



**Asia / Pacific Group
on Money Laundering**

**Annual Report
1 July 2001 – 30 June 2002**

December 2002

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Foreword by the outgoing Co-Chairs of the APG

As APG Co-Chairs for the period under review, we have pleasure in presenting the Asia/Pacific Group on Money Laundering's annual report for the year ending 30 June 2002. This is the third annual report published by the APG.

The primary purpose of the APG is to provide a regional focus for co-operation against money laundering and terrorist financing, including the implementation of internationally accepted anti-money laundering standards in the legal, financial and law enforcement sectors.

Money laundering and terrorist financing are issues with a very high profile at present. This is likely to continue for the foreseeable future, and therefore the work of the APG and other anti-money laundering bodies will continue to grow in importance and scope.

This has been another successful year for the APG and its members. While the level of implementation of the international standards varies across the APG's membership, each year more APG members are increasing their levels of compliance with those standards. As a group, the APG has this year further consolidated in terms of its reach, its cohesiveness and its achievement of practical outcomes. Major achievements during the year include:

- a further expansion of APG membership, to 25, with the addition of Nepal, the Marshall Islands and Palau;
- the completion of five comprehensive mutual evaluations of jurisdictions in the region (Malaysia, Cook Islands, Fiji, Indonesia and Thailand);
- successful conduct of the APG's 2002 Annual Meeting in Brisbane, Australia. The meeting was the largest ever held, with agreement reached on a range of issues, including revised Terms of Reference (to include a formal commitment to combat the financing of terrorism), the adoption of five mutual evaluation reports, discussion of the current Review of the FATF's Forty Recommendations and consideration of technical assistance and training outcomes and priorities for the next few years. The meeting's outcomes are described in chapter 2 of this report;
- further expansion of the APG's work in the area of technical assistance and training and successful conduct of a Special Forum on Technical Assistance and Training in June 2002 in conjunction with the APG Annual Meeting;
- successful conduct of the APG Typologies Workshop in Singapore in October 2001; and
- with the assistance of the Asian Development Bank, launch of a comprehensive APG website in November 2001 (www.apgml.org).

We would like to thank all the APG members and their dedicated officials for their increasing commitment to the APG and its goals. Without this support these achievements would not have been possible.

Finally, as outgoing APG Co-Chairs, we wish to thank all those people and organisations who have continued to support the work of the APG. Without the continued co-operation and considerable assistance of a wide range of people both throughout the region and the world, it would not have been possible to make the progress we have made this year and in previous years.

Special acknowledgement is due for the excellent efforts of Rick McDonnell and his hard working Secretariat team. Their contribution has been enormous.

We wish the incoming Co-Chairs and the APG well for the future, and we are confident that the APG will continue to grow and mature as an effective, cohesive organisation playing its part in the global effort to combat money laundering and terrorist financing.

Gary Crooke QC
Co-chair
Australia



Dato' Huang Sin Cheng
Co-chair
Malaysia



1. Overview of the APG

Background

The APG was officially established as an autonomous regional anti-money laundering body in February 1997 at the Fourth (and last) Asia/Pacific Money Laundering Symposium in Bangkok, Thailand¹. This was the culmination of a process of 'awareness raising' in the Asia/Pacific region initiated by Financial Action Task Force on Money Laundering (FATF) in 1993 as part of its global strategy.

Purpose

The purpose of the APG is to facilitate the adoption, implementation and enforcement of internationally accepted anti-money laundering and anti-terrorist financing standards². The anti-money laundering standards are set out in the FATF's Forty Recommendations and the anti-terrorist financing standards are set out in the FATF's eight Special Recommendations on Terrorist Financing and in relevant United Nations Resolutions.

The APG's role includes assisting jurisdictions in the region to enact laws dealing with the proceeds of crime, mutual legal assistance, confiscation, forfeiture and extradition. It also includes the provision of guidance in setting up systems for reporting and investigating suspicious transactions and helping in the establishment of financial intelligence units. The APG allows for regional factors to be taken into account in the implementation of anti-money laundering measures and provides for peer review by means of a mutual evaluation process.

Nature

The APG is voluntary and co-operative in nature and is established by agreement among its members and is autonomous. It does not derive from an international treaty nor is it part of any international organisation. However, it keeps itself informed of action taken or formal agreements made by relevant international and regional organisations or bodies in order to promote a consistent global response to money laundering and terrorist financing.

The work to be done by the APG and its procedures is decided by consensus agreement among its members.

Membership

Membership of the APG has expanded to a total of 25 members as at 30 June 2002. Three jurisdictions joined the APG in 2001 – 02: Nepal, the Marshall Islands and Palau.

Membership currently comprises Australia; Bangladesh; Chinese Taipei; Cook Islands; Fiji Islands; Hong Kong, China; India; Indonesia; Japan; Korea (Republic of); Macau, China; Malaysia; Marshall Islands; Nepal; New Zealand; Niue; Pakistan; Palau; Philippines; Samoa; Singapore; Sri Lanka; Thailand; United States of America and

¹ This symposium was organised by the FATF Asia Secretariat, in co-operation with the Commonwealth Secretariat and other international bodies, with the aim of getting regional commitment and establishing a regional group with practical objectives.

² A copy of the APG Terms of Reference is at Annex A. A copy of the FATF's Forty Recommendations and eight Special Recommendations is at Annex B.

Vanuatu. There are also 15 observer jurisdictions³ and 13 observer international and regional organisations⁴.

Membership of the APG is open to any jurisdiction within the Asia/Pacific region which:

- recognises the need for action to combat money laundering and terrorist financing;
- recognises the benefits obtained through sharing knowledge and experience; and
- has taken or is actively taking steps to develop, pass and implement anti-money laundering and anti-terrorist financing legislation and other measures based on accepted international standards.

The membership requirements are spelt out in the APG Terms of Reference (a copy of which is at Annex A). The membership requirements were amended at the 2002 Annual Meeting to include a commitment to combat terrorist financing. To those jurisdictions not yet ready to assume all the requirements of full membership, the APG offers a form of participation in its activities through observer status.

Co-Chairs

The APG Co-Chairs remained unchanged in the period July 2001 to June 2002. There were however changes to the Co-Chairs after the period under review, which are briefly outlined below. The Co-Chairs during the period July 2001 to June 2002 were:

Gary Crooke QC

Gary Crooke QC was APG Co-Chair from 1999. Mr Crooke was for three years the Chairman of the National Crime Authority, an Australian law enforcement agency established to combat complex, national organised crime. His appointment to this role followed a distinguished legal career spanning 33 years. In 1982 he was appointed a Queen's Counsel and in 1993 he was made a life member of the Bar Association of Queensland. He has acted as senior counsel assisting both the high-profile Fitzgerald Inquiry and the Wood Royal Commission into the New South Wales Police Service. Mr Crooke has also held the role of President of the Australian Bar Association and as Vice President of the Law Council of Australia.

Dato' Huang Sin Cheng

Dato' Huang Sin Cheng was appointed APG Co-Chair in June 2000. He has been the Deputy Governor of Bank Negara Malaysia (Central Bank of Malaysia) since May 2000. He joined Bank Negara Malaysia as an Administrative Officer in 1967 and served the Bank for 34 years, including secondment as Chief Executive Officer of the Malaysian national mortgage corporation, Cagamas Berhad, for more than seven years. His long service with the Bank enabled him to acquire expertise in many areas of central banking and financial operations.

³ Brunei Darussalam; Bhutan; Cambodia; Canada; France; Lao PDR; Maldives; Micronesia, Federated States of; Mongolia; Myanmar; Nauru; Papua New Guinea; Tonga; United Kingdom; Vietnam.

⁴ ASEAN Secretariat; Asian Development Bank; Commonwealth Secretariat; Egmont Group of Financial Intelligence Units of the World; Financial Action Task Force on Money Laundering Secretariat; International Development Law Institute; International Monetary Fund; Interpol; Oceania Customs Organisation; Offshore Group of Banking Supervisors; Pacific Islands Forum Secretariat; United Nations Office of Drug Control and Crime Prevention; The World Bank; World Customs Organisation.

Changes to Co-Chairs

Dato' Huang Sin Cheng's two year appointment as APG Co-Chair on behalf of Malaysia ceased on 30 June 2002, in accordance with the APG's Terms of Reference regarding Co-Chair arrangements, which state that one of the Co-Chair positions will be rotated every two years. The other Co-Chair position is held by Australia.

New Korean Co-Chair

At the APG's Fifth Annual Meeting in June 2002, it was agreed that the Republic of Korea would assume the rotating Co-Chair position for two years when Malaysia's term expired. Accordingly, on 1 July 2002 Dato' Huang was replaced by Mr Dong-Kyu Shin, Commissioner, Korea Financial Intelligence Unit, Ministry of Finance and Economy, Republic of Korea, as the new APG Co-Chair. Following his appointment to the role of Deputy Minister for Finance in September 2002, Mr Shin was in turn replaced as Co-Chair by the new Commissioner of the Korea Financial Intelligence Unit, Mr Gyu-Bok Kim.

Mr Gyu-Bok Kim has recently held various senior positions in Korea's Ministry of Finance and Economy and was Head of the FIU (Financial Intelligence Unit) Task Force, which worked towards the establishment of KOFIU, from May 2000 to April 2001. He has previously held senior positions in the Central Officials Training Institute, the National Statistical Office and the Ministry of Finance.

Mr Kim, who is 51 years old, has a Masters of Business Administration from the University of Pennsylvania in the United States and an MA in Public Administration and BA in Law from Seoul National University.



APG Co-Chair Mr Gyu-Bok Kim, Commissioner, Korea Financial Intelligence Unit

Mission Statement and Strategic Plan

Following an initial summary of the APG's 2002 Annual Meeting, this annual report is structured around the seven goals of the Strategic Plan, with detailed performance information contained in chapters 3 to 9.

At the APG's fifth Annual Meeting in June 2002, members adopted the following revised mission statement and goals as part of the APG's Strategic Plan:

Mission Statement

The APG's mission is to ***contribute to the global fight against money laundering, organised crime and terrorist financing by enhancing anti-money laundering and anti-terrorist financing measures in the Asia/Pacific region.***

The **goals** of the APG are to achieve:

1. Develop a better understanding of the nature, extent and impact of money laundering in the region.
2. Expand regional awareness of money laundering issues and the role of the APG.
3. Identify and agree on comprehensive anti-money laundering measures appropriate to the region.
4. Oversee and facilitate the implementation of comprehensive anti-money laundering measures in all member jurisdictions.
5. Facilitate and co-ordinate the provision of technical assistance and training to jurisdictions in the region, where necessary, to assist them to implement comprehensive anti-money laundering measures.
6. Measure the level of implementation by each member of comprehensive anti-money laundering measures and monitor regional implementation of the measures.
7. Facilitate the implementation of the FATF Special Recommendations on Terrorist Financing and the relevant United Nations instruments in all member jurisdictions.

The revised mission statement and goals contained in the APG's *Strategic Plan July 2001 to June 2004* build on the APG's Strategic Plan 1999 – 2001 and recognise in particular the importance of combating terrorist financing.

2. APG Annual Meeting 2002

Because of its significance to the APG's work program each year, this chapter reports on the general outcomes of the APG's annual meeting in some detail. Further information concerning particular subjects discussed at the annual meeting can be found in other chapters of this report.

The Fifth Annual Meeting of the Asia/Pacific Group on Money Laundering, held in Brisbane, Australia from 4 – 7 June 2002, was a very productive four-day meeting. The meeting was opened by Senator the Honourable Christopher Ellison, Minister for Justice and Customs of the Australian Government.

In attendance were over 220 participants representing 25 member jurisdictions, 15 observer jurisdictions and 13 international and regional organisations. The meeting brought together official representatives from the government, financial and the private sectors providing a platform for discussion and co-operation.

The meeting was structured around the goals of the APG's Strategic Plan and provided an opportunity to discuss the practical issues associated with the implementation of money laundering measures in the region.



APG Co-Chair Gary Crooke QC and Senator the Honourable Christopher Ellison, Minister for Justice and Customs, speak to the media at the APG 2002 Annual Meeting.

The major outcomes and highlights of the Fifth Annual Meeting of the APG included:

- the welcoming of Nepal, Palau and the Marshall Islands as new members to the growing membership of the APG, taking total membership to 25 jurisdictions;

- the presentation of a significant new study on the Negative Effects of Money Laundering on Economic Development by Mr Brent Bartlett, a consultant to the Asian Development Bank (ADB), as part of the ADB's RETA Project ('Countering Money Laundering in the Asian and Pacific Region);
- consideration of a draft First Yearly Report on money laundering trends and methods in the region. It was agreed that the APG Secretariat should carry out further work on the draft report and seek further input from members on the format and content of the report;
- a discussion of awareness raising activities undertaken over the past 12 months and adoption of an APG Communications Strategy and Action Plan for 2002 – 03 to further enhance APG communication tools and activities;
- a discussion of membership expansion activities under taken in 2001 – 02 and agreement that while the APG now has fairly comprehensive coverage of the region, efforts to further expand the membership to include the remaining significant jurisdictions should continue in 2002 – 03;
- consideration and adoption of reports by the APG Working Groups on Information Sharing and on Underground Banking and Alternative Remittance Systems and endorsement of their proposed work over the next 6 – 12 months;
- a detailed discussion of the current review of the FATF 40 Recommendations and the APG's further input into that process. It was agreed that APG members should send their submissions on the Review to, or at least through, the APG Secretariat as quickly as possible;
- updates from the UNDCP and the IMF and World Bank on relevant developments;
- a discussion of possible areas where regional anti-money laundering measures might be explored in the future, including underground banking/alternative remittance systems, information sharing and the implications of the 'cash economy'. It was agreed that, if possible, anti-money laundering *standards* (recommendations) should be global and that the APG should (i) continue to provide input on these issues to the FATF; and (ii) that it might be appropriate to develop some good practice *measures* (ie implementation of the global standards) on a regional basis;
- discussion of implementation issues and a decision to begin the development of a comprehensive Best Practice Guide to assist with the practical implementation of the anti-money laundering standards;
- plenary discussion of technical assistance issues and presentations on significant regional technical assistance projects and the successful conduct of a Special Forum on Technical Assistance and Training with further expansion of technical assistance and training due to take place over the next 12 months. This will occur with the assistance of several international and regional organisations including the Asian Development Bank, The International Monetary Fund, and The World Bank;
- discussion and adoption of five mutual evaluation reports of member jurisdictions – Malaysia, Cook Islands, Fiji Islands, Indonesia and Thailand. Members also heard progress reports from the five previously evaluated jurisdictions – Vanuatu, Samoa, Macau, China, Labuan IOFC and Chinese Taipei. Members also agreed to enhance the APG mutual evaluation

procedures first adopted in 2001 and to conduct a further five mutual evaluations in 2002 – 03;

- the provision of short oral updates by member and observer jurisdictions provided short oral updates on progress in their jurisdictions over the past 12 months in the implementation of anti-money laundering and anti-terrorist financing laws and related measures;
- discussion of the draft report on the APG's 2001 – 02 self assessment exercise and agreement to a process and timetable to finalise the report by 31 August 2002;
- decisions in relation to the structure and organisation of the APG:
 - Revised APG Terms of Reference;
 - Revised Explanatory Note on Membership;
 - Proposed APG Advisory Steering Group;
 - Revisions to the APG Strategic Plan 2001 – 04;
 - Report against the APG Business Plan 2001 – 02;
 - Structure of Future APG Annual Meetings;
 - APG Business Plan 2002 – 03;
 - APG Budget formula and revised APG Budget for 2002 – 03;
 - APG Annual Report 2000 – 01 and preparation of Annual Report 2001 – 02;
 - Status of the APG Secretariat;
 - APG Co-Chair arrangements, in particular welcoming Mr Dong-Kyu Shin, Commissioner, Korea Financial Intelligence Unit, Ministry of Finance and Economy, Republic of Korea, as the new APG Co-Chair from 1 July 2002 for a two year term.

Members also expressed their appreciation for Malaysia's dedicated efforts as Co-Chair for the past two years and noted that this would be both Dato' Huang Sin Cheng's and Mr Gary Crooke's last annual meeting as Co-Chairs. Members thanked both Co-Chairs and wished them well for the future.

3. A better understanding of the nature, extent and impact of money laundering in the region

This chapter outlines progress made in achieving Goal 1 of the APG's Strategic Plan, which is to *develop a better understanding of the nature, extent and impact of money laundering in the region*.

There are a number of ways in which the APG seeks to achieve this goal, including through:

- conducting an annual Typologies Workshop in which particularly members are invited to report on trends and methods of money laundering in their jurisdiction;
- as appropriate, establishing Working Groups to examine and report on aspects of money laundering; and
- undertaking, encouraging, contributing to and/or sponsoring studies to measure the extent and impact – both economic and social – of money laundering in the region.

2001 Typologies Workshop

The APG's Fourth Typologies Workshop was held on 17 – 18 October 2001 in Singapore, hosted by the Commercial Affairs Department, Singapore Police Force and The Monetary Authority of Singapore.

The Workshop was attended by more than 100 law enforcement and regulatory experts from 23 jurisdictions and 6 international and regional organisations.

The opening address was delivered by Mr Khoo Boon Hui, the Singapore Commissioner of Police. In his address, the Commissioner emphasised the important role of the Typologies Workshop in bringing together experts to examine practical issues associated with the implementation of anti-money laundering measures and the need for a unified approach to anti-money laundering, through acceptance of the 40 Recommendations of the Financial Action Task Force as the basic global standard in the fight against money laundering.

Workshop Highlights

The Workshop was held in the context of an increased global focus on money laundering and its implications. This resulted in an open and frank exchange of information and expertise and a shared commitment to improved practical co-operation in the region. Highlights of the Workshop included:

- development of a clearer picture of current money laundering methods and trends in the region;
- a useful presentation by Mr David Hsu, Vice President, Regional Compliance, Citibank on a large commercial bank's perspective on money laundering;
- a discussion of drug trafficking, financial crime and corrupt activities which generate significant proceeds of crime. Presentations were made by Mr Oscar Kwok, Chief Inspector of Police, Hong Kong Police Force; Mr Gerassimos Furlanos, Project Co-ordinator, UNDCP Regional Centre, Thailand; Mr Anoop Gidwani, Senior Investigator, Hong Kong ICAC; and Mr Norazlan Mohd Razali, Senior Superintendent, Anti-Corruption Agency Malaysia. Based on the presentations and

plenary discussion, it was generally agreed that the money laundering methods in each of these areas tend to be similar, regardless of the source of illegal funds;

- establishment of a Working Group to examine ways to improve information sharing in money laundering investigations. There was strong interest in and commitment to the establishment of the Working Group on Information Sharing, which is co-chaired by Australia and the United States and which reported to the APG Annual Meeting in June 2002 (see page 11 of this Annual Report for further details of the APG Working Group on Information Sharing);
- discussion of current technical assistance and training projects, priorities and sources of assistance. The Workshop agreed to use the list of training needs prepared by the APEC Working Group on Financial Crime and Money Laundering (in its report to APEC Finance Ministers) as a starting point for the identification and categorisation of jurisdictions' training needs;
- an extensive discussion and endorsement of a report on underground banking and its use in money laundering and agreement to conduct further intensive work in this area. It was agreed that the report and any further recommendations should be provided to other appropriate bodies, including the FATF in its review of the 40 Recommendations;
- a very useful overview given by Mr Vincent Schmoll, Administrator, FATF Secretariat of the FATF's 40 Recommendations, their development over time, and possible future changes. This was followed by a general discussion of countermeasures and a sharing of experiences by jurisdictions of successes and failures;
- discussion of the structure and content of future typologies workshops.

The Workshop concluded with agreement on the need an increased understanding of money laundering methods in the region and renewed commitment to effectively counteracting these methods.

The participants in the Workshop expressed their gratitude to Singapore, and in particular to the Commercial Affairs Department of the Singapore Police Force and the Monetary Authority of Singapore for the arrangements they made in hosting the Workshop.

APG Working Group on Alternative Remittance and Underground Banking Systems

Background and membership

The APG Typologies Working Group on Alternative Remittance and Underground Banking Systems (AR/UBS) was established at the Second APG workshop on money laundering typologies, held in Tokyo, Japan in March 1999. The Working Group was established to undertake 'a co-ordinated and intensive examination of money laundering through underground banking and alternative remittance systems'.

Sixteen jurisdictions are participating in the Working Group, namely: Australia; Cambodia; Canada; Chinese Taipei; Hong Kong, China; India; Indonesia; Japan; Korea (Republic of); Malaysia; New Zealand; Pakistan; the Philippines; Thailand; the United States of America and Vietnam. Three international organisations (the Commonwealth Secretariat, Interpol and the World Customs Organisation) also belong to the Working Group.

The Working Group is currently co-chaired by Hong Kong, China and Australia.

As noted in the previous section of this chapter, the Working Group presented a further Report to the APG Typologies Workshop in October 2001. The October 2001 Report consolidated the available information and made 12 recommendations focussing on implementation of regulatory and enforcement strategies relating to alternative remittance and underground banking. The recommendations deal with regulation of remittance agents, identification of the source of funds, education/training and awareness raising, investigative strategies, and geographic and cultural factors.

At the October 2001 meeting, it was agreed that:

- the October 2001 Report and any further recommendations/work should be provided to other appropriate bodies, including the FATF in its review of the Forty Recommendations;
- work should continue for another 12 months and that it was very important that further work be done on a list of progressive detailed strategies to implement each of the 12 recommendation, to flesh out what it would mean to put them into practice; and
- that a further report on the strategies and their effectiveness to date be prepared for the 2002 APG Typologies Workshop (to the extent that this is possible) and possibly an interim report be made to the FATF, for example if strategies are developed, they should be put to the FATF even if in a preliminary fashion.

Current and future work

On 31 October 2001, the FATF released the eight *Special Recommendations on Terrorist Financing* which, when combined with the FATF Forty Recommendations on money laundering, set out the basic framework to detect, prevent and suppress the financing of terrorism and terrorist acts. Special Recommendation VI deals with alternative remittance and states:

Each country should take measures to ensure that persons or legal entities, including agents, that provide a service for the transmission of money or value, including transmission through an informal money or value transfer system or network, should be licensed or registered and subject to all the FATF Recommendations that apply to banks and non-bank financial institutions. Each country should ensure that persons or legal entities that carry out this service illegally are subject to administrative, civil or criminal sanctions.

The focus of the APG Working Group for 2002 is thus on strategies to implement Special Recommendation VI and the recommendations made in the October 2001 Working Group Report to the 2001 APG Money Laundering Methods and Typologies Workshop. This work has taken on added urgency and importance in the light of the expansion of both the FATF's and the APG's mandates to combat terrorist financing.

The Project for the Working Group for 2002 is the creation of a Regulation/Licensing Implementation Package. This will build on previous experience and typologies work and provide practical information and strategies to aid countries in implementing measures to regulate alternative remittance and underground banking systems.

The draft Implementation Package will be further developed at the APG's 2002 Typologies Workshop, involving Working Group members and also involving others with particular expertise and understanding relevant to this area. The Implementation Package will be finalised and distributed to APG members and to others at the end of 2002 or in early 2003.

APG Working Group on Information Sharing

At the 2001 Annual Meeting of the APG held in Kuala Lumpur in May 2001, APG members decided that a working group should be established to examine ways to improve the efficiency and effectiveness of information sharing between jurisdictions.

This matter was further discussed at the APG's Typologies Workshop held in Singapore on 17 – 18 October 2001, at which the Working Group was formally established.

The primary objective of the Working Group is:

to make recommendations to improve the efficiency and effectiveness of information sharing between jurisdictions, bearing in mind that the principal features of effective and efficient information sharing are accuracy, timeliness and reciprocity.

The Working Group is Co-Chaired by the United States and Australia and comprises representatives from the following jurisdictions: Australia; Chinese Taipei; Hong Kong, China; Japan; Korea (Republic of); Malaysia; New Zealand; Pakistan; Philippines; Singapore; Thailand; United States; and Vanuatu. The Egmont Group and the FATF are also members of the Working Group.

The Working Group has endeavoured to take a very practical approach to this issue, rather than embarking on a more academic treatise on the subject of information sharing. Its work is focused primarily on the practical difficulties in information sharing faced by officers involved in the investigative process (for example law enforcement, regulatory, and prosecutorial staff) and how, practically, they might be removed or at least minimised.

A draft Preliminary Report was prepared for the 2002 APG Annual Meeting. It set out the initial findings and recommendations of the Working Group resulting from the work done since the Working Group's establishment in October 2001. APG members agreed at the Annual Meeting that the Working Group should continue its work for another 12 months.

In order to make concrete progress, the Working Group is aiming to:

- develop a 'model' case study or scenario (or a series of such models/scenarios) to illustrate how each method of information sharing can and should be used most effectively. The scenario(s) would aim to explain what information is needed, where the information can be found and how it might best be obtained; and
- to further examine some of the suggestions for improvement made in the report and, bearing in mind other related developments, to construct more specific recommendations for the consideration of APG members (and others).

It is the Working Group's intention to prepare a Report, based on the Preliminary Report but including further analysis, discussion and recommendations, for consideration by APG members and other policy makers by April 2003.

Studies to measure the extent and impact of money laundering

Asian Development Bank Study

As noted on page 5 of this Annual Report, a significant new study on the Negative Effects of Money Laundering on Economic Development was completed in May 2002. The study was undertaken by a team led by Mr Brent Bartlett, a consultant to the Asian Development Bank (ADB), as part of the ADB's RETA Project ('Countering Money Laundering in the Asian and Pacific Region').

There have been few detailed studies to measure the extent and economic impact of money laundering. Consequently, the major findings of the study are reproduced here (the full study can be found on the APG's website at www.apgml.org).

Economic Research Report: The Negative Effects of Money Laundering on Economic Development: Summary of Findings

The negative economic effects of money laundering on economic development are difficult to quantify, yet it is clear that such activity damages the financial-sector institutions that are critical to economic growth, reduces productivity in the economy's real sector by diverting resources and encouraging crime and corruption, which slow economic growth, and can distort the economy's external sector—international trade and capital flows—to the detriment of long-term economic development. Developing countries' strategies to establish offshore financial centers (OFCs) as vehicles for economic development are also impaired by significant money-laundering activity through OFC channels. Effective anti-money-laundering policies, on the other hand, reinforce a variety of other good-governance policies that help sustain economic development, particularly through the strengthening of the financial sector.

The financial sector. A broad range of recent economic analyses points to the conclusion that strong developing-country financial institutions—such as banks, non-bank financial institutions (NBFIs), and equity markets—are critical to economic growth. Such institutions allow for the concentration of capital resources from domestic savings—and perhaps even funds from abroad—and the efficient allocation of such resources to investment projects that generate sustained economic development.

Money laundering impairs the development of these important financial institutions for two reasons. First, money laundering erodes financial institutions themselves. Within these institutions, there is often a correlation between money laundering and fraudulent activities undertaken by employees. At higher volumes of money-laundering activity, entire financial institutions in developing countries are vulnerable to corruption by criminal elements seeking to gain further influence over their money-laundering channels. Second, particularly in developing countries, customer trust is fundamental to the growth of sound financial institutions, and the perceived risk to depositors and investors from institutional fraud and corruption is an obstacle to such trust.

By contrast, beyond protecting such institutions from the negative effects of money laundering itself, the adoption of anti-money-laundering policies by government financial supervisors and regulators, as well as by banks, NBFIs, and equity markets themselves, reinforce the other good-governance practices that are important to the development of these economically critical institutions. Indeed, several of the basic anti-money-laundering policies—such as know-your-customer rules and strong internal

controls—are also fundamental, longstanding principles of prudential banking operation, supervision, and regulation.

The real sector. Aside from money laundering's negative effect on economic growth through its erosion of developing countries' financial sectors, money laundering has a more direct negative effect on economic growth in the real sector by diverting resources to less-productive activity, and by facilitating domestic corruption and crime, which in turn depress economic growth.

As can be seen from the various money-laundering typologies reports, money laundered through channels other than financial institutions is often placed in what are known as "sterile" investments, or investments that generate little additional

productivity for the broader economy, such as real estate, art, antiques, jewelry, and luxury automobiles. For developing countries, the diversion of such scarce resources to less-productive domestic assets or luxury imports is a serious detriment to economic growth. Moreover, criminal organizations can transform productive enterprises into sterile investments by operating them for the purposes of laundering illicit proceeds rather than as profit-maximizing enterprises responsive to consumer demand and worthy of legitimate investment capital.

Money laundering also facilitates crime and corruption within developing economies, which is antithetical to sustainable economic growth. Just as an efficient financial sector is a key "input" to other productive processes in a developing economy—such as manufacturing—an efficient money-laundering channel is a key "input" to crime because the financial proceeds from crime are less valuable to the criminal (in a sense, an "unfinished product") than are laundered funds. The less expensive the money-laundering "input" to crime is as a result of lax anti-money-laundering policies, the more "productive" (active) the criminal element will be, just as in any industry or business. As numerous studies have demonstrated from statistical and anecdotal evidence, substantial crime and corruption act as a brake on economic development, while other studies have shown that anti-money-laundering policies can deter such activity.

The external sector. Unabated money laundering can also impair a developing country's economy through the country's trade and international capital flows. The well-recognized problem of illicit capital flight from developing countries is typically facilitated by either domestic financial institutions or by foreign financial institutions ranging from offshore financial centers to major money-center institutions such as those in New York, London, or Tokyo. Given that illicit capital flight drains scarce resources from developing economies, transnational money-laundering activity helps impair developing-country growth. By contrast, there is little evidence that the imposition of anti-money-laundering policies in a given jurisdiction spurs a significant flight of capital to more lax jurisdictions. Moreover, just as the confidence that developing-country citizens have in their own domestic financial institutions is critical to economic growth, the confidence that foreign investors and foreign financial institutions have in a developing country's financial institutions is also important for developing economies because of the role such confidence plays in investment decisions and capital flows.

Money laundering can also be associated with significant distortions to a country's imports and exports. On the import side, criminal elements often use illicit proceeds to purchase imported luxury goods, either with laundered funds or as part of the process of laundering such funds. Such imports do not generate domestic economic activity or employment, and in some cases can artificially depress domestic prices, thus reducing the profitability of domestic enterprises.

Offshore financial centers (OFCs) as a development strategy. Over the past decade dozens of OFCs have been created as part of developing countries' (or territories') efforts to develop their domestic economies through the provision of international financial services. These OFCs can be classified along a spectrum from "notional" OFCs (those that provide minimal financial services other than simply being a jurisdiction in which "name plate" operations may be established) to "functional" OFCs (those that provide a wide-range of value-added financial services).

Studies of the effectiveness of establishing an OFC as an economic-development strategy have shown that notional OFCs contribute little to the surrounding economy and do not form the basis for sustained economic growth. First, notional OFCs are virtually costless to establish, and therefore competition among them for customers is severe. Second, because notional OFCs provide little value-added services, such OFCs generate almost no economic demand for the surrounding "real" economy in terms of employment, goods, or services.

On the other hand, truly functional OFCs require significant investments in infrastructure—such as communication facilities, and even a skilled labor force—thereby limiting the pool of competing OFCs and increasing the commercial returns to those OFCs that emerge as strong competitors. Moreover, functional OFCs benefit their surrounding "real" economies through their demand for goods, services, and an educated workforce to support the OFCs' value-added activities.

This distinction between notional and functional OFCs becomes critical to assessing the economic effect of money laundering on OFCs as an economic development tool. Money laundering *per se* does not require the more costly value-added services of a functional OFC, and therefore may gravitate to merely notional OFCs—the very type of OFC least able to contribute to the country's real economy. By contrast, legitimate international capital is more likely to require the services of a functional OFC *and* will be deterred from making extensive use of an OFC tainted by widespread allegations of money laundering and the associated activities of fraud and corruption. Thus, for a country to implement a successful economic-development strategy based on the establishment of an OFC, the strategy must adopt measures to control money-laundering activity through the OFC.

Moreover, International Monetary Fund studies suggest that smaller countries can become favored by large-scale money launderers for short periods of time, causing a sharp surge in financial activity, followed by an equally sharp decline, resulting in severe macroeconomic instability as local authorities are unable to take offsetting monetary or exchange-rate measures.

The results of this important study were presented at the 2002 Annual Meeting, with a summary presentation being given as part of the Opening Ceremony, which was open to the media. The report was then discussed in greater depth by APG members later in the meeting, following a more detailed presentation by Mr Bartlett.

This important study is a significant contribution to our understanding of the negative economic effects of money laundering on APG members and more broadly.

4. Expanding regional awareness of money laundering issues and the role of the APG

This chapter reports on progress made to achieve Goal 2 of the Strategic Plan, which is to *expand regional awareness of money laundering issues and the role of the APG*.

Strategies to achieve this goal include:

- raising awareness through consultation and exchange of relevant information with member jurisdictions in the region and providing relevant information using a range of communication tools including the APG's web site and APG publications;
- raising awareness of the money laundering situation in the Asia/Pacific region in relevant regional and international organisations and forums; and
- developing a comprehensive communications strategy for the APG.

Launch of APG website

On 28 November 2001, the APG launched its new Internet website. The web address is: <http://www.apgml.org>.

The website features a range of material previously not available to the public on-line (further detail on the website's content can be found on page 18 of this report). The establishment of the website was made possible through financing made available under an Asian Development Bank (ADB) regional technical assistance project - Countering Money Laundering in the Asian and Pacific Region. The APG acknowledges the support of the ADB. Dewey Ballantine LLP and Forensic Risk Alliance in conjunction with the APG Secretariat were responsible for the design and implementation of the website.

The APG expects the site will become a highly valued resource for APG members and others by providing guidance to decision-makers on international and national laws, standards and best practices to effectively combat money laundering. The user-friendly website provides information about APG policies and activities and is intended to directly assist the APG's members and observers in the region. Highly positive feedback about the website has been received from APG members and other users.

Allowing for monthly fluctuations, usage of the website has been steadily increasing.

The website was updated in March 2002 to include the updated APG Strategic Plan 2001 – 04 and Business Plan 2001 – 02, APG media releases, model and comparative legislation and the February 2002 APG newsletter. APG members have also been encouraged to post new developments on the website and the APG Secretariat is doing more work to encourage further member input.

Publication of APG newsletter

The first issue of the 're-launched' APG newsletter, *Laundering News*, was published and distributed in February 2002. The aim of the newsletter is to provide a regular voice for money laundering issues in the Asia/Pacific region and to inform readers about the work of the APG, as well as publicising approaching events, meetings, conferences and courses offered in the region. The Secretariat aims to publish *Laundering News* three to four times a year. The newsletter can be downloaded from the APG's website.

Attendance at conferences and seminars etc in 2001 – 02

The Head of the APG Secretariat or APG member representatives have made numerous presentations over the last 12 months, including:

- IMF Seminar, Washington, July 2001;
- SEACEN Course, September 2001;
- Seminar for the private sector hosted by Ernst & Young, Sydney, December 2001;
- IMF Workshop on Money Laundering, Financial Investigation and Financial Intelligence, Suva, December 2001;
- ASEAN Regional Forum Workshop on Financial Measures Against Terrorism, Honolulu, March 2002;
- Pacific Islands Regional Counter-Terrorism Workshop, Honolulu, March 2002;
- ADB Anti-Money Laundering Seminar, Nepal, March 2002.

Each of these events provided an excellent opportunity to promote the work of the APG to a wider audience, to encourage jurisdictions to consider becoming APG members, to provide technical assistance and to generally support the APG's mission.

Communications strategy and action plan

As noted on page 6 of this Annual Report, at the 2002 APG Annual Meeting members adopted an APG Communications Strategy and Action Plan for 2002 – 03.

The overall objective of the proposed Communications Strategy is to ensure that the APG's communications are as effective as possible and that they support the APG's mission, objectives and work program.

In order to support the goals of the APG's Strategic Plan 2001 – 2004 and its Business Plans for 2002 – 03, the APG's major communications objectives for the next 12 months are as follows:

- Provide proactive communication which:
 - reaches all stakeholders;
 - demonstrates and supports the work and progress of the APG; and
 - protects and enhances the APG's image and that of its members.
- Increase the awareness, understanding and implementation of the APG's goals by expanding communication to ensure members and relevant bodies receive regular, up to date information and material to support their anti-money laundering and anti-terrorist financing goals and programs.
- Boost the level of member and observer participation in APG activities and encourage feedback between APG members, observers and the APG Secretariat.
- Increase the level of interaction and communication with other comparable anti-money laundering bodies and multilateral organisations working in this area in order to increase the effectiveness of the APG's work program and to expand the assistance offered to APG members.

5. Agreement on comprehensive measures to address the problem of money laundering

This chapter briefly reports on progress made to achieve Goal 3 the Strategic Plan, which is to *identify and agree on comprehensive anti-money laundering measures appropriate to the region*.

There are a number of ways in which the APG seeks to achieve this goal, including through:

- adopting the FATF Forty Recommendations as guiding principles for APG activity;
- contributing to the development, including any reviews, of the Forty Recommendations and representing members' views at relevant international forums; and
- as appropriate, developing and adopting regionally-specific anti-money laundering measures/recommendations.

Adoption of Forty Recommendations

As part of the APG's Terms of Reference, all APG members have committed to implementing the FATF's Forty Recommendations according to their particular cultural values and constitutional frameworks.

Review of Forty Recommendations

The FATF has commenced a review of the Forty Recommendations that will continue through the coming year. The APG contributed to the Review, drawing on its experience in the region.

As noted on page 10 of this Annual Report, the report of the APG Working Group on Alternative Remittance and Underground banking Systems was provided to the FATF in October 2001 as part of the APG's contribution to the review process.

In addition, APG members and observers have been sent relevant material being generated by the various FATF Working Groups established as part of the review process and have been encouraged to contribute to the Review. APG members Malaysia and Korea directly participated in several of the Working Groups, along with the APG Secretariat. A special presentation on the Review was made by the FATF at 2002 APG Annual Meeting with detailed discussion of some of the issues arising.

Regionally-specific recommendations

The APG has previously discussed but has not yet developed any regionally-specific anti-money laundering recommendations.

At the 2002 APG Annual Meeting, APG members agreed that the APG should not develop its own standards at this time but should rather feed into the review of the global standards by the FATF. Members also agreed that the APG should carry out further research into the areas of Underground Banking/Alternative Remittance Systems, Information Sharing and the Cash Economy and that, depending on the results, this work should be fed into the FATF and might also lead to a proposal for the APG to develop and adopt good practice measures (as opposed to standards) in these areas.

6. Implementation of comprehensive measures to address the problem of money laundering

This chapter reports on progress made to achieve Goal 4 the Strategic Plan, which is to *oversee and facilitate the implementation of comprehensive anti-money laundering measures in all member jurisdictions*.

Strategies to achieve this goal include:

- creating a co-ordination committee in each member jurisdiction to ensure input from all relevant ministries and agencies and to ensure uniform national policy; and
- facilitating sharing of information and experience concerning implementation strategies between member jurisdictions.

The main way that the APG attempts to ‘facilitate the implementation of comprehensive anti-money laundering measures in all member jurisdictions’ is through its Technical Assistance and Training Strategy. Because of the importance of technical assistance and training in the region, it has now been made a Goal of the Strategic Plan (Goal 5) in its own right. Technical assistance and training issues are discussed in the next chapter of the report.

Creation of national co-ordination committees

National co-ordination committees (NCCs), which are known by various names, now exist in a majority of APG member jurisdictions. At least 17 out of 25 APG members have a mechanism performing most or all of the functions of an NCC.

Sharing of information and experience

One of the primary aims of the APG’s website is to provide APG members and others with ready access to resource material which will assist them to implement comprehensive anti-money laundering measures in accordance with international standards. Various sections of the website are designed to achieve this aim, including the sections on:

- model and comparative legislation (eg UN model legislation, Commonwealth model money laundering law, comparative legislation from six APG member jurisdictions);
- prevention guidelines and practices (eg Wolfsberg Principles, guidelines of the Monetary Authority of Singapore and Hong Kong Monetary Authority);
- relevant anti-money laundering conventions and standards (eg UN, FATF, Council of Europe) and FATF best practice documents; and
- numerous links to other relevant websites.

As well as placing useful information on the APG website or in APG newsletters, the APG Secretariat tries to act as a ‘clearing house’ or contact point for information of this sort, either disseminating information that comes into its possession or putting members in touch with other members who might be able to assist in a particular area. In addition, there is considerable bilateral exchange of information that takes place between jurisdictions. In the year under review, some prominent examples of information dissemination include:

- the dissemination to all APG members of material concerning the review of the FATF 40 recommendations and development and implementation of the 8 Special Recommendations;
- dissemination of information regarding the establishment of domestic and regional (Pacific Islands) FIUs;
- provision of information and advice to APG members on various implementation issues;
- in the course of conducting mutual evaluations, APG experts have in addition provided expert advice regarding practical implementation issues to member jurisdictions under evaluation;
- the APG Secretariat has helped to arrange or facilitate visits/study tours, eg visit by the Malaysian FIU to Australia in early 2002.

7. Technical assistance and training

This chapter reports on progress made in achieving Goal 5 of the Strategic Plan, which is to *facilitate and co-ordinate the provision of technical assistance and training to jurisdictions in the region, where necessary, to assist them to implement comprehensive anti-money laundering measures.*

Strategies to achieve this goal include:

- assessing the training and technical assistance needs of APG members and using the results of the needs assessment, determining what training and technical assistance is required;
- consulting and co-ordinating with all international and regional organisations and any jurisdictions that have provided, or anticipate providing, technical assistance and training in the region; and
- co-ordinating the delivery of training and technical assistance, both in accordance with the APG's Technical Assistance and Training Strategy and in response to ad hoc requests from jurisdictions.

As noted previously in this report, technical assistance and training was a major focus of the APG's Fifth Annual Meeting (and the associated Special Forum on Technical Assistance and Training) and of the year under review. Effective assistance is critical for many jurisdictions in the region if they are to meet international anti-money laundering standards.

The APG aims to take a strategic approach to the implementation of technical assistance and training to assist with the introduction of anti-money laundering laws and implementation of anti-money laundering measures in the region. This is so that the quite limited resources available are deployed in an efficient, effective and co-ordinated manner.

Through its Technical Assistance and Training Strategy – adopted by APG members in 2000 and now also incorporated into the APG's Strategic Plan and Business Plan – the APG has an established and recognised mandate in this area.

The role of the APG Secretariat in co-ordinating a technical assistance and training program, on behalf of the APG members, was endorsed at a meeting of anti-money laundering bodies and various donor and provider organisations held in April 2002 in Washington, DC.

The Washington meeting was jointly hosted by the World Bank and the IMF and reached consensus that the immediate AML/CFT needs of jurisdictions should be identified and that models and mechanisms for co-ordination of technical assistance to meet those needs should be organised on a regional basis through the Secretariats of the Financial Action Task Force (FATF)-style regional bodies (FSRBs). The APG is the FSRB for the Asia/Pacific region.

Current technical assistance and training needs in the region

Considerable effort has been devoted to the identification of APG members' assistance and training needs. Of course, this is a process which needs to be continually undertaken and adjusted as countries develop and global circumstances change.

Developments during the period include:

- discussion of training and technical assistance needs at the 2001 APG Typologies Workshop;
- direct contact with APG members regarding their needs;
- conduct of needs assessments as part of the ASEM and ADB projects;
- holding of a Special Forum on Technical Assistance and Training at the 2002 Annual Meeting. Following on from the Washington meeting in April 2002, the APG Secretariat considered that the best way to progress the issue of co-ordinating the increasing demand with the efficient delivery of effective assistance would be to convene a forum as part of the APG Annual Meeting. The Forum was held in Brisbane on 6 June 2002 and was attended by 28 APG member and observer jurisdictions and nine international and regional organisations. The day-long forum was spread across two sessions. The first session aimed to identify the member and observer jurisdictions' technical assistance and training needs. It also provided an opportunity for exchange of contact information between jurisdictions and donor and provider organisations. Following on from the Special Forum, the APG Secretariat compiled a matrix of the technical assistance and training needs of individual APG member and observer jurisdictions. This information has been circulated to donors and providers as a planning guide.

Consultation and co-operation

The APG has for several years acted as a de facto co-ordination point for technical assistance in the region as part of its Technical Assistance and Training Strategy. This section of the Annual Report sets out more recent initiatives to enhance co-ordination.

APG Donors and Providers (DAP) Group on Technical Assistance

On 28 February 2002, the APG Secretariat wrote to a number of donor organisations and jurisdictions proposing the establishment of a consultative group to consider technical assistance and training in the Asia/Pacific region.

The rationale for the DAP Group is to offer a forum for co-operation amongst interested organisations and jurisdictions which are in a position to provide technical assistance and training in the region, thereby assisting APG members and observers to meet the relevant international standards.

The first face-to-face meeting of the DAP Group took place on the afternoon of Thursday 6 June, as part of the Special Forum on Technical Assistance and Training. This session of the Forum was co-chaired by Mr Rick McDonell, Head, APG Secretariat and Mr Richard Zechter, Senior Financial Sector Specialist, The World Bank. This session focused on the need to improve co-ordination, to avoid duplication and to maximise the effective use of resources. Consensus was reached on the requirement for co-ordination. The value in jurisdictions, donors and providers adopting a sequential approach in developing and implementing AML/CFT systems and in requesting and providing assistance and training was also endorsed.

The donors and providers that attended the Forum also agreed to provide information to the APG Secretariat on what assistance is currently being delivered; what might be available; what has been requested; and what has been approved, but is not yet under way. This will be an important ingredient in identifying the gaps and how they might best be filled.

As part of a comprehensive approach, APG member and observer jurisdictions will be encouraged to establish national inter-agency co-ordination mechanisms to consider requests for technical assistance and training and to provide a contact and

liaison network within the region. One of the benefits will be to improve the confidence of donor organisations that the requests being received have the support of the relevant agencies at the local level.

Delivery of training and technical assistance

Work progressed during the year on the three major technical assistance and training projects currently under way in the region involving the APG Secretariat and/or APG members: the Asian Development Bank (ADB) Regional Technical Assistance (RETA) Project; the International Monetary Fund (IMF) Pacific Islands Financial Intelligence Unit (FIU); and ASEM anti-money laundering initiative.

Asian Development Bank (ADB) Regional Technical Assistance (RETA) Project

The ADB is funding this project in collaboration with the APG, with the APG Secretariat as the implementing agency. The scope of the project includes:

- identifying institutional and regulatory reforms required to help each participating ADB member comply with established international standards, taking into account country assessments and evaluations conducted by FATF and APG;
- developing a comprehensive manual on money laundering issues and anti-money laundering measures for use in participating countries and other ADB developing member countries;
- developing a regional action plan to promote regional co-operation to counter money laundering;
- holding a high-level conference and training workshops/seminars, and
- helping APG establish an on-line database on money laundering with links to other institutions' web sites.

The nine countries covered by the project were Cook Islands, Fiji, Indonesia, Marshall Islands, Nauru, Philippines, Samoa, Thailand and Vanuatu. The heart of the project was the carrying out of the country assessments. As at 30 June 2002 the project has been substantially completed. The substantive country assessments are being finalised and are due to be submitted to the ADB in July/August. As noted previously, in October 2001, the comprehensive new APG website was launched. The anti-money laundering manual has also been completed, as has Mr Brent Bartlett's comprehensive economic study.

In the light of the heightened global awareness of money laundering and terrorist financing issues following the events of 11 September 2001, the ADB determined that the originally planned High Level Conference and regional action plan, which were largely designed to increase awareness of and commitment to anti-money laundering efforts, would no longer be necessary. In place of the conference, relevant presentations were incorporated into the agenda of the APG's Annual Meeting. In addition, on 3 June 2002, just prior to the APG Annual Meeting, a seminar for 30 participants on the latest developments in anti-money laundering and combating terrorist financing was successfully held by the ADB.

A comprehensive set of presentations on the ADB RETA Project was provided to APG members at the 2002 Annual Meeting by the consultants who undertook the Project, headed by Mr Herbert Morais, Team Leader from the US legal firm Dewey Ballantine.

The ADB has since announced significant anti-money laundering RETAs in Indonesia and the Philippines, the primary purpose of which is to assist with the establishment of a Financial Intelligence Unit.

International Monetary Fund (IMF) Pacific Islands Financial Intelligence Unit (FIU) project

The Legal Department of the IMF is funding a consultant and providing legal advice to assist Pacific Island countries to establish domestic FIUs and to scope the feasibility of establishing a regional entity. The countries participating in the project are the Cook Islands, Fiji, the Federated States of Micronesia, Nauru, Niue, Palau, Samoa, Tonga and Vanuatu. A Co-ordinating Office supported by the Pacific Islands Forum Secretariat and the APG Secretariat (COAMLI) has been created to support the project and to act as a 'counter-party' in the process, as a liaison point and to co-ordinate discussions with the IMF and between the IMF and the participating countries.

This project is well under way as at 30 June 2002. APG members received a progress report on the project from Mr Bill Holder, Deputy General Counsel, International Monetary Fund at the APG Annual Meeting in June 2002. Mr Holder reported that the project was running on two tracks: (i) the assessment of the national situation, and (ii) the consideration of the regional entity. On the first track, reports were being submitted to participating countries assessing their existing anti-fraud and anti-money laundering laws. Upon delivery of these reports to participating countries, these countries would then discuss with the IMF the relevant additional legislation or amendments required to meet international standards. The second track was to submit to participating countries the feasibility study to establish the regional entity and the IMF was about to produce a concept paper which would be delivered to participating countries for their reaction.

ASEM anti-money laundering initiative

The APG Secretariat is aware that this initiative has been developed under the auspices of Asia-Europe Meeting (ASEM) Ministers Meeting and will be jointly sponsored by the European Commission and the United Kingdom.

The aim of the project is to develop sustainable institutional capacity in the Asian ASEM member countries to address money laundering at a national, regional and international level. It will commence in the second half of 2002 and run for three years. The project will include technical co-operation; training; exchanges of experts; model law creation; in-depth study into different forms of organised crime and complementary relations between regions; and research projects. It involves an extensive training and technical assistance component for Asian member countries of ASEM, including the completion of training and technical assistance needs analyses.

Other activities

In addition to the above regional projects, APG members and the APG Secretariat were involved in the provision of a wide range of 'ad hoc' assistance and activities during the year. For example, seminars were conducted / arranged / attended in Nepal, Malaysia, and Hawaii (the ASEAN Regional Forum and a Pacific Islands Meeting) and legal drafting assistance was provided in response to requests from Indonesia and Sri Lanka.

8. Systematic review of measures and levels of implementation

This chapter reports on progress made against Goal 6 of the Strategic Plan, which is to *measure the level of implementation by each member of comprehensive anti-money laundering measures and monitor regional implementation of the measures.*

Strategies to achieve this Goal include:

- conduct self-assessment exercises regularly by means of a questionnaire;
- adoption of a schedule for a first round of APG mutual evaluations and undertaking of mutual evaluations in accordance with the schedule; and
- reporting annually on the progress made by jurisdictions by publishing a 'snapshot' of anti-money laundering measures in the Asia/Pacific region.

Self-assessment Exercise

As reported in chapter 3 of this annual report, the APG commenced its second self-assessment exercise in March 2001.

This exercise has used the FATF's self-assessment questionnaire and the APG would like to thank the FATF for its assistance in the conduct of the exercise.

The self-assessment questionnaire was initially sent to APG members in March 2001 and responses had been received from 13 members by June 2001. As agreed at the 2001 Annual Meeting of the APG, the information submitted by APG member jurisdictions was collated and prepared as a draft report for consideration by APG members at the APG's 2002 Annual Meeting. However, so that the self assessment report would be as up to date and as comprehensive as possible, the APG Secretariat decided in early 2002 to:

- ask members who had submitted a response in 2001 whether they wished to update that response;
- ask members who had not previously responded in 2001 to complete a questionnaire response; and
- ask new members of the APG who had not previously been asked to complete a questionnaire to do so.

Nine of the 13 members who had previously responded updated their responses, and a further six APG member submitted a response for the first time. A revised draft report was prepared for the 2002 APG Annual Meeting. The draft report was not a full and conclusive report, partly because the Secretariat had not received responses from all jurisdictions in time to make it a comprehensive document. The other reason was that there were a number of anomalies in the results. Some APG members known to have very well established and sophisticated anti-money laundering measures were rated as being less compliant than some APG members whose anti-money laundering systems are at an earlier stage of development. This did not seem to be consistent and therefore as it stood, the preliminary draft report could not be said to provide an accurate picture of the overall state of APG members' compliance with the 40 FATF Recommendations.

APG members therefore agreed that completion and release of the report should be delayed until members had checked the accuracy of the draft results; members yet to

provide the Secretariat with their responses (including new APG members) had done so; and the Secretariat had had a further chance to analyse the results and compile a revised report.

Mutual Evaluations

Introduction

Each member's anti-money laundering system is being evaluated in turn by the APG on the basis of an evaluation conducted by a team of three or four selected experts, drawn from the legal, financial and law enforcement fields of other APG members. The mutual evaluation process is designed to give due recognition where the standard benchmarks are met, and to identify weaknesses and make appropriate recommendations with a view to rectification and improvement where they are not.

Mutual evaluations were a major focus of the APG's work program in 2001–2002 and further significant progress was made during the year under review, with five mutual evaluations being completed and revised APG mutual evaluation procedures being adopted at the 2002 Annual Meeting. In addition, the five jurisdictions evaluated in previous years provided progress reports at the Annual Meeting on their response to the recommendations contained in their reports.

Mutual Evaluations conducted in 2001 – 2002

The APG conducted five mutual evaluations in 2001 – 2002, as follows:

- *Malaysia*. The Evaluation Team visited Malaysia in July 2001;
- *Cook Islands*. This mutual evaluation was conducted jointly with the OGBS. The Evaluation Team visited the Cook Islands in October/November 2001;
- *Indonesia*. The Evaluation Team visited Indonesia in February 2002;
- *Fiji Islands*. The Evaluation Team visited the Fiji Islands in February 2002; and
- *Thailand*. The Evaluation Team visited Thailand in March 2002.

The reports on these mutual evaluations were adopted at the APG's Fifth Annual Meeting in June 2002. In each case, members:

- received an oral report on the mutual evaluation from the Evaluation Team, highlighting the major findings and recommendations contained in each report.
- heard a response from the jurisdiction being evaluated;
- heard questions from Intervenors concerning matters canvassed in the report and the jurisdiction's answers to those questions; and
- formally adopted the mutual evaluation report.

The conclusions and recommendations contained in each evaluation report are reproduced at Annex D.

APG Mutual Evaluation Procedures

At the Fourth Annual Meeting held in May 2001, APG mutual evaluation procedures were formally endorsed by members. These procedures, which are closely based on those used by the FATF and other regional anti-money laundering groups, were

revised at the 2002 Annual Meeting in the light of experience over the previous 12 months.

Previous mutual evaluations – update on response to reports adopted at the 2000 and 2001 Annual Meetings

Under the APG's procedures, all evaluated members are required to provide a report at APG annual meetings on the progress they have made in implementing the recommendations in the evaluation report.

At the 2002 APG Annual Meeting, APG members received written and oral progress reports from the five jurisdictions previously evaluated by the APG: Vanuatu (evaluated in 2000), Samoa, Chinese Taipei, Labuan International Offshore Financial Centre (Malaysia) and Macau, China (all evaluated in 2001).

Members noted the progress made by each jurisdiction in response to the recommendations contained in their mutual evaluation reports and commended the jurisdictions for their commitment.

Schedule of future mutual evaluations

A full program of mutual evaluations is planned for 2002 – 2003, with all APG members due to be evaluated by the middle of 2004.⁵

Regional 'snapshot'

In the APG's First Annual Report 1999 – 2000, a 'regional snapshot' was provided of the anti-money laundering legislative situation as at 30 June 2000 together with a comparison with the situation in 1995. This snapshot indicated that APG members and other jurisdictions in the region had made considerable progress in recent years in implementing anti-money laundering legislative measures. A further update was provided in last year's Annual Report, showing that steady progress had continued to be made across the Asia/Pacific region.

Significant further progress has been in the region made during the reporting period. What follows is a 'snapshot' of the situation as at 30 June 2002. For the purposes of this summary the term 'Asia/Pacific Region' includes the following jurisdictions:

Australia; Bangladesh; Bhutan; Brunei Darussalam; Burma (Myanmar); Cambodia; Canada; China, People's Republic of; Chinese Taipei; Cook Islands; Fiji Islands; Hong Kong, China; India; Indonesia; Japan; Kiribati; Korea, Republic of; Laos (Lao People's Democratic Republic); Macau, China; Malaysia; Maldives; Marshall Islands; Micronesia; Mongolia; Nauru; Nepal; New Caledonia (France); New Zealand; Niue; Pakistan; Palau; Papua New Guinea; Philippines; Polynesia (France); Samoa; Singapore; Solomon Islands; Sri Lanka; Thailand; Tokelau; Tonga; Tuvalu; United States of America; Vanuatu; Vietnam; Wallis and Futuna Islands (France)

⁵ Six APG members are members of the Financial Task Force on Money Laundering (FATF): Australia; Hong Kong, China; Japan; New Zealand; Singapore; and the United States of America. The FATF conducts its own mutual evaluations of its members. It is the APG's policy to accept the FATF's mutual evaluations for the purposes of the APG. Therefore, at this stage there are no plans to conduct APG mutual evaluations of the six APG/FATF jurisdictions.

Caveats

The information in this summary is derived from a number of sources. While efforts have been made to ensure its accuracy it is possible that some changes have occurred since preparation. As a consequence readers should only rely on this summary as an outline.

Even though a jurisdiction may be shown to have money laundering laws in place, this does not necessarily mean that those jurisdictions have a complete 'package' of anti-money laundering laws (a criminal offence of money laundering, seizure, confiscation and forfeiture of criminal proceeds, a full suspicious transactions reporting regime and extradition for money laundering offences) or have established a financial intelligence unit.

Statistically the legislative position in the region as at 30 June 2002 was as follows (figures as at 30 June 2001 are shown in brackets for comparison):

25 (24)	Jurisdictions had acceded to, or ratified the Vienna Convention 1988
33 (23)	Jurisdictions had criminalized money laundering with respect to narcotic offences
8 (15)	Jurisdictions had draft laws under consideration criminalizing money laundering with respect to narcotic offences
30 (20)	Jurisdictions had criminalized money laundering with respect to serious offences
8 (15)	Jurisdictions had draft laws under consideration criminalizing money laundering with respect to serious offences
31 (21)	Jurisdictions had suspicious transaction reporting in place

Statistical Summary by Jurisdiction as at 30 June 2002

25 Jurisdictions have acceded to, or ratified the Vienna Convention 1988

Australia	Indonesia	Polynesia (Fr)
Bangladesh	Japan	Singapore
Brunei Darussalam	Korea	Sri Lanka
Burma (Myanmar)	Malaysia	Tonga
Canada	Nepal	United States of America
China, PRC	New Caledonia (Fr)	Vietnam
Fiji Islands	New Zealand	Wallis and Futuna (Fr)
Hong Kong, China	Pakistan	
India	Philippines	

33 Jurisdictions have criminalized money laundering with respect to narcotic offences

Australia	Indonesia	Pakistan
Bangladesh	Japan	Palau
Brunei Darussalam	Korea	Philippines
Burma (Myanmar)	Macau, China	Polynesia (Fr)
Cambodia	Malaysia	Samoa
Canada	Marshall Islands	Singapore
China, PRC	Micronesia	Thailand
Chinese Taipei	Nauru	Tonga
Cook Islands	New Caledonia (Fr)	United States of America
Fiji Islands	New Zealand	Vanuatu
Hong Kong, China	Niue	Wallis and Futuna (Fr)

8 Jurisdictions have draft laws under consideration criminalizing money laundering with respect to narcotic offences

India	Nepal	Tuvalu
Kiribati	Solomon Islands	Vietnam
Maldives	Sri Lanka	

30 Jurisdictions have criminalized money laundering with respect to serious offences

Australia	Japan	Palau
Bangladesh	Korea	Philippines
Brunei Darussalam	Macau, China	Polynesia (Fr)
Canada	Malaysia	Samoa
China, PRC	Marshall Islands	Singapore
Chinese Taipei	Micronesia	Thailand
Cook Islands	Nauru	Tonga
Fiji Islands	New Caledonia (Fr)	United States of America
Hong Kong, China	New Zealand	Vanuatu
Indonesia	Niue	Wallis and Futuna (Fr)

8 Jurisdictions have draft laws under consideration criminalizing money laundering with respect to serious offences

Burma (Myanmar)	Kiribati	Solomon Islands
Cambodia	Nepal	Tuvalu
India	Pakistan	

31 Jurisdictions have suspicious transactions reporting in place

Australia	Korea	Polynesia (Fr)
Bangladesh	Macau, China	Samoa
Brunei Darussalam	Malaysia	Singapore
Burma (Myanmar)	Marshall Islands	Thailand
Canada	Nauru	Tonga
Chinese Taipei	New Caledonia (Fr)	United States of America
Cook Islands	New Zealand	Vanuatu
Fiji Islands	Niue	Vietnam
Hong Kong, China	Pakistan	Wallis and Futuna (Fr)
Indonesia	Palau	
Japan	Philippines	

It was noted last year that while much work remains to be done in the region, real progress had been made. The trend of steady progress continued in 2001 – 2002 and, indeed, accelerated considerably in relation to the enactment of anti-money laundering laws with respect to narcotic and other serious offences and the introduction of suspicious transaction reporting regimes.

Annex E provides a brief summary by jurisdiction of the anti-money laundering situation in APG member jurisdictions.

9. Counter-terrorist financing measures

This chapter reports on progress made against Goal 7 of the Strategic Plan, which is to *facilitate the implementation of the FATF Special Recommendations on Terrorist Financing and the relevant United Nations instruments in all member jurisdictions*.

As noted previously, this new goal was added to the APG's Strategic Plan, and the Plan's Mission Statement was altered to refer to terrorist financing, following the events of 11 September 2001. Strategies adopted to achieve this goal include:

- in conjunction with the FATF and FATF members, raise awareness of and assist APG members to comply with the FATF's Plan of Action for implementation of the Special Recommendations including conducting a self-assessment of members and observers and obtaining a commitment from members and observers to come into compliance with the Special Recommendations; and
- consulting and co-ordinating with all international and regional organisations and any jurisdictions that have provided, or anticipate providing, technical assistance and training in the region in this area and co-ordinate the delivery of such assistance.

Awareness raising, commitment and self-assessment

Following the adoption by the FATF of the eight Special Recommendations on Terrorist Financing on 31 October 2001, the Special Recommendations were promptly distributed to APG members and placed on the APG website (see Annex B).

A commitment to counter terrorist financing was promptly included in the *APG Strategic Plan July 2001 – June 2004*, a revised version of which was finalised in February 2002. Changes to the APG Terms of Reference were agreed at the 2002 APG Annual Meeting to reflect members' commitment to comply with the eight Special Recommendations and relevant UN resolutions. This is now one of the requirements for membership of the APG.

All APG Members have been encouraged to complete the FATF self-assessment questionnaire on the terrorist financing recommendations. As at June 2002, 12 APG members had completed the questionnaire, with several more members indicating their intention to complete the questionnaire.

There was very good attendance by APG members at the FATF's Special Forum on Terrorist Financing held in Hong Kong, China in February 2002, with 19 out of 22 APG members attending. The Special Recommendations were also discussed in depth at the APG Annual Meeting in June 2002 and will be further considered at the APG's 2002 Typologies Workshop as one of the major topics for discussion.

In addition, the Head of the APG Secretariat made a presentation and chaired a session at the ASEAN Regional Forum Workshop on Financial Measures Against Terrorism and the Pacific Islands Forum Regional Counter-Terrorism Workshop held in Honolulu in March 2002.

Technical assistance and training issues

Terrorist financing issues are being included as part of the APG's comprehensive Technical Assistance and Training Strategy and will be a major focus over the next 12 months. These issues will also be considered by the mechanisms being established to co-ordinate the provision of technical assistance and training in the region (APG Donors and Providers Group) and globally (the co-ordination established by the World Bank).

10. Support services and financial statements

APG Secretariat

The work of the APG is supported by a small Secretariat based in Sydney, Australia. The work of APG Secretariat has expanded considerably since it was established in February 1997, with a current focus on providing information and advice on a daily basis to APG members.

Role of the Secretariat

The role of the Secretariat is to assist jurisdictions in the Asia/Pacific region to introduce internationally accepted anti-money laundering measures. Responsibilities of the Secretariat include:

- providing expertise and material concerning money laundering to member jurisdictions and other interested parties;
- organising/conducting the APG's annual and other meetings;
- preparing, conducting and chairing specialist law enforcement typology workshops (methods, trends and case studies on money laundering);
- reporting to and advising the APG annual meeting and Working Groups and the FATF;
- providing advice and information to and linkages between agencies (especially financial, legal and law enforcement agencies) on anti-money laundering matters;
- establishing and maintaining effective working relationships with relevant international and regional organisations in order to advance the APG's work and its regional strategy;
- implementing the APG's technical assistance and training strategy including improvements to information exchange mechanisms and financial investigation skills;
- preparing assessment mechanisms and conducting evaluations of the anti-money laundering systems in jurisdictions in the Asia/Pacific region.

Staff

As at 30 June 2002, the staffing of the Secretariat was as follows:

Mr Rick McDonell	Head of APG Secretariat
Mr Eliot Kennedy	Executive Officer
Ms Anastasia Petropoulos	Project Officer
Ms Helen Newell	Administrator

Rick McDonell has been Head of the APG Secretariat since its inception. Eliot Kennedy joined the Secretariat in March 2001. Anastasia Petropoulos joined the Secretariat in April 1998. Helen Newell joined the Secretariat as Administrative Assistant in March 2002.

Contact details for the Secretariat are as follows:

APG Secretariat

1st Floor, 201 Elizabeth Street, Sydney 2000, Australia
 GPO Box 5260, Sydney 2001, Australia

Telephone: 61 2 9373 2438
 Facsimile: 61 2 9373 2499
 Email: mail@apgml.org
 Website: www.apgml.org

Budget and Financial Statements

At the Fourth Annual Meeting held in May 2001, members agreed to adopt an overall budget for the APG Secretariat for the 2001 – 2002 financial year of US\$396,000, excluding any voluntary contributions. Members also adopted a revised budget formula under which:

- members were required to pay contributions to fully fund the total estimated running costs of the APG (rather than relying in part on voluntary donations from some members);
- any voluntary donations were to be held in a separate fund to be used for contingencies and will be fully accounted for;
- members were divided into three groups based on their GDP and their required contributions calculated accordingly.

The APG has continued in 2001 – 02 to operate within its overall budget. The financial statements for the financial year 2001 – 02 are at Annex C.

The APG's overall budget is expressed in US dollars in order to increase its transparency to members. The APG Secretariat however is based in Sydney, Australia, with most of its expenses being incurred in Australian dollars. The Secretariat's accounts are therefore held in Australia and its audited financial statements are expressed in Australian dollars.

At the 2001 Annual Meeting, members also decided that for the 2002 Annual Meeting, the APG Secretariat should look at alternatives to the method of calculating members' contributions used in the budget formula and to that end the Secretariat should prepare options for consideration. This was done with the assistance of APG Co-Chair Malaysia and a comprehensive budget paper was prepared for the 2002 Annual Meeting.

At the 2002 Annual Meeting, APG Co-chair Dato' Huang Sin Cheng outlined the proposed changes to the budget formula which had been designed to better reflect members' ability to pay, bearing in mind both their GDP and GDP per capita. APG members agreed to adopt the proposed new formula and the proposed budget for 2002 – 03. The proposed total budget for the APG's work program for 2002–2003 is US\$401,210.

11. Future directions and priorities

During 2001 – 2002, further significant progress was made in implementing a program of regional co-ordination in combating money laundering. Advances were made in the areas of mutual evaluation and technical assistance and training in particular, and in the passage and enhancement of anti-money laundering legislation by APG members and observers.

In 2002 – 03 and beyond, the APG will seek to build on the momentum created during the year under review by further expanding technical assistance and training programs, continuing to carry out its mutual evaluation schedule, conducting a typologies exercise and, it is hoped, further expanding the APG's membership.

Co-operation – both between APG members and with relevant international organisations – will remain fundamental to the APG's efforts to promote a regional response to the global threats of money laundering and terrorist financing. This will especially be the case in relation to the provision of technical assistance and training, the development and implementation of a new assessment methodology for anti-money laundering/counter-terrorist financing compliance, and the review of the Forty Recommendations.

The APG's 2002 – 03 work program aims to enhance in a practical way the region's anti-money laundering response. Highlights of the program include:

- mutual evaluations of a number of members prior to the Annual Meeting in May 2003, including Korea, the Philippines and Bangladesh;
- the conduct of a Typologies Workshop in October 2002 in Vancouver, Canada;
- co-ordination and delivery of Technical Assistance and Training Projects and Missions and an expansion of the scope of technical assistance and training delivered to APG members and observers;
- contribution to, and implementation of issues arising from, the review of the FATF 40 Recommendations;
- increased anti-terrorist financing activities;
- continued work by the APG Working Group on Alternative Remittance and Underground Banking Systems and the APG Working Group on Information Sharing;
- increasing the level and effectiveness of APG communication tools, including the APG web site;
- conduct of the Fifth Annual Meeting in Manila, the Philippines in May 2003; and
- continued co-operation with related organisations and bodies, including the FATF, other regional anti-money laundering bodies, international and regional financial institutions, the UNODCCP, Interpol, World Customs Organisation, the Commonwealth Secretariat and the Pacific Islands Forum Secretariat.



**Asia / Pacific Group
on Money Laundering**

**Annual Report
1 July 2001 – 30 June 2002**

ANNEXES



ANNEX A: APG Terms of Reference¹

As amended by the APG Annual Meeting, June 2002

RECOGNISING IN BANGKOK ON 27 FEBRUARY 1997 THAT:

- Money laundering is a significant international issue which requires global action;
- The Asia/Pacific region needs to address this issue as part of the global response;
- The capacity of individual jurisdictions to deal with the issue is limited because of its nature, complexity and international scope;
- Close co-operation between jurisdictions is necessary and much can be gained by increasing understanding of the problem and its solutions;
- There are accepted international standards (the Financial Action Task Force's 40 Recommendations) but the best way to apply the standards within the region needs to be reviewed;
- There is an increasing risk of vulnerability to money laundering in the Asia/Pacific region as other regions introduce anti-money laundering measures; and
- A plan of action should be developed to address regional co-operation, the adoption of standards and to provide assistance to jurisdictions in tackling the problem,

JURISDICTIONS ESTABLISHED THE ASIA/PACIFIC GROUP ON MONEY LAUNDERING.

NOTING THAT

The Working Party, established by the APG met in Beijing 7 - 9 July 1997 and agreed that:

The 40 Recommendations are the guiding principles for action for the creation of an effective anti-money laundering framework. Member jurisdictions will implement the 40 Recommendations according to their particular cultural values and constitutional frameworks thus allowing them a measure of flexibility rather than prescribing every detail.

¹ The Asia/Pacific Group on Money Laundering (APG) was established at a meeting held in Bangkok, 25–27 February 1997. Terms of Reference for the APG were agreed and adopted at that meeting. The Terms of Reference have been revised and approved at each of the APG's annual meetings – Tokyo, March 1998, Manila, August 1999, Sydney, June 2000, Kuala Lumpur, May 2001 and Brisbane, June 2002.

RECOGNISING THAT

- The United Nations Security Council has adopted a number of Resolutions dealing with terrorist financing; and
- The Financial Action Task Force on Money Laundering has adopted Eight Special Recommendations on Terrorist Financing; and

NOTING THAT

- APG member jurisdictions adopted a new APG Strategic Plan 2001 – 2004 which included a commitment to combat terrorist financing

THE ASIA/PACIFIC GROUP ON MONEY LAUNDERING AGREED IN JUNE 2002 THAT

- All member jurisdictions will implement in accordance with their own constitutional arrangements the United Nations Security Council Resolutions dealing with terrorist financing; and
- All member jurisdictions will implement in accordance with their own constitutional arrangements the Eight FATF Special Recommendations on Terrorist Financing.

Purpose

The APG:

1. Provides a focus for co-operative anti-money laundering and anti-terrorist financing efforts in the region;
2. Provides a forum in which:
 - (a) regional issues can be discussed and experiences shared,
 - (b) operational co-operation among member jurisdictions is encouraged;
3. Facilitates the adoption and implementation by member jurisdictions of internationally accepted anti-money laundering and anti-terrorist financing measures;
4. Enables regional and jurisdictional factors to be taken into account in the implementation of international anti-money laundering and anti-terrorist financing measures;
5. Encourages jurisdictions to implement anti-money laundering and anti-terrorist financing initiatives including more effective mutual legal assistance; and
6. Co-ordinates and provides practical support, where possible, to member and observer jurisdictions in the region which request it.

Nature

The APG is voluntary and co-operative in nature. The APG is established by agreement among its members and is autonomous. It does not derive from an

international treaty. It is not part of any international organisation. However, it will need to keep itself informed of action taken or formal agreements made by relevant international and regional organisations or bodies in order to promote a consistent global response to money laundering and terrorist financing.

The work to be done by the APG and its procedures will be decided by consensus agreement among its members.

Membership

Membership of the APG is open to any jurisdiction within the Asia/Pacific region which:

1. Recognises the need for action to be taken to combat money laundering and terrorist financing;
2. Recognises the benefits to be obtained by sharing knowledge and experience;
3. Has taken or is actively taking steps to develop, pass and implement anti-money laundering and anti-terrorist financing legislation and other measures based on accepted international standards;
4. Subject to its domestic laws, commits itself to implementing the decisions made by the APG;
5. Commits itself to participation in the mutual evaluation programme;
6. Contributes to the APG budget in accordance with arrangements agreed by the APG.

It is not a precondition for participation in the APG that anti-money laundering or anti-terrorist financing laws be already enacted.

Each jurisdiction will decide on the particular steps it will take to combat money laundering and terrorist financing. The response by individual jurisdictions will, however, be significantly assisted by participation in the APG.

The APG will welcome new members from the Asia/Pacific region. Smaller jurisdictions whose direct involvement may be difficult may wish to participate in the APG through an appropriate sub-regional forum. To those jurisdictions not yet ready to assume all the requirements of full membership, the APG offers a form of participation in its activities through observer status.

Observer Status

The APG recognises that there are significant benefits for member jurisdictions from continuing contact with non-member jurisdictions. As such, the meetings of the APG will also serve to provide opportunities for regular consultation with non-member jurisdictions from within and outside the region who could be invited to attend as observers.

The APG also recognises that many international organisations have a strong interest in anti-money laundering and anti-terrorist financing initiatives. The APG welcomes the support and co-operation from international organisations and other, non-member jurisdictions, that may be willing to provide resources to assist the work of the APG.

Observers are:

- (i) jurisdictions which are considering membership of the APG and which are prepared to meet the first three requirements for membership of the APG;
- (ii) organisations which actively support or otherwise are interested in the objectives of the APG;
- iii) any other jurisdiction or organisation invited by the Co-Chairs and to which no APG member objects.

In addition to the FATF, the organisations which attended the inaugural meeting (ASEAN Secretariat, Asian Development Bank, International Monetary Fund, International Organisation of Securities Commissions, INTERPOL, Offshore Group of Banking Supervisors, United Nations Crime Prevention and Criminal Justice Division, United Nations International Drug Control Programme and World Customs Organisation) and any other international organisation with an interest in effectively combating money laundering will be encouraged to participate in future meetings of the APG as observers.

The participation (and the nature of such participation) of non-member jurisdictions and international organisations will be determined by the APG on a case-by-case basis.

Meetings

The APG will meet at least once each year. At APG meetings decisions will be made. All APG member jurisdictions should ensure that their delegations to APG meetings have full instructions to participate in the meetings. All decisions at APG meetings shall be by consensus.

Meetings will normally be held in member jurisdictions. In addition to an annual meeting of the APG, meetings may be conducted to coincide with money laundering methods meetings. Some meetings may be limited to APG member jurisdictions only.

Invitations to the annual meeting may be extended to non-member jurisdictions to attend as observers.

While meetings will generally be open to observers some parts of a meeting may be limited to member jurisdictions only to enable the APG to conduct formal consideration of issues which require the agreement of its members.

To ensure a global approach to anti-money laundering and anti-terrorist financing, member jurisdictions of the APG will work closely with the Financial Action Task Force (FATF) and other FATF-style regional bodies. The FATF President and FATF Secretariat will attend APG meetings on the same basis that the APG Co-Chairs and Secretariat attend FATF meetings.

Meetings should be held at the same time each year.

Strategic Plan and Business Plan

Consistent with these Terms of Reference, the APG will:

develop a Strategic Plan every three years, to be endorsed by all members, which will set out the APG's mission and goals for each three year period; and

develop an annual Business Plan, to be endorsed by all members, which will set out in greater detail the work program of the APG.

Secretariat

Secretariat services will be provided by the Asia/Pacific Group on Money Laundering Secretariat. The APG Secretariat is located in Sydney, Australia. The APG Secretariat will provide a similar service to that provided by secretariats of other anti-money laundering bodies.

Working Parties

To enable the work of the APG to be addressed between meetings, Working Parties may be formed. Member jurisdictions may participate in all APG Working Parties, Typologies Workshops and ad hoc committees established in response to specific issues.

Chairing of the APG

There will be two co-chairs of the APG. During the formative stage of the APG, one co-chair position will be held by Australia which will host the annual meeting in alternate years. The other co-chair position will be rotated every two years amongst member jurisdictions. The rotating co-chair position will be decided every second year at an annual meeting and will carry with it the responsibility of hosting the following annual meeting.

Resources

The APG recognises that the ongoing work of the APG, and in particular the capacity of the Secretariat to assist jurisdictions, will depend on the resources available to it. APG member jurisdictions will determine the budget required for the APG to carry out its work program on an annual basis according to a fair and equitable budget formula which will be revised and agreed from time to time.

Contact Points

Each member jurisdiction is required to nominate a person to act as the central contact point for the APG Secretariat. In addition, each member will nominate an appropriate contact point for the three relevant money laundering sectors: legal, financial and law enforcement.

Non-member jurisdictions and organisations will be requested to nominate a person or persons who will be the central point of contact in relation to money laundering matters and the work of the APG.

ANNEX B: The Forty Recommendations of the FATF

A. GENERAL FRAMEWORK OF THE RECOMMENDATIONS

1. Each country should take immediate steps to ratify and to implement fully, the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the Vienna Convention).
2. Financial institution secrecy laws should be conceived so as not to inhibit implementation of these recommendations.
3. An effective money laundering enforcement program should include increased multilateral co-operation and mutual legal assistance in money laundering investigations and prosecutions and extradition in money laundering cases, where possible.

B. ROLE OF NATIONAL LEGAL SYSTEMS IN COMBATING MONEY LAUNDERING

Scope of the Criminal Offence of Money Laundering

4. Each country should take such measures as may be necessary, including legislative ones, to enable it to criminalise money laundering as set forth in the Vienna Convention. Each country should extend the offence of drug money laundering to one based on serious offences. Each country would determine which serious crimes would be designated as money laundering predicate offences.
5. As provided in the Vienna Convention, the offence of money laundering should apply at least to knowing money laundering activity, including the concept that knowledge may be inferred from objective factual circumstances.
6. Where possible, corporations themselves - not only their employees - should be subject to criminal liability.

Provisional Measures and Confiscation

7. Countries should adopt measures similar to those set forth in the Vienna Convention, as may be necessary, including legislative ones, to enable their competent authorities to confiscate property laundered, proceeds from, instrumentalities used in or intended for use in the commission of any money laundering offence, or property of corresponding value, without prejudicing the rights of bona fide third parties.

Such measures should include the authority to: (1) identify, trace and evaluate property which is subject to confiscation; (2) carry out provisional measures, such as freezing and seizing, to prevent any dealing, transfer or disposal of such property; and (3) take any appropriate investigative measures.

In addition to confiscation and criminal sanctions, countries also should consider monetary and civil penalties, and/or proceedings including civil proceedings, to void contracts entered into by parties, where parties knew or should have known that as a result of the contract, the State would be prejudiced in its ability to recover financial claims, e.g. through confiscation or collection of fines and penalties.

C. ROLE OF THE FINANCIAL SYSTEM IN COMBATING MONEY LAUNDERING

8. Recommendations 10 to 29 should apply not only to banks, but also to non-bank financial institutions. Even for those non-bank financial institutions which are not subject to a formal prudential supervisory regime in all countries, for example bureaux de change, governments should ensure that these institutions are subject to the same anti-money laundering laws or regulations as all other financial institutions and that these laws or regulations are implemented effectively.

9. The appropriate national authorities should consider applying Recommendations 10 to 21 and 23 to the conduct of financial activities as a commercial undertaking by businesses or professions which are not financial institutions, where such conduct is allowed or not prohibited. Financial activities include, but are not limited to, those listed in the attached annex. It is left to each country to decide whether special situations should be defined where the application of anti-money laundering measures is not necessary, for example, when a financial activity is carried out on an occasional or limited basis.

Customer Identification and Record-keeping Rules

10. Financial institutions should not keep anonymous accounts or accounts in obviously fictitious names: they should be required (by law, by regulations, by agreements between supervisory authorities and financial institutions or by self-regulatory agreements among financial institutions) to identify, on the basis of an official or other reliable identifying document, and record the identity of their clients, either occasional or usual, when establishing business relations or conducting transactions (in particular opening of accounts or passbooks, entering into fiduciary transactions, renting of safe deposit boxes, performing large cash transactions).

In order to fulfil identification requirements concerning legal entities, financial institutions should, when necessary, take measures:

- (i) to verify the legal existence and structure of the customer by obtaining either from a public register or from the customer or both, proof of incorporation, including information concerning the customer's name, legal form, address, directors and provisions regulating the power to bind the entity.
- (ii) to verify that any person purporting to act on behalf of the customer is so authorised and identify that person.

11. Financial institutions should take reasonable measures to obtain information about the true identity of the persons on whose behalf an account is opened or a transaction conducted if there are any doubts as to whether these clients or customers are acting on their own behalf, for example, in the case of domiciliary companies (i.e. institutions, corporations, foundations, trusts, etc. that do not conduct any commercial or manufacturing business or any other form of commercial operation in the country where their registered office is located).

12. Financial institutions should maintain, for at least five years, all necessary records on transactions, both domestic or international, to enable them to comply swiftly with information requests from the competent authorities. Such records must be sufficient to permit reconstruction of individual transactions (including the amounts and types of

currency involved if any) so as to provide, if necessary, evidence for prosecution of criminal behaviour.

Financial institutions should keep records on customer identification (e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents), account files and business correspondence for at least five years after the account is closed.

These documents should be available to domestic competent authorities in the context of relevant criminal prosecutions and investigations.

13. Countries should pay special attention to money laundering threats inherent in new or developing technologies that might favour anonymity, and take measures, if needed, to prevent their use in money laundering schemes.

Increased Diligence of Financial Institutions

14. Financial institutions should pay special attention to all complex, unusual large transactions, and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose. The background and purpose of such transactions should, as far as possible, be examined, the findings established in writing, and be available to help supervisors, auditors and law enforcement agencies.

15. If financial institutions suspect that funds stem from a criminal activity, they should be required to report promptly their suspicions to the competent authorities.

16. Financial institutions, their directors, officers and employees should be protected by legal provisions from criminal or civil liability for breach of any restriction on disclosure of information imposed by contract or by any legislative, regulatory or administrative provision, if they report their suspicions in good faith to the competent authorities, even if they did not know precisely what the underlying criminal activity was, and regardless of whether illegal activity actually occurred.

17. Financial institutions, their directors, officers and employees, should not, or, where appropriate, should not be allowed to, warn their customers when information relating to them is being reported to the competent authorities.

18. Financial institutions reporting their suspicions should comply with instructions from the competent authorities.

19. Financial institutions should develop programs against money laundering. These programs should include, as a minimum:

- (i) the development of internal policies, procedures and controls, including the designation of compliance officers at management level, and adequate screening procedures to ensure high standards when hiring employees;
- (ii) an ongoing employee training programme;
- (iii) an audit function to test the system.

Measures to Cope with the Problem of Countries with No or Insufficient Anti-Money Laundering Measures

20. Financial institutions should ensure that the principles mentioned above are also applied to branches and majority owned subsidiaries located abroad, especially in countries which do not or insufficiently apply these Recommendations, to the extent that local applicable laws and regulations permit. When local applicable laws and regulations prohibit this implementation, competent authorities in the country of the

mother institution should be informed by the financial institutions that they cannot apply these Recommendations.

21. Financial institutions should give special attention to business relations and transactions with persons, including companies and financial institutions, from countries which do not or insufficiently apply these Recommendations. Whenever these transactions have no apparent economic or visible lawful purpose, their background and purpose should, as far as possible, be examined, the findings established in writing, and be available to help supervisors, auditors and law enforcement agencies.

Other Measures to Avoid Money Laundering

22. Countries should consider implementing feasible measures to detect or monitor the physical cross-border transportation of cash and bearer negotiable instruments, subject to strict safeguards to ensure proper use of information and without impeding in any way the freedom of capital movements.

23. Countries should consider the feasibility and utility of a system where banks and other financial institutions and intermediaries would report all domestic and international currency transactions above a fixed amount, to a national central agency with a computerised data base, available to competent authorities for use in money laundering cases, subject to strict safeguards to ensure proper use of the information.

24. Countries should further encourage in general the development of modern and secure techniques of money management, including increased use of checks, payment cards, direct deposit of salary checks, and book entry recording of securities, as a means to encourage the replacement of cash transfers.

25. Countries should take notice of the potential for abuse of shell corporations by money launderers and should consider whether additional measures are required to prevent unlawful use of such entities.

Implementation, and Role of Regulatory and other Administrative Authorities

26. The competent authorities supervising banks or other financial institutions or intermediaries, or other competent authorities, should ensure that the supervised institutions have adequate programs to guard against money laundering. These authorities should co-operate and lend expertise spontaneously or on request with other domestic judicial or law enforcement authorities in money laundering investigations and prosecutions.

27. Competent authorities should be designated to ensure an effective implementation of all these Recommendations, through administrative supervision and regulation, in other professions dealing with cash as defined by each country.

28. The competent authorities should establish guidelines which will assist financial institutions in detecting suspicious patterns of behaviour by their customers. It is understood that such guidelines must develop over time, and will never be exhaustive. It is further understood that such guidelines will primarily serve as an educational tool for financial institutions' personnel.

29. The competent authorities regulating or supervising financial institutions should take the necessary legal or regulatory measures to guard against control or acquisition of a significant participation in financial institutions by criminals or their confederates.

D. STRENGTHENING OF INTERNATIONAL CO-OPERATION

Administrative Co-operation

Exchange of general information

30. National administrations should consider recording, at least in the aggregate, international flows of cash in whatever currency, so that estimates can be made of cash flows and reflows from various sources abroad, when this is combined with central bank information. Such information should be made available to the International Monetary Fund and the Bank for International Settlements to facilitate international studies.

31. International competent authorities, perhaps Interpol and the World Customs Organisation, should be given responsibility for gathering and disseminating information to competent authorities about the latest developments in money laundering and money laundering techniques. Central banks and bank regulators could do the same on their network. National authorities in various spheres, in consultation with trade associations, could then disseminate this to financial institutions in individual countries.

Exchange of information relating to suspicious transactions

32. Each country should make efforts to improve a spontaneous or "upon request" international information exchange relating to suspicious transactions, persons and corporations involved in those transactions between competent authorities. Strict safeguards should be established to ensure that this exchange of information is consistent with national and international provisions on privacy and data protection.

Other forms of Co-operation

Basis and means for co-operation in confiscation, mutual assistance and extradition

33. Countries should try to ensure, on a bilateral or multilateral basis, that different knowledge standards in national definitions - i.e. different standards concerning the intentional element of the infraction - do not affect the ability or willingness of countries to provide each other with mutual legal assistance.

34. International co-operation should be supported by a network of bilateral and multilateral agreements and arrangements based on generally shared legal concepts with the aim of providing practical measures to affect the widest possible range of mutual assistance.

35. Countries should be encouraged to ratify and implement relevant international conventions on money laundering such as the 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. *Focus of improved mutual assistance on money laundering issues*

36. Co-operative investigations among countries' appropriate competent authorities should be encouraged. One valid and effective investigative technique in this respect is controlled delivery related to assets known or suspected to be the proceeds of crime. Countries are encouraged to support this technique, where possible.

37. There should be procedures for mutual assistance in criminal matters regarding the use of compulsory measures including the production of records by financial institutions and other persons, the search of persons and premises, seizure and obtaining of evidence for use in money laundering investigations and prosecutions and in related actions in foreign jurisdictions.

38. There should be authority to take expeditious action in response to requests by foreign countries to identify, freeze, seize and confiscate proceeds or other property of corresponding value to such proceeds, based on money laundering or the crimes underlying the laundering activity. There should also be arrangements for co-ordinating seizure and confiscation proceedings which may include the sharing of confiscated assets.

39. To avoid conflicts of jurisdiction, consideration should be given to devising and applying mechanisms for determining the best venue for prosecution of defendants in the interests of justice in cases that are subject to prosecution in more than one country. Similarly, there should be arrangements for co-ordinating seizure and confiscation proceedings which may include the sharing of confiscated assets.

40. Countries should have procedures in place to extradite, where possible, individuals charged with a money laundering offence or related offences. With respect to its national legal system, each country should recognise money laundering as an extraditable offence. Subject to their legal frameworks, countries may consider simplifying extradition by allowing direct transmission of extradition requests between appropriate ministries, extraditing persons based only on warrants of arrests or judgements, extraditing their nationals, and/or introducing a simplified extradition of consenting persons who waive formal extradition proceedings.

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FATF Special Recommendations on Terrorist Financing

Recognising the vital importance of taking action to combat the financing of terrorism, the FATF has agreed these Recommendations, which, when combined with the FATF Forty Recommendations on money laundering, set out the basic framework to detect, prevent and suppress the financing of terrorism and terrorist acts.

I. Ratification and implementation of UN instruments

Each country should take immediate steps to ratify and to implement fully the 1999 United Nations International Convention for the Suppression of the Financing of Terrorism.

Countries should also immediately implement the United Nations resolutions relating to the prevention and suppression of the financing of terrorist acts, particularly United Nations Security Council Resolution 1373.

II. Criminalising the financing of terrorism and associated money laundering

Each country should criminalise the financing of terrorism, terrorist acts and terrorist organisations. Countries should ensure that such offences are designated as money laundering predicate offences.

III. Freezing and confiscating terrorist assets

Each country should implement measures to freeze without delay funds or other assets of terrorists, those who finance terrorism and terrorist organisations in accordance with the United Nations resolutions relating to the prevention and suppression of the financing of terrorist acts.

Each country should also adopt and implement measures, including legislative ones, which would enable the competent authorities to seize and confiscate property that is the proceeds of, or used in, or intended or allocated for use in, the financing of terrorism, terrorist acts or terrorist organisations.

IV. Reporting suspicious transactions related to terrorism

If financial institutions, or other businesses or entities subject to anti-money laundering obligations, suspect or have reasonable grounds to suspect that funds are linked or related to, or are to be used for terrorism, terrorist acts or by terrorist organisations, they should be required to report promptly their suspicions to the competent authorities.

V. International Co-operation

Each country should afford another country, on the basis of a treaty, arrangement or other mechanism for mutual legal assistance or information exchange, the greatest possible measure of assistance in connection with criminal, civil enforcement, and administrative investigations, inquiries and proceedings relating to the financing of terrorism, terrorist acts and terrorist organisations.

Countries should also take all possible measures to ensure that they do not provide safe havens for individuals charged with the financing of terrorism, terrorist acts or terrorist organisations, and should have procedures in place to extradite, where possible, such individuals.

VI. Alternative Remittance

Each country should take measures to ensure that persons or legal entities, including agents, that provide a service for the transmission of money or value, including transmission through an informal money or value transfer system or network, should be licensed or registered and subject to all the FATF Recommendations that apply to banks and non-bank financial institutions. Each country should ensure that persons or legal entities that carry out this service illegally are subject to administrative, civil or criminal sanctions.

VII. Wire transfers

Countries should take measures to require financial institutions, including money remitters, to include accurate and meaningful originator information (name, address and account number)

on funds transfers and related messages that are sent, and the information should remain with the transfer or related message through the payment chain.

Countries should take measures to ensure that financial institutions, including money remitters, conduct enhanced scrutiny of and monitor for suspicious activity funds transfers which do not contain complete originator information (name, address and account number).

VIII. Non-profit organisations

Countries should review the adequacy of laws and regulations that relate to entities that can be abused for the financing of terrorism. Non-profit organisations are particularly vulnerable, and countries should ensure that they cannot be misused:

- (i) by terrorist organisations posing as legitimate entities;
- (ii) to exploit legitimate entities as conduits for terrorist financing, including for the purpose of escaping asset freezing measures; and
- (iii) to conceal or obscure the clandestine diversion of funds intended for legitimate purposes to terrorist organisations.

ANNEX C: APG Financial statements

For the Year Ended 30 June 2002

ASIA/PACIFIC GROUP ON MONEY LAUNDERING

STATEMENT OF FINANCIAL PERFORMANCE

for the period ended 30 June 2002

		2001-02	2000-01
	Notes	\$	\$
Revenues from Ordinary Activities			
Revenues from government	3A	250,000	250,000
Other	3B	731,971	589,618
Total revenues from ordinary activities		981,971	839,618
<i>Expenses from Ordinary Activities</i>			
Employees	4A	481,779	430,813
Suppliers	4B	517,952	340,813
Other		-	-
Total expenses from ordinary activities		999,731	771,626
<i>Net operating surplus (deficit) from ordinary activities</i>		(17,760)	67,992
<i>Net surplus (deficit)</i>		(17,760)	67,992

The above statement should be read in conjunction with the accompanying notes.

These extracts have been taken from the statement audited and approved by the Australian National Audit Office (ANAO). All amounts are expressed in Australian dollars.

ASIA/PACIFIC GROUP ON MONEY LAUNDERING
STATEMENT OF FINANCIAL POSITION
as at 30 June 2002

ASSETS	Notes	2001-02	2000-01
		\$	\$
Financial Assets			
Cash		63,837	110,540
Receivables	5	231,253	182,235
Total financial assets		295,090	292,775
Total assets		295,090	292,775
LIABILITIES			
Provisions			
Employees	6	202,310	182,235
Total provisions		202,310	182,235
Total liabilities		202,310	182,235
EQUITY			
Capital		-	-
Reserves		-	-
Accumulated surpluses (deficits)		92,780	110,540
Total equity	7	92,780	110,540
Current liabilities		202,310	177,171
Non-current liabilities		-	5,064
Current assets		295,090	292,775
Non-current assets		-	-

The above statement should be read in conjunction with the accompanying notes

ASIA/PACIFIC GROUP ON MONEY LAUNDERING**STATEMENT OF CASH FLOW***For the period ended 30 June 2002*

OPERATING ACTIVITIES	Notes	2001-02	2000-01
		\$	\$
Cash received			
Appropriations for outputs		250,000	250,000
Sales of goods and services		-	2,407
Other		682,953	587,211
Total cash received		932,953	839,618
Cash used			
Employees		461,704	430,813
Suppliers		517,952	340,813
Total cash used		979,656	771,626
Net cash from (used by) operating activities	8	(46,703)	67,992
Net increase (decrease) in cash held		(46,703)	67,992
Cash at the beginning of the reporting period		110,540	42,548
Cash at the end of the reporting period		63,837	110,540

The above statement should be read in conjunction with the accompanying notes.

ASIA/PACIFIC GROUP ON MONEY LAUNDERING
SCHEDULE OF CONTINGENCIES
as at 30 June 2002

SCHEDULE OF UNQUANTIFIABLE CONTINGENCIES

The APG has no known contingencies.

ASIA/PACIFIC GROUP ON MONEY LAUNDERING
SCHEDULE OF COMMITMENTS
as at 30 June 2002

The APG has no known commitments.

ASIA/PACIFIC GROUP ON MONEY LAUNDERING
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2002

Note	Description
1.	Summary of Significant Accounting Policies
2.	Events Occurring after Balance Date
3.	Operating Revenues
4.	Operating Expenses
5.	Financial Assets
6.	Provisions
7.	Equity
8.	Cash Flow Reconciliation
9.	Executive Remuneration
10.	Average Staffing Levels
11.	Act of Grace Payments, Waivers and Defective Administration Scheme
12.	Financial Instruments
13.	Abbreviations

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies

1.1 Objectives of Asia/Pacific Group on Money Laundering

The purpose of the Asia/Pacific Group on Money Laundering (APG) is to facilitate the adoption, implementation and enforcement of internationally accepted anti-money laundering standards in particular the Forty Recommendations of the Financial Action Task Force on Money Laundering (FATF). This includes assisting jurisdictions in the region to enact laws dealing with the proceeds of crime, mutual legal assistance, confiscation, forfeiture and extradition. It also includes the provision of guidance in setting up systems for reporting and investigating suspicious transactions and helping in the establishment of financial intelligence units. The APG allows for regional factors to be taken into account in the implementation of anti-money laundering measures and provides for peer review by means of a mutual evaluation process.

1.2 Basis of Accounting

The financial statements are a general purpose financial report.

The statements have been prepared in accordance with:

- Australian Accounting Standards and Accounting Interpretations issued by Australian Accounting Standards Boards;
- Other authoritative pronouncements of the Boards; and
- Consensus Views of the Urgent Issues Group.

The statements have been prepared having regard to:

- Statements of Accounting Concepts

The Statements of Financial Performance and Financial Position have been prepared on an accrual basis and are in accordance with historical cost convention, except for the certain assets which, as noted, are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

Assets and liabilities are recognised in the Statement of Financial Position when and only when it is probable that future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured. Assets and liabilities arising under agreements equally proportionately unperformed are however not recognised unless required by an Accounting Standard. Liabilities and assets which are unrecognised are reported in the Schedule of Commitments and the Schedule of Contingencies.

Revenues and expenses are recognised in the Statement of Financial Performance and when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

1.3 Changes in Accounting Policy

The accounting policies used in the preparation of these financial statements are consistent with those used in 2000-01.

1.4 Revenue

The revenues described in this Note are revenues to the core operating activities of the APG.

(a) *Revenues from Australian Government*

Membership contribution the Commonwealth of Australia provides to APG is recognised as revenue when received.

(b) *Contributions from other member countries*

Membership contribution to APG received from other members are recognised as revenue when received.

(c) *Other Contributions*

Revenue from the sale of goods and services is recognised upon the delivery of goods or service to members.

1.5 Employee Entitlements

(a) *Leave*

The liability for employee entitlements includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of the Group is estimated to be less than the annual entitlement for sick leave.

The liability for annual leave reflects the value of total annual leave entitlements of all employees at 30 June 2002 and is recognised at the nominal amount.

The non-current portion of the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at 30 June 2002. In determining the present value of the liability, the Group has taken into account attrition rates and pay increases through promotion and inflation.

(b) *Superannuation*

Staff contribute to the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme of Australia. Employer contributions amounting to \$56,969 (2000-01: \$38,605) in relation to these schemes have been expended in these financial statements.

No liability for superannuation is recognised as at 30 June as the employer contributions fully extinguish the accruing liability which is assumed by the Commonwealth of Australia.

Employer superannuation Productivity Benefit contributions totalled \$6,650 (2000-01: \$5,104).

1.6 Cash

Cash means notes and coins held and deposits held at call with a bank or financial institution.

1.7 Financial Instruments

Accounting policies for financial instruments are stated at Notes 12.

1.8 Acquisition of Assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition, unless acquired as a consequence of restructuring administrative arrangements. In the latter case, assets are initially recognised in the transferor agency's accounts immediately prior to the restructuring.

1.9 Taxation

The Group is exempt from all forms of taxation except fringe benefits tax and the goods and services tax.

1.10 Foreign Currency

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables are translated at the exchange rates current as at balance date. Associated currency gains and losses are not material.

1.11 Insurance

National Crime Authority has insured on behalf of the Group's Australian assets and employees for risks through the Australian Government's insurable risk managed fund, called "Comcover". Workers' compensation is insured through Comcare Australia.

1.12 Comparative Figures

Comparative Figures have been adjusted to conform to changes in presentation in these financial statements where required.

1.13 Rounding

Amounts have been rounded to the nearest dollar.

Note 2: Events Occurring after Balance Date

No events have occurred after balance date that has materially effected the 2001-2002 financial statements.

Note 3: Operating RevenuesNote 3A – Contributions From Australian Government

	2001-02	2000-01
	\$	\$
Appropriations from Australian Government	250,000	250,000

Note 3B – Contribution from other Member Jurisdictions / Organisations**Members' Contribution**

Chinese Taipei	44,162	16,151
Cook Islands	4,792	-
Fiji Islands	4,481	-
Hong Kong, China	37,478	39,032
Japan	145,533	125,397
Korea	75,427	19,620
Macau, China	5,058	-
Malaysia	16,623	4,220
Nepal	1,491	-
New Zealand	12,597	10,000
Niue	4,956	-
Pakistan	10,285	-
Philippines	12,822	4,204
Samoa	5,076	4,280
Singapore	16,707	11,586
Thailand	4,716	-
United States	148,875	143,775
Vanuatu	2,387	-
	553,466	378,265

	2001-02 \$	2000-01 \$
Other Contributions		
Australian Customs Service – APG Annual Meeting, 2002	18,182	-
Australian Federal Police – APG Annual Meeting, 2002	32,018	15,000
Australian Prudential Regulation Authority – APG Annual Meeting, 2002	4,545	-
Australian Taxation Office – APG Annual Meeting, 2002	5,000	-
AUSTRAC – APG Annual Meeting, 2002	10,000	-
AusAID – APG Annual Meeting, 2002	50,000	-
Dewey Ballantine – ADB RETA Expenses	22,195	-
- APG Annual Meeting, 2002		
ADB Presentation in Nepal – ISGR Reimbursement	2,019	-
National Crime Authority – APG Annual Meeting, 2002	20,000	-
QLD Premier's Department – APG Annual Meeting, 2002	10,000	-
Reserve Bank of Australia – APG Annual Meeting, 2002	4,546	-
Australian Federal Police – South Pacific Mission	-	10,112
Canada – Pacific Rim Workshop	-	5,827
International Monetary Fund – Washington Workshop	-	13,889
International Monetary Fund – Samoa Workshop	-	2,407
New Zealand – FIU Workshop	-	1,173
USA State Department – Mutual Evaluator Workshop	-	162,945
	178,505	211,353
	731,971	589,618
Total		

Note 4: Operating ExpensesNote 4A – Employee Expenses

	2001-02 \$	2000-01 \$
Remuneration (for services provided)	458,668	418,229
Separation and redundancy	-	-
Total remuneration	458,668	418,229
Other employee expenses	23,111	12,584
Total	481,779	430,813

Note 4B – Suppliers Expenses

Temporary Employee Services and Recruitment	41,247	-
APG Annual Meeting – Host Meeting Costs and Staff Travel	173,449	-
APG Sponsored Mutual Evaluations	90,816	-
Travel – Secretariat Staff APG Typologies	19,224	-
Travel – Secretariat Staff APG Mutual Evaluations	41,602	-
Travel – Secretariat Staff Asia/Pacific Missions	25,859	-
Travel – Secretariat Staff FATF Meetings	38,782	-
Travel – Secretariat Staff Domestic and Regional Meetings	14,247	-
Postage and Freight	3,946	-
Office Equipment and Data Communications	4,063	-
Travel – Overseas APG Sponsored Attendees	38,662	17,017
Motor Vehicle Costs	8,190	15,962
Office Requisites / Printing of APG Documents	7,834	13,705
Other Expenses	10,031	21,825
Travel – Secretariat Staff General	-	135,181
Travel – APG Mutual Evaluator Workshop	-	80,809
Conferences	-	56,314
Total	517,952	340,813

Note 5: Financial AssetsNote 5 – Receivables

National Crime Authority Employee Benefits	202,310	182,235
Debtor – Rydges Hotel Refund	6,748	
Debtors – Asian Development Bank	22,195	-
Receivables (gross) are aged as follows:	231,253	182,235
Not overdue	231,253	182,235

Note 6: ProvisionsNote 6 – Employee Provisions

Leave	202,310	182,235
Current	202,310	177,171
Non-current	-	5,064

Note 7: Equity

Item	Accumulated results		TOTAL EQUITY	
	2001-02	2000-01	2001-02	2000-01
	\$	\$	\$	\$
Balance 1 July	110,540	42,548	110,540	42,548
Net surplus/ (deficit) after extraordinary items	(17,760)	67,992	(17,760)	67,992
Equity injection: Appropriation	-	-	-	-
Restructuring transfers	-	-	-	-
Dividends	-	-	-	-
Capital use charge	-	-	-	-
Net revaluation increments/ decrements	-	-	-	-
Balance 30 June	92,780	110,540	92,780	110,540

2001-02	2000-01
\$	\$

Note 8: Cash Flow Reconciliation

Reconciliation of Cash per Statement of Financial Position to Statement of Cash Flows

• Cash at year end per Statement of Cash Flows	63,837	110,539
• Statement of Financial Position items comprising above cash: "Financial Asset – Cash"	63,837	110,539

Reconciliation of operating surplus to net cash provided by operating activities:

Net surplus (deficit)	(17,760)	67,992
Increase in receivables	(49,018)	(81,717)
Increase in employee liabilities	20,075	81,717
Net cash provided (used) by operating activities	(46,703)	67,992

Note 9: Executive Remuneration

The number of Executive who received or were due to receive total remuneration of \$100,000 or more:

	Number	Number
\$190,001 to \$200,000	-	1
\$220,001 to \$230,000	1	-
The aggregate amount of total remuneration of Executives shown above.	\$223,878	\$191,359

Note 10: Average Staffing Levels

The average staffing levels for the business operating and the Agency during the year were:

3	3
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Note 11: Act of Grace Payments and Waivers and Defective Administration Scheme

No act of Grace payments were made during the reporting period.

No waivers of amounts owing to the Commonwealth were made pursuant to subsection 34(1) of the *Financial Management and Accountability Act 1997*.

No payments were made under the Defective Administration Scheme during the reporting period

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Note 12: Financial Instruments**a) Terms, conditions and accounting policies**

Financial Instrument	Notes	Accounting Policies and Methods (including recognition criteria and measurement basis)	Nature of underlying instrument (including significant terms & conditions affecting the amount, timing and certainty of cash flows)
<i>Financial Assets</i>		Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Cash		Deposits are recognised at their nominal amounts. Interest is credited to revenue as it accrues	The department invests funds with a commercial bank at call. Monies in the Agency's bank accounts are swept into the Official Public Account nightly and interest is earned on the daily balance at rates based on money market call rates. Rates have averaged 4% for the year (2000-01: 4%). Interest is paid quarterly.
Receivables for goods and services	5	These receivables are recognised at the nominal amounts due less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less rather than more likely.	All receivables are with entities external to the Commonwealth. Credit terms are net 30 days (2001-02: 30 days).
<i>Financial liabilities</i>		Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	
Trade creditors		Creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).	All creditors are entities that are not part of the Commonwealth legal entity. Settlement is usually made net 30 days.

Note 12: Financial Instruments (cont.)

(b) Interest Rate Risk : Agency

It is considered that there is no interest rate risk.

(c) Net Fair Values of Financial Assets and Liabilities

Financial assets

The net fair values of cash and non interest-bearing monetary financial assets approximate their carrying amounts.

Financial liabilities

The net fair values of the finance lease, surplus space and lease incentive liabilities, and guarantees are based on discounted cash flows using current interest rates for liabilities with similar risk profiles. (Where the liability is on a floating rate of interest, the method returns the principal amount).

The net fair values for trade creditors are approximated by their carrying amounts.

The net fair values of indemnities are regarded as the maximum possible loss which the APG members face while the indemnity remains current.

(d) Credit Risk Exposures

APG's maximum exposures to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Performance.

APG has no significant exposures to any concentrations of credit risk.

All figures for credit risk referred to do not take into account the value of any collateral or other security.

Note 13: Abbreviations

ADB	Asian Development Bank
APG	Asia/Pacific Group on Money Laundering
APRA	Australian Prudential Regulation Authority
AusAID	Australian Agency for International Development
AUSTRAC	Australian Transactions Reports and Analysis Centre
FATF	Financial Action Task Force on Money Laundering
FIU	Financial Intelligence Unit
ISGR	Institutional Support for Governance Reform
QLD	Queensland
RETA	Regional Technical Assistance Programme

ANNEX D: Summaries of mutual evaluation reports adopted in 2001 – 2002

Mutual Evaluation of Malaysia

The Evaluation Team visited Kuala Lumpur, Malaysia, from 9 to 12 July 2001.

Conclusions

Now that it has come into force, the new Anti-Money Laundering Act 2001 should significantly enhance Malaysia's anti-money laundering regime. This regime was further enhanced by the recent passage of the Mutual Assistance in Criminal Matters Act 2002. An assessment that Malaysia fully complies with the 40 FATF Recommendations is contingent upon passage, enactment and implementation of these pieces of legislation.

While money laundering in Malaysia appears to relate to drug and corruption offences, a better picture of the money laundering threat in Malaysia needs to be developed.

The Evaluation Team has made a number of recommendations which, if adopted, would further strengthen Malaysia's anti-money laundering system. However, the Evaluation Team wishes to conclude by recognizing the many important measures Malaysian authorities have taken to ensure that the risk of money laundering is minimised.

The Evaluation Team also wishes to acknowledge the very professional and co-operative attitude of the Malaysian authorities with whom it dealt in the course of this mutual evaluation.

Recommendations

In order to address the issues identified during the mutual evaluation, the Evaluation Team recommends that Malaysia take steps to implement the following recommendations. Some of these matters were already in train at the time of the Evaluation Team's on-site visit in July 2001 and further progress has been made since that time. Where work is underway or a recommendation has already been addressed, this is noted. Some of the recommendations include:

- Malaysia should specify when the Anti-Money Laundering Act will become effective. [Actioned on 15 January 2002];
- Malaysia should pass the Mutual Assistance in Criminal Matters Bill as soon as possible. [Actioned 22 April 2002];
- Malaysia should expand the scope of predicate offences in the new Anti-Money Laundering Act to include the crimes of smuggling illegal immigrants, trafficking in women and children and child pornography. [Work in progress];
- As soon as the opportunity arises, Malaysia should harmonise various relevant laws in relation to record-keeping requirements (eg the Money-Changing Act, the Securities Industry (Central Depository) Act, the Futures Industry Act Regulations) so that they are complementary to the Anti-Money Laundering Act;
- Malaysia should expand the list of reporting entities to include accountants, lawyers, casinos, pawnbrokers, trustee companies, bookmakers, pension and provident funds and the Pilgrims Fund Board;

- Malaysia should ensure that reporting entities understand the distinction between the requirement to report suspicious transactions and the requirement to report all transactions above the set threshold;
- The supervision regime for money-changers should be tightened to ensure they meet the requirements of the AMLA;
- Relevant Malaysian agencies should conduct more research on the different methods of money laundering so as to improve their capacity to investigate and take counter-measures against money laundering;
- Relevant Malaysian agencies should establish a law enforcement co-ordination body in collaboration with the Malaysian FIU or appoint or second officers to work in the FIU so as to enhance the ability to analyse and investigate suspicious transactions;
- The relevant enforcement agencies should clearly define their respective roles within the new anti-money laundering regime and ensure that sufficient and appropriate resources including training of staff are provided to effectively fulfill those roles;
- The Competent Authority (FIU) should be provided with sufficient and appropriate resources in terms of personnel, technology and training in order for it to effectively carry out its vital function within the anti-money laundering regime;
- Malaysia should provide training for prosecutors and judges in the application of the Anti-Money Laundering Act;
- Guidelines for the financial sector in relation to anti-money laundering systems and procedures should be developed and all reporting institution, regulatory and enforcement staff involved in the anti-money laundering system should also be provided with guidelines and training in this area;
- Malaysia should ensure that the mutual legal assistance process is expanded to include all serious offences, not just drug offences;
- Malaysia should ensure that the channels and procedures be streamlined by the establishment of a central authority for mutual legal assistance and extradition matters.

At the APG's 2002 Annual Meeting, members heard a response to the report from Malaysia, noting Malaysia's strong commitment to international anti-money laundering measures and that work had already begun to address many of the issues identified in the report, including the passage of comprehensive anti-money laundering legislation, the establishment of an FIU, extensive training and awareness raising and the recent passage of mutual assistance legislation.

Mutual Evaluation of the Cook Islands

The Cook Islands was the subject of a joint mutual evaluation by the APG and the Offshore Group of Banking Supervisors (OGBS). The Evaluation Team visited the Cook Islands from 29 October to 1 November 2001.

Conclusions

The Cook Islands does not have a major drug or organised crime problem. The extent of money laundering relating to overseas proceeds is unknown. Whilst no cases of suspected money laundering have been identified or investigated, the Cook Islands has the potential to be used for money laundering purposes: it is a tax haven, has no foreign exchange regulations and has efficient domestic and offshore banking systems.

The Cook Islands does not at this time meet all the anti-money laundering standards set out in the Financial Action Task Force's Forty Recommendations. The Cook Islands has however expressed an intention to comply with international anti-money laundering standards and has already taken some important steps to meet these standards. If that intention is put into practice, the Cook Islands should be able to reach the international standards within a reasonable time frame. Although there is a legislative platform in place, there is need for further steps to be taken to amend the law if the Cook Islands is to meet international standards.

There is also a need to ensure that regulators, law enforcement agencies and prosecutors have the skills and resources to effectively identify, investigate and prosecute money laundering offences. The basis for a professional and co-ordinated law enforcement system exists; however, the police and other law enforcement agencies have very limited capacity and experience in the area of financial crime generally. Additional resources and further training of relevant personnel will be required to enable them to effectively carry out their responsibilities both at the domestic level and within the offshore centre.

The Evaluation Team has made a number of recommendations, which, if adopted, would strengthen the Cook Islands' anti-money laundering system. The Evaluation Team recognises however the important initial steps that Cook Islands authorities have already taken to combat money laundering in their jurisdiction.

The Evaluation Team concludes by acknowledging the co-operative, frank and helpful attitude of the Cook Islands authorities with whom it dealt in the course of this mutual evaluation.

Recommendations

In order to address the deficiencies identified, the Evaluation Team recommends that Cook Islands take early steps to implement the following recommendations. Several of the matters identified within the recommendations are already being addressed by the relevant authorities. In such instances, the efforts already undertaken have been recognised by the wording "work in progress." Recommendations include:

- The Cook Islands should establish an officials committee (eg National Anti-Money Laundering Officials Committee) involving all stakeholders – including heads of Police, Customs, Solicitor General, Immigration, Inland Revenue, Commissioner of Offshore Banking, Head of FIU, to develop and maintain cross-agency protocols:
 - (i) for operational intelligence, information sharing, investigation and prosecution of significant financial crime/money laundering matters

- between CIP, MLA/FIU, Customs, Immigration, Inland Revenue, Solicitor-General's office; and
 - (ii) to ensure a better balanced, whole-of-government approach to considerations of money laundering issues
- The Cook Islands should ensure that sufficient skills and expertise are identified to effectively carry out the responsibilities assigned to the MLA and the Commissioner of Offshore Financial Services, noting that this may involve:
 - (i) full utilisation of existing resources;
 - (ii) increased budgetary resources;
 - (iii) assistance from international and regional bodies.
- The Money Laundering Authority should engage with other jurisdictions with a view to raising the profile and capacity of anti-money laundering within the Cook Islands. This engagement could include short and long term on-shore or offshore training of Cook Islands personnel and attachments of personnel from other jurisdictions and organisations.
- Cook Islands should consider reviewing the Money Laundering Prevention Act in terms of the:
 - (i) definition of money laundering and the mental element required ('knowingly');
 - (ii) definition of 'unlawful activity' (including dual criminality issues);
 - (iii) section 4 and section 5 of the Act;
 - (iv) the standard of proof for establishing the offences in Court (normally beyond reasonable doubt but because of nature of offences standard of 'balance of probabilities' (civil standard) may be considered or burden of proof passed on to the accused);
 - (v) the penalties for money laundering and distinguish between the various persons (eg director, bank manager, supervisor, teller) and also natural persons and corporate bodies be reflected in penalties.
- The Cook Islands should enact legislation dealing with Proceeds of Crime, comprehensive mutual assistance in criminal matters and Extradition and remove those provisions from the MLPA;
- Consideration should be given to the introduction of civil forfeiture (ie. non-conviction-based confiscation) laws.
- The Cook Islands should re-activate the supervision scheme for onshore banks, not only for the purpose of money laundering prevention but also for prudential considerations. The scheme should include a licensing mechanism with effective "fit and proper" test as well as the scheme to assess banks' financial soundness either through on-site or off-site examination.
- The *Offshore Banking Act 1981* and the *Offshore Insurance Act 1981-1982* should be amended to clearly require that the relevant offshore banking and insurance transactions are carried out in the Cook Islands.

- The MLPA should be amended so as to give the MLA the power to conduct on-site inspection of financial institutions to check their compliance with anti-money laundering regulations. In order to carry out this on-site inspection, the MLA should be provided with permanent staff, the expense of which should be funded out of the fees paid by the offshore financial institutions.
- The MLPA should be amended to require onshore and offshore financial institutions to keep all transaction records with respect to customers with continuous business relationship.
- Regulations under the MLPA should require financial institutions to identify existing customers within a reasonable period. In this process, those accounts where the holder is not identified or numbered or held in false or fictitious names should be closed by all financial institutions.
- Under the direction of the MLA, the FIU should be responsible for training and awareness on money laundering and money laundering compliance issues with emphasis on customer identification procedure, record keeping and suspicious transaction reporting with judicial, law enforcement as well as onshore and offshore financial institutions.
- The Cook Island Police in particular should continue to develop expertise to deal with economic crime in order to assist in building capacity with respect to money laundering and proceeds of crime matters. The remaining elements of the Cook island law enforcement capacity – including Customs, Immigration and the Solicitor-General's office – also need a degree of further development.

At the APG's 2002 Annual Meeting, members heard a response from the Cook Islands. The Cook Islands also placed in record its thanks to New Zealand for funding an FIU technical adviser for the Cook Islands. The Cook Islands also indicated that it agreed with all 19 recommendations contained in the draft report, except for recommendation 17 (which related to passing of suspicious transaction reports to the Solicitor General) and recommendations 4(ii) (which relates to dual criminality) and 4(iv) (which relates to the standard of proof). The Cook Islands also outlined measures taken since the on-site visit in October 2001 and highlighted its need for technical assistance and training to assist it to meet the international standards.

Mutual Evaluation of Indonesia

The Evaluation Team visited Indonesia from 4 to 8 February 2002.

Conclusions

The precise extent of money laundering in Indonesia is not known. Whilst few cases of suspected money laundering have been investigated, Indonesia has the potential to be used for money laundering purposes. Drug crime and corruption are thought to be the two most significant sources of proceeds of crime.

Indonesia does not at this time meet all the anti-money laundering standards set out in the Financial Action Task Force's Forty Recommendations. Indonesia has however expressed an intention to comply with international anti-money laundering standards and has already taken many important steps to meet these standards. If that intention is put into practice, Indonesia should be able to reach the international standards within a reasonable time frame. Although there is a new and significantly enhanced legislative platform in place, there is need for further steps to be taken to amend the law if Indonesia is to fully meet international standards.

There is also a need to ensure that regulators, law enforcement agencies and prosecutors have the skills and resources to effectively identify, investigate and prosecute money laundering offences. The basis for a professional and co-ordinated law enforcement system exists; however, the police and other law enforcement agencies have very limited capacity and experience in the area of financial crime generally. Additional resources and further training of relevant personnel will be required to enable them to effectively carry out their responsibilities.

The Evaluation Team has made a number of recommendations, which, if adopted, would strengthen Indonesia's anti-money laundering system. The Evaluation Team recognises however the important initial steps that Indonesian authorities have already taken to combat money laundering in their jurisdiction. The Evaluation Team concludes by acknowledging the very co-operative and helpful attitude of the Indonesian authorities with whom it dealt in the course of this mutual evaluation.

Recommendations

In order to address the deficiencies identified, the Evaluation Team recommends that Indonesia takes early steps to implement the following recommendations. Several of the matters identified within the recommendations are already being addressed by the relevant authorities. In such instances, the efforts already undertaken have been recognised by the wording "work in progress." Some of the recommendations include:

- It is recommended that the monetary threshold in the definition of "proceeds of crime" in Article 2 be removed and the list of predicate offences in Article 3 be extended to include a broader range of serious offences than the law currently contains, in compliance with FATF Recommendations 1 and 4;
- In order to comply with FATF Recommendation 7 the law should permit the freezing and confiscation of all property which is derived from the predicate offences not just that which has a value of 500 million rupiah as seems to be required by the definition of proceeds of crime;
- In order to fully comply with FATF Recommendation 15, the definition of "suspicious transaction" should be extended to cover funds stemming from any criminal activity and the reporting period should be significantly reduced;

- In order to fully comply with FATF Recommendation 17, the law should be amended to require that financial institutions be prevented from warning their customers that information is being reported;
- The authorities may wish to review the legislative framework for combating money laundering to ensure there are effective mechanisms to cover issues such as: Protection of staff of The Centre for Financial Transaction Reporting and Analysis (PPATK) from liability for actions taken in good faith in the course of their employment; Mutual Legal Assistance in Criminal Matters, and Extradition, and to consider the sharing of assets/property confiscated under civil or criminal proceedings where another country also has claim to part or all of the proceeds;
- The Bank Indonesia (BI) KYC requirements currently apply to commercial banks only. Article 45 of the Money Laundering Law provides for transitional arrangements to ensure the BI KYC and STR framework for banks remains in effect until the establishment of the PPATK. It is recommended that:
 - the KYC/STR framework should be applied to rural banks, by BI, as soon as possible.
 - BI's STR requirements for banks should be revised to incorporate a definition of suspicious transactions that covers transactions which may involve money laundering or the proceeds of crime as defined in the Money Laundering Law, so that STRs can be related to specific crimes in future.
 - for administrative simplicity, the KYC/STR framework to be established for non-bank financial services providers under the Money Laundering Law should be as consistent as possible with the framework to be applied to banks
- Under the BI KYC guidelines, the onus is placed on the banks to appropriately identify their customers. That requirement is replicated in Article 17 (4) of the Money Laundering Law, in accordance with the provisions of laws and regulations. However, for other providers of financial services, it appears that the proposed customer identification responsibility under the Money Laundering Law is placed on the customer, not the financial institution (Article 17(1)), which is inconsistent with FATF Recommendation 10. Consideration should be given to placing some clear obligation on the non-bank providers of financial services to conduct appropriate KYC procedures, or otherwise to have some penalty imposed on them for failure to conduct proper KYC procedures;
- The duties and functions of The Centre for Financial Transaction Reporting and Analysis (PPATK) are those of an FIU (Financial Intelligence Unit) only. Consequently, the conduct of investigations will depend largely on the police. However, the police and other law enforcement agencies have very limited capacity and experience in the area of financial crime generally. The Evaluation Team recommends therefore that:
 - additional resources and further training of relevant personnel be provided to enable them to effectively carry out their increased responsibilities; and
 - an adequately resourced specialist unit to investigate money laundering offences be established within the police; and
 - if they do not exist already in Indonesian law, consideration be given to granting the police investigative powers for financial/money laundering investigations, such as telecommunications interception and other coercive powers.

- Consideration should be given to the introduction of an electronic reporting system for threshold financial reports as well as suspicious transaction reports made by the Providers of Financial Services to the PPATK. The necessary hardware and software for receipt and analysis of transaction reports, particularly software for suspicious transaction analysis, should ideally be in place at the time the law comes into force.

At the APG's 2002 Annual Meeting, members heard a response from Indonesia, which noted that the report provided a comprehensive assessment of Indonesia's anti-money laundering regime and would be a useful tool for the Government as it seeks to progress its current implementation plan. Indonesia also outlined recent progress it had made since the on-site visit in February 2002, the most significant being passage of anti-money laundering Law No. 15 in April 2002 with the FIU to be formally established 12 months after the law was passed. Progress made by banks in implementing new KYC requirements was also outlined. Indonesia outlined in general terms its responses to the recommendations made by the Evaluation Team and its compliance with the 40 FATF Recommendations and advised that a detailed document outlining Indonesia's compliance had been submitted to the APG.

Mutual Evaluation of Fiji

The evaluators visited Fiji from 11 to 15 February 2002.

Conclusions

Indications are that Fiji does not have a major drug or organised crime problem, though it may be being used as a drug transshipment point. Whilst no cases of suspected money laundering have been prosecuted, Fiji has the potential to be used for money laundering purposes. Fijian law enforcement agencies indicate the growing threats posed by local cannabis cultivation and people smuggling activities. There have recently also been several large fraud 'scams' on the government involving many millions of dollars. Taken together, these illegal activities already constitute quite a significant threat of money laundering to Fiji which will only grow unless appropriate counter-measures – a number of which have already been taken or are planned – are put in place by the Fijian authorities.

Fiji does not at this time meet all the anti-money laundering standards set out in the Financial Action Task Force's 40 Recommendations. However, Fiji has expressed an intention to comply with international anti-money laundering standards. If that intention is put into practice, Fiji should be able to reach the international standards within a reasonable time frame. Although there is already a sound legislative platform in place, there is need for further steps to be taken to amend the law if Fiji is to fully meet international standards.

There is also a need to ensure that regulators, law enforcement agencies and prosecutors have the skills and resources to effectively identify, investigate and prosecute money laundering offences. The basis for a professional and well managed law enforcement system in relation to money laundering exists and good co-ordination mechanisms are already in place. However, the police and customs service have limited capacity and experience in the area of financial crime generally. Additional resources and further training of relevant personnel will be required to enable them to effectively carry out their responsibilities.

The Evaluation Team concludes by recognising the important steps that Fijian authorities have already taken to combat money laundering in their jurisdiction. It also wishes to acknowledge the competence, professionalism and hospitality of the officials it met, and Fiji's expressed willingness to meet the international standards within a reasonable time frame.

Recommendations

In order to address the deficiencies identified, the Evaluation Team recommends that Fiji takes early steps to implement the following recommendations. Several of the matters identified within the recommendations are already being addressed by the relevant authorities. In such instances, the efforts already undertaken have been recognised by the wording "work in progress." Recommendations include:

- Fiji should ensure that sufficient skills and expertise are identified to effectively carry out the responsibilities assigned to the various agencies involved in combating money laundering, noting that this may involve:
 - (i) full utilisation of existing resources;
 - (ii) increased budgetary resources;
 - (iii) assistance from international and regional bodies.

- Consideration should be given to broadening the membership of the Anti-Money Laundering Officials Committee to include all agencies with an interest in the issue. Specifically, consideration should be given to inviting the Ministry of Finance, the Fiji Trade and Investment Bureau and the Capital Markets Development Authority to some or all of the Committee's meetings.
- The Financial Intelligence Unit should be established as soon as possible. The Evaluation Team notes that this is already planned and that advice as to the location, structure and functions of the FIU is being provided by an IMF consultant. The Evaluation Team believes that, at least initially, the FIU might best be placed in the Reserve Bank of Fiji, but believes that the primary concern is to establish an effective operational FIU as quickly as possible (work in progress).
- It is recommended that Fiji:
 - ratifies the UN Convention on Illicit Drugs and Psychotropic Substances as soon as possible and make the necessary legislative changes to facilitate the ratifying of this Convention; and
 - considers signing the UN Convention on Transnational Organised Crime.
- Fiji should introduce a legislative framework, either by way of amendments to existing legislation or enacting a new legislation, to address the following:
 - the establishment of a Financial Intelligence Unit that would be vested with the powers to receive, analyse and disseminate information relation to money laundering activity, including the ability to receive suspicious transactions and other information as set out in paragraph 9 below;
 - customer identification, record keeping, record retention and internal controls. These provisions are currently provided for in the Guidelines issued by the Reserve Bank of Fiji.
- Fiji should consider extending the prohibition against "tipping off" in section 61(3) to cover any person who knows that a suspicious transaction has been made.
- Money laundering should be made an extraditable offence.
- A more comprehensive regulatory and supervisory framework for foreign exchange dealers, money changers and money remitters and other non-bank financial institutions should be developed. The relevant provisions should include the power to license, powers to approve controllers and directors, powers to stipulate other safety and soundness requirements like minimum paid up capital, permissible activities, prohibited activities, powers to inspect for ensuring compliance and power to impose sanctions if there is non-compliance.
- Consideration should be given to implementing on-site safety and soundness inspections for all licensed insurance companies and brokers to ensure compliance with customer identification requirements, record retention policies and suspicious transaction reporting.
- Consideration should be given to implementing a currency reporting system that runs parallel with the suspicious transaction reporting system once the FIU is up and running to better identify unusual currency flow trends.
- Fiji should establish an appropriate framework for inspections of non-bank financial institutions to ensure compliance with anti-money laundering standards by proper government authorities once the definition of "financial institution" in the POC Act is expanded.

- Fiji should develop 'Fit and Proper' guidelines for directors, shareholders, and officers of financial institutions (work in progress).
- Fiji Police acknowledge that money laundering is likely to be present in Fiji and have taken positive steps towards identifying and investigating this. Each law enforcement agency, including Police, the Customs Service, and the DPP, is keen to improve its ability to confront the issue of money laundering in Fiji and the Evaluation Team recommends that they do so as a matter of priority.
- Formal training will enhance the capability of law enforcement agencies, but there is potential to build confidence and skills in money laundering prosecutions, and proceeds of crime proceedings, by actually going to court with a suitable case. The Evaluation Team believes that there is sufficient knowledge and ability for this to occur, and suitable material upon which to construct a case.
- A lack of resources is an issue for Fiji. This impacts, in particular, on the ability to attract and retain qualified staff. Alternative approaches need to be considered, which may include, for example, offering short-term contract work to the commercial accounting sector.
- Suspicious transaction reports are an important component of the fight against money laundering. However, the Money Laundering Unit should expand its focus to work more closely with CID investigators. This will enhance the ability of Police to identify suitable cases for proceeds of crime proceedings.

At the 2002 Annual Meeting, members heard a response from the Fiji Islands, in which it was emphasised that the report was a joint and collaborative effort of the Evaluation Team and the Fijian authorities and represents a broad consensus on the situation in Fiji. Fiji indicated that it would respond positively to the recommendations in the report and that it is committed to implement appropriate counter-measures, a number of which were already being actively considered, in a reasonable time. Fiji also noted that additional resources and technical assistance would be required to enhance its anti-money laundering system.

Mutual Evaluation of Thailand

The Evaluation Team visited Thailand from 4–7 March 2002.

Conclusions

Thailand has embarked on a package of financial sector reforms after the 1997 financial crisis with a view to strengthening regulatory oversight so as to better safeguard financial stability and public interest. The enactment of the AMLA with its creation of AMLO in 1999 was in fact a separate development. Nevertheless, as money laundering also poses a significant threat to a country's financial stability, the upgrading of financial sector supervision in Thailand and the enhancement of Thailand's anti-money laundering regime have one objective in common. This would seem to be an opportune moment, while some of the reforms are still in progress, to introduce whatever additional financial and supervisory measures are necessary to bring Thailand's anti-money regime up to the FATF standards in all respects.

The Evaluation Team has made a number of recommendations which, if adopted, would further strengthen Thailand's anti-money laundering system. However, the Evaluation Team wishes to conclude by recognising the important measures Thai authorities have taken to reduce the risk of money laundering.

The Evaluation Team also wishes to acknowledge the professional and co-operative attitude of the Thai authorities with whom it dealt in the course of this mutual evaluation.

Recommendations

In order to address the deficiencies identified, the Evaluation Team recommends that Thailand take early steps to implement the following recommendations. Several of the matters identified within the recommendations are already being addressed by the relevant authorities. In such instances, the efforts already undertaken have been recognised by the wording "work in progress." Recommendations include:

- The Anti-Money Laundering Act is limited to seven predicate offences. Money laundering related to other criminal activities is not considered an offence under the Act. The range of predicate offences should be expanded to include all serious offences, including terrorist activity, or the proceeds of all criminal activity [Work in progress];
- Thailand has not ratified the Vienna Convention and is currently drafting new laws and amending the existing laws to fully implement the Vienna Convention. The Evaluation team supports this and recommends that Thailand ratifies the Vienna Convention as quickly as possible [Work in progress];
- The law should be amended to include "Structuring" or "Smurfing" as an offence;
- Several jurisdictions fund certain anti-money laundering activities by using the forfeited money laundering assets, i.e., through a forfeiture fund. Though the ONCB has adopted the establishment of an "Assets Forfeiture Fund", there is no similar mechanism in the AMLA. Consistent with FATF Recommendation 38, consideration should be given to the creation of an "assets forfeiture fund" into which confiscated funds are deposited, and to restrict the funds to certain uses, such as for law enforcement;
- Regulators should establish sector-specific guidelines which will assist financial institutions under their purview respectively to fulfil all applicable requirements of

the AMLA and to develop appropriate programs against money laundering. Such guidelines should cover customer identification, record-keeping and suspicious transactions detection requirements which are on a par with FATF standards, and include employee training and internal control with respect to money laundering in their remit. AMLO as the dedicated anti-money laundering agency should exercise appropriate oversight of such process and provide any necessary input and support to the regulators to secure an adequate outcome. The regulators should check for compliance with such guidelines in their on-site examinations;

- Besides a reward system which is currently envisaged by AMLO, other initiatives to encourage reporting compliance by financial institutions should also be considered. AMLO and/or the relevant regulator could organise regular “user groups” meetings with compliance officers or other responsible officers of financial institutions to engage in a dialogue with them to ensure that they understand their reporting obligations, and to identify any obstacles to the discharge of such obligations. Consideration could also be given to releasing “feedback reports” to the financial institutions to raise awareness of specific indicators of suspicious transactions and money laundering activities;
- Although no firm statistics were provided, there appear to be a relatively low number of money laundering prosecutions and convictions. The Evaluation Team believes that investigation and prosecution efforts must be enhanced among law enforcement agencies, AMLO and the Office of Attorney General;
- Thailand should take measures to detect or monitor the physical cross-border transportation of cash and bearer negotiable instruments in addition to Thailand’s baht. Currently Thailand requires reporting of baht into the country and restricts the amount of baht leaving the country; there are no reporting requirements or restrictions on the importation/exportation of any other country’s currency;
- There is a need for increased communication between the Bank of Thailand (Thailand’s competent authority for the supervision of financial institutions) and law enforcement. The Bank of Thailand could lend expertise and provide co-operation in Thailand’s money laundering investigations and prosecutions. Ensuring that Thailand’s financial institutions do not become conduits of money laundering is a shared responsibility;
- The Evaluation Team was advised that there is no official analysis or research with regard to money laundering issues, for instance what methods that are frequently used to launder money and so on. Such analysis and research are essential in the fight against money laundering. The Evaluation Team recommends that Thailand undertake such analysis and research in order to combat money laundering activities more effectively.

At the 2002 Annual Meeting, members heard a response from Thailand, in which it was noted that the Team’s on-site visit coincided with a high level of media and public interest in anti-money laundering efforts and which allowed the team to witness first hand some of the difficulties in enforcing the anti-money laundering law in Thailand. Thailand also indicated that the evaluation report would be a very useful resource for Thai authorities to improve Thailand’s anti-money laundering system.

ANNEX E: Summary of anti-money laundering measures in APG member jurisdictions at 30 June 2002

Australia currently holds one of the two co-chairs of the APG. Australia has a developed anti-money laundering system and is one of the founding members of the APG and is also a member of the FATF. Australia has ratified the UN Vienna Convention 1988, enacted anti-money laundering laws with respect to narcotic offences and with respect to all serious offences. Australia has established a Financial Intelligence Unit.

Bangladesh is currently strengthening its anti-money laundering system. Bangladesh has ratified the UN Vienna Convention 1988 and has recently enacted anti-money laundering laws with respect to serious offences. Bangladesh has established a Financial Intelligence Unit and is developing a system for reporting suspicious transactions.

Chinese Taipei has a developed anti-money laundering system having enacted anti-money laundering laws with respect to narcotic offences and with respect to serious offences. Chinese Taipei has established a Financial Intelligence Unit.

Cook Islands is currently strengthening its anti-money laundering system. The Cook Islands has not yet ratified the UN Vienna Convention 1988 but is in the process of enacting anti-money laundering laws with respect to narcotic offences and with respect to serious offences. The Cook Islands is also in the process of establishing a Financial Intelligence Unit and is developing a system for reporting suspicious transactions.

Fiji Islands has a developed anti-money laundering system having ratified the UN Vienna Convention 1988 and having enacted anti-money laundering laws with respect to narcotic offences and with respect to all serious offences. Fiji Islands has not yet established a Financial Intelligence Unit but has capacity to report suspicious transactions.

Hong Kong, China has a developed anti-money laundering system and is one of the founding members of the APG and is also a member of the FATF. Hong Kong, China has ratified the UN Vienna Convention 1988, enacted anti-money laundering laws with respect to narcotic offences and with respect to serious offences. Hong Kong, China has established a Financial Intelligence Unit.

India is currently strengthening its anti-money laundering system having ratified the UN Vienna Convention 1988. India has under consideration draft anti-money laundering laws with respect to narcotics offences and with respect to serious offences. India has not yet established a Financial Intelligence Unit but is developing a system for reporting suspicious transactions.

Indonesia is currently strengthening its anti-money laundering system having ratified the UN Vienna Convention 1988. Indonesia has recently enacted anti-money laundering laws with respect to narcotics offences and with respect to serious offences. Indonesia is establishing a Financial Intelligence Unit and is developing a system for reporting suspicious transactions.

Japan has a developed anti-money laundering system and is one of the founding members of the APG and is also a member of the FATF. Japan has ratified the UN Vienna Convention 1988, enacted anti-money laundering laws with respect to narcotic offences and with respect to serious offences. Japan has established a Financial Intelligence Unit.

Korea currently holds one of the two co-chairs of the APG. Korea has a recently developed anti-money laundering system. Korea has ratified the UN Vienna Convention 1988 and has enacted anti-money laundering laws with respect to narcotic offences and serious offences. Korea has established a Financial Intelligence Unit.

Macau, China has a recently developed anti-money laundering system. Macau, China has ratified the UN Vienna Convention 1988 and has enacted anti-money laundering laws with respect to narcotic offences and with respect to serious offences. Macau, China has not yet established a Financial Intelligence Unit but has capacity to report suspicious transactions.

Malaysia has a recently developed anti-money laundering system having ratified the UN Vienna Convention 1988 and having recently enacted anti-money laundering laws with respect to narcotic offences and with respect to serious offences. Malaysia has capacity to report suspicious transactions and has established a Financial Intelligence Unit.

Marshall Islands is currently strengthening its anti-money laundering system. The Marshall Islands has not yet ratified the UN Vienna Convention 1988 but has enacted anti-money laundering laws with respect to narcotic offences and with respect to serious offences. The Marshall Islands has not yet established a Financial Intelligence Unit but is developing a system for reporting suspicious transactions.

Nepal is currently strengthening its anti-money laundering system. Nepal has ratified the UN Vienna Convention 1988 and has drafted anti-money laundering laws with respect to narcotic offences and with respect to serious offences. Nepal has not yet established a Financial Intelligence Unit but is developing a system for reporting suspicious transactions.

New Zealand has a developed anti-money laundering system and is one of the founding members of the APG and is also a member of the FATF. New Zealand has ratified the UN Vienna Convention 1988, enacted anti-money laundering laws with respect to narcotic offences and with respect to all serious offences. New Zealand has established a Financial Intelligence Unit.

Niue is currently strengthening its anti-money laundering system. Niue has not yet ratified the UN Vienna Convention 1988 but has enacted anti-money laundering laws with respect to narcotics offences and with respect to serious offences. Niue has not yet established a Financial Intelligence Unit.

Pakistan has a developed anti-money laundering system having ratified the UN Vienna Convention 1988 and having enacted anti-money laundering laws with respect to narcotic offences. Pakistan has not yet established a Financial Intelligence Unit but has capacity to report suspicious transactions.

Palau has a recently developed anti-money laundering system. Palau has not yet ratified the UN Vienna Convention 1988 but has recently enacted a comprehensive money laundering and proceeds of crime law which requires the reporting of suspicious transactions. Palau is in the process of establishing a Financial Intelligence Unit.

Philippines is currently strengthening its anti-money laundering system having ratified the UN Vienna Convention 1988. The Philippines has recently enacted anti-money laundering laws with respect to narcotics offences and with respect to serious offences. The Philippines has established a Financial Intelligence Unit and has introduced a system for reporting suspicious transactions.

Samoa has a recently developed anti-money laundering system. Samoa has enacted anti-money laundering laws with respect to narcotic offences and with respect to serious offences. Samoa has not yet ratified the UN Vienna Convention 1988. Samoa has established a Financial Intelligence Unit.

Singapore has a developed anti-money laundering system and is one of the founding members of the APG and is also a member of the FATF. Singapore has ratified the UN Vienna Convention 1988, enacted anti-money laundering laws with respect to narcotic offences and with respect to serious offences. Singapore has established a Financial Intelligence Unit.

Sri Lanka is currently strengthening its anti-money laundering system having ratified the UN Vienna Convention 1988. Sri Lanka has under consideration draft anti-money laundering laws with respect to narcotics offences and with respect to serious offences. Sri Lanka has not yet established a Financial Intelligence Unit.

Thailand has a recently developed anti-money laundering system having enacted anti-money laundering laws with respect to narcotic offences and with respect to certain serious offences. Thailand has not yet ratified the UN Vienna Convention 1988. Thailand has established a Financial Intelligence Unit.

United States of America has a developed anti-money laundering system and is one of the founding members of the APG and is also a member of the FATF. The United States of America has ratified the UN Vienna Convention 1988, enacted anti-money laundering laws with respect to narcotic offences and with respect to serious offences. The United States of America has established a Financial Intelligence Unit.

Vanuatu has a developed anti-money laundering system. Vanuatu has enacted anti-money laundering laws with respect to narcotic offences and with respect to serious offences. Vanuatu has not yet ratified the UN Vienna Convention 1988. Vanuatu has established a Financial Intelligence Unit.

ANNEX F: Websites and list of acronyms

WEBSITES

Not all the bodies listed below are mentioned in this Annual Report. They are however included to make this Annex a more useful resource.

ADB	Asian Development Bank	www.adb.org
APEC	Asia Pacific Economic Co-operation	www.apecsec.org.sg
APG	Asia/Pacific Group on Money Laundering	www.apgml.org
ASEAN	Association of South East Asian Nations	www.aseansec.org
CFATF	Caribbean Financial Action Task Force	www.cfatf.org
ComSec	Commonwealth Secretariat	www.thecommonwealth.org
FATF	Financial Action Task Force on Money Laundering	www.fatf-gafi.org
GAFISUD	South American Financial Action Task Force (Grupo de Acción Financiera de Sudamérica)	www.minjusticia.gov.co/gafisud
IMF	International Monetary fund	www.imf.org
IMoLIN	International Money Laundering Network	www.imolin.org
ODCCP	United Nations Office for Drug Control & Crime Prevention	
UNDCP	United Nations Drug Control Programme	
UNTOC	United Nations Convention Against Transnational Organized Crime	
UNICRI	United Nations Inter-regional Crime & Justice Research Institute	
	United Nations home page:	www.un.org
OECD	Organisation for Economic Co-operation & Development	www.oecd.org
PIFS	Pacific Islands Forum Secretariat	www.forumsec.org.fj
SAARC	South Asian Association for Regional Co-operation	www.saarc.org
World Bank	The World Bank Group	www.worldbank.org
WCO	World Customs Organisation	www.wcoomd.org

ACRONYMS

APEC	Asia Pacific Economic Co-operation
ASEAN	Association of South East Asian Nations
ADB	Asian Development Bank
AMLID	Anti Money Laundering International Database (UNDCP)
AusAID	Australian Agency for International Development
AUSTRAC	Australian Transaction Reports & Analysis Centre
ASEM	Asia Europe Meeting
CFATF	Caribbean Financial Action Task Force
CSCAP	Council for Security Co-operation in the Asia Pacific
COE	Council of Europe
ESCAP	Economic & Social Commission for Asia and the Pacific (UN)
EEC	European Economic Community
Egmont Group	Egmont Group of the Financial Intelligence Units of the world
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FSF	Financial Stability Forum
FIU	Financial Intelligence Unit
FSA	Financial Services Authority (UK)
FINCEN	Financial Crimes Enforcement Network (USA)
FATF	Financial Action Task Force on Money Laundering
FCO	Foreign & Commonwealth Office (UK)
FEMM	Finance and Economic Ministers Meeting (a South Pacific body)
GAFISUD	South American Financial Action Task Force on Money Laundering (Grupo de Acción Financiera de Sudamérica)
IMF	International Monetary Fund
IDLI	International Development Law Institute
IOSCO	International Organisation of Securities Commissions
ME	Mutual Evaluations
NCCT	Non Co-operative Countries & Territories (FATF initiative)
ODCCP	United Nations Office for Drug Control & Crime Prevention
OECD	Organisation for Economic Co-operation & Development
OGBS	Offshore Group of Banking Supervisors
PFTAC	Pacific Financial Technical Assistance Centre
PC-R-EV	Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures
RETA	Regional Technical Assistance (ADB)
SAARC	South Asian Association for Regional Co-operation
SEACEN	South East Asian Central Banks Training Institute
UNDCP	United Nations Drug Control Programme
UNTOC	United Nations Convention Against Transnational Organized Crime
USDEA	US Drug Enforcement Agency (aka DEA)
WCO	World Customs Organisation
WTO	World Trade Organisation