The Impact of Compliance on Illicit Financial Flows
- Paul Cochrane
The Compliance Era

• Brief historical overview:
  – OECD’s Financial Action Task Force (FATF)
  – 40 Recommendations
• Anti-Money Laundering (AML)
• Combating the Financing of Terrorism (CTF)
Pros

• More oversight of the financial sector
• Compliance culture developing
• Know Your Customer (KYC)
• More cooperation between public & private sectors
• Mutual Evaluation Reports on AML regimes
Basel AML Index 2016

• “Even OECD countries with large financial centers such as Luxembourg (5.89), Japan (5.76), Switzerland (5.46), Italy (5.36), Germany (5.33), the US (5.17), France (5.03) and the UK (4.77), have not demonstrated much progress to improve their rating.”

(10 is high risk, 1 is low)

• US ranked 97 out of 149 jurisdictions (1 being the worst, 149 the best)
The Panama Papers
By the numbers

214,488 Entities involved
(includes companies, trusts, foundations)

11.5M Documents leaked

12 Current or former country leaders involved

200+ Countries/territories involved

29 Forbes-listed billionaires named

Source: International Consortium of Investigative Journalists
### Offshore companies incorporated by Mossack Fonseca, by jurisdiction

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Virgin Islands</td>
<td>113,648</td>
</tr>
<tr>
<td>Panama</td>
<td>48,360</td>
</tr>
<tr>
<td>Bahamas</td>
<td>15,915</td>
</tr>
<tr>
<td>Seychelles</td>
<td>15,182</td>
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<tr>
<td>Niue</td>
<td>9,611</td>
</tr>
<tr>
<td>Samoa</td>
<td>5,307</td>
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<tr>
<td>British Anguilla</td>
<td>3,253</td>
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<tr>
<td>Nevada</td>
<td>1,260</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>452</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>148</td>
</tr>
</tbody>
</table>

**Countries with leaders or politicians/public officials named in the Panama Papers leak**
Negatives

• Politicization

• Cost of compliance - Fraud Detection & Prevention and AML Market to grow from $9.62 billion in 2014 to $21.4 billion by 2019, at a CAGR of 17.4% (Markets&Markets)

• Too-big-to-fail
Penalized

Fines and forfeitures paid in U.S. sanctions-violations and money-laundering cases, in millions

- **HSBC**
  - 2012
  - $1,921 million
- **Standard Chartered**
  - 2012
  - $667
- **ING Bank**
  - 2012
  - $619
- **Credit Suisse**
  - 2009
  - $536
- **ABN Amro**
  - 2010
  - $500
- **Lloyds**
  - 2009
  - $350
- **Barclays**
  - 2010
  - $298
- **Bank of Tokyo-Mitsubishi**
  - 2012/2013
  - $259
- **Clearstream Banking**
  - 2014
  - $152
- **Royal Bank of Scotland**
  - 2013
  - $100

Source: Department of Justice, OFAC filings

The Wall Street Journal
Over compliance?

- The Arab Monetary Fund (AMF) and the IMF study on the impact of de-risking on the MENA surveying 216 banks in 17 countries.
- 40% of surveyed banks lost their CBR between 2012 and 2015, with 41% losing their relationship with US banks, 26% with UK banks, and 16% with German banks.
Reasons for de-risking:

- Lower overall risk appetite
- Legal and regulatory changes
- Lack of profitability in correspondent banking
- Sovereign credit risk ratings
- Concerns about AML and CFT risks in Arab countries
FATCA and GATCA
# 2015 Financial Secrecy Index Ranking
(Tax Justice Network)

<table>
<thead>
<tr>
<th></th>
<th>Country</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Switzerland</td>
</tr>
<tr>
<td>2</td>
<td>Hong Kong</td>
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<tr>
<td>3</td>
<td>USA</td>
</tr>
<tr>
<td>4</td>
<td>Singapore</td>
</tr>
<tr>
<td>5</td>
<td><strong>Cayman Islands</strong>*</td>
</tr>
<tr>
<td>6</td>
<td>Luxembourg</td>
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<tr>
<td>7</td>
<td>Lebanon</td>
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<td>8</td>
<td>Germany</td>
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<tr>
<td>9</td>
<td>Bahrain</td>
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<tr>
<td>10</td>
<td>UAE (Dubai)</td>
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<tr>
<td>11</td>
<td>Macao</td>
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<tr>
<td>12</td>
<td>Japan</td>
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<tr>
<td>13</td>
<td>Panama</td>
</tr>
<tr>
<td>14</td>
<td>Marshall Islands</td>
</tr>
<tr>
<td>15</td>
<td><strong>UK</strong>* - If including British Overseas Territories, UK No.1</td>
</tr>
</tbody>
</table>
Future Issues
• Who’s Your Regulator?
• Lack of Trust
• Mass surveillance/data grabs Vs. Compliance & Transparency
  - Terrorist Financing Tracking Program (TFTP)
  - EU Terrorist Finance Tracking System (TFTS)
  - NSA SWIFT hack, MENA