International Monetary Fund

IMF Executive Board Reviews the Quality and Consistency of Assessment Reports for Anti-Money Laundering and Combating the Financing of Terrorism and the Effectiveness of Coordination

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On May 10, 2006, the Executive Board of the International Monetary Fund (IMF) discussed the staff paper Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT): Review of the Quality and Consistency of Assessment Reports and the Effectiveness of Coordination jointly prepared by the IMF and the World Bank. The Executive Board reiterated the importance of AML/CFT to strengthening the integrity of financial systems and deterring financial abuse, and confirmed the collaborative arrangements presently in place with the Financial Action Task Force (FATF) and FATF-style Regional bodies (FSRBs) for assessing AML/CFT regimes in the context of the IMF's financial sector work. The Board also endorsed the efforts underway to strengthen the quality and consistency of assessments prepared by all assessor bodies, and adopted measures for enhancing cooperation with the FATF and the FSRBs.

As part of the review, the Executive Board examined the findings of an expert panel which analyzed a sample of AML/CFT assessments reports prepared by different assessor bodies (namely, the IMF, the World bank, the FATF and a number of the FSRBs). The panel found a high degree of variability in the quality and consistency of the various reports among assessor groups as well as within particular assessor bodies. The Executive Board noted that a number of initiatives had been taken or are underway to improve the quality and consistency of assessments by all assessor bodies, including the standardization of documentation, the strengthening of peer/internal reviews, and the intensification of assessor training. The Executive Board called on IMF staff to provide technical assistance to, and cooperate more closely with, the FSRBs with a view to improving their capacity to produce quality assessments.

The Executive Board also agreed that every assessment or update under the Financial Sector Assessment Program (FSAP) or Offshore Financial Center (OFC) should include a full AML/CFT assessment using the most recent methodology. Full AML/CFT assessments should be conducted approximately every five years. The Executive Board also agreed on measures to facilitate coordination of assessments with the other assessor bodies, and reaffirmed the current policy on burden sharing of assessment work and of conducting assessments across the full range of IMF membership, including FATF and FSRB members.

Background

In July and August 2002 respectively, the IMF and the World Bank Executive Boards endorsed a 12-month pilot program of AML/CFT assessments using two approaches to assessments: (1) assessments led by IMF and World Bank staff; and (2) assessments conducted by the FATF and FSRBs. The Boards agreed that assessments conducted by the FATF and FSRBs would result in Reports on the Observance of Standards and Codes (ROSCs) subject to a pro forma review by IMF and World Bank staff.

As AML/CFT ROSCs are the only ROSCs that are prepared by bodies other than the IMF and the World Bank, Executive Directors requested a comprehensive review at the end of the pilot program that would inter alia focus on the quality and consistency of assessments and ROSCs within and among the FATF and FSRBs as well as on the effectiveness of coordination among assessor bodies. In the March 2004 report on the review of the pilot program, Twelve-Month Pilot Program of Anti-Money Laundering and Combating the Financing of Terrorism

Assessments—Joint Report on the Review of the Pilot Program, staff noted that not all FSRBs had completed the requisite number of AML/CFT assessments to allow for a meaningful review. As such, the Executive Board of the IMF agreed with the staff proposal that the arrangements under the pilot program should continue pending completion of a substantive review of the quality and consistency of FATF and FSRB assessments and ROSCs in 18-months time (see Public Information Notice No. 04/33).

The independent panel of experts referred to above evaluated the quality and consistency of AML/CFT assessment reports prepared by the FATF and FSRBs, as well as the IMF and the World Bank, under the pilot program of assessments and proposed a way forward to address any identified issues. They also assessed the effectiveness of coordination with the FATF and FSRBs, as well as the integration of AML/CFT assessments in the FSAP and OFC programs. Their report was discussed by the Executive Board as part of the present review.

The review found: (1) a high degree of variability in the quality and consistency of reports prepared by the different assessor bodies as well as within particular assessor bodies; and (2) while a large majority of reports were of high or medium quality with respect to key components of the assessments, the treatment of ratings gave rise to a number of issues. In addition, experience in coordination with the FATF and FSRBs and the integration of AML/CFT assessments in the FSAP and OFC programs gave rise to two issues concerning: (1) the difficulties of coordinating FATF and FSRB mutual evaluations with FSAP assessments and updates and OFC assessments; and (2) the inclusion of AML/CFT assessments in all FSAP and OFC assessments in the light of Executive Board discussions on streamlining of FSAP and OFC assessments and on updates of these assessments.

Executive Board Assessment

Executive Directors reiterated the importance of anti-money laundering and combating the financing of terrorism (AML/CFT) to strengthening the integrity of financial systems and deterring financial abuse. They welcomed the opportunity to discuss the review of the quality and consistency of assessment reports and the effectiveness of coordination of AML/CFT assessments. Directors noted that the Financial Action Task Force (FATF) standard is unique in that it is the only standard for which the Fund accepts assessments prepared by assessor bodies other than the Fund and the World Bank for the purposes of the Reports on the Observance of Standards and Codes (ROSCs), the Financial Sector Assessment Program (FSAP), and the Offshore Financial Center (OFC) initiative. This review was thus important and timely.

Directors noted the findings of the report of the independent panel that reviewed the quality and consistency of assessment reports and the effectiveness of coordination. They welcomed the clarification that the independent review panel had found the Fund to be one of the two assessor groups that tended to perform consistently above average, while noting that some of the factors affecting the quality and consistency of other groups' reports were found to be relevant to Fund reports as well. Directors were encouraged that staff has already taken steps to strengthen internal quality control to address the remaining issues in Fund reports.

Directors expressed concern over the poorer quality of reports prepared by some other assessor bodies and the variability in quality across reports generally. It was acknowledged that, given the current budgetary environment, the Fund would need to continue to rely on other assessor bodies to prepare AML/CFT assessments. Directors welcomed the initiatives identified in the staff paper to strengthen the quality and consistency of assessments of all assessor bodies. In that context, they encouraged all assessor bodies to strengthen internal review procedures. They also called on staff to continue to provide technical assistance to, and cooperate more closely with, FSRBs with a view to improving their capacity to produce quality assessments. Most Directors agreed that the quality and consistency of assessments should be reviewed again in five years.

Directors noted that the April 2006 IMFC Communiqué called for "continued actions by all countries to develop strong programs on anti-money laundering and combating the financing of terrorism, and continued support for comprehensive assessments of these programs within the context of the Financial Sector Assessment Program." Most Directors agreed that every FSAP and OFC assessment (including updates) should continue to incorporate a full AML/CFT assessment using the most recent methodology, unless one has already been conducted using that methodology. In exceptional cases where a scheduling conflict with another assessor exists and an AML/CFT assessment cannot be completed within 18 months of an FSAP or OFC mission, the AML/CFT assessment can be submitted later as a supplemental document.

Directors agreed that full assessments should be conducted approximately every five years. They agreed that such assessments (including reassessments) should, to the extent possible, be conducted within 18 months before or after the relevant FSAP or OFC assessment mission. Directors acknowledged, however, that there may be circumstances owing to scheduling conflicts with another assessor body in which an AML/CFT assessment will not be completed in time to be included in the FSAP and OFC documentation. In these cases, the schedule of the AML/CFT assessments would normally not be brought forward, and the AML/CFT assessment documentation would be submitted later as supplemental documents, the timing of which would be noted in the FSAP and OFC documentation. In cases of reassessments, the FSAP or OFC documentation would not include an update of AML/CFT developments since the last assessment. However, in circumstances where an FSAP or OFC is scheduled for a member where there has been a significant deterioration of the AML/CFT environment since it was last assessed, it would be expected that Fund staff, the FATF or the relevant FSRB, and the country concerned would seek to reach agreement to either bring forward the AML/CFT reassessment to be conducted by another assessor body, or to have the Fund conduct the assessment itself. In any case, it is expected that the Fund would continue to monitor significant financial sector problems arising from money laundering or terrorism financing activities through other vehicles, such as assessments of other financial sector standards, Article IV consultations, and participation in FATF and regional fora.

To encourage greater synchronization of the schedules for FSAP, FSAP updates, and OFC assessments, on the one hand, and AML/CFT assessments, on the other hand, Fund staff, the FATF, FSRBs, and the country authorities in question should engage at an earlier stage in the planning process.

Directors reaffirmed the current policy on burden sharing of assessment work and encouraged staff to continue to conduct 6-7 assessments per year across the full range of Fund membership, including FATF and FSRB members. It is understood that the burden sharing framework should continue to ensure that all FSAP and OFC assessments would incorporate timely AML/CFT assessments and reassessments.

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