

Martín P Redrado: Protecting financial systems from abuse - experiences in implementing anti-money laundering and terrorist financing standards: the case of Argentina

Presentation by Mr Martín P Redrado, Governor of the Central Bank of Argentina, to the IMF/World Bank Annual Meeting, Washington DC, 23 September 2005.

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We live at a time in history, which faces us against new challenges on a daily basis. Against these challenges there can only be collective responses, which are essential for our growth and security.

The international agenda has yet important problems to be addressed: inequalities, injustices the persistence of violence, the lack of understanding among cultures, the need for sustainable economic growth and human development. None of our nations has the means to respond to them by itself. Consequently, cooperation, full disclosure and joint efforts will be our strength.

The list also includes, as a growing concern, fighting new crimes, such as money laundering and terrorist financing. Crimes that have direct consequences on security. The response must meet the requirements of our times: the union of the international community, the respect for the rule of law and the assertion of collective responsibility.

Global crimes require global solutions. In particular, internationalization requires concerted efforts among countries because, as we all know, players located in various parts of the world are involved in organizing and materializing these crimes, with effects that have an influence in all regions.

Consequently, we need a shared vision. In the face of threats that ignore national borders, effective solutions will come only after a collective effort takes place. The demand for respect, justice and security is not only a political imperative but also a condition for peace.

Thus, working for the efficient prevention and punishment of money laundering and terrorist financing constitutes a top priority on our country's agenda at the national, regional and international levels.

The Central Bank of Argentina has put forward a robust policy with the goal of both providing a regulatory framework for the financial system and enhancing supervision to enforce a new set of rules according to international standards. Additionally, we have been collaborating with other government authorities in the policy process aimed at updating current anti-money laundering national legislation.

To prove our commitment to work jointly with the international community, we also have brought forward this issue within the Center for Latin American Monetary Studies (CEMLA) a hemisphere agency we are chairing until May 2007 – and we are in active cooperation with the work done in the Americas by the Organization of American States (OAS), in South America through GAFISUD, as well as with initiatives at the national level such as those developed by the Central Bank of Argentina together with my colleagues in the region.

As a result of increasing capital mobility and the ongoing development of new means of payment, and given their complex nature, these crimes directly hit the financial system. However, we are aware that they affect the financial system in a somewhat different way compared to traditional criminal activities. Therefore, prevention, combat and follow-up actions must be addressed differently.

Money laundering has both macroeconomic and microeconomic implications that may corrupt financial, legal and even political structures.

In macroeconomic terms, it generates market volatility and instability with systemic effects on the financial system and on monetary developments. Money laundering may also have effects on the formation of asset prices bubbles, due to the fact that informal money becomes available to acquire different types of assets, real estate in particular.

On the microeconomic side, it distorts competition, originating unfair business practices and the creation of shell organizations. It also involves higher transaction costs and promotes other illegal activities.

Faced with these types of crimes, in its capacity of overseer of the financial system required to report transactions, the Central Bank of Argentina has developed an active policy aimed at both regulating

financial institutions activity and improving supervision based upon the new applicable international standards.

As you all know, Argentina does have anti-money laundering legislation that is being amended in order to fully comply to the Financial Action Task Force (FATF) and GAFISUD recommendations concerning banking, tax and professional secrecy, among other issues.

In addition to actively working on the legislative arena, the Central Bank has focused its efforts on updating its regulatory framework for financial institutions. As an example we recently have updated regulation on the following:

- Identification of usual and occasional customers and definition of specific identification requirements for each type of customer.
- Special identification standards for politically exposed individuals.
- Special tracking of non face-to-face transactions.
- Special attention to be paid to identify account holders (individual or corporate) in cases of suspicion that they are acting on behalf of third parties (trusts, corporate vehicles)
- Specific definition of internal control responsibilities by creating a Money Laundering Control and Prevention Committee and by assigning specific responsibilities to each financial and foreign exchange institution's internal auditor and Human Resources area.
- Design and implementation of mechanisms to control and monitor customer operations and to adopt gradual risk analysis policies.
- Definition of criteria to create and maintain customer and transaction databases.

The main goal is to improve supervision and to enhance our customer base knowledge, which enables us to distinguish unusual transactions –that may be justified – from crime-related transactions. In addition, it allows us to distinguish between money laundering transactions and other criminal transactions with different purposes.

We are aware that in our country and region there are serious problems to account for transactions that take place in the informal economy. Tax evasion is a major problem in the region. But let's be frank. These transactions have nothing to do with money laundering. They have other purpose, other treatment and other punishment.

Likewise, the analysis we should make on terrorist financing is also different. Terrorism internationalization has changed financing methods, involving the financial system in a different way.

Classic or domestic terrorism –typical from past decades- used to employ direct financing methods, since those who financed it generally acted in the same territory in which attacks were perpetrated. Financing sources came, in most cases, from criminal activities. There was little use of the financial system and, therefore, the approach for fighting it was mainly based on police action.

Nowadays, terrorist groups act anywhere in the world, which forces those financing them to enter into the financial system, at some point. The aggravating circumstance here is that members of these groups, usually carry out purportedly lawful activities involving low amounts of money, which cannot initially be considered suspicious. This feature demands acting in coordination with other bodies, directly related to security and intelligence.

Under this framework, the financial system is used intensively to move money through long distances. Unlike in classic terrorism, the financial approach towards blocking the flow of funds to activists is of utmost importance.

However, the financial system is not, in this case, the only scenario. The analysis of the Bali, Jakarta, Madrid, Turkey and London attacks shows that there are, at least, three alternative mechanisms for terrorist financing: use of non-profit organizations, alternative fund remittance systems, and cross-border transportation of currency.

This means that, in most cases, action by financial institutions does not result directly from their detection of suspicious transactions. It results from the financial institutions prompt and effective action. There is an effective detection of transactions made by individuals previously identified.

In order to cooperate in following up and supervising this kind of transactions, the Central Bank of Argentina issued regulations this year, which established rules on Prevention of Terrorist Financing applicable to financial institutions. It includes the following:

- Observance of Resolutions adopted by the United Nations Security Council concerning the fight against terrorism.
- Obligation to report to the Central Bank the existence or nonexistence of financial assets owned by identified individuals and their transactions.
- Implementation of special mechanisms to keep transaction records.
- Implementation of policies and designing internal proceedings and controls aimed at preventing activities related to terrorist financing.
- Development of a Transaction Guide intended to identify transactions suspected to be related to such purpose, in agreement with the Financial Action Task Force (FATF) recommendations.

In this case, as opposed to what happens on money laundering, Argentina does not yet have any substantive law on terrorist financing, which hinders the application of sanctions in addition to the freezing of funds, which takes place immediately.

Our country is aware of the importance of typifying terrorist financing as soon as possible. Therefore, we are working jointly with other bodies of the Executive, Legislative and Judicial Branch, to pass new legislation to make Argentine criminal law consistent with international regulations.

The first step in this process was the recent ratification of the United Nations Convention for the Suppression of the Financing of Terrorism. This has been the result of a persistent effort to raise awareness among political leaders -mainly, the Congress- of the importance of working on these issues. Undoubtedly, it is a solid basis for a national regulatory framework.

We are conscious that having rules and regulations consistent with international standards is not enough. Prevention and punishment of money-laundering and terrorist financing crimes demand day-to-day follow-up and supervision.

Therefore, the Central Bank has prioritized the supervision of the proper operation of the financial system. In particular, it has created a specific compliance area, composed by a group of specialized examiners, exclusively dedicated to the investigation and surveillance of the financial system. Full disclosure to other regulatory authorities around the world is the right policy to pursue.

For this reason, our team is working with and being trained by the US Treasury and Federal Reserve, the International Monetary Fund and the World Bank –our hosts today-, and the Treasury of Spain, among others.

We are well aware that we cannot make any progress just on ourselves. As I started today, global crimes need global solutions. Therefore, we are working towards including these issues on our regional agenda. For such purpose, late last March we organized the First Regional Seminar on Money-Laundering and Terrorist Financing. We hosted outstanding specialists on this subject, to discuss and exchange experiences with our Latin American partners, and mainly to assess all the work that is still to be done.

The degree of compliance with the international requirements in terms of money laundering and terrorist financing in Latin America varies depending on the type of crime. Concerning money laundering, eight out of the nine countries that are part of GAFISUD have legislation to criminalize it. Just Ecuador remains and is working on a legislative project to fulfill the international standards.

Different is the situation on terrorist financing, where only three countries – Brazil, Peru and Uruguay – have enabled related legislation.

Our nine countries are also working together to deepening the investigation process on money laundering and terrorist financing, through the approval – at the regional level – of the Guidelines on Special Investigative Techniques and the Guide of Contacts and Procedure for International Cooperation on Money Laundering.

Despite this progress, countries from the region still confront some of the following challenges: insufficient coordination among national agencies; underdeveloped tools for financial institutions to identify specific risks – including politically exposed persons and correspondent banking -; lack of

adequate training at many levels – particularly, in terms of trained judicial officials -; difficulties in designing and implementing balanced regulations for remittance service providers and non-profit organizations and low supervisory capacity and limited resources – financial, human and technological.

Nevertheless, Latin American countries are working together in order to improve our capacities and be up to the global challenges.

Commitment is shown with concrete facts, as every important thing in life. It is shown by delivering professionally on the field every single day. And we are delivering, from our workplaces, with conviction and promptness.