New studies question the validity of low ratings given to Sweden's anti-money laundering regime

On 25 July 2018, the Paris-based Financial Action Task Force partly rejected Sweden's request to improve ratings given to the country's anti-money laundering regime in 2017. Sweden claimed that the ratings didn't reflect the extensive action taken by authorities to combat money laundering. But new research now exposes serious failings in the global anti-money laundering system itself, and the methods used to assess Sweden's regime.

Global system and ratings questioned
A new independent report in a leading peer-reviewed journal (**Uncomfortable truths? ML=BS and AML=BS^2**) [separate release here] reveals global anti-money laundering rules as "almost completely ineffective" in disrupting the proceeds and funding of serious crime. A second report (**Anti-money laundering effectiveness: Assessing outcomes or ticking boxes?**) finds that FATF's new methodology is not even able to assess effectiveness as it purports.

This research (the first independent assessment of FATF's 'effectiveness' framework) calls into question lowly 'moderate' ratings given to Sweden's anti-money laundering regime in six of eleven areas purportedly assessed for 'effectiveness'.

Leading publisher releases studies publicly
In a surprise move, the global publisher of nearly 300 journals and thousands of academic books has made both research papers freely available to the public, until late September. Emerald Publishing says that it is committed to supporting meaningful, real world impact. Its announcement releasing the research invited nations to help "improve the capacity to disrupt serious profit-motivated crime."

Sweden's call to improve ratings partly rejected
Sweden had asked FATF to increase its ratings on 15 of 40 'technical compliance' measures; to better reflect extensive action by Swedish authorities to combat money laundering. In its report issued on 25 July 2018, FATF increased 10 ratings but refused to re-rate another five, claiming "insufficient progress" by Sweden "to justify a re-rating". No changes were made to another 11 ratings given to Sweden on 'outcome' measures that FATF claims evaluate the 'effectiveness' of Sweden's anti-money laundering regime. The new research now questions the validity of FATF's methodology.

New criteria sought to assess effectiveness
FATF introduced a new 'effectiveness' methodology in 2013 after it conceded that compliance with its "40 recommendations" (the sole focus of evaluations since 1990) gave no assurance that money laundering regulations were effective. Evaluations now assess countries' anti-money laundering regimes based on two sets of rules: 'technical compliance' with FATF's 40 recommendations, and 'effectiveness' based on 11 new 'outcome' measures. But, do they work?

Measuring effort, not outcomes
According to the studies' author, Dr Ron Pol, "misapplication of *outcome* labels for simplistic *output* and *activity* measures miss an opportunity to evaluate the real impact of money laundering rules."

"Meaningful outcome measures might evaluate the extent to which the system allows authorities to reduce and prevent crime; or reduce the immense social and economic harms caused by serious crime like drugs-, arms- and human-trafficking, corruption, fraud and tax evasion. Those measures are difficult to evaluate" says Pol, "but assessing anti-money laundering regimes by superficial 'easy-to-measure' metrics suggests that the rating exercise conveys value more as a rhetorical device than any real measure of effectiveness."

"That is because the current measures mostly reflect the efforts of regulatory and enforcement authorities, not whether those efforts have any meaningful effect or impact on serious crime."

Evidence of effectiveness gap mounting
Another academic paper also records "enormous" industry frustration that, despite nearly 30 years of money laundering obligations 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…effectiveness."

Dr Pol's analyses make similar findings. "Contemporary money laundering controls have scarcely had the impact of a rounding error on criminal accounts", he says. "And FATF's new methodology offers few reliable indicators about the effectiveness of money laundering controls."

Positive signs
But the new studies end optimistically. "FATF's frank acknowledgement that evaluating for effectiveness was missing, and important, is a positive step", says Pol. "Likewise, that outcomes matter. FATF 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. But research alone won't have much influence. FATF is responsive to its members." Sweden is a founding member of FATF.

Notes for editor

Supplementary material

The new study (**Anti-money laundering effectiveness: Assessing outcomes or ticking boxes?**) used 'immediate outcome 7' (money laundering investigations and prosecutions) to illustrate differences between *outputs* and *outcomes*, and why it matters.
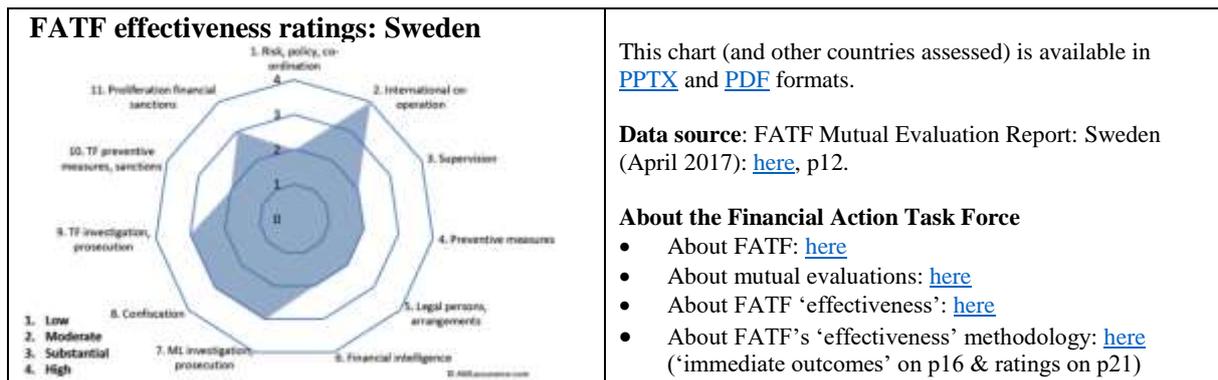
Sweden's improved capacity to prosecute money laundering (with prosecutors no longer required to prove a predicate offence) resulted in "good results" according to FATF assessors. They noted a relatively large number of money laundering cases investigated and prosecuted, and Sweden received a 'substantial' rating.

With Sweden's recent capacity and capability improvements, assessors anticipate that more cases will be investigated, including more complex and larger-scale prosecutions. If so, Sweden's rating might feasibly receive the highest score.
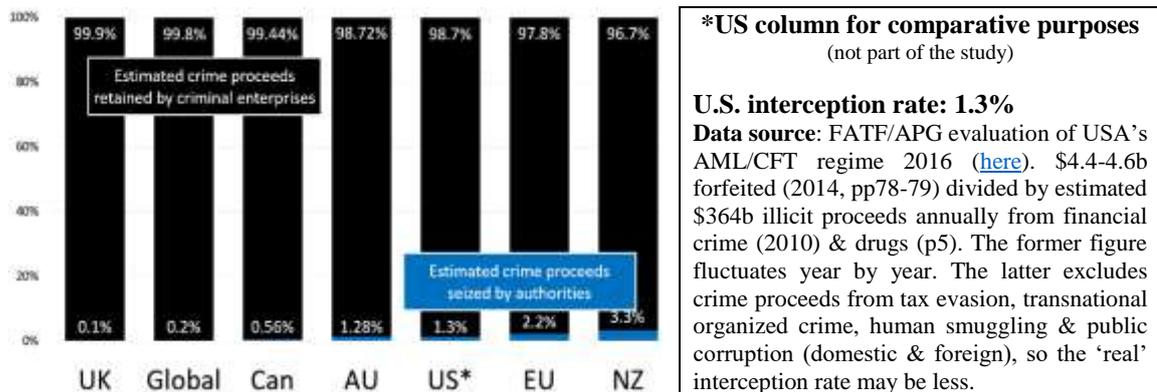
But," says Pol, "more money laundering prosecutions (an *activity* or *output* measure) might, or might not, help achieve the (crime prevention) *outcomes* that authorities seek."

He gave a hypothetical example where enforcement agencies detect and prosecute twice as much serious crime but, with prosecutors overwhelmed, lay no money laundering charges. Authorities would of course promote their doubling of crime detection to influence ratings, but with no offenders prosecuted for laundering, Sweden's FATF 'effectiveness' rating might fall.

"Bizarrely", says Pol "the prospect of *lower* 'effectiveness' ratings if authorities successfully disrupt *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 Swedish authorities, or FATF."

FATF effectiveness ratings: Sweden

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

Data source: FATF Mutual Evaluation Report: Sweden (April 2017): here, p12.

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

Crime pays: Most illicit funds kept by criminals

*US column for comparative purposes
(not part of the study)

U.S. interception rate: 1.3%
Data source: FATF/APG evaluation of USA's AML/CFT regime 2016 (here). $4.4-4.6b forfeited (2014, pp78-79) divided by estimated $364b illicit proceeds annually from financial crime (2010) & drugs (p5). The former figure fluctuates year by year. The latter excludes crime proceeds from tax evasion, transnational organized crime, human smuggling & public corruption (domestic & foreign), so the 'real' interception rate may be less.

This chart is available in PPT format: https://bit.ly/2pC6fwV or as a JPEG: https://bit.ly/2JB1FLe

Swedish data missing. It is difficult to undertake even basic analysis of Sweden's interception rate. FATF assessors record that, despite Government policy "to make crime unprofitable", with confiscation "pursued as a policy objective", there is nonetheless remains a "lack of clear statistics on the assets recovered from criminals". There is also a notable "lack of strategic analysis of financial intelligence" and "uneven…quality and use of statistics relevant for money laundering…especially regarding the proceeds of crime." (pp7, 31&38)

1. **The full studies**

   - Pol, R. F., *Uncomfortable truths? ML=BS and AML=BS^2*, Journal of Financial Crime (2018), Vol 25 No 2. Links to article from media release. About *the Journal of Financial Crime* here.

   - Pol, R, F., Anti-money laundering effectiveness: Assessing outcomes or ticking boxes? Journal of Money Laundering Control (2018), Vol 21 No 2. About *Journal of Money Laundering Control* here

2. **Emerald Publishing**

   About Emerald Publishing here, about its commitment to support meaningful, real world impact, here, and its announcement releasing the papers publicly and its call to "let's improve the capacity to disrupt serious profit-motivated crime", here and 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 these research reports (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. Professor Simon Young (Hong Kong) also kindly noted an error in pre-print in one of the articles. The author is grateful for their invaluable assistance. Any remaining errors are the author's alone.

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