

STATEMENT ON TERRORIST FINANCE

1.1 Counter-terrorist finance measures have helped to save lives and hold terrorists to account for their actions. They have equipped UK authorities with an enhanced intelligence picture; powerful investigative tools; and new opportunities to disrupt crime and terrorism, including the restraint of over £1.3 million of terrorist-linked assets since 2001.

1.2 This note provides an update on the main developments in the UK's counter-terrorist finance (CTF) policy in 2005, where Government has worked together with business to protect the public. This note follows the Chancellor of the Exchequer's Statement on 19 July 2005 and will be followed by a progress report about the Government's counter-terrorist finance and money laundering strategy in the Spring.

THE UK'S COUNTER-TERRORIST FINANCE PROGRAMME

1.3 The CTF regime aims to disrupt the support networks that make terrorism possible. Since 2001, for example, there have been:

- £400,000 of cash seizures under the Anti-Terrorism, Crime and Security Act 2001;
- £110,000 of forfeited funds;
- £475,000 of funds seized under the Proceeds of Crime Act 2002; and
- £382,000 subject to Treasury asset freezes

all in relation to terrorist cases. This does not include the £78 million that was frozen until 2002 as part of UK action against the Taleban.

1.4 The UK's framework of CTF measures also provides a mechanism to publicly identify *suspected* individuals and groups engaged in or linked to terrorism, and prevent them both from raising or transferring funds. This is the primary objective of the UK's asset freezing programme. A further twenty-five individuals and groups have been added to the UK's consolidated list of asset freezing targets this year, nineteen of which are linked to Al Qaida.

1.5 The UK's CTF programme provides law enforcement bodies, particularly the National Terrorist Finance Investigation Unit, housed within Special Branch, with a powerful investigative resource. Irrespective of any final charges, every terrorist suspect is subject to financial investigation. Enquires following the attacks of 7th July and attempted attacks of 21st July have demonstrated the critical role of terrorist finance investigation in progressing specific enquiries and establishing an enhanced intelligence picture.

THE DOMESTIC AGENDA

1.6 Domestic policy developments in 2005 have focussed on enhancing the effectiveness of existing terrorist finance arrangements within government; cementing the partnership with the private sector; and reviewing the regulation of "money service businesses" (bureaux de change; cheque cashiers; and 'wire transfers').

Asset freezing

1.7 To deliver a more proactive approach to the identification and freezing of terrorist assets, a cross-government “Asset Freezing Working Group” has been recently established. This aims to enhance the ongoing identification of targets and ensure that where asset freezes present an appropriate response to a given threat, they are used.

Money Service Business

1.8 A new regulatory regime for Money Service Businesses (“MSB”s), such as bureaux de change, cheque cashiers and wire transfer offices was introduced in the wake of the 9 / 11 terrorist attacks. A consultation document will be issued in the Spring which will set out a range of options to strike the right balance between safeguarding the MSB sector from abuse; managing the risk of driving business underground; and ensuring that the interests of the overwhelmingly legitimate users of MSB services are protected.

Private sector reporting

1.9 In a number of sectors, regulated institutions are required to ‘know their customer’ and remain alert to the warning signs of financial abuse. Where suspicions of money laundering or terrorist finance arise, these must be reported (as ‘Suspicious Activity Reports’) to the National Criminal Intelligence Service. This provides an essential pool of financial intelligence, including in relation to terrorism cases.

1.10 The integration of the National Criminal Intelligence Service into the new Serious Organised Crime Agency offers the opportunity to further enhance the impact of the SAR regime. Following the July attacks, the Chancellor and the Home Secretary commissioned Sir Stephen Lander to review the arrangements for handling Suspicious Transaction Reports within SOCA in order to deliver maximum value to both the law enforcement community and the private sector. This review is now well underway and will report in Spring 2006.

1.11 Separately, the UK’s capacity for terrorist finance intelligence gathering and assessment has been built up throughout 2005.

1.12 The SAR system puts the private sector in the fore-front of the fight against terrorism. It is therefore critical that businesses understand the high value of the reporting system and have sufficient information on the nature of the threat to take a firmly risk-based approach to their implementation of money laundering and terrorist finance requirements.

1.13 High quality reporting by financial institutions following the 7 July attacks has pointed to strong private sector engagement with the UK’s counter-terrorism efforts. Outreach efforts have been stepped-up throughout 2005 and have included the publication by NCIS of four targeted papers on terrorist finance indicators along with inter-agency briefings to the major financial institutions following the attacks of 7th July. These have helped convey the operational and intelligence lessons from the London attacks to key parts of the financial community in order to further strengthen safeguards within the financial system.

GLOBAL ACTION

The G7

1.14 Under the UK Presidency, G7 financial experts have agreed a package of measures to improve the ability of countries to undertake effective and timely concerted action that denies terrorists access to funds. This has included:

- agreements to undertake early and constructive consultation prior to designating terrorist assets;
- exchanging information on national legal criteria required to freeze terrorist funds;
- updating global assessments of terrorists funds frozen.

The Financial Action Task Force

1.15 The Financial Action Task Force is the pre-eminent global body responsible for defining international standards in relation to money laundering and terrorist finance. The UK has successfully pressed for the FATF to develop new mechanisms to apply international, public, pressure and scrutiny against jurisdictions where poor standards create a permissive environment for terrorist financing and money laundering. The UK will continue to argue that new measures should be capable of targeting not only jurisdictions, but more specifically, particular financial sectors within them and even particular companies.

1.16 Within the FATF, the UK has also pressed successfully for a review of how member countries implement “Special recommendation III” on terrorist finance, which requires countries to identify and freeze terrorist assets immediately and without delay.

The United Nations

1.17 The United Nations is key to the international effort to tackle terrorist financing. UN Security Council Resolution 1373 places legal obligations on States to freeze terrorist assets. The UN Convention for the Suppression of Terrorist Financing (1999) provides a more detailed framework for tackling the financing of terrorism. Where States have not acceded to the Convention, the UK encourages them to do so. The UK has worked with its Security Council partners to ensure the Counter-Terrorism Executive Directorate (CTED) - the UN administrative body charged with supporting the Counter-Terrorism Committee, which monitors implementation of UNSCR 1373 - is fully operational. The UK welcomes the appointment of a terrorist financing expert to the CTED.

1.18 The UK places considerable importance on the full implementation of the UN Al-Qaida and Taleban Sanctions, which were established following UNSCR 1267. The UK was a key player in the drafting and unanimous adoption of the latest resolution updating this sanctions regime and renewing the mandate of its Monitoring Team. UNSCR 1617 was adopted on 31 July 2005. It strengthened the sanctions regime by clarifying that the sanctions apply to supporters, facilitators, financiers, and recruiters of any cell, affiliate, or splinter group of Al-Qaida or the Taleban, as well as Al-Qaida and Taleban leaders and core operatives. It also enhanced the effectiveness of the measures against entities controlled by listed

individuals and called for full implementation of the Financial Action Task Force standards and robust cases to support listing entities or individuals under the sanctions regime.

The European Union

1.19 The fight against terrorism has formed a central pillar of the UK's Presidency of the EU. In relation to terrorist finance, the UK has sought to accelerate the implementation of the EU's Action Plan on terrorism agreed in the wake of the Madrid bombings.

1.20 Substantial progress has been made in a number of areas which will help deliver international standards on terrorist finance across the EU as a whole:

- The 3rd Money Laundering Directive has been agreed. Significantly, this extends EU legislation to terrorist finance (something the UK has already done); ensures that the regulated sector know the ultimate controller or beneficiary of funds; and requires financial institutions to assess the risk of terrorist finance and money laundering in conducting due diligence.
- An agreement on the Payments Regulation is now close. This will require financial transactions made using wire transfers to be accompanied by information on the identity of the sender.
- An independent review of the effectiveness of current EU structures in delivering international standards on terrorist finance has been initiated and will report in the New Year.
- A regulation on the cross-border movement of cash has been agreed which will require substantial cash transfers to be declared.
- Member States have endorsed the need to strengthen capacity to identify and freeze assets both at the national and the EU level.
- A programme of work, including an expert conference in the UK, has begun to ensure that the charitable sector in the EU is safeguarded from terrorist abuse.
- Expert conferences have been held on financial investigation; charity regulation and asset freezing, both to share best practice and to put in train further work by future Presidencies.

1.21 The legacy of this work will be set out in a revised EU Strategy on Terrorism which will be submitted to the European Council in December.

Technical assistance and engagement with priority countries

1.22 The UK is a major sponsor of technical assistance to priority third countries. With sponsorship by the Foreign and Commonwealth Office, Special Branch (NTFIU); NCIS and the Charity Commission have delivered significant, targeted programmes to raise capacity to tackle terrorist finance in priority countries.

1.23 At UK request, the International Financial Institutions and other relevant bodies, such as the United Nations, will now develop enhanced mechanisms to ensure that the significant multilateral programmes of technical assistance are

delivered in a way that targets those who need it most, and that avoids duplication of efforts.