Technical Note on the Fourth Bahamas Empirical Anti-Money Laundering Conference

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This technical note summarises the main findings of the papers presented at the Fourth International Conference on Empirical Approaches to Anti-Money Laundering. The conference was once again hosted in a hybrid in person/online format by the Central Bank of the Bahamas 26-27 January 2023. The conference has continued to grow, with approximately 150 registered to attend in person, and another 850 online. It has been funded by a levy on the Bahamian financial sector, with supplementary support from the Inter-American Development Bank.

This note begins with a discussion of some general themes of the conference, before moving on to summaries of the individual papers. For the purposes of discussion, these papers are divided in two broad groups. The papers in the first group are more oriented to better understanding money laundering and identifying money laundering risk, often with the aid of new data and/or new analytical techniques. The papers in the second broad grouping are more concerned with assessing both the effectiveness and the unintended effects of the anti-money laundering (AML) system. It must be emphasised, however, that this distinction is more of a convenient expository contrivance rather than any clear-cut separation. A supplementary aim of this note is to give a brief indication of how some of the main findings relate to previous years' conference papers, and to more general debates about money laundering and AML.

Now in its fourth year, it is possible to discern some rough trends in the work presented at the conference. The growing volume of work focused on finding money laundering risk via new data and innovative analytical techniques represents a point of continuity with last year's conference. It reflects something of a break with the first two iterations of the conference, where the data situation was presented in much more negative terms of the scarcity and low quality of data, though shortcomings in this area certainly remain. In light of the second Russian invasion of Ukraine and the changed geo-political situation since the last conference in January 2022, it is not surprising that financial sanctions were a topic of interest, and other papers were more attuned to geo-politics than was previously the case. Areas that have received less attention than they might warrant include cyber-crime, crypto currency, and the associated laundering (the subject of Nershi and Grossman's paper), and trade-based money laundering. Additional priority areas might include those of the new FATF Presidency, include improving asset recovery, and Public-Private Partnerships.

Replicating the success of last year's conference, a particular highlight was the attendance and presentations by the FATF President Raja Kumar and Vice-President Elisa de Anda. In a subject previously defined by an almost complete separation between those researching and making AML policy, it is a considerable achievement of the conference to bring these two constituencies into dialogue. Once again, the conference was further enriched by the participation of officials from the Inter-American Development Bank, the International Monetary Fund and the World Bank. Also of particular benefit was the connection between tax officials and the AML community, a linkage that had been missing from previous years. Once again Italian participants were a model of the complementarity of academia and policy, with contributions from university-based researchers and the national Financial Intelligence Unit.

Another beneficial novelty for the 2023 conference was the involvement of investigative journalists, who have taken the lead in pushing forward our knowledge of money laundering and related financial crime, but also (unlike academics) at the same time pushed this topic up the political agenda and into the public debate. One connection that could be reinforced is to the private financial sector, well represented in the audience, but somewhat less so among the speakers. The conference organizers indicated that securing greater involvement from the banking sector will be a priority for next year.

Speaking on the relations between AML Policy-makers and researchers, the conference host Charles Littrell pointed out that that researchers and policy-makers are on the same side, in the sense that both want to make the AML system better. While undoubtedly true and important, being on the same side in this regard does not necessarily mean sharing all the same interests. It may be that a certain creative tension between policy-makers and researchers (and even more so journalists) is not only inevitable, but perhaps even desirable. An example of where this tension might manifest is in the subject of the various FATF black- and greylists.

The FATF greylist focuses officially 'Jurisdictions Under Increased Monitoring,' currently including 23 jurisdictions, of which only two (Turkey and South Africa) are FATF members. The process for inclusion relies on scores for AML effectiveness compiled as part of the Mutual Evaluation Review process. The FATF greylist is distinct from the blacklist, which includes only Iran, North Korea and Myanmar. The FATF urges that enhanced due diligence is applied to all transactions with backlisted countries. Aside from the FATF lists, there is an ever-growing series of other cognate lists and financial sanctions. Some of these are unilateral, such as the designations imposed by the US Office of Foreign Asset Control (OFAC), others are multilateral. Relating to the latter, over the last decade the European Union has been an increasingly enthusiastic user of blacklists, maintaining separate lists for tax and AML purposes.

Unsurprisingly, those on the receiving end of such lists regard them as inaccurate, unfair and harmful in the reputational and economic damage they may create. In officially opening the conference, Senator Ryan Pinder, Attorney-General of the Bahamas, was full-throated in his criticism of such lists on the basis of the Bahamas' recent experience. Although it might be argued that those targeted by such lists have an obvious interest in discrediting them, a continuing theme of the conferences (including 2023) has tended to echo the main aspects of this critique.

The FATF lists are seen as being ineffective in identifying where money laundering risk lies in national terms. The informal consensus among researchers in attendance has been that the bulk of the world's dirty money is most likely in OECD countries. Despite this, OECD countries are rarely if ever listed for AML deficiencies. Conversely, the disproportionately small developing states that do fall afoul of such lists are generally seen posing a relatively minor money laundering risk, whatever problems they may have in technical compliance with FATF standards. Supporting this idea of identifying risk in the wrong countries, the IMF representative in attendance noted that according to SWIFT bank transfer data, only one per cent of international financial flows go through the 25 countries that have been on the FATF list, while 23 countries that have not been listed host 93 per cent of the world's financial flows.

An example of this contradiction comes from the European Union's recent forays into blacklisting, which exclude EU member states from these lists – a move that most researchers regard as political rather than technical. While researchers are free to come to such subversive verdicts, policymakers are more constrained (at least on the record), and hence perhaps a creative tension between the two communities will, and perhaps even should, continue.

It must be stressed, however, that if policymakers arguably have blind-spots and taboos concerning the lists, researchers have their own deep inconsistencies on the subject. Across the years and again in 2023 it was relatively common for presentations persuasively critiquing such lists being followed by other academics using the very same lists as a proxy for objective money laundering risk, without the contradiction between the two positions attracting much comment or discussion.

Better Understanding Money Laundering and Money Laundering Risks

The first group of individual paper summaries share similarities in their aim to better understand the techniques of laundering, and better identify money laundering risk. Despite the fact that the risk-based approach to AML has been the bedrock principle of the whole regime for over a decade now, our understanding of money laundering risk is still in its infancy, as conference papers from previous years have repeated shown. Jointly, the papers presented in 2023 help chip away at our ignorance on this front.

Most directly focused on predicate crimes and money laundering are the contributions by Nershi and Grossman, Harrington, and Bullough. Papers by Nazzari, Brusso and Peredes, Cariello, Simmon and Iezzi used a wider aperture to zoom out and look at money laundering risk and data sources.

Nershi and Grossman's paper was particularly valuable given its focus on cyber-crime, a rapidly expanding problem that has so far received comparatively little academic attention at the conference, and even less in the way of law enforcement resources, relative to the size of the threat. The paper specifically deals with hacking attacks centred on ransomware, and has a geo-political aspect given a focus on Russia and attacks on elections. Ransomware hacks often involve a 'double extortion': after infiltrating a system, hackers first encrypt the victims' data to prevent access, and then threaten to publicly release sensitive information held by the victim (e.g. hospitals' patient records), unless a crypto-currency ransom is paid.

The main puzzle the paper seeks to answer is whether Russian hackers behind such attacks are politically motivated compared with similar hackers from other countries. The paper tests for this by comparing the timing of around 4000 attacks against targets in six democratic countries (the United States, Britain, France, Italy, Germany and Canada) by Russian and non-Russian hackers. Russian ransomware attacks tend to spike before elections, while no such temporal clustering is observable in attacks by non-Russian hackers, suggesting that the former are at least in part politically motivated. Further evidence comes from 'dark web' chat-rooms and a dataset provider by a private cyber security firm. Although the precise relationship between Russian hackers and the Russian government is obviously hard to pin down, qualitative evidence culled from leaked material of one Russian group is suggestive of a loose alliance between these actors, rather than the hackers being merely a tool of the Kremlin or its intelligence services. This alliance of convenience provides the hackers with a safe harbour from law enforcement, while the Russian government maintains plausible

deniability in targeting its foreign opponents. Linking with the Russia-focused papers by Bandyopadhyay and Heywood and Findley et al., Nershi and Grossman underline the extent to which financial crime and the AML apparatus are now more than ever national security issues. Ransomware attacks also seem to be one of the relatively few types of financial crime where crypto currency is central.

In her paper, **Harrington** looks at quite a different type of criminal, the ostensibly respectable professional enablers of financial crime, especially lawyers, bankers and accountants. Enablers among these professions are said to provide the agency for very broad, macro trends, in particular the threat that 'financialization' poses to the fiscal base of the welfare state, with Denmark the focus of the paper. In some ways the logic of this paper resembles the worries of the 1990s about competition between states for mobile capital leading to a fiscal race to the bottom.

The specific example is the cum-ex tax fraud that afflicted several European countries, including Denmark, as investors dishonestly over-claimed refunds on share dividend taxes, aided and abetted by professional advisors. Using investigative journalists' accounts, Harrington recounts that Danish tax officials detected and raised the alarm on the scheme as early as 2002, and yet ministers and senior bureaucrats repeatedly refused to take action until the media broke the story in 2015. The scam cost Danish tax-payers at least E1.7 billion (overall European losses were as high as E55 billion).

Ironically, the calculation behind this inaction was that Denmark needed to attract foreign business to pay for its welfare state, and an overly-rigorous application of tax laws might scare off valuable mobile capital. It is notable that like the even larger Danish financial scandal, the Danske Bank money laundering episode, it was not financial regulators, state officials or law enforcement that disrupted the criminal scheme, but rather investigative journalists. This idea that journalists are more effective in exposing and disrupting major cross-border corruption and money laundering cases is by no means limited to Denmark, as discussed in the conclusion.

One journalist who has done as much as any to propel money laundering and related crimes to the front of the public imagination is Oliver **Bullough** (Will Fitzgibbon from the International Consortium of Investigative Journalists of Panama Papers fame made a separate presentation to the conference). Apart from his reporting, Bullough has authored *Moneyland* and *Butler to the World*, the latter book highlighting Britain as the world's leading money laundry. Bullough's paper begins with a central paradox: there has been a sharp decline in the proportion of transactions made with cash, and yet the value of cash in existence continues to rise across the United States, the Eurozone, the UK, Canada, Switzerland and most other rich countries. Furthermore, most of this cash over-hang in is large denomination notes that are very rarely used in transactions.

Identified as far back as 2009 (Peter Reuter noted that the anomalously high value of cash in circulation was earlier linked to the 'discovery' of the informal economy in the 1980s), the 'cash paradox' has received remarkably little attention from central banks and governments. What explains this paradox? Bullough maintains that the AML system is ineffective, and that one of reasons is because much of the cash not being used for regular transactions is used in money laundering and the criminal economy. As the title of a Europol Report has it, and despite the hype about crypto-currencies and fintech, for money launderers 'cash is still king'. As a corollary, Bullough argues that the use of cash in laundering is complemented by

trade-based laundering, a rare reference to a topic that otherwise received little attention at the conference.

In evidencing this thesis, Bullough's paper proceeds by a process of elimination, arguing that alternative explanations do not fit with available evidence. These alternatives include a lack of confidence in banks, low interest rates on bank savings, the low inflation that prevailed until recently, demographic change, and even an increase in the number of ATMs (now reversed in any case). Bullough's thesis in effect pays a back-handed compliment to the AML system in assuming that criminals have increasingly had to turn to cash as they have been forced out of the regular banking system by measures like more stringent Know Your Customer requirements and suspicious transaction reporting. Here is the often-used logic of the money laundering displacement effect, of AML as analogous to the game of 'whac-a-mole', as criminal money squeezed out of one venue pops up in another.

As noted, finding the money laundering risks in the financial system is something of the Holy Grail for the risk-based approach to AML. As AML supervisors from the Peruvian SBS responsible for banks, insurance companies and pension funds, **Brusso and Paredes** presented a three-pronged strategy based on triangulating between geographic, product and customer risk to ensure that scarce regulatory resources are deployed where they are most effective.

For the paper and for their risk supervision more generally the most important information comes from biannual reports submitted by regulated entities concerning these entities' judgement of their own money laundering risks. These reports draw on analysis of the institutions' Suspicious Transaction Reports and queries with regard to correspondent banking relations. Banks are further asked to disaggregate their money laundering risks in terms of geographical, customer and product risk. The regulators receiving all this information then combine and weight these inputs to diagnose risks across the financial sector, but also in terms of 18 individual banks, and concentrate their scrutiny accordingly.

The limitation of this approach is that it depends on financial institutions having an accurate understanding of where the money laundering risks are, such that the task of the regulator is then to aggregate this information to accurately diagnose the overall risk patterns. It seems just as likely, however, that no one, anywhere, has an accurate idea of where the money laundering risks truly are, in which case aggregating faulty guesses only leads to a faulty overall picture. This would explain the very modest results of the risk-based approach to AML more than a decade after it was first introduced. Certainly much of the material presented at the various iterations of the conference over four years suggests extreme caution about the accuracy of the money laundering risk assessments that we have.

Italy and Italians have been at the forefront of the study of organised crime and money laundering, and this record is bolstered by a machine-learning approach to discerning firm-level money laundering risks. **Cariello, De Simoni and Iezzi** begin by identifying a training set of 1800 firms infiltrated by organised crime. They hypothesise that such firms have peculiarities in their financial statements which may be generalised to create an algorithm to detect similarly infiltrated firms across the national economy. The initial challenge in this exercise was constructing the training set of infiltrated firms. The first step in doing so was to include those 563 firms confiscated as criminal enterprises by the authorities 2007-2017. The remainder are classified as infiltrated on the basis that key company office-holders were the subject of organised crime investigations. These infiltrated firms are then compared with

those in a massive database of all Italian firms' financial, credit and payroll records 2010-2020.

A variety of machine-learning approaches are then employed to isolate differences between the two groups of firms. Of those machine learning approaches trialled on the datasets, the gradient boosted decision tree algorithm had the highest success rate, with only a 10 per cent rate of false positives (identifying legal firms as infiltrated by organised crime) and 19 per cent false negatives (identifying infiltrated firms as legal). Then applying the algorithm to total set of Italian companies suggests that 10 per cent are at risk of being infiltrated by organized crime with one percent very high risk.

Attendees at previous episodes of the conference have debated the motivations (and intelligence) of the typical money launderer. Are money launderers rational profit maximisers? Criminologists and economists might disagree. The paper by **Nazzari and Jofre** investigates, once again using data from Italy. The results give partial support for both economists and criminologists.

The paper analyses 338 money laundering investigations carried out by Italian law enforcement 2016-22. The findings suggest that money launderers are sensitive to profit (the economic health of the destination country), but that other country-level factors are also important. Drawing on pioneering earlier work by Riccardi (presented at previous conferences), these latter include geographic and cultural proximity, as well as political stability. Confounding common stereotypes, launderers are *less* likely to put their ill-gotten gains in countries with strict financial secrecy, and *more* likely to launder in countries with *low* corruption and strong rule of law. The usual caveat applies, however: these conclusions are only valid to the extent that the sub-set of money laundering schemes subject to investigation are representative of the (presumably) much larger set that are never detected.

The Effectiveness and Unintended Effects of the AML System

The second group of papers shares a concern with assessing the effects of the AML regime, broadly conceived. The first sense of this is whether the rules are working in reducing or blocking flows of illegal money, a question of effectiveness. In keeping with the geo-political flavour of this year's conference, two papers ask about the effect of financial sanctions on Russia, while a third asks the same question of measures to staunch the flow of money to terrorists. Two analyses of the effectiveness of AML in the British property sector again have threats from post-Soviet actors very much in mind. In contrast, the final two papers examine the consequences of the global AML regime for small Caribbean countries.

Heathershaw, Mayne and Prelec put forward the disconcerting argument that British AML laws are vulnerable to being perverted to serve the political ends of foreign authoritarian governments. In particular they look at the varying fortunes of post-Soviet oligarchs facing challenges about the legitimacy of their real estate holdings in the UK. The overarching concern is that Britain, and especially London, is one of the world's leading laundries for post-Soviet kleptocrats, in line with Bullough's *Butler to the World*. Yet efforts to address this threat are vulnerable to manipulation from the very regimes that are the source of the problem.

The crux of the issue is that the UK authorities only take action against the proceeds of foreign corruption in Britain with the assistance of the foreign government concerned. These

governments will refuse to co-operate unless the individual targeted has already fallen from political favour. Thus, dissident exiles face the full force of British law enforcement, while far more corrupt individuals still on good terms with their home governments enjoy their looted wealth in Britain with impunity (what the authors term the 'incumbency advantage'). In effect, UK law enforcement becomes a tool of foreign dictatorships, while London continues to be a haven for looted wealth. The authors' Qualitative Comparative Analysis clearly supports the hypothesis of the incumbency advantage, with some outlying cases reflecting the degree of legal expertise targeted individuals could mobilize. The impact of Heathershaw et al.'s research is indirectly demonstrated by the fact that an earlier report they co-authored for Chatham House (2021) was withdrawn and redacted (over the objections of the authors) after legal threats from two wealthy London-based individuals with close post-Soviet connections, Dmitri Leus and Mohamed Amersi.

The paper by **Collin, Hollenbach and Szakonyi**, also dealing with foreign money laundering in the British property sector, is in some ways a sequel to perhaps the strongest contribution to the 2022 conference. That paper tested the effects of new AML policy measures on the US real estate market, this one shifts the focus across the Atlantic to London. The starting point is that high-end real estate is seen as particularly susceptible to being used to launder the proceeds of foreign corruption, stereotypically that of Russian oligarchs (hence 'Londongrad'). In 2016-17 the British government drafted legislation to address this problem by mandating a public registry that would list the real names of those owning property through foreign shell companies, thus piercing the corporate veil that otherwise kept the identity of these real owners hidden. Subsequently the British government lost all interest in the subject, suppressing a report about the influence of Russian money in UK politics, until the second invasion of the Ukraine provoked a sudden change of heart. The Registry of Overseas Entities was belatedly rushed through as part of a new Economic Crime Act. What are the initial effects of this new transparency measure?

The paper finds that purchases of UK properties by shell companies based in 'tax havens' fell sharply after the introduction of the Act. This holds for transactions involving shell companies from jurisdictions particularly favoured by Russians (as determined by leaked data from the International Consortium of Investigative Journalists), but also those from jurisdictions favoured by those from corruption-prone countries more generally. The paper is one of the most empirically and analytically rich of those presented at the conference.

The postscript is that the deadline for declaring ownership in the Registry passed just a few days after the conclusion of the conference, 31 January 2023. Just after this deadline almost half of the companies required to declare their beneficial owners had failed to do so, leaving the ownership of 18,000 companies holding 52,000 properties in England and Wales still hidden (https://www.transparency.org.uk/uk-register-overseas-entities-through-the-keyhole). As in most other areas of AML, having the right laws is at best a necessary condition for policy effectiveness, with enforcement being decisive.

In his discussant remarks to the conference, Peter Reuter described Suspicious Transaction (or Activity) Reports made by reporting entities like banks to Financial Intelligence Units as the 'lifeblood' of the AML system. Academics have generally been skeptical of the value of such reports, especially the 'more is less' dynamic whereby an ever-increasing number of reports seem to have no discernible effect on the underlying money laundering problem. Both the presentation from the Internal Revenue Service Criminal Investigation division and a paper from Italy suggest a more positive picture, however.

Although the findings are open to different interpretations, the paper by **Aziani and Nazzari** presents evidence in favour of the usefulness of these Suspicious Transaction Reports (STRs). Included are more than 900,000 reports lodged with the Italian FIU 2009-2020, a portion of which are then passed on to the Economic Crime Police (*Guardia di Finanza*) and the Anti-Mafia Directorate. The main conclusion is that reports are more useful in assisting on-going investigations than prompting new ones, and that most of the cases that draw on this financial intelligence are not money laundering (e.g. fraud, loan-sharking, tax evasion). Specifically, one in 19 of such reports contributes to an existing investigation, one in a 100 leads to new criminal proceedings, while only one of eight investigations prompted by reports relates to money laundering. Despite showing how reports are sometimes useful to law enforcement, the evidence also provides some support for the 'crying wolf' thesis of reporting, in that because the rates of reporting have gone up much faster than the rates at which law enforcement utilize reports, a declining proportion of STRs contribute to investigations.

The results from Italy, and the presentation from the United States IRS which also emphasised the utility of STRs in their investigations, pose a question of interpretation: if a small but non-trivial portion of reports are indeed useful to law enforcement, is the glass half empty or half full? The other way to read these results is that a large majority of reports (and in Italy an increasing portion) are *not* useful to law enforcement. What rate of false positives is acceptable? The other conclusion is that reports may be useful, but not in the way the AML policy community assumes they are: they do not lead to new investigations so much as support those that have begun for other reasons, and their primary purpose is *not* countering money laundering, but a range of other crimes. Finally, in further studying the usefulness (or not) of such reports, Reuter suggests a need to work backwards: starting with convictions, and then working back to see whether and how reports assisted the preceding investigations.

A novel approach to countering money laundering which skirts the bounds of legality was the United States Department of Justice (DoJ) Operation Choke Point, examined in a paper by **Sachdeva, Silva, Slutzky and Xu**. This operation first determined that a set of (legal) businesses trading in guns, ammunition, pornography, on-line gambling and escort services were supposedly at high risk of money laundering. The DoJ then targeted a seemingly random set of banks (handy for making causal inferences, if not reassuring in terms of the rule of law) in pressuring these banks to reduce credit to businesses in these specified industries from 2013. The aim in doing so was to indirectly 'de-fund' money laundering.

The paper finds evidence of initial impact, but ultimately sees the Operation as a failure. Targeted banks did restrict credit to businesses in these supposedly high-risk industries 2013-16, especially with regards to smaller firms, in line with the policy's aims. However, firms in the targeted industries were able to fully substitute these relations by obtaining credit from other banks that were not targeted by the authorities. In fact, these firms subsequently tended to have more access to credit than they had before the policy was introduced, perhaps as a form of insurance against future restrictions. Thus overall this instance of targeted credit rationing was ineffective even before it was shut down in 2017.

The two papers by Bandyopadhyay and Heywood and Findley et al. seek to provide a read on the effectiveness of financial sanctions directed at Russia. Both find that the sanctions did have important impacts, but each also raises unsettling questions about the general effectiveness of these measures.

Bandyopadhyay and Heywood (from the financial crime data analysis firm Elucidate) track the impact of sanctions by comparing over 560,000 bank transactions made available to Elucidate dating from July 2021 to November 2022. They do so on the basis of a sub-set of banking transactions involving 173 jurisdictions where the sender, receiver or either party's financial institution was in Russia, as well as looking at transactions with Russian banks that were specifically sanctioned.

The initial results are heartening in terms of the effectiveness of the sanctions: there was an immediate and massive drop in the volume of transactions sent *to* sanctioned Russian banks. A few months later, however, the picture begins to change, with a noticeable rebound in transactions *from* some of these sanctioned banks from May 2022. The explanation is that some of these banks effectively received a carve-out from sanctions, on the grounds that they processed oil and gas transactions, which were exempted from sanctions. This created a major loophole, however, because all transactions with this sub-set of banks were exempted, regardless of whether or not the specific transactions were connected with oil and gas. Looking at transactions with Russian banks in general, not just those that were specifically sanctioned, there is a similar picture of sharp decline and partial rebound. Volumes of transactions fell by around 85 per cent the month after sanctions were first imposed, before transactions then recovered to around two-thirds of their pre-invasion level. The evidence strongly suggests a displacement effect, with much Russian financial activity relocating to the United Arab Emirates.

The **Findley, Nielson and Sharman** paper presents another take on the effectiveness of sanctions, again offering both positive and negative conclusions. It reports on a field experiment based on email solicitations for companies and bank accounts addressed to thousands of Corporate Service Providers. The outcomes of interest were the rate of reply by these CSPs, the rate at which they were willing to do business, and their rate of compliance with global Know Your Customer (KYC) rules. The crux of the study was to compare responses to a high-risk treatment email solicitation in the name of a sanctioned Russian official against the baseline of an otherwise identical low-risk placebo solicitation from non-sanctioned names. If the sanctions are effective, solicitations from sanctioned names should be treated very differently from the low-risk control emails, receiving relatively fewer replies, more refusals and higher rates of KYC compliance. Importantly, the Magnitsky Act sanctions in this case were in place years before the 2022 Russian invasion.

The results of paper presented a before-and-after picture, comparing a first pre-invasion round of solicitations in 2020-21, and a second post-invasion round in 2022. Even though the Magnitsky sanctions were constant across the whole period, compliance with the sanctions was much higher in the second round than the first. Whereas before the invasion there were few if any statistically significant differences in the reactions to sanctioned names vs. the low-risk equivalent, in 2022 the rate at which firms were willing to engage with solicitations from sanctioned names almost halved, whereas the rate of engagement with non-sanctioned approaches remained largely the same. The paper suggests that in this case at least it was war rather than law that promoted compliance with sanctions.

Continuing the connection with national security concerns, the paper by **Jessica Davis** was the only one devoted to Countering the Financing of Terrorism (CFT) at the conference. Davis combined both an academic and a practitioner's perspective on the problem, having worked in counter-terrorism in the Canadian government before moving to academia. Her

question is whether CFT legislation (proxied by the adoption of the United Nations CFT convention) is effective in reducing the incidence and lethality of terrorist attacks, as measured by two different global terrorism databases. Interestingly, Davis's initial presumption from her previous professional experience was that such legislation was almost wholly ineffective, which fits with a general academic skepticism about the results of the financial 'war on terror'.

Davis's results, however, show strong effectiveness of CFT legislation: according to both databases, the incidence and lethality of terrorist attacks is significantly reduced after these laws are introduced. Nevertheless, subsequent discussion suggested these results may well be too good to be true. A range of possible qualifications were raised, especially the problem of endogeneity: passing CFT legislation may follow terrorist attacks, and be associated with a whole range of counter-terrorism policies and actions entirely independent of measures taken in the financial sector. As such, even though passing CFT legislation may have preceded a drop in terrorism, it is very difficult to say that the passage of the legislation caused the decline in terrorism.

Moving from the effectiveness to the effects of the AML regime involves zooming out to see the bigger picture in terms of the distribution of costs and benefits. The AML system is largely a system designed by and for rich the countries of the OECD; what happens when it is applied elsewhere?

Aretha Campbell's paper centres on four Caribbean jurisdictions: the Bahamas and the three UK Overseas Territories of Bermuda, the British Virgin Islands and the Cayman Islands. As well as seeking to get some idea of the incidence of money laundering, the paper analyses the balance of benefits from the international transfer of financial intelligence from these jurisdictions. As with the two papers above, evidence is based on STRs. For the reasons discussed in the Aziani and Nazzari paper, it is very difficult to take the level of STRs as a proxy for the underlying level of money laundering. Reports may increase independent of the level of crime, and most STRs may relate to crimes other than money laundering. The second set of conclusions relate to the cost of the four FIUs, and the 'balance of payments' in the international exchange of financial intelligence. Here the very plausible finding is that the main beneficiaries of reporting by these Caribbean FIUs 2011-2016 are the rich OECD countries, and within this group the UK and the United States in particular.

Again looking at how larger AML trends affect the Caribbean, **Griffin and Martin** examine a topic that was very prominent at the first two Bahamas AML conferences, but which has since faded away: de-risking. De-risking refers to the idea that there had been a sharp reduction in the number of international correspondent banking relations with institutions in the developing world, and that this reduction was the result of (by implication fairly crude and unreflective) attempts to reduce money laundering risk. The paper seeks to gain purchase on the effects of de-risking with a focus on the Eastern Caribbean.

It finds what at first seems to be a silver lining: there has been an indigenization of banking in the region, with increased regional integration to fill the gap left by the withdrawal of North American banks. Yet this is a qualified success story, because it leaves the region heavily dependent on a single regionally dominant bank, the Trinidadian Republic First Holdings Group. In this sense, the Eastern Caribbean may be simultaneously faced with a dilemma of 'too small to succeed', but also 'too big to fail'. In terms of linking back to the earlier arguments about de-risking, the paper supports what has come to be the consensus position:

the withdrawal of international banks and the decline in correspondent banking relations with the Caribbean and the developing world more generally is much more a commercial decision than anything to do with managing money laundering risk.

Conclusion

In concluding this note, there are perhaps three themes that might be borne in mind for subsequent conferences.

The first is the likely continuing influence of geo-politics on AML research, broadly defined to include financial sanctions. Given that the conference took place less than a year from the February 2022 Russian invasion, it seems that both academics and policy-makers will be looking at AML through much more of a national security lens. In some ways such a shift might be reminiscent of the years following September 11, 2001 terrorist attacks, which provide positive and negative lessons for this framing.

Second, as noted the inclusion of investigative journalists in the 2023 conference was an important innovation which will hopefully be continued. Academics and even more so policy-makers should reflect on the fact that it has often been journalists, not the expansive and expensive official AML system or law enforcement, that have forced the pace in breaking the largest and most important instances of cross-border money laundering and related financial crime. This conclusion holds from the cum-ex and Danske Bank scandals, to 1MDB and the multiple instances of money laundering revealed by the Panama Papers (though the Brazilian Lava Jato investigation is an important exception).

Finally, it is a major achievement of the conference that it has brought together the FATF and other AML policy-makers with the community of researchers on this topic. Presumably, however, such dialogue is a means to an end rather than only an end in itself. What impact, if any, might this dialogue have on policy? A litmus test might be the issue of FATF grey- and blacklists. The general (though not unanimous) position among researchers on the topic is that these lists do not accurately measure money laundering risk, and that they have at least as much to do with politics and power as with fighting crime. If AML policy is indeed to be based on evidence, the lists seem a priority for reform.

List of Conference Papers

Aziani, Albero and Mirko Nazzari. *What do Suspicious Transaction Reports Actually Capture? Evidence from Italy.*

Bandyopadhyay, Anjishnu and Max Heywood. *The Impact of Sanctions on Cross-Border Transactions: Evidence From Russia After the Ukraine Invasion.*

Brusso, Daniel and Farida Peredes. *Sector-Wide Risk Assessment: A Semi-Quantitative Approach to a Mostly Qualitative Task.*

Bullough, Oliver. *The Paradox of Large Denomination Currency Notes.*

Campbell, Aretha. *Assessing the Costs of AML Initiatives and Outputs in Small Caribbean States.*

Cariello, P., M. De Simoni, and S. Iezzi. *A Machine Learning Approach for the Detection of Firms Infiltrated by Organized Crime.*

Collin, Matthew, Florian Hollenbach and David Szakony. *Does Beneficial Ownership Transparency in Real Estate Dissuade Investment? Evidence from the United Kingdom.*

Davis, Jessica. *Measuring the Impact of Counter-Terrorism Financing Legislation on Terrorist Activity.*

Findley, Michael, Daniel Nielson and Jason Sharman. *Testing the Effectiveness of Targeted Financial Sanctions on Russia: Law or War?*

Griffin, Clifford and Everette Martin. *Strategic Responses to De-Risking in the Eastern Caribbean.*

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