1. The "rule-based" and the "risk-based" are two approaches to the implementation of the Anti – Money Laundering and Counter – Terrorist Financing (AML/CFT) system and to the compliance with the measures thereof. Both approaches have been adopted in countries' legislation and they have confronted each other in the international scenario over the last 15-20 years.

2. In the framework of the common uniform standards set out at the international and European level, national AML/CFT regimes have to be different to reflect countries' peculiarities, especially as regards the characteristics of the legal system and the overall risk profile.

3. However, the co-existence of different and, to some extent, opposite approaches to the setting up of AML/CFT systems and to their implementation have raised two broad issues:
   a. different "philosophies" may favour discrepancies between countries' regulatory frameworks;
   b. difficulties may arise in cross – border situations, both as far as covered entities and competent authorities are concerned.

4. Recent developments in international and EU standards have determined a convergence toward a risk – based approach to AML/CFT. The FATF adopted revised Recommendations in 2003, endorsing this approach. The EU transposed the new standards through the third Directive of 2005 (2005/60/EC), to be transposed in Member States by 15 December 2007. The rule – based philosophy is not completely ruled out, as such standards allows for some flexibility in this respect.

5. The risk – based approach retains the flexibility which is needed to take account of countries' specificities and, at the same time, should favour uniformity across jurisdictions and effectiveness, whereby overall costs should increase less than proportionally.
6. However, while the increase of effectiveness remains to be seen in those systems which need to be re-configured according to the risk-based paradigm, it is already apparent that:
   a. The change-over to the new system will bring costs in itself, which will be significant in the "transitional" period;
   b. The appropriate configuration of the system, first, and then the assessment of its effectiveness on an ongoing basis, are crucial for the functioning of risk – based systems, but are also quite challenging tasks.

7. New tools and methodologies have to be conceived and developed to assist public authorities' policies and actions as well as private sector's compliance.

8. Countries' evaluations carried out by the FATF and MoneyVal show that EU Member States are not yet in full compliance with the risk – based system. As the deadline for the implementation of the third Directive approaches, some difficulties are being faced, as expected after all. Many of these difficulties are related to the appropriate transposition of risk-based measures. It is reasonable to assume that difficulties will be encountered as well in the subsequent application of the newly enacted legislation, in the short term.

9. The perception by the AML/CFT community of increased complexity and higher costs brought about by the new system, together with a still weak sense of ownership by the covered entities (also due to traditional deficiencies in vertical feedback on results), are further elements which add on the difficulties of the implementation.

10. In this context, the expectation is to see an evolution in two main steps:
    a. In the transitional period, costs (for compliance, training, devising operational methodologies) will increase, especially in those Member States whose systems were rule – based; on the other hand, effectiveness will not necessarily increase to the same extent;
    b. In the longer run, thanks to the enhanced flexibility, it can be expected that costs will decrease to a level lower than under the previous regime; at the same time, the better allocation of resources should allow to improve the effectiveness.

11. The risk – based approach is considerably more complex than the approach based purely on rules. The identification of the needs (in terms of resources commensurate to the risks) and the evaluation of the results and of the effectiveness are of paramount importance. It is necessary to develop appropriate tools to achieve these objectives. The approach should be two-fold:
    a. Each country should assess its own overall risk-profile ex ante, so that the AML/CFT system can be shaped in an appropriately tailored fashion, with a view to mitigate those risks and counter relevant threats; sources of illicit funds, types of predicate offences, features and vulnerabilities of the financial system are all components of this assessment;
    b. Ex post, the effectiveness of the system has to be measured, taking account of all relevant factors: rate of convictions, costs of compliance, deterrence and prevention mechanisms among them.

12. These two complementary evaluations are to be performed on a continuous basis, so that a virtuous circle can be activated, whereby the risk – based system is adapted taking account of evolving patterns of threats and its results are constantly monitored.
13. However, these tasks are not easy to perform and require that appropriate methodologies be conceived and developed. Reliable threat assessments should be underpinned, i.a., by the knowledge of the mechanisms governing the economics of money laundering; on the other hand, the evaluation of the effectiveness implies that a cost–benefit analysis be done, based on reliable data and suitable criteria. The Directive (and the FATF Recommendations) requires that countries collect relevant statistics for measuring the effectiveness; the work for devising an appropriate methodology is ahead.

14. Studying the economics of both money laundering and anti–money laundering is therefore needed for the proper implementation of a sound risk–based system.