

Working Together to Fight Money Laundering & Terrorist Financing

By Christine Lagarde, IMF Managing Director
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Ladies and Gentlemen—good morning.

Dear President Vega-Serrano, thank you for your kind invitation and all of you for your warm welcome.

It is wonderful to be in Valencia—a city that combines ancient roots with modern architecture, 21st-century commerce, and some of the world's best food. This is a community that values innovation and creativity.

I can see that Valencian spirit of innovation here in this room today. Both FATF and the IMF are forward-thinking organizations designed to help our members address some of the most pressing global issues of our time.

We both are deeply committed to supporting countries in building defenses against **money laundering** and the **financing of terrorism** through the **AML/CFT** standards. We both know that these global challenges cannot be resolved by countries working alone.

I am therefore very proud of the close relationship that the IMF and FATF have forged over nearly two decades. This partnership is more important than ever.

There is no doubt that money laundering and terrorist financing can threaten a country's economic stability, which is why the IMF has become increasingly active in supporting and promoting the AML/CFT efforts of our member countries, based on the FATF standard.

What started as a small endeavor some 20 years ago has become part of our core work—from analysis and policy advice, to assessing the health and integrity of financial sectors, to providing financial assistance when needed, to helping countries build institutions and increase operational effectiveness.

Together we have come a long way, and together we can build on the progress made so far. Let me highlight three priorities:

- Fighting corruption and tax evasion;
- Combating the financing of terrorism; and
- Maintaining correspondent banking relationships.

1. Fighting corruption and tax evasion

First, we need to intensify our fight against corruption and tax evasion. We will soon release new analysis that shows how systemic corruption can seriously undermine a country's ability to deliver sustainable and inclusive growth.

Large-scale tax evasion is a key factor, because it typically means lower government revenue, higher public debt, and less investment in health, education, and other public services. It means higher economic inequality because the most vulnerable are most affected by a sharp drop in social spending. That, in turn, can trigger popular discontent and economic instability.

The good news is that we can use the AML/CFT framework to help break this vicious economic cycle.

A good example is Greece, where the strengthening of the AML framework facilitated the seizure of hundreds of millions of euros in proceeds from tax crimes.

We helped the central bank strengthen its financial sector supervision, which led to a sharp increase in reporting to the financial intelligence unit. That unit itself froze more than €200 million in assets between 2012 and 2014. The financial intelligence unit also referred more than 400 cases to the prosecutor's office and more than 2,500 cases to the tax authorities.

Another area where the FATF standard is immensely helpful is in promoting transparency. The Panama Papers, for example, were a stark reminder of the need to do more in this area—something that you had already long recognized.

2. Combating the financing of terrorism.

Another policy priority is to **combat the financing of terrorism**. As terrorism is becoming more pervasive in our societies, it is our collective responsibility to choke off the financial flows—both large and small—that enable terrorists to inflict unspeakable suffering on individuals, families, and communities.

Over the past 16 years, we have been involved in this joint effort through our technical assistance and capacity building work.

In 2014, for example, we called on Sudan to strengthen its CFT framework—and we have since worked with the government there to develop targeted financial sanctions that are consistent with the FATF standard. We are working on a practical guidance for all our members on how to implement such sanctions, which should be available by 2019.

Combating the financing of terrorism increasingly requires harnessing the power of financial technology, or **fintech**.

Of course, fintech is a double-edged sword. It can be used to promote and fund terrorism, including through the anonymity of virtual currencies. But it can also be a powerful tool to *strengthen* our defenses against the financing of terrorism.

We can use fintech to *identify* terrorist financial flows, including in the case of very small transactions. Machine learning and other artificial intelligence tools can help identify patterns of activity that would otherwise be very difficult to detect.

Fintech can also help *protect* financial systems against cyber-terrorism. A good example is the “distributed ledger” technology that underpins virtual currencies and other applications. This technology is less vulnerable to a single point of failure and

could prove resilient to cyberattacks because the ledger—or record of transactions—exists in multiple copies.

I would like to commend President Vega-Serrano—and the FATF more generally—for addressing both the opportunities and the new issues raised by technology, including through your recent roundtables with the private sector.

It is important that regulatory frameworks remain adequate to the task. We have also just published a paper that provides a framework for assessing the impact of technological innovation within the financial sector. [\[1\]](#)

3. Maintaining correspondent banking relationships

The third and final policy priority is to support countries that are at risk of losing vital banking services that keep them connected to the global financial system.

These **correspondent banking relationships** are especially important for small countries with small financial systems—in Africa, the Caribbean, in Central Asia, and in the Pacific, to name a few. Recent surveys in our member countries underline the high degree of concern about the situation in these economies. [\[2\]](#)

To be clear, this issue has many dimensions, involving regulators, the financial industry, and the affected countries themselves.

The good news is that FATF has been working hard to ensure that the application of a robust AML/CFT framework does not lead to an indiscriminate withdrawal of correspondent banking relationships. I commend your decision to clarify the regulatory expectations under the FATF standard, including the customer due diligence requirements.

Greater regulatory certainty means that global banks are more likely to maintain their correspondent banking business. This, in turn, will help support economic and financial stability in the affected countries.

But the threat to growth and jobs means that more needs to be done by everybody. [\[3\]](#)

One of our contributions has been to bring together local banks, global banks, and other key stakeholders to discuss possible solutions.

For instance, a recent workshop in the Caribbean focused on improving the capacity of small banks to manage risks with the help of regional development banks, and how to enhance communication between the local and correspondent banks.

We will also continue to help our smaller member countries build capacity. For example, we have been working with Costa Rica, Peru, and Uruguay to create national AML/CFT strategies. And we recently helped Ukraine, Mongolia and Qatar strengthen the governance and capacity of their financial intelligence units.

Altogether, we have provided technical assistance on AML/CFT to **120 countries**. And I am proud that our assistance was instrumental for countries such as Myanmar,

Nepal, and Sudan to exit FATF monitoring and reconnect to the global financial system.

Conclusion

Let me conclude by saying that I would like us to continue our close cooperation—building on the progress made so far, for example, on the standard and assessment methodology.

As you know, we are very supportive of the risk-based approach—and the emphasis on effectiveness—under the revised FATF standard. We look forward to the targeted follow-up assessments that will focus on countries' main risks.

As a final thought, Winston Churchill often encouraged his staff to “*level with events*”—by which he meant that they should tell the unvarnished truth—no sugar-coating of the facts.

Corruption, tax evasion, the financing of terrorism, and financial exclusion: these are big challenges for our member countries today—and they need to be addressed head-on.

By standing together as one, and by “leveling with events”, we will have the opportunity to promote financial integrity and inclusive growth for the benefit of all.

Thank you.