# Key Financial Secrecy Indicator 11: Anti-Money Laundering

## What is being measured?

This KFSI examines the extent to which the anti-money laundering regime of a jurisdiction is considered effective by the Financial Action Task Force (FATF), the international body dedicated to counter money laundering.

In 2003, the FATF established its 49 recommendations[1] concerning the laws, institutional structures, and policies deemed necessary to counter money laundering and terrorist financing.

Since then the FATF, regional analogous bodies or the IMF have assessed the implementation of these recommendations through peer-review studies carried out in five-year cycles. The comprehensive reports with results have generally been published online.

In 2012, following the conclusion of the third round of mutual evaluations, the FATF reviewed and updated its 49 recommendations (hereinafter: the "old recommendations") and consolidated them to a total of 40[2] (hereinafter: the "new recommendations"). The compliance assessment based on the new recommendations began in 2013 and at the cutoff date for this KFSI only four of the FSI-2015 jurisdictions have been assessed accordingly (Australia, Belgium, Norway and Spain). For those four jurisdictions we have adjusted our calculation of the overall compliance to take into account the 40 new recommendations.

FATF's assessment methodology for both old and new recommendations rates compliance with every recommendation on a four-tiered scale, from "compliant" to "largely compliant" to "partially compliant" to "non-compliant".

For our indicator, we have calculated the overall compliance score using a linear scale giving each old recommendation and each new recommendation equal weight[3]. A 100% rating indicates that all recommendations have been rated as "compliant", whereas a 0% rating indicates that the jurisdiction is wholly non-compliant.

## Why is this important?

Many of FATF's anti-money laundering (AML) recommendations touch upon minimal financial transparency safeguards within the legal and institutional fabric of a jurisdiction. Through low compliance ratios with AML recommendations, a jurisdiction knowingly invites domestic money launderers and criminals from around the world to deposit and launder the proceeds of crime (e.g. drug trafficking, tax evasion) through their own financial system.

For instance, old recommendation five (equivalent to new recommendation ten, with minor changes) sets out minimal standards for the identification of customers of financial institutions (such as banks and foreign exchange dealers). If this recommendation is rated “partially compliant”, as is the case with the Cayman Islands, this clearly signals that this jurisdiction is prone to money laundering.

The Cayman Islands assessment arises because there is “No legislative requirement to verify that persons purporting to act on the behalf of a customer is so authorised and identify and verify the identity of that person.” (see Cayman Islands-assessment here[4]; page 145-146). In plain language this means that a bank employee does not need to ask questions of, or seek to prove the identity of, a person who routinely runs a bank account although the bank account is effectively in the name of somebody else. The person the bank routinely deals with is only a nominee. This means that financial service providers and their affiliates can act as nominee bank account holders so that the ultimate and effective bank account holder can conceal her/his identity.

In February 2015, Swiss Leaks[5] revealed that HSBC private bank has provided services to clients engaged in a spectrum of illegal behaviours. These client relationships were facilitated by various acts of negligence revealed in an FATF mutual evaluation report of Switzerland. The country was rated "partially compliant" on the old recommendation five which relates to customer due diligence. The FATF report specified a long list of deficiencies in customer due diligence procedures, including: “There is no general obligation on financial intermediaries to identify the purpose and envisaged nature of the business relationship desired by the customer." (see Switzerland's assessment summary here[6], page 13-14). Since banks have been assessed as not being obliged to enquire about the purpose and nature of a new client requesting financial services, important details of a new customers background can be ignored.

Another issue assessed by the FATF relates to shell banks (old recommendation 18, now a part of new recommendation 13). In the case of Ireland, a ‘partially compliant’ assessment revealed: “There is no prohibition on financial institutions from entering into, or continuing correspondent banking relationships with shell banks.” (See Ireland’s assessment here[7]; page 157).

The FATF defines a shell bank as “a bank that has no physical presence in the country in which it is incorporated and licensed, and which is unaffiliated with a regulated financial group that is subject to effective consolidated supervision.” (See here[8]; page 120 in the old recommendations and here[9], page 121 in the new recommendations).

Some secrecy jurisdictions allow or condone shell banks to operate. Often these are little more than money laundering schemes. Therefore, the absence of measures targeted at shell banks allows banks in an apparently respectable jurisdiction (such as Ireland) to enter into business relationships with a shell bank and thus become the connecting interface between a highly dubious shell bank jurisdiction and the regulated banking world. Individual tax evaders, other criminals and banks willing to help facilitate this process can take advantage of this absence of scrutiny.

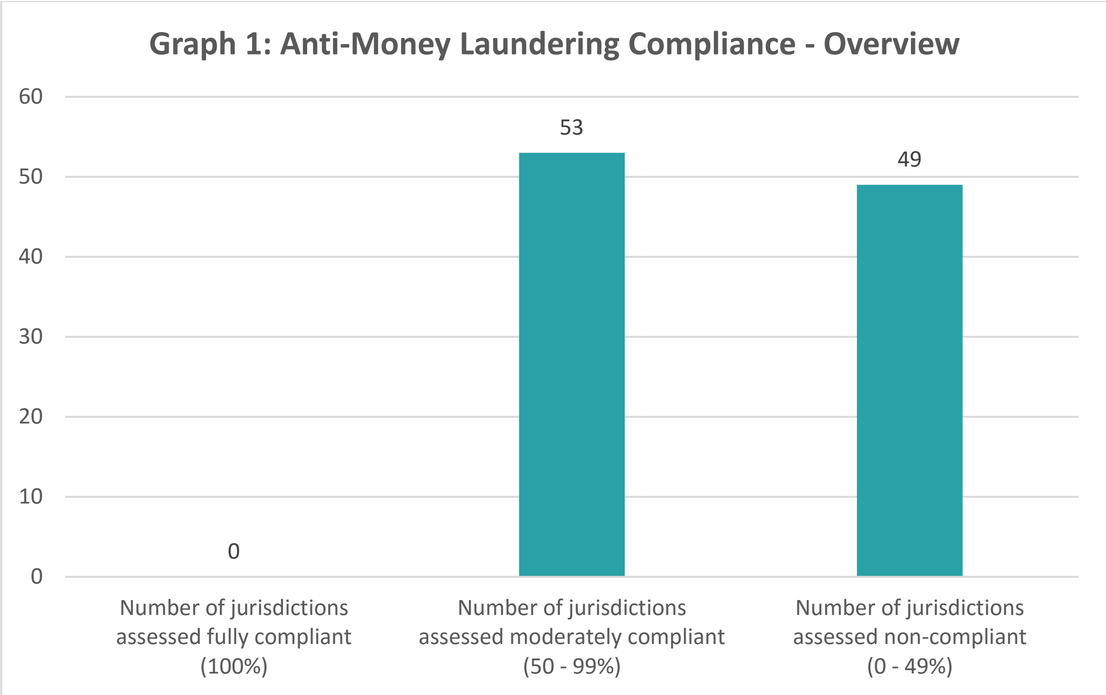
We consider the swift and thorough implementation of all FATF recommendations by all jurisdictions as crucial to global financial transparency, to prevent the undermining of democracies by organized and financial crime, and to curb tax evasion and capital flight.

### What crimes might be hidden behind weak anti-money laundering regulations?

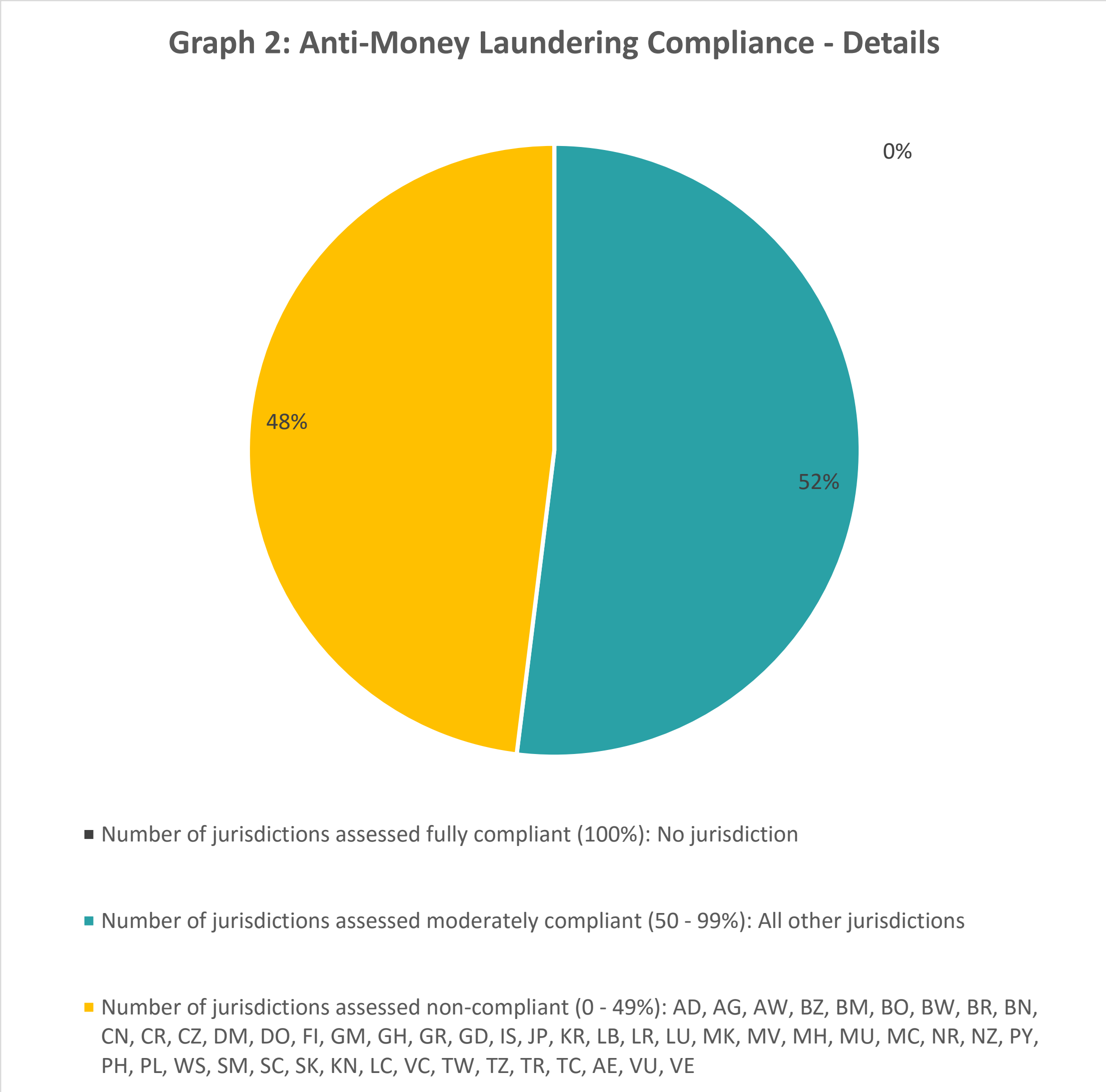
Tax evasion, concealment of the proceeds of bribery, organised crime (especially drug trafficking), illegal arms trading, trafficking in human beings, money laundering, the covering of illicit intelligence activity, infringement of competition rules, non-payment of alimonies, bankruptcy fraud, and more besides might hide behind weak anti-money laundering regulations.

## Results Overview

| Table 1: Anti-Money Laundering Compliance - Overview | |
|---|---|
| Number of jurisdictions assessed fully compliant (100%) | 0 |
| Number of jurisdictions assessed moderately compliant (50 - 99%) | 53 |
| Number of jurisdictions assessed non-compliant (0 - 49%) | 49 |



## Results Detail



| Table 2: Anti-Money Laundering Compliance - Transparency Credits | | | | | | | |
|---|---|---|---|---|---|---|---|
| **ID** | **Country** | **ISO** | **Credits** | **ID** | **Country** | **ISO** | **Credits** |
| 1 | **Andorra** | AD | 0.39 | 52 | **Latvia** | LV | 0.56 |
| 2 | **Anguilla** | AI | 0.58 | 53 | **Lebanon** | LB | 0.45 |
| 3 | **Antigua & Barbuda** | AG | 0.34 | 54 | **Liberia** | LR | 0.14 |
| 4 | **Aruba** | AW | 0.23 | 55 | **Liechtenstein** | LI | 0.51 |
| 5 | **Australia** | AU | 0.58 | 56 | **Luxembourg** | LU | 0.35 |
| 6 | **Austria** | AT | 0.54 | 57 | **Macao** | MO | 0.55 |
| 7 | **Bahamas** | BS | 0.55 | 58 | **Macedonia** | MK | 0.35 |
| 8 | **Bahrain** | BH | 0.52 | 59 | **Malaysia (Labuan)** | MY | 0.61 |
| 9 | **Barbados** | BB | 0.5 | 60 | **Maldives** | MV | 0.09 |
| 10 | **Belgium** | BE | 0.67 | 61 | **Malta** | MT | 0.69 |
| 11 | **Belize** | BZ | 0.31 | 62 | **Marshall Islands** | MH | 0.45 |
| 12 | **Bermuda** | BM | 0.43 | 63 | **Mauritius** | MU | 0.48 |
| 13 | **Bolivia** | BO | 0.26 | 64 | **Mexico** | MX | 0.51 |
| 14 | **Botswana** | BW | 0.24 | 65 | **Monaco** | MC | 0.48 |
| 15 | **Brazil** | BR | 0.48 | 66 | **Montenegro** | ME | 0.55 |
| 16 | **British Virgin Islands** | VG | 0.67 | 67 | **Montserrat** | MS | 0.53 |
| 17 | **Brunei** | BN | 0.28 | 68 | **Nauru** | NR | 0.43 |
| 18 | **Canada** | CA | 0.51 | 69 | **Netherlands** | NL | 0.56 |
| 19 | **Cayman Islands** | KY | 0.68 | 70 | **New Zealand** | NZ | 0.44 |
| 20 | **Chile** | CL | 0.52 | 71 | **Norway** | NO | 0.56 |
| 21 | **China** | CN | 0.49 | 72 | **Panama** | PA | 0.67 |
| 22 | **Cook Islands** | CK | 0.56 | 73 | **Paraguay** | PY | 0.17 |
| 23 | **Costa Rica** | CR | 0.28 | 74 | **Philippines** | PH | 0.42 |
| 24 | **Curacao** | CW | 0.53 | 75 | **Poland** | PL | 0.42 |
| 25 | **Cyprus** | CY | 0.71 | 76 | **Portugal (Madeira)** | PT | 0.66 |
| 26 | **Czech Republic** | CZ | 0.49 | 77 | **Russia** | RU | 0.55 |
| 27 | **Denmark** | DK | 0.5 | 78 | **Samoa** | WS | 0.28 |
| 28 | **Dominica** | DM | 0.26 | 79 | **San Marino** | SM | 0.24 |
| 29 | **Dominican Republic** | DO | 0.3 | 80 | **Saudi Arabia** | SA | 0.54 |
| 30 | **Estonia** | EE | 0.62 | 81 | **Seychelles** | SC | 0.23 |
| 31 | **Finland** | FI | 0.49 | 82 | **Singapore** | SG | 0.69 |
| 32 | **France** | FR | 0.65 | 83 | **Slovakia** | SK | 0.35 |
| 33 | **Gambia** | GM | 0.31 | 84 | **Slovenia** | SI | 0.71 |
| 34 | **Germany** | DE | 0.53 | 85 | **South Africa** | ZA | 0.5 |
| 35 | **Ghana** | GH | 0.23 | 86 | **Spain** | ES | 0.85 |
| 36 | **Gibraltar** | GI | 0.63 | 87 | **St Kitts and Nevis** | KN | 0.44 |
| 37 | **Greece** | GR | 0.34 | 88 | **St Lucia** | LC | 0.14 |
| 38 | **Grenada** | GD | 0.29 | 89 | **St Vincent & Grenadines** | VC | 0.42 |
| 39 | **Guatemala** | GT | 0.56 | 90 | **Sweden** | SE | 0.53 |
| 40 | **Guernsey** | GG | 0.82 | 91 | **Switzerland** | CH | 0.61 |
| 41 | **Hong Kong** | HK | 0.58 | 92 | **Taiwan** | TW | 0.48 |
| 42 | **Hungary** | HU | 0.78 | 93 | **Tanzania** | TZ | 0.13 |
| 43 | **Iceland** | IS | 0.49 | 94 | **Turkey** | TR | 0.38 |
| 44 | **India** | IN | 0.53 | 95 | **Turks & Caicos Islands** | TC | 0.34 |
| 45 | **Ireland** | IE | 0.6 | 96 | **United Arab Emirates (Dubai)** | AE | 0.43 |
| 46 | **Isle of Man** | IM | 0.66 | 97 | **United Kingdom** | GB | 0.72 |
| 47 | **Israel** | IL | 0.58 | 98 | **Uruguay** | UY | 0.65 |
| 48 | **Italy** | IT | 0.63 | 99 | **US Virgin Islands** | VI | 0.7 |
| 49 | **Japan** | JP | 0.45 | 100 | **USA** | US | 0.7 |
| 50 | **Jersey** | JE | 0.74 | 101 | **Vanuatu** | VU | 0.33 |
| 51 | **Korea** | KR | 0.42 | 102 | **Venezuela** | VE | 0.4 |

[1] The (old) 2003 recommendations can be viewed at http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202003.pdf; 7.6.2015. The 2003 recommendations include 40 recommendations and 9 special recommendations on terrorist financing, and referred to jointly as the FATF Recommendations. For the methodology for assessing compliance with the FATF Recommendations see: http://www.fatf-gafi.org/topics/fatfrecommendations/documents/methodologyforassessingcompliancewiththefatf40recommendationsandfatf9specialrecommendations.html; 7.6.2015.

[2] The (new) 2012 recommendation can be viewed at: http://www.fatf-gafi.org/media/fatf/documents/methodology/FATF%20Methodology%2022%20Feb%202013.pdf; 7.6.2015.

[3] To see the sources we are using for particular jurisdictions please check out the corresponding information in our database, available at www.financialsecrecyindex.com/database/menu.xml.

[4] https://www.cfatf-gafic.org/index.php?option=com_docman&Itemid=414&task=doc_download&gid=149&lang=en; 7.6.2015.

[5] http://www.icij.org/project/swiss-leaks/banking-giant-hsbc-sheltered-murky-cash-linked-dictators-and-arms-dealers; 7.6.2015

[6] http://www.fatf-gafi.org/media/fatf/documents/reports/mer/mer%20switzerland%20resume%20english.pdf; 7.6.2015

[7] http://www.fatf-gafi.org/media/fatf/documents/reports/mer/MER%20Ireland%20full.pdf; 7.6.2015.

[8] http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202003.pdf; 7.6.2015

[9] http://www.fatf-gafi.org/media/fatf/documents/methodology/FATF%20Methodology%2022%20Feb%202013.pdf; 7.6.2015.