Financial Action Task Force on Money Laundering

Groupe d'Action Financière sur le Blanchiment de Capitaux

Review of FATF Anti-Money Laundering Systems and Mutual Evaluation Procedures 1992-1999

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REVIEW OF FATF ANTI MONEY LAUNDERING SYSTEMS AND MUTUAL EVALUATION PROCEDURES 1992-1999

Introduction

1. It is now more than 10 years since the formation of the FATF, and throughout almost all of that time the mutual evaluation process has formed one of the central pillars of FATF work. Under this process, each FATF member country is examined by a team of selected experts from other member countries of the FATF and a report is drawn up. The purpose of this exercise is to provide a comprehensive and objective assessment of the extent to which the country in question has moved forward in implementing measures to counter money laundering and to highlight areas in which further progress may still be required. The two rounds of mutual evaluations have provided the principal method by which the FATF has monitored the implementation of the Forty Recommendations, and has assessed the effectiveness of the anti-money laundering systems in FATF member jurisdictions. The mutual evaluation process has been supplemented by an annual self-assessment exercise, and also to a lesser extent, by the three cross-country surveys which have been conducted. However, these processes have not provided the same degree of depth or detail which is required to effectively evaluate the anti-money laundering systems in different FATF member jurisdictions.

2. This review assesses both the first and second rounds of mutual evaluations[1], though greater emphasis is given to the second round reports, since these are more current and more relevant to the systems in operation in FATF members. The review has examined all the reports for both rounds, the procedures that were adopted, and any steps that were taken to follow up on mutual evaluation reports. The review breaks down the analysis into four parts:

- The progress in implementing the FATF Forty Recommendations - which includes an examination of the progress that has been made in entering into compliance with the Recommendations.
- The anti-money laundering systems in FATF member jurisdictions - this section provides a fuller and more descriptive analysis of the types of measures that have been adopted by members, and a consideration of the responsible agencies tasked with these functions. Where there are policies or measures that have been particularly effective these are identified, and similarly for weaknesses or measures that have proved more difficult to implement. There is also a short review of the steps taken by members to rectify the deficiencies identified in the first round reports.
- A description and analysis of the procedures used for the mutual evaluation processes.
- An examination of the procedures for following up mutual evaluations.

3. The dual approach of monitoring implementation through self-assessment and mutual evaluation was agreed in 1991, and the first round of mutual evaluations commenced in 1992. The

[1] Two rounds of FATF Mutual Evaluations took place between 1992 to 1999, and this Review is therefore limited to the legislative and other measures in place during that period, and does not contain reference to any measures that may have been taken by members since 1999.

principal baseline measurement for the first round was the "effective implementation of the 1990 Forty FATF Recommendations", and emphasis was placed on positive accomplishment and instances where countries had taken action which went beyond the minimum requirements of the Recommendations. At the commencement of the process, the FATF recognised the need for a consistent standard of assessment, and to assist in this, a standard form questionnaire was developed. The first round was completed with the discussion of evaluation reports at the June 1995 Plenary meeting.

4. As a part of the 1994 review of the FATF's future, it was agreed that a second round of evaluations was necessary. This was principally due to the fact that during the first round of evaluations the anti-money laundering systems in many of the countries were very new, and it was not possible to assess the effectiveness of the systems. The objectives and procedures for the second round of mutual evaluations, as well as a standard mutual evaluation questionnaire, were agreed by the Plenary in September 1995. It was agreed that the second round of evaluations would focus on the effectiveness of implementation of the 1990 FATF Forty Recommendations, that equality of treatment would be ensured, and that the on-site visits would remain a key part of the mutual evaluation procedure. The details of the FATF mutual evaluation procedures will be discussed in more detail in part III of this paper. The first on-site visit took place in February 1996, and the last report was discussed in June 1999, thus completing the process for all 28 evaluations[2] in three and a half years.

[2] The 28 evaluations consist of evaluations of each of the 26 FATF member countries or jurisdictions that were FATF members between 1992-1999, and does not include Argentina, Brazil and Mexico, which became members in June 2000. The members covered are: Australia; Austria; Belgium; Canada; Denmark; Finland; France; Germany; Greece; Hong Kong, China; Iceland; Ireland; Italy; Japan; Luxembourg; the Kingdom of the Netherlands; New Zealand; Norway; Portugal; Singapore; Spain; Sweden; Switzerland; Turkey; the United Kingdom and the United States. Evaluations were also conducted of Aruba and the Netherlands Antilles, which are separate constituent parts of the Kingdom of the Netherlands, which is a member of the FATF.

I. PROGRESS IN IMPLEMENTING THE FATF FORTY RECOMMENDATIONS

5. The first FATF Recommendations were created in 1990, and since FATF-II, the FATF has implemented a monitoring process that has played an essential role in strengthening anti-money laundering systems in FATF members. All member countries have had their implementation of the Forty Recommendations monitored through a two-pronged approach: an annual self-assessment exercise and the more detailed mutual evaluation process.

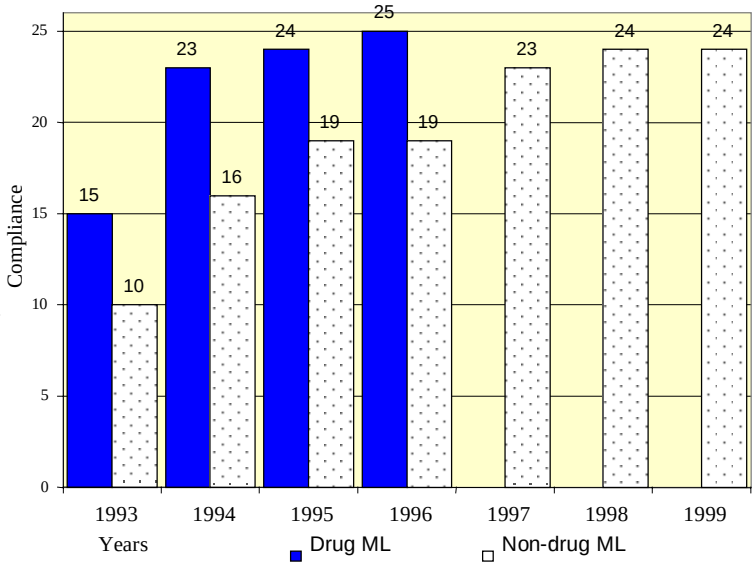
6. The mutual evaluation reports do not contain a comprehensive analysis of each member's compliance with the Recommendations, although some evaluation reports do contain references to compliance with specific Recommendations. However, compliance with the FATF Recommendations is a very important aspect of the evaluation process and the follow-up measures that may apply, and is also an integral component for addressing the effectiveness of each member's anti-money laundering system. Self-assessment results have therefore also been used to provide a basis for assessing the progress that has been made in implementing the Recommendations.

(A) Legal issues

7. Since the Forty Recommendations were first agreed, the enactment of a money laundering offence has been regarded as one of the principal requirements of any anti-money laundering system. The focus until 1996 was on drug money laundering, but with the revised Recommendations that were issued in 1996, it became necessary for members to extend the offence beyond drugs to serious crimes. Recommendation 4 leaves it to each member to decide the offences it regards as serious, and which serious offences it will include as a predicate offence for money laundering. By 1994 drug money laundering was an offence in all but three members, while slightly more than half the members had an offence covering other serious crimes.

Chart 1

Money laundering offence



8. By 1996, all members but Turkey had a drug money laundering offence, and the number of serious crimes money laundering offences continued to rise (see Chart 1 across). With the passage of the necessary legislation by Japan and Singapore during the second half of 1999, all members now have a money laundering offence based on a range of serious offences. The obligations under Recommendation 5 regarding the *scienter* or *mens rea* for the offence have been met by all members since 1997.

9. Recommendation 7 dealing with confiscation and provisional measures has had substantially the same compliance criteria for many years, but since 1994 there has only been a marginal year on year increase in compliance. Now that Japan and Singapore have enacted all crimes money laundering legislation, only Spain remains out of full compliance with this Recommendation.

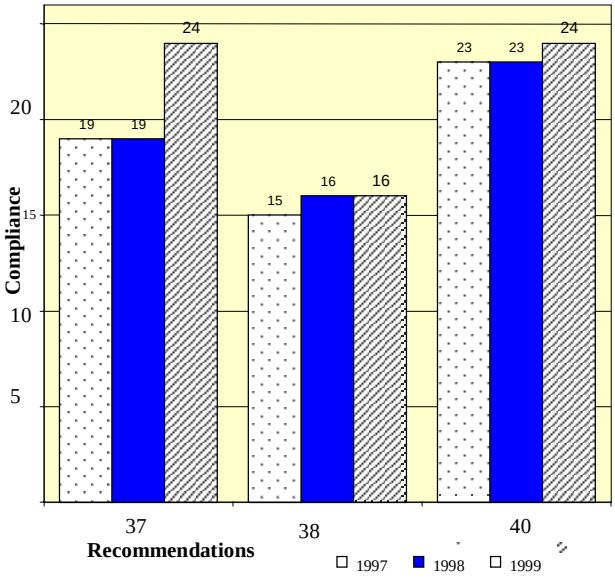
10. International co-operation is dealt with in a considerable number of Recommendations. All members except Switzerland[3] comply with Recommendation 1, which requires the implementation

[3] Switzerland has implemented the money laundering components of the Convention.

and ratification of the 1988 United Nations Convention Against Illicit Traffic In Narcotic Drugs And Psychotropic Substances (the Vienna Convention). Though one of the fundamental requirements of the Forty Recommendations, progress in implementation has been steady though not swift, with only two-thirds of members being in compliance in 1996. However, by way of comparison, substantial progress in ratification of the 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime (the Council of Europe Convention) is a even more recent development. By June 1996, only six members had ratified the Convention, but since that date, four countries have ratified the Convention each year, which means that by the end of 1999 all European members except Luxembourg had ratified the Convention. Of the non-European members, only Australia has ratified this Convention, even though the Convention could offer an effective channel for seeking co-operation.

Chart 2

International Co-operation



11. As regards particular aspects of international co-operation, the ability to extradite persons appears to have been a priority for many countries, since by 1996 twenty five countries were able to extradite for drug money laundering, and the following year almost all could do so for non-drug money laundering. Progress on the other Recommendations has been slower. Ability to provide assistance with regard to search, seizure and production of records (Recommendation 37) went from 11 members in compliance in 1994 to 18 the following year, but two members are still not in full compliance. The situation regarding Recommendation 38 (assistance for seizure and confiscation) is less satisfactory (particularly when co-ordination of such activities is taken into account). Full compliance has been achieved by only 16 members in 1998 and 1999. The issue of seizure and confiscation both domestically (R.7) and internationally (R.38) appears to have been a low priority issue for many members, and this approach needs to be reconsidered.

12. Co-operation between countries on the exchange of suspicious transaction information (R.32) has been quite satisfactory with all countries having been able to exchange such information upon request for several years, and all but one country able to do so spontaneously. However, when protection of privacy is taken into account, full compliance with Recommendation 32 has increased by only one or two countries per year, with 22 countries currently complying. Progress on Recommendations 3 and 34 has also been slow and steady, with only a few countries still out of compliance. However, no progress has been in the last three years on Recommendation 33 - ability to provide a full range of assistance even where the knowledge standards for the money laundering offence are different. Only 20 countries have been in compliance for the last three years, and as different countries are likely to continue to have different mental elements for the money laundering offence, those non-complying members will need to consider how they can rectify this situation.

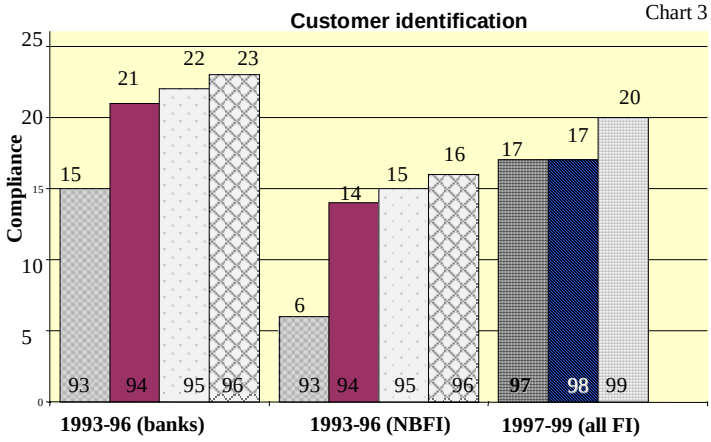
13. If one considers all the mandatory Recommendations relating to international co-operation, the average number of members in compliance in 1993 was 13. This jumped substantially in 1994 to an average of 18, and since that time has increased by about one every year thereafter, with the average in 1999 being approximately 22. This steady increase also takes into account the higher standards that have applied since 1996. FATF members have all acknowledged the need to give higher priority to international co-operation issues, but considerable progress still needs to be made, and more urgent steps need to be taken to rectify the deficiencies.

(B) Financial issues

14. In the most recent FATF assessments, the five categories of financial institutions against which compliance has been assessed have been banks, bureaux de change, stockbrokers, insurance companies, and money remittance/transfer companies. These types of financial institutions form the basis for compliance assessment during 1997-1999 as set out below. As regards extension of anti-money laundering measures to the NBFI sector (R.8), the level of compliance has been fairly constant for the period 1997-1999, at around 18 members.

15. The need for proper customer identification and record keeping is central to the Forty Recommendations. The two features which stand out from an examination of the compliance tables, is that the only significant annual increase in compliance occurred between 1993 and 1994 (as for other Recommendations), and that the levels of compliance for banks have always been higher than for NBFI. The levels of compliance for these important Recommendations are disappointing, with only 20 members complying with the customer identification requirements, and no noticeable increase in compliance for the three Recommendations since 1997. One possible reason for these results is due to the assessment of compliance against money remittance/transfer companies and the bureaux de change, where traditionally there has been little supervision. While record keeping requirements have been in place for most members for many years for other reasons than money laundering, a comparison of the results on Recommendations 10 and 11 shows the anomalous result that compliance with the obligation to identify beneficial owners is consistently higher than for the customer himself[4]. There is an obvious need for more members to move to full compliance as soon as possible for these fundamental recommendations.

Chart 3



16. The obligation to report suspicious transactions (Recommendation 15) is another very important Recommendation, and can be considered along with the ancillary measures in Recommendations 16-18, and the obligations regarding unusual transactions in Recommendation 14. The period between 1993-1996 shows the usual large jump in compliance from 1993 to 1994 and a slow increase thereafter. Since 1997, compliance levels have been generally flat or slightly increasing, with little change when one considers all these Recommendations together. Once again it is noticeable that compliance with the ancillary Recommendations (Recommendation 16-18) is consistently higher than for the main one (Recommendation 15), and full compliance by all members has been attained for Recommendation 16.

17. The other preventive measures covered by Recommendations 19-21 have generally achieved a lower level of compliance than the preceding Recommendations, with Recommendation 19 receiving the most priority for the period 1993-1996. Some of the difficulty with complying with Recommendations 20 and 21 relates to their wording, which imposes less clear-cut obligations than most of the other Recommendations.

18. The final general group of Recommendations covers the area of supervisory related issues. As with the other Recommendations, steady progress was made from 1993 to 1996 in implementing

[4] These figures include those members that indicated that it was not applicable to them, and this may explain the somewhat unusual figures.

these measures in the banking sector, but there were significantly slower results for NBFI. In particular, the issuance of anti-money laundering guidelines for NBFI (Recommendation 28) had a very low level of compliance, as did the designation of anti-money laundering authorities in the non-financial sector (Recommendation 27), though this was perhaps not surprising. The level of full compliance for these Recommendations still remains low.

19. The average statistics for the period 1993-1999 are consistent with what has been observed for particular groups of Recommendations. When one considers all the mandatory financial Recommendations, the average number of members in compliance in 1993 was 10. This jumped substantially in 1994 to an average of 16, then to 18 in 1995, and in the last five years has increased slowly, with the average level of full compliance with each Recommendation in 1999 being approximately 20.

II. ANTI-MONEY LAUNDERING SYSTEMS IN FATF MEMBER JURISDICTIONS

20. A central part of this review has entailed an examination of the anti-money laundering systems that have been adopted in FATF member countries, the types of measures that have been put in place and the effectiveness of those measures. This section of the review will proceed to examine the major aspects of the anti-money laundering system, such as the offence, the preventive measures and international co-operation, which have already been adverted to under section I, dealing with compliance with the Forty Recommendations. However it will also consider matters raised in the mutual evaluation reports which are outside the wording of Recommendations, but which still form an important part of an anti-money laundering system, such as administrative, resource and co-ordination issues. As the review is based on the two rounds of mutual evaluations, it is limited to the legislative and other measures imposed during the period between 1992 and 1999, and therefore does not contain reference to any measures that may have been taken by countries since 1999.

21. The review will provide a descriptive analysis of the types of measures that have been enacted or adopted by countries, and draw together some of the findings of the reports on effectiveness. As in the mutual evaluation reports themselves, this assessment will be based on both quantitative and qualitative factors. It will include a summation of the statistics collected concerning suspicious transaction reports, money laundering prosecutions and convictions, assets frozen and confiscated, the steps taken by financial sector regulators and international co-operation (where available). The assessment will also focus on relevant qualitative improvements, and the agencies and resources tasked with these functions. Aspects of national systems that appear to have been particularly effective or have the capacity to be so, are identified, and areas of good practice or innovation are highlighted as potential guidance for countries that are developing anti-money laundering systems. Similarly, areas where there are weaknesses or shortcomings or measures that have proved more difficult to implement are also identified, and possible alternative solutions recorded.

(A) Legal measures

(i) Money laundering offence

22. In the last five years considerable progress has been made in making money laundering a criminal offence based on a wide range of predicate crimes. As indicated above, drug money laundering was an offence in all members by 1997, and in 1999 the final FATF member countries made the laundering of the proceeds of serious predicate crimes an offence. There are several different models for a money laundering offence. A number of them are based on the wording of the two principal Conventions[5], which suggest the physical elements of a money laundering offence should be based on the following three elements:

(a) The conversion or transfer of property, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person … to evade the legal consequences of his actions.
(b) The concealment or disguise of the true nature, source, location, disposition, movement, rights with respect to, or ownership of, property.
(c) The acquisition, possession or use of property, knowing, at the time of receipt, that such property was proceeds.

23. A number of countries such as Belgium, Germany and Ireland have enacted offences that have similar wording to that of the Conventions. Others, such as several Nordic countries, have a money laundering offence which is based on the well established crime of "receiving", while other members have made it an offence to engage in or conduct transactions involving the proceeds of crime.

[5] The Vienna and Council of Europe Conventions.

24. The approach that has been taken with regard to the predicate offences for the crime of money laundering can be divided into three broad categories:

- All predicate crimes, or those that may be tried in a higher court e.g. Australia, Finland, Italy, the United Kingdom.
- Crimes with a specified minimum period of imprisonment e.g. Austria (greater than 3 years), New Zealand (greater than 5 years), Switzerland (greater than 1 year).
- A list of predicate offences e.g. Canada (45 enterprise crimes), Greece (20 crimes), the United States (130+ crimes).

25. In addition to money laundering offences which are based on laundering the proceeds of certain crimes, many countries e.g. Canada, France, Germany, Luxembourg and Switzerland also have provisions making it an offence to launder money for a criminal organisation. This usually does not require proof that the property being laundered is the proceeds of an offence, and it is sufficient if the property belongs to a member of that criminal organisation, even if it has a legitimate origin.

26. One area where countries have adopted differing approaches is in relation to the proceeds of fraud on the government with respect to taxes, duties or excise. The most clear cut situation is in relation to indirect taxes or duties that are levied on goods which are being imported into a country or being sold there. For the majority of FATF countries, it is an offence to launder proceeds from the sale of goods that have been smuggled into the country and the correct taxes and duties not paid. The situation is much less clear in relation to offences that are linked to direct taxes such as income or corporations tax. In some countries, such as the United Kingdom, the facts that give rise to the non-payment of tax, are sufficiently serious that the person would be liable to fraud type offences, and thus to money laundering. In others, the laundering of the proceeds of certain tax related offences is an offence that is a predicate for the purposes of money laundering, e.g. Belgium, Italy and New Zealand. However, in a significant number of countries, tax fraud is not a predicate crime for money laundering.

27. In most cases though, whether a country has a common law or a civil law based criminal justice system, and regardless of the type of approach that has been adopted, the predicate crimes that are covered are broadly similar, and cover a wide range of serious offences. However, as will be explained below, the jurisprudence in some countries may have the result that proving a money laundering offence is easier if the offence is based on all crimes.

28. In addition, in almost all countries, the laundering of the proceeds of a foreign offence is as much a crime as the laundering of the proceeds of the same domestic offence. There is more than one option though as to how that is worded. Some members, such as Hong Kong, China, have provisions that do not require dual criminality - "references to an indictable offence include a reference to conduct which would constitute an indictable offence if it had occurred in Hong Kong"[6]. Thus it extends to activity which may not be an offence in the foreign country, but which is in Hong Kong, China. Alternatively, Swiss law provides that "The offender will also be punished if the principal offence was committed abroad in a jurisdiction where it is also punishable by law"[7]. Therefore in Switzerland, though it is not clear if dual criminality is required, it is clear that it must be an offence in the foreign jurisdiction. An aspect of the offence that was not dealt with in many mutual evaluation reports, but which many countries now satisfy is the question of laundering the proceeds of one's own predicate offence. Increasing numbers of countries have offences that allow such a prosecution, and only five countries do not.

29. The mental element of the offence was commented on in a significant number of reports. Although Recommendation 5 requires proof at the level of actual knowledge, including inferences,

[6] Section 25(4) Organised and Serious Crimes Ordinance, Hong Kong, China
[7] Art. 305 bis para.3 Swiss Penal Code

many examiners felt that this set too high a standard. Some 11 countries require knowledge or intent (sometimes combined with legal principles such as wilful blindness or *dolus eventualis* which can provide a wider scope for proof), but many others have extended the mental element of the offence to a wider level. Proof of the mental element may be either subjective or objective, and broader concepts of *mens rea* thus include "belief", "suspicion" or "reasonable suspicion" (mostly in common law countries) or recklessness, gross negligence or negligence (in certain civil law countries).

30. The issue of criminal liability for companies was mentioned in several reports, with suggestions that countries consider introducing this concept. However, in those countries that recognise corporate criminal liability it is not clear that this has been used in a money laundering context, and it may be that civil or administrative sanctions would be equally useful. Penalties for the offence also vary widely, from two years for a standard offence (Sweden), to 20 years (Australia and the United States). Most criminal legislation also included the power for the court to impose a lower sentence on a criminal for a less serious case of money laundering, e.g. because it was based on negligence or reasonable suspicion, while more serious cases attracted a greater penalty. If the crime was connected to organised crime, then greater penalties were applicable in a number of countries.

31. Results in terms of prosecutions and convictions are set out in Table 1. A feature of many of the reports was that countries had neither precise nor up to date statistics on many aspects of the money laundering problem, including prosecutions. The available data for those countries that had a more significant number of prosecutions is shown below.

32. The most noticeable feature is that the United States has a very large number of prosecutions and convictions, far more than almost all other FATF countries, both on an absolute basis and in terms of population, though Belgium also has a significant number of convictions. It would also appear that there may be an increasing rate of prosecution and conviction in a number of members, though the data is too limited to determine any clear trends.

33. What were the deficiencies that were most commonly identified? By the start of the second round most countries had extended their offences to cover a range of serious crimes, and currently only one country has a more limited range of predicate offences. Despite this improvement, some members could usefully review their list of predicate offences to determine whether it is adequate, both with respect to domestic offences, but also broad enough to allow a full range of mutual legal assistance to be provided. A problem that was mentioned in a number of countries, e.g. Australia, Finland, Iceland, Portugal and Turkey, is a requirement that the specific predicate offence must be proved, and that it is insufficient to simply prove that the laundered property is the proceeds of an offence or of a criminal origin in general. This requirement would appear to be exacerbated by legislation which relies on a small list of defined predicate offences, and may need to be overcome by specific provisions which allow proof of any predicate crime. Foreign predicates are not a problem for almost all members, with the exception of the United States, which has a very limited list of such predicate crimes.

34. The mental element of the offence was cited most frequently as a potential problem, particularly for those countries in which the prosecutor has to prove knowledge or intent. Given the nature of the offence it does seem desirable that there be an easing of the burden of proof as regards the level of the defendant's mental awareness of whether property was the proceeds of crime. One method could be by introducing an objective element to the offence e.g. "reason to assume" (Switzerland) or "might reasonably have suspected" (the Netherlands). In addition, an important aspect would be to prove *mens rea* only to lower level, such as "suspicion" or the other possibilities mentioned in paragraph 29 above. This could then be coupled with an offence with a lower penalty. An example of this is section 82 of the Australian Proceeds of Crime Act, which only requires proof that property "may reasonably be suspected" of being the proceeds of crime, and combines this with a defence provision where the defendant had "no reasonable grounds for suspecting". Another problem for some countries regarding the mental element of the offence is that, following the wording of the Conventions, a specific purpose element to the offence must be proved. Though appropriate to

international instruments which are seeking to set out the broad concept of a money laundering offence, this would appear to introduce an additional element to an offence which is already difficult to prove.

Member	Years	Investigations/ cases to prosecutor	Prosecutions	Convictions
Australia	1992-1995		29	13
Belgium	1994-1999	1,863	273	182
Denmark	1994-1999			88[8]
Germany	1994	198		16
	1995	321		15
	1996	349		30
Hong Kong, China	1995	1,851	2	2
	1996	3,570	11	3
	1997	3,622	11	16
	1998		13	9
	1999		15	10
Ireland	1995-1999		21	11
Italy	1994	64	173	
	1995	75	538	
	1996	135		125 (total)
New Zealand	1998		21	11
Norway	1999		25	22
Switzerland	1993-1996	211		111
	1998-1999		161	24
United Kingdom	1996		32	13
	1997		76	43
	1998		52	26
	1999		64	12
United States	1993		2,058	777
	1994		1,914	833
	1995		2,034	919
	1999		2,388	996

Table 1

35. Two other interesting examples of broad legislative provisions come from France and Norway. The French legislation attacks passive money laundering through section 13 of the Act of 13 May 1996. The Act provides for a reversal of the burden of proof which is specifically directed against persons unable to vouch for resources commensurate with their lifestyles while at the same time carrying on habitual relations with persons who violate criminal laws against the use or sale of narcotics. It is unclear whether such reversal of the burden of proof in a criminal offence would be permissible in all countries, though some other countries do have similar provisions relating to unexplained wealth in other areas of the criminal law e.g. corruption and bribery. In Norway, section 317 of the Penal Code applies to almost all acts, including giving information or advice with no physical act, and also extends predicate tax crimes, and to money laundering activity which takes place prior to the predicate offence.

[8] Denmark – Convictions for money laundering and other offences related to suspicious transaction reports.

36. Can any conclusions be drawn from the statistics, which may show whether some laws are more effective than others? As noted above, the United States has far more money laundering convictions than any other country, and even allowing for population size and the quantum of money laundering, the figures indicate that money laundering is vigorously investigated and prosecuted. However, this may be due to factors such as the heavy penalties, the sentencing guidelines, powers of investigation and law enforcement resources devoted to the issue, and the attached powers of forfeiture. The wording and elements of the United States offences impose a greater burden on the prosecution than in several other countries, e.g. proof of knowledge or intent. Given the lack of data and its dated nature, it is difficult to draw any firm conclusions from the statistics. Though there may be some increases in the number of money laundering prosecutions, the numbers are still very small relative to the underlying predicate offences, or by comparison with "receiving" type offences.

(ii) Confiscation and provisional measures

37. The large majority of FATF member countries have, for many years, had some form of legislation to confiscate the proceeds of crime, and to take provisional measures, such as freezing or seizing the relevant property. All members except one now have legislation that meets Recommendation 7, and the level of compliance with this Recommendation has been quite high for several years. What is more problematic is whether the confiscation legislation and administrative structures are effective in depriving criminals of their illegal proceeds.

38. As a complete examination of the confiscation laws for each country was beyond the scope of the mutual evaluation reports, the majority of reports tended to highlight certain aspects of the systems in place, or to identify particular deficiencies which were noted or brought to the attention of the examiners. The lack of statistics on confiscation related issues also tended to hamper the review of the effectiveness of the systems. A number of legislative features are common to all FATF member jurisdictions. They all have confiscation laws which apply to a range of serious offences, and a large majority have legislation which allows the courts to make orders which are directed at specific property which is the proceeds of crime, or to make an equivalent value order, if the specific property that is the proceeds of crime is not available for confiscation.

39. Due to the difficulty: (a) in proving to the criminal standard that the defendant has engaged in prior criminal conduct from which he has profited or obtained certain property, and (b) of linking the proceeds to specific prior criminal activity, a number of FATF countries have given close consideration as to how to make their confiscation systems more effective. The two legislative areas which have attracted the most attention regarding development of confiscation regimes have been the issues of: (a) reversal of the burden of proof, so that the defendant must prove that his property is legitimately acquired; and (b) civil or non-conviction based confiscation.

40. Reversing the burden of proof - For some years most members with a legal system based on common law (Australia; Hong Kong, China; Ireland; New Zealand; Singapore; the United Kingdom; and the United States[9]) have required or given an option to the court to make assumptions about the illicit origin of property. Another alternative is to automatically forfeit the defendant's assets post conviction if the defendant does not prove they were legitimately acquired. Similar provisions have also now been introduced in a number of other countries, though the basis for their application varies. In Denmark, Greece, and Norway, it is possible for the court to reverse the burden of proof in relation to certain serious offences.

41. In Austria and Switzerland, reversal of the onus of proof is primarily linked to situations where the defendant is a member of a criminal organisation, and if the organisation controls the property, it can be confiscated regardless of whether it is legitimately derived or not. In Germany and

[9] United States - in civil cases, if the Government shows that there is probably cause to bring the proceedings, then the burden shifts to the defendant to show that he or she did not know that the property was acquired illegally or did not consent to the use of the property in an illegal manner.

the Netherlands the onus has not been reversed though the full criminal standard of proof is not applied in all cases. Germany has a concept of extended forfeiture whereby for certain offences, property of the defendant that is not directly linked to a specific offence can be forfeited, if there is a justifiable assumption that it was acquired for or from illegal activity. In the Netherlands, the court can take into account proceeds of similar activities to that for which the defendant was convicted if there is reasonable evidence. Other members such as Belgium, Finland and Iceland have been considering whether legislation to reverse the burden should be introduced.

42. Two interesting examples are provided by France and Italy. In France, the court may confiscate all the defendant's property, whether legitimately acquired or not, if a person is convicted of drug trafficking or drug money laundering. In Italy, Law 356/92 provides that the property of a person who has been convicted of certain offences which relate to the Mafia, such as drug trafficking or extortion, can be liable to confiscation if the person cannot justify the origin of the property and it is disproportionate to the person's legitimate income.

43. Civil proceedings - Several members can also confiscate or forfeit property even though no conviction has been obtained. This can take place either: (a) within the context of criminal proceedings but without the need for a conviction or finding of guilt. For example, where the defendant has died or absconded, or in independent penal proceedings, where there is no formal finding on the guilt of the person; or (b) confiscation entirely outside criminal proceedings e.g. through civil or administrative proceedings. For example, in the United States, a separate civil forfeiture proceeding may be brought provided there is probable cause to believe that property represents the proceeds or instrumentalities of crime. In Ireland, civil proceedings can be brought to restrain and eventually confiscate property worth at least I£ 10,000 that represents the proceeds of any offence. Italy also can bring non-criminal confiscation proceedings which can run parallel to the criminal proceedings or not, and the court can order that the amount which is disproportionate to legitimate income can be confiscated. Several jurisdictions that have had conviction-based confiscation systems in place for many years, such as the United Kingdom and Australia,[10] are now considering introducing confiscation systems which would apply to the proceeds of serious crimes, and which do not require conviction.

44. Another feature of confiscation laws that attracted attention in some reports was the necessity of being able to take effective action against non-bona fide third parties. This could be on the basis that the third party knew that property they received from another person was the proceeds of crime, or because it was a gift, or it was still under the effective control of the criminal, even if held nominally in their name. An example of such a problem was 'the BUCRO case' which created a problem for the effective functioning of the Dutch confiscation system. In this case, the court ruled that seizure and confiscation was barred when the property and assets alleged to be proceeds of crime was owned by a third party legal entity, even if the perpetrator of the criminal offence had actual control of the assets through the legal entity. This required a subsequent legislative amendment by the Dutch government.

45. All FATF countries had legal measures that allowed the freezing or seizing or property that could be subject to confiscation at a later stage, and generally those provisions worked well. In some instances though, problems arose, such as in Germany, where the legislation had to be amended to allow seizure on the basis of simple reasons, and to not require strong evidence that confiscation would take place at the very commencement of the case. A number of countries also had a problem with the payment of legal expenses out of money that was frozen. Some of the methods being considered to control the use of frozen money include: ensuring there is no other property available which could be used for this purpose, taxing the lawyers bills, preventing the use of assets which are actually the proceeds of crime, and requiring defendant's lawyers to be paid at legal aid rates.

[10] Though it should be noted that Australia, both at a federal and state level has had certain pieces of non-conviction based confiscation legislation for some years.

46. What can be discerned from the statistics that are available? As in other areas, they are limited, and are also rather out of date, and have to be read with some caution since they were often measured in different ways, and one must also take into account the time lag between the commencement of a case and its conclusion. The following table (Table 2) sets out some of the available statistics (the average amount frozen/seized, confiscated and realised for the three most recent years of data, calculated in USD at February 2000 exchange rates) for FATF jurisdictions that have data available[11]:

47. Based on these statistics, the United States and Italy seize and forfeit a much greater amount of illegal proceeds than all other FATF members combined. This is partially due to the broad legislative basis upon which their law enforcement and judicial authorities act. However, it is also likely that both these countries (and a number of others) have benefited substantially from an organisational structure where there was either a multi-disciplinary body dealing with confiscation or close co-operation between the relevant government departments or agencies. Countries such as Canada, Finland, Ireland, the Netherlands, Norway and Singapore have all benefited from such arrangements. Similarly it was suggested in a number of reports that an effective confiscation regime often requires prosecutors, investigators, financial analysts etc. who are dedicated to this type of work.

Member	Property frozen /seized (USD)	Property confiscated /forfeited (USD)	Property recovered (USD)	Member	Property frozen /seized (USD)	Property confiscated /forfeited (USD)	Property recovered (USD)
Australia				**Luxembourg[12]**	4m	20m	25,000
(Federal)	5.7m	3.3m	2.7m				
(NSW)	9.2m	5.5m					
Belgium	14m	22m		**Netherlands**	54m	17m	3.5m
Canada	20.1m	11.6m	11.6m	**New Zealand**	1.6m	400,000	
Denmark		2.5m		**Norway**		5.2m	
Finland[13]			28m	**Portugal**	3.6m	21,000	
Germany	8m	200,000		**Singapore**	400,000	160,000	
		2m (victims)					
HK, China				**Switzerland[11]**	50m	10m	
Drugs	3.6m	3.4m					
Other	3.6m	400,000					
Italy	1,200m	157m		**United Kingdom**			
				Drugs		26.9m	19.2m
				Other		14.6m	5.8m
Japan		500,000		**United States**	1,900m	735m	

Table 2

48. It is difficult to draw clear conclusions from the limited and somewhat out of date data that is available. However, it does appear that in several countries the important factors influencing whether proceeds of crime schemes have been effective were: (a) dedicated, multi-disciplinary bodies focussed on confiscation issues, and (b) laws which allow for confiscation without conviction, or which allow the onus of proof to be reversed in certain situations regarding proof of the legal or illegal origin of property. The attractions of such measures are also reflected in the action taken by a number of countries to adopt such legislation in recent years. Overall though, when one compares the

[11] A full set of all available data collected on confiscation and provisional measures in mutual evaluation reports is located at Annex 1.

[12] Includes amounts that were seized, confiscated or realised pursuant to mutual legal assistance requests based on crimes committed in other countries.

[13] This total could include amounts recovered through fiscal measures.

value of the assets that are confiscated and realised to the estimates of the annual amount of money derived from drug trafficking and other criminal activity, it is clear that there remains substantial room for improvements in the existing systems.

(B) Measures in the financial and other sectors

(i) Scope of the anti-money laundering measures

49. Since the Forty Recommendations were first elaborated in 1990, members have been required to apply the full range of money laundering counter-measures both to banks and to non-bank financial institutions (NBFI). Throughout the first round of evaluations, the greatest emphasis was on ensuring that the necessary measures were in place in the banking sector, with attention then being focussed on NBFI. As money launderers moved their illegal proceeds away from banks and through NBFI, increasing attention was paid to the measures taken by NBFI. There were also increasing concerns about the role of non-financial businesses and professions, and during the second round of evaluations, the reports increasingly focussed on the financial activity of non-financial businesses conducted for their clients.

50. With respect to NBFI, attention was most often focussed on the anti-money laundering measures taken by securities firms (stockbrokers), insurance companies, bureaux de change, and money remittance services. The mutual evaluations generally did not examine in much detail other categories of NBFI such as credit card companies, leasing companies, futures brokers, pensions funds or similar investment companies. This was because of the lower risk attached to such businesses and because in many cases such companies were not met during mutual evaluation visits. By the time of the second round of evaluations, weaknesses which existed in relation to NBFI generally occurred because one or two aspects of the anti-money laundering system were not applied or not applied effectively to that sector, and not because no measures were applicable.

51. Some general observations can be made about the measures applicable to NBFI. It is noticeable that legislation was enacted and other steps were taken faster and in a more comprehensive fashion with respect to sectors such as securities and insurance, where a system of prudential supervision already existed. In some members, the activities of bureaux de change and money remitters are only conducted as part of the supervised business of credit institutions and thus subject to the necessary controls, while in others, the volume of such activity was relatively low, and thus a lower priority. Similarly, another general trend was that controls regarding customer identification and suspicious transaction reporting (Recommendations 10-15) were also more widely and swiftly implemented than internal controls and application of the Recommendations to foreign branches and subsidiaries (Recommendations 19 & 20). Another feature which was noticeable was that countries such as Canada and the United States, which had federal systems of government and a division of responsibilities for financial institutions, took longer to implement all the necessary controls in the institutions which are regulated at the state/provincial level.

52. One area of activity that was mentioned in several reports (Belgium, Greece, Luxembourg, Netherlands Antilles, and Portugal) as lacking controls or not requiring formal compliance with all the anti-money laundering laws, was insurance brokerage. Many countries regulate the activity of insurance companies, but because of the number of individual brokers, intermediaries and agents, similar controls have not been applied to these agents. In theory, the insurance company is subject to the obligation to identify the client, etc., but this may be difficult to do in practice, because they may not see the client. One solution that was observed was to place the responsibility for applying anti-money laundering controls to agents, to the insurance company itself, through its use of appropriately worded contracts. However, this is likely to lead to inconsistent results. Given the need to take into account costs and benefits, members did not appear to have found a uniform or best solution to the issue of insurance brokers at this time.

53. The issue of controls over money exchange and money remittance business is an area where divergent approaches have been taken by members. Certain countries such as Belgium and Germany not only apply all the anti-money laundering rules and regulations to these businesses, but have a formal prudential supervisory regime as well. Other jurisdictions such as Aruba have not applied any controls to these types of businesses, unless they provide certain types of financial services that would bring them under the anti-money laundering obligations. In a number of members, exchange and remittance business was only conducted by large international companies such as American Express, Thomas Cook, Western Union or Moneygram, and these companies all had internal anti-money laundering policies which applied to all their branches. Even where the anti-money laundering laws and regulations apply (which is not the case in all members) potential problem areas were identified in the reports:

- Where there were large numbers of bureaux de change or money remittance companies (e.g. Spain or United States) - thus making it difficult to determine the extent of the companies operating in the market, let alone supervise compliance.
- The agents of such companies, which were usually not subject to any controls.
- So called *hawala* or *hundi* underground banking, or other similar activity, which is difficult to identify and more difficult to regulate, e.g. the United Kingdom.

54. Many of the reports called for the introduction of anti-money laundering measures for non-financial businesses or professions. At present, these measures are quite widely applied in casinos, with at least eleven members that have such institutions applying the full range of anti-money laundering controls. Because of the risk of fraud, cheating and other criminal activity, casinos are often regulated for other purposes, and supervisory regimes usually exist independent of the normal supervision that exists for money laundering. Casinos also have particular features that make it desirable to conduct additional checks that go beyond the normal anti-money laundering controls. Some such features include:

- Taking the photos of and/or video monitoring of gamblers when they enter the casino or play games of chance (the Netherlands).
- Making a daily accounting of tokens purchased by individual gamblers (Switzerland).
- Requiring the reporting of all cash transactions over a certain amount (Australia and United States).
- Only making payments to gamblers by cash in the same denomination as was originally used to purchase tokens (Denmark).

55. Another strong aspect of the controls in the casino industry was that most member countries issued licenses for casinos, and conducted stringent checks on the owners, beneficial owners, managers and operators of casinos. Such checks were often more exhaustive than would have been applied to certain categories of financial institution, e.g. money remittance companies, and would help prevent their misuse. Against this, areas that needed to be tightened are anti-money laundering supervision, (which is often carried out by gambling control authorities that are not familiar with money laundering issues), training and guidance. Other types of gambling activity are less well regulated, with only a few members such as Australia and New Zealand, bringing activities such as gambling on horse racing within the scope of money laundering laws.

56. Many reports also suggested that certain categories of professionals should be brought within the scope of anti-money laundering controls, due to the increasing involvement of such persons (knowingly or otherwise) in money laundering schemes. This category primarily consists of lawyers, accountants, notaries, and auditors, and only a few countries have implemented anti-money laundering measures for these professionals, e.g. Belgium. Suspicious transaction reporting in particular is very sensitive for lawyers, since it raises the question of the special relationship of confidence that exists between a lawyer and his client when he is giving legal advice or acting for him in proceedings. While a number of countries have voluntary systems that are self-regulated, only

a few have passed laws or regulations that impose some or all of the anti-money laundering obligations. Australia requires solicitors to report large cash transactions, and the United Kingdom requires all persons (including lawyers, accountants, etc.) to report suspicious transactions, provided that information is not subject to legal professional privilege. Some members, e.g. Iceland, require lawyers that are engaged in financial transactions for their clients, to meet all the money laundering requirements, and this may also apply to other members which base their obligations on whether the person or institution carries out financial activities which fall under the law.

57. While situations where legal privilege exists should be justifiably excluded from anti-money laundering requirements, other financial activity or advice provided by all the above categories of professionals should be subject to the same rules. Additional categories of non-financial businesses which have been made subject to money laundering rules include: real estate agents and companies (Portugal and Belgium), dealers in small high value items, e.g. gems and jewellery, precious metals, and antique dealers (Germany and Spain) and companies that deal with or carry cash, e.g. security firms, government or other postal or delivery services (Australia and Belgium).

58. One type of business which appears to offer services which are central to many money laundering cases, and which is usually not subject to any controls, is the company formation agent or trust company. The creation and management of companies and other legal entities or forms is a service which needs to be more strictly controlled and regulated, and members should examine (as Aruba did), whether further controls are necessary, while the FATF should consider what controls should be implemented. Each member will need to examine the money laundering risks that apply in its jurisdiction, and consider the costs and benefits of regulation, but all the types of businesses mentioned above have been proven to have been misused by money launderers, and proactive consideration of money laundering controls is the least that should be done.

(ii) Customer identification and record keeping

59. The need to properly identify the customer as well as the beneficial owner of an account (or the person on whose behalf a transaction is conducted) is a fundamental part of any anti-money laundering system. Members have made considerable progress in implementing measures that will meet the requirements in Recommendations 10 and 11, at least in the banking sector, and in many cases have gone beyond the literal requirements of the Recommendations. The standard customer identification measures that have been introduced in many members are that financial institutions must take steps to identify a customer when:

(a) They enter into a new permanent business relationship, such as opening an account or a safe deposit box. However, in almost all members, life insurance companies are only required to identify new customers if the total annual premium or single premium exceeds certain fixed amounts e.g. the amount fixed under the EC Directive is the equivalent of Euro 1,000 for annual premiums and Euro 2,500 for single premiums.
(b) They conduct a single transaction (or several connected transactions) with a non-permanent customer for a large amount. The amount varies from member to member (see below), and sometimes is restricted to cash transactions, but in other cases extends to all transactions.
(c) A customer is not acting on his own behalf in relation to a transaction of type (a) or (b) above, the financial institution must seek to identify the person on whose behalf he is acting.
(d) The institution has reason to suspect that the transaction is an attempt to launder money or is associated with the proceeds of an illegal activity.

60. Apart from the failure to extend the scope of the anti-money laundering system to certain categories of NBFI, there were generally few problems identified with identifying customers when opening accounts, the most significant weakness being the lack of an obligation to identify the customer for Austrian passbook savings accounts. Other issues that arose in some reports concerned

the identification requirements for legal entities, and the need to identify both the company through its certificate of incorporation and other founding documents, as well as the persons authorised to operate the companies account. However, one report noted that a requirement to identify every person authorised to operate certain accounts of large public companies did result in onerous obligations for banks. Similarly, another report questioned the need to require identification every time an account was opened, even for existing customers. In the mutual evaluation report on Canada, the question of an obligation to identify the assignees of insurance policies was raised, and this may be an issue that has more general application. In addition, the identification of beneficial owners was often a problem, though the Luxembourg approach, whereby customers must make a positive declaration regarding beneficial ownership may be a step in the right direction, as are the requirements in Aruba for source of funds declarations and transaction profile reports.

61. As can be seen in Table 3 across, with the exception of the lower limit set by France, the cash threshold for identification of non-permanent customers has been fixed by European FATF members at amounts between USD 10,000-15,000. The amounts outside of Europe vary markedly between the low limit set in New Zealand and the very high amount in Japan. Only Hong Kong, China has left it to each financial institution to determine whether the cash transaction is a "large" one. In most members, the identification requirement is for all large transactions conducted by a non-customer, but in some it is restricted to cash transactions. Though recognising that the use of cash in different members does vary, it would seem desirable that there be a greater uniformity in the identification amount. In particular, the amount in Japan was noted as being too high, while Hong Kong, China should consider fixing an amount so as to create consistency in the application of this measure.

Cash transaction threshold (USD)[14]	Member
4,000	Turkey[15]
5,000	New Zealand
7,000	Australia, Canada
8,000	France
10,000	Belgium, Italy, United States
11,000	The Kingdom of the Netherlands
12,000	Ireland, Norway, Portugal, Singapore
13,000	Luxembourg, Sweden
15,000	Austria, Denmark, Finland, Germany[16], Greece, Iceland, Spain, Switzerland, United Kingdom
300,000	Japan
No limit defined	Hong Kong, China

Table 3

62. Another area of regulation that was commented on in a number of reports, and that could benefit from greater uniformity, involves exemptions from the need to identify clients in the situations outlined above. The practice of exemptions is allowed under the EC Directive, and thus it is only European members that have created classes of exemption. Exemptions can be desirable in situations where one can rely on the foreign institution as being reputable and subject to the same standard of controls, since it will allow financial institutions to focus on persons or companies which need to be checked. This was mentioned in certain reports, where it was suggested that consideration be given to having appropriate exemptions.

63. Unfortunately, the exemptions are not uniform. The geographic scope of the exemptions varies between European Union countries, European Economic Area countries (which includes Liechtenstein), FATF members, and sometimes additional jurisdictions such as the Channel Islands, GCC member states or the Isle of Man. It generally applies to credit or financial institutions in other countries that are subject to similar anti-money laundering laws, even though the application of those

[14] Calculated to nearest USD 1,000, and based on exchange rates as at February 2000.

[15] The amount is 2 billion Turkish Lira, but this is indexed, so that it changes in accordance with the exchange rate.

[16] A lower threshold of USD 2,500 is recommended for foreign currency exchange and money remittance.

laws may vary substantially in practice. In addition, a small number of jurisdictions (Finland, Iceland, Ireland, and the United Kingdom) also give exemptions where payments or transfers for particular purposes, e.g. to pay insurance premiums, are received from foreign financial or other institutions. Once again the jurisdictions to which the exemption applies varies. The overall position is that the FATF should focus further attention on this issue so as to assess the risks and benefits of different exemptions, and to make suggestions for a more uniform approach.

64. A number of members had particular identification requirements or systems which were beneficial to their anti-money laundering regime, and which could also potentially apply to others. In several Nordic countries, the systems of public registers or persons and companies provided an important resource for reliably checking identification. The 100 point system for identification in Australia also appears to provide a more secure system of checks, and could be compared with the permissible use of employee or student cards in Japan. In the Netherlands, the register of forged or missing identity cards is clearly valuable, and they also have a proactive approach to checking the beneficial ownership of legal entities, which is a step forward in resolving a difficult issue. Record keeping was not a significant issue in the reports since almost all member countries already had record keeping requirements in place for other reasons, and financial institutions and others were used to keeping appropriate records for five years or longer.

65. There are two areas to which members could also pay attention. One involves the financial services offered by the postal service or private companies that offer similar services. In a number of countries these postal services offer a service of insured letters which can be used to send cash and jewellery through the postal service. There may be no limit to the amount that can be sent, the postal service probably has no power to open the postal item, and in some cases there is no obligation to identify the sender. Postal services also issue money orders and can provide money remittance services (either on their own account, or in collaboration with established money remittance companies). Such services could provide a channel for money launderers which needs to be properly controlled. Australia provides an example of a country where the post office issues money orders and is therefore subject to similar obligations as those imposed on financial institutions. The second issue concerns securities brokers, and their obligations to identify the beneficial owner of shares where they are acting on behalf of a foreign broker or intermediary. In Singapore's report, it was noted that "it appears to be common international policy and practice that a domestic broker will not seek to identify a foreign broker's client". This issue could be examined further, though as detailed in the report on France, one solution is for brokers to have the account holder identify the end user/beneficial owner. However, the report noted that this was difficult to do in cases where foreign intermediaries were involved.

66. A final topic which has been subject to considerable discussion and evaluation in certain members, and which could usefully be further developed is the "know your customer" principle. This concept is used in financial institutions in many members, but often it is not referred to in the formal laws or guidelines, and has only been voluntarily implemented. It goes beyond simple customer identification, and allows/requires an institution to know and understand the customer, their business, and the type of business they are engaged in. Amongst other things, it provides a valuable tool for identifying unusual or suspicious transactions, and could repay further examination.

(iii) Suspicious transaction reporting

67. The suspicious transaction reporting system (or unusual transactions in the case of the Kingdom of the Netherlands) and its associated financial intelligence unit (FIU) is the driving force in many anti-money laundering regimes. The results of the system and the role played by the FIU can have an important bearing on how effectively a country is combating money laundering. This section will examine reporting of suspicions both in terms of the underlying laws, regulations and guidance, but also the results that have been obtained and the effectiveness of the system.

68. By the end of 1999, all members except Canada had a mandatory requirement for credit institutions and most other classes of financial institutions to report suspicious transactions. However, the precise extent of the obligation varies. In most cases, the obligation is to report a suspicion, but in some cases this must be a reasonable suspicion, e.g. New Zealand, or a "founded" suspicion (Switzerland). Norway has a system that requires reports to be made if the initial suspicion cannot be disproved, while the Dutch unusual transaction system introduces the issue of suspicion both as a primary subjective indicator that a transaction is unusual, and also at the second stage of the process. Initially, financial institutions are required to report unusual transactions on the basis of objective or subjective indicators, and the FIU then decides if the report is suspicious and should be forwarded on to law enforcement. Some countries also limit the criminality to which the suspicion must be linked. Thus in Greece, a suspicious transaction report (STR) is only made if there is a suspicion of money laundering, while in France it must be linked to drug trafficking or organised crime.

69. Given the difficulty in determining whether suspected illegal proceeds are from a particular crime, it was stated in several reports that systems could be strengthened by extending the reporting requirements to cover at least all serious offences, and preferably all criminal activity. This recommendation is applicable even where the money laundering offence itself has narrower scope. In a number of jurisdictions it is also the case that failure to report an STR is not subject to a sanction, and it would seem desirable that a clear obligation combined with an appropriate sanction would be a factor which would contribute to an increased number of reports. An issue which was also identified in more than one member was the lack of an obligation to report when a financial institution chose not to enter into a transaction which they suspected was linked with money laundering, i.e. attempted money laundering. While members do not prevent financial institutions from terminating a relationship with a suspicious client, or refusing to enter into a transaction, it is clearly desirable that attempts to launder money be reported. Indeed it is desirable in many cases that institutions report the suspicious transaction and then proceed in accordance with instructions from the FIU (in line with Recommendation 18).

70. A deficiency that was noted in more than half the mutual evaluation reports was the lack of, or insufficient feedback, given by FIUs to reporting institutions. These insufficiencies applied equally to general feedback and specific (case by case) feedback, and they suggest that many members are still having difficulty implementing the recommendations contained in the FATF Best Practice Guidelines on Feedback issued in 1998. The FATF should thus consider what further steps could be taken to improve the level of feedback. While it is not necessary to repeat all the details of those recommendations, it may be helpful to refer to some examples of good feedback that are provided by the FIUs of member states:

- Trends and typologies - this type of information is provided by the FATF, regional groups and some members.
- Statistics - usually provided in an annual report. The CTIF-CFI in Belgium provides detailed statistical breakdowns of the STR received and the use that is made of the STR.
- Sanitised cases - good examples are the pamphlets produced by MOT in the Netherlands on a quarterly basis and the on-line Epicentre system run by NCIS in the U.K.
- Other material - such as educational videos, pamphlets, circulars, posters etc. are both educational and provide feedback, and are used in many countries.
- Meetings - similarly, many members have regular working group meetings with industry representatives, hold seminars or workshops for different levels of staff within institutions etc.
- Specific (case by case) feedback - almost all members have a formal system which provides an acknowledgement of receipt of the STR, a few advise the institution which law enforcement body is working on the case, and some give feedback when a case is completed or is considered to be not suspicious. ØKOKRIM in Norway also provides feedback every six months on the cases it is handling.

71. A related issue to feedback that was raised in a several reports, e.g. Australia, France and Spain, was that financial institutions were concerned about the need to keep STR confidential and to protect their staff. Concern was expressed about the subject of the report becoming aware of it, and that staff could be called as witnesses to attest in court that a disclosure was made. In Greece, it was suggested that no reports had been made with respect to drug trafficking cases because of these concerns. Some solutions have been developed which may help to alleviate the concerns of financial institutions staff. Australia enacted a specific legislative amendment that prohibits suspicious transaction reports being put in evidence or even being referred to in court. In France, TRACFIN does not put the name of the person making to the report into the police file, while in Greece, the FIU makes a request back to the institution to try to give the appearance that it was the FIU which initiated the inquiry. In addition, in most countries, all reports are made through one central report in an institution, normally the compliance officer, and can be sanitised by him.

72. A number of other issues were commented on in several reports. One was the power of an FIU to suspend transactions that were the subject of an STR. Where a formal power exists to order such a suspension, the length of time of the suspension varies between 24 hours and five days, and in many countries it seems to have been very rarely used. Despite this, Swiss law provides that all transactions are automatically suspended for a five-day period, and it was felt that the five day period is sufficient to gather the evidence needed to commence proceedings. However, the practical experience in other members indicates that the power may be occasionally helpful, but is not likely to be a significant tool (particularly when institutions will often co-operate with law enforcement voluntarily to increase the time it takes to process a transaction). Another tool that was identified as being helpful is the use of computerised "artificial intelligence" systems by financial institutions to sort through transactions and red flag transactions which may be suspicious. The transaction can then be examined in more detail by compliance officers. Such systems would appear particularly useful for non-cash transactions, where there may often be non-face to face contact with a customer, thus making it more difficult to determine whether a transaction is suspicious.

73. Despite the fact that all members are now in compliance with Recommendation 16, reporting financial institutions in a number of countries expressed concern about the adequacy of the protection. The issues that were raised were: (a) the lack of protection from criminal liability (United States); (b) whether protection should be provided if the report is made in good faith, or whether it requires due diligence by the institution (Finland); and (c) the need to provide legal protection to both the institution and the employee (Aruba). The legislation is now to be amended in Aruba. In some other jurisdictions, e.g. Turkey, general concerns were also expressed about the adequacy of the wording of the legal provisions. Another point that was noted in more than one report was the necessity for reporting institutions to keep a separate record and file of the reports, which are made by front-line staff to the compliance officer, but which the compliance officer determines are not ultimately suspicious. Such files can then be checked by the regulator to determine whether the correct approach is being taken to reporting.

74. What of the STR results that have been obtained by members? Do they demonstrate that the systems are effective in the numbers of reports that are being obtained, and the results that are generated from those reports? The starting point, and also the area that has the greatest amount of data available, is the total number of reports received. The results (where available) for the FATF members for the years 1996-1998 are set out in Table 4[17]. Many of the reports have referred to the number of reports received being "low", "modest" or "moderate", and while this may be clearly the case in some instances, the information in the chart below is intended to provide a starting point for determining a more objective approach to comparing results and determining whether the number of STRs received is satisfactory or not.

[17] A full set of available data on the STRs received from different categories of banks, NBFIs and NFIs is at Annex 2. Where possible, data is given for the calendar year.

Member	Total STRs 1996	Total STRs 1997	Total STRs 1998	Average 1996-1998	Crime rate indicator[18]	Volume of Money (USD)[19]
Australia	5,192	5,772	6,877	5,947		73
Austria	301	299	254	285	5.7	53
Belgium	4,480	7,136	8,754	6,790	4.8	60
Canada	300	172		236	5.5	123
Denmark	254	309	369	311	4.7	51
Finland	240	149	186	192	5.7	40
France	902	1,213	1,229	1,115	7.3	263
Germany[20]	3,019	3,137	3,134	3,097	10.9	1,898
Greece		78		78	0.4	18
Hong Kong, China	4,141	4,227	5,570	4,646	1.3	21
Iceland	2	11	12	8	3	0.83
Ireland	378	505	1,202	695	1.1	13
Italy	3,075	3,600		3,338	1.5	408
Japan[19]	5	9	13	9	0.6	1,885
Luxembourg	78	78	114	90	4.6	48
Netherlands[21]	16,584 (3,456)	16,974 (2,286)	24,463 (3,995)	19,340	1	125
NL NL Antilles			2,485 (98)	2,485 (98)		0.53
NL - Aruba	2,388 (1)	2,915 (7)	3,500 (110)	2,934 (36)		0.31
New Zealand[20]	290	696	168	696	14.9	22
Norway	164	727	839	577	8.6	60
Portugal	115	129		122	0.5	39
Singapore	30	36	68	45	0.6	17
Spain	745	866	855	822	1.9	169
Sweden	502	909	856	756	8.4	62
Switzerland			160	160	7.4	105
Turkey			20	20	0.1	8
United Kingdom	16,125	14,148	14,129	14,801	3.2	832
United States	49,787		96,932	73,360		1,321

Table 4

[18] The Crime rate indicator is intended as a rough guide of the number of drug and fraud offences occurring per head of population. The figures given are calculated on the following formula: *the sum of the annual average number of drug and fraud offences (as provided to Interpol) divided by the population* multiplied by 1,000The results are very tentative since it is not clear whether the Interpol figures are truly comparable, and if drug and fraud offences are sufficiently representative of the attempts to launder money.

[19] The Volume of Money is intended to provide some rough approximation of the size of the banking sector, and reflects the currency in circulation combined with demand deposits. The figures are derived from the statistics in the September 1999 edition of the IMF International Financial Statistics {item 34 dealing with money, or within the EU it is based on items 34a&b (EA-wide residency)}. The figures are those for the end of the first quarter 1999, and have been converted to USD at the exchange rate as at that date.

[20] The figures for Germany are the number of cases not the STRs (the number of STRs is approximately 2-3 times the number of cases based on 1996 figures). Figures for Japan are the average as set out in the report.

[21] Figures for Netherlands, Netherlands Antilles and Aruba are for unusual transaction reports. The number of STRs is given in brackets. New Zealand is based on a total of 1,154 over 20 months.

75. An examination of Table 4 allows some tentative observations to be made regarding trends, absolute results and results relative to the crime rate or volume of money. It is clear that for almost all members the number of STRs is either more or less constant or is still increasing. Only in Austria and Finland does there appear to be a marked downward trend in recent years, though the results are still incomplete in some cases. It would also appear that significant increases in the numbers of reports for members such as Belgium; Hong Kong, China; and the United Kingdom tend to level off after a period of large increases (see Annex 2). A number of countries above received limited numbers of STR (less than 100). Based on the reports, factors that are likely to have contributed to the low numbers (but which do not necessarily explain them) were:

- The relative newness of the system, and a lack of familiarity by financial institutions with their obligations (Greece and Turkey).
- The restriction of the system to drug offences only (Japan, Luxembourg and Singapore).
- The small size of the country and its financial system (Iceland, Aruba and the Netherlands Antilles).

76. Another factor that may contribute to a low number of reports, but which can also increase the quality of the reports, is the degree to which compliance officers filter out reports that are made to them by their staff. The United Kingdom report correctly identified the benefit of compliance officers exercising an appropriate filtering role by eliminating reports that are truly not suspicious. However, an examination of the reports shows completely different approaches being taken by compliance staff, both between different institutions in the same country and also between countries. Some passed on less than 5%, while others passed on more than 90%. While it is not always possible to obtain completely consistent results, benefits could be obtained from the staff of the FIU ensuring that compliance officers are familiar with what can be regarded as suspicious, both as regards the types of transactions and the level of certainty. This may help to ensure that different institutions apply similar criteria when deciding whether to make a report or not.

77. A comparison of the number of STRs made with the volume of money figure and the crime rate shows several jurisdictions (Australia; Belgium; Hong Kong, China; Ireland; New Zealand and the United States) appear to have higher levels of reporting relative to their financial size and the degree of criminality. However these initial figures must be treated with caution, and it would seem desirable that FIUs continue to work to collect better and more uniform data which can be used to make a more accurate analysis of the situation.

78. Though there are very limited breakdowns of the reports by the type of reporting institution, some observations can nevertheless be made regarding these statistics (see Table 5). It is noticeable that in Belgium, the Netherlands and the United Kingdom, which have all had their reporting systems in place for some years, the number of STR received from banks has generally declined, while the number of reports from bureaux de change has increased considerably. This can be compared with Spain (Norway does not have separate bureaux de change) where the numbers of reports for banks were still increasing. This probably reflects the fact that the FIU and other authorities first concentrate their education, training and feedback efforts on banks, before seeking to better inform the NBFI sector. The training and education which is conducted results in initial increases in reporting numbers before that stabilises at a particular level.

79. In a large majority of the mutual evaluation reports, the number of STRs from NBFIs was only a small percentage of the total number, with the securities and insurance industries making only a small contribution. This may reflect the relatively lower risk of these sectors being misused for money laundering, but it may also show the difficulties of identifying money laundering at the second and third stages of the process, where no cash is involved. In fact, in those countries that identified the types of transactions reported, cash transactions were far more common than other types, thus

confirming the difficulties of identifying suspicious transactions which occur at later stages in the process.

Member	Year	Total	Banks	Securities & Insurance	B/C	Other[22]	% banks	% NBFIs
Belgium	1997	7,136	2,156	1,030	3,825	125	30	68
	1998	8,754	1,583	587	6,482	102	18	81
	1999	7,995	1,397	335	6009	254	17	79
Netherlands	1995	15,085	9,317		4,498	1,182	62	30
	1996	16,584	8,331	3	5,636	2,054	50	34
	1997	16,974	7,520	62	7,876	828	44	47
Norway	1995	253	249	2		2	98	1
	1996	164	160	2		2	98	1
	1997	727	719	7		1	99	1
Spain	1995	274	113	5	1		41	2
	1996	745	604	16	5	37	81	3
	1997	866	674	18	11	22	78	3
United Kingdom	1996	16,125	12,416	484	1,129	2,096	77	10
	1997	14,148	9,705	523	2,462	1,458	69	21
	1998	14,129	8,986	608	2,557	1,978	64	22

Table 5

80. A review of the mutual evaluations shows that for many members the types of difficulties and shortcomings that were experienced were similar, and that there were a number of common methods suggested for improving the effectiveness of the STR system:

- Increasing the level of feedback to reporting institutions, and also creating a closer working relationship between the FIU, the regulator and financial institutions.
- Increased education and training for front-line and other staff of financial institutions.
- Ensuring that compliance officers are filtering reports in an appropriate way.
- Ensuring that financial institutions and their staff have appropriate legal protection from criminal and civil proceedings, which will thus encourage them to make reports.
- Focussing increased attention on the NBFI sector, and also on non-cash transactions.
- Ensuring that all institutions within each sector make reports where appropriate.

81. While the number of reports received is an important part of the system's effectiveness, the ultimate test is whether the STRs lead to prosecutions, confiscation of illegal proceeds etc. Unfortunately, only a very small number of members have established systems which allow the FIU to discover what happens to the STRs. In most countries, the reports are forwarded to other bodies to actually investigate the STR and to bring appropriate criminal proceedings, and there generally appears to be little feedback from those investigating agencies or prosecutors to the FIU, which makes it difficult for the FIU to then give useful feedback to reporting institutions. One way of solving this problem is to make it a condition of access to the STR that the recipient agency provides feedback on the reports used and accessed, as in Australia. The most recent figures for Belgium and the United Kingdom of the total number of cases and the number sent on to the prosecutors are respectively set out in Table 6.

[22] This includes reports from non-financial institutions and professions such as casinos or lawyers, but it may also include other unclassified sources. In some jurisdictions, statistics also include the reports made to the FIU by other law enforcement agencies or government authorities. Where these figures are known they have been eliminated from the figures, since such cases could be investigated regardless of an STR system.

Member	Year	Total STRs & cases (Belgium) or STRs (UK)	Cases sent to Prosecutor (Belgium) STRs used for prosecution (UK)
Belgium	1998	8,754 STR (1382 cases)	541 cases (39%)
	1999	7,995 STR (1228 cases)	453 (36%)
United Kingdom	1997	14,148	88
	1998	14,129	136

Table 6

82. The United Kingdom has also estimated that over the last four years, about 4,800 STRs (about one-third) per annum provided added criminal intelligence value. Though obtaining and recording feedback from other law enforcement agencies or prosecutors on a systematic basis is often difficult, it is necessary if the FIU intends to monitor and improve the effectiveness and efficiency of the system.

(iv) Education, training, and guidelines

83. Most of the reports mentioned the issues of education, training and guidelines in the context of NBFIs. By the time of the second round of evaluations, there were guidelines and training programmes in place for banks in almost all countries. Guidelines for banks are generally very satisfactory, and cover the issues that need to be dealt with, though some issues such as identification of customers in non-face to face situations or exemptions from identification were not so well covered. One issue that is mentioned in some reports, e.g. Austria and Iceland, as an area which could be tightened is the issuance of guidelines by individual financial institutions, rather than the supervisory authority. This creates the possibility of discrepancy or conflict between the approaches that are taken by different institutions, and it is desirable that the supervisor and the FIU have a role in preparing, in conjunction with the financial institutions, a comprehensive set of guidance notes for the various types of institutions which are subject to the anti-money laundering laws.

84. However, the primary difficulty identified concerned the NBFI, where the level of awareness of money laundering issues was generally much lower than for banks, and where guidelines had not been prepared in many countries. In addition to those members which had not prepared guidelines for the different NBFI sectors, recommendations were made for a number of members such as Italy, Portugal, Singapore, Sweden and Turkey, that guidelines should be prepared which are specifically tailored and targeted at specific NBFI sectors. The use of guidelines developed for banks and their business is neither useful nor appropriate for insurance companies, bureaux de change etc. The process of preparing the guidelines, which should include industry involvement, is also beneficial in building better understanding and relationships between all the relevant parties. The same comments could also be said of those members that have applied the anti-money laundering laws and regulations to non-financial bodies and professionals, except that there is even less guidance.

85. A useful example of a proactive approach to identifying potential money laundering problems for NBFI is given in the report on the Netherlands. In the insurance and securities sectors, reports were published by working groups composed of both government and sector representatives on measures that could be taken to improve the identification of unusual transactions and possible examples of how money laundering might take place. These reports were good example of seeking to identify the potential risk areas and agree upon solutions before the problems arose in real life.

86. While the official guidelines provide one source of educational assistance for financial institutions and other bodies, other methods can also be used. Australia has made a number of resources available to financial dealers concerning money laundering and anti-money laundering measures, including information circulars, guidelines, annual reports, videos, newsletters, brochures, fliers and posters. These are reviewed and updated on a regular basis. The Australian FIU, as in a number of other members, also operates a website on which all this information is readily available,

and the website provides information for institutions on an immediate basis. It is also apparent from the reports that the provision of written material needs to be combined with other education and training.

87. Some regulatory authorities expressed concern that they should not have the primary responsibility for education and training. However, the approach that is taken in many members, at least for banks, is that the banking association, along with major banks are heavily involved in promoting training and education, and the FIU or the supervisor authority does not need to initiate this program, but only to contribute to it. Since there is often already a close working relationship between compliance officers and the government authorities, efforts have often been targeted first at senior management so that they are willing to support the necessary initiatives that need to be undertaken (and paid for) within the bank. Education of front-line staff is then needed to improve the results from STRs, ensure the correct approach is taken to customer identification etc. The training also needs to be renewed on a regular basis, since a number of compliance officers observed that the effect diminished over time. Two interesting examples of anti-money laundering training programmes were a form of interactive CD-ROM based video training, developed by two large German banks, and the use by a Singaporean bank of interactive computer based training accessible through the bank's intranet. Both these training methods had been found to be very successful for bank staff.

(v) Supervision and internal controls

88. The need for a proper system of checking that financial and other institutions are taking the correct action to implement anti-money laundering measures is an essential component of any system. The first part of that process is for institutions to implement the necessary internal control policies and procedures, the minimum measures being those laid out in Recommendation 19: compliance officers at management level, adequate screening procedures to ensure high standards when hiring employees, an ongoing employee training programme and an audit function. As in other areas, there is a high level of compliance by banks, with the most common defect being the lack of a requirement for new employees to undergo screening procedures. However, the measures should be required by law or regulation, and a comment in some reports was that it is left to institutions to decide themselves whether they would implement the necessary measures. Even though in the banking sector this appears to have been largely done, it is desirable to take a more uniform and mandatory approach so that the supervisory authorities can take action in the NBFI sector if needed. In the NBFI sector, there is a widespread failure to require money remittance companies to implement internal controls, and steps should be taken to examine this.

89. Before turning to the question of whether supervision for money laundering purposes is adequate, another important issue that needs to be addressed is whether adequate measures have been taken to prevent credit and financial institutions from being acquired or controlled by criminals. This is also linked to whether there is a requirement to register or license the financial institution. In almost all members (except Iceland), there are checks on the shareholders and senior management of credit institutions, securities brokers and insurance companies, and this is a part of the prudential supervision regime. Share ownership above a certain percentage, (usually five or ten percent) is either prevented or is subject to checks on the shareholders' fitness and properness, and usually this extends to the beneficial owner as well. Jurisdictions such as Singapore and a number of others also conduct strict checks on the directors and senior management of an institution, and can prevent unsuitable persons from taking up such positions. A positive suggestion in this area was made in the Norwegian report, where it is recommended that, if supervisory authorities have responsibility for checking fitness and properness, they should be able to obtain assistance from law enforcement authorities. This could help determine whether the relevant person has a record or whether there may be other intelligence on him, though appropriate procedures would need to be worked out to ensure that law enforcement investigations are not impeded. Prudential controls, such as significant minimum capital requirements may also deter criminals from seeking to establish financial institutions.

90. A much looser position is taken with respect to bureaux de change and money remittance companies, where more than 25% of members do not undertake checks on the shareholders and owners of these companies. The same sectors also appear to have fewer controls in other areas - so that in countries such as Finland, Ireland (money remitters), Japan and New Zealand there is no requirement for either or both of these types of institutions to be licensed. The United States, which estimated that it had approximately 250,000 NBFIs in 1996, and which has a number of weaknesses regarding the anti-money laundering controls and supervision for its NBFIs, had a two-fold strategy. States were being encouraged to pass laws that require NBFIs to be licensed and then regulated at state level, and federally steps were being taken to determine the types of NBFIs, and introduce a federal registration scheme. In August 1999, this resulted in a rule being promulgated which requires a wide range of NBFI such as bureaux de change, check cashers, money remitters etc. (referred to as 'money service businesses' in the United States) to register with Treasury by 31 December 2001. Other measures will have to be taken to apply the necessary anti-money laundering measures to these businesses.

91. Members have differing supervisory regimes for their credit and financial institutions, with the relevant prudential supervisory authority (whether it be the Central Bank or an independent financial supervisor) usually being the authority responsible for supervision of anti-money laundering controls. However, in some jurisdictions, such as Aruba, Australia and Turkey, the supervision of all or part of the anti-money laundering obligations is the responsibility of the FIU. Those reports found that this had considerable resource implications for the FIU, which it was not able to properly meet, and recommended that the prudential supervisor or central bank exercise an enhanced role. As noted in the mutual evaluation report on Turkey, it does not seem either practical or efficient for the FIU to have a major role in conducting separate supervision for money laundering purposes. The FIU could continue to work closely with the mainstream regulators, and retain the capacity to conduct on-site examination for particular cases where it deems this is necessary.

92. Singapore provides an example of a tightly regulated system for the banking, insurance and securities sectors. The institutions are required to conduct internal and external audits of their accounts and controls, and the financial supervisor also conducts both off and on-site examinations. These mechanisms provide several layers of checks which, when combined with appropriate laws and guidelines, should help to ensure that financial institutions have strong controls in place. Almost all members conduct supervision for these classes of institutions, with on-site inspections being the primary supervision method in the majority of members. The notable exception is New Zealand, where not only is there no on-site inspection of banks or other financial institutions, but deposit-taking and loan-granting institutions can be established and do business without any registration requirements provided they comply with company law regulations and do not use the denomination "bank". Supervision in New Zealand relies on a policy-framework based on incentives to ensure compliance, and the report concluded that the lack of registration of non-bank financial institutions was a cause of concern.

93. A number of mechanisms were highlighted in different reports as regards supervision. Most supervisors check the anti-money laundering controls and procedures that the financial institution has in place. However, some also do random spot checks on individual files to determine whether the rules are being applied. Usually, money laundering checks are just a part of the regular overall prudential supervision, but some members also conduct specific anti-money laundering audits, while at least two members also issued questionnaires as a means of seeking further information on the controls in place. The statistical data available in the reports is limited, but it would appear that where regular on-site inspections are done, this occurs every one-three years. Specific anti-money laundering audits were only mentioned in a small number of reports, but appeared to be a useful tool for those countries that conducted them. Some reports also suggested there may be benefits in supervisors conducting random checks on the suspicious reports which the compliance officer does not send to the FIU.

94. Only a few members indicated that they had applied sanctions against the institutions they supervised, with Italy and the United States both having been very active. The range of sanctions that were available to deal with institutions not in compliance varied from member to member. Some of the types of sanctions observed were an oral warning on-site, a written warning (separate letter or within an audit report), an order to comply with specific instructions (sometimes accompanied by daily fines for non-compliance), referrals to law enforcement authorities for criminal proceedings, ordering regular reports from the institution on the measures it is taking, or a suspension or withdrawal of the license.

(vi) Cross border and cash controls

95. Many FATF members have established monitoring or declaration systems that are intended to detect, but not restrict, the movement of cash and monetary instruments across their borders. Many of the mutual evaluation reports have indicated that these reports are a valuable source of extra information for law enforcement.

96. Table 7 shows that more than half the members (widely spread geographically) impose a requirement to report amounts of cash, monetary instruments or valuables where this exceeds a certain amount. The declaration amount does vary considerably, and there are no obvious factors which determine the specified amounts. The systems are restricted to cash and monetary instruments in most cases, though some members also require reports of precious metals and gems.

Member	Declaration threshold (USD)	Items to be declared
Australia	7,000	Cash
	All	International wire transfers
Canada (proposed)	10,000	Cash/monetary instruments
France	8,000	Cash/securities
Germany	15,000	Cash/monetary instruments (if requested by Customs)
Greece	2,000 (export)	Cash/monetary instruments
	10,000 (import)	
Italy	10,000	Cash/monetary instruments
Japan	10,000	Cash/monetary instruments/ precious metals
Netherlands	12,500	Cash/monetary instruments
New Zealand	5,000	Cash
Norway	3,500	Cash/monetary instruments/ precious metals/gems
	3,500/5,500	International wire transfers
Portugal	12,500	Cash/monetary instruments
Spain, Sweden (proposed)	6,000	Cash/monetary instruments
Turkey	5,000	Cash/monetary instruments
	15,000	Precious metals
United States	10,000	Cash/monetary instruments

Table 7

97. In relation to international wire transfers, Australia requires all such transactions to be reported, and Norway requires reporting for transactions above the specified limits. For all these reporting systems to be efficient and effective, the report records need to be received in electronic form and held on a computer database, before being subject to sophisticated analytical programmes, so that only the relevant information is drawn out. The "Screen IT" programme in Australia is a good example of an automated monitoring system which analyses the information and adds value to it. Though the information is often collected by Customs authorities in the first instance, the mutual evaluations suggest that it is desirable that analysis of such reports also be linked to STR databases, and that FIUs are usually the government agency which is best placed and equipped to handle that function.

98. Another issue that was mentioned in some reports concerns postal services. As was mentioned in the report on Norway, the reporting/declaration regime should also extend to such a service, since it is possible in some countries to send cash by insured letters though the post, without any obligation to declare the amount or to identify the customer. In Ireland the postal service does not have the power to open postal items. Members need to ensure that postal and courier services are not misused by money launderers in this way.

99. Controls or reporting systems for cash transactions are much less common than cross-border reporting systems, with only four members having cash reporting systems. Most countries have rejected such requirements on the basis of a cost-benefit analysis, though the countries that receive such reports believe they add value to the criminal intelligence held by an FIU. While there may be some doubt as to whether the costs of creating and operating such a system can be justified in all member countries, the costs of operating an efficient system based on electronic reporting have reduced in recent years, while the effectiveness of the systems has increased. An alternative approach is taken by France, which has legislation requiring transactions in excess of certain amounts to be conducted via bank instruments. Transactions between tradespersons in amounts over FRF 5,000 (about USD 800) have to be paid for by crossed cheque, bank transfer or credit card. In addition payments in excess of FRF 20,000 (about USD 3,200) by an individual not engaging in trade, in exchange for a good or a service, shall be made by crossed cheque, bank or postal transfer or by debit or credit card. The French report notes that this is an innovative measure, which other FATF members might consider adopting. Belgium also has a similar law. Certain transactions (essentially transactions concerning real estate, company formation or mergers and acquisitions) must be performed through a notarial deed, and where the transaction involves payments in excess of EUR 25,000, it must be made by bank transfer or cheque.

100. One other issue concerning cash is the use of high denomination bank notes. While this issue was dealt with in the 1998-1999 Typologies Report, it was also raised in the mutual evaluation reports of the Netherlands and Singapore. The Central Bank in the Netherlands has an unusual system for keeping track of the NLG 1,000 (USD 500) notes in special cases, while Singapore has a banknote for SGD 10,000. The report recommends that consideration be given to removing the Singapore note.

(vii) Other issues

101. An issue which arises in several reports is the application of anti-money laundering laws and regulations in financial services centres, which offer taxation advantages to the financial and other institutions, which may be located there. Ireland and Portugal both have such facilities, but their laws and supervisory controls in these centres are the same as those that apply to "onshore" institutions. In the reports on Aruba and the Netherlands Antilles[23] the role of offshore financial service providers was considered in more detail. One must differentiate between the offshore branches of financial institutions (the head office of which is often located in an FATF country), and the offshore industry as it relates to the registration and regulation of companies and other legal entities such as trusts, and the trust or secretarial companies which service these legal entities. The foreign branches of well established financial institutions appear not to be a significant concern, since they are usually subject to the principles laid out in the FATF Recommendations, and generally have to undergo supervision by the home country supervisor. However, concern was expressed about the potential weaknesses that may arise from having two U.S. offshore banks in Aruba, which do not have a physical presence there nor keep their records in Aruba, even though the banks are under U.S. consolidated supervision.

102. The report on the Netherlands Antilles suggests that there is a need for the FATF to address the question of whether and to what extent money laundering controls should be embedded in

[23] Aruba and the Netherlands Antilles are part of the Kingdom of the Netherlands, and have thus undergone FATF mutual evaluations.

commercial or company formation law, and the rules governing the practices of professionals such as lawyers and accountants. While this question may be particularly pertinent to the offshore sector, it is also very applicable to FATF countries, where legal entities can also be created and misused. The report on Ireland also emphasised the difficulties which may exist in identifying the beneficial owner of a company, and the need to have proper controls and supervision, as well as sufficient resources, to ensure that the shareholders and directors of companies are known, and that attempts should also be made to identify the beneficial owner as part of the company registration system.

103. Anti-money laundering controls should apply to the professional service providers which service the companies and other legal entities, and supervisory mechanism needs to be established for those entities. The Netherlands Antilles report suggests that for this industry there should be: (a) binding obligations to identify customers, keep records, report unusual transactions etc; (b) appropriate controls on the entry of trust companies and other firms into the industry; and (c) a manageable system to supervise or at least independently audit those firms to check that they are complying with their obligations. The FATF Recommendations do not deal in detail with the issue of anti-money laundering controls in company law and for service providers in this sector, and thus few reports discuss the problem. A more detailed study of existing controls may be beneficial.

104. Trade related money laundering and schemes such as the "black market peso exchange" have been observed as problems which need to be dealt with. In Aruba and the Netherlands Antilles, these issues were considered in the context of the free trade zones. In Aruba, the company which controls and supervises the zone strongly promotes the use of anti-money laundering controls for the companies in the zone encompassing such matters as admission criteria, know your customer policies, reporting requirements, and supervision. While only a few FATF members are likely to have free trade zones, members should be aware of the risks and consider what controls may be appropriate.

(C) Operational Aspects

(i) The FIU

105. The financial intelligence unit (FIU) [24] is central to the anti-money laundering efforts of almost all members, and thus many of the mutual evaluation reports contained remarks on various aspects of the role and functioning of the FIU, and noted the importance of the role of the FIU. As at the end of 1999, only Canada and Germany did not have such a central body, though law enforcement agencies do receive STRs, and their reports noted the difficulties that arose from there being a number of bodies receiving STRs. The types of FIUs in FATF jurisdictions are fairly evenly divided with approximately half being administrative units, and the others being police or law enforcement units (though STR in two countries are received by judicial units). As will be noted below, this can have an effect on the FIU ability to co-operate with other FIUs.

106. The issues that arose in the reports concerning FIUs depended primarily on the role that the FIU plays in the system, and the number of reports that were being received. As noted above, though the number of STR received is still not all that high in many jurisdictions, there is a need in all countries to make the system as efficient as possible, though that need is greater if large numbers of reports need to be processed, analysed and sent on, or investigated. Several members had therefore devised or were in the process of creating systems that allowed the STR to be received and distributed electronically, which saves administrative resources. The Dutch "PROMOTION" programme used by their FIU thus has the benefit of seeking to gather feedback from the users of the STR, which can then be analysed and used to produce feedback for reporting institutions. While the

[24] The definition of an FIU as agreed by the Egmont Group is now widely accepted: "A central, national agency responsible for receiving (and, as permitted, requesting), analysing and disseminating to the competent authorities, disclosures of financial information (i) concerning suspected proceeds of crime, or (ii) required by national legislation or regulation, in order to counter money laundering."

computer systems which process and analyse the STRs will need to vary from member to member depending on the laws and the administrative arrangements, efforts should continue be made by FIUs to exchange information on these systems so that all countries can adopt effective and efficient approaches in a timely fashion.

107. FIUs seek to add value to the STR by comparing it with other relevant data, and a number of reports noted the desirability of the FIU not only having access to a wide range of data sources, but also being able to access that data on-line. The types of data that may be relevant include: various police and law enforcement intelligence databases, records held by Customs authorities, reports on cash or cross-border transactions, motor vehicle ownership, public records on land and company ownership, commercially available data sources, e.g. Dun & Bradstreet, and where possible some or all tax records. Some countries, such as Finland, Iceland and the Netherlands appear from the reports to have on-line access to most of these databases, while Italy and Turkey for example did not have ready access to information such as police databases. Given the difficulties of developing the often limited data in an STR into a criminal investigation, there are clear benefits in the FIU having access to a wide range of information sources, and it is much more efficient if that access is electronic.

108. In relation to human resources, quite a number of reports mentioned the need to supplement the staff of the FIU. In several cases, this had led to substantial backlogs in the processing of STR, thus making them less useful to investigators, and preventing units from taking the prompt action which is required in some cases. Fortunately, most countries that had insufficient resources appeared to recognise this problem, and were prepared to act to correct it. This was combined with the benefits that could be obtained if the FIU had a range of relevant expertise available to it, either within the unit, or upon which they could call if necessary. For example, the report on Belgium mentions the advantages of an interdepartmental team which combines the skills and experience of magistrates, financial experts, police etc. Correspondingly, recommendations were made in a number of other reports for the range of expertise within the FIU to be widened.

109. The role and functions of FIUs do vary between members, but there are a number of core functions that should be carried out. While FIUs handle most of these as a matter of routine, some functions were identified as needing further development in several members: (a) the elaboration of a full range of reactive and proactive strategic and tactical intelligence functions; (b) provision of increased training and education on combating money laundering for the financial sector, local police forces, and judicial staff, and (c) giving increased feedback. The benefits of a proactive approach, both at the intelligence and investigative levels, to money laundering and the proceeds of crime, is well exemplified by the successes that the United States enjoyed with its Geographic Targeting Orders and the work of the El Dorado Task Force. Successfully targeting the facilitators of money laundering rather than the perpetrators of the predicate offences led to considerable direct results, as well as indirect benefits to other agencies that were able to intercept cash being smuggled out of the U.S. (in response to the controls placed on the money remittance agencies).

(ii) Investigation and supervision

110. At the investigative level, several reports identified the lack of an investigative unit within the police which would investigate money laundering and matters related to the proceeds of crime, and also STRs which were passed on by the FIU. The need for dedicated units or staff to deal with these issues was also identified as a particular problem in relation to the proceeds of crime. The creation of such units in countries such as Canada and Ireland had a substantial impact on the results that were obtained in those jurisdictions. As with the FIU, investigative units or those dedicated to confiscation issues need to be multidisciplinary, and contain a range of experts: prosecutors, accountants, investigators, police officers, financial analysts and other expert staff. Other administrative approaches, which have proved to be effective in certain members, include the use of liaison officers and task forces. In the United States, where there is a multiplicity of federal and state law enforcement agencies, extensive use of task forces has proven to be an important tool in combining resources and expertise to obtain results.

111. Recommendation 36 mentions controlled delivery of the proceeds of crime as an important law enforcement technique. However, there are a wide range of other techniques which are used to greater or lesser extents in many members. Some of the techniques that have been referred to are: - deferring the arrest of a person or the seizure of proceeds bugging; interception of telephonic or electronic communications; undercover operations; storefront operations and use of monitoring orders. Often there are no specific laws to allow or prevent such techniques, though underlying legal principles and policy considerations can have a significant effect on the extent to which such techniques are used. As such techniques are not usually issues specifically related to money laundering, they are not discussed in any depth in the reports.

112. It must be noted that a majority of the reports also mentioned the role that is or could be played by the Customs authorities in combating money laundering. In many members, the Customs authorities have a peripheral role, often because they are not law enforcement and do not have law enforcement powers. However, even if Customs does not take a lead role, it can provide valuable expertise and support in many situations, and has particular responsibilities and knowledge at the borders of a country. Given the pressures that are placed on government resources, the fact that cash smuggling is still prevalent, and that many countries have cross border reporting systems, it would be desirable in many members if the Customs authorities did play a greater role in the anti-money laundering system.

113. The financial supervisory authorities generally appear to be adequately staffed (though FIUs that also perform supervision functions were said to need greater resources). In some countries, there is a need for the authority to exercise a stronger supervisory role in certain sectors - notably bureaux de change and money remitters; while increased co-ordination with FIUs and law enforcement bodies was also said to be desirable in several jurisdictions.

(iii) Co-ordination and other issues

114. A number of broader issues came up in several mutual evaluation reports. One that was discussed in most reports, though in varying terms, was the question of co-operation and co-ordination. Co-operation and co-ordination issues arise and are necessary at four possible levels:

- Between different agencies at the law enforcement/ operational level.
- The interrelationship between operational units and financial supervisory authorities.
- Across all the relevant government agencies concerned with anti-money laundering policies.
- Between government agencies (normally either the FIU or the financial supervisor) and the various parts of the financial sector.

115. In most countries there were a mixture of formal and informal mechanisms for co-operation and co-ordination at each of these levels. The informal approach was often used very frequently in smaller jurisdictions with fewer agencies, while there was increased use of formal mechanisms in the larger jurisdictions. Both methods have their advantages and should be used depending on the issues.

116. Though only mentioned in some reports, an important issue is the desirability of developing a strategic plan, which could lay out clear short and medium term objectives and time-scales for addressing how the anti-money laundering system in each country is to be developed. The strategy could, for example, address how the different aspects of the system could be developed, implemented and made more effective; provide an outline of the tasks and roles of different government agencies; and address potential weaknesses and how they could be rectified. A well-defined plan is an important tool in helping a country to develop a coherent, comprehensive and co-ordinated approach to combating money laundering in the medium to longer term. The plan would also need to be combined with an oversight function. The United Kingdom report commended the authorities for

their efforts to review and analyse on a regular basis the efforts and initiatives that have been made to counter money laundering and predicate offences. In this regard the report also indicated that it would assist their efforts if they had more statistics and analytical information available, as well as a set of performance indicators.

117. The question of statistics was one that was raised in many of the reports. The completion of the second round of mutual evaluations shows that the best statistics were uniformly those kept by the FIUs (though there are still many gaps in this area, when one has regard to the charts and annexes). The information kept on money laundering prosecutions and convictions, confiscation and provisional measures, and international co-operation was variable and often poor. In almost all the reports, the absence of statistics in a number of areas proved an impediment to the examiners' ability to assess the effectiveness of critical components of the anti-money laundering system. As was said in a number of reports: "These gaps in data may also frustrate the authorities' own efforts to gauge the success of their enforcement regime. It is recognised that collecting and analysing statistics entails costs, and that governments must weigh these costs carefully. But targeted data gathering can generate valuable information to guide policy makers as they seek to allocate resources in a manner which maximises law enforcement benefits. With this in mind, the authorities should supplement existing efforts to collect statistics."

(D) International Co-operation

118. The issue of international co-operation was covered in limited detail in most of the reports. A starting point in most reports was the international instruments that had been signed and ratified by the member being evaluated. The Vienna and Council of Europe Conventions were always dealt with, and in many reports mention was also made of the 1957 European Convention on Extradition, the 1959 European Convention on Mutual Assistance in Criminal Matters, and the 1970 European Convention on the International Validity of Criminal Judgements. Many members had also entered into bilateral agreements concerning some or all the aspects of international co-operation. In a number of instances, the reports stated the need to ratify the Vienna or Council of Europe Convention, but this process is almost entirely complete now. Only Switzerland has still to ratify the Vienna Convention (though it has implemented the money laundering components of the Convention), and of the eight members that have not ratified the Council of Europe Convention, only Japan, New Zealand and Singapore have stated an intention not to do so.

119. Most members therefore had a range of legal channels under which they could exchange information or otherwise provide assistance. Even where a multilateral or bilateral treaty does not exist, many members can provide assistance on the basis of reciprocity, and Finland is notable as it neither requires a treaty nor reciprocity when providing assistance. This can be contrasted with the situation in the Netherlands Antilles and Aruba where a treaty is required for assistance to be provided. Apart from letters rogatory, most requests for assistance (government to government) pass through a central authority, but little information was available to determine whether requests were processed and answered within a reasonable timeframe (though the United Kingdom report did note that it took an average of 10 months to fulfil a request).

120. Another precondition to mutual legal assistance[25] in almost all members is the requirement of dual criminality (at least where the co-operation involves coercive measures), unusually however France does not require this, which must provide the authorities with increased possibilities in certain cases. Given the different approaches that have been taken to making money laundering a criminal offence, the differing predicate offences and mental elements, it is possible that the need for dual

[25] Mutual legal assistance is to be taken to mean the power to provide a full range of both non-coercive and coercive mutual legal assistance, including the taking of evidence, the production of documents for investigation or as evidence, the search and seizure of documents or things relevant to criminal proceedings or to a criminal investigation, the ability to enforce a foreign restraint, seizure, forfeiture or confiscation order in a criminal matter.

criminality could present some problems in certain cases. Thus, until recently, the restriction of the money laundering offence to drugs in Japan and Singapore did place restrictions on their ability to co-operate in all cases (in addition, secrecy obligations for bank and most other financial records inhibited co-operation in Singapore's case).

121. Though there have been many successful instances of co-operation, a number of specific difficulties still arise with members' ability to co-operate with requests to assist in relation to confiscation or provisional measures. Canada, Spain and the United States all have particular legal or practical restrictions on their ability to co-operate in confiscation or restraint/seizure cases, though they have sought to work around these restrictions, and have been reasonably successful in the results obtained. A potential problem that was mentioned in a number of reports is the requirement (which may be derived from the need for dual criminality) that the confiscation case should be similarly enforceable under the law of the country receiving the request, if the case had occurred there. Given the differences between systems e.g. civil confiscation, or reversal of the onus of proof, this may well inhibit countries' ability to enforce foreign orders, and require them to go behind the foreign order to re-judge the case. The reports that raise the issue recommend that this requirement be removed.

122. This is probably also a basis for almost half the members being unable to enforce confiscation orders made in civil proceedings. If, as suggested above, the system of confiscation without conviction is a more effective one, and is introduced in more jurisdictions, it may be desirable for members to reconsider whether the restriction on civil confiscation orders should still exist. The issue of asset sharing was mentioned in a number of reports (only ten members cannot share, and only six cannot receive shared assets), and it was suggested in some instances that members should reconsider their position if they did not share assets.

123. At the law enforcement or operational level, the channel of communication for almost all the FATF member FIUs is either bilaterally pursuant to memoranda of understanding (MOU), through the Egmont Group channels, or directly to the foreign FIU (if they are both law enforcement FIU). Almost all members can exchange STR information either spontaneously or upon request, though there are often restrictions on the use that can be made of the information, or in relation to the circumstances in which it can be provided. Examples of such restrictions include only allowing it to be used for the original purposes requested (unless the provider agrees to some other purpose), not using it as evidence, and only using it in money laundering investigations. It has been suggested that this last restriction may be unduly narrow if it limits the use of STRs to investigations for a money laundering offence and not its predicate offences.

124. There are also some restrictions that apply depending on the types of FIUs involved. In Austria, Denmark and Germany, STR information was only exchanged with law enforcement FIUs (though Denmark may exchange with administrative FIUs on a case-by-case basis). The reports suggested that this limitation should be removed. In some administrative FIUs (such as Australia, Belgium and France) exchange of information will only take place if there are similar secrecy obligations. A number of reports suggested that FIUs should make increased efforts to open channels of communication for STR information, whether by increased MOUs, or through the Egmont Group channels.

125. At the investigative level, exchange of information generally seemed to be satisfactory, with requests most often being channelled through Interpol or Europol. The Schengen agreement was also found to be useful by its States parties since it allows for direct contact between judicial and police authorities and simplified conditions for the exchange of information. Similarly, few difficulties were identified with the ability of supervisory authorities to exchange information. The supervisors of credit institutions, securities brokers and insurance companies were generally able to exchange information with their counterpart authorities in other countries for supervisory or regulatory purposes.

(E) Steps taken to rectify first round deficiencies

126. An important part of the second round evaluations was the examination of the steps taken by members to introduce measures which would meet the deficiencies or the suggestions for improvement which were noted in the first mutual evaluation report. Information on this issue was gathered through the mutual evaluation questionnaire for the second round, which asked specific questions based on the first round reports. In addition, many of the evaluation teams sought further clarification during the on-site mission. The findings of the evaluators for each deficiency or suggestion for improvement were recorded in the report, following the description of the anti-money laundering system. The results were also used to identify whether the country had achieved greater compliance with the Forty Recommendations as a result of the measures that had been implemented in response.

127. The results were usually divided into deficiencies or suggestions related to legal and law enforcement issues, or alternatively as matters concerning the financial Recommendations. An analysis of the legal and law enforcement matters shows that there was an average of about five such issues in each report, but the numbers ranged from one identified deficiency in one report to 13 deficiencies in another. The money laundering offence was the subject of more suggestions than any other topic, with eight members having suggestions made to widen the predicate offence, seven to extend the mental element of the offence, and four to consider extending criminal liability to companies. Confiscation and provisional measures were raised in seven reports, while the co-operation and co-ordination of law enforcement and FIU activities were raised six times. Reference was made to ratifying and implementing the Vienna or Council of Europe Conventions on seven occasions, and mutual legal assistance or extradition issues were discussed in ten reports (this covered a range of specific issues). Other issues mentioned included the creation of an FIU (5), the ability of police to conduct undercover operations (5), the role of Customs authorities (4) and law enforcement resources (2).

128. In relation to the financial Recommendations, the average was about five such issues in each report, with the number of issues for a single report ranging between one and twelve identified deficiencies. Questions of training and guidelines for financial institutions were raised on 18 occasions, which was more than any other issue. This is consistent with the low levels of compliance for Recommendations 19 and 28 for the period of the first round, particularly for NBFI. The scope of application of the anti-money laundering measures was also identified as an important issue, with 11 countries being mentioned with respect to NBFI, and 12 members for non-financial businesses or professions. The other major topics that were raised related to customer identification rules (11), supervision of financial institutions or non-financial businesses or professions (10), the suspicious transaction reporting system (6) and feedback (5), cross border measures against cash of monetary instruments (4) and the role of the central bank (2). A more general issue was the lack of statistics, which was raised in three jurisdictions.

129. What was the level of implementation of the suggestions for change? This varied considerably, with several members only having put in place about 10% of the suggestions at the time of the second evaluation, while some countries were able to implement up to 90% of the proposed changes. When averaged out across all the members though, approximately the same number of suggestions were implemented as those that were not. The reasons for not implementing the suggestions for change varied from not agreeing with the proposal, to having constitutional or fundamental legal difficulties, or simply not being able to take the necessary measures within the four years since the last evaluation. It would appear though that many members found the suggestions from the first round constructive and helpful in identifying areas of weakness and putting forward positive suggestions for improvement.

III. THE MUTUAL EVALUATION PROCEDURES

130. The procedures for the two rounds of mutual evaluations have generally worked well and in an efficient manner, and the principles of equality, objectivity and clarity have been broadly met. However, as this paper is reviewing the whole mutual evaluation process, it is desirable that it includes an examination of the procedures that have been adopted, so as to identify any deficiencies, and to propose possible improvements. As the evaluation system has been an evolving one, this part of the review will examine the procedures adopted for the second round in greater depth than the process adopted for the first round.

(A) Features common to both rounds of mutual evaluations

(i) Description

131. In April 1991, the FATF first agreed to conduct an evaluation of the progress and effectiveness of the anti-money laundering systems in FATF member jurisdictions, with the standard of reference being the 1990 FATF Forty Recommendations. However, in practice the evaluations were primarily focussed on a description of the laws and other anti-money laundering measures in place. It was agreed that an important element of the evaluations was the need to ensure a consistent standard of assessment across FATF members. In order to ensure this consistency of approach and rigour in evaluating each individual FATF member's position it was agreed that:

- The Secretariat must ensure consistency, both internally and across FATF members, of the first draft of the report (which is sent to the experts).
- The particular circumstances of each FATF member (including the state of the financial market and the anti-money laundering framework) should be clearly identified.
- The areas examined and the analytical assessment should be such as to ensure that there is uniform treatment.

132. Another measure intended to assist in ensuring consistency was the common mutual evaluation questionnaire. Prior to the commencement of the first round of evaluations, a common questionnaire was agreed, and this questionnaire was to be completed by each member, and returned to the Secretariat. The questionnaire sought comprehensive and detailed information on all aspects of each country's anti-money laundering systems. It also asked for limited statistical information and some views were sought regarding effectiveness.

133. The process for the second round of evaluations was agreed in September 1995 and the focus of the evaluations was to be the effectiveness of the implementation of the 1990 FATF Recommendations. Equality of treatment was also a basic underlying principle of the second round of evaluations, with the common mutual evaluation questionnaire and the co-ordination role of the Secretariat providing the initial measures to ensure that equality. The questionnaire had some similarities with that of the first round, but sought more detailed quantitative and qualitative information. This was supplemented in February 1997 by the preparation of a standard checklist of issues that provided examiners with guidance on the matters that should be covered during second round evaluations.

134. Equally important was an agreed form for the reports, with a common outline for all the mutual evaluation reports. Each report for the second round thus consisted of a standard introduction, a description of the money laundering situation and policy, the organisational framework of bodies involved, a description of the anti-money laundering measures in place (legal, financial, operational aspects and international co-operation). This was followed by the measures taken in response to deficiencies identified in first report and how these changes affected compliance with the Forty

Recommendations, an evaluation of the effectiveness and efficiency of the system in both quantitative and qualitative terms, suggestions for further improving the system, and a conclusion.

135. The timetable and order of the mutual evaluation visits during the first round of evaluations was determined by members volunteering to be evaluated, as well as discussions between the President, the Secretariat and the member countries. In this way the order of the evaluations and their dates were established. For the second round, it had been agreed during the review of the future of the FATF in 1994, that the evaluations would be conducted in the same order as for the first round. To add further precision to this process, an evaluation schedule was prepared in February 1997 which indicated the dates of the on-site visits which had taken place, as well as the approximate period when the remaining future examination visits would occur. A proposed date at which each draft evaluation report would be discussed was also set out, and this provided a general timetable for the entire round. Although this provided the basis for the timetable, changes were agreed to the timetable in September 1997, so as to slightly increase the time period over which the evaluations would be conducted. The precise dates for the evaluation visits were then fixed closer to the time by the FATF President, the Secretariat and the members to be examined. The examined country also advised whether it wished to be examined in English or French (the two languages for the evaluations).

(ii) Evaluation

136. The quality of the mutual evaluation reports was by and large consistent, with a similar format and the same issues being covered. It was agreed by the FATF Plenary that the first round would be focussed on the implementation of the Forty Recommendations in member countries, and the progress that was being made in that regard. Thus the first round reports tended to be more descriptive of the system in place, or the future intentions of the government, and most of the reports did not contain detailed analysis of the systems or how they could be made more effective. A few reports did contain such commentary, which may have been useful for the countries concerned.

137. The second round commenced in February 1996, which meant that the standards for evaluations remained the 1990 Recommendations - a standard that became increasingly out of date as the round progressed. However, this was compensated for by focusing on the effectiveness of the anti-money laundering systems, which required consideration of issues that had been adopted in the 1996 Recommendations, as well as other factors which affected the effectiveness of the system.

138. Some concern was expressed at the start of the second round that the standards against which members would be assessed in the mutual evaluation reports would fall as the round progressed. This did not occur, and in fact, as members' systems became more sophisticated and developed, the level of detail in the reports increased and recommendations for change and improvement were made with respect to more detailed legislative or administrative issues. Despite the fact that many different examiners took part in the process, the common questionnaire, the checklist and the role of the Secretariat ensured that, broadly speaking, there was equality of treatment in the preparation and finalisation of the reports. The common outline for the reports ensured a similar style, though the participation of many different examiners, and the position taken by the country being examined did affect the final wording of each report. Overall though, equality and consistency was maintained.

139. The format for the second round of reports was generally satisfactory, with the major difficulty being that it was not always clear where particular descriptive material should be placed within the report. Given the desirability of keeping the reports as concise as possible, some areas were not always as comprehensively covered as others, for example, the details of international co-operation. In many countries, there was also a lack of quantitative data in one or more areas, which made it difficult for examiners to make a detailed assessment of the effectiveness of the system.

(B) Preparation for the on-site visit

(i) Description

140. The first element of preparation was for the President of the FATF to select a team of examiners for the evaluation. In most evaluations, there were three examiners, though four examiners took part in one first round evaluation and six second round evaluations. The selection of the examiners was initially assisted by each delegation sending to the Secretariat a list of their experts who would be available to participate in mutual evaluation examinations. Countries also approached the Secretariat offering to act as examiners, while on other occasions the Secretariat had to request members to provide examiners. Each examination team consisted of a legal, a financial and a law enforcement expert, with the examiners being drawn from different jurisdictions. Account was also taken of the expertise and background of each examiner, the language of the evaluation, the nature of the legal system (civil law or common law) and the specific characteristics of the jurisdiction (size, geographical location). The President then formally advised the member being examined of the evaluation team and the dates of the evaluation.

141. The first round questionnaire was identical for all countries, however the questionnaire for the second round contained ten standard chapters (divided into many questions and sub-questions), together with one additional set of questions specifically for the country being examined following up on particular points of weakness that were identified in the first mutual evaluation. The questionnaires for the second round were generally sent to the countries concerned approximately two to three months prior to the evaluation visits (though each member would have already had the standard questions). It was agreed that the jurisdiction to be examined should then return the response to the mutual evaluation questionnaire together with copies of relevant laws, regulations and other material (preferably in English or French) to the FATF Secretariat at least 30 days prior to the on-site visit. All this material should also be provided to the examiners at that time. As the mutual evaluation programme progressed, more countries were able to provide electronic copies of both their mutual evaluation response and the relevant laws, regulations or guidelines. This was to prove advantageous for both the Secretariat and for delegations when documents were distributed.

142. Prior to the on-site visit, the examined country also had to prepare a draft agenda of meetings with all relevant government Ministries and agencies, as well as appropriate financial sector representatives. The agenda was usually prepared in the two weeks prior to the evaluation, and was discussed and finalised in conjunction with the Secretariat. In most cases, the agenda was prepared after the response to the mutual evaluation questionnaire was received, which was the preferable approach. However, in some instances, the agenda arrived in advance, which made it more difficult to determine if all necessary meetings were arranged.

(ii) Evaluation

143. For a large majority of the evaluations, it was not difficult to find examiners who would be willing to participate. As the dates of the evaluation were usually determined well in advance it was possible for countries to find appropriate examiners, though on a few occasions countries were not able to do so. Generally it was more difficult to find a person who could act in the capacity of legal examiner.

144. An underlying principle of the mutual evaluation process is that all members should participate in the process, thus making it desirable that each country should provide one or more examiners. During the first round, 22 countries provided examiners, with the most examiners being provided by the United States (13), the United Kingdom (9) and France (8), while Ireland, Singapore, Spain and Turkey did not provide examiners. In the second round, all members provided at least one examiner, with the greatest number coming from the United States (13); the United Kingdom (8); Belgium (7); France and Italy (6 each) and the least from Finland; Greece; Hong Kong, China; Iceland; Ireland; Luxembourg; New Zealand and Turkey (one examiner each).

145. The Secretariat did endeavour to obtain an even greater balance in the numbers of examiners from each country, but this was not possible for several reasons. These included the differing levels of resources available in each country to send experts; differing levels of expertise in each member depending on the length of time that the anti-money laundering system had been in place; and the willingness of members to participate. In most cases, individual examiners did only one evaluation, but one examiner did three evaluations, and several did two evaluations.

146. On average, the responses to the mutual evaluation questionnaires were provided about three weeks in advance of the mutual evaluation visit, though some countries were only able to provide the response 7-10 days before the visit. On one occasion a revised response was given to the examiners when they arrived - something which created additional difficulties in preparing for meetings. It was also common that extra written information or documentation was provided at almost all the evaluations, when much of that documentation could have been provided prior to the visit. The provision of extra material at meetings provided the examiners with little or no time to digest the information and ask relevant questions where appropriate.

147. In many of the early evaluations all the material was sent directly to the Secretariat, but the system became much more efficient when copies of the responses and the attached laws etc. were sent directly to the evaluation team. The transfer of information electronically also created a much more efficient distribution of information. The agenda of meetings were generally very comprehensive, and the examiners had the opportunity to meet with all the relevant agencies and representatives. Where it was found necessary, extra meetings or the attendance of representatives of other bodies at already scheduled meetings was also arranged. In a large majority of the members, the evaluations took place within one city, though in six members it was necessary to travel to two cities. In one country, the examiners had to visit five cities, which created considerable pressures in terms of the meeting and travel schedule. It is recommended that for any future evaluation, it is preferable that the evaluation team visit no more than two cities, and that agencies which are located elsewhere should send representatives to one of the two locations.

(C) On-site visit

Description and evaluation

148. Almost all the evaluation visits took place over three working days, with the occasional exception such as the United States and Germany, where three and a half days of meetings were scheduled. All necessary agencies or representatives were visited and this usually covered the following types of bodies:

- The Ministry of Justice or equivalent (including the prosecutorial authority).
- The Ministry of Finance or similar policy body dealing with the financial sector.
- The financial supervisory or regulatory authorities for the banking, securities, insurance and other financial sectors.
- The Central Bank.
- The financial intelligence unit.
- The police and other law enforcement bodies, and on occasion the Ministry of Interior.
- Customs authorities.
- Any governmental body or group which co-ordinates anti-money laundering activity.
- The financial sector - including the banking association, compliance officers from several larger banks; an insurance company or the insurance association; the stock exchange, securities firms, bureaux de change/money remittance companies, or their association; including those representing the offshore sector where applicable.

149. In some jurisdictions, meetings were also arranged with casino representatives and the relevant regulatory authority, representatives of free trade zones, and company management and secretarial businesses (trust companies). In jurisdictions with a federal system of government, an effort was also made to meet with relevant state/provincial authorities.

150. Most meetings were arranged with individual agencies, rather than being a joint meeting at which a number of agencies were present. This enabled greater focus on the specific issues that were relevant to that agency, and was the generally preferable approach. Most evaluations were arranged so that the meeting took place at different venues, usually the offices of the agency which was being visited, but on a few occasions, the representatives of different agencies attended one central venue for at least part of the mutual evaluation mission. The time allocated to most meeting ranged from 30 minutes to three hours, depending on the number of subject areas which needed to be discussed. Most of the necessary information had been made available in advance, but further material was also often provided at meetings.

151. The three day period for evaluations generally provided for a tight schedule of meetings, with sufficient time to gather the necessary key information, but little time to obtain extra information or reflect on some of the more detailed issues concerned with money laundering. On a few occasions, the need for interpretation also limited the time available for seeking information, and may have led to a lower level of clarity in the examiners' understanding of the system. The provision of extra material at many of the meetings also created difficulties for the examiners in fully understanding the system, and in preparing for the meeting. For most of the evaluations, the examiners and the member of the Secretariat met shortly prior to the first meeting to prepare for and discuss the evaluation. Generally there was insufficient time for any meetings at the end of the evaluation to review the information received, and to form overall views about the anti-money laundering system in the country. In general, the three day evaluations allow sufficient time to gather all basic information, but do not allow the examiners time to discuss and review that together. The need for interpretation can also place extra time pressure on the examiners.

152. The examiners were generally well prepared and were familiar with the basic laws, regulations and administrative arrangements in place. Each examiner tended to concentrate on their own area of expertise, and took the lead when meeting with agencies in their own area, though the evaluation structure was sufficiently flexible that all the examiners usually had questions at each meeting. Although all the examiners were able to speak the language of the evaluation, a high level of proficiency in English or French did allow the examiner to make a more substantial contribution to the evaluation. Most of the examiners were also able to review the anti-money laundering system by general criteria, and not by specific reference to the system and laws in their own country. For most meetings this allowed all relevant questions to be asked, though on a several occasions follow-up was necessary, either at a subsequent meeting or in writing.

(D) Preparation of draft report and summary

(i) Description

153. Following the evaluation visit, the initial step was for examiners to prepare comments for the Secretariat on their findings regarding the evaluation. These comments were normally requested within the two to three weeks following the evaluation visit, though on some occasions longer periods were necessary. The length of time between each step in the preparation of the draft mutual evaluation report was determined by the length of time until the Plenary discussion. The steps that were taken prior to the Plenary were as follows:

(a) Receipt of contributions from the examiners by the Secretariat.
(b) Preparation of a draft report by the Secretariat, which was then sent to the examiners for comment.
(c) Receipt of comments by the examiners on that draft.

(d) Revision of the draft report by the Secretariat, which was then sent to the member concerned.
(e) Receipt of comments from the country by the Secretariat and examiners
(f) Review of comments by the examiners and their advice to the Secretariat on the changes that needed to be made to the report.
(g) Revision of the report by the Secretariat, which was then sent to all delegations.

154. A similar process [steps (b) to (g)] was also followed for the preparation of the summary of the mutual evaluation report which had to be discussed and agreed at the same Plenary meeting. The summary was then included as part of the FATF annual report. The process of preparation of the summary was usually commenced by the Secretariat once comments had been received from the country concerned, since the likely wording of the final mutual evaluation report would then be known.

(ii) Evaluation

155. The responses received from the examiners were for the most part well prepared, and identified the strengths and weaknesses of the anti-money laundering system in the examined country. Most examiners prepared comments on the deficiencies of the system, and left the Secretariat to draft the description of the system. On many occasions, the points that were being made by the examiners had to be rewritten to fit the form and style of the mutual evaluation reports, while the Secretariat was also able to add further descriptive and analytical depth to many of the reports. The timing of the response from a significant number of examiners was a matter of more concern. Though responses were requested within three to four weeks of the evaluation visit at the latest, many examiners did not meet that deadline, and some were not able to reply for several months. This created considerable pressure in terms of being to able prepare the several different drafts of the reports that are necessary prior to the version which is sent to all delegations.

156. The length of time between the evaluation visit and the Plenary discussion increased as the second round of mutual evaluations proceeded. The average period between the evaluation visits conducted during 1996 and the Plenary meeting was approximately three months, but this increased to a standard period of 5-6 months for the later evaluations. This was principally due to the number of evaluations scheduled to be discussed at each Plenary. For the Plenary meetings between June 1996 and June 1997 only two reports were discussed, and in September 1997 only the Canadian report was discussed. Thereafter the number increased, so that from February 1998 to June 1999, four reports were discussed at each meeting. This had consequences for the discussion of the reports, as will be discussed below, but also affected the procedures for preparing the reports.

157. The time between visit and discussion was sufficient in most cases, though it must be remembered that the process (a) to (g) above requires the preparation of several drafts of the report, and considerable input from three or four examiners. This means that, in effect, a minimum period of three months between visit and discussion is necessary if all the participants are to have a reasonable time to consider and respond to the relevant documents, and the reports are to be a correct and fair assessment of the situation. The evaluation of the United States (the largest and most complex anti-money laundering system) was an example where there was a period of only two months between the visit and the discussion of the report..

158. The preparation of the summary for all the evaluations cannot realistically be commenced until the point where comments have been received from the country on the draft report. Since the same process of discussion and approval by the examiners and the country had to be followed, this meant that the summary of most members reports was often not available for delegations until the meeting itself, thus affecting their ability to review and compare it with the main report. The process should allow enough time, and also ensure that the reports are sent to delegations in sufficient time prior to the Plenary. In the second round of mutual evaluations, the process could thus have been

improved if examiners had ensured that their reports were sent to the Secretariat within three to four weeks of the evaluation, and that all participants responded promptly in commenting on draft reports.

159. An important issue is whether, for both rounds of evaluations, the reports and the summaries have consistent conclusions and recommendations. There must be consistency between the report and the summary, and also between different reports. When making comparisons one must take into account the fact that there were different examiners; and different levels of development, response and approach by the examined country. Whilst it is difficult to compare the 28 reports agreed in each round, some tentative conclusions can be drawn. The reports and the summaries are internally consistent. The summaries closely follow the conclusions of the reports, and give credit for progress where this has been achieved, and make criticisms where there are significant deficiencies.

160. The reports from the first round concentrated on whether a system was in place that met the FATF Forty Recommendations. They were thus shorter and less detailed than the second round reports [on average (in English) 12-14 pages as opposed to 22-26 pages]. As had been agreed at the start of the first round, most of the reports were written in a style that was intended to encourage rather than criticise countries for their weaknesses in the system. Thus countries that had few laws or systems in place, but were able to demonstrate that they intended to implement them, did not receive criticism for the deficiencies. This standard was generally consistent throughout the first round evaluations, though occasionally more detailed suggestions for change were made in the reports. It should also be noted that, as the first round progressed, more time had passed for implementation of the necessary anti-money laundering legislation, and those members which had not implemented some of the basic legislative measures were subject to greater criticism. While the tenor of "encouragement" was the agreed approach, it may have been desirable in the longer term to take a stricter approach, with the reports making more suggestions as to possible improvements.

161. The second round reports, which focussed on the effectiveness of the systems in place, were significantly more detailed and also more direct in their assessment of the anti-money laundering system. In a large majority of countries a legislative and administrative system was in place, and the issue was whether it was effective and in what ways could the system be improved. The reports covered the same issues, though there may have been different degrees of emphasis on particular issues, depending on the country and the examiners. The significant deficiencies were identified, and in many cases, suggestions were made as to how the system could be improved. Taking into account the differences that exist between members in their legal systems, size, criminal problems, resources etc., the timing of the evaluation, as well as the different views held by examiners, the reports were broadly fair and consistent, though the level of detail also increased as the round progressed. One small issue which caused difficulty was the cut off date for new measures or statistics - an issue which became more pronounced later in the round when there was a gap of more than six months between the evaluation visit and the discussion. The general approach that was taken was that all developments up to the date of the visit were taken into account, and if new measures were being prepared at the date of the visit e.g. a Bill in Parliament, then updated information on that issue was also taken into account. However, it was often difficult to decide whether to include certain new initiatives or categories of updated information, since on a number of occasions they appeared to be a response to the evaluation visit.

(E) Discussion in Plenary

(i) Description

162. Despite the lengthy process of consultation between the examiners, the country being examined and the Secretariat, in almost every case there were still quite a number of areas of disagreement on the wording of the report at the time of the Plenary meeting. Efforts were made to ensure that each mutual evaluation report and its summary were agreed between the country and the examiners before the discussion took place in the Plenary, and this led to further discussions between the examiners and the country in the margins of each plenary meeting. In some cases, these

discussions took more than a day of meetings to resolve the wording, but in every case the report was agreed between the examiners and the country prior to the relevant Plenary item. A written set of amendments was prepared for the Plenary setting out the agreed amendments.

163. The procedure for the discussion of the draft mutual evaluation report and the summary at the Plenary meeting was as follows:

- The examiners briefly present their report.
- The examined country makes its opening statement.
- The discussion is launched by two intervenor countries, selected by the President on a proposal by the Secretariat. By the end of the second round, the intervenors were requested to provide no more than five questions (addressed to the country or the examiners) in writing before the Plenary commences (the provision of written interventions developed as the second round progressed). The draft report was then open for general discussion by the Plenary.

164. At the conclusion of the discussion, the report and summary, together with the written agreed amendments between the examiners and the country, as well as any further amendments that have been agreed upon were verbally adopted by the Plenary. The report would then be revised as necessary before being submitted for formal adoption at the following FATF Plenary meeting. The status of the reports is that they are an FATF document, agreed by the FATF Plenary, and not just a report by a group of experts. The reports remain confidential within the FATF; however the member concerned could take whatever steps it felt appropriate regarding the distribution of its own report. To the knowledge of the Secretariat, only two countries (Ireland and the Netherlands) have made their reports publicly available, on the basis that the report would probably have to have been released through freedom of information channels anyway. The agreed summary of every report is included in the annual report of the FATF for the relevant year.

(ii) Evaluation

165. The process leading to a version of the draft report which was agreed between the examiners and the member concerned did cause some minor difficulties. The discussion of the mutual evaluation reports was scheduled to commence on the first day of the Plenary for the first year of the second round, but was changed to the second day in June 1997. Despite this, the discussions in the margins of the Plenary between the examiners, the country and the Secretariat needed to be completed quickly, and there were potential conflicts between the need or desirability of being in the Plenary, and yet having to finalise the report. It also meant that agreed amendments needed to be typed up, and a number of examiners provided valuable assistance to the Secretariat in that regard. In all the second round evaluations, agreement was reached on the wording of the report before the Plenary discussion took place. It must also be said that throughout the process both the examiners and the countries being evaluated were prepared to discuss the reports and agree on compromises in a positive way.

166. The Plenary discussions of the mutual evaluations at the start of the second round lasted for about half a day, with quite a number of delegations asking questions, usually of the country and very occasionally of the examiners. This often resulted in a more in-depth analysis of the anti-money laundering system in that jurisdiction. However, once four evaluation reports were scheduled for each meeting, the discussion time was generally reduced to about two hours or less per report, and this may have contributed to the reduced level of debate. The mutual evaluation discussions also became somewhat formal and less productive, And efforts should be made to rectify this for future evaluations, since evaluations are a key procedure and strength of the FATF system, and it should remain a dynamic process.

IV. FOLLOW-UP TO MUTUAL EVALUATIONS

(A) Non-compliance policy

167. At the start of the first round of evaluations, no procedures were agreed on steps that could or should be taken following the discussion and adoption of a mutual evaluation report. By 1994 however the procedures had been further developed, and a number of other jurisdictions were asked to provide progress reports on action taken following their mutual evaluation reports, and at the same time, the FATF developed a formal policy for dealing with members not in compliance with the 1990 Forty Recommendations.

168. The FATF's policy on non-complying members was based on the need to ensure that all FATF members reached a satisfactory standard of compliance with the 1990 Recommendations. The intention was that the process would be a transparent one, based on a graduated approach, equality of treatment, and oversight by the Plenary of the various steps in the process. As the FATF is a body that operates by consensus and relies on the principle of peer pressure, the intention was to enhance the peer pressure that exists within the mutual evaluation process, so as to encourage jurisdictions to implement the necessary measures. The steps which were agreed, and which have not been amended since, are:

(a) Requiring the members to provide regular reports on their progress in implementing the Recommendations within a fixed timeframe;
(b) Sending a letter from the FATF President to the relevant minister(s) in the member jurisdiction drawing their attention to non compliance with the FATF Recommendations;
(c) Arranging a high-level mission to the member jurisdiction in question to reinforce this message;
(d) In the context of the application of Recommendation 21 by its members, issuing a formal FATF statement to the effect that a member jurisdiction is insufficiently in compliance with the FATF Recommendations; and
(e) Suspending the jurisdiction's membership of the FATF until the Recommendations have been implemented.

169. A comprehensive assessment of whether a member is or is not in compliance with most of the Forty Recommendations has been made on an annual basis through the self-assessment exercises. In order to follow up on shortcomings in compliance with the Recommendations the FATF used the non-compliance policy referred to above. Under that policy the FATF relies on a combination of the compliance findings under mutual evaluation reports and the self-assessment exercise.

(B) The first round of evaluations

170. Based upon the compliance findings and the first round of mutual evaluation reports, the jurisdictions which took part in follow-up measures are given in Table 8. The system of progress reporting worked reasonably successfully in encouraging the relevant jurisdictions to enact new anti-money laundering measures in a more speedy fashion, though in three cases, the reporting back procedure extended over two years or more. However, these follow-up steps followed the process through, and ensured that all-important measures were implemented. Only in the case of Greece and Turkey were measures other than the first step in the non-compliance procedures taken, and progress was delayed in the Turkish case because of the frequent lack of a government in Turkey to pass the necessary laws. It is also noticeable that only one of these jurisdictions has been asked to follow up in the second round of mutual evaluations. These facts tend to suggest that the follow-up process has a significant effect in encouraging countries to enact the necessary anti-money laundering measures. In

all cases, additional important legislative or other measures were taken, and the anti-money laundering systems thus improved.

Country	Report discussed	Follow up measures
Greece	April 1994	Progress reports and a letter from the President
New Zealand	June 1994	Progress reports
Turkey	February 1995	Progress reports, a letter from the President, a high level mission and a public statement from the FATF
Aruba	June 1995	Progress reports
Netherlands NL Antilles	June 1995	Progress reports

Table 8

171. Equality of treatment was said to be a precondition of the process, but it is apparent from an examination of the first round mutual evaluations and the self-assessment exercises that some of the members that were evaluated at an earlier stage of the first round were out of compliance with a significant number of Recommendations. However, this discrepancy can perhaps be explained by the additional time that had passed since 1992, and the need for FATF members to reach higher levels of compliance as the round progressed.

(C) The second round of evaluations

172. The second round, which commenced with the evaluation visit of France in February 1996, followed closely on the first round, and as can be noted above, certain follow-up measures were still being taken as the second round continued. Determining whether follow-up procedures should be taken during the second round was made more difficult following the agreement of the 1996 FATF Forty Recommendations in June of that year. Compliance for self-assessment purposes was assessed in accordance with the 1996 Recommendations, while the mutual evaluations remained focussed however on the 1990 Recommendations (as did the follow-up procedure). Some difficulties were caused by the fact that the primary focus of the evaluation reports was the effectiveness of the anti-money laundering systems in place, and the follow up procedures were only concerned with the question of compliance with the compulsory Recommendations.

173. Based on the compliance findings and the second round of mutual evaluations, the following jurisdictions took follow-up measures in the second round:

Member	Report discussed	Follow up measures
Sweden	June 1996	Progress report.
United States	February 1997	Voluntary follow up reports
Austria	June 1997	Progress reports, a letter from the President, a high level mission, a public statement from the FATF, potential suspension of membership, and agreement that Austrian legislation to eliminate anonymous savings passbooks removed the problem.
Canada	September 1997	Progress reports
Japan	June 1998	Progress reports
Singapore	February 1999	Progress reports
Turkey	June 1999	Progress report

Table 9

174. The follow-up procedures led to or expedited significant improvements in the anti-money laundering systems of the countries concerned though in some cases, important measures were still not finalised when the decision was made to discontinue follow-up procedures. Overall however, the follow up procedure is a very important means of increasing the pressure on countries to take the additional measures that are necessary to make their systems effective.

Conclusion

175. Since the commencement of the two rounds of mutual evaluations in 1992, members have enacted a considerable volume of new legislation to address the problem of money laundering. In all members, law enforcement, regulatory and other resources have been devoted to combating money laundering, and the level of compliance with the FATF Forty Recommendations has steadily increased. In all members, there is now a legislative and administrative framework in place to deal with money laundering, and in most countries the banking sector has been made aware of the issue and is committed to working with government to prevent it.

176. Despite the considerable progress made by FATF members, the function of this review was to analyse the degree to which members had increased their level of compliance with the FATF Forty Recommendations, address whether the current anti-money laundering systems are effective, and whether further improvements could be made. The review then analysed the FATF mutual evaluation processes, including follow up to mutual evaluation reports, with a view to determining if those processes could be made more effective or efficient.

177. The starting point for any evaluation is compliance with the Forty Recommendations, since these provide a framework within which the mutual evaluation process has been conducted. Compliance with both the legal and financial Recommendations increased substantially between 1993 and 1994, but thereafter the rate of progress has been much lower. The average number of members in compliance with the legal Recommendations is now 22, while the financial Recommendations are slightly less satisfactory with an average of 20. However, when considering these results one must consider the stricter standards against which compliance is now assessed. The most significant measures affecting compliance are the need to apply appropriate preventative measures to bureaux de change and money remittance companies, and a number of measures regarding international co-operation. While standards are generally satisfactory, these and other areas need to be addressed if potential weak links in anti-money laundering systems are to be eliminated.

178. Part II of the review examines the anti-money laundering systems in FATF members. It contains a description of the types of measures that have been enacted or adopted by countries, and draws together some of the findings of the reports on the effectiveness of those measures. This assessment is based on both quantitative and qualitative factors and examines relevant qualitative measures that have been taken to improve anti-money laundering systems, and areas where there are deficiencies or weaknesses. It also refers to the available statistics on topics such as money laundering prosecutions and convictions, assets frozen and confiscated, suspicious transaction reports etc. However, it should be noted that the lack of statistics was a consistent weakness throughout the mutual evaluations, which frequently led to examiners being unable to draw clear conclusions about the effectiveness of the system.

179. In relation to legal measures such as the money laundering offence and confiscation, the main points noted are as follows. The predicate crimes for a money laundering offence are now broadly similar, and cover a wide range of serious offences. The most significant problems mentioned in the reports concerned the mental element of the offence being set at too high a standard, and the need in some countries to prove that the proceeds are from a specific predicate offence. The limited statistics that are available suggest that money laundering is actively pursued by law enforcement and prosecutors in the United States, but this is probably due to factors other than the wording of the offence. Otherwise, it is not an offence that is frequently prosecuted.

180. The legal systems covering confiscation and provisional measures are often complex, and most of the reports did not cover them in much depth. In many members, relatively little attention had been paid to this area of the law until comparatively recently, and thus it was noticeable even from the limited statistics that were provided, that relatively small amounts had been seized and confiscated. The primary difficulties mentioned in the reports appeared to be meeting the criminal standard of proof to show prior criminal conduct, and linking proceeds to specific prior criminal activity. The

two measures which are currently being adopted or considered in a number of members are reversing the burden of proof or non-conviction based confiscation. These two measures, combined with a dedicated, multi-disciplinary body focussed on confiscation issues, appear to be the most significant matters that could be considered by countries which are reviewing their confiscation schemes.

181. A matter that was dealt with in all the reports was the scope of application of the anti-money laundering measures. In almost all members, a full range of measures apply to banks, but the position is less positive for NBFI, though the deficiencies most often related to bureaux de change or money remittance companies, and even then, were often for specific measures only. Other categories of institutions or persons that many reports suggested should be subject to some or all of the anti-money laundering controls include insurance brokers, casinos, company formation agents or trust companies, lawyers, notaries, accountants and auditors. Although a limited number of members have applied some measures to some of these categories, the various classes of non-financial businesses are largely unregulated and unsupervised.

182. Leaving aside the issue of the scope of application, customer identification and record keeping measures have been generally well implemented, and the reports did not mention any problems that were widespread, apart from the practical difficulties experienced in identifying the beneficial owner of an account. What was more frequently cited was the lack of uniformity regarding the amount of cash at which the identification requirements apply for large cash transactions, and in relation to the exemptions from identification. Another issue referred to in several reports, and worthy of further attention are the controls (or lack of them) for cross border cash services offered by the post office or private carriers.

183. Suspicious transaction reporting and the role of the FIU are key elements of most anti-money laundering systems. The laws and regulations for STR were usually sound, and the FIU was focussed and committed to its functions, though a number of important qualitative improvements were identified:

- The need to widen the scope of the reporting requirement to all serious criminal activity.
- Requiring reporting if a person attempts to launder illegal proceeds.
- Improving the level of both general and specific feedback.
- Developing legal or other measures which ensures the safety of the staff of reporting institutions.
- Issues related to the legal protection given to reporting institutions and their staff from criminal or civil suit.

184. The statistical data provided on the STRs was the best of all the statistics requested, however it is still insufficient to determine whether the systems are effective or not. On a positive note, the data does suggest that the total number of STR received is either increasing or constant, and that the likely reasons for a low number of reports in certain jurisdictions may already have been addressed. However, apart from a few countries that have actively promoted their reporting systems, STRs are made almost entirely by banks, with very few reports from NBFI or non-financial businesses. A number of methods have been identified in the reports as being ways in which the number and quality of reports could be improved, and these are noted at paragraph 81 of the review. However, in order to determine whether the reporting system is working effectively, it is necessary to know what use was made of the STRs and whether they resulted in or contributed to prosecutions, confiscation or other positive results. With the exception of a couple of countries, there are almost no statistics available on this, which made it difficult to evaluate the true effectiveness of the reporting system.

185. Approximately half the FATF members have implemented cross border control measures, which mostly require the reporting of imported or exported cash or monetary instruments above a certain amount. The amount above which a declaration must be made varies between USD 3,500 and USD 15,000, and some countries also require reporting of precious metals and gems. In addition,

three countries also have a system for reporting all international wire transfers. While these systems do appear to provide valuable additional information for the FIU or law enforcement, there were few comments on the effectiveness or efficiency of the systems.

186. The other major issues which concern the financial sector are training, internal controls, guidelines and supervision. The findings in these areas reflect the situation for other anti-money laundering controls. In most countries, significant steps had been taken in the banking sector, while the securities and insurance industries were reasonably well regulated. The controls for other categories of financial institutions and non-financial businesses were largely either non-existent or not designed for those sectors. For example, in a number of members, guidelines had been prepared for various categories of NBFI, but these were basically a repeat of the banking sector guidelines. The level of awareness and commitment of the industry varied depending on the degree of training, regulation and supervision that the government agencies had conducted. Overall though, the banking sector was much better informed about the risks associated with money laundering, and had usually made significant commitments to implement the necessary preventive measures.

187. The operational aspects of the evaluation reports gave close examination to the role and functions of the FIU. Since the FIU is often responsible for handling large volumes of information, a major feature of their functioning is the necessity for the information technology system to be an efficient one, with the ability to receive, analyse and distribute STRs and other intelligence as quickly and effectively as possible. Thus the FIU should be able to receive STRs in electronic form, have on-line access to a wide variety of data sources, and obtain information back from "downstream" agencies. Most FIUs did more than just process STRs, and the reports noted the desirability for FIUs to take on a full range of reactive and proactive strategic and tactical intelligence functions. Both for FIUs and at the investigative level, the reports noted the benefits of having multidisciplinary bodies that could call on a range of expertise (prosecutors, accountants, investigators, police officers, financial analysts etc.) either within the unit or from other agencies. Another feature that was common to many reports was the desirability for the Customs authorities to play a greater role in anti-money laundering work.

188. All the members had differing degrees of formal and informal co-ordination and co-operation. As outlined at paragraph 115, this should apply at several different levels, and the degree of formality required will depend on the country concerned and the type of relationship. An extension of the co-ordination function is the strategic plan. Though only mentioned in a few reports, there are clear benefits for government in having clear medium to long term objectives and timeframes, with well-defined roles for the various agencies involved. When combined with a process which regularly reviews the systems or parts of it, this should ensure that each country not only stays abreast of money laundering threats as they develop, but is able to analyse their system and make it more efficient.

189. The reports did not cover the issue of international co-operation in much depth, which is partially due to the fact that this is a topic that extends beyond the issues specific to money laundering. There has been a steady increase in the number of members that have signed and ratified the Vienna and Council of Europe Conventions, and increasing numbers of bilateral treaties and MOUs being entered into. Similarly, most countries had the basic legislation in place to allow them to give effect to requests, though in some cases amendments could be made which would allow them more scope to provide assistance. Due to the lack of information on the numbers of requests, the time taken to process them etc., it was not possible in almost all cases for any assessment to be made of how well the system was working in practice and whether it could be made more efficient.

190. Parts III and IV of the review cover the FATF processes and procedures for mutual evaluations and any subsequent follow-up to a mutual evaluation report, and are intended to analyse the efficiency of these procedures. An underlying principle of the two rounds of mutual evaluations was the need to maintain equality and consistency. The general finding in this regard was that the common questionnaire, the checklist, the common outline for the reports, and the role of the

Secretariat ensured that there was equality of treatment in the preparation and finalisation of the reports.

191. While it can be said that overall the mutual evaluation procedures are very satisfactory, with a process and product that has been both fair and consistent, a few weaknesses or deficiencies are identifiable. The most significant of these are:

- The need for more countries to provide examiners, thus making the process more of a mutual one.
- Evaluated countries providing as much material as possible in advance, so that examiners do not have to try to read and analyse large volumes of extra material on-site, when there is normally a heavy three day schedule of meetings.
- The difficulties and time pressures that are caused if examiners are not able to provide their comments within three to four weeks following the evaluation (there needs to be a minimum of three months between the on-site visit and the Plenary discussion).
- The increasing tendency for the Plenary discussion of mutual evaluation reports to become a formal process which had to be completed, rather than an opportunity to identify and discuss the strengths and weaknesses of the anti-money laundering system in the evaluated member.

192. The process of following up on mutual evaluation reports, where serious weaknesses and deficiencies were identified, commenced in 1994-1995, and the formal five-step FATF policy for non-complying members was agreed in September 1995. In the first round of evaluations, five jurisdictions were required to report back, and two jurisdictions were also required to undergo further steps under the policy. Within the parameters of the first round of mutual evaluations, the follow up process was reasonably successful, and the jurisdictions took action to improve their systems and remedy the most important defects identified. The second round saw seven members providing reports to the Plenary, though only one member has had to take steps other than the first one. The follow up process helped to expedite the introduction of the new measures that were needed in the members concerned.

193. What overall conclusions can be drawn about the progress that has been made between 1992 and 1999, the effectiveness of the systems in place, and the efficiency of the process and procedures. Without repeating what is said above, it is clear that, despite increasingly higher standards in assessing compliance, the level of compliance has steadily increased. Some members are in almost full compliance with all the mandatory Recommendations, while the vast majority comply with more than 80% of the Recommendations. However, there should be no grounds for complacency as several significant Recommendations still have levels of non-compliance that are too high, and after 10 years, FATF members should be in a position to achieve full compliance.

194. The task of determining whether each member's anti-money laundering system was effective or not was a very difficult one. In most cases, there was a lack of quantitative data, which meant that while suggestions for qualitative improvements could be made, it was not possible for the examiners to come to any firm conclusions on the issue of effectiveness. However, it is noticeable that almost all members have made significant improvements to their anti-money laundering systems over the two rounds of mutual evaluations, both in terms of legislative amendments and administrative changes. The reports have provided a blueprint for future action by the jurisdiction concerned, and in many cases the necessary action has been or is being taken. The mutual evaluation process has also proven to be, by and large, an effective and efficient one, which utilises relatively few resources to obtain significant results.

Annex 1 Statistics on assets frozen/confiscated and realised in domestic confiscation cases

Country	Years	Freezing / seizing orders		Confiscation / forfeiture orders		Value of Property Recovered
		No.	Value	No.	Value	
Australia (Federal)	1991/1992	46	AUD 12.6m (USD 9.5m)	35	AUD 2.2m (USD 1.7m)	AUD 1.8m (USD 1.4m)
	1992/1993	49	AUD 7.7m (USD 5.8m)	29	AUD 4m (USD 3m)	AUD 2m (USD 1.5m)
	1993/1994	66	AUD 10.3m (USD 7.8m)	62	AUD 98.3m (USD 74m)	AUD 19m (USD 1.4m)
	1994/1995	52	AUD 12.5m (USD 9.4m)	55	AUD 5m (USD 3.7m)	AUD 3.4m (USD 2.5m)
	1995/1996	24	AUD 2.6m (USD 2m)	48	AUD 2.9m (USD 2.2m)	AUD 2.5m (USD 1.8m)
	1996/1997	64	AUD 14.6m (USD 10m)	60	AUD 5.6m (USD 4m)	AUD 4.2m (USD 3m)
	1997/1998	31	AUD 7.3m (USD 5m)	49	AUD 5m (USD 3.7m)	AUD 4.7m (USD 3.4m)
	1998/1999		AUD 2.6m (USD 1.8m)			
New South Wales (Australian state with civil forfeiture law)	1991/1992	59		19	AUD 650,000 (USD 0.5m)	
	1992/1993	24		136	AUD 3.1m (USD 2.2m)	
	1993/1994	44		18	AUD 1.5m (USD 1.1m)	
	1994/1995	73		38	AUD 3.4m (USD 2.4m)	
	1995/1996	95		81	AUD 5.1m (USD 3.8m)	
	1996/1997	145		67	AUD 4m (USD 2.8m)	
	1997/1998	166		174	AUD 10.2m (USD 7.1m)	
	1998/1999	101	AUD 12m (USD 9.2m)	122	AUD 9.4m (USD 6.5m)	
Belgium – CTIF CFI (Belgian FIU) cases to prosecutor	1994-96					
	Police		BEF 670m (USD 19m)		BEF 270m (USD 7.7m)	
	Gendarmerie		BEF 828m (USD 24m)			
	CTIF				BEF 2.3 billion (USD 65.7m)	
Canada (Federal only)	1991	na	CAD 13.3m (USD10m)	12	CAD 10m (USD 7.5m)	CAD 10m (USD 7.5m)
	1992		CAD 8.6m (USD6.5m)	11	CAD 13m (USD 9.7m)	CAD 13m (USD 9.7m)
	1993		CAD 20.5m (USD 15.5m)	24	CAD 13m (USD 9.7m)	CAD 13m (USD 9.7m)
	1994		CAD 14.8m (USD 11m)	26	CAD 9m (USD 6.7m)	CAD 9m (USD 6.7m)
	1995		CAD 57m (USD 43m)	na		
	1996		CAD 61.1m (USD 40.7m)		CAD 6.8m (USD 4.5m)	CAD 6.8m (USD 4.5m)
	1997		CAD 18.6m (USD13.4m)		CAD 29m (USD 21m)	CAD29m (USD 21m)
	1998		CAD 36m (USD24.3m)		CAD 11.4m (USD 7.7m)	CAD11.4m (USD 7.7m)
	1999		CAD 33.6m (USD22.6)		CAD 9.2m (USD 6.2m)	CAD9.2m (USD 6.2m)

Country	Years	Freezing / seizing orders		Confiscation / forfeiture orders		Value of Property Recovered
		No.	Value	No.	Value	
Denmark - STR cases	1994-1999				DKK 75m (USD 12.5m), DKK 10.6m (USD 1.6 m) (compensation to victims)	
Finland	1995					FIM 140m (USD 23m)
	1996					FIM 200m (USD 33m)
	1997					FIM 156m (USD 26m)
	1998		USD 1.1m			
	1999		USD 2m			
Germany STR cases	1994		DEM 20m (USD 10m)		0	
	1995		DEM 10.4m (USD 5.2m)		0, DEM 5m (USD 2.5m) [victims]	
	1996		DEM 17m (USD 8.5m)		DEM 1.1m (USD 0.6m) DEM 8.2m (USD 4.1m) [victims]	
Hong Kong, China	Drugs					
	1994	16	HKD 21m (USD 2.6m)		HKD 15m (USD 2m)	HKD 45m (USD 5.6m)
	1995	13	HKD 41m (USD 4.6m)		HKD 3m (USD 0.4m)	HKD 13m (USD 1.6m)
	1996		HKD 12m (USD 1.5m)		HKD 7m (USD 1m)	HKD 1m (USD 0.15m)
	1997		HKD 40m (USD 4.5m)		HKD 1m (USD 0.15m)	HKD 7m (USD 1m)
	Other					
	1995		HKD 3m (USD 0.4m)		HKD 0	
	1996		HKD 17m (USD 2m)		HKD 6m(USD 0.8m)	
	1997		HKD 65m (USD 8m)		HKD 2m (USD 0.25m)	
	Both					
	1998		USD 27.9m		USD3.2m	USD 0.18m
	1999		USD 5.4m		USD 0.44m	USD 0.43m

Country	Years	Freezing / seizing orders		Confiscation / forfeiture orders		Value of Property Recovered
		No.	Value	No.	Value	
Ireland	CJA[26]					
	1995		IEP 9,000 (USD 11,000)		0	
	1996		IEP 0.1m (USD 0.12m)		IEP 9,000 (USD 11,000)	
	1997		IEP 1m (USD 1.2m)		0	
	POC[27]					
	1996	5	IEP 2.1m (USD 2.6m)			
	1997	9	IEP 1.5m (USD 1.8m)			
	1998	6	IEP 1.1m (1.3m)			
Italy	1990	8,764	ITL 4,500 bn (USD 2.9 bn)	33	ITL 37.1m (USD 19,000)	ITL 37.1m (USD 19,000)
	1991		(1990-1994)	105	ITL 56.2m (USD 28,000)	ITL 56.2m (USD 28,000)
	1992			144	ITL 32.9m (USD 16,000)	ITL 32.9m (USD 16,000)
	1993		ITL 588 bn (USD 290m)	401	ITL 106 bn (USD 53m)	ITL 110.9m (USD 55,000)
	1994		ITL 1,573 bn (USD 780m)	137	ITL 45 bn (USD 22m))	ITL 112.2m (USD 56,000)
	1995		ITL 3,893 bn (USD 1,95bn)		ITL 178 bn (USD 89m)	
	1996		ITL 1,887 bn (USD 950m)		ITL 721 bn (USD 360m)	
Japan[28]	1992			47	JPY 5.2m (USD 47,700)	
	1993	1	JPY 6m (USD 55,000)	351	JPY 44.7m (USD 0.41m)	
	1994			353	JPY 36.5m (USD 0.34m)	
	1994-1998 (drugs)		JPY 45.4m (USD 0.42m)			
	1994-1998 (other)			1,186	JPY 244m (USD 2m)	

[26] CJA - Criminal Justice Act 1994, POC - Proceeds of Crime Act 1996

[27] Interlocutory orders last for seven years, unless challenged, at which time the property is available for the court to make a final confiscation order.

[28] Japan - Statistics for drug freezing/seizing orders reflects freezing orders under the 1992 Anti-Drug law. Statistics for confiscation are for all drug cases under any law. Statistics for other confiscation orders show the statistics for orders of collection of equivalent value (value confiscation orders for all crimes).

Country	Years	Freezing / seizing orders		Confiscation / forfeiture orders		Value of Property Recovered
		No.	Value	No.	Value	
Luxembourg	1991	na	LUF 78m (USD 2.5m)	na	na	
	1992	na	LUF 0.21m (USD 6,500)	na	na	
	1993	na	LUF 0.17m (USD 5300)	9	LUF 1.45m (USD 46,800)	LUF 1.45m (USD 46,000)
	1994	na	LUF 88m (USD 2.8m)	16	LUF 0.74m (USD 24,000)	LUF 0.74m (USD 24,000)
	1995	na	LUF 2.5m (USD 80,000)	23	LUF 0.75m (USD 24,100)	LUF 0.75m (USD 24,000)
	1996		LUF 358m (USD 11.4m)			
	1997				LUF 2,154m (USD 59m)	
Netherlands	1993	na	--	29	NLG 8.8m (USD 5.2m)	NLG 83,000 (USD 49,000)
	1994	na	NLG 54m (USD 31m)	225	NLG 25.5m (USD 15m)	NLG 6.4m (USD 3.7m)
	1995	1,115	NLG 117m (USD 69m)	969	NLG 22.7m (USD 13.4m)	NLG 6.2m (USD 3.6m)
	1996	1,575	NLG 120m (USD 70m)	1,099	NLG 40m (USD 24m)	NLG 5.4m (USD 3.1m)
Aruba	1996-1998		USD 500,000			
Netherlands Antilles	1991-1998				USD 10m	
New Zealand	1992-1996	69	NZD 6.3m (USD 4.3m)	27	NZD 1.7M (USD 1.2m)	NZD 1.7m (USD 1.2m)
	1994-1998	67	NZD 10.6m (USD 5.5m)	25	NZD 3m (USD 1.6m)	
	1998		USD 1.2m		USD 0.43m	
	1999		USD 2m		USD 0.14m	
Norway	1991-1995	na	na	3,160	NOK 153m (USD 25m)	na
	1996			771	NOK 38.5m(USD 4.3m)	
	1997			734	NOK 63.2m[29](USD 7m)	
	1998			676	NOK 43.2m(USD 4.8m)	
	1999			724	NOK 34.2m(USD 3.8m)	
Portugal	1995		PTE 9m (USD 50,000)			
	1996		PTE 1,900m (USD 10m)		PTE 2.5m (USD 14,000)	
	1997		PTE 120m (USD 0.65m)		PTE 9m (USD 50,000)	
	1998					

[29] Norway – Includes one 1997 confiscation order of NOK 27 million.

Country	Years	Freezing / seizing orders		Confiscation / forfeiture orders		Value of Property Recovered
		No.	Value	No.	Value	
Singapore	1993		SGD 0.15m (USD 90,000)	1	SGD 0.15m (USD 90,000)	na
	1994		SGD 2.1m (USD 1.2m)	6	SGD 356,000 (USD 0.22m)	
	1995		SGD 29.5m (USD 17.8m)	5	SGD 5.66m (USD 3.4m)	
	1996		SGD 0.67m (USD 0.4m)	3	SGD 183,000 (USD 0.11m)	
	1997		SGD 0.8m (USD 0.48m)	7	SGD 575,000 (USD 0.35m)	
	1998		SGD 0.41m (USD 0.25m)	4	SGD 70,000 (USD 42,000)	
Spain			ESP 23.1bn (USD 161m)			
Switzerland (2 cantons)	1993-1996		USD 200m		CHP 58m (USD 40m)	
Turkey (FIU only)	1998	4	USD 15.6m			
	1999		USD 48.9m		USD 9.5m	
United Kingdom[30]	Drugs					
	1990	na	na	871	GBP 10.1m (USD 15.2m)	GBP 1.5m (USD 2.3m)
	1991			1,005	GBP 5.5m (USD 8.3m)	GBP 5.4m (USD 8.1m)
	1992			1,002	GBP 11.9m (USD 19 m)	GBP 5.2m (USD 7.8m)
	1993			983	GBP 11.9m (USD 19 m)	GBP 5.4m (USD 8.1m)
	1994			1,248	GBP 8.4m (USD13.4 m)	GBP 5.1m (USD 7.6m)
	1995			1,562	GBP 31.7m (USD 50.7 m)	GBP 5.3m (USD 8m)
	1996	286[31]		1,557	GBP 13.1m (USD 21m)	GBP 7.4m (USD 11.8m)
	1997	252[6]		1,466	GBP 15m (USD 24m)	GBP 9.5m (USD15.2m)
	1998	247[6]		1,243	GBP 22.3m (USD 35.7m	GBP 10.5m (USD16.8m)
United Kingdom	Other					
	1991	Na	na	10	GBP .36m (USD 0.55m)	GBP 51,000 (USD 75,000)
	1992			19	GBP 1.4m (USD 2.1m)	GBP 0.48m (USD 0.72m)
	1993			13	GBP .4m (USD 0.62m)	GBP 0.27m (USD 0.4m)
	1994			21	GBP 3m (USD 4.5m)	GBP 1.3m (USD 1.9m)
	1995			50	GBP 3.7m (USD 5.6m)	GBP 1m (USD 1.6m)
	1996			159	GBP 6.1m (USD9.8m)	GBP 1.3m (USD2.1m)
	1997			151	GBP 17.2m (USD 27.5m)	GBP 3.5m (USD5.6m)
	1998			136	GBP 12.7m (USD 20.3m)	GBP 6m (USD9.6m)

[30] United Kingdom – Confiscation amounts are based on confiscation orders made from 1st April of that year, until 31 March the following year

[31] United Kingdom – Total number of restraint orders for both drug and non-drug cases.

Country	Years	Freezing / seizing orders		Confiscation / forfeiture orders		Value of Property Recovered
		No.	Value	No.	Value	
United States	1991	na	na	na	USD 644m	
	1992		na		USD 532m	
	1993		USD 1,954m		USD 724m	
	1994		USD 1,619m		USD 734m	
	1995		USD 1,619m		USD 734m	
	1995		USD 2,197m		USD 712m	
	1996		USD 1,849m		USD 759m	

Annex 2 Number of Suspicious Transaction Reports made in FATF members 1992-1999

Member	Type of Reporting Institution	1992	1993	1994	1995	1996	1997	1998	1999
Australia	**Total**	**4,594**	**4,443**	**3,536**	**4,014**	**5,192**	**5,772**	**6,877**	**6,486**
Austria	Banks			345	308	300			
	Insurance			1	1	1			
	Other				1				
	Total			**346**	**310**	**301**	**299**	**254**	**208**
Belgium	Banks			374	926	1,109	2,156	1,583	1,397
	Securities			301	647	983	1,030	587	335
	Insurance			4	7	6	8	13	23
	Bur. de change			248	1,482	2,243	3,825	6,482	6,009
	Professions[32]							3	12
	Casinos								115
	Other			19	51	145	125	102	139
	Total			**946**	**3,113**	**4,486**	**7,144**	**8,770**	**8,030**
Canada	**Total**			**278**	**197**	**300**	**172**		
Denmark	Banks					218	203	172	157
	Bur. de change					33	94	187	177
	Casinos					3	12	10	3
	Total			**200**	**174**	**254**	**309**	**369**	**337**
Finland	Banks							97	146
	Securities								10
	Insurance								8
	Bur. de change							28	98
	Other							26	9
	Total			**341**	**273**	**240**	**149**	**151**	**271**
France	Banks								1,367
	Bur. de change								238
	Other								35
	Total	**388**	**648**	**684**	**864**	**900**	**1,202**	**1,229**	**1,640**
Germany	Banks			2,380	2,647	2,915			3,054
	Insurance			35	43	54			80
	Bur. de change			23		1			
	Casinos			7	7	2			
	Other			272	62	47			409
	Total			2,726	2,759	3,019	3,137	3,134	3,543
Greece	Banks								735
	NBFIs[33]								97

[32] This category includes accountants, lawyers and notaries.
[33] NBFIs is the total of all Non-Bank Financial Institutions.

Member	Type of Reporting Institution	1992	1993	1994	1995	1996	1997	1998	1999
Greece *(cont'd)*	Other								23
	Total						**78**		**855**
Hong Kong, China	Banks			547	1,779	4,110	4,197	5,531	5,757
	NBFIs			2	8	26	23	37	44
	Other			11	1	5	7	9	3
	Total			**550**	**1,798**	**4,141**	**4,227**	**5,577**	**5,804**
Iceland	Banks			2	9	2	11	12	75
	Other								1
	Total			**2**	**9**	**2**	**11**	**12**	**76**
Ireland	Banks				198	360	495		
	Other				1	18	10		
	Total				**199**	**378**	**505**	**1,202**	**1,421**
Italy	Banks								7,187
	NBFIs								277
	Other								
	Total	**99**	**234**	**838**	**1,937**	**3,075**	**3,600**		**7,464**
Japan	Banks						9	13	1,059
	Total	**12**	**17**	**6**	**4**	**5**	**9**	**13**	**1,059**
Luxembourg	Banks		44	62	69	74	65	80	51
	Insurance			1	1	1	7	28	4
	Professions[34]								1
	Other		2	5	6	3	6	6	4
	Total		**46**	**68**	**76**	**78**	**78**	**114**	**60**
Netherlands[35]	Banks			10937 (2968)	9317 (2126)	8331 (1688)	7520 (923)	7013 (682)	
	Securities						61	31 (1)	
	Insurance			3		3(1)	1 (1)	1 (0)	
	Bur. de change			3782 (571)	4498 (716)	5636 (774)	7876 (1271)	11193 (1098)	
	Professions[36]					4 (1)			
	Casinos				802 (141)	1390 (101)	828 (86)	571 (72)	
	Other			25 (2)	380 (10)	664 (9)		494 (2)	
	Total			14,756 (3,898)	15,085 (3,574)	16,584 (3,456)	16,974 (2,286)	24,463 (3,995)	45,079 (1,083)

[34] See footnote 32.

[35] The Netherlands, the Netherlands Antilles and Aruba have systems whereby financial institutions report unusual transactions. These are analysed by the financial intelligence unit and only transactions that the FIU deems suspicious are passed on to law enforcement. The first figure represents the number of unusual reports, and the second figure is the number of reports passed on as suspicious.

[36] See footnote 32.

Member	Type of Reporting Institution	1992	1993	1994	1995	1996	1997	1998	1999
NL Antilles	Banks								
	Total							3,019 (127)	3,858 (1,301)
NL Aruba	Banks								2078
	Total					2,388 (1)	2,915 (7)	3,500 (110)	2078
New Zealand	Banks					1,072		934	1,031
	Total					**1,154**		**934**	**1,031**
Norway	Banks			157	249	160	719	836	780
	Securities						1		2
	Insurance			2	2	2	6	3	6
	Other			1	2	2	1		
	Total			**160**	**253**	**164**	**727**	**839**	**788**
Portugal	Banks						63		166
	Insurance			0	0	0	0		
	Total			**17**	**85**	**115**	**129**		**166**
Singapore	Banks			22	13	14	21	7	37
	NBFIs								122
	Other								13
	Total			**32**	**36**	**30**	**36**	**68**	**172**
Spain	Banks				113	604	674	795	897
	Insurance				5	16	18		
	Bur. de change				1	5	11	43	48
	Casinos					1	2		
	Other				155	36	20	17	48
	Total				274	745	866	855	993
Sweden	Banks								357
	NBFIs								1,026
	Other								12
	Total			**429**	**391**	**502**	**909**	**856**	**1,395**
Switzerland	Banks								128
	Securities								1
	Insurance								2
	Professions[37]								3
	Other								26
	Total							**152**	**160**
Turkey	Banks							19	163
	Insurance							1	
	Bur. de change								11

[37] See footnote 32.

Member	Type of Reporting Institution	1992	1993	1994	1995	1996	1997	1998	1999
Turkey *(cont'd)*	Other								
	Total							**20**	**174**
United Kingdom	Banks				11,202	12,416	9,705	8,986	9,065
	Securities								81
	Insurance				631	484	523	608	596
	Bureaux de change				617	1,129	2,462	2,557	3,015
	Accountants lawyers notaries				246	403	311	367	341
	Other				1,014	1,693	1,147	1,611	1,402
	Total	**11,289**	**12,750**	**15,007**	**13,710**	**16,125**	**14,148**	**14,129**	**14,500**
United States	Banks					48,228	78,063	91,721	110,842
	NBFIs					1,558	3,534	5,211	9,664
	Total					**49,786**	**81,597**	**96,932**	**120,506**