



The AML/CFT landscape
and
emerging issues in the next 2-3 years and their
potential impact on your institution

ACAMS Australasian Chapter – AGM 23 November

Lindsay Chan
APG Secretariat

Summary



- The APG
- The AML/CFT landscape
- Emerging Issues





The Asia/Pacific Group (APG)

Asia/Pacific Group on Money Laundering

East Asia and Oceania

APG Region





Membership (40)

Afghanistan

Australia*

Bangladesh

Brunei Darussalam

Cambodia

Canada*

China*(People's
Republic)

Chinese Taipei

Cook Islands

Fiji Islands

Hong Kong, China*

India *

Indonesia

Japan*

Korea, Republic of *

Lao PDR

Macau, China

Malaysia

Maldives

Marshall Islands

Mongolia

Myanmar

Nauru

Nepal

New Zealand*

Niue

Pakistan

Palau

Papua New Guinea

Philippines

Samoa

Singapore*

Solomon Islands

Sri Lanka

Thailand

Timor Leste

Tonga

USA*

Vanuatu

Vietnam

***FATF members**

(10)

Observers



Observer Jurisdictions:

- UK
- France
- Russian Federation
- Federated States of Micronesia
- Bhutan

Observer Organisations:

- 20 international organisations





APG's Role

APG is a technical body with 5 key roles:

1. Assess APG members' compliance with AML/CFT standards
2. Coordinate technical assistance and training with donor agencies and APG members
3. Co-operate with international AML/CFT network
4. Conduct typologies research
5. Contribute to global AML/CFT policy development



APG Region

- Largest FATF Style Regional Body in the world
- 40 member jurisdictions
- Includes:
 - Largest economies in the world (US, Japan, China)
 - Many micro-states (Niue, Nauru, Tonga)
- Diversity of legal systems, cultures, languages and religion
- Political issues throughout region:
 - India, Pakistan – border dispute/nuclear issues
 - China, Chinese Taipei – sovereignty issues
 - Bangladesh, Nepal, Fiji, Solomon Islands, Tonga – civil unrest and instability
 - Afghanistan, Indonesia, Thailand, Philippines, Pakistan, India, Sri Lanka – significant internal terrorist activity



AML/CFT Landscape in the Region

Asia/Pacific Group on Money Laundering



Global Laundering Estimates

Table 4. Summary of Estimates of Global Flows of Illicit Finance

Global Flows	Low (\$US bn)	High (\$US bn)
Drugs	\$120	\$200
Counterfeit goods	\$80	\$120
Counterfeit currency	\$3	\$3
Human trafficking	\$12	\$15
Illegal arms trade	\$6	\$10
Smuggling	\$60	\$100
Racketeering	\$50	\$100
Crime Subtotal	\$331	\$549
Mispricing	\$200	\$250
Abusive transfer pricing	\$300	\$500
Fake transactions	\$200	\$250
Commercial Subtotal	\$700	\$1000
Corruption	\$30	\$50
Grand Total	\$1061	\$1599

(Source: Baker, 2005)



Regional Issues of Concern

- Corruption
- Fraud
- Human trafficking/migrant smuggling
- Illegal logging
- Kidnapping for ransom
- Alternative remittance systems
- Cash couriers/bulk cash smuggling
- Casinos and Gaming
- Trade-based money laundering
- Terrorist financing/charities
- Off-shore tax havens

Weaknesses in Region

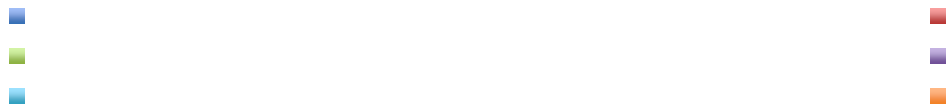
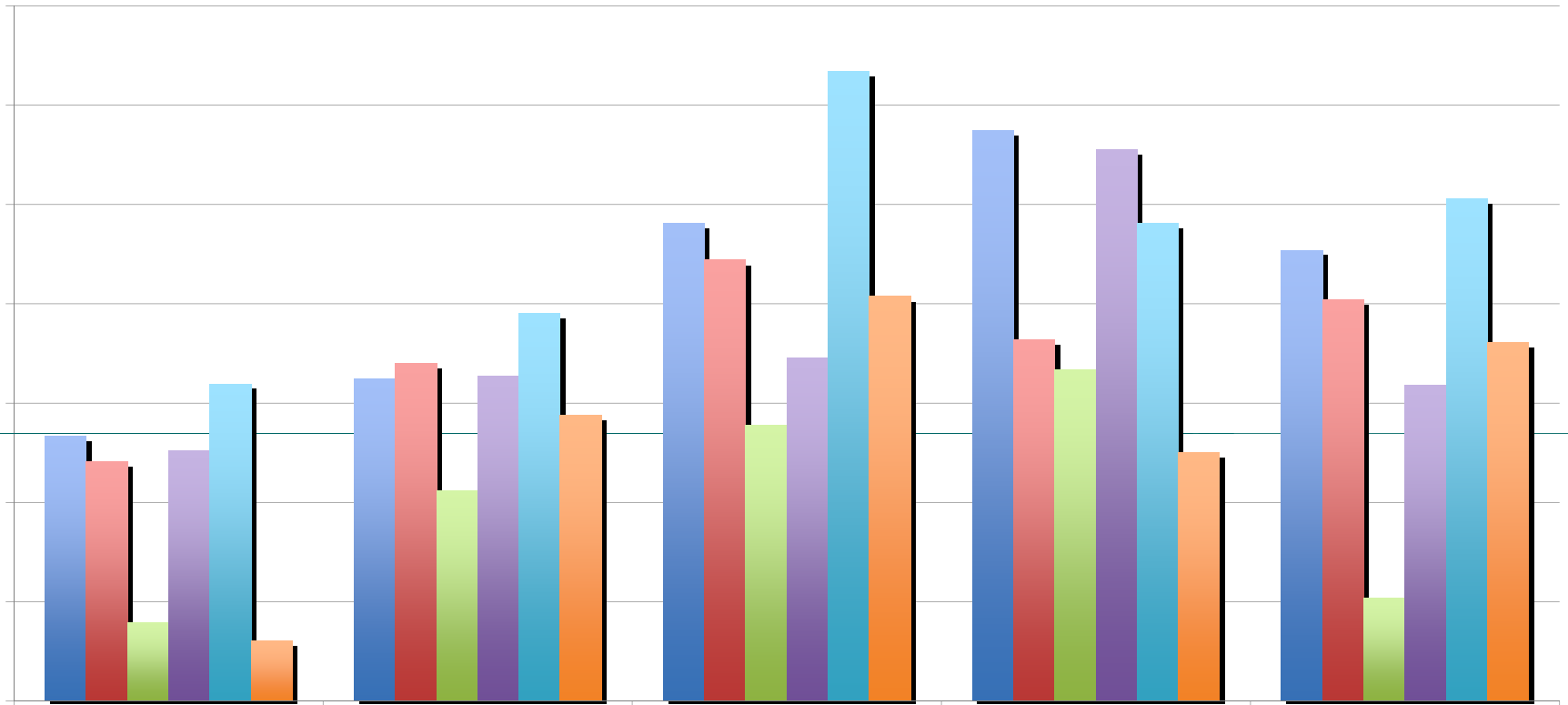


- Gaps in legal framework/rule of law/application
- Supervision of FIs for AML/CFT often deficient
- Lack of awareness of FATF standards across public and private sectors
- Failure to understand ML/TF risks in the country
- Lack of political will to address risks
- Lack of national coordination mechanisms and institutional leadership (poor coordination among agencies)
- Generally weak effectiveness

Weaknesses in Region



- Keeping up with/combating/detecting growing sophistication of ML techniques
- Lack of resources to dedicate to policy and operational implementation
- Extending implementation of AML/CFT standards to non-financial sector



Rating: Compliant=100% Largely Compliant=66% Partially Compliant=33% Non Compliant =0 %

Asia/Pacific Group on Money Laundering

ICRG



FATF International Cooperation Review Group (ICRG)

- Efforts to enhance AML/CFT compliance of weaker jurisdictions
- 10 or more PC/NC out of 16 core/key FATF Recommendations
- FATF process identifies jurisdictions which represent systematic risks
- There will be increasing pressure

APG Enhanced Follow-up



- The APG Mutual Evaluations Procedures for 2010-11 adopted at the 2010 Annual Meeting.
- New measures with enhanced requirements and sanctions
- Three modes of follow-up:
 - Biennial update (or “reduced follow-up”);
 - Regular follow-up; and
 - Enhanced follow-up, including expedited reporting.



Review of the FATF Standards – Potential Implications in 2-3 Years for You!

Review of Standards



- FATF review of 40+9 Recommendations
- Balance between maintaining stability and need to address new or emerging threats, or obvious deficiencies
- Increased focus on effectiveness – greater focus on risks and vulnerabilities
- New standards to be adopted in late 2011

Review of Standards



- End of FATF's 3rd Round and APG's 2nd round – mutual evaluations
- Direct impact on the APG's next round of evaluation after 2012
- Public consultation – Comments to FATF Secretariat: Friday 7 January 2011
 - fatf.consultation@fatfgafi.org

Review of Standards



Core and Key FATF Recommendations

- **R.1:** tax crimes to be added as ML predicate offence
- **R.5:** clarification of application of risk-based approach (RBA); clarification of beneficial ownership requirements for natural and legal persons; beneficiaries of life insurance policies
- **R.35 - 40:** ratification of UNCAC to be added; strengthen MLA and extradition provisions for ML and TF situations; enhance international co-operation provisions

Review of Standards



Other FATF Recommendations

- **R.6:** inclusion of domestic PEPs
- **R.8:** focus on innovation only
- **R.9, 15:** clarify and extend third-party reliance
- **R.20:** add “other types of financial activities”
- **Recs 23:** RBA in supervision
- **R. 27, 28:** strengthening of enforcement and prosecution provisions
- **R.33, 34:** draft new explanatory note
- **SR.VII:** further enhance wire transfer transparency



Proposed changes – risk assessment

Mandatory obligations for jurisdictions

- ML/TF risk assessment
- AML/CFT regime addresses identified higher ML/TF risks and ensures that FIs/DNFBPs apply enhanced measures in relation to these risks
- Supervision/monitoring of RBA implementation by FIs/DNFBPs, in particular their ML/TF risk assessments



Proposed changes – risk assessment

Mandatory obligations for FIs/DNFBPs

- ML/TF risk assessment (for customers, countries or geographic areas, products/services/transactions/delivery channels)
- Risk mitigation (policies, controls and procedures to manage and mitigate identified risks, consistent with national requirements and approved by senior management)
- Enhanced measures to manage and mitigate higher ML/TF risk

Proposed changes – ML/TF risk associated with innovation



- Require both countries and financial institutions to identify and assess the ML/TF risks with new products and new business practices
- Take appropriate measures to manage and mitigate those risks



Proposed changes – tax crimes and STRs

- Include tax crime as predicate offence for ML
- STRs on transactions related to the laundering of proceeds of tax crimes

Proposed changes – CDD and beneficial ownership requirements



- Mandatory verification that a person is authorised to act on behalf of a customer, regardless of whether that customer is a natural person or legal person or arrangement
- Clarification of the requirement that information on the “mind and management” of a customer that is a legal person or arrangement has to be obtained
- Greater emphasis on the obligation to understand the ownership and control structure of legal persons and arrangements

Proposed changes – beneficiaries of life insurance policies



- Introduce life insurance beneficiaries as a stand-alone concept - distinguish from “customer” and “beneficial owner”
- Require financial institutions to identify the beneficial owners of beneficiaries
- Require financial institutions, to have risk management systems in place to determine whether a beneficiary is a PEP, and if so, to conduct appropriate CDD measures



Proposed changes – PEPs

- G20 request
- UNCAC (Merida Convention)
- Take reasonable measures to identify domestic PEPs
- Enhanced CDD of domestic PEPs if higher risk
- Focus more on PEP as beneficial owner of account or business relationship (established by family members or close associates)

Proposed changes – third party reliance



- Discretion to jurisdictions regarding the type of third party reliance (*as long as the third party is subject to AML/CFT requirements and effective supervision/monitoring*).
- Delineate outsourcing, agency and third-party reliance
- Allow a more flexible approach where a FI is part of “a financial group” e.g. located offshore in country with poor AML/CFT implementation

Proposed changes – transparency in cross-border wire transfers



- Incorporate beneficiary information into the international AML/CFT standard governing cross-border wire transfers.
- Incorporate an obligation to screen all wire transfers in order to comply with the UNSCRs to combat TF.
- Comments on the practical feasibility of above proposals



Questions?

Asia/Pacific Group on Money Laundering