



AMF

Policy Document On

Anti-Money Laundering

and

Combatting Financing of Terrorism

2016



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1. Executive Summary

The Arab Monetary Fund (AMF) is committed to the highest standards of Anti-Financial Crime (AFC) which it has defined to include Anti-Money Laundering (AML), Anti-Bribery and Corruption (ABC), Counter Terrorism Financing (CTF), Anti-Fraud, and other punishable financial criminal acts. The Director General and all AMF employees are required to adhere to these standards.

The member States of the AMF enjoy membership of the Arab League and the United Nations, and committed to fighting these crimes and enacted laws and rules designed to implement relevant policies consistent with international recognized recommendations of the Financial Action Task Force "FATF", and the regional body "MENAFATF". AMF recognizes that the goal of these laws is to detect and prevent financial crimes particularly money laundering and potential terrorist financing. The AMF will adhere to relevant applicable laws and regulations in all countries where it conducts business, or has business relationships. The AMF shall also provide, within the context of its mandate technical assistance and training programs to member States in the area of AML/CFT.

2. Definitions

Money Laundering is a process by which the illicit source of assets obtained or generated by criminal activity is concealed to obscure the link between the funds and the original criminal activity. There are three stages to Money Laundering: Placement, Layering, and Integration. The first time funds derived from criminal activities are used in a legitimate money transfer is referred to as Placement. Creating a series of transactions to hide the first transaction is referred to as Layering. The return of funds to legitimate activities is referred to as Integration. Placement poses the greatest risk to businesses. Transactions may be structured to avoid record keeping or reporting thresholds. False identification and/or information may be provided. Money laundering requires an underlying, primary, profit-making crime (such as corruption, drug trafficking, market manipulation, fraud, tax evasion), along with the intent to conceal the proceeds of the crime or to further the criminal enterprise.

Terrorist Financing on the other hand involves the raising and processing of assets to supply terrorists with resources to pursue their activities. While these two phenomena i.e. money laundering and terrorist financing differ in many ways, they often exploit the same vulnerabilities in financial systems that allow for an inappropriate level of anonymity and non-transparency in the execution of financial transactions.



Terrorist Financing involves the solicitation, collection or provision of funds with the intention that they may be used to support terrorist acts or organizations. Funds may stem from both legal and illicit sources. More precisely, according to the International Convention for the Suppression of the Financing of Terrorism, a person commits the crime of financing of terrorism “if that person by any means, directly or indirectly, unlawfully and willfully, provides or collects funds with the intention that they should be used or in the knowledge that they are to be used, in full or in part, in order to carry out” an offense within the scope of the Convention.

The primary goal of individuals or entities involved in the financing of terrorism is therefore not necessarily to conceal the sources of the money but to conceal both the financing and the nature of the financed activity.

Anti-Money Laundering (AML) and Combatting Financial Terrorism (CFT) controls, when effectively implemented, mitigate the adverse effects of criminal economic activity and promote integrity and stability in financial markets.

3. Implication of Financial Crime

The international community is concerned about the possible consequences money laundering, terrorist financing, and related crimes have on the integrity and stability of the financial sector and the broader economy. These activities can undermine the integrity and stability of financial institutions and systems, discourage foreign investment, and distort international capital flows. They may have negative consequences for a country’s financial stability and macroeconomic performance, resulting in welfare losses, draining resources from more productive economic activities, and even have destabilizing spillover effects on the economies of other countries.

In an increasingly interconnected world, the negative effects of financial criminal activities are global, and their impact on the financial integrity and stability of countries is widely recognized. Money launderers and terrorist financiers exploit both the complexity inherent in the global financial system as well as differences between national AML/CFT laws and systems, and they are especially attracted to jurisdictions with weak or ineffective controls where they can more easily move their funds without detection. Moreover, problems in one country can quickly spread to other countries in the region or in other parts of the world.

Strong AML/CFT regimes enhance financial sector integrity and stability, which in turn facilitate countries’ integration into the global financial system. They also strengthen governance and fiscal administration. The integrity of national financial systems is essential to financial sector and macroeconomic stability both at the national and international levels.



4. Arab Monetary Fund Activities

According to its Articles of Agreement, and for the realization of its goals, the Arab Monetary Fund activities are focused on providing short-term and medium-term credit facilities to member States with a view to assisting in financing their overall balance of payments deficits with the rest of the world, resulting from trade in goods and services, transfers, and capital movements.

The Fund is also authorized by virtue of its Articles of Agreement to issue guarantees in favour of member States to strengthen their borrowing capabilities from other financial sources for the purpose of financing the overall deficits in their balances of payment, and also acts as intermediary in the issuance of loans in Arab and international financial markets for the benefit of Arab member States and under their guarantees.

Other important activities of the fund consist of coordinating monetary policies of member States and promoting cooperation between the monetary authorities in these States. The liberalization and promotion of trade and the resulting current payments and encouraging capital movements between member States, and allocating funds from its resources to provide the necessary credits to settle their current payments among them.

The Fund also provides through its Economic Policies Institute in collaboration with several regional and international institutions, training to the staff of member States on various economic, financial, and monetary topics including AML/CFT.

The AMF also provides to Member Countries through the Treasury and Investment Department in addition to the management of its reserves, the services of investment portfolio management and deposit acceptance, from members central banks, ministries and other financial institutions. The Fund also offers technical assistance on the policy and strategy of reserve investment and on the job training in the field of investment.

5. Policy Objectives and Scope

Banks and financial institutions across the globe have been cautious in being dragged into transactions that the international community has recognized to constitute illegal acts either because they relate to money laundering (ML) or to terrorist financing (TF). In addressing these risks, they have set up policies strategies, and compliance mechanisms in line with the recommendations on combating Money Laundering and the Financing of Terrorism and Proliferation issued by the Financial Action Task Force (FATF) in 2012. Many international organizations have also embraced and endorsed these recommendations which are recognized as international standards and best practices, and developed their own strategies to promote financial integrity and formulated the necessary policies to protect themselves from financial crime issues including ML & TF.



The Arab Monetary Fund “AMF” is a regional financial organization aiming at laying the monetary foundation of Arab economic integration and accelerating the process of economic development in all Arab countries. Although the AMF is less exposed to ML/TF risks as other traditional depositary institution, the AMF recognizes the FATF recommendations and understands the need and the importance of having an adequate AML/CFT policy. It aims to keep an engaged relationship and strong cooperation with regional and international organizations concerned with the detection and combating of ML and TF activities, and to avoid duplications of ongoing efforts by these organizations, hence, the focus is made to identify and to implement measures that are useful to support these efforts that consider the challenges and specificities of the region and the dominated beliefs and values.

The Scope of this policy is defined in terms of the applicable FATF recommendations standards and regulatory requirements as they apply for the AMF. These requirements are intended to prevent the AMF and its employees from being misused for money laundering, terrorist financing or other financial crime. This Policy establishes the general framework for the fight against money laundering and financing of terrorism taking into account the AMF’s existing objectives and operations.

6. AMF Responsibility to Member States

By virtue of its Articles of Agreement, the AMF mandate is to support its all member states efforts in adopting international standards and best practices, and accordingly embraces the adoption of such international standards and best practices. To that end the AMF provides technical assistance and training programs to member States in the area of AML/CFT.

Furthermore, the Fund has been serving for over 30 years as the secretariat for the Council of Arab Central Banks and Monetary Authorities Governors, and recently as the secretariat for the Council of Arab Finance Ministers.

The AMF has been designated as an observer in the Middle East and North Africa Financial Action Task Force “MENAFATF”. Most member countries of the AMF are members of MENAFATF and are consequently bound to:

- i. Implement the FATF recommendations on combating money laundering and financing of terrorism and proliferation.
- ii. Implement the United Nations treaties and agreements and UN Security Council resolutions relevant to anti-money laundering and financing of terrorism (AML/TF).



- iii. Co-operate among each other to raise compliance with the standards recognized by the MENAFATF and to cooperate with other international and regional organizations, institutions and agencies to improve compliance worldwide.
- iv. Work jointly to identify issues of regional nature related to money laundering and terrorism financing, and to share relevant experiences and to develop solutions for dealing with them; and
- v. Take measures at home country and collectively throughout the region to effectively combat money laundering and terrorism financing in a coherent and complementary process well aligned with the cultural values, constitutional frameworks and legal systems in the member States.

7. AMF Financial Operations

The scope and nature of AMF operational framework are well defined in its Articles of Agreement. Such framework provides adequate grounds to set appropriate policies and compliance mechanisms to safeguard itself against ML and TF activities, and comply with the relevant international standards. The financial operations of the AMF are contained within the following business lines with government agencies of the all Arab member States and banks financial institutions:

- i. Providing financial facilities to support economic reform programs.
- ii. Providing Reserve management and investment portfolio management services.
- iii. Accepting deposits from central banks and Financial Institutions of member states.

8. AMF Governance Structure

The Governance structure at the AMF is reflective of a conservative and law-abiding business policy. It is deemed adequate and effective in persevering financial integrity and preventing financial crime including ML and TF. A corporate governance report is prepared and reviewed annually to ensure compliance with all relevant OECD governance principles. The AMF Governance structure includes:

- i. The **Board of Governors** composed of finance ministers and central banks governors designated by member states. The Board is regarded as the highest authority of the Fund and holds all the administrative powers.
- ii. The **Board of Executive Directors** composed of the Director General as Chairman and other eight members elected by the Board of Governors from the citizens of member states to exercise the powers and authority delegated to it by the Board of Governors.



- iii. **Audit and Risk Committee** established by the Board of Executive Directors and composed of at least three of Board members. The mandate of the Committee is to assist the Board in its supervisory function over the Fund and report to the Board of Executive Directors, and to ensure adequate compliance with and implementation of laws and regulations.
- iv. **Committees on loans and investments** established by the Director General pursuant to the Fund Articles of Agreement. These statutory committees are comprised of directors and senior management staff, and assist in providing recommendations and proposals with respect to loan and investment policies and strategies to the Board of Executive Directors.
- v. A **Risk management Committee** composed of Directors and senior staff members is overseeing the implementation of the risk management framework and its periodic review, and annual re-assessment of the risk appetite statement, within strategies adopted by the AMF.
- vi. Administration Committee established by the Director General pursuant to the Employees Regulations and composed of Directors and senior staff members, assuming the functions determined by these regulations and other functions relating to support other AMF activity.

9. Policy Statement

It is the policy of the Arab Monetary Fund that recognized principles on combating Money Laundering and the Financing of Terrorism and Proliferation are observed to the extent relevant to its operations and supports its member states.

To implement this policy the AMF:

- i. Recognizes the recommendations of FATF and MENAFATF and assist in establishing the laws and regulations enforcement within the member state countries in AML/CFT which would minimize the risk of the Fund's resources being used for improper purposes.
- ii. Take necessary steps to fully observe the applicable anti-money laundering laws and regulations. The Fund's Articles of Agreement is designed to prevent the services of the Fund from being used to facilitate ML and TF activities.
- iii. Work closely with international and regional organizations concerned with AML/CFT and get benefit from their outcomes, products and activities.



- iv. Loans provided by the Fund shall be always subject to an agreed program and continuous consultations, as per article (26) of the Fund's Articles of Agreement
- v. Use of the Fund's resources by a member State in a manner inconsistent with the objectives of the Fund will result in limiting the rights of the member to use the resources of the Fund as per Article (27) of the Fund's Articles of Agreement.
- vi. Dealings of the Fund with a member state shall only be conducted through the member's Treasury, Central Bank or any similar agency the member may designate. As per Article (46) of the Fund's Articles of Agreement.
- vii. Maintain policies and procedures which are capable of achieving relevant compliance with the international standards related to AML/CFT and enhance the AMF's staff awareness about AML/CFT.
- viii. Maintain a lending policy duly approved by the Board of Executive Directors and setting out comprehensive procedures to regulate all aspects of lending including eligibility and financing terms.
- ix. Acknowledge that failure to comply with the AML/CFT standards could result in civil and criminal penalties to the Fund, its staff, and member States.
- x. Maintain an investment policy comprising adequate set of principles for sound conduct of business consistent with the best practices. Whereby financial transactions are executed exclusively and directly with foreign and Arabic financial institutions who have a credible reputation in the financial markets and sound AML/CFT policies as well as those carrying high credit ratings. All financial institutions are approved by the Board of Executive Directors, upon the recommendation of the Investment Committee. As such, the AMF only deals with trustworthy and recognized entities.

10. Review and Implementation of the Policy

Each AMF Department Director is responsible for the implementation of this policy and adhere to it. The Legal Department is entrusted with the responsibility to follow-up any update of this policy and make the necessary proposals to the Administration Committee to be endorsed for the approval of the Director General Chairman of the Board.



ANNEX
International and Regional Bodies and Efforts
On combatting Money Laundering and Terrorism Financing

I. FATF

The Financial Action Task Force on Money Laundering (FATF), has primary responsibility for developing a worldwide standard for AML and CFT. It works in close cooperation with other key international organizations, including the IMF, the World Bank, the United Nations, and FATF-style regional bodies (FSRB).

In order to help national governments implement effective AML/CFT regimes, the FATF issued a list of recommendations which set out a basic, universally applicable framework of measures covering the criminal justice system, the financial sector, certain non-financial businesses and professions, transparency of legal persons and arrangements, and mechanisms of international cooperation. In February 2012, these recommendations were revised and updated (The FATF Recommendations). In February 2013, the FATF adopted a revised common Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems. The first assessments under the new Methodology have now started. The work of the FATF, as well as the IMF's AML/CFT efforts, have been supported by the G7 and the G20, most recently in the context of initiatives to address corruption and cross-border tax evasion.

The FATF Recommendations set out a comprehensive and consistent framework of measures which countries should implement in order to combat money laundering and terrorist financing, as well as the financing of proliferation of weapons of mass destruction. Countries have diverse legal, administrative and operational frameworks and different financial systems, and so cannot all take identical measures to counter these threats. The FATF Recommendations, therefore, set an international standard, which countries should implement through measures adapted to their particular circumstances. The FATF Standards comprise the Recommendations themselves and their Interpretive Notes, together with the applicable definitions in the Glossary.

II. MENAFATF

Recognizing the threats posed by money laundering and terrorist financing operations to countries in the Middle East and North Africa Region, co-operation between countries within the MENA Region has been established. Such co-operation has been based on measures taken by the United Nations with regard to countering money laundering and the financing of terrorism; and the work of the Financial Action Task Force ("FATF") 40 Recommendations on Combating Money Laundering and Financing of Terrorism and Proliferation. The related UN Conventions and UN Security Council Resolutions, as the worldwide-accepted international standards in this regard, in addition to any other standards that are adopted by the Arab States to enhance the fight against money laundering and the financing of terrorism and proliferation in the region. Countries in the MENA Region should work jointly to comply



with these standards; in order to establish an effective system which countries need to implement. Accordingly, at an inaugural Ministerial Meeting held in Manama, Bahrain on the 30th of November 2004, the Governments of 19 countries decided to establish MENAFATF as a FATF Style Regional Body (FSRB). It was agreed that the headquarter of this body will be in the Kingdom of Bahrain. The MENAFATF is voluntary and co-operative in nature and independent from any other international body or organization; it was established by agreement between the governments of its members and is not based on an international treaty. It sets its own work, regulations, rules and procedures and co-operates with other international bodies, notably the FATF, to achieve its objectives.

III. The United Nations

The Law Enforcement, Organized Crime and Anti-Money-Laundering Unit of UNODC is responsible for carrying out the Global Program against Money-Laundering, Proceeds of Crime and the Financing of Terrorism, which was established in 1997 in response to the mandate given to UNODC through the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 1988. The Unit's mandate was strengthened in 1998 by the Political Declaration and the measures for countering money-laundering adopted by the General Assembly at its twentieth special session, which broadened the scope of the mandate to cover all serious crime, not just drug-related offences.

The broad objective of the Global Program is to strengthen the ability of Member States to implement measures against money-laundering and the financing of terrorism and to assist them in detecting, seizing and confiscating illicit proceeds, as required pursuant to United Nations instruments and other globally accepted standards, by providing relevant and appropriate technical assistance upon request.

IV. The International Monetary Fund (IMF) and The World Bank (WB)

The World Bank and International Monetary Fund developed a *Reference Guide to Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT)* in an effort to provide practical steps for countries implementing an AML/CFT regime in accordance with international standards. The Guide, authored by Paul Allan Schott, describes the global problem of money laundering and terrorist financing on the development agenda of individual countries and across regions. It explains the basic elements required to build an effective AML/CFT legal and institutional framework and summarizes the role of the World Bank and the International Monetary Fund in fighting money laundering and terrorist financing.

The primary objective of this joint Bank-Fund project is to ensure that the information contained in the Reference Guide is useful and easily accessible by developing countries that are working to establish and strengthen their policies against money laundering and the financing of terrorism. Additionally, this Guide is intended to contribute to global understanding of the devastating consequences of money laundering and terrorist financing on development growth, and political stability and to expand the international dialogue on crafting practical solutions to implement effective AML/CFT regimes.



References

1. The Financial Action Task Force 40+8 Recommendation.
2. The IMF and the World Bank Reference Guideline to Anti-Money Laundering (AML) and combating the financing of terrorism (CFT).
3. Arab Monetary Fund Article of Agreement.