

12th APG Annual Meeting

Opening remarks by FATF President Paul Vlaanderen

7 July 2009

MINISTER BRENDAN O'CONNOR (AUSTRALIAN MINISTER OF HOME AFFAIRS)

COMMISSIONER MICK KEELTY (APG CO-CHAIR)

DIRECTOR ONG HIAN SUN (APG CO-CHAIR)

DISTINGUISHED GUESTS

LADIES AND GENTLEMEN:

It is one week ago now that I took over the Presidency of the FATF. This APG meeting marks the first occasion that I have the honour of visiting a FSRB in this new capacity.

I start this new appointment while the world is in one of the worst economic and financial crisis in recent history. Although we are all still struggling with the why and the how questions, it is already clear that the enormous growth in the size and complexity of the financial sector over the past decades has contributed to our current problems.

In that same period of time, the FATF, as an organisation, has evolved substantially as well, putting it in a well prepared position to play its part in fighting undesirable consequences of the crisis. In fact the G20 and the OECD are looking at the FATF model in their search for instruments how to handle the crisis in areas such as regulation and tax.

FATF'S MANDATE AND STRUCTURE

In its 20th year of existence, FATF has a very strong structure, both in terms of mandate and geographical coverage:

1. FATF's mandate has grown in two decades to cover not only drugs related financial crimes, but as a consequence of 9/11 also terrorist financing and, more recently, also proliferation financing. That is an extensive mandate!

2. The FATF is the only standard setter in its field of expertise in the world. Additionally, it monitors global compliance with those standards. And, unique in intergovernmental cooperation, it maintains the standards through public action, including (if need be) countermeasures. Transparency and accountability are the key driving principles. Jurisdictions affected by the FATF's call for countermeasures in any given circumstance may not be pleased, but history has already shown that such measures are effective in protecting the international financial system from exploitation by criminals;
3. The FATF has grown enormously in its geographical coverage from a few members in the early years to a substantial membership of 32 + 2 jurisdictions and a number of organisations including eight FATF-Style Regional Bodies (FSRBs). That means that more than 180 jurisdictions are working to achieve the shared objectives against money laundering and terrorist financing. And with the prospect of a ninth FSRB, we can really speak of a FATF family!

FATF-Style Regional Bodies (FSRBs)

I am convinced that the commitment of FSRBs to the FATF standards is crucial for the long term success of FATF's mandate. Therefore, it seems impossible to envisage an FATF as effective as it is today without FSRBs.

Here in Australia I would like to underline the close relationship between the FATF and the APG. That relationship is close because of interlinked membership: at this moment eight FATF jurisdictions – including China - are member of both the FATF and the APG, while Korea and India have applied for full FATF membership. The Mutual Evaluation Report of Korea has been discussed extensively in the last FATF plenary in Lyon, France and I am sure that the work with the contactgroup and Korea will lead to a positive discussion later this year in October.

Workwise, the FATF-APG relations are equally close and still growing. Over the past year we have together conducted the mutual evaluations of New Zealand, Japan and Korea, and we also finalised the typologies project on money laundering through the casinos and gaming sector, on which the APG took the lead. Later this year, the FATF

and the APG will jointly evaluate India as part of India's application for FATF membership. Preparations for that evaluation are already underway.

This proves the vital role you have - as APG members - in contributing to FATF work. And I am also looking forward to your contributions on FATF strategic directions, like the planned fourth round of mutual evaluations. I will get back to this issue in a moment.

In view of these extensive membership and work related FATF-APG links, I would encourage you to continue attending and contributing to FATF plenaries and working groups.

For the coming year there are a few topics related to FATF-FSRB cooperation that I would like to explore further:

- 1 I will consider organising a FATF – FSRBs Presidents meeting if that would be appropriate, preferably in the context of a FATF plenary meeting. It is my understanding that APG is in favour of such an initiative. In addition to this, the FATF Secretariat is ready to continue holding regular FATF – FSRBs Secretariat meetings;
- 2 Another point which could also lead to a closer cooperation with the FSRBs would be the establishment of a closer working relationship for the chairs of working groups in FATF and the FSRBs. A model for this could be the existing cooperation between FATF and APG typology co-chairs;
- 3 In addition, the FATF has developed guidance on the implementation of the FATF standards in low capacity jurisdictions, which is now being used by the FSRBs. I would like to encourage all FSRBs, including the APG, to provide feedback to the Working Group on Evaluations and Implementation (WGEI) on the implementation of that guidance.

At the June FATF meeting in Lyon, France I presented my priorities for the coming year. The FATF's relationship FSRBs is clearly one of them. I would like to take a couple of minutes to highlight three issues:

- 1 The FATF initiative related to the global financial crisis;
- 2 The work FATF is doing on International Co-operation; and
- 3 Preparations for a new round of mutual evaluations.

Global Financial Crisis

As you know, the global financial and economic crisis has affected most of the countries in the world, undermining financial markets, with direct consequences on societies and the world's economy at large. The current financial and economic crisis could present specific new challenges and opportunities to the FATF.

Last February, the FATF plenary decided to launch an initiative to assess the impact of the global financial and economic crisis on AML/CFT.

Earlier in April this year, the G20 Leaders agreed at the London Summit to 'take action against non cooperative jurisdictions' and asked the FATF to "revise and reinvigorate the review process for assessing compliance by jurisdictions with AML/CFT standards". Moreover, they "called upon the FATF to report to the next G20 Finance Ministers and Central Bank Governors' meeting in September on adoption and implementation by countries". The FATF is working hard to present its report to the G20 Finance Ministers meeting as requested.

The FATF is also looking at the consequences of the financial and economic crisis with the objective of identifying risks and vulnerabilities created by the financial crisis. Such analysis should enable us react appropriately. In particular the issues of international co-operation, transparency, and global compliance will be addressed.

Also relevant in this context is the work on a Global Threat Assessment. This work should be completed by June 2010. It is expected that this work will identify and analyse the overall global threat of money laundering and terrorist financing.

All this should result in an even stronger AML/CFT framework and I would like to thank

you for your contributions.

International cooperation

A few separate words about the FATF's work on international cooperation which is a high priority on our agenda:

Some jurisdictions expose us all to unacceptable risks by failing to implement effective AML/CFT systems. When a country chooses not to engage with the FATF in a meaningful way, the FATF must be ready to take firm action. As you know, the FATF has made public its concerns with certain jurisdictions, allowing others to alert their financial institutions to take into account the increased risks.

At the June 2009 FATF plenary revised procedures –the so called ICRG process – were adopted. These procedures are designed to identify high risk and uncooperative jurisdictions. After an initial review (the so called 'prima facie review') of certain jurisdictions, the FATF will decide which, if any jurisdictions, should be publicly identified as posing a risk to the international financial system. The FATF will also consider the progress of any identified jurisdictions on an ongoing basis and apply countermeasures where the FATF deems it necessary.

When developing this new procedure the main objective was the establishment of an inclusive and transparent process. A key element of this process is the strong cooperation with the FSRBs through the establishment of regional review groups. These groups will be co-chaired by representatives of the FATF and FSRBs.

In its most recent statement, the FATF reaffirmed its call on FATF members and other jurisdictions to apply effective counter-measures to protect their financial sectors from risks to the integrity of the international financial system emanating from Iran. The FATF statement also notes that progress has been made by several jurisdictions. I am happy to note that the northern part of Cyprus is no longer under scrutiny.

Mutual evaluations and the 4th round

Let me turn to the mutual evaluation process. Currently, we are heading towards the

end of the 3rd round of evaluations of FATF members. At this moment, 25 of the FATF's 32 members have been assessed. In APG's ongoing second round, you will have completed 25 out of 39 evaluations after this meeting. All together, since 2004, 118 jurisdictions have been evaluated using the common AML/CFT Methodology.

As you know, the FATF is about to consider some parts of the Recommendations in preparation of its fourth round of evaluations. Particular emphasis will be given to the impact and effectiveness of AML/CFT systems.

All FATF delegations, including the APG, have provided comments and identified issues to be considered in this context.

In February the FATF Plenary agreed on an initial list of topics for consideration under this project. I will mention a few of them:

- 1 Customer Due Diligence (Recommendation 5)
- 2 Law enforcement (Recommendations 27/28)
- 3 Beneficial ownership (Recommendations 33 & 34)
- 4 International Cooperation (Recommendations 35-40)
- 5 Tax crimes as a predicate offence for money laundering

The FATF's Working Group on Evaluations and Implementation will co-ordinate this work. The APG is also doing important work with its SIP framework.

In parallel to this important exercise, work will also be conducted on preparing the processes, procedures and the methodology for FATF's 4th Round of Evaluations.

As I already noted, I sincerely hope the APG will continue to provide input to this work.

Conclusion

In conclusion,

- 1 The commitment of FSRBs to the FATF standards is crucial for the long term viability of the fight against money laundering and terrorist financing. And I repeat: it is impossible to envisage a successful implementation of the FATF standards without FSRBs.
- 2 FATF is entering a new phase in its existence with a financial crisis that requires attention and action, particularly in the area of uncooperative jurisdictions. FSRB's will from now on be fully integrated in FATF's work through their participation in the Regional Review Groups.
- 3 A new round of FATF mutual evaluations will provide for a perfect opportunity to draw the lessons of the past years and to further improve our monitoring system, with an appropriate place for effectiveness and law enforcement

Hon. Minister, APG co chairs, ladies and gentlemen, I am honoured to be here at your 12th APG annual meeting and I hope to speak with many of you this week.

Thank you very much for your attention.

I look forward to the week ahead.