

Combating the financing of terrorism

A report on UK action

October 2002



HM TREASURY



Home Office
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FOREWORD BY THE CHANCELLOR OF THE EXCHEQUER AND THE HOME SECRETARY

Foreword by the Chancellor of the Exchequer, Rt Hon Gordon Brown MP and the Home Secretary, Rt Hon David Blunkett MP

The bombings in Bali have once again shown the world the evils of terrorism. Moving on from the horror of that event we must now redouble our efforts to bear down on terrorism in all its forms wherever and whenever it arises. The UK's long experience in countering terrorism has led us to take wide-ranging measures both to protect our citizens and to deter terrorists from seeking to attack or develop bases here.

The United Kingdom is a leading world participant in efforts to counter the financing of terrorism.

Our response to the funding of terrorist acts must be every bit as clear, as unequivocal and as united as our response to the terrorist acts themselves.

This Report puts on record what the UK, together with our international partners, has so far achieved in cutting-off and disrupting the flow of funds to terrorists and terrorist organisations.

The measures taken by the Government, internationally and domestically, have laid a firm foundation for ensuring that the continuing effort to combat the financing of terrorism is increasingly effective. Clear results are already emerging. Some of the achievements secured in the last year are set out in this Report. Necessarily however, because much of the fight against terrorism is conducted in terms of strictest secrecy, there are constraints on what can be publicly disclosed. But those at the forefront of the effort confirm that the United Kingdom's armoury of measures places us in a leading position to tackle terrorist financing.

The achievements recorded here have not been secured in isolation. They owe much to significant integrated effort between bodies ranging from intelligence to law enforcement and beyond. It is an impressive record of cooperation and close coordination and the Government pays tribute to all those who have contributed to the successes achieved. The Government is particularly grateful for the whole-hearted support of the financial services industry and the understanding of consumers who have all helped to ensure that the UK has arrangements in place that will contain, disrupt and cut off sources of terrorist financing.

The Government is determined to maintain that advantage over all those who seek to threaten the UK, its economy and all its people.



GORDON BROWN
HM Treasury



DAVID BLUNKETT
Home Office

London
October 2002

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CONTENTS

F	Foreword by the Chancellor of the Exchequer, Rt Hon Gordon Brown MP and the Home Secretary, Rt Hon David Blunkett MP	5
E	Executive Summary	9
1	Introduction	11
2	UK Achievements in the Fight Against Terrorist Financing	13
3	Targeting and Disrupting Terrorist Financing: the UK Experience	17
4	International Initiatives, Domestic Implementation	21
5	Enhancing the Effort: Initiatives Taken by the UK	27
6	Taking the Fight Forward	31
7	Conclusion	33

E

EXECUTIVE SUMMARY

The aim of this Report is to provide a comprehensive overview of what the UK, in conjunction with our international partners, has achieved in combating the financing of terrorism.

The Report outlines the key contribution in targeting, disrupting and cutting off sources of terrorist finance made by a wide range of bodies within government and beyond and acknowledges in particular the increased benefits from closer partnership with the financial services sector.

International action

The international armoury of responses to countering terrorist funding has been broadened:

- by the United Nation's development of extended sanctions regimes against terrorism in general and Al Qa'ida in particular,
- by the setting of international standards and the adoption of the Financial Action Task Force's 8 Special Recommendations

and

- by the provision of technical assistance to countries

The UK has acted in concert with international partners to support multilateral initiatives and has fully implemented key anti-terrorist United Nations Security Resolutions (UNSCRs). The UK has joined with other G7 and G8 partners in taking swift action to disrupt and cut off sources of terrorist financing. Since 11 September 2001, over 160 countries and jurisdictions have taken concrete action to freeze terrorist assets and US \$112 million has been frozen worldwide. Since the Bali bombings, the international effort has been redoubled. Australia along with the UK and US have co-sponsored the designation of Jemaah Islamiah to the United Nations. This will have the effect, amongst other measures, of freezing Jemaah Islamiah's assets.

Domestic measures

To complement action at international level, the UK has carried forward and implemented a further range of domestic measures aimed at bearing down on the sources of terrorist finance. These include:

- *The Terrorism Act 2000*
- *The Anti-Terrorism, Crime and Security Act 2001*

and

- Orders in Council implementing *UN Security Council Resolutions 1373 and 1390*

The UK has frozen the assets of over 100 organisations and over 200 individuals. In response to UN Security Resolutions, particularly those targeting Al Qa'ida and the Taliban, both before and after 11 September 2001, the UK froze a total of \$100 million of terrorist assets. Following the liberation of Kabul the bulk has now been unfrozen and made available to the legitimate Government of Afghanistan.

Intelligence-led investigations delivering results

The Report records the extent to which enhanced coordination and multi-agency integration across government working in close partnership with the financial services industry have assisted in the effort to combat terrorist financing. A broadened intelligence base has facilitated closer scrutiny of the means by which terrorists finance their operations and fund their wider networks. The Report describes how, with the policy framework now in place and additional resources made available, these approaches are delivering real results in the fight against terrorist financing.

The Report concludes that whilst much has been achieved, there are no grounds for complacency. The effort needs to be carried forward.

1

INTRODUCTION

- Strangling the flow of terrorists' funds** 1.1 It is increasingly evident that terrorists and their organisations need to raise significant amounts of cash for a wide variety of purposes - for recruitment, training, travel and materiel as well as often making payments for safe haven protection. US authorities estimate that Usama bin Laden paid over US \$100 million to the Taliban during the five years he was in Afghanistan. Tracking, intercepting and strangling the flow of funds is a vital element in the widening global effort against terrorism.
- Enhanced effort** 1.2 Although much remains to be done, successes are being achieved as a result of enhanced intelligence, closer coordination between national, international and multilateral institutions and a range of new domestic legislative, administrative and regulatory measures. The effort has been underpinned by an increasingly closer working partnership with the financial services sector.
- Protecting financial systems** 1.3 It is also becoming clear that, whilst significant, the amount of assets frozen, seized or forfeited around the world is only a narrow measure of success. Often the intelligence into terrorist networks provided by widening knowledge about their financial transactions proves to be notably more important. This information can prove invaluable in protecting and upholding the integrity and well-being of national and international financial systems.
- The price of terrorism** 1.4 However, although the sums raised and required by terrorists may be large, amounts of money needed to finance individual terrorist operations may be small or concealed. Investigations are continuing into the bombings in Bali, but, as with the 11 September 2001 attacks, it is likely they were not expensive to mount. The US authorities have put the cost of the planning and staging of the 9/11 attacks at around \$200,000. UK experience bears out the relatively low costs required for an effective terrorist attack. The Bishopsgate bomb in the City of London in 1993 caused over £1 billion-worth of damage to property yet cost only £3,000 to mount.
- Intelligence led approaches** 1.5 Detecting the transmission of such relatively small sums as they move through the financial system is challenging, especially before the event. But every effort must be made to track such movements and, in the UK, the Government has introduced a range of measures to enable the agencies concerned to do so. The Government has taken these measures because:
- the consequences of allowing the financial system to facilitate the movement of terrorist money are so horrendous that every effort must be made to prevent this happening.
 - tracking terrorist money flows and, where possible, freezing it or disrupting its transfer make it harder for terrorists to operate and thus deter them from seeking to base their operations here in the UK.
 - tracking these flows provides information on links, profiles and movements which help build up an intelligence picture of the way terrorists and terrorist organisations operate.
- Swift and effective action** 1.6 The UK already had in place strong measures to cut-off and disrupt sources of terrorist finance. Even before 11 September 2001, around \$90 million of assets belonging to the

Taliban and Al Qa'ida networks had been frozen. *The Terrorism Act 2000* had given the authorities powers to prevent money from getting to terrorists and to detect and seize terrorist assets. And steps were underway to ensure that financial institutions were aware of their obligations to report transactions suspected of being connected to the financing of terrorism.

**Redoubled
effort** 1.7

The events of 11 September 2001 prompted an immediate reappraisal of the measures being taken to combat terrorist financing both by international bodies and by individual countries, including the UK. The Government has recently issued a report on the UK's contribution over the past year to the campaign against international terrorism (www.cabinet-office.gov.uk/sept11/index). This Report describes what has been done in the fight against terrorist financing. It is a long, difficult and complex endeavour. As the recent bombings in Bali have demonstrated, war against terrorism must continue to be pursued with renewed vigour. Targeting and shutting down sources of terrorist funding is an essential aspect of the campaign to rid the world of terrorism.

2

UK ACHIEVEMENTS IN THE FIGHT AGAINST TERRORIST FINANCING

2.1 The UK has had extensive experience of tracking, disrupting and undermining the finances of terrorist networks and continues to develop further ways in which such targeting and disruption can be increasingly effectively achieved. This section summarises some key achievements including specific cases where results have been secured. Because of their security sensitivity and because investigations are ongoing some of cases have been anonymised.

Support for international initiatives

2.2 The UK has fully implemented key anti-terrorist United Nations Security Council Resolutions (UNSCRs) as follows:

- **UNSCR 1373** of 28 September 2001 (regarding terrorism) is implemented in the UK by the *Terrorism (United Nations Measures) Order 2001*, which came into force on 10 October 2001
- and
- **UNSCR 1390** of 16 January 2002 (regarding Usama bin Laden, Al Qa'ida and the Taliban) is implemented in the UK by the *Al Qa'ida and the Taliban (United Nations Measures) Order 2002*, which came into force on 25 January 2002. This revoked the earlier *Afghanistan (United Nations Sanctions) Order 2001*, which had implemented UNSCRs 1267 (Taliban) and 1333 (bin Laden and the Taliban).

2.3 The UK ratified the **UN Convention for Suppression of Financing of Terrorism** in February 2000

2.4 Under Gordon Brown's Chairmanship, the **International Monetary and Financial Committee (IMFC)** has called upon all IMF Member countries to ratify and implement fully the UN instruments to counter terrorism.

2.5 The UK plays a leading role in the **Financial Action Task Force (FATF)**. In October 2001, the FATF issued **8 Special Recommendations**. All FATF members are committed to implementing the Recommendations; the UK is already largely compliant with the Recommendations and we are strengthening our compliance to implement all the Recommendations in full.

2.6 The UK strongly supports the UN's **Counter Terrorism Committee (CTC)** which has established a directory of available technical assistance. The UK participates actively in this programme and has funded £1 million worth of counter-terrorist training.

2.7 With EU partners, the UK is ensuring that the fight against terrorism is extended across Europe. **EC Regulations** have been introduced which require all EU members to freeze the assets of terrorists and those listed by the UN Sanctions Committee as associated with bin Laden, Al Qa'ida and the Taliban.

2.8 **UK Overseas Territories and Crown Dependencies** are fully committed to act in parallel with the UK in combating terrorist financing; they apply the UN Resolutions and are committed to meeting the FATF 8 Special Recommendations.

Rapid implementation of new domestic legislation

- 2.9 Acting under the *Terrorism (United Nations Measures) Order 2001* and the *Al Qa'ida and Taliban (United Nations Measures) Order 2002*, the UK has frozen the assets of over **100 organisations and over 200 individuals**. A complete and consolidated list of all those whose assets have been frozen is available at the Bank of England website (www.bankofengland.co.uk)
- 2.10 *The Anti-Terrorism, Crime and Security Act 2001* provides:
- Police powers to seize terrorist cash anywhere in the UK
 - Police powers to freeze funds at the outset of any investigation
 - Police powers to monitor accounts which may be used to facilitate terrorism
 - Tougher obligations on people to report suspicions that funds are destined for terrorism

Under the *Terrorism Act 2000*, the UK has brought the first conviction for terrorist finance offences.

Increased resources to combat terrorist financing

- 2.11 Significant additional funding has been provided to the **National Terrorist Financial Investigation Unit (NTFIU)** bringing a **threefold** increase in staff. This has directly resulted in significant seizures of terrorist cash and the identification and disruption of terrorist fundraising activity.
- 2.12 The NTFIU has identified in excess of £500,000 of assets linked to an individual on UN sanctions lists.
- 2.13 A new, multi-agency **Terrorist Finance Unit** was established in November 2001 within the **National Criminal Intelligence Service (NCIS)**. The Unit delivers financial intelligence packages for further investigation. Since its foundation, the number of financial disclosures referred to the Unit has risen to over 3,500.
- 2.14 Terrorist cash has been seized from couriers, including cash believed to be linked to Al Qa'ida. A criminal prosecution against suspected couriers is currently ongoing.
- 2.15 In the last year police have made 20 arrests in connection with terrorist fundraising. 15 of those arrests have resulted in charges of terrorist fundraising, fraud or money laundering being brought.

Enhanced partnership between Government and financial services sector

- 2.16 UK banks and financial institutions have cooperated fully, constructively and with dedication in seeking out sources of terrorist funding. In addition, payment systems make information available to the authorities in the UK and other countries as required by the relevant local legislation. The FSA and agencies across Government have held two seminars providing the financial services sector with up-to-date advice and information on terrorist financing.
- 2.17 As a result of the increasingly close partnership between the financial services sector and

law enforcement, individuals have been identified who fit a recognised pattern of terrorist fundraising. These individuals are currently under active investigation by the NTFIU and intelligence agencies.

New regulatory regimes

- 2.18 The UK has introduced a new domestic regulatory regime in regulating **money service businesses**. This will ensure that money laundering regulations are implemented effectively by bureaux de change and money transmitters.
- 2.19 NCIS has carried out a detailed internal study of ***hawala* banking and alternative remittance systems**.
- 2.20 Treasury and DTI have jointly published a Consultation Document on the **disclosure of beneficial ownership of corporate vehicles**. Such disclosures could help track and trace concealed criminal and terrorist assets.

3

TARGETING AND DISRUPTING TERRORIST FINANCING - THE UK EXPERIENCE

- Disrupt and deter** 3.1 The achievements recorded here would not have been possible without enhanced and coordinated operational arrangements. One of the most significant features contributing to success in combating terrorist financing has been the increased integration between key bodies involved, ranging from government, law enforcement and regulatory bodies. In particular, a considerable and widening intelligence base is available to track means by which terrorist organisations raise and move their funds around. This section outlines the work done by the main bodies and reports on some of their recent achievements.
- Multi-agency coordination** 3.2 In the UK, the bodies at the day-to-day forefront of the fight against terrorist financing are the Security Service, the National Terrorist Financial Investigation Unit (NTFIU) and the Terrorist Finance Unit of the National Criminal Intelligence Service (NCIS). The importance of multi-agency coordination in this field cannot be underestimated. In a recent case, deploying intelligence exploited by the Security Service and the NTFIU, NCIS have been able to profile a significant number of accounts, all of which are believed to be part of fundraising activities related to a specific terrorist group; investigations continue.
- The Security Service** 3.3 The Security Service is the lead agency for combating international terrorism in the United Kingdom and Irish-related terrorism outside of Northern Ireland. It plays a key role in informing Government policy on terrorist finance and in intelligence-led investigations. The Service works closely with NTFIU, NCIS, HM Customs and Excise and UK police forces as well with overseas partners.
- Focused investigation** 3.4 The Security Service has raised the understanding within Government departments and law enforcements of the methodology of terrorist financing, by examining, for example, the use made by terrorist groups of fraud and of cash couriers. This work has enabled law enforcement partners to focus their investigation and thus to disrupt terrorist activity.
- NTFIU** 3.5 The National Terrorist Financial Investigation Unit (NTFIU), based within Special Branch at New Scotland Yard, is the law enforcement agency responsible for the investigation of terrorist finance in Great Britain. It supplies experienced terrorist finance investigators to the Terrorist Finance Team at NCIS. The Unit plays a central role in informing and implementing Government policy on terrorist finance and is an integral part of the UK's intelligence structure targeting terrorist finance.

Effective investigation

A NTFIU investigation into suspected members of Al Qa'ida uncovered a pattern of frauds, including credit card fraud, being used to fund the organisation. This has resulted in two individuals being charged with several terrorist offences, including terrorist financing.

- Increased workload, additional funding** 3.6 The NTFIU has spearheaded the use of the new powers contained within the *Anti-Terrorism, Crime and Security Act* and has taken part in numerous briefings and seminars for law enforcement and the financial services industry. This has directly resulted in a number of seizures of terrorist cash and the identification and disruption of terrorist fundraising activity. The workload of the Unit has increased significantly in recent months and, with additional funding, staffing has been increased nearly fourfold. The exploitation

of this intelligence has already resulted in terrorist fundraising activity being disrupted and other opportunities continue to be developed.

- Delivering results** 3.7 Inevitably a great deal of the work of this Unit is conducted in secret and details of current investigations and prosecutions cannot be disclosed here. But there are clear signs of the Unit's rapidly increasing effectiveness. For example, some £55,000 in cash has been seized from a proscribed terrorist organisation, making a significant impact on that group's ability to operate. The Unit was also able to obtain evidence for the US authorities from British based financial institutions in investigations into the 11 September hijackers. And the police were able to use the terrorist finance offences of the *Terrorism Act 2000* for the first time to convict members of the Real IRA.
- Terrorist Finance Unit (NCIS)** 3.8 In his statement to Parliament on 15 October 2001, the Chancellor of the Exchequer announced the establishment of a new Terrorist Finance Unit within NCIS. This Unit comprises personnel from law enforcement, regulatory and intelligence agencies and complements the existing bodies responsible for combating terrorist financing in the UK. The Unit has two key objectives:
- to examine financial disclosures submitted to NCIS for possible terrorist connections and to combine this data with intelligence from other sources. The combined financial intelligence packages produced are referred for further investigative work by the NTFIU and intelligence agencies. In the past nine months, out of 3500 such disclosures, over 600 have been referred on to NTFIU and others, reflecting the scale of new and focused activity since the Unit's inception.
- and
- to work with law enforcement and intelligence agencies to develop intelligence led methodologies to help inform future work on terrorist financing and where appropriate share with and provide guidance to the financial sector.
- Composite reports** 3.9 Since January 2002, the Unit has produced 3 detailed reports on research into high profile individuals suspected of involvement in terrorist financing activities. These researches have in turn assisted not only in focusing further investigative activity but have also brought more sharply into focus the interface between terrorist finance and organised crime.
- Identifying sources of funding** 3.10 A further aspect of the Unit's work has been the identification of legitimate business organisations which are either wittingly funding terrorist groups or are exposed to, or are being abused by, those seeking to raise funds through racketeering and extortion. Moreover whilst amounts required to mount specific attacks may be small, terrorist organisations, especially those running social and humanitarian programmes are likely to be more costly operations. Terrorism can be financed from legitimately obtained income, including charitable contributions, as well as the proceeds of crime. A recent investigative focus has been on Non-Governmental Organisations and the Unit has referred to NTFIU 15 disclosures involving NGO's which continue to be actively investigated.
- Improved reporting** 3.11 A further significant development has been in the nature of reporting. Financial disclosures are made on the basis of suspicion of criminality and may not necessarily appear to be related to the financing of terrorist activity. A bank was recently prompted to make a financial disclosure on the basis of suspicious activity by a retail outlet; the activity was initially thought to be criminally related, but as a result of intelligence-led work, has

since been determined as being connected to a specific terrorist group.

Response of the UK financial services sector

The industry's essential contribution

3.12 The UK financial services industry has provided a vital contribution to the fight against terrorist finance activity. The extent of assistance offered to law enforcement agencies by the financial industry has been invaluable in the fight against terrorism. Financial institutions have redirected significant resources in response to national and international enquires and law enforcement officers have worked closely and constructively with a wide range of compliance departments.

Multi-agency partnership with the financial services industry

An investigation into suspected terrorist fundraising uncovered a sophisticated bank fraud where one individual had fraudulently obtained over £100,000. A profile of this type of fraud was developed by the police and the Security Service and passed back to the financial services industry, leading to the identification of other suspected frauds linked to terrorist fundraising.

Sharing information

3.13 A key challenge for the industry has been identification of specific terrorist financing and the sharing of sensitive information. NCIS, the FSA and the NTFIU are committed to a programme of improving intelligence that can be made available to firms through briefing sessions with relevant staff and to the provision of assessments of areas of business that may be most at risk of compromise by terrorists. Further information has been provided on a firm-specific basis and through presentations and speeches to industry groups. The FSA, together with a range of participants from Government, held two seminars, in October 2001 and April 2002, providing the industry with up-to-date advice and information on terrorist financing.

Practical advice

3.14 At the seminar held in April, the TFU together with NTFIU offered advice on issues relating to terrorist finance and shared information on real life examples of methods used by terrorists to exploit the financial system. This occasion reinforced the growing partnership between financial firms and the law enforcement agencies. Further seminars to industry are planned. These will be hosted by trade associations and focus on the terrorist financing risks in specific industry sectors.

Charities

3.15 There is evidence that organisations with charitable status have been involved in financing terrorism. One of the FATF Special Recommendations requires countries to take steps to prevent such misuse and the FATF has recently issued a guidance note, *Combating the Abuse of Non-Profit Organisations*, which sets out international best practices in this area.

3.16 The UK is recognised to have one of the best systems for regulating charities in the world. The Charity Commission for England and Wales has extensive powers of regulation, including powers to require production of information, to freeze bank accounts, to suspend or remove trustees, and to investigate and rectify wrong-doing in charities. It is proactive in ensuring that charities are not connected with terrorist organisations, investigating reports of such links and liaising with law enforcement agencies to mount

criminal prosecutions where appropriate. Charities in Scotland are regulated by the Scottish Charities Office and in Northern Ireland by the Police Service of Northern Ireland and the Department for Social Development.

4

INTERNATIONAL INITIATIVES, DOMESTIC IMPLEMENTATION

- 4.1 Many of the measures taken by the multilateral institutions over the last year are part of an overall global strategy to target, disrupt and cut off terrorist financing. They have been pursued by the UK both in concert with our international partners and by ensuring swift domestic implementation.

International action

- G7 response** 4.2 Combating the financing of terrorism requires collective and co-ordinated international action. The international community reacted swiftly in response to the events of 11 September 2001 and pulled together impressively in introducing measures to cut off finance to terrorist organisations. G7 Finance Ministers, together with Russia, made a declaration on 25 September 2001 followed up by a more specific Action Plan in October which called for measures to:

- immediately freeze the assets of terrorists so as to deprive them of their funds and
- rapidly develop and implement international standards to prevent the use of the financial system by terrorists.

- IMFC** 4.3 In November 2001, under the Chairmanship of Chancellor Gordon Brown, the International Monetary and Financial Committee (IMFC) of the Board of Governors of the International Monetary Fund issued a communiqué calling on all member countries to ratify and implement fully the UN instruments to counter terrorism. The Committee requested each member, within its jurisdiction, to:

- “freeze the assets of terrorists and their associates, close their access to the international financial system and consistent with its laws, make public the lists of terrorists whose assets are subject to freezing.”

- Worldwide action** 4.4 Since September 11, over 175 countries and jurisdictions have taken concrete action to freeze terrorist assets and some US \$112 million has been frozen worldwide. Over 200 countries have joined in expressions of support for the fight against terrorist financing.

International cooperation

In the last 12 months, financial investigators in the UK have been working increasingly closely with their counterparts in the United States, Europe and in other countries. Projects on terrorist fundraising undertaken by Europol have enabled accurate assessments to be made on issues such as the alleged use of the stock exchange by Al Qa’ida prior to September 11th.

- Enhanced mutual understanding** 4.5 G7 Finance Ministers have further sought to improve the coordination among G7 countries in stopping the flow of funds to terrorists. Significant progress has been made through the cooperative efforts of finance, foreign affairs, justice, law enforcement and intelligence agencies. G7 countries, and others, are developing closer mutual understanding of legal requirements and administrative procedures in order to enhance the effectiveness of actions against terrorist finance.

- Co-ordinated action** 4.6 One result of these closer efforts, supplementing earlier designations, was the announcement, on 19 April 2002, of a joint G7 list identifying terrorist entities and individuals and freezing their assets in all G7 countries.
- The armoury of international action** 4.7 International action has taken three main forms:
- **Sanctions** to cut-off money flows to individual terrorists and terrorist organisations
 - **Standards** to stop the financing of terrorism;
 - **Technical assistance** to help countries develop the measures and infrastructure necessary to root out the financing of terrorism.

Sanctions

- UN Security Council Resolutions** 4.8 The UN already had mandatory sanctions in place on aimed at stopping the financing of the Taliban (UNSCR 1267) and the Al Qa'ida organisation (UNSCR 1333). In the aftermath of 11 September the Security Council:
- adopted UNSCR 1373 designed, together with a range of other measures, to combat the financing of terrorism generally and
 - established a Counter Terrorism Committee to monitor implementation

- UNSCR 1390** 4.9 Following the defeat of the Taliban regime, the UN Security Council passed a new Resolution (UNSCR 1390) which strengthened the sanctions against remaining elements of the Taliban and Al Qa'ida. UNSCR 1390 also established the Al Qa'ida Monitoring Group charged with monitoring, reporting and making recommendations to be taken against Al Qa'ida, Usama bin Laden and the Taliban.

Action taken with our partners and allies

- Action against Al Qa'ida** 4.10 UN sanctions continue to be effective in disrupting the Taliban, Al Qa'ida and other terrorist networks. Over 175 countries and jurisdictions have taken action to freeze terrorist assets worldwide as the UN listed 293 individuals and organisations whose assets had to be frozen under **UNSCRs 1267, 1333 and 1390**. The UK itself froze over \$100 million of terrorist assets under these Resolutions. Following the liberation of Kabul, the bulk of the assets have been unfrozen and made available to the Government of Afghanistan.
- Action against global terrorism** 4.11 Several countries, including the UK, have taken action under **UNSCR 1373** to freeze the assets of other suspected terrorists or other terrorist organisations. These groups have been identified as a result of international co-operation involving several countries. The UK has worked closely with G7 partners to target terrorist individuals and organisations and carry out joint freezing action.
- Counter Terrorism Committee** 4.12 Over 150 UN members have already reported to the UN Counter Terrorism Committee on the measures that they have taken to implement UNSCR 1373. The CTC is following up with the 15 member countries that have not yet submitted reports. The Committee's review of country reports will help identify areas in which further action is necessary including the provision of technical assistance.

Action taken by the UK

- Asset freezing** 4.13 In the UK, the Treasury implements United Nations financial sanction regimes using their powers under the relevant Order in Council, and those sanctions are enforced by the Bank of England Sanctions Unit. Individuals and organisations who have been listed by the UN Sanctions Committee under UNSCR 1390, or who are suspected of committing or facilitating terrorist acts, are listed on the sanctions page on the Bank of England website (www.bankofengland.co.uk).
- Keeping UK financial institutions informed** 4.14 UK financial institutions are immediately alerted to changes to lists. An indication of how widely this website is now used is demonstrated by the increase in the number of 'hits' over the last year from under 2000 in October 2001 to over 16, 000 a month by September 2002 - that is 58 'hits' day last October up to 537 a day in September.
- Tracking suspicious transactions** 4.15 UK banks and financial institutions are legally obliged to freeze the funds of all those individuals and organisations whose name appears on that list. They must also notify the Bank of England if they know or suspect that a customer has been listed by the UN Sanctions Committee under UNSCR 1390, or is a person who commits or facilitates acts of terrorism. Under current UK legislation, financial institutions are obliged to collect Know Your Customer (KYC) information. This information has proved invaluable in identifying individuals and organisations on the sanctions list. Within the past year UK firms have also used their systems to identify an increasing range of suspicious transactions. In addition, payment systems make information available to the authorities in the UK and other countries as required by the relevant local legislation.
- Partnership between UK Government and the financial services sector** 4.16 The UK Government and financial services sector are jointly determined to make UK arrangements to counter terrorist financing even more effective. The 6 major UK banks issued a Statement of Principles in July reiterating their commitment to these aims. Additionally the financial sector authorities, HM Treasury, the Bank of England and the FSA have worked together to coordinate business continuity planning to ensure that the UK's financial system can respond swiftly and effectively in the event of any terrorist threat; further information is available at www.financialsectorcontinuity.gov.uk.
- Wider acknowledgement** 4.17 In April the Chancellor of the Exchequer, Gordon Brown MP, and the US Secretary of the Treasury, Paul O'Neill, held a joint seminar with representatives of the UK financial community to evaluate experience to date and to acknowledge the significant contribution made to the fight against terrorist finance by the UK financial services sector.

Standards

- The contribution of FATF** 4.18 The Financial Action Task Force (FATF) has played a key role in developing guidance for financial institutions to help them evolve techniques and methodologies for detecting the financing of terrorism.
- The 8 Special Recommendations** 4.19 On 31 October 2001 the FATF adopted **8 Special Recommendations on Terrorist Financing**. These required countries to:
1. Take immediate steps to ratify and implement relevant UN instructions against terrorism, including UNSCRs on sanctions and the UN Convention for the Suppression of Terrorist Financing;
 2. Criminalise the financing of terrorism, terrorist acts and terrorist organisations;

3. Freeze and confiscate terrorist assets;
4. Report suspicious transactions linked to terrorism;
5. Provide the widest range of assistance to other countries, law enforcement and regulatory authorities for terrorist financing investigations;
6. Impose anti-money laundering requirements on alternative remittance systems;
7. Strengthen customer identification measures in international and domestic wire transfers;
8. Ensure that entities, particularly non-profit organisations, cannot be misused to finance terrorism.

Progress towards compliance 4.20 All 29 FATF members and some 90 non-members have already submitted self-assessments of their progress towards meeting these standards. The majority of countries are already compliant with most or all of the Recommendations and, where necessary, have firm plans to be fully compliant in the near future. The FATF has recently issued a consultation paper for its draft interpretative note on implementing Special Recommendation 7 (identifying the originators of wire transfers) and has issued a best practice guidance note for implementing Special Recommendation 8 (the activities of charities and non-profit organisations).

UN Convention on the Suppression of Terrorist Financing 4.21 Progress made over the last year has included the coming into force of the *1999 UN Convention on the Suppression of Terrorist Financing* on 10 April which has been signed or ratified by over 130 countries and with the prospect of further countries supporting this measure.

The UK's position 4.22 The UK is already broadly compliant with the 8 Special Recommendations, having both already ratified and implemented the relevant UN instruments and having legislation in place to combat terrorist financing. The UK is currently considering the best way to strengthen customer identification on wire transfers. We will take steps to strengthen compliance with SR 7 once the FATF interpretative note has been finalised.

Technical assistance

The contribution of the IMF 4.23 The International Monetary Fund (IMF), in close collaboration with the World Bank has played an important role internationally. In particular the IMF is carrying through a year-long pilot programme of Anti-Money laundering/countering terrorist finance (AML/CTF) assessments and accompanying Reports on the Observance of Standards and Codes (ROSCs), involving the participation of the Fund and the World Bank, the FATF and FATF-Style Regional Bodies.

Providing support 4.24 The provision of technical assistance to countries which are committed to defeat terrorist financing and comply with international standards but lack the necessary resources to do so has been identified as an international priority. The IMF and World Bank have intensified their work in these areas. The UK has funded £1 million worth of technical assistance training.

Addressing weaknesses 4.25 Since February 2002, the IMF has included the examination of countries' mechanisms to combat money laundering and financing of terrorism in their assessments. Where weaknesses are identified, the IMF and World Bank are providing technical assistance to address them. Since September 2001, the IMF/ IBRD have completed 6 such technical assistance projects, have made commitments in respect of another 18, and identified 12 further projects.

- IMF / World Bank / FATF collaboration** 4.26 Useful technical assistance is not limited to programmes involving resources. Help with assessments and the provision of guidance is also necessary. The IMF and World Bank have recently agreed, in collaboration with FATF, a comprehensive and unified methodology for assessing the implementation of anti-money laundering and combating the financing of terrorism standards based on FATF Recommendations, and to recognise it as a ROSC.
- Guidance for financial institutions** 4.27 The FATF issued a paper in April 2002 setting out comprehensive guidance, the aim of which is to ensure that financial institutions do not unwittingly hide or move terrorist funds; guidance is available at: www.oecd.org/fatf/TerFinance-en.htm.
- The contribution of the UN Counter-Terrorism Committee** 4.28 The international community has also taken steps to co-ordinate the provision of technical assistance. The UN Counter Terrorism Committee (CTC), chaired in New York by Sir Jeremy Greenstock, has established a directory of available assistance. Regular meetings are held between the CTC and the IMF/ World Bank to co-ordinate the provision of technical assistance.

5

ENHANCING THE EFFORT: INITIATIVES TAKEN BY THE UK

- 5.1 In addition to initiatives at international level, the UK has taken a range of further domestic measures. These have included legislative, administrative and structural developments underpinned by a closer working relationship with the UK financial services sector.

Legislative provisions

The Terrorism Act 2000

- 5.2 The UK already had robust legislation in place to counter the financing of terrorism. The *Terrorism Act 2000* provides the following:

- (a) it is unlawful to **invite** someone to give money or other property with the intention or belief that it will be used for the purposes of terrorism or to invite support for a proscribed organisation;
- (b) it is unlawful to **receive** money in the above circumstances;
- (c) it is unlawful to **provide**, or **process** money or other property knowing or having reasonable grounds to suspect that it will or may be used for the purposes of terrorism;
- (d) an **obligation to report** to the authorities belief or suspicion that a transaction was intended to finance terrorism;
- (e) powers to **seize cash** at the border on suspicion that it was to be used for terrorist purposes or was part of the resources of a proscribed organisation and a power to order **forfeiture of seized cash** on the civil standard of proof of the balance of probabilities;
- (f) Powers to **freeze a country's assets** if that country was acting to the detriment of the UK economy.

In 2001, the Government further strengthened domestic measures to counter terrorist financing.

Anti-Terrorism, Crime and Security Act 2001

- 5.3 *Anti-Terrorism, Crime and Security Act 2001*: this Act (ATCS) enables the authorities:

- (a) to seize terrorist cash (and forfeit that cash on the balance of probabilities) **anywhere in the UK** i.e. inland as well as at the border;
- (b) to **freeze funds** at the start of an investigation, rather than having to wait until a criminal charge was laid;
- (c) to **monitor accounts** which may be used to facilitate terrorism;
- (d) the Act also requires people working in financial institutions to **report** where there are 'reasonable grounds to suspect' (as well as knowledge or suspicion) that funds are destined for terrorism;
- (e) The Act allows the Treasury to **freeze assets** of foreign individuals and groups (as well as whole countries) where there are reasonable grounds to suspect that they pose a threat to the UK economy, or the lives or property of UK nationals.

Effective enforcement

Police have seized in excess of £60,000 using the cash seizure powers under the *Anti-Terrorist Crime and Security Act*, including cash suspected to be Al Qa'ida money. Another cash seizure related to money for a Turkish/Kurdish terrorist organisation; seizure of this cash and the arrest of those in possession of it will have had substantial deterrent effect on related cash courier operations.

Proceeds of Crime Act 2002 5.4 A more recent weapon in the arsenal against terrorist financing is the *Proceeds of Crime Act* which received Royal Assent in July 2002. The Act contains a comprehensive package of measures to disrupt organised crime gangs and deprive criminals of their financial gains.

Assets Recovery Agency 5.5 The Act consolidates and strengthens existing criminal confiscation powers, introduces a new power of civil recovery, extends investigation powers and tightens up existing money laundering legislation. Terrorists may be involved in organised crime generating unlawfully earned wealth or may have committed an offence which brings them within the scope of the powers contained in the Act. If so, law enforcement and the newly formed Assets Recovery Agency will have an extended range of powers at their disposal to investigate the proceeds of crime and to seek their confiscation in criminal proceedings or recovery in civil proceedings.

Enhanced financial investigation 5.6 The Act includes provision for a Centre of Excellence. This will deliver an enhanced programme of training, accreditation and monitoring of financial investigators nationwide. These investigators will be drawn from members of the police, Customs and Excise, NCS, NCIS and other government agencies and they will be trained to exercise the powers provided for in the Act. The Centre of Excellence will raise the profile of financial investigation, increasing the level of knowledge, skills and support in this area. The Centre of Excellence will spread best practice and excellence nationally and internationally.

Coordinating action across Government

New structures: better coordination 5.7 In the aftermath of September 11, a review was undertaken of existing organisational structures within Government for dealing with terrorist financing. As a direct result of this review, the existing regime has been enhanced to allow more focused, multi-agency initiatives to be brought to bear. All departments involved in the fight against terrorist financing are committed to effective multilateral working, enabling effective monitoring of our progress leading to identification of and planning for areas requiring further action.

Whitehall-wide action 5.8 Reporting ultimately to one of the three ministerial committees, chaired by the Home Secretary, a Whitehall-wide range of coordination committees has been set up. In the field of terrorist finance, each of the committees seeks to promote:

- wider common understanding amongst departments based on assessment material and wider circulation
- more effective common action and better coordination at working levels
- enhanced and more efficient information flows
- broader international understanding and action

- Coordinated structure** 5.9 The following Government departments, agencies and others participate in this coordinated structure:
- Bank of England
 - Cabinet Office
 - Charities Commission
 - Ministry of Defence
 - Financial Services Authority
 - Foreign and Commonwealth Office
 - Government Communications Headquarters (GCHQ)
 - Home Office
 - National Terrorist Financial Investigation Unit (Metropolitan Police)
 - National Criminal Intelligence Service
 - Security Services
 - HM Treasury

- Enhanced understanding = better intelligence** 5.10 This emphasis on improved coordination includes a commitment to better information sharing practices which in turn will allow for more effective operational use and enhanced understanding of the methods used to finance terrorist organisations. This intelligence can also be used to advise the financial sector of the methods that terrorist groups may be using, which in turn should provide for more informed reporting from industry when a financial disclosure is made to NCIS.

Regulatory changes

- Money Service Businesses** 5.11 Money Service Businesses (bureaux de change, cheque cashers and money transmission services) were already subject to the subject to the *Money Laundering Regulations 1993*, and were also obliged under the *Terrorism Act 2000* to report transactions suspected to be connected with terrorism. However, their compliance with the Regulations was not supervised and there was growing concern about the diversity of standards.

- New regulations** 5.12 At least some money service businesses were thought not to meet their legal obligations and were vulnerable to being used for terrorist finance transactions. The *Money Laundering Regulations 2001*, require all such businesses to register with Customs and Excise (HMC&E) and grant HMC&E the power to inspect their premises and records to ensure compliance with the law.

- Hawala and alternative remittance systems** 5.13 These provisions apply also to so-called ‘hawala’ arrangements and other alternative remittance systems which carry out funds transfers using informal arrangements. As a recent internal NCIS study indicated, there is nothing illegal about such business, in itself, and some of these businesses provide valuable facilities to communities which do not have easy access to more conventional institutions. However, some hawala bankers are believed to be involved in dubious activities and are vulnerable to use by terrorists and terrorist organisations.

- Misuse of Corporate Vehicles** 5.14 In response to the July 2000 Cabinet Office Report on ‘*Recovering the Proceeds of Crime*’ and the more recent OECD Report on the Misuse of Corporate Vehicles, the Government issued a Consultation Document in July 2002 on the disclosure of beneficial ownership of unlisted companies. There is a view that such disclosures could assist in tracking and tracing criminal and terrorist assets. The Government will await the outcome of the consultation exercise before taking a view on whether further action is appropriate.

6

TAKING THE FIGHT FORWARD

- 6.1** The policy framework is firmly in place and provides a solid foundation for UK intelligence and law enforcement agencies in combating sources of terrorist finance. Some of the key practical achievements have been outlined in the preceding sections.
- More to be done** **6.2** Yet despite these successes it is clear that more needs to be done. The atrocity in Bali points to the continuing capacity of terrorists to finance their operations. As reported by the UN Afghan Monitoring Committee, the Al Qa'ida organisation still exists and is believed to have the capacity to mount further attacks and still has access to funds. The same can be said about other terrorist groups.
- International effort** **6.3** Both in international institutions and within the UK, the necessary legislation and standards to combat terrorist financing have already been largely adopted - and in the UK - fully implemented. The main challenge is now to ensure wider implementation. To be effective this will have to be a co-operative international effort. The UK will need to ensure both that its own domestic actions are effective and that it contributes positively in international fora to help widen international compliance.
- Further measures** **6.4** As the policy framework takes wider effect the following measures should be considered and carried forward with renewed purpose:

Multilaterally

- consolidate and maintain momentum of existing initiatives;
- increase multilateral capacity to share information in detecting terrorist funding before such funds reach terrorist networks;
- broaden international awareness of how terrorist organisations raise money, how money is moved and scale of their funds;
- develop further in-depth intelligence on the nexus between terrorist groups and organised crime in the raising and moving of terrorist funds;
- accelerate the process of identifying individuals and organisations of whom there are 'reasonable grounds to suspect' that they commit or facilitate (e.g. by fund raising) terrorist acts, and of freezing their assets;
- continue to promote broader multilateral mutual understanding of legal and administrative requirements in acting against terrorist financing;
- take steps to ensure that the network of countries taking action to freeze the assets of individuals and organisations under the terms of UNSCR 1373 is widened;
- following its consultation, the FATF should finalise the precise obligations that countries have under Special Recommendation 7 (on identifying the originators of wire transfers) and Special Recommendation 8 (on the activities of charities and non profit organisations);
- FATF should work with other international organisations in prioritising assistance to countries that currently lack mechanisms for tackling terrorist financing;
- IMF/IBRD should be urged to maintain the programme of assessments on compliance with international standards based on the recently agreed methodology with FATE.

Domestically

- continue to maintain programme of ongoing practical advice to UK financial institutions to ensure that their systems are not used to finance terrorism;
- continue to promote compliance with the new money service businesses regulations, including hawala and other alternative remittance banking systems, and ensure that suspicious transaction reports are made to NCIS as appropriate.

7

CONCLUSION

- 7.1** This Report underlines the extent of activity and the measure of success achieved since last September. But, as the horrific events in Bali have shown, there can be no complacency. The Government will continue to be vigilant in combating terrorist financing.
- 7.2** The campaign against terrorist financing is a long-term and complex endeavour that requires commitment and resilience from the international community as well as at home.
- 7.3** Both domestically and at international level the Government remains committed to ensuring that the UK has in place the full armoury of responses to target, disrupt and cut off sources of funding for terrorism.

