



**Progress Made by the FATF
in Developing and Implementing International Standards
in the Fight against Terrorist Financing**

Introduction

The Group of Seven established the Financial Action Task Force (FATF) in 1989. The task force is an inter-governmental body that develops and promotes policies to combat money laundering and terrorist financing. Its primary objective is to generate the political will necessary to bring about national, legislative and regulatory reforms in this area. The FATF's main tool in achieving this objective has been the development of a comprehensive series of anti-money laundering and counter-terrorist financing (AML/CFT) measures for national governments. In addition to this role as a standard-setter, the task force also examines money laundering and terrorist financing techniques, assesses its members' implementation of AML/CFT measures, and continually reviews and refines these measures as necessary. The FATF consists of 31 members.

Establishing international standards and developing guidance for their implementation

The Forty Recommendations were the original standards established by the FATF and thus its original *raison d'être*. These Recommendations were developed in 1990 as a series of measures designed to combat money laundering. The Recommendations were revised in 1996 and most recently in 2003 (after a two-year review process). They set forth what has been agreed to be the underlying concepts for fighting financial crime — whether money laundering or terrorist financing. Together both the Forty Recommendations and the Eight Special Recommendations provide a comprehensive basis for countering money laundering and terrorist financing.

The Eight Special Recommendations on terrorist financing form a specific focus for the counter-terrorist financing effort of the FATF. They were adopted by the FATF at an extraordinary plenary meeting in Washington DC on 30 October 2001. Over the past two and a half years, the FATF has worked, in close co-operation with other relevant international and regional bodies and organisations, to help jurisdictions in implementing the Special Recommendations.

Since June 2002 an FATF working group has developed and published guidance on four of the Eight Special Recommendations. In October 2002 a best practices paper for preventing the misuse of non-profit organisations (Special Recommendation VIII) was published. Interpretative notes in relation to wire transfers (Special Recommendation VII) and alternative remittance (Special Recommendation VI) were issued in February 2003, and a subsequent best practices paper for Special Recommendation VI was released in June 2003. In October 2003 an interpretative note and best practices paper were both published for the freezing and seizing of terrorist assets (Special Recommendation III). Guidance on the criminalising of terrorist financing (Special Recommendation II) is expected to be available later in 2004.

The FATF has developed this guidance in co-ordination with the FATF-style regional bodies (FSRBs) and other organisations and bodies with relevant expertise in the counter-terrorist financing area, in particular the UN Counter-Terrorism Committee (CTC), the UN 1267 Committee, and representatives of the private sector.

Assessing the implementation of standards globally

The FATF continues to promote the adoption and effective implementation of the Eight Special Recommendations and other international standards in relation to terrorist financing. In order to build on its experience in assessing strengths and weaknesses of AML/CFT systems, the FATF has taken on the role of determining critical technical assistance needs in this area for a series of jurisdictions identified by the G8 Counter Terrorist Action Group (CTAG).

This initiative, known as the "TANA initiative" (for "technical assistance needs assessments"), focuses on the seven aspects of a jurisdiction's CFT regime: (1) criminal justice measures applicable to terrorist financing; (2) capacities for freezing and confiscating terrorist assets; (3) the suspicious/unusual transactions reporting system; (4) international co-operation; (5) alternative remittance systems; (6) wire transfers; and (7) non-profit organisations.

In October 2003 the FATF began work on nine priority jurisdictions identified by CTAG. Positive responses were received from seven jurisdictions. Currently FATF assessors have completed one report and are in the process of evaluating five jurisdictions. The FATF will continue to review and approve future TANA reports in advance of the next CTAG meetings in April and June 2004.

The FATF has also now integrated the CFT requirements of the Eight Special Recommendations into its assessment methodology for mutual evaluations. All FATF members will be assessed during a third round of mutual evaluations, which is due to start before the end of 2004. This methodology will also be used by the International Monetary Fund (IMF) and the World Bank when they carry out the AML/CFT component of their Financial Sector Assessment Programme. The FATF is encouraging the FSRBs to formally adopt the same methodology when conducting their own mutual evaluations.

Analysing terrorist financing techniques

The FATF typologies exercise has provided an annual forum for examining terrorist financing methods. A previous exercise (2002-2003) examined non-profit organisations (Special Recommendation VIII) and informal money value transfer systems (Special Recommendation VI). The work on non-profit organisations was further developed during this year's exercise, and the issue of terrorist financing typologies related to wire transfers (Special Recommendation VII) was also addressed. The FATF will continue to examine terrorist financing typologies, and will focus this year in particular on further work on wire transfers, non-profit organisations. It will also begin studying the role of cash couriers and the narcotics trafficking as far as terrorist financing.

Encouraging dialogue

The FATF continues to work with the FSRBs in standard setting and in assessing compliance with the Eight Special Recommendations. As indicated above, the FATF has also been engaged in common efforts with, in particular, the G8 CTAG, the IMF, the World Bank, the UN CTC and the UN 1267 Committee, wherever appropriate, to ensure that there is a consistent approach to counter-terrorist financing and to preclude as much as possible any duplication of effort.

The FATF is also attempting to develop further interaction with non-member jurisdictions. During a terrorist financing seminar held by the FATF in February 2004, thirteen key non-member jurisdictions were invited to participate in an exchange of views on a selection of terrorist financing themes. The seminar enabled the FATF both to build awareness about

international CFT standards and to obtain feedback from these jurisdictions on problems and potential solutions related to implementation of these standards.

Conclusion

During the coming year, the FATF will build on the progress already made in promoting the implementation of CFT measures. The FATF will in the near term complete the initial series of assessments under the TANA initiative, which will provide the basis for CTAG countries to provide comprehensive technical assistance. The FATF will also continue to develop and, as necessary, refine its guidance on implementing the Eight Special Recommendations, as well as examining specific terrorist financing typologies with a view toward elaborating further measures. Finally, the FATF will pursue these goals in close co-ordination with the international and regional organisations and bodies that support and contribute to the AML/CFT effort.

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For further information on the FATF and its anti-money laundering and counter-terrorist financing efforts, please consult the FATF website at www.fatf-gafi.org, or contact the FATF Secretariat:

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