Mitigated nonsense
How the anti-money laundering system harms ordinary people, businesses, and economies

Contents

Summary extracts

Prologue: The honest politician's guide to crime control

Criminologists Norval Morris and Gordon Hawkins [describe Prohibition laws] as "an efficient cause of crime in that some of our criminal laws foster, encourage, sustain and protect crime - in particular, organized crime." Future social historians might say much the same about the modern anti-money laundering experiment; that it protects, encourages, and sustains organised crime. Compliance professionals may be offended by that suggestion…They want to stop money laundering and prevent crime. They want the system to work. But without the benefit of the clarity of hindsight to assess the 'wars' on alcohol and (to some extent) drugs, for the current 'war' on money laundering we must separate reality from intent, and view results plainly. The evidence is plain to see, yet, paradoxically, seldom seen.

Chapter 1. Does the anti-money laundering system work?

…simple question deserves an equally simple, empirically-based, response. Whether a policy initiative works, or not, is a critical issue in public policy…In the anti-money laundering field, however, it is often taken for granted that the current policy solution will have a positive impact. In practice, this means that the prevailing policy treatment is constantly extended and expanded, and countless 'gaps' closed, with little perceived need to ask (or rigorously test) the 'does it work' question posed in this chapter's title.

Chapter 2. Empirical evidence: Hidden in plain sight

It remains difficult to obtain meaningful data in some areas. Estimating the quantum of illicit funds laundered, for example, is dauntingly complex…More revealing, however, is what the anti-money laundering industrial complex does with known data. Is it content mostly to record the prodigious effort and activity of practitioners, firms, regulators, and other officials? [Or does it] use all available empirical evidence to construct innovative new pathways to guide the evidence-informed extension, refinement or rejection of laws and regulations to meet

intended social and economic objectives? This chapter suggests a gap between rhetoric and reality in response to those questions. Certainly, there is no lack of official data…[but] considerable information, knowledge, and insights that might be gleaned from such data…is obscured, by design.

Chapter 3. Improving rating transparency: Effectiveness compliance

…official rating data is not collected, collated or presented in ways that make it easy to perform simple analytical tasks like comparing or ranking groups of countries' anti-money laundering regimes. This chapter 'unpacks' official rating data to make empirical evidence more accessible and useful.

Chapter 4. Improving rating transparency: Technical compliance

Despite the empirical constraints of the effect of FATF instructions for assessors to avoid comparative clarity, and the failure to provide much information beyond raw data, it is possible to produce overall 'technical compliance' ratings for each country's anti-money laundering regime.

The consequences of listing countries purportedly not meeting claimed 'best practice' standards are significant, but empirical evidence outlined above, drawn from FATF's own data, reveals disturbingly discordant notes between standards compliance and the practice of 'naming and shaming'.

Chapter 5. 'Strategically deficient' yet largely compliant?

Apparent conflict between perceptions, 'name and shame' lists, basic rating data, and a deeper analysis of FATF ratings appear in many different areas… [Examples, charts, etc] [For example], Trinidad and Tobago and The Bahamas are labelled 'strategically deficient', yet their anti-money laundering regimes, and most Caribbean jurisdictions evaluated to date, feature in the top half of all jurisdictions assessed for what is now termed 'technical compliance'.

Chapter 6. Metrics assess effort and activity, not outcomes

Newly uncovered empirical evidence also exposes validity questions for many rating measures and, by extension, the rating system. For present purposes, one ('immediate outcome 7', in table 6) illustrates differences between raw data and empirical evidence, and 'outputs' and 'outcomes', and why it matters.

Chapter 7. Limited and superficial empirical evidence: Troubling indicators

If any of the above empirical findings are surprising, the data were publicly available. Much policy-relevant information can be drawn from official data to advance evidence-informed decision-making, counter poorly validated assumptions and perceptions, and help assess the empirical basis of the system itself…The foundational validity of FATF ratings may be questionable [citations], but if 'effectiveness' and 'technical' compliance ratings are meaningful, as claimed, it seems reasonable to expect more empirical and analytical capabilities, to help build a stronger foundational basis for information, knowledge, analysis, and insight.

Chapter 8. Practical implications: Red flags and opportunities

Novel insights and implications from new ways of assessing anti-money laundering data will eventually emerge. In the meantime, a few examples… [Refer sub-headings in contents page].

Chapter 9. Conclusion: Empirical evidence a useful start

This book opened with a simple question. It deserves an equally simple, empirically-based, response. However, whether the anti-money laundering rating system assesses for effectiveness as it purports, or is a sham dressed in the cloak of policy effectiveness and outcomes science absent its methodological substance, anti-money laundering evaluations continue to deliver simplistic data, with surprisingly little policy-relevant empirical evidence. If the anti-money laundering movement is to avoid future classification as a form of mythology characterised by ritualistic rites and repetitive incantations with little more than a strategy of hope and good

intentions connecting compliance activity with crime prevention outcomes, improving the rating system's transparency and boosting empirical evidence capabilities would be a useful and pragmatic start.

Chapter 10. Postscript: A new beginning?

Improving the transparency of rating data to unlock knowledge and insights hidden in plain sight will help identify new issues and opportunities, but is not 'the' solution to policy failure. Three decades of 'new' 'solutions' consistently framed in an operating model predicated on assumptions that compliance *should* reduce laundering and crime, notwithstanding empirical evidence otherwise, suggests revisiting the core operating model itself.

…only when policy failure is recognised, and addressed, is there any prospect for the manifold assumptions underpinning the anti-money laundering movement to transform into empirical reality characterised by a material, substantial, demonstrable reduction in serious profit-motivated crime and other serious crime with financial indicators, including terrorism. Likewise, for cutting the social and economic harms caused by such crime, and the financial, developmental and societal harms imposed on some countries.

Appendices

[The appendices offer a unique resource, by collating data from disparate sources in a practical format. For example, listing in one place all 80 international agencies associated with the anti-money laundering global network, and their relationships with FATF and its 9 regional groupings. Likewise, key rating metadata (mutual evaluations, follow-up reports, and 'name and shame' designations) is collated in a concise, user-friendly format].

Note: Consider offering student/practitioner added value, eg electronic access to updates.