

Secrecy Indicator 17: Anti-Money Laundering

What is 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 year cycles. The studies are conducted by either the FATF, or similar regional bodies, or the IMF. The resulting comprehensive mutual evaluation reports are mostly published online.¹ 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 1 and full details of the assessment logic can be found in Table 2.

In 2003, the FATF adopted its 49 recommendations² and corresponding mutual evaluation reports have been published for all jurisdictions we assess in the Financial Secrecy Index. For many jurisdictions (47 out of the 141 jurisdictions assessed by the Financial Secrecy Index), this is the most recent type of report available for use in the index.

In 2012, the FATF reviewed and updated its 49 recommendations (hereinafter: the “old recommendations”) and consolidated them to a total of 40 recommendations (hereinafter: the “new recommendations”). The new

Table 1. Secrecy Scoring Matrix: Secrecy Indicator 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, New Methodology 2013/2017	FATF Recommendations (40), Immediate Outcomes (11)	51	1. 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). 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, Old Methodology 2004	FATF recommendations (40), Special Recommendations (9)	49	

methodology (published in 2013, and updated in 2017)³ 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. 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. As of 1 February 2022, 94 out of the 141 Financial Secrecy Index jurisdictions were assessed on this basis.⁴ For those jurisdictions, we have adjusted our calculation of this indicator’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 this indicator, we have calculated the overall non-compliance score using a linear scale giving each old recommendation, new recommendation and immediate outcome equal weight. 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 published on the FATF’s consolidated table of

assessment ratings,⁵ 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 published before 1st February 2022 and we did not take into account any updated ratings that may have appeared in the follow up reports. There are two main reasons for this. **First**, the follow-up reports for these jurisdictions are not fully consistent in their assessment ratings across the various regional bodies of the FATF; in some cases they only contain suggestions for updated ratings and the wording in these instances often leaves room for interpretation.⁶ Moreover, there are cases in which the follow up reports only provide qualitative reviews of the progress made in relation to certain recommendations, but they do not contain updated ratings for specific recommendations.⁷ **Second**, for these jurisdictions, the ratings of the follow-up reports are not available in a consolidated form as in the case of the new methodology ratings⁸ and due to time and capacity constraints, we could not collect this data manually for every relevant jurisdiction.

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 (eg. 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 Switzerland, the resulting secrecy around bank customers increases the risk of money laundering.

In 2015, Swiss Leaks⁹ 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 the leaks, in two mutual evaluation reports of Switzerland, published in 2005 and 2016. In 2005, 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.¹⁰

Given that banks had been assessed as not being obliged to enquire about the purpose and nature of a new client requesting for financial services, they could

ignore important details of a new customers' background, thus enabling the management of accounts with money of illicit origin.

In the latest mutual evaluation of Switzerland in 2016, that same recommendation (now recommendation 10) on customer due diligence was still rated only as “partially compliant”. One among many deficiencies identified by 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.¹¹

In 2020, the FATF follow-up report identified that some of these gaps had been addressed. However, given that the revision of the law on anti-money laundering was still in progress, Switzerland remained as “partially compliant” on recommendation ten.¹²

In the United States, for example, the rating for recommendation 10 has improved with the 2020 follow up report, shifting from “partially compliant” to “largely compliant”. This was a result of new CDD (customer due diligence) requirements for financial institutions, including the ongoing monitoring of customer relationships to identify and report suspicious transactions.¹³ However, some gaps remain, such as “the lack of explicit BO [Beneficial Ownership] requirements, mainly in relation to other trust relevant parties for legal arrangements”.¹⁴ The United States 2020 assessment points to other shortcomings, such as the lack of transparency on beneficial ownership of legal persons and legal arrangements, assessed under recommendations 24 and 25. The FATF concludes that the measures to ensure adequate, accurate and updated information on beneficial ownership are unsatisfactory and do not ensure that information is obtained in a timely manner.¹⁵

In our view, a swift and thorough implementation of all FATF recommendations by all jurisdictions is crucial to global financial transparency, in order 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 (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,¹⁶ 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 SI 17 alongside the 40 FATF technical recommendations.

All underlying data, including the sources we use for each jurisdiction, can be viewed in the [country profiles](#) on the [Financial Secrecy Index website](#).

Table 2. Assessment Logic: Secrecy Indicator 17 - Anti-Money Laundering

ID	ID description	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"> 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). Define actual number of indicators: i (up to 49 or 51) Define maximum secrecy: $i*3$ Define minimum secrecy: $i*0$ Calculate $y_i = [(x)1+(x)2+...+(x)i]$ Overall Non-Compliance Percentage: $[y_i]*100/(i*3)$

Results Overview

Figure 1. Anti-Money Laundering: Secrecy Score Overview

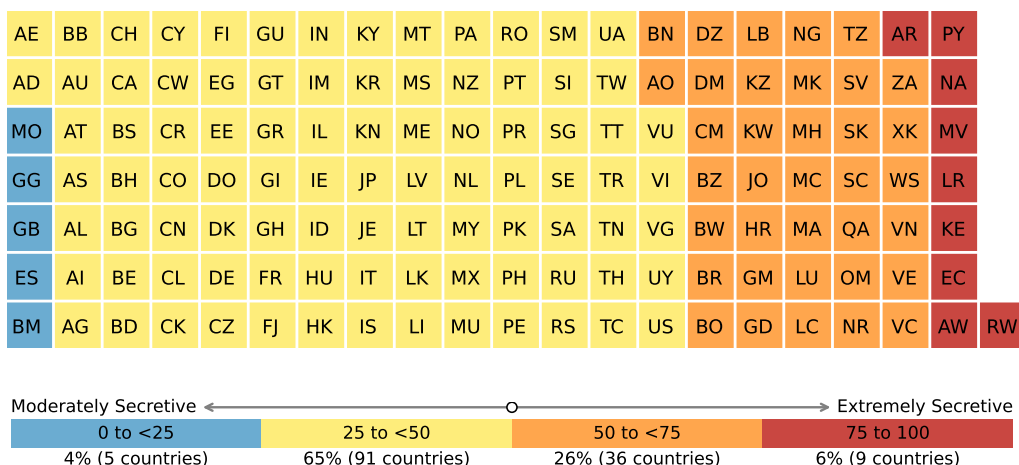
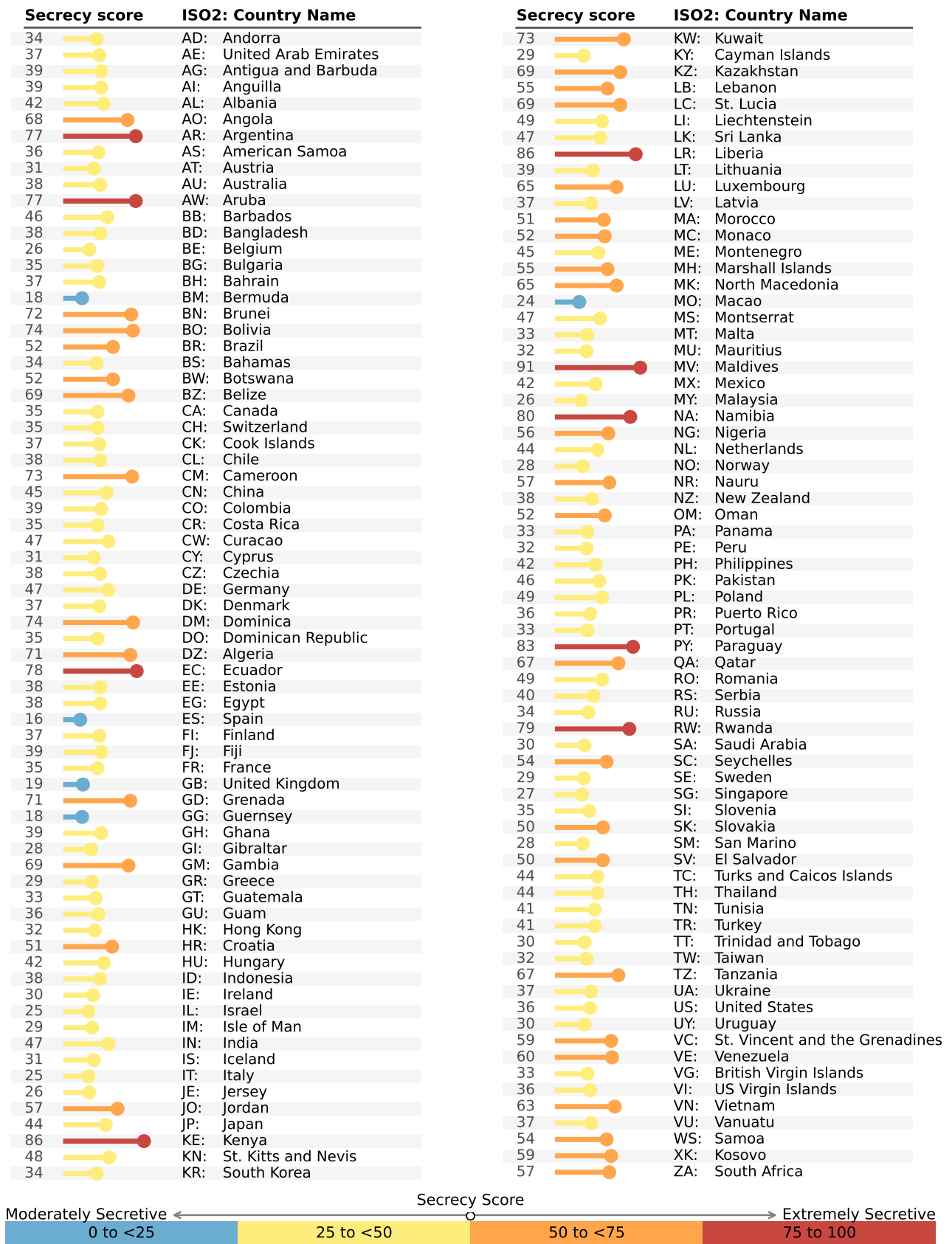


Figure 2. Anti-Money Laundering: Secrecy Scores



Endnotes

1. Financial Action Task Force (FATF). *Mutual Evaluations*. 2022. URL: [https://www.fatf-gafi.org/publications/mutualevaluations/?hf=10&b=0&s=desc\(fatf_releasedate\)](https://www.fatf-gafi.org/publications/mutualevaluations/?hf=10&b=0&s=desc(fatf_releasedate)) (visited on 04/05/2022).
2. The (old) 2003 recommendations can be downloaded at.¹⁷ The 2003 recommendations include 40 recommendations and 9 special recommendations on terrorist financing, and are referred to jointly as the FATF Recommendations. For the methodology on assessing compliance with the FATF Recommendations see.¹⁸
3. Financial Action Task Force (FATF). *Methodology For Assessing Technical Compliance With The FATF Recommendations And The Effectiveness Of AML/CFT Systems*. 2017. URL: www.fatf-gafi.org/media/fatf/documents/methodology/FATF%20Methodology-March%202017-Final.pdf (visited on 12/04/2022).
4. Financial Action Task Force. *FATF Consolidated Table of Assessment Ratings*. 2022. URL: <https://www.fatf-gafi.org/publications/mutualevaluations/documents/assessment-ratings.html> (visited on 23/02/2022).
5. Financial Action Task Force, *FATF Consolidated Table of Assessment Ratings*.
6. For example, in the 2015 follow-up report of Belize, with regards to Recommendation 1, the report states that “While the implementation deficiency is still outstanding, measures have been put in place to address it. The level of compliance is comparable to an LC”.¹⁹ Therefore, it remains unclear if this is an actual re-rating or a preliminary suggestion.
7. Middle East and North Africa Financial Action Task Force. *7th Follow-Up Report for Algeria Anti-Money Laundering and Combating the Financing of Terrorism*. 2016. URL: https://www.menafatf.org/sites/default/files/Algeria_Exit_FUR_EN.pdf (visited on 10/05/2022); Intergovernmental Action Group Against Money Laundering in West Africa. *8th Mutual Evaluation Follow-Up Report , The Gambia*. 2014. URL: https://www.giaba.org/media/f/847_8th%20FUR%20The%20Gambia%20-%20English.pdf (visited on 10/05/2022).
8. Financial Action Task Force, *FATF Consolidated Table of Assessment Ratings*.
9. ICIJ. *Swiss Leaks: Murky Cash Sheltered by Bank Secrecy*. 2018. URL: <https://www.icij.org/investigations/swiss-leaks/> (visited on 03/05/2022).
10. FATF-GAFI. *Mutual Evaluation Report on Anti-Money Laundering and Combating the Financing of Terrorism. Switzerland*. 2005. URL: <http://www.fatf-gafi.org/publications/mutualevaluations/documents/aml-cft-report-switzerland-2005.pdf>

gafi.org/media/fatf/documents/reports/mer/mer%20switzerland%20resume%20english.pdf (visited on 10/05/2022).

11. Financial Action Task Force. *Anti-Money Laundering and Counter-Terrorist Financing Measures, Switzerland, Fourth Round Mutual Evaluation Report*. Paris, Dec. 2016. URL: <http://www.fatf-gafi.org/media/fatf/content/images/mer-switzerland-2016.pdf> (visited on 03/05/2022).
12. Financial Action Task Force (FATF). *Anti-Money Laundering and Counter-Terrorist Financing Measures, Switzerland 3rd Enhanced Follow-up Report & Technical Compliance Re-Rating*. 2020. URL: <https://www.fatf-gafi.org/media/fatf/documents/reports/fur/Follow-Up-Report-Switzerland-2020.pdf> (visited on 20/04/2022).
13. FATF-GAFI. *United States' Progress in Strengthening Measures to Tackle Money Laundering and Terrorist Financing*. 2020. URL: <https://www.fatf-gafi.org/publications/mutualevaluations/documents/fur-united-states-2020.html> (visited on 03/05/2022).
14. FATF-GAFI, *United States' Progress in Strengthening Measures to Tackle Money Laundering and Terrorist Financing*, p.3, square brackets added.
15. FATF. *Anti-Money Laundering and Counter-Terrorist Financing Measures. United States Mutual Evaluation Report*. FATF, 2016. URL: <http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-United-States-2016.pdf> (visited on 03/05/2022).
16. Michael Levi et al. 'Global Surveillance of Dirty Money: Assessing Assessments of Regimes to Control Money-Laundering and Combat the Financing of Terrorism' (2014). URL: http://orca.cf.ac.uk/88168/1/Report_Global%20Surveillance%20of%20Dirty%20Money%201.30.2014.pdf (visited on 03/05/2022).
17. Financial Action Task Force. *Financial Action Task Force on Money Laundering. The Forty Recommendations*. June 2003. URL: <http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202003.pdf> (visited on 12/04/2022).
18. Financial Action Task Force (FATF). *Methodology for Assessing Compliance with the FATF 40 Recommendations and FATF 9 Special Recommendations*. Feb. 2004. URL: <https://www.fatf-gafi.org/media/fatf/documents/reports/methodology.pdf> (visited on 10/04/2022).
19. Caribbean Financial Action Task Force (FATF). *Anti-Money Laundering and Counter-Terrorist Financing Measures, Belize, 8th Enhanced Follow-up Report & Technical Compliance Re-Rating*. 2015. URL: <https://www.cfatf-gafic.org/member-countries/belize> (visited on 11/05/2022), p.8.

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