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

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The aim of this technical note is to summarise the main findings of the papers presented at the Third International Conference on Empirical Approaches to Anti-Money Laundering (AML). The conference was hosted in a hybrid in person/online format by the Central Bank of the Bahamas 20-21 January 2022. The note begins with a discussion of some general themes of the conference, before moving on to summaries of the individual papers. At the broadest level, the latter are divided into two groups. The first is those papers focused on money laundering risks, including the sources of laundered funds, patterns of laundering, and better measuring risk. The second group examines the effects and effectiveness of Anti-Money Laundering (AML) measures at the firm, industry and national level. A supplementary purpose 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.

In terms of general themes, a notable trend in the conference papers is towards looking at money laundering and money laundering risk, rather than AML policy as such. In contrast, papers presented at the previous two iterations of the conference were more likely to cast a critical view on the effectiveness of AML policy, key AML concepts (e.g., risk), and the deficiencies of official AML data. Though such concerns are still prominent, perhaps the most common pattern in this year's papers was the use of new techniques, methods and data sources to identify money laundering risks. More broadly, this trend might be part of what Nance referred to in his summation of the conference as a 'data revolution' in the study of money laundering and financial crime more generally, thanks to the combination of increasingly sophisticated methods and greater computing power, as well as more raw information to work with.

A puzzling omission to this trend, however, is that none of the conference papers made much use of the huge data dumps of financial information (Panama and Paradise Papers, FinCEN Files, etc.), even though this material should provide rich pickings for those studying money laundering. Relatedly, as in the first two years of the conference, there were surprisingly few if any connections with those studying tax evasion and avoidance, closely related to money laundering, especially in the Illicit Financial Flows agenda.

More positively, as evidenced by the first group of papers, academics are increasingly applying themselves to attempt to solve basic problems of money laundering. It is hoped that this research might be directly useful to those charged with designing and implementing AML policy in both the public and private sector. However, it is important to note that the second group of papers focusing on AML policies continue to reach negative verdicts. In the main, AML policies are portrayed as being ineffective or counter-productive, and having unintended consequences and dubious legitimacy.

This relative shift of emphasis from AML policy to money laundering, and from a critical to a more problem-solving approach, may provide the basis for a closer relationship between the previously quite isolated academic and policy communities in this area. Addressing this disconnect was one of the original (and very valuable) rationales for setting up the conference in the first place.

A related positive indication of greater exchange and collaboration between researchers and policy-makers was the attendance of the Financial Action Task Force (FATF) President, Vice-President and recent Executive Secretary. If the links formed at the conference were replicated in a more formalised mechanism for exchange between the FATF and researchers working on money laundering and AML, this would mark another important benefit of the conference. Further evidencing the strong engagement with policy-makers, representatives from the United Nations Office on Drugs and Crime and the United Nations Conference on Trade and Development also contributed important papers (summarised below). Such a level of involvement by senior policy-makers is indicative of the high profile the conference has now attained.

This year's conference papers were characterised by the increasingly sophisticated and technical methods employed. While this trend is generally regarded as a sign of progress within the ivory tower (rightly or wrongly), the implications for communicating researchers' findings beyond academia are more problematic. The more technical the conference papers are, the fewer people will be able and inclined to read and understand them, especially in terms of policy-makers from key organisations like the FATF. Even some academics at the conference struggled to understand some of the more technical papers.

This tension between ever-more sophisticated methods vs. intelligibility in the policy community raises an important question: who is the conference for? If the answer is academics and related researchers, then the increasingly arcane nature of the papers presented is all to the good. But if the conference is to benefit policy-makers (most of whom are understandably not on the cutting edge of social science research methods) through an exchange with academia, then there are important costs. Of course one of the main purposes of this (non-technical) summary note is to facilitate knowledge transfer from the conference to the wider policy sector (and perhaps the private sector also). Yet this brief note is designed to highlight and complement the conference papers, rather than substitute for them.

It is worth noting in this context that for the third edition of this conference, Covid travel restrictions seemed to fall most heavily upon non-academic rather than academic AML researchers. In future years the conference organisers expect to see relatively more input from practitioner researchers, as well as academic researchers.

WHERE ARE THE MONEY LAUNDERING RISKS? DETECTION AND MEASUREMENT

As foreshadowed, the summaries of the first group of papers are roughly organised on the basis of a common focus on money laundering risk. More specific sub-sections relate to empirical investigations of patterns of money laundering (papers by **Caulkins and Reuter**, **Nazzari and Riccardi**, and **De Simoni**), identifying high-risk corporate structures (**Knobel** and **Jofre**), firm-level risk indicators (**Heywood et al.** and **Reader and Gillespie**), modelling

and synthesising risky transactions (**Barone** and **Gonzalez et al.**), and tracking Illicit Financial Flows (**Cameri and Nastev**, **Barcarolo et al.**, and **Prelec and Soares de Oliveira**).

How Criminals Launder Money

In most studies of money laundering and AML, the criminals committing the predicate crimes that generate the funds to be laundered are often overlooked. The paper by **Caulkins and Reuter** is a fascinating exception in looking at drug dealers in Vancouver. The main take-away of the paper is that at least in this instance, between half and three-quarters of the money generated through the illegal opiate trade is not laundered at all. As a majority of the revenues are captured by low-level dealers, the relatively modest sums they earn can simply be spent on everyday consumption in cash. The results are similar to a paper presented at the 2021 conference by Berry and Gundur. Although a small-scale study, the implications are very significant. For example, if drug trafficking revenues are disproportionately associated with the retail rather than wholesale stage, and thus essentially de-linked from money laundering, this undermines one of the key initial premises of the AML policy regime, which was originally conceived as another front in the 'war on drugs'. In the associated discussion Reuter posed a further question of general interest: are criminals, including money launderers, morons? This question is particularly relevant to the two mafia-related papers by De Simoni and Nazzari and Riccardi.

Nazzari and Riccardi present a richly empirical study of how the Italian mafia launders money. Evidence is drawn from a database of 2,818 criminals convicted of money laundering in the period 1990-2015. The results support the authors' hypotheses that criminals use relatively simple laundering techniques based on cash, tangible property and cash-intensive small businesses. They rarely employ professional intermediaries, and most laundering takes place locally rather than transnationally. The use of more modern technology or complex techniques, from crypto currency to elaborate corporate structures, was rare or absent. According to this picture, criminals do not act analogously to firms, but are instead almost creatures of habit in sticking with simplistic laundering methods. These findings undermine the common 'arms race' metaphor which holds that criminals are forced into ever-more elaborate and sophisticated strategies for laundering because of the growing reach of AML measures.

The paper by **De Simoni** has a similar focus, again looking at mafia-related money laundering in Italy, once again through a database of those caught out by the authorities. In this paper, however, the information relates to 237 mafia-controlled firms seized by the authorities 2007-17, rather than individual mafiosi. In contrast to the FATF's abstract and rather content-free typologies, this is an insightfully inductive study of how organised crime launders money. De Simoni identifies two main goals of mafia-controlled businesses. First, the classic laundering technique of running criminally-derived funds through a functioning business to disguise the illicit origins of the money. The second is the use of an existing business to increase mafia control of a particular targeted market. Next, the paper compares the fortunes of mafia-controlled businesses relative to similar legitimate equivalents by studying their accounting records. The former tend to have higher revenue, but lower profits, often thanks to inflated payroll costs.

Returning to the question put by Reuter about criminal "stupidity", a related question asked in the conference discussion is whether these sorts of studies show how organised criminals in general launder money, or only how those stupid enough to get caught launder money. The particular question relates to a recurring problem in the study of money laundering: those cases that come to light are almost by definition a small and unrepresentative sample of the general population of launderers and money laundering schemes. With this in mind, how confident can we be extrapolating from the former to the latter, and what other choice do we have in gathering evidence? More generally, if launderers are as unsophisticated in using cash or simple laundering techniques as these three studies suggest, why is it that the AML system has had such modest results in reducing both laundering and predicate crime? If we are failing to catch morons, does that mean we are morons too?

Money Laundering Behind the Corporate Veil

A key AML regulatory priority of the last decade or so has been to ensure the identification of the beneficial owners of shell companies and other similar corporate vehicles. Drawing on earlier work for the Tax Justice Network, **Knobel** aims to identify those corporate arrangements most at risk of money laundering. He argues that the complexity of corporate structures is one of the most important such risk indicators, in that higher levels of complexity are associated with higher levels of money laundering risk (as well as tax evasion and avoidance). Complexity might include the combination of different sorts of corporate vehicles, the use of multiple nominees, many layers of inter-related shell companies, or the separation of ownership and control. Knobel presents a wide range of examples of complex structures used in money laundering and related crimes. The recommendations in the paper tend to favour forced simplification of complex corporate structures. However, it is an open question as whether most money laundering schemes are in fact dependent on complex arrangements; the three papers above suggest the opposite. And even if most money laundering schemes were dependent on complex corporate arrangements, this of course doesn't prove that most such arrangements are criminal schemes.

Also concerned with the use of corporate structures in money laundering is **Jofre**'s investigation of circular ownership patterns in the Maltese gambling industry, presented as a high-risk sector for financial crime. Circular ownership refers to where two or more legal entities own each other, thereby making it difficult to determine the real person or people in control. Jofre finds that of the 58 entities subject to enforcement actions, 4 had circular ownership, from a total of 10 with circular ownership in the sample of 529 companies in the Maltese gambling industry. Although the narrow focus and small numbers limit more general conclusions, the fact that a disproportionately high share of those with circular ownership were subject to enforcement (4 of 10) supports Knobel's point about complexity being associated with crime. On the other hand, the large majority (54 of 58) of those sanctioned by the authorities did not have such a complex form (though they may have had other types of complex structures).

Detecting Firm-Level Risks

The sole contribution from the private sector at the conference was that of **Heywood et al.** representing Elucidate. The newly launched Elucidate Financial Crime Index is designed to diagnose financial crime risk at the level of the business entity, particularly banks. The Index

is designed to respond to the problem that although there are public ratings for national money laundering risk (although their accuracy is hotly contested, see among others Littrell), there is no equivalent for firms. Banks only find out their peers have a money laundering problem when it is too late, i.e. after the fact, when a scandal breaks. In addition, the authors argue that the Index will help firms self-diagnose and compare their own money laundering risk profile. Firms are scored on a 100-point scale in line with nine criteria: organisational reputation, transactional activity, geographic footprint, culture/employee conduct, bribery/corruption, sanctions, customer portfolio, products/channels, and governance framework. Evidence is taken from public sources and a questionnaire. The hope is that if this Index becomes the industry standard, it will not only allow for the better identification of risk, but also begin to impose market pressure to improve AML standards, as peers begin to shun those institutions with low ratings, as they might those with low credit ratings.

How else might firm-level risk might be assessed? A highly original take on such risks is conceptually centred on the idea of organisational culture and empirically on strategies of text analysis. **Reader and Gillespie** begin with an analysis of corporate scandals and organizational culture. Extrapolating from the claim that particular organisational cultures are more likely to produce regulatory failure, such as a money laundering scandal, the authors hypothesise that firms whose employees are subject to exacting individual performance target pressures are more likely to experience such regulatory failures and scandals. How can culture be measured? Here organisational culture is proxied by text analysis software of anonymous individual postings about 218 companies by employees on the website Glassdoor. Particular 'seed terms' indicate that individuals feel subject to target pressure. These results are then matched with past corporate scandals, which supports the hypothesised relationship with individual target pressure.

Modelling and Synthesising Money Laundering Transactions

Barone's paper on money laundering in real estate is in some ways a companion to the paper by Collin et al. focusing on AML in the same sector, which is summarised in the second section of this note. Once again looking at Italy, the paper asks whether the presence of laundered money in real estate can drive up house prices across the board. In answering, the paper relies on an Agent Based Model. The author infers the level of laundered money in real estate by the number of mafia-owned properties in each province, and then looks at general housing prices and income levels in these provinces. Combining these data with information on interest rates and using the Agent Based Model, the paper argues that in an environment of fixed supply, the greater involvement of criminals using tainted funds in certain more desirable regional real estate markets produces a significant increase in general housing prices. For example, at a mortgage rate of 5 per cent, if even 1 per cent of transactions are tainted, criminals will pay a price premium of 45 per cent (over EUR 100,000) for an average property. There are grounds to be cautious about these results, however.

Although evidence is inevitably patchy, even if the sums of criminal money in real estate are large in absolute terms, they are generally tiny in terms of the overall market. For example, in London, by reputation something of a real estate laundering Mecca for foreigners, Transparency International identified £4.2 billion of property owned by foreign high corruption risk individuals (TI-UK 2017: 9). Yet the total value of all London housing stock at the time was £1.338 *trillion* (https://www.theguardian.com/money/2017/nov/29/value-of-

uks-housing-stock-soars-past-6tn). Admittedly the Transparency International figure does not include real estate owned by local criminals, or foreigners whose criminal wealth derives from other crimes apart from corruption, but these omissions seem unlikely to massively increase the stock of tainted property (and not all the real estate held by high-risk foreigners is necessarily bought with criminal wealth). Thus, outside of very specialised and local markets, even in a city infamous for high-end laundering in property, it seems unlikely that criminal money could make much of a difference to prices in general. For the same reason, there is little hard evidence from other countries and cities supporting the proposition that laundered money in the real estate market causes an increase in general prices.

Adopting a similar approach to simulate relevant money laundering data, **Gonzalez et al.** propose a deep learning strategy to generate synthetic financial transactions data. The aim is that more data, in this case synthetic, will enable machine learning, for example in transaction analysis algorithms to detect money laundering. The authors begin with a dataset of 55,612 transactions from a single non-bank entity in Colombia, each coded according to six variables. The authors then use the Generative Adversarial Networks (GAN) approach to learn from the real transaction data in generating new synthetic data. A comparison of the real and synthetic data indicates that they are indeed highly similar on the relevant variables.

For all the undoubted sophistication of the method, however, there is relatively little coverage of how the small minority of transactions that represent money laundering can be identified. The authors identify anomalous transactions, but transactions can be anomalous for many reasons that have nothing to do with money laundering. The authors do not have access to Suspicious Activity Reports (unlike the paper by Wu et al.), still less any knowledge of which of their thousands of transactions are actually money laundering. The information deficit in fighting money laundering is not a lack of transaction data - vast quantities of which are available to the authorities and banks (if not always researchers) - but rather of the ability to find the needles, the small fraction of criminal money, in this haystack of legitimate transactions. The priority is not synthesising a larger haystack, but improving our ability to find the needles.

Illicit Financial Flows

Operating at the most macro level, two papers from United Nations agencies consider the problem of Illicit Financial Flows (IFF). As part of the Sustainable Development Goals, the UN has committed the international community to accurately measure and ‘significantly reduce’ the volume of illicit flows, ‘with a view to eventually eliminating them’; one wishes them well.

The first paper by **Camerini and Nastev** considers some of the daunting conceptual problems of measurement. The scope of these challenges is hard to overstate, with Illicit Financial Flows now functioning as catch-all term not only for all types of finance that involve illegality at some stage, but also some entirely legal practices that are nevertheless frowned on, most prominently ‘aggressive’ tax avoidance. More concretely, for the UN these flows are said to be comprised of four types: tax and commercial activities; illegal markets; corruption; and financing crime and terrorism. Given the difficulties other conference papers have in measuring much smaller and more bounded criminal flows, it is unfortunate that the United Nations did not learn from the FATF’s earlier very sensible abandonment of the

unattainable goal of putting a value on world-wide money laundering. The paper very sensibly suggests that more disaggregated measures would be both more realistic and likely more useful to policy-makers than a quixotic attempt to come up with a global IFF total.

To this much more modest end, the paper by **Barcarolo et al.** massively scales down the IFF agenda to look at a single commodity in a single country, soya bean exports from Brazil. The particular focus is tax loss associated with patterns of triangular trade: soya beans are sold to a related intermediary in a low tax country at an artificially low price, and then sold again at the higher world market price to an end consumer, with the profit booked offshore rather than in Brazil. The authors used a 'price filter method' to find anomalously low export price sales, and correlate them with entities in tax havens or preferential tax regime jurisdictions. The implication is that exporters will escape their tax obligations by understating their revenue and profits through such contrived triangular trades.

Notwithstanding the basic plausibility of this study, as a caveat it is worth noting the excellent work of Maya Forstater on detecting and measuring trade-based IFFs. Her investigations have shown that what other studies (including some authored by the UN) have portrayed as IFFs, on closer inspection have turned out to be artefacts of deficient trade statistics, the fact that different countries classify the same commodity in different ways, compile annual trade figures in different time periods, or other innocuous explanations (Forstater 2016, 2018).

Turning to IFFs associated with grand corruption and kleptocracy, **Prelec and Soares de Oliveira's** paper is a study of how foreign enablers assist in the laundering of Nigerian grand corruption proceeds abroad. The paper is based on case studies of three corrupt senior Nigerian officials: Dan Etete, James Ibori and Diezani Alison-Madueke. In convincing detail, the authors argue that the ways these individuals insinuated their money into the international financial system typifies the more general importance of 'up-stream' and 'down-stream' professional enablers in the laundering process. The up-stream enablers are more likely to be willingly complicit in money laundering, while those down-stream may be unwittingly involved, often as a result of inadequate or pro forma application of Know Your Customer procedures.

Prelec and Soares de Oliveira's paper is one of the very few qualitative empirical papers presented at the conference, symptomatic of the drift towards more statistical approaches noted earlier. Given that groups like the International Consortium on Investigative Journalists, the US Senate Subcommittee on Investigations, and NGOs like Global Witness have done more to advance our understanding of money laundering and financial crime than any single academic without any formal methods at all, the increasing association of 'empirical' and 'statistical' in the study of money laundering deserves some scrutiny.

EFFECTS AND EFFECTIVENESS OF AML

As foreshadowed at the outset, in contrast to the first broad group of papers sharing a common interest in money laundering risk, those focused on the effects and effectiveness of AML policy as such paint a generally negative picture. At least in the areas examined, AML policy is seen as ineffective, politicised, and perhaps even counter-productive. The more specific sub-sections below are organised in terms of AML in the banking industry

(**Ferwerda and Zwiers** and **Wu et al.**), FATF black- and greylists (**Nershi** and **Morris et al.**), the enforcement of AML rules (**Findley et al.**, **Argibay** and **Collin et al.**), and finally the legitimacy of the AML system (**Levi** and **Littrell**).

Banks and AML

From the initial creation of AML systems, banks have been the main site of regulatory intervention. Despite the more than 30 years that have elapsed, scandals like that at Danske Bank suggest that banks remain the single most important venue for money laundering. Papers by **Ferwerda and Zwiers** and **Wu et al.** delve into this matter with highly sophisticated econometric studies. At the risk of being flippant, the first paper "Do Banks Profit from Failing to Control Money Laundering?" lends itself to a one word answer: yes.

The starting point of the paper is the relationship between fines levied by the authorities on banks to punish them for different failings, and banks' commercial performance. Do fines work, either financially or via reputation? Given that the stick of fines and penalties imposed against delinquent private sector firms provides a crucial underpinning of the whole AML system, this is a fundamental question. Drawing on 713 penalties with the combined value of $227 billion in the period 2006-2019, the authors find highly differentiated effects in terms of banks' return on assets, return on equity and deposits. In brief, when banks are penalised for having abused their customers (bank misconduct) their commercial fortunes do indeed suffer, but when banks are sanctioned for failing to control the misconduct of their customers, there is no such effect. Most importantly, where this customer misconduct is money laundering, fines actually seem to improve bank performance. The authors speculate that in this instance the fines may actually attract money launderers by identifying banks that privilege profit over AML compliance. If true, this would mean that fines for AML breaches are having exactly the opposite effect than they should.

The paper by **Wu et al.** is probably the most technical of any at the conference. The basic matter at issue has strong parallels with Ferwerda and Zwiers in terms of whether US banks facing greater profit-seeking pressures are more likely to adopt lax AML practices, and thus more likely to host money launderers' criminal funds. The short answer is again yes. The study begins by examining banks' Suspicious Activity Reports (SARs) taken quarterly and analysed at the county level as a proxy for general regulatory compliance. Judging on local competition among banks and the incidence of crime, the authors conclude that criminals are discerning enough to have 'favourite banks': those with lax AML standards. The authors undertake multiple statistical tests to show convincingly that this relationship is causal, rather than just coincidental.

Naming and Shaming: FATF Lists

Measuring the effects of FATF black/greylisting has been a consistent concern for AML scholars and a recurrent topic for papers presented at this series of conferences. Demonstrating the limits of academic research, studies are almost evenly divided between those that see a significant effect (Farias and Almeida 2014; Morse 2019; Kida and Paetzhold 2021), and those that find none (Kudrle 2008; Balakina et al. 2017; Collin et al 2020; Case-Ruchalla and Nance 2021).

Linking with the two papers above, **Nershi's** paper combines an interest in the effects of AML sanctions at the level of both banks and national economies. Her initial question is a fundamental one: why adopt AML rules? Nershi posits that countries and banks might do so for two reasons: to protect themselves against the deleterious effects of money laundering (an economic rationale), or to avoid being blacklisted by the FATF (a political rationale). In line with other papers, Nershi once again busts the pervasive myth that money laundering per se is a threat to either national economies, or individual financial institutions. News of major money laundering scandals produces no effect on national economies, and being subject to money laundering investigations has no effect on firms' security prices. In contrast, a comparison to a synthetic control shows that being included on the FATF Non-Co-operative Countries and Territories list 2000-2007 was likely to significantly reduce countries' per capita GDP. On this basis, adopting AML rules is said to follow a political logic, i.e. FATF arm-twisting, rather than a self-interested economic logic of defence against money launderers.

Once more on the subject of FATF listing, **Morris et al.** aim to address the effects of listing on 173 countries over three time periods: 2000-2007 (the Non-Co-operative Countries and Territories list), 2008-15, and after 2016. The authors note the difficulty of isolating the effects of FATF lists from other parallel international lists, but nevertheless find distinct patterns using pooled cross-section and time-series models. In the first period listing was associated with mainly negative effects for targeted countries, for example in terms of exchange rates, financial flows and fixed assets. In the second period, there was a more pronounced negative association, including in GDP, investment flows, market capitalisation, and concessionary foreign lending. In the final period, listing was associated with fewer significant negative effects. The authors suggest that changing effects may be a product of changing market perceptions of listing, as well as recent reforms in the FATF listing process to make it less punitive.

Enforcement Failures in AML

Representing a hybrid of two independent research programs, the paper by **Findley et al.** aims to assess whether changes in AML laws prohibiting untraceable shell companies have changed the actual availability of such shell companies. The first portion of the paper introduces the Regulation of Illicit Financial Flows dataset, comprised of panel data on relevant legal changes 1990-2015 from 61 jurisdictions (largely offshore centres and FATF members). It shows a transformation from an almost complete lack of relevant laws in 1990 to a deep and extensive legal regime 25 years later. The results also show important variations, with most of the initial improvement made by FATF members, while offshore centres lagged, only for offshore centres to catch up to and often surpass their onshore peers in the last decade of the study.

To what extent have these new laws beneficial ownership changed actual behaviour? Evidence is drawn from a global field experiment comprised of thousands of email solicitations for shell companies in 2010-11 and 2019-21. The solicitations were ostensibly from fictitious consultants to Corporate Service Providers to test whether these providers follow Know Your Customer rules in selling shell companies. Although these results confirm the better average performance of offshore centres than FATF members around 2010, in general the proliferation of new laws has apparently done little to reduce the practical

availability of untraceable shell companies.

Argibay investigates the enforcement efforts of the Argentine Financial Intelligence Unit. Again, the title clearly signals the main conclusion: the fines are too low, and their application is too slow to serve as a meaningful spur for compliance. In essence the FIU has only issued one significant fine (of $8.3 million) in its entire existence, the combined total of all other fines being a nugatory $400,000. In some cases the fine for serious AML transgressions was lower than that for running a red light.

Perhaps the most comprehensive test of a specific AML policy measure is that in the paper by **Collin et al.** analysing the effectiveness of the US Treasury's Geographic Target Orders. First introduced in January 2016, the Orders require the identification of 'all cash' buyers (i.e., those without a mortgage) purchasing property over a certain threshold value via shell companies. Earlier studies have indicated that this combination of shell companies and real estate is a leading method of laundering large-scale corruption proceeds, especially those derived from foreign corruption (FATF 2007; US Senate 2010; Global Witness 2016). Collin et al. compellingly demonstrates that the Orders have had little or no impact.

Most of the paper is comprised of a sophisticated and comprehensive series of tests for possible effects of this policy on all-cash shell company-enabled purchases of luxury property. Using property purchase data from the Zillow online realtor service in a difference-in-difference model reflecting the staggered roll-out and progressive geographic expansion of the policy, the paper finds no effect of the Orders with respect to a variety of risk factors. These factors include properties bought with new or particularly opaque shell companies, or shell companies formed by Corporate Service Providers. Nor was there any evidence of buyers trying to beat the transparency requirement by making purchases just under the threshold. Nor were there any discernible substitution effects, e.g. an increased use of trusts rather than companies, or purchases with loans from dubious foreign banks. Given this null result, the authors speculate that the lack of impact is most likely to reflect a lack of enforcement, particularly with reference to title insurance companies.

Is the AML System Legitimate?

Perhaps the most controversial paper of the conference was that by its host, **Littrell**. He argues that the two leading measures of jurisdiction money laundering risk, FATF Mutual Evaluation Reports (MERs) and the US State Department International Narcotics Control Strategy Reports (INCSR II) suffer from important biases relating to race and country size. Littrell examines the discrepancy between assessments of technical compliance and effectiveness in the FATF evaluations. Majority white English-speaking countries like the United States, Britain, Canada, Australia and New Zealand seem to be awarded 'bonus' high marks for effectiveness relative to their technical compliance scores, while black-majority and small island states are penalised in their effectiveness scores relative to technical compliance. Littrell also notes the anomaly whereby the FATF has been much quicker to evaluate non-white small island states than its own members, despite the latter having much more substantial financial sectors and almost certainly much greater objective money laundering risks. The State Department INCSR exhibits a different problem, in that it was not designed as a global measure of money laundering risk, but it has been misused as part of other indices to this effect.

If Littrell's argument is at its most basic about the legitimacy of the international AML regime, **Levi's** paper is similarly concerned with the legitimacy of the same system, but at the national level. In both papers, there is a presumption that policy legitimacy is linked to policy effectiveness. Levi presents what limited surveys there are on AML legitimacy, but also emphasises that much more data needs to be collected on this topic, especially outside of the OECD countries (as an exception, the survey results from a largely cynical Serbian public on financial crime and punishment are especially interesting). These limitations notwithstanding, what is evident is that even among the specialised constituency that is aware of AML policy, there are basic uncertainties as to its purpose and strategies. Levi concludes by calling for the AML policy community to be less centred on punishment and more attuned to legitimacy.

CONCLUSION

In concluding this note, it is once again important to acknowledge and welcome the strengthening links between researchers and the AML policy sector fostered by the conference. This positive trend was reflected not only in the attendance of senior officials from the FATF and relevant United Nations bodies, but even more so by the increasing focus in many of the papers on the practical problem of identifying money laundering risks. It is to be hoped that this connection is maintained in the next iteration of the conference, and that as Covid travel restrictions (hopefully) recede, more representatives from the private sector will also join the conversation. Dialogue does not necessarily mean consensus, however. It remains true that most of the academic work analysing AML policy is still quite critical of its effectiveness. The conference has demonstrated that this is a productive tension rather than a problem to be solved, and this dialogue has and should continue to generate new insights and lessons on all sides.

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