
**Speech by the FATF President
to The Association of Banks in Singapore (ABS)
Singapore, 16 March 2010**

**Global Terrorist Threats
And Challenges for Financial Institutions**

1. Introduction

Ladies and gentlemen, good morning. I thank you for inviting me to speak to you today. It is a great pleasure for me to address the Association of Banks in Singapore on the subject of global terrorist threats and the challenges to financial institutions.

For those of you who may not be entirely familiar with the Financial Action Task Force, I would like to first provide you with a short introduction to the FATF, our mandate, and the tools we use to fulfil that mandate. I will then provide you with an overview of the state of the global terrorist financing threat as FATF sees it, as well as new and emerging threats and concerns. I will also touch on how the FATF sees the role of financial institutions in helping to counter those threats.

2. The FATF

Mandate

The FATF is an intergovernmental policy-making body, comprised of 35 member jurisdictions (including Singapore) and acting on the basis of a mandate set by member jurisdictions at the ministerial level. Created in 1989 by the G7 Summit in Paris, the FATF's original mandate was focused on developing and promoting policies and measures at the international level to combat money laundering. However, in response to the events of 9-11, the FATF's mandate was extended in 2001 to include countering the financing of terrorism. Most recently, in April 2008, the FATF's mandate was widened once again to include other emerging threats, particularly proliferation financing (meaning the financing of the proliferation of weapons of mass destruction).

The FATF Tool Kit

As a policy making body, the primary objective of the FATF is to generate, with the largest possible group of participants, the political will that is necessary to bring about national, legislative and regulatory reforms to combat money laundering and terrorist financing. There are four main tools that the FATF uses to bring about this result—setting standards, assessing compliance, applying political pressure on non-cooperative and high risk jurisdictions including countermeasures, and studying typologies.

The FATF has issued internationally recognised standards—the 40+9 Recommendations—that call on countries to take concrete legislative, regulatory and judicial action to prevent money laundering and terrorist financing.

FATF members have committed at the political level to implementing the 40+9 Recommendations, and undergo comprehensive assessments of their compliance with those standards. You may be interested to know that Singapore was last assessed for compliance with the FATF Recommendations in 2007-2008 and received, for the most part, a generally favourable report.

The FATF also applies political pressure on non-cooperative and high risk jurisdictions, including counter measures where appropriate, with a view to persuading such jurisdictions to strengthen their anti-money laundering and counter-terrorist financing measures.

Finally, the FATF conducts typologies work, studying the methods and techniques used by terrorists and other criminals to finance their illicit activities.

Since its creation in 1989, the membership of the FATF has expanded from the original 16 members to 35—with India currently as an observer with the intent to become a full member. The FATF has also supported the creation of eight FATF Style Regional Bodies (FSRBs) that encourage implementation of the FATF Standards in their membership and regions. One of these is the Asia Pacific Group (APG) which is the FSRB in this region and of which Singapore is also a member. Together with the membership of these sister organisations, the FATF community includes over 180 jurisdictions.

3. The state of the global terrorist financing threat

The terrorist organisations of today vary widely, ranging from large, state-like organisations to small, decentralised and self-directed networks. Terrorist organisation may be funded from either legitimate or illegitimate sources and, in that respect, terrorist financing is very different from money laundering which involves only money from illegitimate sources (i.e. the proceeds of crime).

The funding requirements of modern terrorist groups fall into two general areas. The first is the direct operational cost of mounting individual terrorist attacks. This includes the cost of materials necessary to stage an attack (e.g. bomb-making components, maps, surveillance materials), and the cost of day-to-day expenses, training, travel and logistics of individual terrorist operatives. Such direct costs are usually very low relative to the damage that the terrorist attack may cause.

The second main area of funding requirements—and the one which represents the most significant drain on resources—relates to the broader organisational costs of sustaining a terrorist network and promoting its goals over time. This includes the cost of: developing and maintaining a terrorist network or cell; promoting the terrorist organisation's ideology; providing for recruitment, planning and procurement between attacks; or supporting charitable organisations and media operations owned or controlled by the terrorist organisation.

Disrupting a specific terrorist attack through the interdiction of specific transactions is extremely challenging, given that such attacks can be orchestrated at low cost using legitimate funds and often without suspicious financial behaviour. However, the direct costs of a terrorist attack are only a fraction of terrorist organisation's demand for funds. If we can disrupt the financial flows used to cover the broader organisational costs of sustaining a terrorist network, we can significantly limit the reach and capabilities of terrorist organisations.

Terrorist move their funds through the financial system, through the international trade system, or move money physically (e.g. through the use of cash couriers). Jurisdictions without robust anti-money laundering and counter-terrorist financing measures (e.g. customer due diligence, record keeping and suspicious transaction

reporting requirements) are more vulnerable to having their financial sector abused for such purposes.

A final characteristic of the current global terrorist financing situation is that terrorist organisations continue to receive crucial support from safe havens, failed states and state sponsors. Such support may range from weak jurisdictional control, tolerance of terrorist organisations and their activities, or active financial and material support.

Currently, the FATF is undertaking a strategic surveillance initiative and global threat assessment that, when completed in the relative near future, will provide the FATF with a strategic and long-term view of money laundering and terrorist financing threats, assist in the identification of systematic threats, and provoke new thinking about priorities and countermeasures to combat such activity.

4. New and emerging threats and concerns

As a policy maker, the FATF is currently facing a number of threats and concerns that are also related to terrorist financing.

High risk jurisdictions

A key issue is that in February 2010, the FATF publicly identified 28 high risk and uncooperative jurisdictions, that is, jurisdictions that have strategic deficiencies in their AML/CFT regimes. These jurisdictions are considered high risk because they may pose a risk to the international financial system. They are uncooperative if they do not commit to working with the FATF, or refuse to implement the proposals for improvement made by the FATF. It should be noted that 20 of these jurisdictions have already provided a written high-level commitment to address the deficiencies identified and have developed an action plan with the FATF to rectify them. Let me underline that this list of jurisdictions is dynamic: it is expected that several countries will be taken off the list in the near future. On the other hand, a large number of jurisdictions have not yet been reviewed by the FATF. Consequently, the FATF will continue to identify additional jurisdictions, on an ongoing basis, that pose threats to the international financial system and therefore should be included in the list. The FATF, along with the FATF-style regional bodies will continue to work with the publicly identified jurisdictions and will report on the progress made in addressing the identified deficiencies.

Free trade zones

Another interesting new piece of work is the FATF typologies study on the *Money Laundering Vulnerabilities of Free Trade Zones* which was adopted by the FATF in February 2010 and will soon become available on the FATF public website. As separate customs territories, free trade zones are distinct locations that provide both a benefit to business and trade, as well as potential money laundering and terrorist financing vulnerabilities. Initiatives that fast-track services, customs procedures and freight clearance may also serve to lessen the normal barriers to avoid illicit activities. Several real cases described in the report are of particular relevance to the terrorist financing context as they involve the use of free-trade zones (FTZ). There is the example of drugs smuggle through a FTZ in Colombia with a link to Hezbollah in Libanon; there is the example of a Philipino terrorist group evading taxes through alcohol deals in US FTZ; and there is the example of ETA members using shell companies in an FTZ in Costa Rica.

Proliferation financing

Another important and emerging concern is the serious threat posed by proliferation financing. Proliferation may be pursued by states (as in the case of Iran and North Korea) or by non-state actors, including terrorists who are willing to use weapons of mass destruction in acts of terrorism. According to public CIA information, there is evidence that terrorist organisations continue to and are increasing their efforts to achieve chemical, biological, radiological or nuclear capabilities. In such circumstances, terrorist financing that provides financial support to terrorist organisations endeavouring to acquire or use such weapons is, by its nature, also contributing to proliferation. The FATF has produced a typologies report and three guidance papers on this issue to assist countries in their implementation of the relevant United Nations Security Council Resolutions (*e.g.* UNSCRs 1540, 1737 and 1803)—guidance which was subsequently welcomed and endorsed by the United Nations Security Council in follow-up Resolutions. Most recently, again in February 2010, the FATF adopted a *Status Report on Policy Development and Consultation*. That report was prepared by an FATF Project Team on Proliferation Financing, in close consultation with the private sector and export control authorities. It which will be finalised and published on the FATF website before the next FATF Plenary that takes place in June of this year. The report sets out a range of possible policy options for further consideration by the FATF.

Transparency and the global financial crisis

A final issue—while not exactly new or emerging—is particularly relevant in the current international context. Lack of transparency in the financial sector is - and always has been - a factor that facilitates terrorist financing, money laundering and proliferation financing. Additionally, the persistent lack of transparency in some sectors and jurisdictions has been identified as one of the contributing factors to the current global financial crisis, thereby reinforcing the need to ensure that the FATF Standards are used to enforce transparency. G20 leaders were also aware of this issue when they concluded in Pittsburgh that higher priority should be given to transparency and specifically called on the FATF “to help detect and deter the proceeds of corruption by prioritizing work to strengthen standards on customer due diligence, beneficial ownership and transparency”. Indeed, the FATF is co-ordinating efforts to mitigate the effects of the global financial crisis in its field of work, notably by giving a high priority to the issue of enhancing transparency of the global financial system.

5. Role of financial institutions in countering illicit activity

The final topic that I would like to cover is how the FATF sees the role of financial institutions in helping to counter terrorist financing threats and concerns.

One of the key mistakes that policy makers can make is that they create output based on incorrect assumptions. The FATF tries to prevent this by engaging with the private sector on an ongoing basis. The private sector is an important antenna to reality for the FATF, providing input that helps to ensure that the policy responses which are designed to counter terrorist financing and other illicit activity are realistic and may be effectively implemented in the real world. Our aim is to engage with the private sector on an early and continuous basis, discussing topics that are on our agenda as well as on theirs.

The co-operation with the private sector takes many forms, including consultative meetings, shared drafting of guidance papers and the participation of the private sector in specific project groups. In general, our aim is to benefit from the knowledge of the private sector in such a way that we can fulfil our mandate in the best possible manner.

A good example of this has been in relation to the FATF's work on proliferation financing. Engagement with the private sector has been an important component in ensuring that the policy makers understand how trade financing transactions work, including the limitations on the ability of financial institutions to access and process information, depending on what role they are playing in the transaction. Engagement with the private sector will continue as the FATF's work on proliferation financing moves forward.

As the policy maker, the FATF is aware that financial institutions are at the vanguard of the fight against terrorist financing and money laundering, implementing the FATF standards on the ground in their business environment. This is why the FATF will continue to actively engage with the private sector on these issues.

6. Conclusion

In conclusion; the struggle against money laundering and terrorist financing is by its nature a multi-dimensional and truly global endeavour. The FATF is among the biggest and best intergovernmental instruments in that struggle. Its very wide geographical coverage and its variety of sophisticated tools give FATF a unique position in the international fight against financial crimes.

It took 20 years to get where we are now; it takes a lot of effort to maintain and further develop the internationally accepted position we have. For this reason, continued investments in close co-operation and collaboration between all stakeholders, including the private sector, are essential.

Thank you for your attention and for this opportunity to speak to you today.