

**AML/CFT—PROCEDURES GUIDE FOR INCORPORATING AML/CFT
ASSESSMENTS INTO FSAP AND OFC PROGRAMS**

I. INTRODUCTION

1. The Fund and Bank Boards have decided that AML/CFT assessments shall continue to be included in all financial sector assessments under the FSAP and OFC programs.¹ The assessments can be one of two approaches: (i) either Fund/Bank assessments, or (ii) FATF or FATF-Style Regional Body (FSRB) mutual evaluations. Under both approaches, assessors will need to use the revised common methodology endorsed by the Fund/Bank Boards and by the FATF in February/March 2004.²

2. This note describes the operational procedures to implement the guidance of the Fund and Bank Boards for AML/CFT assessments and supplements the existing FSAP procedures guide.³ Section II provides a discussion of the process to be used in determining the assessor organizations; section III discusses the procedures when AML/CFT assessments are carried out by the Fund/Bank; and section IV the procedures when AML/CFT assessments are carried out by the FATF or FSRB. The Annex provides a guidance note to FATF/FSRBs on the timing and preparation of inputs from their mutual evaluations for the FSAP and OFC programs.

**II. DETERMINATION OF WHICH ORGANIZATION WILL CONDUCT THE ASSESSMENT: IMF,
WORLD BANK, FATF, OR FATF-STYLE REGIONAL BODY (FSRB)**

3. The determination of which organization will conduct the assessments will involve discussions with the country authorities, with the units responsible for AML/CFT in the Fund and the Bank, and with the FATF and FSRBs.

- The process will be coordinated by the Fund's MFD/FM division⁴ and the Bank's Financial Market Integrity (FSEFI) division (the AML/CFT Units). These AML/CFT units will need to be informed promptly of country selection for FSAP and OFC assessments including bilateral communications of FSAP/OFC mission chiefs with authorities on the AML/CFT assessments.

¹ See <http://www.imf.org/external/np/sec/pn/2004/pn0433.htm>. For FSAP/OFC update missions, AML/CFT assessments generally would be required if the country has not previously been assessed using the agreed methodology.

² See <http://www.imf.org/external/np/aml/eng/2004/031604.pdf>.

³ See Financial Sector Assessment Program procedures guide, September 1, 2003.

⁴ MFD/FM will consult with IMF's MFD/IN and Legal Department.

- At the initial planning stage, when an FSAP or OFC assessment is discussed with the country authorities, jurisdictions should be informed that an AML/CFT assessment will need to be included in the FSAP/OFC assessment and that it could be conducted either by the Fund/Bank, Fund alone in the case of the OFC program, or an FATF/FSRB (providing the latter use the agreed methodology).
- The AML/CFT units will advise mission chiefs on the current state of discussions on assignment of AML/CFT assessments between the Bank, the Fund, and FATF/FSRBs. The Bank will normally take the lead for AML/CFT assessments in developing countries, and the IMF will take the lead in industrial countries and for offshore financial centers. Once agreement has been reached between the Bank, Fund, and FATF/FSRBs on the assignment of assessments, the AML/CFT units will confirm the arrangements with FSAP mission chiefs.
- The FSAP/OFC mission terms of reference should include background on any AML/CFT issues as needed and how the AML/CFT assessment will be carried out. The discussion of AML/CFT issues in the TOR should be cleared with the AML/CFT units. Similarly, any formal communication with the authorities on the organization of the AML/CFT missions should be discussed and cleared with the AML/CFT unit.

III. AML/CFT ASSESSMENTS BY THE FUND/BANK

4. AML/CFT assessments carried out by the Fund or the Bank are to be an integral part of the FSAP/OFC assessments, and should be treated on the same basis as the assessment of other codes and standards in the FSAP/OFC program, including the preparation and review requirements for the TOR, detailed assessment report and ROSC. The timing of the AML/CFT assessment would be agreed by the FSAP/OFC mission chief with the authorities, in consultation with the AML/CFT unit of the institution in charge of the assessment.
5. It is expected that the Fund and the Bank will staff the AML/CFT missions that are assigned to them using their own staffing resources. For planning purposes, AML/CFT assessments generally will require three to five assessors (depending on complexity).
6. From among the assessors, a team leader will be appointed to coordinate the work of the assessors on the preparation of the AML/CFT documents under the overall guidance of the FSAP/OFC mission chief. The team leader will be selected through consultation among the departments involved in the assessments. The assignments will be covered under the TOR for the FSAP/OFC mission.
7. The AML/CFT team leader will be responsible for the integration and scheduling the timely completion of the AML/CFT assessment and ROSCs under the direction of the FSAP/OFC assessment mission chief. The FSAP/OFC mission chief, in cooperation with the AML/CFT team leader, retains overall responsibilities for the AML/CFT work to ensure timeliness and proper integration of the AML/CFT report elements into the FSAP and OFC reports. Normal FSAP procedures will apply as regards to communications on AML/CFT

assessments with the authorities. Thus, all *formal communications* require the clearance of the FSAP/OFC assessment mission chief.

8. The Fund and Bank shall undertake to obtain country approvals to share Fund and Bank AML/CFT assessment reports, respectively, with appropriate FATF/FSRB bodies. The request by the Bank/Fund that countries allow for the sharing of AML/CFT assessment reports with the appropriate FATF/FSRB should be made early in the assessment process.

IV. AML/CFT ASSESSMENTS BY FATF/FSRBs

9. Where AML/CFT assessments are conducted by the FATF/FSRB, the assessor teams should provide results from their AML/CFT mutual evaluations for the FSAP and OFC programs in accordance with the guidance note on timing and inputs for FATF and FSRB mutual evaluations (see Annex). The mission chief should consult with the AML/CFT units to ensure that the arrangements in place meet the requirements for the FSAP and OFC programs.

10. The FSAP/OFC mission TOR shall make specific reference to the arrangements in place for the conduct of the AML/CFT mutual evaluation. If known, the TORs should indicate the dates of the mutual evaluation mission, when the report is scheduled to be considered by the relevant FATF/FSRB Plenary, and whether the ROSC is expected to be available at the time the FSAP/OFC assessment report is provided to the Executive Board.

11. For FATF/FSRB mutual evaluations, the primary input into the FSAP and OFC process is the preparation of the key findings document. **The key findings document may be prepared either by the FATF/FSRB or the FSAP/OFC assessment team.** If the FSAP/OFC team is to prepare the summary, it would be necessary that they have the MER (draft or final) or AML/CFT ROSC. The length of the key findings document should be between 200 and 800 words depending on the significance of the findings and whether an AML/CFT ROSC will accompany the FSSA/OFC/FSA report. In principle, when there is no ROSC, then more AML/CFT coverage in the main FSSA/OFC/FSA report may be appropriate. The FSAP/OFC mission chief retains ultimate responsibility for the FSSA/OFC/FSA reports and may exercise some editorial discretion over the content and length of the summary information.

12. The key findings document should contain a discussion of the adequacy of (i) legal systems and related institutional measures; (ii) preventive measures for the financial sector; (iii) preventive measures for *designated non-financial businesses and professions* (DNFBPs); and (iv) national and international cooperation. In all cases, the key findings document will need to indicate that the results on AML/CFT were based on a mutual evaluation carried out by the FATF or the FSRB. There should be a footnote to indicate whether a ROSC is available at the time of the preparation of the FSSA/OFC/FSA Report. If a ROSC is not available, there should be an indication of the timing for when a ROSC can be anticipated.

13. In the event that, because of timing considerations or otherwise, the FATF or the FSRB team cannot provide the key findings into the FSAP and OFC program according to

the timing schedule (see Annex), the FSAP/OFC mission teams will need to indicate the status of the FATF/FSRB mutual evaluation in the FSSA/OFC/FSA report to the Bank and Fund Boards. In addition, the FSAP and OFC mission teams in consultation with the AML/CFT Units will need to provide some coverage of AML/CFT issues in the FSSA/OFC/FSA reports. There should be a discussion of (i) the legislative framework for AML/CFT (e.g., whether law/regulation is in place for both anti-money laundering and combating the financing of terrorism); and (ii) the agencies involved in AML/CFT regulation and supervision (e.g., finance ministry, financial supervisors, financial intelligence unit (FIU)). Generally, the FSAP/OFC mission team will be able to obtain summary information from the assessment of BCP15 of Basel Core Principles assessment.

July 23, 2004

AML/CFT—GUIDANCE NOTE TO FATF/FSRBs ON THE TIMING AND PREPARATION OF INPUTS FROM MUTUAL EVALUATIONS FOR THE FSAP AND OFC PROGRAMS

1. This guidance note is for FATF and FSRB evaluators to prepare the AML/CFT inputs that are a component of the IMF and World Bank Financial Sector Assessment Program (FSAP) and the IMF offshore financial center (OFC) program. For the two programs, three AML/CFT inputs are required: (i) the key findings; (ii) the mutual evaluation report (MER); and (iii) the Report on the Observance of Standards and Codes (ROSC).

A. Introduction

2. In March 2004, the IMF and World Bank Boards agreed that an AML/CFT assessment, including a ROSC, shall be included in all financial sector assessments under the FSAP and OFC programs (see <http://www.imf.org/external/np/sec/pn/2004/pn0433.htm>).

3. The IMF and World Bank Boards agreed that either (i) the mutual evaluation prepared by the FATF/FSRBs; or (ii) the detailed assessment prepared by the Bank/Fund could be used for the purposes of the FSAP and OFC programs. The mutual evaluations and detailed assessments would both need to be prepared according to the revised common methodology (see <http://www.imf.org/external/np/aml/eng/2004/031604.pdf>) and include the preparation of a ROSC. The revised methodology should be used for all mutual evaluations beginning in the second half of 2004.

B. Required Inputs

Key findings document

4. The key findings document is required by the FSAP and OFC assessment teams in order to prepare the financial sector assessment reports. The key findings will be integrated into the FSSA/FSA and the OFC Volume I reports that are forwarded to the Fund and Bank Boards. The document may be prepared either by the FATF/FSRB or the FSAP/OFC assessment team. For the FSAP/OFC team to draft the key findings, it would be necessary that they have the AML/CFT ROSC or MER (in draft or final form).

5. The key findings document should be between 400–800 words depending on the significance of the findings. It would contain a discussion on the adequacy of (i) legal systems and related institutional measures; (ii) preventive measures for the financial sector; (iii) preventive measures for *designated non-financial businesses and professions* (DNFBPs); (iv) legal persons and arrangements and non-profit organizations and (v) national and international cooperation. The summary will be used by the FSAP/OFC mission chief in the preparation of the FSSA/OFC/FSA report. The FSAP/OFC mission chief retains ultimate responsibility for the FSSA/OFC/FSA reports, and may exercise some editorial discretion over the drafting of the key findings. In all cases, the draft will indicate that the results on AML/CFT were based on a mutual evaluation carried out by the respective FATF/FSRB.

There should be a footnote to indicate whether a ROSC is available at the time of the preparation of the FSSA/OFC/FSA Report. If a ROSC is not available, there should be an indication of the timing for when a ROSC can be anticipated.

6. Since the key findings would be included in the Board report, a draft would need to be made available to the FSAP/OFC mission chief at least six weeks prior to the date that the report is to be issued to the Fund and Bank Boards.

Mutual Evaluation Report

7. *The Mutual Evaluation Report* (MER) would need to be finalized within 12 months of the start of the first FSAP/OFC mission. If there are two or more FSAP/OFC missions, the MER finalization should be based on the date of the first FSAP/OFC mission. The finalization of the report would be in accordance with the current practices used by the FATF/FSRBs, which normally is that the reports are reviewed during the plenary discussions.

8. For some FSAP/OFC assessments, the FATF/FSRB will have previously carried out a mission to conduct a mutual evaluation. In some instances, the mutual evaluation will already have been finalized. For mutual evaluation missions that occur prior to the first FSAP/OFC mission, and to ensure that the FSAP/OFC team has relatively current information on AML/CFT issues, the mutual evaluation mission should have taken place within 12 months prior to the first FSAP/OFC mission date.

9. In the event that the mutual evaluation mission dates are earlier than 12 months of the first FSAP/OFC mission, the FATF/FSRB may need to revisit its mutual evaluation and either update the results, or conduct a new evaluation.

Report on the Observance of Standards and Codes (ROSC)

10. *A ROSC* needs to be prepared by the FATF/FSRB based on the results of the MER. The ROSC should be prepared using the approved ROSC template by the FATF/FSRB. It should be finalized within two months following the finalization of the MER. Before the ROSC can be finalized, it should be reviewed by the IMF/WB. This review will be pro forma, with IMF/WB staff looking to ensure that conclusions reached from the assessment are accurately reflected in the ROSC. To provide for Bank/Fund review, the final MER and draft ROSC should be forwarded by electronic mail to mfdamlreview@imf.org.