

PARTNERS AGAINST CRIME

THE ANNUAL DINNER OF THE ASSOCIATION OF CORPORATE TREASURERS TOOK PLACE AT THE GROSVENOR HOUSE HOTEL, LONDON ON 14 NOVEMBER. THIS IS THE FULL TEXT OF THE MAIN SPEECH GIVEN BY **JUDITH MAYHEW**, CHAIRMAN OF POLICY AND RESOURCES OF THE CORPORATION OF LONDON.

We all know the world has changed significantly since the terrible events of 11 September. With it comes the potential threat to the City of London and the world financial system. Such a situation calls for contingency planning and precautions of the highest order. But this contingency planning, good as it is, can go only so far. And both the government and the Corporation of London, as the local authority, must take other precautions to stifle the terrorists' sources of finance.

In the City, and elsewhere, financial and professional institutions also have an important role to play in this fight.

The government has already introduced new legislation in the form of the Proceeds of Crime Bill. Other actions are also the pipeline. And so I would like to take this opportunity of saying a few words about this and just how financial, professional and other commercial firms can assist in this process.

Statistics, quite naturally, are very hard to come by in this area. But the IMF estimates that between 2% and 5% of global GDP is laundered every year. This amounts to between \$590bn and \$1.5 trillion, the lower sum of which, \$590bn, is equivalent to Spain's total yearly output – that is the size of the problem. For the police and other authorities, it is also a particularly difficult crime to detect: there are no 'victims' because people are generally not aware of what is going on.

ACTION STATIONS. This is why it is particularly important that everyone, the police, customs, the government, we at the Corporation of London and you in business, work together to share information and so catch the launderers' and terrorists' money managers.

However, before I go into detail about how we in the City can help, may I reiterate the point that has been made across the globe by politicians and business leaders in recent years. It is that there is a real need for a concerted approach to this problem on a worldwide scale. Terrorism and money laundering are global problems and they are only going to be stopped by international action.

Thankfully, action is already underway. Only a few weeks ago, the Financial Action Task Force (FATF), a creation of the OECD, launched its Action Plan to combat financial terrorism and the transfer of laundered money. Its aim is not to damage the competitive advantage of legitimate low tax centres nor to abolish privacy and discretion in banking, asset management and trust matters.



Judith Mayhew and ACT President, Anthony Stern.

Instead, it will use persuasion, example and active expert help to encourage financial centres, whose systems are not adequately providing a defence against money-laundering and financial crime, to embrace internationally acceptable levels of conduct.

This process of 'naming and shaming' has already had some success. Several countries, including Russia, Liechtenstein, the Bahamas and the Cayman Islands, have recently introduced major changes to their laws.

TACKLING TERRORISM. The FATF plans also outline guidelines for the regulation of financial markets, which the FATF hopes will also be adopted in countries other than just the 31 member states.

Moreover, all countries, which have not already done so, are also under increasing pressure to ratify the 1999 UN convention against the financing of terrorism and the sharing of information on suspicious funds or accounts.

In the UK, there are also a number of important programmes underway. These include:

- the government initiatives under the Action Against Financing Terrorism, which was launched in the House of Commons by the Chancellor on 15 October. These will target the financing of terrorism, and those who shield it, and form part of a worldwide clampdown; and

- the second reading of the Proceeds of Crime Bill proposes, among other things, an Asset Recovery Agency (ARA). This will have special powers to pursue high-profile cases where the lack of an immediately guilty party may prevent the forfeiture of their assets. The ARA will be able to bring a civil case to the High Court that centres on property, rather than the culpability of a particular individual.

Proceedings before the High Court will, of course, be answerable to civil, not criminal, standards of proof. Once assets are confiscated, it will be up to the owner to prove to the Court that they were not the proceeds of crime. This is a radical move for the UK but it is based upon a model of Acts that have been passed in the Republic of Ireland, the US and Australia – and in all of those countries it has proven highly successful.

The ARA will also act as a centre of excellence and expertise in the whole area of money laundering. It will have gateways to allow the exchange of information with the customs and the Inland Revenue.

SECURE WEB SYSTEM. In addition, new Compulsory Disclosure Orders, Customer Information Orders and Account Monitoring Orders will be available to compel banks and other financial institutions to identify all accounts held by any person under investigation by the ARA.

In the near future, this process will be entirely electronic, thus speeding up the provision of the information to investigators and the linkages to intelligence that already exists.

The project, MoneyWeb, will provide electronic access and facilities right the way through the process, with the banks and others online at one end of the information chain and law enforcement agencies at the other. The project should be online by early next year. Here in London, the City Police have been among the first to set up this secure email system.

In another move, bureaux de change will become regulated by the Customs & Excise. It also appears that the underground *hawala* banking system is also covered by this.

In addition, at the end of this month, the Financial Services & Markets Act 2000 comes into force. With its new legal powers, the authority will be able to monitor, investigate and be responsible for prosecuting breaches of the money laundering regulations of 1993 in most of the financial services industry.

All this tightening of the existing law will certainly make criminal funds more easily traceable, and hopefully it can help to eliminate them from the chain of transactions.

Within Europe, the Second Money Laundering Directive extends the range of institutions that are subject to the obligations to deter, detect and report money laundering to include casinos, estate agents, dealers in high value goods and also to lawyers and accountants, even when they are not engaged in 'relevant financial business'.

Despite all this, let us not underestimate the difficulties in London. It will continue to be a particularly complicated struggle. For here we have the most international market in the world. Huge amounts of money pass through the City every day, much of it initially deposited elsewhere.

Finding large amounts of illegal money is difficult. But to detect the relatively small amounts of laundered money is tantamount to finding a needle in a haystack. However, I sincerely hope that the Bills before the House and the new powers of the FSA will act like a magnet to detect these corrupt funds.

There is also understandably much concern that some measures may damage the ability of financial and professional companies to

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carry out their legitimate business. And that regulations imposed to meet the circumstances of an emergency may then remain in place when the circumstances change.

I am assured that legitimate financial institutions should not fear the new resolutions. A reputation for transparency and straight dealing – a reputation which is a key element of the City's brand name – is not only compliant with public policy, but it is a commercial asset.

The new legislation and bodies are seeking not to undermine but to strengthen the position of banks and financial and professional firms. Nor has this regulation been rushed through in response to an emergency. The establishment of the ARA and the widening powers of the National Criminal Intelligence Service pre-date the 11 September disaster, which only served to highlight how apt and badly needed such reforms are.

City institutions which have themselves been attacked, indirectly on 11 September and directly by Irish Republican terrorists and others, have an intense interest in helping to combat terrorism.

Ultimately, an effective and appropriate level of regulation can only help the competitiveness of the London markets, attracting more business to a well-run and efficient system.

WORKING MORE CLOSELY TOGETHER. So my message this evening is that the detection of these crimes does to a considerable extent depend on confidential disclosure by banks and other institutions. The police and the regulation forces which will be working to monitor this area are now trained to be particularly sensitive to the delicate balance of the client relationship, which can seem threatened by disclosure requirements.

But the Police are also sensitive to what they call 'wilful blindness'. For there is now an obligation on people to report. They assure me that any information will be treated as confidential and handled sensitively. Moreover, you will receive a confidential feedback from the Police as a result of any disclosure.

The electronic system should make reporting easier, swifter and more efficient. There are about 16,000 disclosures every year at the moment, almost entirely all from the big five banks. I therefore believe that that we are on the way to finding an effective solution to this most difficult area.

This is why we must continue to work together with the Police and the law enforcement agencies.

The global climate has shifted and is shifting still, in favour of good practice and transparency. Through all of us acting in partnership, in business, government, police, customs and regulation, I hope this can be achieved.

Chairman, thank you so much for your hospitality this evening. I have very much enjoyed meeting you all. And I have appreciated the opportunity to speak to you on this most sensitive subject.

Judith Mayhew is Chairman of Policy and Resources at The Corporation of London.