

Update on international activity

Financial Action Task Force

The next meeting of the Financial Action Task Force will be 8-10 June. There will be an opportunity to feedback activity from this event at the MLAC meeting on 16 June.

UK is keen that FATF resources focus on implementation of the standards across the globe. This is largely achieved through the third round of mutual evaluations of countries' AML/CTF systems, which is now underway. The UK supports this programme through providing evaluators to FATF and assessment of evaluation reports.

The UK is encouraging FATF engagement with the private sector in order to explore how implementation of the standards can be achieved in a proportionate way and so that assessments of current money laundering and terrorist finance threats are as useful as possible to the affected sectors.

G7

The international framework of standards and procedures has been largely established. The focus of G7 work this year has been to contribute to the effective and proportionate implementation of measures to counter money laundering and terrorist finance. This work has focussed on improving the asset freezing process, enhancing international information sharing, [and exploring new financial tools to disrupt serious crime.

G7 have identified a number of specific measures that they have undertaken, or agreed to undertake, to enhance the asset freezing process and therefore improve our ability to disrupt terrorism. G7 have also agreed to develop this work beyond G7 to other international bodies involved in setting the asset freezing framework.

G7 have agreed to support and develop work that is being done to enhance the effectiveness of information sharing between supervisory authorities for the financial sector and also between Financial Investigation Units.

G7 countries agreed to look at ways of countering criminal activity other than the financial sanctions currently available. The Presidency has outlined some options that are now being given further policy consideration by G7.

Third Money Laundering Directive

We expect Political Agreement to be reached on the Third Money Laundering Directive at the 7th June meeting of financial Ministers. This will be the formal end of the negotiations.

The UK's negotiating objectives for the Third Directive have been to ensure that a risk based approach is enshrined into the customer due diligence requirements and that key new definitions are clear and workable as possible. Further to ensure that the comitology and supervision provisions are proportionate and that implementation time is sufficient.

The Government believes that we have now met these objectives with some important improvements in the text for the UK. For example:

- All customer due diligence requirements are tempered by a risk based approach.
- There is a derogation on when firms need to verify the identify of the customer so as to not interrupt the course of the establishing a business relationship.
- The definition of beneficial owner is more clear and we have inserted a new recital to clarify the position of bonds with regard to the duty to identify the beneficial owner.
- The Directive text on comitology now only allows the Commission to suggest "criteria" (characteristics of high or low risk situations) rather than listing examples of high or low risk products or transactions. This is more in line with the risk based approach in allowing individual firms to judge the risks they face.
- A recital states that any new comitology provisions need to be backed up by cost benefit analysis and consulted upon
- Implementation is now likely to be 24 months rather than the original 12 months proposed by the Commission.

We are now turning to implementation of the Directive. Given that we have two years from adoption to implement this Directive in the UK, this means that we will have to do this by late 2007. This means consulting upon and updating relevant legislation (namely the Money Laundering Regulations and the Proceeds of Crime Act) and supporting guidance.

We believe the main impacts of the Directive on the UK regulated sector to be the following

- The more detailed requirements on know your customer procedures, in particular the detail on enhanced due diligence.
- The requirement for Money Service Businesses to carry out a fit a proper test as part of their licensing or registration scheme
- The requirement for Trust and Company Service Providers to be licensed or registered and subject to fit and proper tests
- The requirement for Trust and Company Service Providers and Estate Agents to be supervised or monitored for their compliance.

The Government will consult fully with all relevant departments and members of the regulated sector as part of implementation.

FCO Overseas Projects

The UK is funding a number of overseas technical assistance projects aimed at improving financial regulation, legislative standards and training in money laundering investigation techniques – in line with FATF recommendations – as well as enhancing international co-operation against AML. Current UK projects include assistance to UAE, China, Pakistan, Colombia, Panama and Turks and Caicos Islands.