

## KEY FINANCIAL SECRECY INDICATORS

### Key Financial Secrecy Indicator 17: Anti-Money Laundering

#### What is being measured?

This indicator examines the extent to which the anti-money laundering regime of a jurisdiction is failing to meet the recommendations of the Financial Action Task Force (FATF), the international body dedicated to counter money laundering.

Since 2003, the FATF has issued recommendations concerning the laws, institutional structures, and policies deemed necessary to counter money laundering and terrorist financing. Since then the extent to which jurisdictions comply with these recommendations has been assessed through peer review studies on five to ten years cycles. The studies are conducted by either the FATF, or analogous regional bodies, or the IMF. The resulting comprehensive mutual evaluation reports are mostly published online.

The published assessments include tables with the level of compliance with each of the recommendations, on a four-tiered scale. For the FSI, we calculate the overall non-compliance score with all recommendations, using a linear scale giving each recommendation equal weight. The Secrecy Scoring Matrix is shown in Table 1 below, and full details of the assessment logic can be found in Table 3 underneath.

**Table 1: Secrecy Scoring Matrix KFSI 17**

Type of most recently available full mutual evaluation report	Categories of indicators (number of Indicators)	Maximum total number of indicators	Secrecy Score Assessment (Transformation of FATF assessments) 100% = fully secretive
<a href="#">FATF 2012, Methodology 2013/2017</a> [NEW]	FATF Recommendations (40), Immediate Outcomes (11)	51	<b>1.</b> Coding of FATF ratings (x) as follows: 0=compliant; 1=largely compliant; 2=partially-compliant; 3=non-compliant; analogously for levels of effectiveness in immediate outcomes (high, significant, moderate, low).  <b>2.</b> Average overall non-compliance score of all FATF-recommendations and immediate outcomes in percentage, each given an equal weight (100% = all indicators rated non-compliant or low level of effectiveness; 0% = all indicators rated compliant or highly effective).
<a href="#">FATF 2003, Methodology 2004</a> [OLD]	FATF recommendations (40), Special Recommendations (9)	49	

All underlying data can be accessed freely in the [FSI database](#)  (ID 338).

In 2003, the FATF adopted its [49 recommendations](#)<sup>1</sup> and corresponding mutual evaluation reports have been published for all jurisdictions included in the FSI. For most jurisdictions, this is the most recent type of report available for use in the FSI.

In 2012, the FATF reviewed and updated its 49 recommendations (hereinafter: the “old recommendations”) and [consolidated them to a total of 40](#)<sup>2</sup> (hereinafter: the “new recommendations”). The new methodology ([published 2013, updated 2017](#)<sup>3</sup>) for assessing compliance with the FATF 40 recommendations also included guidelines for assessment of the effectiveness of the entire anti-money laundering system of a given jurisdiction.<sup>4</sup> Eleven indicators, so called “Immediate Outcomes”, have been devised for measuring effectiveness.

The compliance assessment process based on the new recommendations and immediate outcomes began in 2013. At the cutoff date for this KFSI (31 August 2017), a total of 35 jurisdictions had been assessed on this basis, of which 16 are reviewed in the FSI 2018.<sup>5</sup> For those jurisdictions we have adjusted our calculation of this KFSI’s secrecy score to include the 11 immediate outcome assessments alongside 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”. Analogously, the assessment of the immediate outcomes ranges from “high-level of effectiveness” to “substantial level of effectiveness” to “moderate level of effectiveness” to “low level of effectiveness”.

For our indicator, we have calculated the overall non-compliance score using a linear scale giving each old recommendation, new recommendation and immediate outcome equal weight<sup>6</sup>. A 100% secrecy score rating indicates that all recommendations have been rated as “non-compliant” or “low level of effectiveness”, whereas a 0% rating indicates that the jurisdiction is entirely compliant/highly effective.

## 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, recommendation ten (equivalent to old recommendation five, with minor changes) sets out minimal standards for identifying customers of financial institutions (such as banks and foreign exchange dealers). If this recommendation is rated “partially compliant”, as is the case with the USA, the resulting secrecy around bank customers increases the risk of money laundering.

The United States assessment arises because of several shortcomings, one of which is a “[I]ack of CDD [customer due diligence] requirements to ascertain and verify the identity of BO [beneficial owners] (except in very limited cases)” ([see US assessment here](#),<sup>7</sup> page 255;

[own explanation]). In other words, under US law there is no obligation for US-based bank employees to identify those who control bank accounts through companies and trusts. The Financial service providers and their affiliates are thus allowed to operate bank accounts whose real controlling persons can conceal their identity. This level of secrecy contravenes the FATF recommendations.

In February 2015, [Swiss Leaks](#)<sup>8</sup> revealed that HSBC private bank provided services to clients engaged in a spectrum of illegal behaviours. These client relationships were facilitated by various acts of negligence revealed both before and after in a 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.”  
([page 13-14](#))<sup>9</sup>

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 could be ignored, thus enabling the management of accounts with money of illicit origin.

In the latest evaluation of Switzerland, that same recommendation (now recommendation 10) on customer due diligence has still been rated only as “partially compliant”. One among many deficiencies identified, the FATF mentions that:

“There is no general and systematic obligation to take reasonable measures to verify the identity of the beneficial owners of customers” ([page 237](#))<sup>10</sup>

Similar to the situation in the US, this implies that banks can stop short of checking and storing ID documents of the supposed beneficial owners of companies, trusts or foundations that operate bank accounts.

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 organised and financial crime, and to curb tax evasion and illicit financial flows.

While there has been some debate about the merits and costs of the FATF recommendations and the peer review mechanism, the quality of the most recent (4<sup>th</sup>) round of evaluation reports has increased significantly. In response to criticisms of past evaluation methodologies, including for applying what some described as a mechanistic approach of measuring compliance by checking boxes (e.g. [here](#)<sup>11</sup>), the FATF has developed ways for measuring a jurisdiction’s overall effectiveness in achieving ultimate goals. The FATF uses eleven so-called ‘immediate outcome indicators’ for that purpose.

Even though the immediate outcome indicators rely more heavily on subjective criteria than the technical compliance assessments, there is a clear assessment methodology that

provides coherent and detailed guidance. Furthermore, the indicators are all backed up by a detailed narrative. A review of a first sample of 9 assessments suggests that the assessments overall match the underlying qualitative/narrative text.<sup>12</sup> Therefore, for those jurisdictions that have already undergone the 4<sup>th</sup> round of FATF evaluation report, these indicators have been included in KFSI 17 alongside the 40 FATF technical recommendations for the first time in the FSI 2018.

All underlying data can be accessed freely in the [FSI database](#) . To see the sources we are using for particular jurisdictions please consult the assessment logic in Table 3 at the end of this document and search for info ID 338 in the database report of the respective jurisdiction.

## Results Overview



# KFSI 17: ANTI-MONEY LAUNDERING

**Table 2: Anti-Money Laundering Secrecy Scores**

Country Name	Score	ISO	Country Name	Score	ISO
Andorra	0,61	AD	Lebanon	0,55	LB
Anguilla	0,42	AI	Liberia	0,86	LR
Antigua & Barbuda	0,66	AG	Liechtenstein	0,49	LI
Aruba	0,77	AW	Lithuania	0,39	LT
Australia	0,43	AU	Luxembourg	0,65	LU
Austria	0,41	AT	Macao	0,45	MO
Bahamas	0,54	BS	Macedonia	0,65	MK
Bahrain	0,48	BH	Malaysia (Labuan)	0,29	MY
Barbados	0,5	BB	Maldives	0,91	MV
Belgium	0,38	BE	Malta	0,31	MT
Belize	0,69	BZ	Marshall Islands	0,55	MH
Bermuda	0,57	BM	Mauritius	0,52	MU
Bolivia	0,74	BO	Mexico	0,49	MX
Botswana	0,87	BW	Monaco	0,52	MC
Brazil	0,52	BR	Montenegro	0,45	ME
British Virgin Islands	0,33	VG	Montserrat	0,47	MS
Brunei	0,72	BN	Nauru	0,57	NR
Bulgaria	0,35	BG	Netherlands	0,44	NL
Canada	0,41	CA	New Zealand	0,56	NZ
Cayman Islands	0,32	KY	Norway	0,48	NO
Chile	0,48	CL	Panama	0,76	PA
China	0,51	CN	Paraguay	0,83	PY
Cook Islands	0,44	CK	Philippines	0,58	PH
Costa Rica	0,52	CR	Poland	0,58	PL
Croatia	0,62	HR	Portugal (Madeira)	0,34	PT
Curacao	0,47	CW	Puerto Rico	0,37	PR
Cyprus	0,29	CY	Romania	0,49	RO
Czech Republic	0,51	CZ	Russia	0,45	RU
Denmark	0,5	DK	Samoa	0,56	WS
Dominica	0,74	DM	San Marino	0,76	SM
Dominican Republic	0,7	DO	Saudi Arabia	0,46	SA
Estonia	0,38	EE	Seychelles	0,77	SC
Finland	0,51	FI	Singapore	0,31	SG
France	0,35	FR	Slovakia	0,65	SK
Gambia	0,69	GM	Slovenia	0,41	SI
Germany	0,47	DE	South Africa	0,5	ZA
Ghana	0,77	GH	Spain	0,2	ES
Gibraltar	0,37	GI	St Kitts and Nevis	0,56	KN
Greece	0,66	GR	St Lucia	0,86	LC
Grenada	0,71	GD	St Vincent & Grenadines	0,58	VC
Guatemala	0,35	GT	Sweden	0,37	SE
Guernsey	0,18	GG	Switzerland	0,38	CH
Hong Kong	0,42	HK	Taiwan	0,52	TW
Hungary	0,53	HU	Tanzania	0,87	TZ
Iceland	0,51	IS	Thailand	0,7	TH
India	0,47	IN	Trinidad & Tobago	0,47	TT
Indonesia	0,65	ID	Turkey	0,62	TR
Ireland	0,41	IE	Turks & Caicos Islands	0,66	TC
Isle of Man	0,38	IM	Ukraine	0,6	UA
Israel	0,42	IL	United Arab Emirates (Dubai)	0,57	AE
Italy	0,31	IT	United Kingdom	0,28	GB
Japan	0,55	JP	Uruguay	0,35	UY
Jersey	0,26	JE	US Virgin Islands	0,37	VI
Kenya	0,86	KE	USA	0,37	US
Korea	0,58	KR	Vanuatu	0,75	VU
Latvia	0,44	LV	Venezuela	0,6	VE

Moderately Secretive 0 – 0,40	Secrecy Score 0,41 – 0,50	Secrecy Score 0,51 – 0,60	Secrecy Score 0,61 – 0,70	Secrecy Score 0,71 – 0,80	Secrecy Score 0,81 – 0,90	Extremely Secretive 0,91 – 1
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**Table 3: Assessment Logic**

Info_ID	Text_Info_ID	Valuation % Secrecy
335	*FATF Performance: Overall Non-Compliance Score of FATF-standards in Percentage (100% = all indicators rated non-compliant/low level of effectiveness; 0% = all indicators rated compliant or highly effective).	<ol style="list-style-type: none"> <li>1. Coding of ratings (x) as follows: 0: compliant; 1: largely compliant; 2: partially-compliant; 3: non-compliant; analogously for levels of effectiveness in immediate outcomes (high, significant, moderate, low).</li> <li>2. Define actual number of indicators: i (up to 49 or 51)</li> <li>3. Define maximum secrecy: <math>i*3</math></li> <li>4. Define minimum secrecy: <math>i*0</math></li> <li>5. Calculate <math>y_i = [(x)1+(x)2+...+(x)i]</math></li> <li>6. Overall Non-Compliance Percentage: <math>[y_i]*100/(i*3)</math></li> </ol>

<sup>1</sup> The (old) 2003 recommendations can be downloaded 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 on assessing compliance with the FATF Recommendations see: <http://www.fatf-gafi.org/topics/fatfrecommendations/documents/methodologyforassessingcompliancewiththefatf40recommendationsandfatf9specialrecommendations.html>; 7.6.2015.

<sup>2</sup> 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.

<sup>3</sup> Financial Action Task Force (FATF) 2017: Methodology For Assessing Technical Compliance With The FATF Recommendations And The Effectiveness Of AML/CFT Systems, in: [www.fatf-gafi.org/media/fatf/documents/methodology/FATF%20Methodology-March%202017-Final.pdf](http://www.fatf-gafi.org/media/fatf/documents/methodology/FATF%20Methodology-March%202017-Final.pdf); 13.7.2017.

<sup>4</sup> <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatfissuesnewmechanismstostrengthenmoneylaunderingandterroristfinancingcompliance.html>; 13.7.2017.

<sup>5</sup> [www.fatf-gafi.org/media/fatf/documents/4th-Round-Ratings.xlsx](http://www.fatf-gafi.org/media/fatf/documents/4th-Round-Ratings.xlsx); 13.7.2017.

<sup>6</sup> 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](http://www.financialsecrecyindex.com/database/menu.xml).

<sup>7</sup> [www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-United-States-2016.pdf](http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-United-States-2016.pdf); 14.7.2017.

<sup>8</sup> <http://www.icij.org/project/swiss-leaks/banking-giant-hsbc-sheltered-murky-cash-linked-dictators-and-arms-dealers>; 7.6.2015

<sup>9</sup> <http://www.fatf-gafi.org/media/fatf/documents/reports/mer/mer%20switzerland%20resume%20english.pdf>; 7.6.2015

<sup>10</sup> Financial Action Task Force 2016: Anti-money laundering and counter-terrorist financing measures, Switzerland, Fourth Round Mutual Evaluation Report, Paris, in: <http://www.fatf-gafi.org/media/fatf/content/images/mer-switzerland-2016.pdf>; 18.7.2017.

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<sup>11</sup> Levi, Michael/Halliday, Terence/Reuter, Peter 2014: Global surveillance of dirty money: assessing assessments of regimes to control money-laundering and combat the financing of terrorism, in: [http://orca.cf.ac.uk/88168/1/Report\\_Global%20Surveillance%20of%20Dirty%20Money%201.30.2014.pdf](http://orca.cf.ac.uk/88168/1/Report_Global%20Surveillance%20of%20Dirty%20Money%201.30.2014.pdf); 14.7.2017.

<sup>12</sup> See Heywood, Maximilian 2017: Is the global anti-money laundering system fit for purpose?, in: Tax Justice Annual Conference, 6 July 2017, London, City University, in: <https://www.taxjustice.net/2017/06/29/tax-justice-network-annual-conference-2017-5-6-july-final-programme/>; 14.7.2017. The only exception provided by Heywood is the case of Switzerland's assessment of IO 7 on sanctions that attests "substantial effectiveness", which does not seem match the findings presented in the accompanying text. Therefore, the quality and potential biases or otherwise especially of the effectiveness assessments should be closely monitored, and the inclusion of these ratings in the next FSI should be reviewed accordingly.