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My remarks today will focus on the U.S. Department of the Treasury's long-standing efforts to promote implementation of effective anti-money laundering and countering the financing of terrorism (AML/CFT) measures worldwide. Treasury works closely with international counterparts to combat global money laundering, terrorist and proliferation financing, and other forms of illicit financial activity. By working through various multilateral bodies, we have improved transparency throughout the international financial system and have integrated robust systemic AML/CFT safeguards into the international financial architecture. This global AML/CFT architecture assists us in systematically identifying and addressing illicit financing vulnerabilities in the international financial system on an ongoing basis. That in turn enhances our ability to both protect the integrity of the international financial system and undermine the financial networks that support organized criminal and other illicit groups. I would like to take a moment to explain how this unique and effective global AML/CFT system works. I will then turn to Macau and briefly explain how risks in Macau's financial system have been identified and addressed through this process.

## Global AML/CFT network

Global financial flows are growing rapidly and greatly exceed the trade in goods and services. Free financial flows enhance the economic security and prosperity of people in this country and around the world, but bad actors seek to abuse this global financial system to support their illicit purposes. Because of the growing international nature of the financial system, we must work continuously with other financial centers around the world to establish and maintain effective international standards to protect the international financial system from various sources and conduits of illicit financing. In coordination with our counterparts across the government, Treasury primarily advances this strategic objective through the Financial Action Task Force (FATF), the multilateral body that sets international standards for AML/CFT safeguards, and works for their global adoption and implementation.

Established by the G-7 in 1989, the FATF is the preeminent anti-money laundering body in the world. Comprised of 36 members, covering the world's major financial sectors, FATF sets international AML/CFT standards – known as the FATF 40 Recommendations – and works for their universal adoption and implementation. FATF additionally serves as a forum for countries to share experience and coordinate global policy in combating money laundering and other forms of illicit finance. The United States has played a leading role in the development of this organization as the primary forum for advancing international efforts to combat misuse of the financial system.

The FATF works to protect the international financial system from abuse through three primary and interrelated lines of effort: 1) standard setting; 2) establishing a global network; and 3) mutual evaluation and collective action.

1. Standard Setting: The FATF Recommendations – established in 1990, and updated in 1996, 2001, 2003, and most recently in 2012 -- comprise the legal, supervisory, enforcement, and international cooperation criteria, that taken together, form a comprehensive framework to combat money laundering and the financing of terrorism. The Recommendations specify the laws necessary to criminalize illicit finance; the authorities required for effective financial supervision and law enforcement; and the customer identification, recordkeeping, and reporting obligations for financial institutions to deter illicit finance and ensure law enforcement has the information needed to pursue financial crime. The Recommendations also prescribe the essential elements of international cooperation to facilitate civil and criminal enforcement actions.
   The FATF Recommendations have been recognized by the International Monetary Fund (IMF) and the World Bank as one of the key standards and codes within the international financial system, and have been fully integrated into their financial sector monitoring programs. The FATF Recommendations have also been endorsed by the G20, which in 2012 acknowledged that the Recommendations, in addition to combating money laundering and terrorist financing, also are relevant to deterring corruption, improving the transparency of corporate vehicles, and increasing cooperation against tax crimes. Additionally, the U.N. Security Council urged, in its Resolution 1617, that the international community implement the FATF Recommendations.

2. Building a Global Network: The FATF today has 36 members, 34 countries and two supranational bodies, representing financial centers across the globe. Though FATF has sought to limit its membership expansion to strategically significant financial centers, FATF has worked toward the global adoption and implementation of its standards through the development of a network of FATF-Style Regional Bodies (FSRBs). There are currently eight FSRBs with a collective membership that encompasses 180 countries. There are two FSRBs serving the countries of Latin America and the Caribbean; two in Africa; one in the Middle East; one in Europe; and two in Asia. The role of the FSRBs is to improve regional financial security by member countries working together to implement the FATF standards, in addition to identifying and addressing specific regional illicit finance concerns. They also provide an avenue for all countries to participate in the global FATF process.

3. Mutual Evaluations: Countries, upon joining the FATF or an FSRB, commit to working toward full implementation of the 40 Recommendations and to have their level of compliance assessed through a unique peer review process. The FATF, FSRBs, as well as the IMF and World Bank have established a global process to assess individual country compliance with the FATF Recommendations using a common methodology for all countries. These assessments provide a roadmap for countries to improve their AML/CFT regimes. They likewise provide the basis for FATF to organize collective international action with respect to countries that do not take steps to address significant AML/CFT deficiencies. Creating a common set of anti-money laundering and counter terrorist financing standards, assessing the compliance of countries with those standards, publicly reporting the results, and applying collective pressure on non-cooperative

countries has proved extraordinarily successful in raising global capacity to combat illicit finance.

The most recent round of mutual evaluations assessed countries against the 2003 FATF standards. Those standards were revised and updated in 2012. The next round of assessments, getting underway next year and focusing on the revised 2012 standards, will include both an assessment of technical compliance with the FATF Recommendations and an assessment of the effectiveness of the country's anti-money laundering and counter terrorist financing efforts. Technical compliance and effectiveness will each be scored according to distinct criteria.

**The Asia Pacific and Macau**

The Asia Pacific Group on Money Laundering (APG) is the FSRB that covers much of the Asia-Pacific region. It has 41 members, including the United States. The APG conducted a mutual evaluation of Macau in 2007. The mutual evaluation acknowledges that Macau had taken steps to establish a legal AML/CFT framework. Given, however, that much of that framework had been put in place immediately before the assessment occurred, it was often impossible for the APG to assess its implementation or effectiveness. Nevertheless, the mutual evaluation did note the following deficiencies:

- Macau lacked asset freezing provisional measures in cases of suspected money laundering;
- Macau was unable to respond to foreign requests on freezing orders;
- Macau lacked legal authorities to effectively implement UN Security Council Resolutions 1267 and 1373 on the financing of terrorism;
- Cross-border currency movement was a significant issue for Macau, but it did not enforce a disclosure or declaration system on cross border currency, nor did the Macau Customs Service have the authority to investigate ML or FT cases;
- Most key aspects of customer due diligence (CDD) obligations were not adequately incorporated into law and regulation;
- The gaming sector, while incorporated in the jurisdiction's legal AML/CFT framework, presented a substantial money laundering risk and featured a number of gaps, including:
    - Lack of a risk-based assessment of gaming customers and operators;
    - Inadequate inspection and oversight of casinos and junket operators and promoters;
    - A lack of communication between the Gaming Inspection and Coordination Bureau (DICJ) and Macau's Financial Intelligence Office (GIF); and
    - A high monetary threshold for reporting large transactions at casinos.

Since 2007, Macau has reported that it has taken a number of steps to address the deficiencies detailed in its mutual evaluation, including:

- Requiring the DICJ to regularly perform risk assessments of gaming operators and junkets;

- Enhancing the DICJ's oversight over junket operators and promoters in order to improve the quality of large and suspicious transaction reports and provide further practical guidance on customer due diligence (CDD) and other AML/CFT obligations;
- Enhancing collaboration between the DICJ and the GIF to share information and update procedures in order to have a better knowledge of the risks and trends in the casino sector; and
- Enacting a new gaming law regulating admission to casinos, including enforcing bans on high-risk banned patrons and exclusion requested by third parties.

Despite these steps, Macau has yet to address a number of deficiencies in its AML/CFT framework that were identified by the APG, most notably:

- Although work continues on draft legislation, Macau still has not incorporated a freezing mechanism into its legal AML/CFT framework;
- While a number of legal enhancements to Macau's CDD requirements have been drafted, they have not yet been passed or enacted;
- Macau continues to allow a very high threshold of 500,000 MOP (approximately USD 62,000) for reporting large transactions at casinos. Macau has been asked to lower its large transaction reporting threshold for casinos to USD 3000 as recommended by the FATF.
- Although Macau has begun to draft legislation that would improve the jurisdiction's cross-border currency controls, it has yet to implement an effective cross-border cash declaration system.

The APG will conduct a mutual evaluation of Macau against the 2012 FATF Recommendations using the new methodology in 2015 or 2016.