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Groupe d'action financière

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FOREWORD BY THE FATF PRESIDENT

It is an honour for me to present the 18th Annual Report of the Financial Action Task Force (FATF), which summarises the advances made by the FATF in combating money laundering and terrorist financing during the Canadian presidency.

Expanding and strengthening the global network to combat money laundering and terrorist financing is a continuing priority for the FATF and one to which we have added new initiatives during the past year. This strategy incorporates three primary elements: expanding the FATF membership; enhanced partnerships with the FATF-style regional bodies (FSRBs) and their member jurisdictions; and, work with the private sector. All of these elements are now complemented by a growing communications strategy that is designed to support our close work with the many countries in the global network and to provide the public with useful information to contribute to their efforts to combat money laundering and terrorist financing.

The membership process concerning the People's Republic of China has been progressing steadily, and the mutual evaluation of China has been successfully completed. At our most recent meeting I was very pleased to welcome China as a member of the FATF. The Republic of Korea and India are currently FATF observer countries and hopefully they too will soon be FATF members. This broadened membership will bring many benefits to the FATF. There are other signs of the strengthened global network also. Notably, both Nigeria and Myanmar have been removed from the list of non-cooperative countries and territories (NCCTs). All 23 jurisdictions that were designated as NCCTs are no longer on that list as they have made significant progress and strengthened their anti-money laundering and counter-terrorist financing (AML/CFT) systems to ensure they cannot be considered non-cooperative.

The FATF has focussed efforts on enhancing its partnerships with the four FATF associate members and all of the FSRBs. Additionally, the FATF has strengthened engagement with over 140 jurisdictions which are members of those FSRBs, but are not themselves members of the FATF. In pursuing this objective, I have participated in many FSRB meetings, embracing opportunities to speak directly with individual FSRB members. As practical examples of our efforts to forge closer alliances with FSRBs, the FATF conducted a joint plenary with the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures (Moneyval) and co-hosted the FATF-XVIII Annual Experts' Meeting on Typologies in Shanghai, China with the Eurasian Group. The FATF network is broad and strong.

Over the past year the FATF has worked even more closely with the private sector to strengthen implementation of the global standards. A very successful second private sector consultation meeting was held this year, supplemented by numerous additional meetings, seminars and ongoing work by the advisory group which is exploring the risk-based approach. I have been pleased to have the opportunity to be involved in consultation with the private sector, as many issues of importance and valuable ideas are raised in the course of these meetings.

During the Canadian Presidency we have also begun a discussion on the strategic direction of the FATF, which will feed into the mid-term review of the FATF mandate in 2007-2008 under the United Kingdom (UK) Presidency. This review is necessary to reflect the significant changes that have occurred in the FATF, as well as in the international landscape, since the FATF was first conceived.

This year has been one of change for the position of the FATF Executive Secretary. Mr. Alain Damais, to whom I express many thanks for the contribution he has made to the work of the FATF, has moved to another position. My congratulations to Mr. Rick McDonnell who has been appointed as the new Executive Secretary for the FATF.

It has been a most stimulating and rewarding year for me. I thank the members of the FATF, and strongly thank the members of the Secretariat, for the support and confidence that they have afforded me during the year of my Presidency. I would like to wish my successor, Mr. James Sassoon of the United Kingdom, the very best for his term as President. I look forward to hearing of the many achievements of the FATF over the coming years.

Frank Swedlove
FATF President

INTRODUCTION BY THE EXECUTIVE SECRETARY

Since its creation, the FATF has led the global effort to counter money laundering (ML) and, more recently, terrorist financing (TF).

Under its mandate, the FATF has a number of essential tasks: to establish and refine global standards for combating money laundering and terrorist financing; to foster and monitor countries' implementation of the standards; to expand the geographic reach and implementation of the FATF standards through a limited increase in membership and by enhanced relationships with FSRBs and non-member countries; to identify money laundering and terrorist financing threats; and to conduct outreach to relevant stakeholders. This Annual Report provides an overview of the progress that the FATF has made against its mandate over the course of 2006-2007.

In July 2006, Canada succeeded South Africa to the Presidency of the Task Force, and Mr Frank Swedlove became President of the FATF for the FATF's 18th year, FATF-XVIII. This has been another year of great progress by the FATF and its partners. In 2006-2007, three plenary meetings were held, with one of them being a joint plenary with the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures (Moneyval), the first occasion on which the FATF and one of its associate members held a fully integrated joint plenary.

During 2006-07, the FATF also proactively reached out to the private sector to increase awareness, and to develop closer interaction on issues of mutual interest. In particular, the FATF published a set of high level principles and procedures for the implementation of a risk-based approach to combating money laundering and terrorist financing. This guidance is the first product of the FATF using a public-private sector partnership, whereby international financial sector associations and firms worked closely with FATF governments to produce guidance on this complex issue.

The FATF remains vigilant to ensure that the FATF standards reflect current and new threats. The FATF conducted follow-up on the typologies report on trade-based money laundering, identified as a gap in the current standard. In addition this year, in-depth analyses have been released on several areas of concern: 'New payment methods', 'Misuse of corporate vehicles', 'Money laundering associated with VAT¹ carousel fraud', 'Complex money laundering techniques: a regional view', 'ML/TF through the real estate sector' and 'Laundering the proceeds of illegal narcotics trafficking'. These typologies reports are valuable both for governments in understanding the threats faced, and for the private sector in managing the risks.

During 2006-2007, the FATF also continued its third round of mutual evaluations, and has now reached the half way point in this round of evaluations. Mutual evaluations of 16 FATF members have now been finalised, with reports on the AML/CFT systems of Greece, Iceland, the People's Republic of China, Portugal, Turkey, and the United Kingdom of Great Britain and Northern Ireland having been completed during the Canadian Presidency of the FATF. The work of the FATF has clearly had a positive impact on the global detection and prevention of money laundering and terrorist financing, and FATF countries continue to work to further enhance their systems.

Recently the key documents underpinning the evaluation process have both been updated and re-issued: an annex was added to the AML/CFT methodology 2004 and it was re-issued in February 2007; and, the AML/CFT handbook for countries and assessors 2004 was re-issued in June 2007 with further information on how to assess the effectiveness of countries' AML/CFT systems.

I have been proud to see the FATF focus on its communication strategy over the past year, as the information the FATF can provide is of use to so many who are working on the fight against money laundering and terrorist financing around the world. This year the FATF has more strongly demonstrated its commitment to outreach and communication with the private sector and the public, as well as with the numerous governments which have committed to implementing the FATF standards. The FATF Secretariat has participated in a number of outreach events organised by other bodies. And in May this year the FATF released the inaugural edition of its newsletter, designed to assist members of the public with information on the global efforts to combat money laundering and terrorist financing.

John Carlson
Acting Executive Secretary

¹ Value-Added Tax.

I. OVERVIEW OF THE FATF

1. 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, techniques and trends 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, requiring 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).

2. The FATF was established in July 1989 by a Group of Seven (G-7) Summit in Paris, initially to examine and develop measures to combat money laundering. At that time the FATF comprised 15 jurisdictions. In addition to the G-7 summit participants (Canada, France, Germany, Italy, Japan, United Kingdom and the United States), the European Commission, Australia, Austria, Belgium, Luxembourg, the Kingdom of the Netherlands, Spain, Sweden and Switzerland were invited to join the Task Force in order to enlarge its expertise and to reflect the views of other countries particularly concerned by or having experience in the fight against money laundering

3. The first task of the FATF was to establish the international standard for combating money laundering. The FATF issued its first set of international anti-money laundering standards in 1990 - the *Forty Recommendations on 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 issue of terrorist financing. The continued evolution of money laundering techniques led the FATF to undertake a thorough updating of the FATF standards in June 2003. In October 2004, the FATF published a ninth Special Recommendation, making its overall standard – the *40+9 Recommendations* – a strong framework for governments to develop their domestic efforts against money laundering and terrorist financing².

4. The FATF standards have been endorsed directly by more than 170 jurisdictions around the world, as well as by the Boards of the International Monetary Fund (IMF) and the World Bank (WB). In July 2005, the United Nations (UN) Security Council in its Resolution 1617 stated 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 AML/CFT measures; reviews money laundering and terrorist financing techniques and counter-measures; and, promotes the adoption and implementation of the *40+9 Recommendations* globally.

6. The FATF currently comprises thirty-four members; 32 member jurisdictions and two regional organisations (the European Commission and the Gulf Co-operation Council), representing most major financial centers in all parts of the globe. Additionally, the Republic of Korea became an observer on 27 July 2006 and India became an observer on 27 November 2006. The FATF members and two prospective members bring a wide range of expertise to the work of the FATF with delegations comprising experts in financial, regulatory, legal and law enforcement matters.

² The FATF standards and many documents mentioned in this Annual Report can be found on the FATF website www.fatf-gafi.org. See [Annex 1](#) for a list of FATF documents published this year.

Table 1: FATF members

Argentina	France	Luxembourg	South Africa
Australia	Germany	Mexico	Spain
Austria	Greece	The Kingdom of the Netherlands	Sweden
Belgium	Gulf Co-operation Council	New Zealand	Switzerland
Brazil	Hong Kong, China	Norway	Turkey
Canada	Iceland	The People's Republic of China	The United Kingdom
Denmark	Ireland	Portugal	The United States
European Commission	Italy	The Russian Federation	
Finland	Japan	Singapore	

7. In performing its work, the FATF collaborates closely with a number of partners, international and regional organisations that are involved in combating money laundering and terrorist financing. 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 play important leadership roles in their respective regions. The FSRBs group, on a regional basis, jurisdictions that have committed to implementing the *40+9 Recommendations* and have agreed to undergo mutual evaluations of their AML/CFT systems. Four of these FSRBs are associate members of the FATF: the Asia/Pacific Group on money laundering (APG), the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures (Moneyval), the Grupo de Acción Financiera de Sudamérica (GAFISUD) and the Middle East and North Africa Financial Action Task Force (MENAFATF). The FATF is working closely with all of the remaining FSRBs³ to assist them in reaching the associate membership status as well. In addition, the FATF has developed close and productive partnerships with the Offshore Group of Banking Supervisors (OGBS) and several international organisations, in particular, the IMF the WB, the UN and the Egmont Group of financial intelligence units.

8. All decisions of the FATF are taken by its 34 Members, in plenary meetings, by consensus. In order to ensure that it functions efficiently, the plenary is assisted by the FATF Secretariat and chaired by the FATF President. Although the FATF Secretariat is housed at the Headquarters of the Organisation for Economic Co-operation and development (OECD) in Paris, France, the FATF is a fully independent body.

II. THE STANDARDS

9. The FATF's Working Group on Evaluations and Implementation (WGEI) assists the plenary through monitoring, co-ordinating and reviewing the mutual evaluation processes and procedures, and taking steps, as appropriate, to enhance the quality, consistency and transparency of the evaluation/assessment reports of the FATF, associate members, FSRBs, the OGBS, the IMF and the WB. The WGEI serves as a point of contact between the FATF, the FSRBs, the OGBS and the International Financial Institutions (IFIs)⁴ on matters related to the WGEI mandate. It fosters dialogue with the private sector concerning issues related to the implementation of the *40+9 Recommendations*, including overseeing the work of the Electronic Advisory Group on the Risk Based Approach. The WGEI develops interpretation and guidance to the FATF standards and changes to the *AML/CFT Methodology 2004* as necessary and presents these to the FATF plenary for consideration. The WGEI also defines and coordinates the process of training new assessors in the use of the *AML/CFT Methodology 2004*.

³ Caribbean Financial Action Task Force (CFATF), Eurasian Group on combating money laundering and financing of terrorism (EAG), Eastern and South African Anti Money Laundering Group (ESAAMLG) and Groupe Inter-gouvernemental d'Action Contre le Blanchiment en Afrique (GIABA).

⁴ The International Monetary Fund and the World Bank.

10. During the year the WGEI has focussed on projects to improve the quality and consistency of mutual evaluation reports and has refined the *AML/CFT Methodology 2004*, which was most recently updated in February 2007. (See further below, under Chapter III: Mutual Evaluations.)

11. The Working Group on Terrorist Financing and Money Laundering (WGTM) is also involved in the FATF's continuing refinement of the standards. The WGTM assists the plenary by considering work carried out by the Working Group on Typologies (WGTYT) and where appropriate developing and proposing interpretation or guidance to the FATF standards, or changes to the *AML/CFT Methodology 2004*, that address the ML or TF risks identified by the WGTYT. The WGTM also fosters dialogue between FATF members concerning issues that arise from their domestic review of AML/CFT measures, including identifying common elements and characteristics of affected sectors. Where FATF members raise concerns in relation to any other TF or ML or illicit financial issues, the WGTM may also develop interpretation or guidance for the FATF standards or changes to the *AML/CFT Methodology 2004* and present these to the plenary for consideration. In addition, the WGTM is responsible for carrying out Technical Assistance Needs Assessments (TANA) in relation to implementing the *Nine Special Recommendations* and relevant UN obligations related to combating terrorist financing, if requested by the (Group of Eight) G-8 Counter-Terrorism Action Group (CTAG).

12. In October 2006 the plenary considered issues arising from the FATF typologies report on *Trade Based Money Laundering*, which was issued in July 2006, and agreed that a project should commence to explore whether the risks of trade-based money laundering are being adequately addressed by the existing FATF standards and measures. A small group of delegations, with assistance from the World Customs Organisation, the Egmont Group of financial intelligence units and the FSRBs, has collected information which will assist the WGTM's work to identify any gaps in the standards and explore ways to address them.

13. In February 2007, after the October 2006 release of the FATF typologies report on *The Misuse of Corporate Vehicles, including Trust and Company Service Providers (TCSPs)*, the plenary agreed that the WGTM should examine whether the risks highlighted in this report are adequately addressed by the existing FATF standards and measures. The WGTM examined the current standards that are directly applicable to corporate vehicles and TCSPs and the results of mutual evaluations of FATF members against these standards. The working group concluded that many countries have not yet achieved full and effective implementation of the FATF Recommendations that are intended to address the abuse of corporate vehicles and TCSPs by money launderers and terrorist financiers. Consequently, it may be premature to conclude that the misuse of corporate vehicles is not being adequately addressed by existing measures or initiatives. In addition the WGEI is currently undertaking a study of the applicability of Recommendation 34, which is one of the five FATF Recommendations which currently deal with issues of corporate vehicles and TCSPs, and is analysing how Recommendation 34 has been described and applied in mutual evaluation reports. In these circumstances, the plenary decided that it is not appropriate for the WGTM to take further action on these issues at this time. This would not preclude the WGTM from undertaking further follow up work at a later stage if necessary.

14. Similarly, the WGTM examined whether the risks highlighted in the October 2006 FATF typologies *Report on New Payment Methods* are adequately addressed by the existing FATF standards and measures. The WGTM concluded that the FATF *40+9 Recommendations* do provide an appropriate framework to address the vulnerabilities associated with new payment methods. However, given the different characteristics and development of new payment methods in each jurisdiction, there may be a need for further examination of specific measures that countries could adopt to limit identified risks and which could be implemented in addition to or instead of traditional AML/CFT measures. Such measures could include spending, loading or usage limits on the payment instrument (e.g. thresholds, geographical limitations on the payment instruments use or prohibitions on reloading the payment instrument). The plenary decided that the risks associated with new payment methods are

to be monitored during the next two years under the auspices of the typologies project on ML and TF trends and indicators.

15. In addition to examining whether the current standards adequately address risks highlighted through the FATF's typologies work, the WGTM also conducted a year-long process of receiving reports from members on domestic implementation of Special Recommendation III, which deals with measures to freeze and confiscate terrorist assets. Further discussion of Special Recommendation III is expected to occur in the coming year.

III. MUTUAL EVALUATIONS

The mutual evaluation process

16. The mutual evaluation process represents a key component of the FATF's work as it is through this process that the FATF monitors the implementation of the *40+9 Recommendations* in its member jurisdictions, and assesses the overall effectiveness of AML/CFT systems. Similarly, it is a core role for the FSRBs to conduct mutual evaluations of their member jurisdictions. The IFIs also conduct evaluations of jurisdictions' AML/CFT systems in much the same way as the FATF and FSRB evaluations, using the same methodology.

17. Each FATF member jurisdiction is examined in turn by the FATF. 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. The FATF has developed comprehensive and detailed procedures to conduct its mutual evaluations, and these help to ensure fair, proper and consistent evaluations of all jurisdictions, regardless of the assessment team used. The evaluations are based on the FATF *40+9 Recommendations* and performed using the *AML/CFT Methodology of 2004*⁵. The *AML/CFT Handbook for Countries and Assessors 2004* lays out the necessary instructions and guidance for all countries and bodies that are conducting assessments.

18. The assessment is a process which takes approximately ten months to one year to complete. It is conducted by a team commonly of four to six selected experts in the legal, financial and law enforcement fields from other member governments, with up to two members of the FATF Secretariat. During this process the team makes an on-site visit to the country and draws up a detailed report which provides assessment of the extent to which the evaluated country has moved forward in implementing an effective AML/CFT system and also highlights areas in which further progress may still be required.

The 3rd round of evaluations

19. The third round of mutual evaluations for FATF members began in January 2005. Six FATF mutual evaluations were finalised this year (2006-2007). With the recent adoption of the mutual evaluation reports for China, Greece and the United Kingdom, 16 of the 32 FATF jurisdiction members have been evaluated in this third round.

Table 2: FATF members assessed in the 3rd round

Plenary date	Finalised evaluation reports		
June 2005	Belgium	Norway	
October 2005	Australia	Italy ⁶	Switzerland
February 2006	Ireland	Sweden	

⁵ As most recently updated in February 2007.

⁶ Draft evaluation report prepared by the IMF using the agreed AML/CFT Methodology, and report discussed and agreed by the FATF.

Plenary date	Finalised evaluation reports		
June 2006	Denmark ⁸	Spain	United States
October 2006	Iceland	Portugal	
February 2007	Turkey		
June 2007	China	Greece	United Kingdom

20. In support of increased transparency, the FATF 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 16 reports adopted so far, along with summaries of their key findings, are available on the FATF website⁷. Sharing of reports between all assessor bodies is fundamental in order for the FATF, FSRBs and IFIs to ensure consistency in the application of the FATF *40+9 Recommendations* and effective implementation of the standards. Significant progress has been made in recent years to enhance sharing, particularly between FATF and the FSRBs. Almost all the bodies engaged in conducting AML/CFT evaluations or assessments have taken steps forward by agreeing to share their reports with their partner assessment bodies on a reciprocal basis and most have agreed to publish assessment reports on their websites.

21. Under the agreed procedures for the third round of evaluations, jurisdictions must submit a report to the FATF two years after their evaluation, indicating their progress made since the evaluation and in particular highlighting progress made in areas where the evaluation concluded that their AML/CFT system needed to be strengthened. Both Norway and Belgium have submitted follow up reports to the FATF plenary noting the progress they have made since their evaluations two years ago. During 2006-2007, the FATF also continued to work with both Argentina and Mexico as follow-up to their evaluations and both jurisdictions enacted new counter-terrorist financing legislation in 2007.

Evaluations by FATF-style regional bodies

22. During the year, 24 evaluations were completed of members of FSRBs, including the joint FATF/APG evaluation of the United States and the joint FATF/EAG evaluation of China. As with the reports from FATF mutual evaluations, most of these reports are published and can be found on the FSRBs' websites.

Table 3: FSRB members' assessments finalised, 2006-2007

APG	CFATF	EAG	GAFISUD	GIABA	MENAFATF	Moneyval
Fiji (World Bank led evaluation)	Dominican Republic	Kyrgyzstan	Bolivia	Sierra Leone (World Bank led evaluation)	Islamic Republic of Mauritania (IMF led evaluation)	Albania
Samoa (joint APG/ OGBS)	Guyana	China (joint EAG/ FATF)	Chile		Syrian Arab Republic	Cyprus
Sri Lanka	Belize		Uruguay		Tunisia (World Bank led evaluation)	Latvia (IMF led evaluation)
United States (joint APG/ FATF)	Trinidad and Tobago		Peru		Kingdom of Bahrain (IMF led evaluation)	Lithuania
Vanuatu (joint APG/ OGBS)	Costa Rica					Georgia
						Slovakia
						Poland

Evaluator training

23. The FATF, the IFIs and the FSRBs provide five-day training programmes for prospective assessors from governments which are members of the FATF and / or of one of the FSRBs. These courses ensure that there is a large pool of trained assessors available to participate in the evaluations.

⁷ www.fatf-gafi.org

As far as possible, the assessment bodies use assessors who have completed a training course. 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. Training materials are updated from time to time when the standards or evaluation methodology change. In 2006-2007 the FATF participated in four evaluator training sessions organised by assessor bodies.

Table 4: Mutual evaluator training courses provided by assessor bodies, 2006-2007

Date	Assessor Body	Location
4-8 September 2006	FATF	Brisbane, AUSTRALIA
16 - 20 October 2006	FATF	Washington DC, USA
15 - 19 January 2007	FATF	HONG KONG, CHINA
30 April - 4 May 2007	ESAAMLG/GIABA	Nairobi, KENYA
21 - 25 May 2007	Moneyval	Strasbourg, FRANCE
21 - 25 May 2007	GIABA	Dakar, SENEGAL

The evaluation methodology

24. At the WGEI meeting in April 2006 it was agreed that the detailed methodology for conducting these evaluations, the *AML/CFT Methodology 2004*, should be amended by adding information on the decisions that have been made by the FATF to interpret or clarify the application of the standards. An updated version of the methodology incorporating this information was released in February 2007.

25. During the year, the WGEI has also examined whether any changes were required to the *AML/CFT Handbook for Countries and Assessors 2004* to provide evaluation teams' sufficient information on how to assess the effectiveness of a jurisdiction's AML/CFT system. Mutual evaluations involve an assessment of the country's formal compliance with the FATF standards and also an assessment of whether the Recommendations have been effectively implemented. The assessment of effectiveness is carried out for individual Recommendations and may have a positive, negative or neutral impact on compliance ratings derived initially from the basic structural elements in place. Judging the effectiveness of individual components of the national AML/CFT system (in particular, those Recommendations that impose wide-ranging or core requirements, such as Recommendations 1, 13 and Special Recommendation II) also allows assessors to form a judgment regarding the overall effectiveness of AML/CFT measures in place. In June 2007, the FATF released a revised version of the *AML/CFT Handbook for Countries and Assessors 2004* with an annex that enumerates further the concrete elements that need to be taken into account to properly assess effectiveness of the AML/CFT system and includes suggestions of factors that assessors could take into account in checking whether effectiveness is adequately addressed and measured wherever this is relevant.

IV. ML AND TF METHODS AND TRENDS

26. The study of money laundering and terrorist financing methods, techniques 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 gather and study information on current money laundering and terrorist financing methods and trends and to make this information available to support FATF policy-making. FATF typologies work describes and explains the nature of the ML/TF threats, which is instrumental to developing the most appropriate standards to maximise the global resistance to that activity and increase the likelihood that if it is conducted it will be detected. The WGTYP works closely with the WGTM. During 2006-2007, this relationship was further reinforced as the WGTM took on the task of reviewing all newly published FATF typologies reports with a view towards identifying and addressing the policy implications of this work.

The 2006-2007 typologies exercise

27. The FATF-XVIII experts' meeting on typologies was held jointly with the EAG in Shanghai, China, from 28 to 30 November 2006. As in previous joint experts' meetings, the 2006 meeting centred on a series of workshops followed by a round table discussion of the workshop conclusions. Each of the workshops focussed on one of the ongoing typologies projects and served as a vehicle for those working on research for those projects to validate the work done so far as well as identify any gaps in information. The four workshops for the Shanghai meeting focussed on: ML/TF through the real estate sector; laundering the proceeds of VAT "carousel" fraud; terrorist financing typologies; and, and laundering the proceeds of illegal narcotics trafficking (a project led by the EAG).

28. This joint experts' meeting was the fourth using the format of specialised workshops and the second organised jointly with an FATF-style regional body. Over 155 experts contributed to the meeting, representing some 45 countries.

Six typologies reports released

'New Payment Methods' and *'Misuse of Corporate Vehicles'*

29. In October 2006 the FATF issued two reports on money laundering methods and vulnerabilities in specific sectors: *Report on New Payment Methods* and *The Misuse of Corporate Vehicles, Including Trust and Company Service Providers*. The research on new payment methods (prepaid cards, Internet payment systems, mobile payments, and digital precious metals) found that, while there is a legitimate market demand for these payment methods, money laundering and terrorist financing vulnerabilities exist. Specifically, cross-border providers of new payment methods may pose more risk than providers operating within a jurisdiction. The report recommends continued vigilance to detect the impact of evolving technologies on cross-border and domestic regulatory frameworks. The study on corporate vehicles found evidence of their misuse for money laundering / terrorist financing. The report identifies a number of risk factors and concludes that this misuse could be significantly reduced if governments have access to information about the beneficial owner, the source of assets, and the business objective of the company or trust.

'Laundering the Proceeds of VAT Carousel Fraud' and *'Complex Money Laundering Techniques: a Regional View'*

30. Two further reports were released in February 2007: *Laundering the Proceeds of VAT Carousel Fraud* and *Complex Money Laundering Techniques: a Regional View*, a project led by GAFISUD. The report on VAT carousel fraud examines the methods used for laundering of the proceeds resulting from this type of fraud, which is essentially an abuse of common duty areas to generate illegal profits. The fraud entails the use of a contrived chain of transactions to steal government revenues through the VAT reclaim system. *Complex Money Laundering Techniques: a Regional View* examines ML and TF schemes in South America, building on and updating work previously conducted by GAFISUD, the FATF and other international bodies. It identifies five primary methods: a) illicit foreign currency arbitrage transactions; b) structured international remittances; c) black market peso exchange; d) international loan simulation and capitalisation of legitimate companies with illegal funds; and e) physical transportation of the proceeds of crime.

'ML/TF through the Real Estate Sector' and *'Laundering the Proceeds of Illegal Narcotics Trafficking'*

31. In June 2007 the FATF released two more typologies reports: *ML/TF through the Real Estate Sector* and *Laundering the Proceeds of Illegal Narcotics Trafficking*. The report on vulnerabilities of the real estate sector to misuse for money laundering and terrorist financing is the first FATF in-depth study to deal with this issue. It identifies a number of the most common money laundering methods that are associated with real estate operations, investment and financing. The research conducted for this project also found some evidence that these same methods have sometimes been used for

suspected terrorist financing schemes. The project on laundering related to illegal narcotics trafficking was led during 2006-2007 by the EAG in the context of this year's joint typologies exercise. The report describes some of the most common money laundering techniques associated with this criminal activity. Its focus on the Central Asian region provides a unique view on the money laundering activity prevalent in this region and as such fills in an important gap in information on one of the criminal threats facing this region of the world.

32. FATF typologies work in other areas continued during 2006-2007. A project intended to provide an update on terrorist financing methods begun during the year and is now scheduled to be completed by October 2007. Another project, which aims to develop threat analysis strategies, also began in 2007. The strategies developed by this project will assist national authorities in establishing their own national-level ML/TF threat estimates and may also be useful for the private sector in examining AML/CFT vulnerabilities from their particular perspective. This project is scheduled for completion by June 2008.

V. THE GLOBAL NETWORK

The FATF membership

33. The FATF welcomed the People's Republic of China as its newest member at the June 2007 plenary meeting. This follows completion of the first mutual evaluation of China's systems for combating money laundering and terrorist financing.

34. The FATF decided to grant observer status to the Republic of Korea in July 2006 and welcomed delegates from the Republic of Korea at the October 2006 plenary meeting in Paris. Korea has been a member of the APG since 1998 and held the position of APG co-chair for a two year period during 2002-2004, along with a co-chair from Australia.

35. The FATF has also renewed its contacts with India, and a past President of FATF visited India in April 2006. On this occasion, India reaffirmed its commitment to seek FATF membership and implement the *40+9 Recommendations*. The FATF granted observer status to India in November 2006, and in February 2007 delegates welcomed India to the FATF plenary meeting in Strasbourg. India has been a member of the APG for nearly ten years and was a member of the APG Steering Group in 2005/2006.

36. Thirteen of the 34 FATF members are also members of an FSRB, which provides a close link between the work of the FATF and the work of the FSRBs. Joint membership by these jurisdictions aids consistency of approach in the work of these bodies and support effective information sharing between them. The input of joint members has also proven useful when the FATF and an FSRB are collaborating on typologies or other projects and when joint meetings are held.

Table 5: FATF members which are also members of FSRBs

FATF Member Jurisdiction	FSRB Membership
Argentina	GAFISUD
Australia	APG
Brazil	GAFISUD
Canada	APG
Hong Kong, China	APG
Japan	APG
Mexico	GAFISUD
New Zealand	APG
People's Republic of China	EAG
Russian Federation	EAG and Moneyval
Singapore	APG
South Africa	ESAAMLG

FATF Member Jurisdiction	FSRB Membership
United States	APG

Joint initiatives with the associate members and other FATF-style regional bodies

37. For more than 10 years, the FATF has worked to support the development of FSRBs as an important means of ensuring a truly global effort is in place to combat money laundering and terrorist financing and to ensure effective implementation of the FATF standards in all regions of the world. Increasingly the FATF and all FSRBs are working closely together, with consistent approaches to many fundamental matters and procedures and joint initiatives. The FATF collaborates on an ongoing basis with other international bodies involved in combating ML and TF and pursues several joint initiatives each year.

Mentoring, training and other assistance provided by the FATF Secretariat

38. In February the FATF Secretariat hosted a three day visit from the GIABA Secretariat. Previously the FATF Secretariat had already provided training to the Secretariats of several newly created FSRBs, such as EAG and MENAFATF, in relation to the efficient functioning of a Secretariat. This type of assistance will remain available to FSRB Secretariats.

39. The FATF Secretariat has also been conducting preliminary reviews of mutual evaluation reports prepared by FSRBs and has provided comments to the FSRBs' Secretariats as appropriate. These comments are designed to assist FSRBs in further development of their assessment capability and are also designed to ensure consistency of evaluations regardless of the assessor body involved.

Joint plenary meeting with Moneyval

40. After joint plenary meetings with APG in June 2005 and ESAAMLG in 2006, the FATF held a joint plenary with Moneyval in February 2007. The plenary session and associated meetings of working groups were hosted by Moneyval from 18 to 23 February at the Palais de l'Europe in Strasbourg, France. The meeting was opened by the Secretary General of the Council of Europe, Mr Terry Davis, and was jointly chaired by the FATF President, Mr Frank Swedlove, and the Moneyval Chairman, Mr Vasil Kirov. This was the first time the FATF and an associate member had held a fully joint meeting and its success demonstrated that joint discussions of mutual evaluation reports and other matters worked to the benefit of both organisations.

41. Among the issues considered was the enhanced dialogue between the FATF and the private sector. The mutual evaluations of Turkey (FATF evaluation) and Georgia (Moneyval evaluation) were examined and adopted in the joint session. The joint plenary also welcomed India as an observer and adopted two new reports on money laundering and terrorist financing methods; *Laundering the Proceeds of VAT Carousel Fraud* and *Complex Money Laundering Techniques: a Regional View*.

Co-operation with international organisations

42. The FATF and the IFIs have continued to co-ordinate their activities closely, in particular in the area of AML/CFT evaluations and assessments. Increasingly the IFIs work collaboratively with FSRBs on assessments of jurisdictions' AML/CFT systems (see [table 3](#) above). This year, the IMF commenced assessments of Bermuda, Cape Verde, Liechtenstein, Mauritius, Thailand, Qatar and the United Arab Emirates, and the World Bank commenced assessments of Cambodia and Botswana and Tajikistan. The FATF has also continued to work closely with the IFIs in other areas, including a review conducted by the FATF, IFIs and FSRBs of the quality and consistency of evaluation/assessment reports and through ongoing co-operation in the provision of assessor training, as mentioned above.

43. In June 2007 the FATF released *Guidance on Implementing Financial Provisions of UNSC Resolutions to Counter Proliferation of Weapons of Mass Destruction*⁸, which is intended to assist jurisdictions in implementing the targeted financial sanctions and activity-based financial prohibitions contained in United Nations Security Council Resolutions (UNSCRs) relating to prevention of proliferation of weapons of mass destruction (WMD). It also provides a framework for further study of broad-based measures to combat WMD proliferation financing. Development of this guidance was assisted by the UN. It is without prejudice to existing guidance in this area and is not intended to replace other measures or obligations that may already be in place.

International co-operation issues

44. At its October 2006 meeting, the FATF removed Myanmar from the list of countries and territories not co-operating in the international fight against money laundering. Myanmar has made good progress in implementing its anti-money laundering system. The FATF will continue to monitor Myanmar during the coming year to ensure it makes further progress. In particular the FATF has advised Myanmar to enhance regulation of the financial sector, including the securities industry, and to ensure that the government responds adequately to any foreign requests for co-operation. The formal monitoring process with respect to Nigeria, which was removed from the NCCT⁹ list in June 2006, ended in June 2007.

45. The FATF NCCT process has been very successful. All 23 jurisdictions that were identified as NCCTs in 2000 and 2001¹⁰ are no longer on the NCCT list as they have made significant progress and many others have strengthened their anti-money laundering and counter-terrorist financing systems to ensure they would not be listed by the FATF as non-cooperative.

46. The FATF remains vigilant on international co-operation issues and will not hesitate to act if a country poses a serious threat to the international effort to combat money laundering and terrorist financing.

Work with the private sector

47. In its work programme for FATF-XVIII, the Canadian Presidency had identified as a priority the importance of outreach to other key stakeholders. In that regard, one area of particular significance is promoting an open and constructive dialogue with all private sector stakeholders to raise awareness of the FATF's work and in turn get feedback from the private sector's representatives on the challenges they face in implementing AML/CFT measures. This also involves drawing particular attention to specific issues related to the FATF standards for which the industry has expressed concerns and a willingness to address further. Over the past year the FATF has worked even more actively on its dialogue with private sector partners which are affected substantially by the implementation of the *40+9 Recommendations*.

48. Over the past year, the FATF President undertook a series of outreach meetings with private sector representatives and industry associations on a regional basis and at more senior levels. Meetings were held in North America, Asia and Europe with major players in the financial sector, whether associations or private businesses themselves. In addition, a meeting was also held with representatives of the Hong Kong Law Society. The response by the private sector has been overwhelmingly supportive and representatives noted their particular support for continued engagement with the FATF. The FATF is currently considering how best to enhance its current engagement with the private sector.

⁸ UNSC = the United Nations Security Council.

⁹ Non-Cooperative Countries and Territories.

¹⁰ Bahamas, Cayman Islands, Cook Islands, Dominica, Egypt, Grenada, Guatemala, Hungary, Indonesia, Israel, Lebanon, Liechtenstein, Marshall Islands, Myanmar, Nauru, Nigeria, Niue, Panama, Philippines, Russia, St. Kitts & Nevis, St. Vincent & the Grenadines and Ukraine.

48. Outreach work has also been undertaken through the WGEI since 2005. Some private sector consultation meetings in Brussels in December 2005 led to the creation of the Electronic Advisory Group on the risk based approach (the EAG). The EAG was set up in March 2006 and includes both public and private sector participants. This group was tasked by the FATF plenary to draft good practice guidelines on the risk-based approach (the RBA) and completed the *Guidance on the Risk-based Approach to Combating Money laundering and Terrorist Financing: High Level Principles and Procedures* in June 2007 as a joint initiative conducted by financial sector representatives with the FATF. The EAG guidance contains several elements:

- (1) An outline of the FATF standards and the risk-based approach; the benefits and challenges of implementing a risk-based approach.
- (2) Guidance for the public sector.
- (3) Guidance for financial institutions in implementing the RBA.

49. This guidance was adopted by the FATF in June 2007 and is intended for both the public and private sectors. It sets out the key elements of an effective risk-based approach and identifies the broad expectations on public and private sector agencies when applying a risk based approach to the prevention of money laundering and terrorist financing. The guidance does not provide a one-size-fits-all solution, but recognises that each country, in partnership with the private sector, will need to develop the most appropriate regime in order to address the risks it faces. Accordingly, the guidance seeks to provide a helpful framework of the high level principles and procedures that governments and firms may wish to consider when developing and implementing such a regime. The guidance also provides illustrative case studies and other sources of information for those developing or implementing an RBA.

50. A successful second private sector consultation meeting was held in November 2006 in Amsterdam with lawyers, accountants and notaries. The objectives of this meeting were to discuss how these professions could apply the FATF standards, appropriate means for reporting suspicions despite professional secrecy on legal profession privilege and matters relating to the transparency of legal entities and arrangements. This exchange of views with lawyers was very fruitful, not only in raising awareness of FATF work but also in looking at issues of particular interest to the legal profession.

51. The FATF President and others have also spoken at a large number of private sector conferences and seminars.

Communications

51. During FATF-XVIII, strengthening communications with the public has been a priority of the Canadian presidency. After each of the three plenary meetings, the FATF President has released a ‘Chairman’s summary’ of key decisions and outcomes of the meeting. In May 2007 the first FATF *e-news* newsletter was released to delegates and private sector representatives. The FATF *e-news* is the FATF’s newsletter designed for members of the public. It is being released three times per year to provide greater visibility of the progress being made by the task force. In June, the FATF released a policy brief *Building Effective Systems to Fight Money Laundering and Terrorist Financing*, which is designed to provide high level information on: the FATF and its work; the benefits of implementing the FATF Recommendations; and, what a country must do to implement the FATF Recommendations effectively. In addition, as the FATF’s public website (www.fatf-gafi.org) is its primary tool for providing information to the public, enhancement of the FATF website is planned for the coming year¹¹.

¹¹ See [Annex 2](#) for a list of FATF documents published this year.

VI. SUPPORT SERVICES AND FINANCIAL STATEMENTS

52. The work of the FATF is co-ordinated and supported by a secretariat. The FATF Secretariat is housed at the OECD in Paris, France. The work of the secretariat has expanded considerably over the years. The secretariat is now composed of 12 staff members: an executive secretary; 3 principal administrators; 5 administrators; 1 administrative assistant; and, 2 assistants/secretaries. From time to time the secretariat also hosts short term interns (stagiers) who have recently graduated from relevant tertiary studies to assist the secretariat in its work. During the past year, the executive secretary and one administrator have left the organisation and recruitment processes are currently being finalised for both positions.

53. 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 members of the secretariat 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.

54. Thanks to a generous grant from Luxembourg, the FATF has been working to improve its information technology systems, with a view to providing FATF delegations with better access to confidential documents. This system will be strengthened over the coming year and the FATF will then be in a position to enhance its public website.

55. 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 of OECD members. The two member organisations also make contributions to the FATF budget. The overall budget figures of the FATF budget for fiscal years 2006 and 2007 are reflected in [table 6](#) below.

Table 6: FATF budget summary, FY2006 and FY2007

Budget Items	Budget FY 2006	Budget FY 2007
Emoluments, allowances and employer's contributions for permanent staff	1 323 300	1 427 800
Official travel	225 000	250 000
Consultants, contracts, auxiliaries and conferences	1 000	1 000
Entertainment expenses	1 000	1 000
Operating expenditure	112 000	114 300
Share of OECD's overheads	124 400	150 000
Documentation and library	1 000	1 000
Meetings, documents, translation and interpretation	80 000	80 000
Miscellaneous and unforeseen expenditures	1 000	1 000
Capital expenditure	1 000	1 000
Information technology	30 000	30 000
TOTAL	1 899 700	2 057 100

VII. FUTURE AREAS OF WORK

56. The UK will hold the next presidency of the FATF from July 2007 to June 2008, with Mr. James Sassoon President of the FATF for this 12-month period.

57. In October 2007, the UK presidency will present its priorities for the coming year to the FATF plenary. In addition, FATF-XIX will carry out work which commenced during FATF-XVIII relating to the strategic direction of the organisation and private sector outreach.

ANNEX 1: FATF DOCUMENTS PUBLISHED IN 2006-2007

AML/CFT Handbook for Countries and Assessors 2004, June 2007

AML/CFT Methodology 2004, February 2007

Chairman's Summary, Paris Plenary, 27-29 June 2007, June 2007

Chairmen's Summary, Strasbourg Plenary, 21-23 February 2007, February 2007

Chairman's Summary, Vancouver Plenary, 11-13 October 2006, June 2006

Complex Money Laundering Techniques: a Regional View, February 2007

FATF *e-news*, May 2007

FATF Third Mutual Evaluation on Anti-money Laundering and Combating the Financing of Terrorism: China, June 2007

FATF Third Mutual Evaluation on Anti-money Laundering and Combating the Financing of Terrorism: Greece, June 2007

FATF Third Mutual Evaluation on Anti-money Laundering and Combating the Financing of Terrorism: Iceland, October 2006

FATF Third Mutual Evaluation on Anti-money Laundering and Combating the Financing of Terrorism: Portugal, October 2006

FATF Third Mutual Evaluation on Anti-money Laundering and Combating the Financing of Terrorism: Turkey, February 2007

FATF Third Mutual Evaluation on Anti-money Laundering and Combating the Financing of Terrorism: The United Kingdom of Great Britain and Greece, June 2007

Guidance on Implementing Financial Provisions of UNSC Resolutions to Counter Proliferation of Weapons of Mass Destruction, June 2007

Guidance on the Risk-based Approach to Combating Money laundering and Terrorist Financing: High Level Principles and Procedures, June 2007

Laundering the Proceeds of Illegal Narcotics Trafficking, June 2007

Laundering the Proceeds of VAT Carousel Fraud, February 2007

The Misuse of Corporate Vehicles, Including Trust and Company Service Providers, October 2006

ML/TF through the Real Estate Sector, June 2007

Policy Brief: Building Effective Systems to Fight Money Laundering and Terrorist Financing, June 2007

Report on New Payment Methods, October 2006

ANNEX 2: ACRONYMS IN THIS ANNUAL REPORT¹²

Acronym	Full text
AML	Anti-Money Laundering
APG	Asia/Pacific Group on money laundering
CFATF	Caribbean Financial Action Task Force
CFT	Countering the Financing of Terrorism
CTAG	Counter-Terrorism Action Group
DAR	Detailed Assessment Report
DC	District of Colombia
EAG	Eurasian Group
EAG	Electronic Advisory Group on the risk-based approach
ESAAMLG	Eastern and Southern African Anti-Money Laundering Group
FATF	Financial Action Task Force
FATF-XVIII	FATF 18; the FATF's 18 th year
FATF-XIX	FATF 19, the FATF's 19 th year
FSRB	FATF-Style Regional Body
FY	Financial Year
G-7	Group of Seven
G-8	Group of Eight
GAFISUD	Grupo de Acción Financiera de Sudamérica
GIABA	Groupe Inter-gouvernemental d'Action Contre le Blanchiment en Afrique
IFI	International Financial Institution

Acronym	Full text
IMF	International Monetary Fund
MENAFATF	Middle East and North Africa Financial Action Task Force
MER	Mutual Evaluation Report
ML	Money Laundering
NCCT	Non-Cooperative Country or Territory
OECD	Organisation for Economic Co-operation and Development
OGBS	Offshore Group of Banking Supervisors
RBA	Risk-Based Approach
S/RES	United Nations Security Council Resolution
TANA	Technical Assistance Needs Assessment
TCSP	Trust and Company Service Provider
TF	Terrorist Financing
UK	United Kingdom
UN	United Nations
UNSC	United Nations Security Council
UNSCR	United Nations Security Council Resolution
VAT	Value-added Tax
WB	World Bank
WGEI	Working Group on Evaluations and Implementation
WGTM	Working Group on Terrorist Financing and Money Laundering
WGTYP	Working Group on Typologies
WMD	Weapon of Mass Destruction

¹² Note: Moneyval and Egmont are not acronyms.