

**Summary of Global Dialogue Series on  
Strengthening the Collaborative Process to Build Effective Anti-Money Laundering  
and Combating the Financing of Terrorism (AML/CFT) Regimes  
For  
Middle East and North Africa Region – Egypt, Iran, Jordan and Lebanon**

June 15, 2004

**Background**

Forging partnerships among various stakeholders – policy makers, law enforcement agencies, financial regulatory and supervisory authorities, financial institutions, non-bank financial institutions, and international organizations – is critical when building an effective AML/CFT regime. The risks posed by money laundering and terrorism financing to the reputation and integrity of financial systems are being recognized widely across the world. In response, the government agencies and financial institutions are working together to develop robust AML/CFT programs and internal control systems. Adoption of sound AML/CFT policies and procedures, including Know-Your-Customer (KYC), Suspicious Transaction Reporting (STR) and compliance testing, are critical elements in developing comprehensive AML/CFT regimes.

It is of great importance to develop a consultation mechanism between the public and the private sector in order to build and maintain a solid AML/CFT regime. Strong links between the public and private sector will lead to better decisions based on a greater understanding of the environment by the authorities and better implementation of the requirements by the private sector. The Global Dialogue Series brought together representatives from both the public and private sector to exchange experiences and information regarding the efforts and the challenges associated with developing, implementing, and supervising AML/CFT programs.

**Participants and Speakers**

The dialogue session brought together numerous representatives from both the public and private sector from four Middle East and North Africa region countries: Egypt, Iran, Jordan and Lebanon. Deane N. Jordan, Lead Operations Officer in the Middle East and North Africa Region of the World Bank (WB), acted as a moderator in this session; and John McDowell, Lead Anti-Money laundering Specialist in the Financial Market Integrity Department of the WB, acted as a rapporteur. The following speakers delivered presentations:

- Nadim Kyriakos-Saad, Senior Counsel in the Legal Department at the International Monetary Fund (IMF), on “Importance of National Consultation Process in Implementing and Supervising Compliance Requirements”;

- John Carlson, Principal Administrator at the Financial Action Task Force on Money Laundering (FATF), on “Revised FATF 40 Recommendations: Impact on the Financial Sector”;
- Jean Pesme, Senior Financial Specialist in the Middle East and North Africa Region of the WB, on “Experiences around the World and Case Presentation”; and
- Neil Munro, Money Laundering Reporting Officer, Société Générale, representing the Wolfsberg Group, on “Importance of National Consultation Process in Implementing and Auditing Compliance Requirements based on the Revised FATF 40 Recommendations”.

The following country representatives delivered presentations:

- Egypt public sector – Dr. Mahmoud Moheildin, Chairman of the Economic Committee, National Democratic Party, and the Board of Director of the Central Bank of Egypt;
- Iran public sector – Ms. Jazairi, Superintendence of Banks, Central Bank of Iran;
- Jordan public sector – Ms. Nadia A. Anani, Legal Researcher, Research Dept. of Central Bank of Jordan;
- Jordan private sector – Mr. Hussam A. Al-Abed, General Manager, Risk Management Consultants Advisory Board member for the Association of Certified Anti-Money Laundering Specialists (ACAMS);
- Lebanon public sector – Mr. Muhammad Baasiri, Secretary of the Special Investigation Committee at the Central Bank of Lebanon;
- Lebanon private sector – Dr. Fuad Shaker, Secretary General, Union Arab Banks; and
- Lebanon private sector – Mr. Nadim Moukhaiber, Legal and Banking Advisor, Association of Banks in Lebanon.

### **Topics Covered**

The public sector representatives and the representatives from the financial sector were asked to address the following issues:

- What have been the country’s responses to money laundering and terrorist financing?
- What institutional arrangements have been made to combat money laundering and terrorist financing?
- What are the key challenges for the country in combating money laundering or terrorist financing?
- What type of assistance does the country need from international organizations to fight money laundering and terrorist financing?

The dialogue provided an opportunity for the participants to discuss each country’s AML/CFT regime and efforts.

## **Preliminary Observations**

The four participating countries have taken a number of measures to address AML/CFT issues and have made significant efforts to develop and implement necessary legal frameworks against money laundering and terrorist financing. Building on these achievements the countries have now entered a crucial transitional phase during which they will face multiple challenges both in the public and private sector. All participants agreed on the need to identify the overall operational impact and consequences when applying the new FATF recommendations.

## **AML/CFT Legal and Regulatory Environment**

### Egypt

Egypt has made a significant progress and enacted an AML/CFT law to criminalize predicate offences for money laundering. The law also legislates the know-your-customer (KYC) policy and requires banks to report suspicious transaction reports (STR) and keep all records for five years. The financial intelligence unit (FIU) was created in March 2003. Since its creation, the FIU has witnessed an increase in the number of STRs from financial institutions. In addition, Egypt recently had its first money laundering conviction case in which a considerable fine was imposed. The case helped raise awareness of the AML/CFT issue to general public. Due to its AML/CFT efforts, Egypt was removed from the Non-Cooperative Countries and Territories (NCCT) list in February 2004. Egypt is committed to becoming an Egmont Group member state to further improve its AML/CFT regime. (Subsequently became a member at the Egmont 12<sup>th</sup> Plenary in June 2004.)

### Iran

AML regulations, drafted by the Central Bank of Iran (CBI) and approved by the Money and Securities Council, were circulated to all financial institutions in November 2002. The AML regulations include sections on customer identification, minimum of five-year record keeping, and STR reporting obligations as well as STR information sharing by the CBI to other relevant authorities. The AML legislation was approved by the Cabinet and the Parliament, but failed to be endorsed by the Guardian Council. Subsequently, the bill is now being judged by the Expediency Council. The CFT law has been drafted and is currently tabled at the Cabinet. According to the bill all banks are obliged to report all foreign exchange transactions over USD 5,000 to the CBI. In addition they are also obliged to monitor, report and freeze accounts belonging to terrorist organizations/individuals. A proposed bill for mandatory licensing for non-financial institutions, such as money exchange dealers, was approved by the Cabinet.

### Jordan

According to the AML regulations issued by the Central Bank of Jordan (CBJ), banks are obliged to report suspicious transactions, establish internal control systems, appoint a compliance officer, provide continuous training for staff, monitor AML compliance by internal audit departments, and keep transaction records for a minimum period of five years. The Suspicious Transactions Follow-up Division (STF) was established within the

Banking Supervision Department of the CBJ in 2004. STF receives and analyzes STRs and other required disclosures, coordinates with both domestic and international judicial authorities, provides TA to the inspection teams of the CBJ, and proposes legislation related to suspicious transactions.

#### Lebanon

The first law to criminalize money laundering was enacted in 1998. Law Number 318, enacted in April 2001, not only broadened the concept of illicit funds but also set a procedure and a body to lift banking secrecy in the cases provided for by the law. The law was later amended in 2003 and the first official set of regulations concerning control of financial and banking operations was issued by Banque du Liban in May 2001. In accordance with Law Number 318, the Special Investigation Commission (SIC), Lebanon's FIU, has appointed a full-time Secretary who is responsible for implementing the decisions of the Commission, and supervising a special body of auditors responsible for verifying the implementation of the law. Moreover, the Commission has established a Financial Investigation Administrative Unit. The unit is the competent authority and official center for monitoring, collecting and archiving information on money laundering offences, as well as exchanging information with foreign counterparts. It works under the direct supervision of the Secretary.

### **Efforts Undertaken in Facilitating Dialogue/Collaboration**

#### Egypt

The Central Bank of Egypt has established a special compliance unit which is responsible for both onsite and offsite inspections. Furthermore, a league of compliance officers has also been established. The league is composed of compliance officers who are working in various financial institutions. Communication and cooperation among officers within the league, as well as between the league and financial associations and the FIU, has worked very well.

#### Iran

The Central Bank of Iran is organizing, jointly with the IMF, a seminar on AML law and its implementation for financial institutions.

#### Jordan

Since the STF is located within the CBJ, the SFT benefits from the longstanding culture of cooperation and trust that has been built over the years between the Central Bank and the financial sector. Technical assistance regarding suspicious transactions is provided by the STF to the banking sector. In addition, the STF also organizes workshops to ensure full implementation of international standards. Besides taking the initiatives to translate the new FATF Recommendations into Arabic, the Association of Banks also organizes seminars and workshops on AML/CFT. Additional training courses on AML/CFT are also developed by the Institute of Financial Studies. Lastly, Jordan is actively engaged in establishing an informal AML/CFT professional group as well as a local chapter for the Association of Certified AML Specialists in Amman.

## Lebanon

The SIC is committed to a process whereby it has bonded with the reporting entities, in particular banks, to help implement an effective AML/CFT regime. The Compliance Unit, one of four units at the SIC, has through examinations and self-assessment questionnaires created awareness among banks and other financial institutions. The increased awareness has resulted in the filing of numerous STRs from reporting entities. In addition, the SIC has been encouraging private initiatives taken by the banks. Furthermore, a number of compliance officers are attempting to form a group which would facilitate the exchange of experiences and best practices. The SIC also organizes local and regional AML seminars, most recently a regional AML seminar in Lebanon.

## Implementation Challenges

- **Cash-based economy.** Participant countries are cash-based societies, characterized by the high use of cash combined with a low level of banking activities. The less formal banking activities a jurisdiction has, the greater the risk that money laundering activities occur. Subsequently, the participants agreed that improvements to the national payment system would facilitate increased use of formal banking channels.
- **Prevalence of active informal financial systems.** The informal financial sector, i.e. alternative remittance systems (ARS), or Hawala, is not properly registered nor licensed. Therefore, a basic law that obligates, at a minimum, the informal financial sector to register or obtain a license should be endorsed. Once registered or licensed the authorities should conduct inspections and provide industry guidance.
- **Continuous updates on AML/CFT regulations.** The dynamic nature of AML/CFT issues will require frequent updates of AML/CFT laws and regulations.
- **Need for continuous training.** All levels of employees at financial institutions need continuous training on the applications of new laws and other preventative measures. Also, as AML/CFT issues are dynamic in nature, continuous studies on AML/CFT typologies are necessary to keep up to date with ever-changing criminal activities and to comply with international standards.
- **Private sector cooperation.** Issues associated with implementing regulations were discussed. In order to ensure that the private sector cooperates with STR reporting requirements, it is necessary to develop good communication among the FIU, law enforcement agencies and private sector.
- **Implementation cost.** Compliance with AML/CFT standards imposes costs on financial institutions. In particular these costs are associated with hiring competent compliance officers, training bank staff, and having purchasing software programs to identify suspicious transactions.
- **Low level of awareness.** There is a need to raise awareness of AML/CFT issues among the general public, financial institutions and relevant government authorities, including police and justice officials, to inform all constituents about the benefits of a solid AML/CFT regime and how their work plays an important role in the overall national efforts.

## Next Steps

An initial next step for participant countries when developing an AML/CFT regime is to implement comprehensive legislation that complies with international standards. In order to ensure effective implementation, the cooperation between the FIU and the regulatory agencies should be enhanced. Furthermore, the authorities should not only exercise administrative authority but also provide guidance on due diligence requirements.

## Recommended AML/CFT Reform Actions

Overall, it was discussed and agreed that in order to forge an effective AML/CFT regime, the countries need to enact adequate AML/CFT legislation and provide appropriate training to both regulatory and law enforcement staff.

More specifically, the following issues were discussed during the dialogue

### *1. Commitment and Political Will*

- **Ensuring true commitment and political will.** All the relevant policy makers, including the executive and legislative branch, must demonstrate a clear political commitment to the development of AML/CFT legislation and its implementation. Without political will, there is no incentive for government officials to give the AML/CFT issue any attention.

### *2. Feedback Mechanism*

- **Ensuring coordination with law enforcement authorities and providing appropriate feedback to the private sector.** There should be communication between law enforcement agencies and the financial sector facilitated by a FIU. The authorities (FIUs) should develop a feedback mechanism to financial institutions, especially on STR reporting and typology studies. The FIU should provide ongoing feedback to banks on how disclosed financial information is used by law enforcement, the FIU and courts as well as on the quality of the information submitted.

### *3. Cooperation Mechanism*

- **Facilitating inter-agency cooperation.** Inter-agency cooperation is one of the most important factors in building a successful AML/CFT system. However, it is a challenge for different agencies to learn to work together, build trust, and identify the best way to share information. The challenge for all the relevant authorities is to build relationships whereby confidential information is shared effectively, while protecting the information from abuse.
- **Developing regional/international collaboration with international bodies and foreign government agencies.** Interaction with international bodies, for example FSRBs, with expertise in AML/CFT issues will also help a country to comply with AML/CFT standards. In addition, bilateral or multilateral collaboration with other

countries for training and typology exercises is an effective way of developing expertise.

#### 4. *Training and Education*

- **Educating all the relevant constituencies.** At the initial stage, all the stakeholders (i.e. supervisory agencies, law enforcement agencies, financial institutions, and designated non-financial businesses and professions (DNFBP)) need to be educated about AML/CFT in order to develop the best regime possible. Supervisors must have a thorough understanding of what money laundering is, how it occurs, and why it is important. Law enforcement agencies must develop techniques to track illicit funds as well as procedures for indictment. Both banks and DNFBP, such as dealers in precious metals and stones, must understand risks associated with money laundering as well as the best practices for preventative measures, including suspicious transaction reporting.
- **Ensuring continuous training for both the public and the private sectors.** There is a need to provide continuous training for the regulatory and supervisory authorities to support enforcement. Training may include case studies, including examples of supervisory actions against financial institutions, thereby enabling participants to understand the pressures and complexities they may face in implementing an effective AML/CFT regime. For financial institutions there is a need to have continuous training on the applications of new laws and preventative measures for all levels of employees. Also, as AML/CFT issues are dynamic in nature, continuous studies in AML/CFT typologies are necessary to keep up to date with ever-changing criminal activities and to comply with international standards.

#### 5. *Guidance by the Public Sector*

- **Raising public awareness.** The public must be educated about the risks money laundering and terrorism financing can have on the economy and the country. In addition, the public needs to be made aware of the government's actions. If people have confidence that laws will be used for its intended purpose, they will see the benefits and be supportive. However, if the public views the AML/CFT regulations as simply a way for the institutions to gain more information about individuals, the new laws will not be supported or followed.
- **Providing clear policy guidance to the private sector.** Regulators and supervisors should not only exercise administrative authority, i.e. issuing banking regulations, supervising financial institutions, and imposing sanctions, but also provide guidance on due diligence programs, such as KYC and STR reporting. Issuance of guidance notes can be an effective tool during the implementation process. Issuance of regulatory guidance notes is important to clarify the compliance obligations of financial institutions

#### 6. *Information Sharing*

- **Sharing AML/CFT typologies and lists of high risk individuals and organizations with the private sector.** Financial institutions will be helped to detect inappropriate activities, and will be able to enhance customer due diligence programs

by having access to the latest typologies as well as lists of terrorist groups and individuals issued by the UN and other organizations.

7. *Risk-based Approach*

- **Encouraging a risk-based approach.** The supervisory authority should determine whether a financial institution follows a risk based approach for customer due diligence programs and if it is effective. A risk-based approach also enables the supervisors to apportion limited resources efficiently across sectors and types of activity by identifying and focusing efforts on what types of sectors and activity have higher risks.

8. *National AML/CFT Strategy*

- **Modernizing the payment system.** The less formal banking activities a jurisdiction has, the greater the risk that money laundering activities occur. In cash based societies, a robust national payment system should be developed. Modernization of the payment system can serve as a basis for consistency among the financial institutions across the country.

9. *Culture and Environment*

- **Considering local specific aspects.** In order to develop an effective AML/CFT regime countries should take into consideration the local culture and environmental circumstances. As an example, the challenges faced by a cash based society will differ from those that have a more formal banking sector and utilize less cash to conduct transactions. Therefore, each country must be cognizant of the local culture and environment and tailor its AML/CFT efforts to those conditions.