Academic study reveals serious issues with Armenia's AML/CFT ratings

Findings in a leading peer-reviewed journal calls into question the most important component of the evaluation of Armenia's anti-money laundering regime, updated on 7 September 2018.

The latest partial re-rating of the country's AML/CFT regime updates only 3 of 40 'technical compliance' measures. The European money laundering watchdog MONEYVAL didn't re-assess 11 'effectiveness' measures which the Paris-based Financial Action Task Force regards the "main component" of AML/CFT evaluations.

Armenia's international reputation therefore remains tarnished by its 2015 'effectiveness' ratings, with lowly 'moderate' scores on three measures, the lowest possible ratings for two, and no 'high' scores.

Moreover, new research published in the *Journal of Money Laundering Control* finds the new global 'effectiveness' methodology doesn't properly evaluate the effectiveness of AML/CFT regimes.

New criteria seek to assess effectiveness
The Paris-based Financial Action Task Force introduced a new 'effectiveness' methodology in 2013 because compliance with FATF's "40 recommendations" (previously the sole focus of evaluations since 1990) gave no assurance that money laundering regulations were effective.

An extensive process demanding significant resources and preparation by authorities, evaluations now assess anti-money laundering regimes based on two sets of rules: technical compliance with FATF's 40 recommendations, and 'effectiveness' based on 11 'outcome' measures. But the new study reveals major flaws with the effectiveness criteria.

Measuring effort, not outcomes
According to the study's author, Dr Ron Pol from international consultancy AMLassurance.com, "misapplication of *outcome* labels for what are, in truth, simplistic *output* and *activity* measures miss an opportunity to evaluate the real impact of anti-money laundering rules."

He says that FATF's new methodology doesn't evaluate outcomes in the sense generally understood as the *effect or impact* of regulations.

"More meaningful outcome measures, for example, might include the extent to which the system better allows authorities to reduce and prevent crime, and to cut the social and economic harms caused by serious crime like drugs-, arms- and human-trafficking, corruption, fraud and tax evasion."

"Some of those measures are difficult to evaluate" says Pol, "but assessing anti-money laundering regimes by superficial 'easy-to-measure' metrics suggests that the intensive rating exercise conveys value more as a rhetorical device than any real measure of effectiveness."

"That's because the current measures largely reflect the efforts of regulatory and enforcement authorities, not whether those efforts have any meaningful impact on serious crime."

'Tick-box' compliance extended
"Moreover", adds Pol, "assessors often use the same evidence to assess both the old and new criteria. But, compressing FATF's 40 recommendations into an abbreviated yet broadly equivalent list of so-called 'outcomes' adds little new evaluative capability beyond 11 more boxes to tick."

"The nature of any tick-box system means that it's possible for countries to get high ratings without much impact on crime, and vice versa" says Pol. "To their credit, Armenian authorities appear to have focused more on crime prevention than better ratings; although close examination of more than 50 evaluations to date reveal ways to achieve both. Nonetheless, although arguably a meaningless exercise, low ratings have a very real impact on a country's access to financial markets."

Effectiveness gap evidence mounting
Another academic paper also notes "enormous" frustration that, despite nearly 30 years of money laundering obligations (now imposed on millions of firms in nearly 200 countries) the "huge and growing cost of compliance has been accompanied by little observable effect". Professors Levi, Reuter and Halliday say that the modern anti-money laundering system is "highly cost-inefficient" and has failed "to produce credible evidence of [its] effectiveness."

The new study's detailed analysis makes similar findings. It concludes that FATF's new methodology offers few reliable indicators about the effectiveness of money laundering controls.

Positive signs
But the new study ends optimistically. "FATF's frank acknowledgement that evaluating for effectiveness was missing, and important, is a positive step", says Pol. "Likewise, that outcomes matter. FATF also frequently adjusts its standards and guidance as circumstances change. If it accepts that some principles and practices underpinning its effectiveness framework might be improved, that tradition might reasonably be expected to continue."

[Additional detail about Armenia's assessment **below**]

Notes for editor

FATF effectiveness ratings: Armenia

This chart (and other countries assessed) is available in PPTX and PDF formats.

Data source: MONEYVAL Mutual Evaluation Report: Armenia (Dec 2015): here, p12 & update report (dated July 2018, released 7 Sept 2018, here).

About the Financial Action Task Force
- About FATF & MONEYVAL: here & here
- About mutual evaluations: here
- About FATF 'effectiveness': here
- About FATF's 'effectiveness' methodology: here ('immediate outcomes' on p16 & ratings on p21)

Supplementary material:

The new study used 'immediate outcome 7' (money laundering investigations and prosecutions) to illustrate differences between *outputs* and *outcomes*, and why it matters.

In 2015, Armenian authorities told assessors that their "primary purpose" in criminal investigations is "to gather evidence on predicate offences." Although increasing, the number of money laundering investigations "remains low", according to assessors, and Armenia's 'effectiveness' in this area was rated 'low'.

More money laundering prosecutions would clearly help boost the country's 'effectiveness' rating. "But," says Pol, "more money laundering prosecutions (an *activity* or *output* measure) might, or might not, help achieve the (crime prevention) *outcomes* that authorities seek."

He gave a hypothetical example where enforcement agencies detect and prosecute twice as much serious crime but, with prosecutors overwhelmed, and consistent with Armenia's focus on the underlying crime, no money laundering charges are laid.

Authorities would of course promote their doubling of crime detection to positively influence ratings, but with no money laundering cases, Armenia's FATF 'effectiveness' score on this measure might conceivably remain low.

"Bizarrely", says Pol "the prospect of the lowest possible rating if authorities successfully disrupt significantly *more* serious crime is an unintended consequence of focusing on simple output measures rather than crime prevention outcomes. Presumably, that would not be the intention of Armenian authorities, or FATF."

1. **The full study**: Pol, R, F., *Anti-money laundering effectiveness: Assessing outcomes or ticking boxes?* Journal of Money Laundering Control (2018), Vol 21 No 2: http://dx.doi.org/10.1108/JMLC-07-2017-0029. About *Journal of Money Laundering Control*: here

2. **Companion study**: Pol, R. F., *Uncomfortable truths? ML=BS and AML=BS²*, Journal of Financial Crime (2018), Vol 25 No 2: http://doi.org/10.1108/JFC-08-2017-0071. About *the Journal of Financial Crime* here.

3. **Other study referenced**. Levi, M., Reuter, P., Halliday, T., *Can the AML system be evaluated without better data?* Crime, Law and Social Change (2017), available here

4. **Acknowledgements**. An earlier version of the analysis which formed this article (in the author's PhD thesis) was reviewed by supervising Professors Jason Sharman (now at Cambridge) and AJ Brown and Duncan McDonnell (Griffith), and examined by Professors Michael Levi (Cardiff) and Louis de Koker (La Trobe), before the *Journal of Money Laundering Control's* own peer-review process. The author is grateful for their invaluable assistance. Any errors are the author's alone.

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The study's author is a political scientist linking public policy with effectiveness. This involves examining not only whether rules exist, or meet recognised standards, or countries adopt them, or even if firms comply with them, but whether they work. Do they produce intended outcomes? Also: 1-page outcome effectiveness & AML/CFT effectiveness profiles.	Tel: +64 (4) 566 5144 Mobile: +64 (27) 241 1163 Email: Ronald.Pol@TeamFactors.com, or Ronald.Pol@AMLassurance.com