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Issue 2, August 2007

Welcome from the President

Welcome to the second edition of the FATF e-news. As you may be aware, this edition follows my appointment as President for FATF-XIX, 2007–2008. I wish to express my thanks to the former President, Frank Swedlove of Canada, and the FATF Secretariat for having done a tremendous job over the last year. Under Frank's presidency the FATF took forward a number of important initiatives including:

- The accession of China as a full member of the FATF.
- Outreach to both India and the Korea, which joined the FATF as observers.
- Enhanced engagement with the private sector, including publication of important guidance on the risk-based approach to combating money laundering and terrorist financing.
- Initiating an examination of the strategic direction of the FATF.

During 2006–2007 the FATF also explored a number of money laundering and terrorist financing methods and techniques, producing six studies on key areas: trade-based money laundering; new payment methods; misuse of corporate vehicles; money laundering associated with VAT carousel fraud; laundering the proceeds of illegal narcotics trafficking; and money laundering and terrorist financing through the real estate sector. The year also saw the removal of both Nigeria and Myanmar from the NCCT list.

The challenge for FATF-XIX will be to build upon the work under the Canadian Presidency, to deliver on existing FATF commitments and to complete the mid-term review of the FATF mandate. The specific areas that I intend to focus on for the year ahead include:

- Enhancing the FATF's capability to undertake strategic surveillance of emerging trends and threats.
- Examining how the FATF can reinforce the effective implementation of the FATF Recommendations in low capacity countries.
- Building on the progress made under the Canadian Presidency to enhance with the private sector.
- Examining the scope of the FATF mandate – this will include assessing the need for a formal extension of the FATF mandate to cover proliferation financing or other new areas which could have potential for significant abuse of the financial system.
- Enhancing the accountability of the FATF to Ministers in all member jurisdictions.

The FATF has set itself an ambitious programme over recent years, pursuing multiple initiatives in parallel. The forthcoming year will be no different and I am very much looking forward to meeting the challenges that lie ahead.



James Sassoon
FATF President

China becomes an FATF member

The FATF was pleased to welcome the People's Republic of China as its newest member at its most recent meeting, in Paris during June. This follows the completion of the first assessment of China's systems for combating money laundering and terrorist financing.

Although much work remains to be done in key areas, China has made remarkable progress in implementing measures against money laundering and terrorist financing. China has put forward a detailed programme of further work to address issues raised in the assessment.

China's membership brings the number of FATF members to 34. Korea and India are currently FATF observers and are working towards becoming FATF members themselves in the near future.

Evaluator training

The FATF, the IFIs and the FSRBs provide five-day training programmes for experts before they participate in evaluation teams. These courses ensure that there is a sufficient pool of trained assessors available to participate in the mutual evaluations. Similar courses are delivered by each of the assessor bodies to ensure that all potential assessors have been trained in the same way and have achieved the same level of knowledge. Recently, the FATF participated in four evaluator training sessions organised by:

- ESAAMLG and GIABA in April/May;
- Moneyval in May;
- GIABA in May; and,
- APG in July/August.



Erratum

Please note that the website link listed for GIABA under 'Interesting websites' in the previous edition was their previous web address. The current website for GIABA is: www.giaba-westafrica.org.

Key events at a glance

(August 2007 – February 2008)

20-24 August	ESAAMLG Council of Ministers & task force meeting, Gaborone, Botswana
September	EAG Typologies meeting
10-14 September	MONEYVAL Plenary, Strasbourg, France
24 September -5 October	GIABA Mutual Evaluation of Nigeria, Abuja
18-19 September	FATF working group on terrorist financing and money laundering meeting, Rome, Italy
October	MONEYVAL Experts meeting on typologies
8-12 October	FATF Plenary (1 st meeting of FATF - XIX), Paris (Bercy), France
29-31 October	OGBS and Financial Stability Institute meeting, Macau, China
4-8 November	MENAFATF Plenary meeting, Damascus, Syria
11-15 November	MENAFATF Training seminar for evaluators, UAE
19-23 November	CFATF Plenary and Ministerial, Costa Rica
26-30 November	FATF Assessor Training, Bonn, Germany
28-30 November	Joint FATF - APG Experts meeting on typologies, Bangkok, Thailand
3-7 December	MONEYVAL Plenary 25, Strasbourg, France
10-15 December	7 th EAG Plenary meeting, Hainan Island, China
25-29 February	FATF Plenary, Paris, France

Note: Some dates and locations are subject to change

The AML/CFT systems of China, Greece and the UK

In June the FATF adopted mutual evaluation reports assessing China's, Greece's and the UK's AML/CFT systems for compliance with global standards: the FATF 40+9 Recommendations. The full reports are available on the FATF website. Among their major findings are:

China

The amount of money laundered in China is significant and China's state of rapid economic development makes it particularly vulnerable to money laundering activity. In addition to drug crimes, smuggling and crimes against property, money laundering has been connected to a number of corruption cases. Four methods of money laundering are frequently used in China: cash smuggling; laundering through legitimate financial systems, sometimes using fake identity cards; trade-based money laundering; and, underground banking. China has also been a victim of terrorism.

China has made significant progress in enhancing its AML/CFT system. Despite this, there remain significant shortcomings, including: a reluctance to pursue money laundering as a stand-alone offence; law enforcement which is focused on pursuing predicate offences; relatively limited preventive measures; lack of AML/CFT obligations for DNFBPs; and, the absence of information on beneficial ownership. With respect to terrorist financing, China does not have a separate mechanism to freeze terrorist assets. China's efforts to proactively address alternative remittance systems are commendable.

Greece

Limited information is available on the extent of money laundering and on the commonly used money laundering methods and techniques in Greece. Investigations have revealed the use of banks, investment firms, mutual funds, offshore companies, bureaux de change, newly founded companies, and traders of precious metals.

Greece has been active ratifying international conventions and adopting domestic legislation to respond to international commitments. However, Greece has adopted AML/CFT measures that need to be further enhanced to be fully effective and efficient. It appears that the money laundering offence is not effectively implemented and there are doubts about the Greek FIU's capacity to properly perform its tasks and functions. The preventive system in the financial sector is generally insufficient and Greece needs to put comprehensive AML/CFT obligations in place for DNFBPs in order to comply with the FATF standards. Greece has a sufficient framework for providing international co-operation and is able to do so broadly.

UK

The overall threat to the UK from serious organised crime, and thus the threat of money laundering, is high. Identified money laundering techniques include: cash/value couriering; abuse of 'gatekeepers'; remittance and other money transmission services; conversion of proceeds into cash rich businesses and front companies; use of high value assets and property; abuse of bank accounts and other financial products.

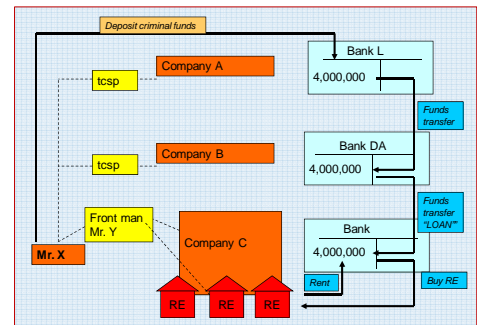
The UK has a comprehensive legal structure to combat money laundering and terrorist financing. The money laundering offences are broad, and the number of prosecutions is increasing. The main deficiencies for customer due diligence lie in the fact that certain requirements are not laid out in law or regulation. The situation will be improved with implementation of the 3rd EU Money Laundering Directive later in 2007.

Typologies reports

Money Laundering & Terrorist Funding through Real Estate

The analysis of *Money Laundering & Terrorist Financing Through the Real Estate Sector* identifies that due to the unique characteristics of the real estate sector, notably: the large volume of monetary transactions; the lack of reliable and uniform information; and, the ease of obscuring the true sources of the funds and the identity of the (ultimate) beneficial owner, this sector is susceptible to misuse.

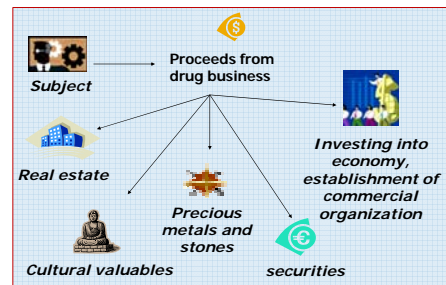
The report identifies several ML/TF techniques which are being used, including: the use of complex loans or credit finance; the use of non-financial professionals; and, the use of corporate vehicles. The report contains a description of these techniques and includes one or more of the most striking case examples. Finally the report identifies a number of risk indicators that could be used to assist the real estate sector in their risk analyses of new and existing customers.



Laundering the Proceeds of Illegal Narcotics Trafficking

The report on *Laundering the Proceeds of Illegal Narcotics Trafficking* examines the money laundering associated with illegal narcotics, with a specific focus on the Eurasian region.

The report notes that a significant proportion of world's illegal narcotics originate from the Eurasian region and specifically Afghanistan which, according to expert estimates, accounts for 80% of the heroin sold in Europe.



Whilst the report found that the laundering activity may take a number of forms and involve the banking, real estate, precious goods and casino sectors, the report identified that the three primary characteristics commonly found in money laundering associated with narcotics trafficking involve; large volume cash turnovers; international transfers; and, large volume currency exchange transactions.

The report found that efforts to combat the laundering of proceeds from illegal trafficking in narcotics are relatively new in some parts of the region. As a result, there are certain gaps in the legislation of many of the regions states, thus affecting their ability and efficiency in combating money laundering from the drug trade. The report makes a number of recommendations relating to improvements which could be made to countries systems, including strengthening FIU's and legislation.

Fake FATF websites

Please note that the following websites are **FAKE** FATF websites and should not be accessed or relied upon:

<http://www.eurofaft.com>

<http://www.fatf-org.com>

<http://www.efatf.com>

Contact the FATF

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