

# 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  
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

**11.5M**

Documents leaked

**214,488**

Entities involved

(includes companies, trusts, foundations)

**12**

Current or former  
country leaders involved

**200+**

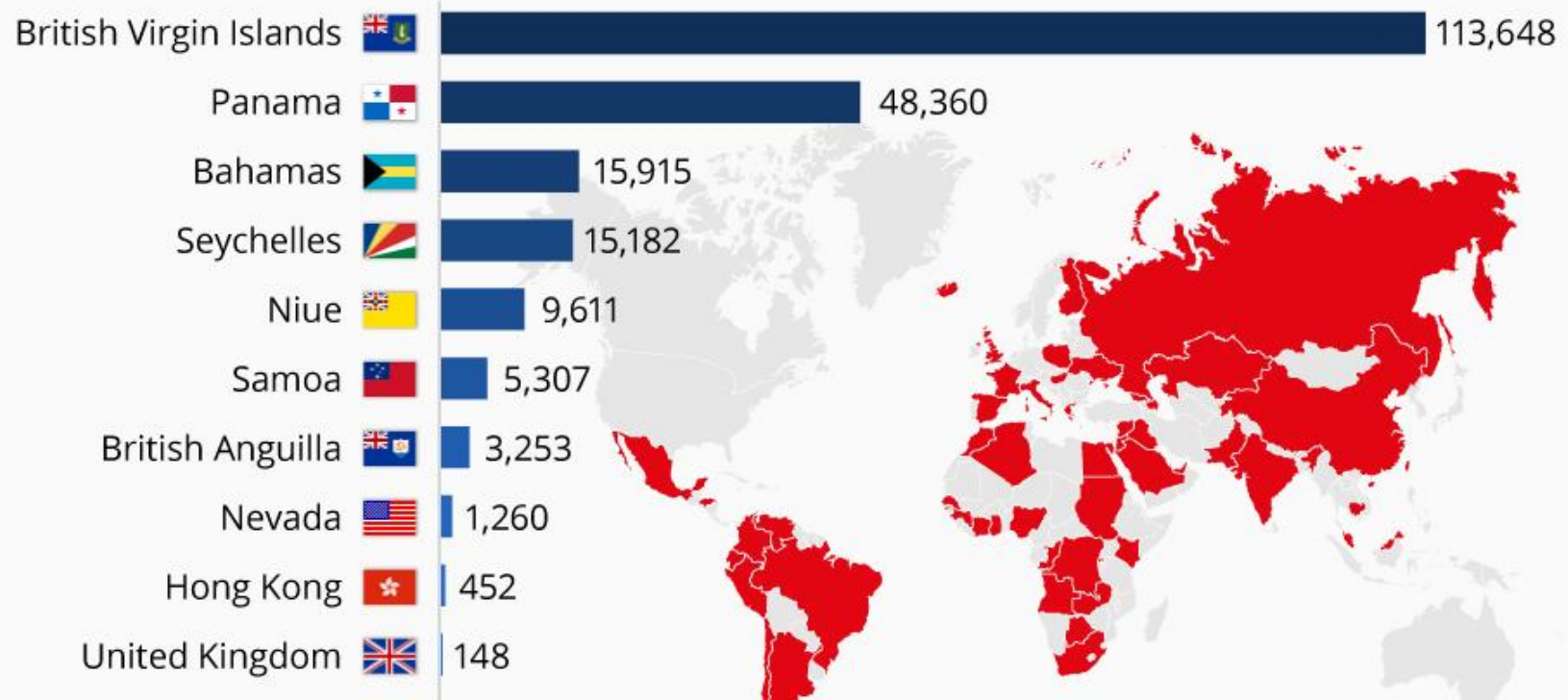
Countries/territories involved

**29**

Forbes-listed  
billionaires named

Source: International Consortium of Investigative Journalists

### Offshore companies incorporated by Mossack Fonseca, by jurisdiction



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

Source: Department of Justice, OFAC filings

# 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



**FATCA**  
Foreign Account Tax  
Compliance Act

**Know More about FATCA**

# 2015 Financial Secrecy Index Ranking (Tax Justice Network)

1	<b>Switzerland</b>
2	Hong Kong
3	USA
4	Singapore
5	<b>Cayman Islands*</b>
6	Luxembourg
7	Lebanon
8	Germany
9	Bahrain
10	UAE (Dubai)
11	Macao
12	Japan
13	Panama
14	Marshall Islands
15	<b>UK*</b> - If including British Overseas Territories, UK No.1



# 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





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[p.cochrane@triangleconsultants.net](mailto:p.cochrane@triangleconsultants.net)

[triangleconsultants.net](http://triangleconsultants.net)