeting. The primary objective of this consultation was to discuss issues relating to the implementation of the FATF standards. In addition, a working group was established, with representatives from volunteer members and observers as well as from the banking and securities sectors, to consider the issue of a risk-based approach to AML/CFT implementation. As these meetings were very productive, the FATF will carry on further such stimulating projects.

In conclusion, I would like to thank FATF members for the confidence that they continue to afford the FATF Secretariat. I also want to thank them for their decision to substantially increase their contributions to the FATF budget which enabled FATF to employ two new staff members. With the arrival of these new staff members at the FATF Secretariat, we believe that we will now have the appropriate level of human resources to better support the work of this organisation.

Alain Damais
Executive Secretary

I. OVERVIEW OF THE FATF

1. The Financial Action Task Force (FATF) was established by the G-7 Summit in Paris in July 1989 to examine measures to combat money laundering. Originally comprising the G-7 member States, the European Commission, and eight other countries, the FATF was mandated to examine money laundering techniques and trends, review existing national and international legislation and enforcement, and define further measures needed to combat money laundering.

2. The FATF is an inter-governmental body whose purpose is to establish international standards, and develop and promote policies, both at national and international levels, to combat money laundering (ML) and terrorist financing (TF). The FATF is a policy-making body which works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas. The FATF also regularly examines methods and techniques of money laundering and terrorist financing to ensure the continued relevance of its policies and standards. Since its inception, the FATF has operated under a finite life-span and requires a specific decision of the Task Force to continue. The mandate of the FATF was most recently renewed in May 2004 at the FATF Ministerial meeting for an 8-year period (2004-2012).

3. The first task of the FATF was to establish the international standards for combating money laundering and terrorist financing. The FATF first established the international standards in 1990, by issuing the Forty Recommendations which provided a comprehensive plan of action to fight against money laundering. These Recommendations were revised in 1996 so as to take into account changes in money laundering methods, techniques and trends. In October 2001, in response to the September 11 attacks in the United States, the FATF expanded its mandate and issued Eight Special Recommendations to deal with the specific issues related to terrorist financing. The continued evolution of money laundering techniques led the FATF to undertake a second review of the FATF 40 Recommendations, which resulted in June 2003 in a thorough updating of the Forty Recommendations. Further, in October 2004, the FATF published a ninth Special Recommendation, making its overall standard – the 40+9 Recommendations – a comprehensive framework for governments to develop their domestic efforts against money laundering and terrorist financing.

4. The FATF standards have been endorsed directly by more than 150 jurisdictions around the world, as well as by the Boards of the International Monetary Fund (IMF) and the World Bank (WB) and their importance has been noted by many international bodies. For example, in July 2005, the UN Security Council in its Resolution 1617 decided that it "strongly urges all Member States to implement the comprehensive international standards embodied in the Financial Action Task Force's (FATF) Forty Recommendations on Money Laundering and the FATF Nine Special Recommendations on Terrorist Financing".

5. Consistent with its mandate, today's priority of the FATF is to ensure global action to combat money laundering and terrorist financing and concrete implementation of its 40+9 Recommendations throughout the world. Starting with its own members, the FATF monitors countries' progress in implementing anti-money laundering / counter-financing of terrorism (AML/CFT) measures, reviews money laundering and terrorist financing techniques and counter-measures, and promotes the adoption and implementation of the FATF 40+9 Recommendations globally.

6. The FATF currently comprises thirty-three members; 31 member jurisdictions[1] from six continents and two regional organisations (the European Commission and the Gulf Cooperation Council), representing most major financial centers in all parts of the globe. Additionally, the People's

[1] The thirty-one member countries and governments of the FATF are: Argentina; Australia; Austria; Belgium; Brazil; Canada; Denmark; Finland; France; Germany; Greece; Hong Kong, China; Iceland; Ireland; Italy; Japan; Luxembourg; Mexico; the Kingdom of the Netherlands; New Zealand; Norway; Portugal; the Russian Federation; Singapore; South Africa; Spain; Sweden; Switzerland; Turkey; the United Kingdom; and the United States.

Republic of China became an observer on 21 January 2005. The delegations of the Task Force's members include a wide range of expertise in financial, regulatory, legal and law enforcement matters.

7. In performing these activities, the FATF collaborates closely with a number of partners, international and regional organisations which are involved in combating money laundering and the financing of terrorism. The FATF has developed strong partnerships with these organisations in order to constitute a global network of organisations against money laundering and terrorist financing. The primary FATF partners are the 8 FSRBs, which group, on a regional basis, jurisdictions that have committed to implementing the FATF 40+9 Recommendations and have agreed to undergo mutual evaluations of their AML/CFT systems. Three of these FSRBs are now associate members of the FATF; APG, GAFISUD and the Council of Europe (represented by the MONEYVAL Committee). In addition, the FATF has developed partnerships with several international organisations, in particular, the IMF and the WB, as well as with the United Nations and the Egmont Group of Financial Intelligence Units.

8. All decisions of the FATF are taken by its 33 Members, in Plenary meetings, by consensus. In order to ensure that it functions efficiently, the FATF also has two other components; the Presidency and the Secretariat. The Secretariat supports the work of the Task Force. Although the FATF Secretariat is housed at the Headquarters of the OECD in Paris, France, the FATF is a fully independent organisation.

Key Events in 2005-2006

9. In July 2005, South Africa succeeded France to the Presidency of the Task Force, and Professor Kader Asmal became President of the FATF. In 2005-2006, one Plenary meeting took place in Cape Town, South Africa, and the two other Plenary meetings were held in Paris, at the Headquarters of the OECD and at the French Ministry of Economy, Finance and Industry. A meeting of experts on typologies was held at the end of 2005 in Rio de Janeiro, Brazil, to consider methods, trends and countermeasures related to money laundering and terrorist financing. A number of meetings of specialised Working Groups took place outside the regular meetings of the Plenary.

II. EXPANDING THE FIGHT AGAINST MONEY LAUNDERING & TERRORIST FINANCING

Further improvement of the dialogue with the private sector

10. In December 2005, the FATF engaged in a new series of consultations with private sector representatives from the banking and securities industries. About 80 delegates participated in this consultation. The primary objective of this first meeting was to discuss issues and challenges faced by the banks and securities firms in implementing the FATF standards, and to listen to the experiences of the private sector in this respect.

11. The principal topics discussed were; customer due diligence, the risk-based approach, and terrorist financing. With respect to customer due diligence, the industry sought increased guidance on reliable identification documents and data, and the types of identifiers that should be used. Industry also emphasized the difficulty of getting access to adequate identification information (notably in relation to beneficial ownership). With respect to the risk based approach, it was agreed that the private sector should work in close cooperation with governments and FATF to explore harmonised ways of implementation. With respect to TF issues, the banking industry expressed concerns about the difficulty for beneficiary institutions to collect additional information in cases of wire transfers. The industry also raised the general issue of the capacity of the banking sector to identify terrorists and indicated that the delivery of names and appropriate identifiers remains essential.

12. The FATF is continuing its dialogue with the banking and securities sectors, and will also renew this type of process in the future. A joint working group has been created to undertake further work on the risk-based approach. The FATF will also continue to increase its outreach initiatives towards those parts of the private sector involved in the implementation of the FATF 40+9 Recommendations, as their full participation is a key precondition to effective measures against money laundering and terrorist financing.

Further progress towards expanded FATF membership

13. The FATF decided to grant observer status to the People's Republic of China in January 2005 and welcomed delegates from China at the February 2005 Plenary meeting in Paris. The participation of China, as an observer in the FATF's work, is an additional step toward completing the FATF enlargement process which began in 2000 with the admission of Argentina, Brazil and Mexico, and continued in 2003 with the admission of the Russian Federation and South Africa. China is finalizing the enactment of its Anti-Money Laundering legislation and will become a full member of FATF once it has undergone a successful mutual evaluation of its AML/CFT regime. The FATF hopes to be able to conduct a mutual evaluation of China later this year

14. The FATF has also renewed its contacts with India, and the President of FATF visited India in April 2006 as part of this process. On this occasion, India reaffirmed its commitment to seek FATF membership.

15. The FATF continues to examine the issue of further expansion of its membership, and will be in contact with potential applicants later this year. Also, the FATF will undertake a comprehensive review of its membership policy, with a view to identifying countries that could be considered for membership in the future.

Further enhancing the role and status of FSRBS within FATF

16. For more than 10 years, the FATF has worked to support the development of FATF-Style regional bodies (FSRBs), as a way to leverage global efforts and ensure effective implementation of the FATF Recommendations in all regions of the world.

A new definition for FSRBs

17. Despite the fact that the FATF had previously recognised eight FSRBs[2], totalling 141 member jurisdictions (not including those members of FSRBs who are also members of FATF), there has been a lack of a comprehensive definition of an FSRB. Further, there was a desire to improve the collaboration of these bodies within the FATF and ensure their fuller participation in all aspects of the FATF's work. Therefore, the FATF has adopted in October 2005 a comprehensive definition of FSRBs, which will ensure greater consistency in the policy and operations of all these groups, in particular in their mutual evaluation and follow-up procedures. There will be an 18-month transition period, to allow each group to adapt its rules and practices.

18. At its June 2006 Plenary the FATF was pleased to recognise the Intergovernmental Action Group against money laundering in West Africa (known by its French acronym – GIABA) as an FSRB. This brings a ninth FSRB into the FATF network, which now comprises 33 FATF members, 1 FATF observer and more than 140 members of FSRBs who are not themselves members of the FATF.

[2] The Asia/Pacific Group on Money Laundering (APG), the Caribbean Financial Action Task Force (CFATF), the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), the Eurasian Group on Money Laundering (EAG), the Grupo de Acción Financiera de Sudamérica (GAFISUD), the Middle Eastern and North African FATF (MENAFATF), the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) and the Offshore Group of Banking Supervisors (OGBS). A list of the FSRBs, and their members and observers is attached at *Annex 1*.

A new status for FSRBs: associate member

19. Despite growing cooperation, and numerous joint initiatives with FATF, the status of FSRBs within FATF has only been that of an observer. To further its current cooperation with FSRBs, the FATF has decided to offer a new status, that of "associate member", to those FSRBs that apply and meet the required conditions.

20. The objective of this new status is to strengthen the partnership between FATF and its regional affiliates in the fight against money laundering and terrorist financing by giving the eligible FSRBs full access to FATF work and to FATF discussions, as well as providing an enhanced role and influence within the organisation. Also, the FATF will grant direct access to Plenary meetings to a limited number of delegates from the member jurisdictions of these groups, thereby increasing ownership of FATF strategies to fight money laundering and terrorist financing by these non-FATF member countries.

21. Every FSRB can apply for this new status, as long as it meets the new definition of FSRBs, until May 2007. Prior to the June 2006 Plenary, five FSRBs had applied for the new status, and three were immediately accepted; the APG, GAFISUD and the Council of Europe (represented by its MONEYVAL Committee). These regional groups have now become Associate Members of the FATF, and will start benefiting from the rights and obligations attached to this new status. At that meeting the FATF also complimented the strong work of the Eurasian Group and the Middle East and North Africa FATF. Their, and any other, applications for associate membership will be discussed at future meetings.

III. ISSUING ADDITIONAL STANDARDS: INTERPRETATIVE NOTE TO SPECIAL RECOMMENDATION VIII

22. Non-profit organisations (NPOs) play a vital role in the world economy and in many national economies and social systems. Their efforts complement the activity of the governmental and business sectors in providing essential services, comfort and hope to those in need around the world. The ongoing international campaign against terrorist financing has unfortunately demonstrated that terrorists and terrorist organisations exploit the NPO sector to raise and move funds, provide logistical support, encourage terrorist recruitment or otherwise support terrorist organisations and operations. This misuse not only facilitates terrorist activity but also undermines donor confidence and jeopardises the very integrity of NPOs. Therefore, protecting the NPO sector from terrorist abuse is both a critical component of the global fight against terrorism and a necessary step to preserving the integrity of NPOs.

23. NPOs may be vulnerable to abuse by terrorists for a variety of reasons. NPOs enjoy the public trust, have access to considerable sources of funds and are often cash-intensive. Furthermore, some NPOs have a global presence that provides a framework for national and international operations and financial transactions, often within or near those areas that are most exposed to terrorist activity.

24. Depending on the legal form of the NPO and the country, NPOs may often be subject to little or no governmental oversight (for example, registration, record keeping, reporting and monitoring), or few formalities may be required for their creation (for example, there may be no skills requirement or starting capital required, and no background checks necessary for employees). Terrorist organisations have taken advantage of these characteristics of NPOs to infiltrate the sector and misuse NPO funds and operations to cover for or support terrorist activity.

25. In response to these vulnerabilities, the FATF adopted on February 2006 an interpretative note which clarifies the requirements of Special Recommendation VIII (SR VIII) on non-profit organisations. The note further explains the objectives of SR VIII and provides specific measures that countries should put into place, keeping in mind its original objective, that is, to ensure that NPOs are

not abused by terrorist organisations. Measures which should be taken to protect NPOs from terrorist financing abuse are:

(i) outreach to the NPO sector;
(ii) supervision and/or monitoring of the sector;
(iii) investigation and information gathering, and,
(iv) establishment of effective mechanisms for international cooperation in these matters.

IV. PURSUING THE THIRD ROUND OF MUTUAL EVALUATIONS

The mutual evaluation process

26. The FATF started a third round of mutual evaluations for its members in January 2005. The mutual evaluation process represents a key component of the FATF's work. Through this process, the FATF monitors the implementation of the FATF Recommendations in its member jurisdictions, and assesses the overall effectiveness of the anti-money laundering and anti-terrorist financing systems.

27. Each member country is examined in turn by the FATF. These evaluations are based on the FATF 40 + 9 Recommendations and performed using the Evaluation Methodology of 2004. The scope and purpose of these evaluations is to assess whether the necessary laws, regulations or other measures required under the new standards are in force and in effect, that there has been a full and proper implementation of all necessary measures and that the system in place is effective.

28. Concretely, the assessment involves an on-site visit conducted by a team of four to six selected experts in the legal, financial and law enforcement fields from other member governments, and led by two members of the Secretariat. The purpose of each visit is to draw up a report assessing the extent to which the evaluated country has moved forward in implementing an effective system to counter money laundering and terrorist financing, and to highlight areas in which further progress may still be required. The FATF has developed comprehensive and detailed procedures to conduct its mutual evaluations, and these help to ensure fair, proper and consistent evaluations. The "Handbook for Countries and Assessors" lays out the necessary instructions and guidance for all countries and bodies that are conducting assessments.

Mutual evaluations completed thus far: 10 FATF Members assessed

29. Belgium and Norway were the first FATF countries to be evaluated in the third round of mutual evaluations, and the reports were discussed and agreed to in June 2005. In the past year, eight other countries have been assessed: Australia, Italy and Switzerland (reports adopted in October 2005), Ireland and Sweden (reports adopted in February 2006), and Denmark, Spain and the United States (reports adopted in June 2006).

30. In support of increased transparency, the mutual evaluation reports are shared with all members and observers, are discussed in open session in the FATF Plenary, and are published once adopted. The 10 reports adopted so far are available on the FATF website. Also, as part of this process, a summary of each Report is systematically published on the FATF website.

V. STRENGTHENING COORDINATED ACTIONS

31. As a lead organisation and the world's standard setter in relation to combating money laundering and terrorist financing, the FATF coordinates a network of organisations that contribute to the global implementation of the 40+9 Recommendations throughout the world. The FATF collaborates on an on-going basis with other international bodies involved in combating ML and TF and pursues several joint initiatives each year. In 2005-2006, the FATF (1) launched a collaborative

effort with APG on the links between corruption and money laundering, (2) held a joint Plenary session with ESAAMLG, and (3) held a joint Typologies meeting with GAFISUD. Also, the FATF further strengthened its cooperation with the UN and the IFIs (the IMF and WB).

Joint initiatives with FATF-style regional bodies

Partnership with the APG - the links between corruption, money laundering and terrorist financing

32. The effective implementation of international AML/CFT standards requires not just appropriate legislative, regulatory and organisational structures but a robust system of governance to ensure the integrity of the systems in place. Corruption poses an important threat to good governance and is therefore a major threat to the effective implementation of AML/CFT regimes.

33. The link between AML/CFT and corruption is twofold. Firstly, the proceeds of corruption, which may be considerable, are susceptible to being laundered. Secondly, corruption, and poor governance arising from corrupt institutions (such as the judiciary, the police, or regulatory authorities) and/or individuals, can substantially blunt the effectiveness of an AML/CFT system. While some consideration has already been given to the link between AML/CFT and corruption, there is a critical need to (i) develop a greater understanding of how corruption damages the effectiveness of AML/CFT systems, and (ii) develop appropriate strategies to deal with the issue.

34. At the joint FATF-APG Plenary meeting in Singapore in June 2005, the two organisations agreed to explore further cooperative work on the relationships between AML/CFT and anti-corruption efforts and particularly ways in which corruption can undermine AML/CFT implementation. Following this decision, a joint FATF/APG Project Group was established to explore "the symbiotic relationship among corruption, money laundering and terrorist financing and how the FATF's AML/CFT experience can best be used to combat these combined threats". While initially consisting of FATF and APG members, this Project Group expanded its membership to also work more closely with a number of international organisations that expressed an interest in the project and has benefited from their information and expertise. These organisations include the United Nations, the World Bank, the Organisation for Economic Cooperation and Development (OECD), GRECO (The Council of Europe's Group of States against Corruption), as well as the FSRBs.

35. The Project Group presented options to the FATF Plenary in June 2006, which decided:

(i) Where appropriate, to incorporate more specifically the issue of corruption into AML/CFT assessments, for example, where corruption undermines AML/CFT efforts and where anti-corruption steps taken by countries assist in combating money laundering and terrorist financing;]

(ii) To embark on a more extensive study on the links between corruption, money laundering, and terrorist financing, with the aim of better understanding the issues so as to develop any future strategies, guidance, training or any additional counter-measures if needed.

36. Therefore, the FATF will continue to work on these issues, and will integrate factors relating to weaknesses and vulnerabilities steaming from corruption in its AML/CFT assessments. The FATF calls on its partners to adopt a similar stance on this issue.

Joint Plenary meeting with ESAAMLG - reaching out to developing countries

37. After the successful Joint Plenary meeting held with APG in June 2005, the FATF decided to renew this experience with another of its regional affiliates, and held a Joint Plenary meeting with the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) in February 2006. The meeting was hosted by South Africa which is a member of both ESAAMLG and the FATF.

38. More than 400 delegates from 44 jurisdictions discussed ways to build effective anti-money laundering and counter-terrorist financing infrastructures, particularly focusing on issues in developing economies. Among the issues considered were the interplay between AML/CFT requirements and facilitating increased access to banking services, physical cross-border transportation of criminal proceeds, how to obtain adequate customer identification and implications related to implementing AML/CFT measures in place in cash-based economies. The joint Plenary also examined the issue of corruption associated with money laundering, and specifically the experiences of countries in the ESAAMLG region.

Cooperation with International organisations

Cooperation with the United Nations

39. In addition to ongoing coordination with the United Nations in various fora and projects this year, the FATF welcomed the United Nations Security Council Resolution 1617, adopted on 28 July 2005, in which the Security Council "strongly urges all Member States to implement the comprehensive, international standards embodied in the FATF Forty Recommendations on money laundering and the Nine Special Recommendations on terrorist financing". This formal endorsement of the FATF standards by the UN Security Council marks further progress towards effective implementation of the Recommendations at a global level.

Cooperation with the IMF and the World Bank

40. The FATF and the IFIs have continued to co-ordinate their activities closely, in particular in the area of AML/CFT evaluations and assessments. The IMF conducted assessments of Italy (the report was discussed and adopted by the FATF Plenary in October 2005) and Denmark (discussed and adopted by the FATF in June 2006). The FATF has also continued to work closely with the IFIs in other areas, including development and roll-out of a harmonised training package for FATF/FSRB/IFI assessors, and a review of the quality and consistency of evaluation/assessment reports.

VI. GATHERING INFORMATION ON METHODS AND TRENDS

41. The study of money laundering and terrorist financing methods and trends – typologies – plays a key role in the FATF standard-setting process. In 2004, the FATF established a Working Group on Typologies (WGTYP) to develop information on current money laundering and terrorist financing methods and trends and to make this information available to support FATF policy-making.

The 2005-2006 Typologies Exercise

42. The FATF, together with GAFISUD, the FATF-style regional body for South America, held a joint experts' meeting in Rio de Janeiro, Brazil, in November 2005. The three-day meeting was organised by the Council for Financial Activities Control (COAF), the Brazilian Financial Intelligence Unit (FIU). The meeting was built around a series of five topics, each examining one of the studies undertaken during the 2005-2006 typologies exercise:

- Trade-based money laundering.
- ML vulnerabilities of new payment technologies.
- Misuse of corporate vehicles.
- Complex money laundering schemes from a South American perspective (led by GAFISUD).
- ML/TF trends and indicators: analytical processes.

This joint experts' meeting is the third to follow a format based on specialised workshops and the second to be organised jointly with an FATF-style regional body. Over 240 participants attended the workshop, representing some 50 countries.

43. The FATF published a report on trade-based money laundering in June 2006. The report focuses on the vulnerabilities in the import and export operations of international commerce that may be exploited as a cover for the movement of illicit funds. This report brings together research conducted over the last year from open sources, as well as case studies and national experience furnished by FATF and non-FATF members through a series of questionnaire responses. The FATF plans to publish further typologies reports – relating to the other projects of the 2005-2006 exercise – in the second half of 2006. As project research is completed, final typologies reports are made available on the FATF public website.

Future Typologies Work

44. FATF work on typologies will continue to focus on a limited number of relevant projects. These will examine specific ML/TF issues with the objective of providing sufficient methods and trends information to permit FATF policy-makers to address issues of concern. During the 2006-2007 typologies exercise, the WGTYP has proposed examining real estate and terrorist financing as its two main themes. The FATF will work with the Eurasian Group as its partner for this year's joint exercise, and expects to hold an experts' meeting in Shanghai, China from 28 to 30 November 2006.

45. The FATF has also begun looking at ways that its typologies work may also be made more useful to the private sector. FATF typologies reports have in the past served as a general source of information for the sector in understanding basic ML/TF methods. Indeed, these reports are among the most accessed document on the FATF public website. However, they appear to go only part way in responding to the needs of the private sector in (1) providing current information on ML/TF indicators (to assist in reporting suspicious transactions) and (2) developing accurate information on the ML/TF risk for the risk-based approach to CDD and for determining risk related to particular geographic locations. The FATF plans to examine the way its typologies material is used by the private sector and develop possible ways to meet private sector needs in this area.

VII. ONLY ONE NON COOPERATIVE COUNTRY REMAINS UNDER WATCH

46. At its meeting in October 2005, the FATF removed Nauru from its list of non-cooperative countries after that country fully eliminated its 400 shell banks which had previously posed a serious money laundering risk. At its June 2006 Plenary meeting the FATF then also removed Nigeria from the list of non-cooperative countries and territories (NCCTs), recognising the progress that it has made to implement its AML regime, including establishment of an operational FIU and significant progress in money laundering investigations, prosecutions, and convictions. This leaves only one jurisdiction on the NCCT list – Myanmar. The FATF has welcomed continued progress made by the government of Myamar to enact AML measures but continues to urge the Myanmar to fully implement its enacted reforms so it may be removed from the list in future. As with all countries removed from the list, the FATF will monitor the situation in Nauru and Nigeria for at least one year after de-listing to ensure that the countries continue their progress and commitments[3].

47. The NCCTs exercise has proved a very useful and efficient tool. The FATF reviewed a total of 47 jurisdictions and has listed 23 jurisdictions as NCCTs since 1998, based on their overall regulatory framework, customer identification, suspicious transaction reporting, criminalisation of money laundering, and international cooperation. Of the 23 jurisdictions designated as NCCTs in 2000 and 2001, only one remains. All the other countries or territories adopted and implemented substantial legal reforms, thereby increasing considerably their capacity to cooperate at the international level in the fight against money laundering and terrorist financing.

[3] For a thorough overview of the NCCTs process and developments over the past year, please consult the seventh Annual Review of Non-Cooperative Countries and Territories, of 23 June 2006, at www.fatf-gafi.org.

VIII. SUPPORT SERVICES AND FINANCIAL STATEMENTS

48. The work of the FATF is coordinated and supported by a Secretariat. The FATF Secretariat is housed at the Organisation for Economic Cooperation and Development (OECD) in Paris, France. The work of the Secretariat has expanded considerably over the years; for that reason, during the October 2005 Plenary, following a thorough review of the activities of the Secretariat, it was decided to employ two more administrators and to increase the budget accordingly. The Secretariat is now composed of 12 staff members: an Executive Secretary, 3 principal administrators, 5 administrators, 1 administrative assistant, and 2 assistants/secretaries.

49. The role of the FATF Secretariat is to organise and support the FATF meetings (Plenary and working groups meetings) and to provide support to the President and the Steering Group. The Secretariat prepares and produces policy papers discussed in working groups and/or in the Plenary, organises mutual evaluation missions, and produces the related assessment reports. Also, the Executive Secretary and his staff liaise on an on-going basis with the numerous FATF partners and represent the organisation at their meetings. They ensure contacts and communication with the media as appropriate.

50. Funding for the FATF is provided by its members on an annual basis and in accordance with the scale of contribution to the OECD. The cost of the Secretariat and other services is met by the FATF budget, using the OECD as the channel for these operations. This scale is based on a formula related to the size of the country's economy. Non-OECD members' contributions are calculated using the same scale OECD members. The two member organisations also make contributions to the FATF budget.

51. The overall budget of the FATF for fiscal years 2005 and 2006 is reflected in the table below.

Budget Items	FY 2005	FY 2006
Emoluments, allowances and employer's contributions for permanent staff	1,142,900	1,323,300
Official travel	220,000	225,000
Consultants, contracts, auxilliaries and conferences	4,900	1,000
Entertainment expenses	1,100	1,000
Operating expenditure	103,400	112,000
Share of OECD's overheads	116,100	124,400
Documentation and Library	1,000	1,000
Meetings, documents, translation and interpretation	115,900	80,000
Miscellaneous and unforeseen expenditures	1,800	1,000
Capital expenditure	3000	1,000
Information technology	30,000	30,000
TOTAL	**1,740,100**	**1,899,700**

ANNEX 1

FSRB MEMBERS

Asia/Pacific Group on Money Laundering (APG)

APG Members	Other FSRB/FATF Membership
Afghanistan	
Australia	FATF
Bangladesh	
Brunei Darussalam	
Cambodia	
Chinese Taipei	
Cook Islands	
Fiji	
Hong Kong, China	FATF
India	
Indonesia	
Japan	
Macau, China	
Malaysia	
Marshall Islands	
Mongolia	
Myanmar	
Nepal	
New Zealand	FATF
Niue	
Pakistan	
Palau	
Philippines	
Republic of Korea	
Samoa	
Singapore	FATF
Sri Lanka	
Thailand	
Tonga	
United States of America	FATF
Vanuatu	OGBS

Caribbean Financial Action Task Force (CFATF)

CFATF Members	Other FSRB/FATF Membership
Anguilla	
Antigua & Barbuda	
Aruba	OGBS
Bahamas	OGBS
Barbados	OGBS
Belize	
Bermuda	OGBS
British Virgin Islands	
Cayman Islands	OGBS
Costa Rica	
Dominica	
Dominican Republic	
El Salvador	
Grenada	
Guatemala	

CFATF Members	Other FSRB/FATF Membership
Guyana	
Haiti	
Honduras	
Jamaica	
Montserrat	
Netherland Antilles	OGBS
Nicaragua	
Panama	OGBS
St. Kitts & Nevis	
St. Lucia	
St. Vincent & the Grenadines	
Suriname	
Trinidad & Tobago	
Turks & Caicos Islands	
Venezuela	

Council of Europe (represented by its MONEYVAL Committee)

MONEYVAL Members	Other FSRB/FATF Membership
Albania	
Andorra	
Armenia	
Azerbaijan	
Bosnia and Herzegovina	
Bulgaria	
Croatia	
Cyprus	EC[4] and OGBS
Czech Republic	EC
Estonia	EC
Georgia	
Hungary	EC
Latvia	EC
Liechtenstein	
Lithuania	EC
Malta	EC
Moldova	
Poland	EC
Romania	
Russian Federation	EAG and FATF
San Marino	
Serbia and Montnegro	
Slovakia	EC
Slovenia	EC
The former Yugoslav Republic of Macedonia	
Ukraine	

Eurasian Group (EAG)

EAG Members	Other FSRB/FATF Membership
Belarus	
China	FATF Observer

[4] The European Commission (EC) is a FATF member.

EAG Members	Other FSRB/FATF Membership
Kazakhstan	
Kyrgyzstan	
Russian Federation	FATF
Tajikistan	
Uzbekistan	

Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)

ESAAMLG Members	Other FSRB/FATF Membership
Botswana	
Kenya	
Lesotho	
Malawi	
Mauritius	OGBS
Mozambique	
Namibia	
Seychelles	
South Africa	FATF
Swaziland	
Tanzania	
Uganda	
Zambia	
Zimbabwe	

Financial Action Task Force of South America (GAFISUD)

GAFISUD Members	Other FSRB/FATF Membership
Argentina	FATF
Bolivia	
Brazil	FATF
Chile	
Colombia	
Ecuador	
Paraguay	
Peru	
Uruguay	

Intergovernmental Action Group against money laundering in West Africa (GIABA)

GIABA Members	Other FSRB/FATF Membership
Benin	
Burkina	
Cape Verde	
Cote dÍboire	
Gambia	
Ghana	
Guinea-Bissau	
Guinea Conakry	
Liberia	
Mali	
Niger	
Nigeria	
Senegal	
Sierra Leone	
Togo	

Middle Eastern and North African Financial Action Task Force (MENAFATF)

MENAFATF Members	Other FSRB/FATF Membership
Algeria	
Bahrain	OGBS and GCC[5]
Egypt	
Jordan	
Kuwait	GCC
Lebanon	
Morocco	
Oman	GCC
Qatar	GCC
Saudi Arabia	GCC
Syria	
Tunisia	
United Arab Emirates	GCC
Yemen	

Offshore Group of Banking Supervisors (OGBS)

OGBS Members	Other FSRB/FATF Membership
Aruba	CFATF
Bahamas	CFATF
Bahrain	MENAFATF
Barbados	CFATF
Bermuda	CFATF
Cayman Islands	CFATF
Cyprus	EC and MONEYVAL
Gibraltar	
Guernsey	
Hong Kong,China	FATF and APG
Isle of Man	
Jersey	
Labuan	
Macau, China	APG
Mauritius	ESAAMLG
Netherlands Antilles	CFATF
Panama	CFATF
Singapore	FATF and APG
Vanuatu	APG

[5] The Gulf Cooperation Council (GCC) is a regional organisation having full membership in the FATF.