

Transparency International Anti-Corruption Helpdesk Answer

Financial intelligence units (FIUs): Effective institutional design, mandate and powers

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Date: 10 July 2019

Financial Intelligence Units are a key element of domestic and international efforts to tackle money laundering and the financing of terrorism. FIUs are also gaining increased prominence in the fight against corruption, as both state and private bad actors seek to use the financial system to ‘cleanse’ the proceeds of corrupt activities.

The primary mandate of FIUs is to develop and provide financial intelligence to the AML/CFT system. FIUs’ three core functions (and corresponding powers) support this mandate -- these functions are: the collection, analysis, and dissemination of information relevant to money laundering, associated predicate offences, and the financing of terrorism.

An FIU’s institutional design (including its placement within the government structure) has a bearing on its performance, however, no single set of design features will be suitable for all countries. Each of the organizational models in use today has both advantages and disadvantages; any proposed model should be sensitive to, among other factors, the risk-environment and resources of the specific country. Notwithstanding the variation between countries, best practices for FIUs have been identified with respect to the operational independence of FIUs in carrying out their core functions. Operational independence underpins mutual trust among FIUs (thereby supporting the exchange of information), and between FIUs and reporting entities. Coupled with accountability and transparency mechanisms, operational independence is a critical element of the design and day-to-day practice of effective FIUs.

This answer relies on publicly available information regarding FIUs. Notably, not all aspects of FIU evaluations are made public by the domestic or international bodies which oversee FIUs and, at the international level, not all countries’ FIUs are assessed yearly, placing some constraints on the currency of information available.

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This Anti-Corruption Helpdesk is operated by Transparency International and funded by the European Union.



Query

What is the best institutional setup for financial intelligence units within the government structure? Please provide examples of best practices from around the world.

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What are FIUs?

A financial intelligence unit (FIU) is a country's central national body tasked with three core functions to: i) collect (receive and request); ii) analyse; and iii) disseminate financial information relating to potential financial crimes, such as general money laundering, money laundering of the proceeds of corruption and terrorism finance (AML/CFT).

As well as these core functions, FIUs may also identify and report on trends and practices in money laundering and financial crimes. An FIU and other national and international bodies can use this type of strategic information for risk-assessments, resource allocation, policymaking and enforcement efforts. National legislation may stipulate that a country's FIU perform additional functions, such as freezing transactions, recovering assets, supervising the country's sanctions regime and supervising reporting entities, although such non-core functions should generally be treated as distinct (Interpretive Note E to FATF Recommendation 29). Examples of FIUs are FinCEN in the United States', FIU-IND in India, FIC in South Africa and UIF-AR in Argentina.

Main points

- National FIUs are an essential component of the international AML/CFT system, including tracing laundered proceeds of corruption.
- The model or form of an FIU should be sensitive and responsive to local conditions.
- Regardless of form, an FIU's operational independence is critical to the FIU carrying out its core functions: collecting, analysing and disseminating relevant financial information.
- Trust and integrity underpin the cooperation between domestic and foreign FIUs, and supports private sector confidence in FIUs.

An FIU's capabilities and specialist expertise serve to aid domestic efforts to address money laundering and terrorism financing that may be occurring within a country. Financial investigations operate in parallel with criminal investigations in this context (FATF Recommendation 30 and IBRD 2018). Importantly, domestic FIUs are also expected to share information with foreign FIUs to aid AML/CFT efforts in other countries, and to assist in transnational investigations; FIUs are thus an important component of the international AML/CFT system.

Establishing an FIU is strongly encouraged under the 2003 United Nations Convention against Corruption (UNCAC) and the 2000 United Nations Convention against Transnational Organized Crime (UNTOC). As of July 2017, 160 jurisdictions had established FIUs (IBRD 2018). An FIU must be established and must perform its core functions for a country to comply with the of the Financial Action Task Force (FATF) recommendations.¹

FATF recommendation 29

Countries should establish a financial intelligence unit (FIU) that serves as a national centre for the receipt and analysis of: (a) suspicious transaction reports; and (b) other information relevant to money laundering, associated predicate offences and terrorist financing, and for the dissemination of the results of that analysis. The FIU should be able to obtain additional information from reporting entities, and should have access on a timely basis to the financial, administrative and law enforcement information that it requires to undertake its functions properly.

In addition to the foregoing international sources for standards applicable to FIUs, a group of 158 FIUs (the Egmont Group) coordinate financial intelligence sharing, training, dispute resolution and standard-setting among their members and other stakeholders through their 2013 Charter (revised 2018), and 2013 Principles for Information Exchange between Financial Intelligence Units.

Powers and general process

The powers of FIUs vary from country to country based on the scope of the particular FIU's mandate, and its location within the government structure (discussed further below). FIUs are typically empowered through enabling legislation (or regulations) to perform the three core functions of collection, analysis and dissemination of relevant financial information. Though there is some variation in process, an FIU will generally

¹ *The FATF recommendations are considered the international standard for AML/CFT; the FATF recommendations are recognised and used by the World Bank and the IMF in their own work (IMF/World Bank 2004). A finding by the FATF, pursuant to its mutual evaluation report (MER) process, that a country is not*

receive from financial institutions and other entities and professionals with anti-money laundering obligations, suspicious transaction reports (STRs).

Aside from financial institutions, other organisations with reporting obligations may include insurers, casinos, real estate agents, accountants and lawyers. In general, FIUs will follow a risk-based approach in monitoring reporting entities and STRs and in prioritising their analytical efforts (including through the use of monetary value threshold reporting and by focusing on high risk sectors) (FATF 2007).

Using internal expertise, together with additional data inputs from other domestic databases (see below for additional details) and foreign FIUs, the domestic FIU will assess STRs and produce financial intelligence, which can then be disseminated to the appropriate local authorities (usually a prosecutor or law enforcement agency), and/or be shared with a foreign FIU, when relevant. FATF stresses the importance of FIUs having access to a wide range of sources of information to properly conduct their analyses. FIUs should not be limited to the passive receipt of information, they should be able to actively request new or additional information from reporting entities (Interpretive Note C to FATF Recommendation 29).

Along with their powers to access information, FIUs are also empowered to hold confidential information. The nature of the data shared with FIUs may include sensitive transactional information which has relevance beyond an AML/CFT investigation. The data may also be covered by the country's bank secrecy or other privacy laws. As such, FIUs often have strict internal security and confidentiality rules, along with the power to maintain the confidentiality of data when it is requested by non-authorised sources or for purposes not related to AML/CFT. This may result in an FIU determining not to share certain information with other government agencies or personnel. As detailed further below, this power is related to the importance of the FIU's

compliant with the recommendations can have serious negative ramifications, including reputational damage and adverse economic consequences through, for example, constraining external financing options and hampering foreign investment (Sharman 2009 and Beekarry 2011).

track record and reputation, private sector trust in the FIU and the operational independence of the FIU.

Location of FIU within the government structure

Interpretive Note A to FATF

Recommendation 29:

Considering that there are different FIU models, Recommendation 29 does not prejudice a country's choice for a particular model, and applies equally to all of them. (excerpt)

FIUs were established by different countries at different times; institutional setup within the government structure varies from country to country. The Egmont Group, IMF and World Bank have identified four primary models for FIUs. Each model has strengths and weaknesses, though all forms should comply with the FATF recommendations on FIUs. Notably, even where an FIU is located within an existing ministry, agency or other governmental unit, the law governing the FIU should give it the specific powers it needs to perform its mandate; the FIU should have distinct authority and duties, its performance should not be hindered by rules or limitations which apply more generally to its "parent" organisation.

The descriptions below are drawn from the analysis and summaries of FIU models contained in the IMF and World Bank Overview of FIUs (IMF/World Bank 2004), and from the 2017/2018 Annual Report of the Egmont Group.

Administrative model

These FIUs are typically placed within an existing government agency or under an existing ministry other than a judicial or law enforcement agency or ministry. Common placements are within a finance ministry, central bank or other regulatory body. Some FIUs following the administrative model are, however, not located within an existing agency or ministry and are instead established as a standalone, independent body. The majority of Egmont Group members have some form of the administrative model (in 2018, 119 members of the

Egmont Group were classified as administrative, with a further 15 classified as a hybrid of administrative/law enforcement). Examples of this type include FinCEN in the US and FINTRAC in Canada (FINTRAC is also an example of a standalone FIU, independent of any other agency).

Key advantages

- FIU acts as a neutral buffer between reporting entities and enforcement/prosecutorial bodies, which can foster reporting entities' trust and confidence in the FIU
- eases the exchange of information with foreign FIUs
- FIU has access to the resources and expertise of the applicable administrative body

Key disadvantages

- closer direct supervision by political authorities can sometimes increase the risk of undue influence
- placing FIU outside of a law enforcement body can cause delays in applying law enforcement measures (for example, freezing assets)
- FIU may have more limited legal powers to gather evidence compared to the law enforcement and judicial models. Notably, this depends on the legislative framework in place; not all FIUs following the administrative model will encounter this disadvantage, especially where a statute specifically grants the FIU distinct powers from the agency or ministry within which it is located

Law enforcement model

This model is the second most common form adopted by members of the Egmont Group (in 2018, 19 members were considered to be in this category, with an additional 15 sharing the hybrid administrative/law enforcement classification). Under this model, the FIU is placed within the country's law enforcement agency and has concurrent authority with the agency regarding money laundering- and terrorism-related crimes. Examples include the United Kingdom's UKFIU (within the NCA), Singapore's STRO and Finland's RAP.

Key advantages

- FIU and law enforcement benefit from ease of access to shared information (including international networks such as INTERPOL) and infrastructure
- FIU typically enjoys wider investigative powers
- enforcement measures can be brought to bear more quickly (for example, freezing assets).

Key disadvantages

- reporting entities may be more reluctant to share information directly with an agency that is also responsible for enforcement and/or prosecutions, especially where there is a risk of reports being used for purposes beyond AML/CFT
- requests for additional information may be slowed by higher thresholds applicable to formal enforcement-type investigations. A country's legislative framework may, however, work to address this issue by specifically exempting the FIU from thresholds applicable to other enforcement bodies
- emphasis is placed on investigations and detection rather than on preventive measures

Judicial model

Some, though few, FIUs are located within the judicial branch of government (usually under the jurisdiction of a prosecutor who, under that legal system, has investigative powers). In 2018, the Egmont Group reported two judicial FIUs and four FIUs with a hybrid judicial/law enforcement" model. The IMF and World Bank note that this model can be helpful where a country has very stringent bank secrecy laws; a close connection with the judiciary promotes cooperation from financial institutions who are subject to such laws. Luxembourg's FIU-LUX (CFR) is an example of this model.

Key advantages

- FIUs typically enjoy greater freedom from undue political interference
- association with the judiciary's reputation for independence and impartiality can help build trust in the FIU

- FIU benefits from the powers of the judiciary (for example, freezing assets, detaining individuals, conducting searches)
- relevant information is accessed directly and quickly by the body responsible ultimately for investigation and prosecution

Key disadvantages

- the judicial model shares many of the same disadvantages of the law enforcement model (see above)
- FIUs may face challenges sharing and accessing information with non-judicial FIUs (see also European Commission, Project ECOLEF Final Report, 2013)

Hybrid model

These FIUs adopt features from the other models in an attempt to reflect their best elements. Norway's FIU (EFE, a unit within ØKOKRIM) is an example of this model, it is described as a "law enforcement/judicial type" in its FATF MER (FATF 2014).

Limitations of the four-model typology

The choice of model adopted will necessarily be influenced by, among other factors: i) consistency and compatibility with a country's existing government structures and legal system; ii) the criminal justice policies and priorities of the country; iii) available financial and technical resources; and iv) the anticipated volume and variety of reports to the country's FIU (IMF/World Bank 2004).

While they are a useful tool to group FIUs, the four models track high-level formal characteristics, and it is worth emphasising that there is often significant variation in the practices (and effectiveness) of FIUs using the same model. This is driven, in part, by the factors outlined in the paragraph above. A study commissioned by the European Parliament noted that, "critical aspects (such as FIU staff background, task distribution or access to databases) were not necessarily correlated with the type of FIU". (EU Parliamentary Research Services 2017).

Critically, wherever it is positioned, the FIU's enabling legislation should ensure that it is equipped with the authority and powers to perform its core functions. For example, while FinCEN in the US is one of a number of bureaus located within the Department of the Treasury, its enabling provisions have been assessed by the FATF to enable FinCEN to function as a separate and distinct unit from the other bureaus (FATF 2016).

The choice of organisational structure is highly relevant, and countries should consider local conditions (including vulnerabilities and reputation) when determining, or revising, the location of an FIU within the government structure. The IMF and World Bank note that, "relative strengths and weaknesses of the agencies where the FIU may potentially be located need to be assessed, since it may not be prudent to establish an FIU within an administration that does not enjoy the trust of those under its authority" (IMF/World Bank 2004).

Focusing on operational independence: best practices

In addition to the location of the FIU, operational independence has a significant bearing on an FIU's ability to effectively collect, analyse and disseminate financial intelligence related to AML/CFT.

Co-chair's statement: 25th plenary of the Egmont Group (2018)

The Egmont Group is convinced that operational independence and autonomy are essential criteria of FIU effectiveness, among other factors, in the fight against corruption. In fact, it has been one of the most pressing issues for members that have faced compliance matters.

The private sector, domestic government agencies and foreign FIUs must put trust in the FIU in order to facilitate effective reporting, develop intelligence and secure the exchange of sensitive information. Given the nature of the information involved, and its role in potential criminal investigations, an FIU can be the target of undue influence from reporting entities, the private sector more generally and from political authorities. Accordingly, the legal framework and treatment of FIUs should ensure

that, even while FIUs cooperate and coordinate with other entities, they can exercise operational independence while conducting their core functions, irrespective of the model adopted.

In a 2018 paper endorsed by the Egmont Group Heads of FIU, the Egmont Group identifies the following as characteristics of an operationally independent and autonomous FIU (Egmont Group 2018):

Governance and organisational structure must support autonomous decision making with respect to core functions

FIUs should be independent in their day-to-day decision making, including in their analysis of information, setting priorities for analytical activities, whether and when to close cases, to which agencies and foreign FIUs to disseminate financial intelligence, and whether and how to respond to requests for intelligence. For example, the FATF's MER for Singapore notes that "STRO can make arrangements for spontaneous, information exchange with domestic competent authorities and foreign counterparts, without prior approval". (FATF 2016). In addition, FIUs should not be dependent on third party assistance to obtain information relevant to their core functions. The governance structure in place should, in addition: i) permit the head of the FIU to select senior staff with appropriate expertise and define their roles; and ii) provide senior staff with protection from criminal and civil liability flowing from the good faith exercise of their duties.

These features of operational independence have special relevance for FIUs located within another body (as most are). The larger body should have limited control over the resources and assets of the FIU, and the FIU's core function should be segregated and distinct from the work and mandate of the larger body (Interpretive Note E.9, Recommendation 29). For example, while Belgium's FIU (CTIF) is administratively overseen jointly by the Minister of Justice and Minister of Finance, these bodies, "cannot give [the CTIF] instructions, injunctions or orders, notably with regard to the decision of whether to submit a case to the public prosecutor's office". (FATF 2015).

Further, to maintain the autonomous position of the FIU, the head of the FIU should be

represented in the management of the larger body and should have a say in resource allocation (as detailed below).

Adequate resources to secure operational independence

An FIU should have sufficient financial, human and technical resources to perform its three core functions. Whether or not an FIU can be considered adequately resourced will depend on the context of the country, including its risk profile for money laundering, terrorism and corruption.

FIUs must be accountable for their budgetary and other resource management decisions. Retaining independence in this sphere is an important bulwark against improper influence from both the private sector and government. By way of illustration, while the CEO of Australia's FIU (AUSTRAC) must consult with various stakeholders in the performance of their functions, but any failure to consult will not affect the validity of their performance. FATF's MER for Australia notes that, "AUSTRAC has its own operational resources, including financial budget and staff, allocated through the normal governmental processes. Once allocated, there are no specific provisions that would require further approvals from government or partner agencies to obtain and deploy the resources needed to carry out its functions" (FATF 2015).

Appointment and dismissal of senior FIU staff

Powers of appointment and dismissal are other areas where FIUs can be subjected to improper influence. Emphasis should be placed on relevant expertise when appointing the head of an FIU; the process should be transparent, and no political or personal affiliation should be required. The head of an FIU should be dismissed only for failure to meet the terms of service or for gross misconduct or incapacity. The dismissal process should be documented and transparent.

Protection of FIU Information: access and use

As noted above, trust is essential to the effective functioning of an FIU. In its 2018 set of recommendations for FIUs working with law

enforcement authorities and prosecutors, the International Bank for Reconstruction and Development (IBRD) recommends that national legislation clearly delineates the recipients of FIU intelligence that contains confidential information to prevent attempts by other government agencies to improperly access such information or to use FIU intelligence other than in connection with AML/CFT (or some other legislated purpose) (Recommendation 7, IBRD 2018 and FATF Interpretive Note to Recommendation 29). An FIU's failure to keep information confidential can severely limit other FIUs' willingness to share and exchange information with the local FIU. This can significantly impede the FIU's work and the effectiveness of the AML/CFT system more widely.

Finland's FIU (RAP) provides one example of a legislative framework assessed to be compliant with FATF's criterion for protecting information (Criterion 29.6, FATF, Methodology for Assessing Compliance 2013-2019). This framework regulates who has access to information contained in RAP's databases (only members of RAP), provides for a secure physical environment for RAP servers (controlling and limiting building access to specific authorised personnel), and it regulates the security clearance and training requirements for all RAP employees. The legislation also stipulates the limited purposes for which RAP information may be disclosed to others (for preventing, detecting and investigating money laundering and terrorism financing, and for referring cases for criminal investigation) (FATF 2019).

Ease of access to information and information exchange

Operational independence is promoted by ensuring that an FIU has the authority to engage independently with domestic and foreign sources, to obtain the broadest access to relevant information. This can mean ensuring that FIUs have the independent power to enter into memoranda of understanding with foreign counterparts to the FIU and with local authorities, as necessary to permit the exchange of information.

Levels of integration between an FIU's database and databases maintained by other government agencies vary but should not, in any event, impede data gathering or an FIU's power to request

information from other agencies. Finland's RAP, for example, has direct access to the following (among other sources of information): trade registers, the population information system, vehicle and watercraft registers, information on visas granted, the criminal investigation and criminal intelligence databases, the Europol information system and the database on mutual legal assistance requests (FATF, Finland, Fourth Round Mutual Evaluation Report, 2019).

As is evident from the above example, relevant information for an FIU to develop its intelligence materials extends beyond financial information and it can engage both private sector and government sources of data. In addition to access to other government databases, FIUs are expected to be able to request additional information from reporting entities and also, where appropriate, from non-reporting private entities (Criterion 29.3 of FATFs Methodology for Assessing Compliance 2013-2019 and Principle C.13 of the Egmont Group, Principles of Information Exchange 2013). Both Australia's AUSTRAC and Finland's RAP are empowered to request information from non-reporting entities in certain circumstances (FATF 2015 and FATF 2019).

Checks and balances accompanying independence: accountability, transparency and integrity

While operational independence promotes trust in an FIU, a lack of accountability, transparency and integrity can erode that trust and impede the effective operation of the FIU.

FIUs are held accountable to government and the public through requirements to provide annual (or more frequent) written reports on their performance and budgeting. FIU reports may contain topics such as: i) feedback from domestic and foreign agencies on the usefulness or quality of intelligence received from the FIU; ii) Suspicious Activity Report (SAR) filing statistics; iii) information regarding training programmes conducted and steps taken to remedy deficiencies identified in the work of the FIU; iv) general information about advisories issued by the FIU to reporting entities in connection with high priority AML/CFT issues; and v) budget spending and projections for new or ongoing projects (US Department of Treasury FY 2018 Agency Financial Report & FinCEN "SAR Stats" online tool). Based

on the institutional model adopted, the FIU can make the reports publicly available on its website, to the authority with oversight responsibility for the FIU, and sometimes directly to parliament (Egmont Group 2018).

Accountability is boosted also by FIU membership in recognised expert international bodies, such as the Egmont Group. To become a member of the Egmont Group, and maintain membership status, FIUs must submit to compliance assessments and undertake measures to address any shortfalls identified through the evaluation process (Egmont Group 2015). FIU performance, measured against the FATF recommendations, will also be considered by the World Bank and IMF in the context of their own country review processes (IMF/World Bank 2004), this operates as an additional source of FIU accountability.

Reporting processes and membership in regional and international bodies serves to promote transparency around the work, financing and governance structure of FIUs. However, confidential information held by FIUs may not be shared and, as such, the integrity of FIU staff is an essential component of maintaining trust in the FIU. The Egmont Group notes that FIU staff should adhere to a published code of ethics; dishonest conduct should be swiftly addressed to safeguard against the exertion of undue influence on FIU employees.

Interpretive note E.10 to FATF recommendation 29

Countries should have in place processes to ensure that the staff of the FIU maintain high professional standards, including standards concerning confidentiality, and should be of high integrity and be appropriately skilled. (excerpt)

Looking ahead: new and continuing challenges facing FIUs

FIUs' expertise, procedures and governance arrangements need to be responsive to changes in the environments in which they operate for them to continue to effectively perform their core functions.

An ongoing feature of FIUs' work is adapting to changes in criminal behaviour and methodology. FIUs must also keep pace with technological advances, which present both opportunities and challenges for the AML/CFT system; for example crypto-currencies and other products using blockchain technology (FATF 2017). Here, FIUs must operate in an evolving legislative and regulatory framework as governments grapple with the possibilities and vulnerabilities posed by this area of innovation. Similarly, many countries are making or considering changes to their privacy and data protection laws, which may also have ramifications for FIUs' access to, treatment and storage of information (Egmont Group, Strategic Plan 2018-2021).

An area of increased emphasis for FIUs, both in their institutional design and operation, is corruption. The Egmont Group notes that FIUs are "strategically placed to detect corruption and trace its proceeds" (Egmont Group, Buenos Aires Communique 2018). Given the widespread and high levels of corruption reported worldwide, FIUs need to develop effective capabilities to identify transactions and activities which are indicative of corruption. In 2018, the Egmont Group published a non-exhaustive set of red-flag indicators to assist FIUs with this growing area of work, including practices to determine whether a case involves politically exposed persons (Egmont Group 2018).

Corruption presents a special risk to FIUs since they themselves may be targeted by corrupt officials or private sector participants. Institutional design features supporting operational independence, and thereby safeguarding FIUs from undue or improper influence, will become increasingly important in this context.

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