

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 online¹. The FATF also publishes follow up reports, which is a result of the monitoring of the recommendations set in the mutual evaluation reports.

The published assessments include tables with the level of compliance with each of the recommendations, on a four-tiered scale. For the Financial Secrecy Index, 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 17.1 below, and full details of the assessment logic can be found in Table 17.3 underneath.

Table 17.1: Secrecy Scoring Matrix KFSI 17

Type of most recent full mutual evaluation report	Categories of indicators (number of Indicators)	Maximum total number of indicators	Secrecy Score Assessment (Transformation of FATF assessments) 100 points = fully secretive
FATF 2012, Methodology	FATF Recommendations (40), Immediate Outcomes (11)	51	1. Coding of FATF ratings (x) as follows: 0=compliant; 1=largely compliant; 2=partially-compliant;

KFSI 17: ANTI-MONEY LAUNDERING

Type of most recent full mutual evaluation report	Categories of indicators (number of Indicators)	Maximum total number of indicators	Secrecy Score Assessment (Transformation of FATF assessments) 100 points = fully secretive
2013/2017 [NEW]			3=non-compliant; analogously for levels of effectiveness in immediate outcomes (high, significant, moderate, low). 2. Average overall non-compliance score of all FATF-recommendations and immediate outcomes in percentage, each given an equal weight (100 points = all indicators rated non-compliant or low level of effectiveness; 0 points = all indicators rated compliant or highly effective).
FATF 2003, Methodology 2004 [OLD]	FATF recommendations (40), Special Recommendations (9)	49	

All underlying data can be accessed freely in the  [Financial Secrecy Index database \(ID 338\)](#).

In 2003, the FATF adopted its [49 recommendations](#)² and corresponding mutual evaluation reports have been published for all jurisdictions included in the Financial Secrecy Index. For many jurisdictions (70 out of the 133 jurisdictions assessed by the FSI), 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 40³ (hereinafter: the “new recommendations”). The new methodology ([published 2013, updated 2017](#)⁴) 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.⁵ 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 cut-off date for this KFSI (20 January 2020), a total of 89 jurisdictions had been assessed on this basis, of which 63 were reviewed in the Financial Secrecy Index 2020.⁶ 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 weight⁷. A 100 points secrecy score rating indicates that all recommendations have been rated as "non-compliant" or "low level of effectiveness", whereas a zero rating indicates that the jurisdiction is entirely compliant/highly effective.

The FATF periodically monitors jurisdictions' compliance to the recommendations set in the mutual evaluation reports. The results of the monitoring process are published in follow-up reports, which may inform of changes in jurisdictions' ratings. For jurisdictions assessed according to the new methodology, we have used the most recent rating, be it a mutual evaluation report or a follow-up report. However, for jurisdictions assessed according to the old methodology, we considered only the ratings of the mutual evaluation reports. This is because for these jurisdictions, the ratings of the follow-up reports are not available in open data format⁸ and due to time and capacity constraints, we could not assess them.

Why is this important?

Many of FATF's anti-money laundering recommendations touch upon minimal financial transparency safeguards within the legal and institutional fabric of a jurisdiction. Through low compliance ratios with anti-money laundering 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 “[l]ack of CDD [customer due diligence] requirements to ascertain and verify the identity of BO [beneficial owners] (except in very limited cases)”⁹. 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](#)¹⁰ 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.¹¹

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.¹²

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.

KFSI 17: ANTI-MONEY LAUNDERING

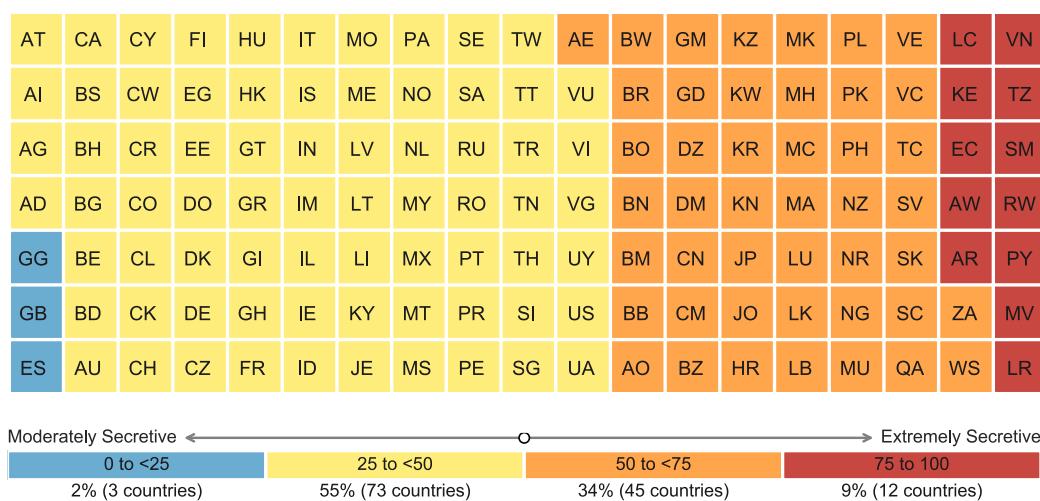
While there has been some debate about the merits and costs of the FATF recommendations and the peer review mechanism, the quality of the most recent (4th) round of evaluation reports has increased significantly. In response to criticisms of past evaluation methodologies, including for applying what some described as a mechanistic approach of measuring compliance by checking boxes (e.g. [here¹³](#)), 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. Therefore, for those jurisdictions that have already undergone the 4th 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 Financial Secrecy Index 2018.

All underlying data can be accessed freely in the  in the Financial Secrecy Index 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

Figure 17.1: Anti-Money Laundering- Secrecy Scores Overview



KFSI 17: ANTI-MONEY LAUNDERING

Table 17.2: Anti-Money Laundering Secrecy Scores

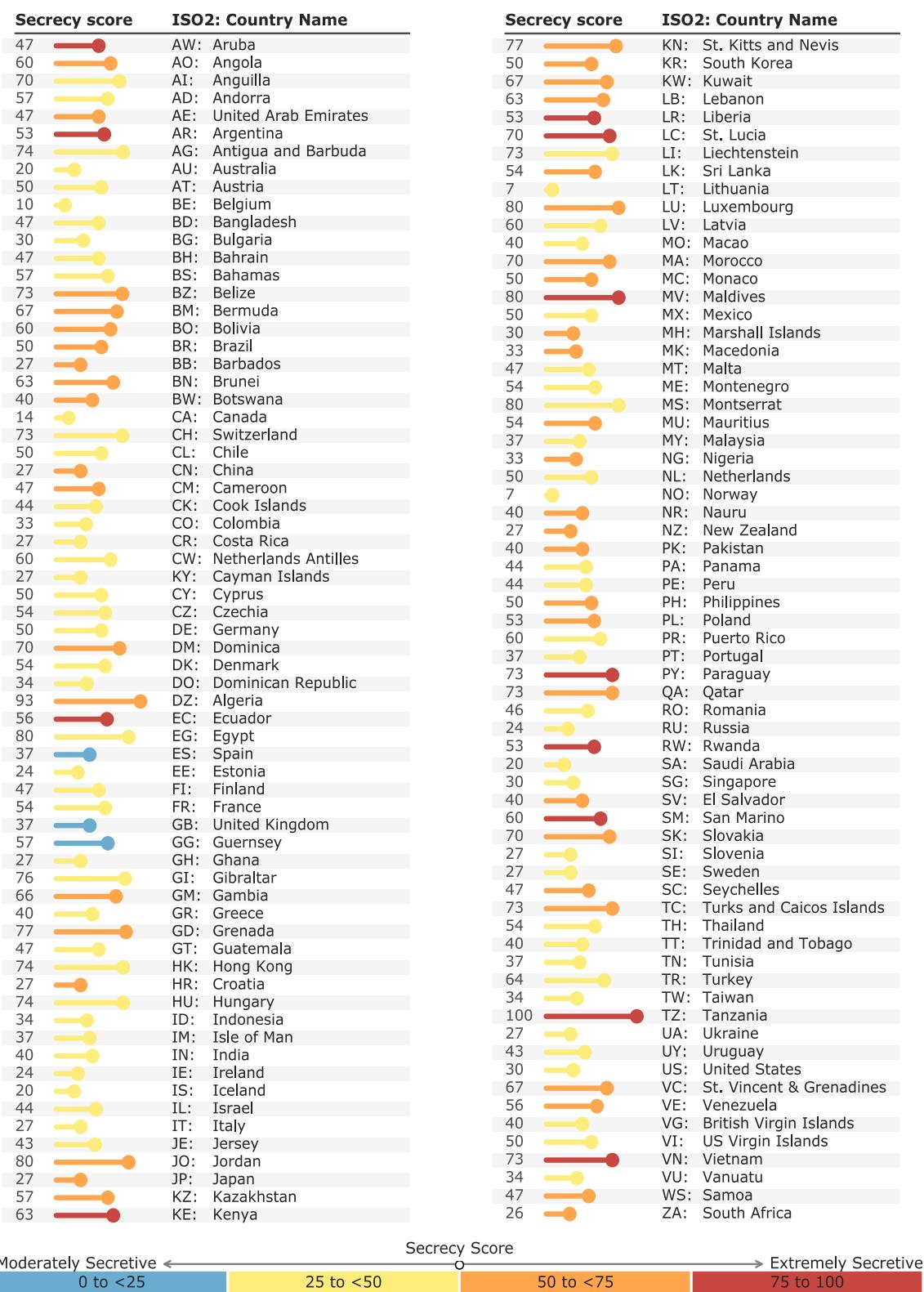


Table 17.3: Assessment Logic

Info_ID	Text_Info_ID	Valuation Secrecy Score
335	*FATF Performance: Overall Non-Compliance Score of FATF-standards in Percentage (100 points = all indicators rated non-compliant/low level of effectiveness; 0 points = all indicators rated compliant or highly effective).	<ol style="list-style-type: none"> 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). 2. Define actual number of indicators: i (up to 49 or 51) 3. Define maximum secrecy: $i*3$ 4. Define minimum secrecy: $i*0$ 5. Calculate $y_i = [(x)_1 + (x)_2 + \dots + (x)_i]$ 6. Overall Non-Compliance Percentage: $[y_i]*100/(i*3)$

Reference List

FATF, *Anti-Money Laundering and Counter-Terrorist Financing Measures. United States Mutual Evaluation Report* (2016) <<http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-United-States-2016.pdf>> [accessed 23 January 2020]

FATF-GAFI, *Mutual Evaluation Report on Anti-Money Laundering and Combating the Financing of Terrorism. Switzerland, 2005* <<http://www.fatf-gafi.org/media/fatf/documents/reports/mer/mer%20switzerland%20resume%20english.pdf>> [accessed 23 January 2020]

Financial Action Task Force, *Anti-Money Laundering and Counter-Terrorist Financing Measures, Switzerland, Fourth Round Mutual Evaluation Report* (Paris, December 2016) <<http://www.fatf-gafi.org/media/fatf/content/images/mer-switzerland-2016.pdf>> [accessed 23 January 2020]

Levi, Michael, Terence Halliday, and Peter Reuter, 'Global Surveillance of Dirty Money: Assessing Assessments of Regimes to Control Money-Laundering and Combat the Financing of Terrorism', 2014 <http://orca.cf.ac.uk/88168/1/Report_Global%20Surveillance%20of%20Dirty%20Money%201.30.2014.pdf> [accessed 14 July 2017]

¹ [http://www.fatf-gafi.org/publications/mutualevaluations/?hf=10&b=0&s=desc\(fatf_releasedate\)](http://www.fatf-gafi.org/publications/mutualevaluations/?hf=10&b=0&s=desc(fatf_releasedate))

² The (old) 2003 recommendations can be downloaded at <http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202003.pdf>; 23.01.2020. 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>; 23.01.2020.

³ The (new) 2012 recommendation can be viewed at: <http://www.fatf-gafi.org/media/fatf/documents/methodology/FATF%20Methodology%202012%20Final.pdf>; 23.01.2020.

⁴ 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; 23.01.2020.

⁵ <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatfissuesnewmechanismstostrengthenmoneylaunderingandterroristfinancingcompliance.html>; 23.01.2020.

⁶ www.fatf-gafi.org/media/fatf/documents/4th-Round-Ratings.xlsx; 23.01.2020.

⁷ 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.

⁸ www.fatf-gafi.org/media/fatf/documents/4th-Round-Ratings.xlsx; 23.01.2020

⁹ FATF, *Anti-Money Laundering and Counter-Terrorist Financing Measures. United States Mutual Evaluation Report* (2016), 255 <<http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-United-States-2016.pdf>> [accessed 23 January 2020].

¹⁰ <http://www.icij.org/project/swiss-leaks/banking-giant-hsbc-sheltered-murky-cash-linked-dictators-and-arms-dealers>; 7.6.2015

¹¹ FATF-GAFI, *Mutual Evaluation Report on Anti-Money Laundering and Combating the Financing of Terrorism. Switzerland*, 2005, 13–14 <<http://www.fatf-gafi.org/media/fatf/documents/reports/mer/mer%20switzerland%20resume%20english.pdf>> [accessed 23 January 2020].

¹² Financial Action Task Force, *Anti-Money Laundering and Counter-Terrorist Financing Measures, Switzerland, Fourth Round Mutual Evaluation Report* (Paris, December 2016), 237 <<http://www.fatf-gafi.org/media/fatf/content/images/mer-switzerland-2016.pdf>> [accessed 23 January 2020].

¹³ Michael Levi, Terence Halliday and Peter Reuter, 'Global Surveillance of Dirty Money: Assessing Assessments of Regimes to Control Money-Laundering and Combat the Financing of Terrorism', 2014
http://orca.cf.ac.uk/88168/1/Report_Global%20Surveillance%20of%20Dirty%20Money%201.30.2014.pdf [accessed 14 July 2017].