DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
On the
Transfer of Real Resources to Developing Countries)

DC2001-0016
April 27, 2001

ENHANCING CONTRIBUTIONS TO COMBATING MONEY LAUNDERING

Summings-Up of the Discussion of the Board of Directors of the World Bank and of the International Monetary Fund

Attached for the April 30, 2001 meeting of the Development Committee is a note from the President of the World Bank and the Managing Director of the International Monetary Fund forwarding the summings-up of the discussion of the Boards of the Bank and the Fund on "Enhancing Contributions to Combating Money Laundering" which forms the background of Item II.C of the Revised Provisional Agenda.

INTERNATIONAL MONETARY FUND

THE WORLD BANK GROUP

WASHINGTON, D.C. 20431

MEMORANDUM

DATE: April 26, 2000

TO: Members of the International Monetary and Financial Committee
Members of the Development Committee

SUBJECT: **Enhancing Contributions to Combating Money Laundering**

At its September 2000 meeting, the International Monetary and Financial Committee requested the "Fund to prepare a joint paper with the Bank on their respective roles in combating money laundering and financial crime, and in protecting the international financial system." In response, IMF and World Bank staffs prepared a joint policy paper on *Enhancing Contributions to Combating Money Laundering*.

The respective Boards met to consider the joint staff paper on April 13, 2001. The summings-ups of the two Board discussions are attached.

Horst Köhler

James D. Wolfensohn

Attachments

Chairman's Summing-Up
Enhancing Contributions to Combating Money Laundering
Meeting of the Committee of the Whole, April 13, 2001

Executive Directors met to consider the joint Bank/Fund staff paper on enhancing contributions to combating money laundering, including staff's proposals for incorporating work on these issues into the various activities of the IMF and the World Bank, as requested by the International Monetary and Financial Committee.

They agreed that money laundering is a problem of global concern, which affects major financial markets and smaller ones, and which has development costs even though they may be difficult to measure. Directors recognized that national and international efforts to counter money laundering are needed. Such global efforts will require a cooperative approach involving many different institutions given the cross-cutting agenda—encompassing financial sector supervision and regulation, good governance, judicial and legal reform, and effective law enforcement.

It was agreed that the primary lead should rest with the specialized institutions that have the mandate and expertise in this area. In this regard, Directors took note of the efforts being made by the Financial Action Task Force (FATF), regional anti-money laundering task forces, and the United Nations and other multilateral organizations to assess and promote anti-money laundering measures, including those in the area of law enforcement. Directors noted the important role played by legal/criminal enforcement, but stressed that it would not be appropriate for the Bank to become involved in law enforcement activities.

Directors agreed that the Bank can play a supportive role in partnership with others, especially the Fund, but that this role must be anchored in its development mandate. The principal contribution that the Bank can make—and is indeed already making—is to assist countries address the root causes of financial abuse by helping them strengthen their economic, financial, governance and legal foundations. Directors noted the steps taken by the Bank in recent years to step up its programs in these areas, including the joint efforts with the IMF on the Financial Sector Assessment Program and the Reports on Observance of Standards and Codes.

Consistent with this approach, Directors agreed that the Bank should, in close collaboration with the IMF, take the following steps to support efforts to combat money laundering.

- Ensure full collaboration with relevant anti-money laundering groups including FATF, the regional groups and the UN.
- Give attention to anti-money laundering issues in the Bank's diagnostic work, especially the voluntary FSAP and the ROSC exercises.

- Based on diagnostic work and policy dialogue, be prepared to provide technical assistance and support for capacity building in the areas of the Bank's domain and within the framework of its country assistance strategies, and
- Improve the understanding of the development costs and impact of money laundering and financial abuse, and publicize the importance of collective actions in this area.

It was generally agreed that the FATF 40 Recommendations be recognized as the appropriate standard for combating money laundering, and that work should go forward to determine how, and in what aspects, the Recommendations could be adapted and made operational to the Bank's work. However, several Directors noted that recognizing the FATF 40 Recommendations did not constitute an endorsement of the process through which the FATF arrived at and applied the Recommendations.

Directors endorsed the proposal to develop a methodology that would delineate more clearly the focus of the work by the Bank on anti-money laundering elements in its areas of domain, and clarify how this work would relate to the work of other groups.

Directors concluded that the main focus of the Bank must remain on helping countries strengthen their defenses against financial abuse and money laundering through enhanced support for capacity building. Directors reaffirmed their commitment to help countries put in place the policy and institutional foundations and specific provisions that are needed to reduce the risks of financial abuse based on the Bank's mandate and comparative strengths.

BUFF/01/54

April 17, 2001

Summing Up by the Acting Chairman
Enhancing Contributions to Combating Money Laundering
Executive Board Meeting 01/38—April 13, 2001

Executive Directors welcomed the opportunity to review issues related to money laundering, and to consider the staff's proposals for incorporating work on these issues into the Fund's and the World Bank's various activities, as requested by the International Monetary and Financial Committee. They agreed that money laundering is a problem of global concern, which affects major financial markets as well as smaller ones, and that to address it, international cooperation should be stepped up. Directors also agreed that the Fund has an important role to play in protecting the integrity of the international financial system, including through efforts to combat money laundering. They emphasized, however, that the Fund's involvement in this area should be strictly confined to its core areas of competence.

Directors recognized that more vigorous national and international efforts to counter money laundering are needed. These efforts should encompass the promotion of sound financial systems and good governance, the design and implementation of judicial and legal reform and other related capacity-building programs, and effective law enforcement. Directors pointed out that financial regulation and supervision, based on internationally recognized standards, play an important role in preventing financial abuse, including money laundering. However, they stressed that financial/supervisory regulation needs to be backed by legal/criminal enforcement. In this regard, Directors noted the efforts being made by the Financial Action Task Force (FATF), regional anti-money laundering task forces, and the United Nations and other multilateral organizations to assess and promote anti-money laundering measures, including those in the area of law enforcement. They also noted the important role played in law enforcement by various national and international agencies, but confirmed that it would not be appropriate for the Fund to become involved in law enforcement activities.

Directors generally agreed that the Fund should take the following steps to enhance international efforts to counter money laundering:

- intensify its focus on anti-money laundering elements in all relevant supervisory principles,
- work more closely with major international anti-money laundering groups,
- increase the provision of technical assistance,
- include anti-money laundering concerns in its surveillance and other operational activities when macroeconomic relevant, and
- undertake additional studies and publicize the importance of countries acting to protect themselves against money laundering.

Directors considered that intensifying the focus on anti-money laundering elements in supervisory principles will help ensure that financial institutions have in place the management and risk control systems needed to deter financial abuse. They noted that financial sector supervisory principles already assessed under the Financial Sector Assessment Program (FSAP) include elements that are relevant to money laundering and have an analogue in certain aspects of the FATF 40 Recommendations.

Directors endorsed the proposal to develop a methodology that would enhance the assessment of financial standards relevant for countering money laundering and could be used for preparing reports in each FSAP on observance of all relevant principles. The recently approved expansion of the FSAP and the ongoing offshore financial center (OFC) assessments will allow an increasing number of members to benefit from the Fund's work on strengthening financial systems and countering money laundering. Directors agreed that results from such FSAP and OFC assessments could be shared with the international community, with the agreement of the member. Publication and circulation to outside agencies of the assessments would be governed by existing Fund policies.

Directors stressed that money laundering issues should continue to be addressed in Fund surveillance when they have macroeconomic effects, including effects arising from financial instability and reputational damage. A number of Directors considered that the cross-border implications of money laundering should be raised during Article IV consultations, even if it is not macroeconomic relevant for that member but when it had significant externalities for other countries. In this context, Directors agreed that more research into the magnitude and the economic consequences of financial abuse, including money laundering, should be encouraged. They also agreed that the FSAP, OFC assessments, and Reports on the Observance of Standards and Codes (ROSCs) can help guide and inform surveillance. With regard to conditionality, many Directors were of the view that the "macro-relevance" test should continue to be applied, but a few Directors were opposed to applying conditionality to anti-money laundering measures.

Directors called on all governments, especially those with responsibilities for major financial markets, to put in place the necessary measures to counter money laundering. They endorsed the staff's proposals for increased cooperation with the FATF and regional anti-money laundering task forces, including those relating to the exchange of information with these groupings.

It was generally agreed that the FATF 40 Recommendations be recognized as the appropriate standard for combating money laundering, and that work should go forward to determine how the Recommendations could be adapted and made operational to the Fund's work. However, several Directors noted that recognizing the FATF 40 Recommendations did not constitute an endorsement of the non-voluntary and non-cooperative manner in which the FATF applies the Recommendations. Most Directors felt that the Fund should cover only those issues in the FATF 40 Recommendations that deal with financial regulation and supervision, and that responsibility for legal/crime enforcement should be left to others. Directors also stressed that the FATF process needs to be made consistent with the ROSC process—that is, the FATF standard needs to be applied uniformly, cooperatively, and on a voluntary basis—and that once this is done, the FATF could be invited to participate in the preparation of a ROSC module on money laundering. They called on the staffs of the Fund and the World Bank to contribute to the ongoing revision of the FATF 40 Recommendations and to discuss with the FATF the principles underlying the ROSC procedures and come back to the Board with a report and proposals.

Directors agreed that the expanded role in combating money laundering should include more technical assistance for members, particularly for capacity building in the preventive areas, with the extra work focusing on adherence to supervisory standards.

Regarding the resource costs arising from money laundering activities, it is clear that additional resources are required for these additional activities, and that the initial estimates will need to be reviewed in light of actual experience. It is noted that there is the potential for some external financing for this specific activity, and any such financing would reduce the impact on the budget. It is too early to request an exact amendment to the budget at this time, but depending on further assessments, management will return to the Board if necessary during the year should a supplemental appropriation be required.