

Statement by Mariano Federici, President of Argentina's Financial Intelligence Unit

Honorable Representatives, Members of the Task Force to Investigate Terrorism Financing.

It is an honor for me to be with you at this hearing today sharing my preliminary assessment of the risks to financial integrity (including money laundering and terrorist financing) in Argentina, and our new vision on how to mitigate them, under the leadership of President Mauricio Macri.

I would like to start by clarifying that our assessment is only preliminary at this stage, as we have only been in office for a little over 4 months, and there is still a full inter-agency money laundering/terrorist financing risk assessment pending completion at the national level. Such risk assessment will serve as a basis for the development of a national money laundering/terrorist financing strategy.

A preliminary assessment of Argentina's system

With this caveat, I can begin by sharing with you that we encountered a tragic situation in the area of financial integrity left by the people that preceded us in government. It is clear to us by now that there was a complete lack of political will to fight money laundering and terrorist financing in Argentina during the last 12 years.

There was not only a lack of will to assess and understand the nature and magnitude of the money laundering, and particularly, the terrorist financing threats. There was also a clear intent to conceal them, evidenced by the interruption in the publication of official crime data and statistics that took place since 2008.

These problems led to a notorious lack of strategic planning, which prevented the government from prioritizing its efforts and making an efficient use of public resources. The absence of a strategy meant the government's efforts were characterized by constant improvisation, which in turn resulted in a serious lack of effectiveness, and a related impact on risk levels.

Throughout the last ten years, the threats to financial integrity increased significantly, as criminals exploited the advantages of a sophisticated financial system with the vulnerabilities of an uncommitted government.

Evidence confirms that drug trafficking grew exponentially and currently remains one of the main threats, posing a serious risk to the integrity of our financial system and the security of our people.

As a matter of fact, in December 2015, the polls showed that the main concerns of Argentine citizens were “drug trafficking and insecurity”. According to international assessments, Argentina had become the third exporter of cocaine and the rate of robberies was one of the largest ones in the world. This is the reason why President Macri has made the fight against drug trafficking a central objective of his government.

To give you some numbers, the consumption of cocaine and marijuana more than doubled between 2000 and 2015. Between 2005 and 2015 drug seizures increased by 800% and the number of drug related cases tripled at the judicial level. In the same period, Argentina changed from being a transit country to a country that receives, transforms, consumes and exports illegal drugs to the world at large scale.

Of particular interest is the increase in the import of chemical precursors, and particularly ephedrine, a precursor used for the production of medicines but also used to produce synthetic drugs. In normal times, Argentina would import 200kgs of ephedrine per year for medical use. However, when Mexico prohibited its imports, this amount multiplied 100 times, to 20tns per year, most of which was illegally exported.

One of the main structural vulnerabilities exploited by criminals in recent years was corruption. Argentina ranks 107 of the 168 countries ranked by Transparency International’s Corruption Perception Index. This is far below Uruguay and Chile, but also below Mexico, Brazil, Colombia and Bolivia.

Corruption under the previous administration was part of a strategy, intentionally designed to illicitly enrich public officials proportionally at all levels. Corruption was therefore the rule, not the exception, and corrupt officials were rewarded rather than punished.

At the operational level, corruption affected particularly the law enforcement agencies. Between 2012 and 2015, the Coordination of Transparency at the Ministry of Security received more than 700 complaints of possible incidents of corruption. 90% of such complaints were made by law enforcement officials. 76% of them involved the Argentine Federal Police.

All of this occurred while Argentine law enforcement agencies were being dismantled. When we stepped in, we found our law enforcement agencies badly equipped, poorly paid, untrained and mistreated, with very little capacity to prevent or investigate crimes.

We found our borders completely unprotected, with only 17% of them controlled by radars and a very limited air defense system. In fact, our entire defense system was weakened, with airplanes that do not fly, ships that do not work, and very limited equipment in our entire armed forces.

At the Financial Intelligence Unit (FIU), the situation was not much different. Our agency was over populated with many people that did not fit the technical profile required for the job and, in some cases, not even the legal requirements to be a member of the FIU. There was no understanding of money laundering/terrorist financing risks and the strategy was to have no strategy, which allowed for a discretionary use anti-money laundering/counter terrorist financing (AML/CFT) tools.

On the preventive side, the FIU's regulatory powers were used more for economic policy objectives than for mitigating risks to financial integrity. We found the system overregulated, with controls that obstructed financial inclusion and pushed people towards the use of cash and informal channels. Financial intelligence was mostly used for ideological and political purposes, rather than to detect and contribute to investigate serious criminal threats.

Needless to say, this mismanagement had a direct impact on the lack of effectiveness to prevent, detect and suppress money laundering and terrorist financing. In the 15 years since the criminalization of the money laundering offence and 7 years of the terrorist financing offence, there have been only 13 convictions for money laundering and no convictions for terrorist financing in Argentina.

A new vision to fighting illicit finances and terrorist financing

This assessment, while negative as it is, should not depress us nor make us angry. It should however provide an idea of the challenges ahead and the urgent need for reform and change.

We are now working at full speed in repairing the damages. There is a clear and strong political will to fight organized crime and contribute to the global efforts in the fight against terrorism. There is also a good understanding that the best way to achieve this is through the economic and financial angle.

Our objective is to protect the financial system and the broader economy from the threats of money laundering and terrorist financing, thereby strengthening financial sector integrity and contributing to safety and security.

Our main focus will be placed on effectiveness, as we believe Argentina has sufficient legal and institutional instruments in place to begin producing results. Efficiency is the key to effectiveness, particularly when resources are limited, as it is certainly our case. It is therefore a matter of being more efficient in the method now to be more effective in the end outcome.

At the FIU, we are placing a strong emphasis on our preventive strategy. This involves assessing, from our own perspective, the risks of money laundering and terrorist financing,

irrespective of the system wide national risk assessment that Argentina must conduct in accordance with international standards.

In particular, we will be very focused on assessing terrorist financing risks, which we believe have been irresponsibly underestimated by the previous administration. In this regard, we are hoping to team up with our Brazilian and Paraguayan counterparts, to assess the threats and vulnerabilities to terrorist financing in the Tri-Border Area. We believe this could also be a good opportunity to work together with the United States.

In the meantime, we have increased our awareness raising efforts on terrorist financing risks in Argentina and we have disseminated to our reporting entities the Bulletin on the risks posed by Foreign Terrorist Fighters, as we committed to do at the Egmont Group level.

In 2014, the FIU issued a few administrative orders to freeze the assets of entities allegedly believed to be involved in terrorist financing. As a result of this intervention, a few so called “state terrorists” were captured using CFT instruments. However, the offenders have largely been former members of the military junta, and the majority has been charged with crimes committed during the military rule in Argentina (1976-1983).

Our plan is to begin using our CFT regime, with due respect for the rule of law, to pursue international terrorism cases representing a present threat to our system and to global peace and security.

We are also embarking in a wide regulatory reform process that will allow reporting entities to adopt a risk based approach to AML/CFT compliance. The reform will also contribute to remove existing barriers to financial inclusion and generate incentives to reduce the circulation of cash and the use of informal mechanisms.

Over the last 5 years the FIU issued more than 70 regulations, which imposed significant obstacles to operating in the Argentine financial system and economy and contributed little to mitigating the real risks of money laundering and terrorist financing. We are actually of the view that many of these regulations prevented people at the lowest segments of our society from accessing financial markets, and expelled others to the informal economy.

Economic mismanagement, an excessive tax pressure, the lack of respect for the rule of law, and a number of restrictive measures and controls, including excessive AML/CFT controls, among other factors, generated a significant demand for informal movements of funds. Such demand was met by a supply of sophisticated illegal underground mechanisms that helped to move money in and out of Argentina in a quick and undetectable way.

While most of such funds may have been related with a legitimate need to protect wealth in safer currencies and jurisdictions, it is clear that such mechanisms and channels also

contributed to illicit finances and very likely to abuse by terrorist financiers. Unlike money launderers, who at some point in the process need to enter in contact with the formal financial system to legitimate their assets, terrorist financiers only need a safe and reliable channel to move money into the hands of terrorists. For such purposes, remaining fully undetected through the use of informal channels represents a major advantage.

As regulators, we are also planning to adopt a risk based approach to AML/CFT supervision, and this is something we hope to be able to do with the US Government's (Treasury's OTA) support. This will rationalize the use of our limited resources and allow us to place focus on what is really relevant to protect the integrity of our financial system and broader economy. We are committed to tackling informal channels through a right balance between incentives to use the formal financial system and deterrents to discontinue using the informal one.

In the coming weeks, Argentina will embark in a voluntary tax compliance program to allow Argentines holding assets abroad to normalize their tax situation ahead of an upcoming multilateral tax information exchange initiative. This will contribute to reduce the levels of informality in our economy and provide the government with resources to address several important obligations. The program does not allow nor create incentives to repatriate funds and it is fully in line with OECD and FATF standards and best practices.

On the intelligence side, we are working to regain confidence in our domestic and foreign partners. We are updating our MOUs with FIUs of strategic importance to us. We are in the process of updating our MOU with FINCEN, following an unauthorized leak of information during the previous administration.

Regaining confidence requires reassuring our partners of our commitment to protect the security of the information and to ensure that information provided will only be used for authorized purposes. This in turn demands investments in our real estate infrastructure and our information technology resources which we are willing to make as a sign of our commitment.

We are also strengthening our strategic analysis capabilities, to be able to better identify money laundering and terrorist financing trends and patterns and to conduct a deeper analysis of our threats that may feed into our strategic planning efforts and a more efficient allocation of our resources.

Our FIU also acts as a party to criminal cases involving money laundering or terrorist financing conducts. In this regard, we have re-defined our criteria for engagement, focusing our participation in strategic money laundering cases, involving drug trafficking and other serious offenses, cases with high volumes of funds or other assets, cases with transnational components, or cases with other economic or financial complexities that may offer a real opportunity for the FIU to add value.

I would also like to share with you that we recently opened our first regional office in Salta (close to the border with Bolivia), which covers 7 provinces in the North-western region of Argentina and will facilitate our interaction with law enforcement, prosecutors and judges dealing with drug trafficking and other expressions of transnational organized crime. We plan to open a second regional office in the North-eastern region to cover the Tri-border area soon.

As we move forward in repairing the damages left by the previous administration and start building a stronger AML/CFT framework, the support from the international community, and particularly our main partners, such as the United States, becomes critical.

I would like to take this opportunity to express my deepest appreciation to FINCEN's leadership, for the trust deposited in us at the earliest of stages, and the opportunity to work fast towards a re-establishment of our MOU.

Sharing information with the United States will be critical to our fight against organized crime and terrorism in the years ahead and to facilitate our contribution to the global efforts against these threats. We embrace this partnership and will live up to our commitments to protect the information and use it only for authorized purposes and to our mutual benefit as nations.

Finally, I would like to close by saying that we are very committed with contributing to the global efforts in this area. We are not just interested in adhering to international standards. We are interested in becoming leaders in financial integrity matters in our region. This is because we truly believe in the value of financial integrity to the soundness of our financial systems and its significance to economic stability, safety and security, which are necessary pre-conditions to economic growth and development.