Basel AML Index 2017
Report

Basel Institute on Governance | 16 August 2017

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1 Introduction

This report is issued on the occasion of the launch of the sixth edition of the Basel Anti-Money Laundering (AML) Index, which has been published by the Basel Institute on Governance (Basel Institute) since 2012. To date, the Basel AML Index remains the only index issued by an independent, not-for-profit organisation ranking countries according to their risk of money laundering and terrorist financing. The Basel AML Index is used by the private sector as an established AML country risk rating tool for compliance purposes, and in the public sector, by NGOs and academia for research and policy measures.

The Basel AML Index 2017 edition covers 146 countries and provides risk ratings based on the quality of a country's framework for AML and countering terrorism financing (AML/CFT) and related factors such as perceived levels of corruption, financial sector standards and public transparency.

The results of the Basel AML Index, which are presented in Chapter 3, are derived from 14 indicators using publicly available sources such as the Financial Action Task Force (FATF), Transparency International, the World Bank and the World Economic Forum. The scores are aggregated as a composite index using a qualitative and expert-based assessment. An analysis of the results of the 2017 edition of the Basel AML Index is presented in Chapter 4.

It is important to read these results chapters in conjunction with Chapters 2 and 5, which provide a detailed account of the scope of what the AML Index can and cannot measure, and the methodology used to calculate the overall score of the Basel AML Index. Without this background, results of composite indices may easily be misunderstood or misrepresented, and this may have unwanted consequences for any policy or compliance decision that is taken as a result of using the AML Index.

The Basel Institute has conducted extensive research in calculating the final results following academic best practices and has its methodology reviewed and validated by an international and independent panel of peer reviewers. The committee also checks that the rating is accurate, plausible and continues to capture the latest development in the area of AML/CFT risks. A report from the 2016 peer review exercise is included in this report in Chapter 6.

The Basel AML Index is issued in two editions and with extra services on demand: The *Public Edition* offers the annual ranking of countries according to their risk profiles and is available free of charge. The subscription based *Expert Edition* provides a more comprehensive data set and allows for a selection of sub-indicator of the Index. The Expert Edition is also periodically updated, covers about 50 countries more than the Public Edition, and includes sanctions lists. With these additional features, it can serve as a sophisticated country risk assessment tool for regulatory purposes, particularly for compliance officers, and caters to users' diverse needs in relation to different compliance and regulatory requirements. The Expert Edition is also offered free of charge for public, academic and non-profit organisations; commercial enterprises are charged an annual fee starting at CHF 2000 depending on user intensity. See chapter 7 for more details about the Expert Edition and Expert Edition Plus. Finally, the Basel Institute offers additional services on demand. Since 2017, we offer an in-depth survey and analysis of all FATF MERs, including from a comparative perspective. Also, if so desired, we can create a tailor-made AML index to serve specific needs of a customer whereby a different selection of underlying indices and/or different weighting may be applied.

The Basel Institute continues to actively facilitate the exchange of knowledge on the challenges of AML/CFT risk rating. We, therefore, encourage comments and feedback on the Basel AML Index, as we strive to advance the use of AML country risk ratings for both research and compliance purposes.

2 What does the Basel AML Index measure?

The Basel AML Index measures the risk of money laundering and terrorist financing of countries based on publicly available sources. A total of 14 indicators dealing with AML/CFT regulations, corruption, financial standards, political disclosure and the rule of law are aggregated into one overall risk score. By combining these various data sources, the overall risk score represents a holistic assessment addressing structural as well as functional elements in the AML/CFT framework. It is important to note and understand that As there are no reliable quantitative data on money laundering available, the Basel AML Index does not measure the actual existence of money laundering activity or amount of illicit financial money within a country but is designed to indicate the risk level, i.e. the vulnerabilities of money laundering and terrorist financing within a country. Measuring the actual existence of ML or TF activity would require reliable quantitative data on these phenomena, and this is not available.

The Basel AML Index ranks countries based on the overall score and provides data that is useful for comparative purposes. However, it should be pointed out that the primary objective is not to rank countries in comparison to each other. Rather, the Basel AML Index seeks to provide an overall picture of a country's risk level and to serve as a solid starting point for examining progress over time.

3 Basel AML Index 2017 Scores and Rankings (from highest to lowest risk)

1	Iran	8.60	
2	Afghanistan	8.38	
3	Guinea-Bissau	8.35	
4	Tajikistan	8.28	
5	Laos	8.28	
6	Mozambique	8.08	
7	Mali	7.97	
8	Uganda	7.95	
9	Cambodia	7.94	
10	Tanzania	7.89	
11	Kenya	7.72	
12	Liberia	7.62	
13	Myanmar	7.58	
14	Nepal	7.57	
15	Burkina Faso	7.54	
16	Paraguay	7.53	
17	Haiti	7.50	
18	Vietnam	7.44	
19	Zambia	7.43	
20	Sao Tome And Principe	7.42	
21	Niger	7.38	
22	Benin	7.37	
23	Bolivia	7.17	
24	Lesotho	7.15	
25	Sri Lanka	7.15	
26	Sierra Leone	7.14	
27	Lebanon	7.07	
28	Vanuatu	7.02	
29	Sudan	7.02	
30	Panama	7.01	
31	Cape Verde	6.99	
32	Mauritania	6.92	
33	Nigeria	6.90	
34	Ghana	6.84	
35	Trinidad And Tobago	6.80	
36	Zimbabwe	6.80	
37	Yemen	6.80	
38	Marshall Islands	6.70	
39	Gambia	6.70	
40	Rwanda	6.69	
41	Argentina	6.69	
42	Dominican Republic	6.69	
43	Turkey	6.65	
44	Thailand	6.65	
45	Nicaragua	6.64	
46	Pakistan	6.64	
47	Jamaica	6.60	
48	Namibia	6.59	
49	Angola	6.55	
50	Venezuela	6.53	
51	China	6.53	
52	Ukraine	6.52	
53	Cote D'ivoire	6.51	
54	Algeria	6.48	
55	Timor-Leste (East Timor)	6.43	
56	Kazakhstan	6.42	
57	Morocco	6.38	
58	Ecuador	6.37	
59	Tunisia	6.37	
60	Kyrgyzstan	6.33	
61	Indonesia	6.32	
62	Senegal	6.31	
63	Guyana	6.24	
64	Russia	6.22	
65	Philippines	6.20	
66	Brazil	6.20	
67	Guatemala	6.17	
68	Papua New Guinea	6.13	
69	Mongolia	6.10	
70	Malaysia	6.10	
71	Uzbekistan	6.09	
72	United Arab Emirates	6.06	
73	Grenada	6.04	
74	Botswana	6.02	
75	Honduras	5.97	
76	St. Vincent And The Grenadines	5.96	
77	Costa Rica	5.93	
78	Mauritius	5.92	
79	Bosnia-Herzegovina	5.91	
80	Malawi	5.86	
81	Bahrain	5.80	
82	Bangladesh	5.79	
83	Serbia	5.76	
84	Mexico	5.75	
85	Albania	5.75	
86	St. Lucia	5.72	
87	Egypt	5.66	
88	India	5.58	
89	Hong Kong Sar, China	5.54	
90	Kuwait	5.53	
91	El Salvador	5.48	
92	Moldova	5.43	
93	Saudi Arabia	5.43	
94	Hungary	5.41	
95	Italy	5.41	
96	Luxembourg	5.40	
97	Georgia	5.37	
98	Japan	5.36	
99	South Africa	5.32	
100	Peru	5.25	
101	Uruguay	5.16	
102	Switzerland	5.15	
103	Canada	5.14	
104	Dominica	5.12	
105	Greece	5.11	
106	Macedonia	5.10	
107	Qatar	5.10	
108	Austria	5.06	
109	Chile	4.94	
110	Netherlands	4.93	
111	Jordan	4.90	
112	Portugal	4.90	
113	Korea, South	4.90	
114	Spain	4.87	
115	Cyprus	4.87	
116	United States	4.85	
117	Singapore	4.83	
118	United Kingdom	4.81	
119	Azerbaijan	4.78	
120	Slovakia	4.78	
121	Germany	4.78	
122	Montenegro	4.76	
123	Belgium	4.66	
124	Ireland	4.62	
125	Colombia	4.57	
126	Czech Republic	4.57	
127	Norway	4.56	
128	France	4.52	
129	Romania	4.50	
130	Poland	4.50	
131	Australia	4.49	
132	Iceland	4.47	
133	Latvia	4.44	
134	Armenia	4.44	
135	Malta	4.37	
136	Taiwan, China	4.34	
137	Israel	4.25	
138	Sweden	4.25	
139	Croatia	4.11	
140	Denmark	4.05	
141	Slovenia	4.02	
142	New Zealand	3.91	
143	Bulgaria	3.87	
144	Estonia	3.83	
145	Lithuania	3.67	
146	Finland	3.04	

4 Results & Findings

4.1 High-risk countries

The top 10 high-risk countries in the 2017 Basel AML Index are Iran, Afghanistan, Guinea-Bissau, Tajikistan, Laos, Mozambique, Mali, Uganda, Cambodia, Tanzania (see Table 1). In comparison to the previous edition, Sudan and Myanmar, which have previously been among the 10 highest risk countries in the Index, have seen certain improvements in their scores (0.83 and 0.14 respectively) and are not listed in the top ten risk countries this year. In contrast, Tanzania and Laos deteriorated in their ranking and are in this list of top 10 high-risk countries for the first time since the Basel AML Index is published.

The majority of the top 10 high-risk countries, however, have not significantly changed their risk rating in 2017, indicating slow progress and difficulties in conducting structural changes that could improve their AML/CFT framework. For instance, even though in 2017 Afghanistan made incremental improvements in its TI CPI scores (0.4 points improvement) and in the Freedom of Press Index (0.56 points), this has not translated into significant changes when it comes to the assessment of the country's AML/CFT risks, and it remains in the top 10 high-risk countries.

The countries featured in the list of the top 10 high-risk countries are all low-income economies and none of them plays a major role as global financial centre or global provider of financial services. About half of them are located in Sub-Sahara Africa, with the other half spread across Central, East and South Asia and the Middle East. The available data indicates that the high-risk assessment of these countries is primarily due to weak AML/CFT systems combined with structural and functional vulnerabilities such as high rates of perceived corruption, weak judicial systems and poor financial sector standards, as well as high political risks.

Country	Overall Score
1 Iran	8.60
2 Afghanistan	8.38
3 Guinea-Bissau	8.35
4 Tajikistan	8.28
5 Laos	8.28
6 Mozambique	8.08
7 Mali	7.97
8 Uganda*	7.86
9 Cambodia	7.94
10 Tanzania	7.89

Table 1 – Top 10 High risk countries in 2017

Table 2 – Top 10 high risks countries during 2012-2017

2012	2013	2014	2015	2016	2017
Iran	Afghanistan	Iran	Iran	Iran	Iran
Kenya	Iran	Afghanistan	Afghanistan	Afghanistan	Afghanistan
Cambodia	Cambodia	Cambodia	Tajikistan	Tajikistan	Guinea-Bissau
Haiti	Tajikistan	Tajikistan	Guinea-Bissau	Uganda	Tajikistan
Tajikistan	Iraq	Guinea-Bissau	Mali	Guinea-Bissau	Laos

Mali	Guinea-Bissau	Iraq	Cambodia	Cambodia	Mozambique
Uganda	Haiti	Mali	Mozambique	Mozambique	Mali
Paraguay	Mali	Swaziland	Uganda	Mali	Uganda
Belize	Swaziland	Mozambique	Swaziland	Sudan	Cambodia
Zambia	Mozambique	Myanmar	Myanmar	Myanmar	Tanzania

During the period from 2012–2017, the Index did not reflected significant changes among the top risk countries. As it is shown in the Table 2, a majority of the countries in the high-risk category demonstrated only slow fluctuations in their scores. Iran and Afghanistan have been in the top ten risk countries for five years in a row; Cambodia has demonstrated slight improvements in ranking over time; in turn Mozambique showed rather negative dynamics.

The top ten risk countries 2012-2017 of the Basel AML Index all share a weak AML/CTF framework. However, other factors also play a part in their risk performance, including high rates of perceived corruption, a lack of judicial strength, a lack of resources to control the financial system, and a lack of public and financial transparency. Thus, the Basel AML Index illustrates that a combination of weak AML/CFT frameworks and low performance in the majority of indicators results in a high overall countries risk score. It is clear that reform in AML/CFT takes time to trickle down into scores, and there will always be one country at the end of the scale, but it can be hoped that most of these countries can improve their scores in the coming years.

This being as it is, it should be emphasised that the fact that these countries were ranked as highest-risk countries does not necessarily mean that they have the most money laundering and terrorism financing activities. The Basel AML Index does not assess the actual amount of illicit financial funds or transactions but is designed to indicate the vulnerability of a country to money laundering and terrorism financing.

Doing business in such countries requires companies to have a deep understanding of the countries' specific environment, their formal and informal political and economic processes to mitigate high-level risks. Criminal proceeds laundered in these countries derive from both foreign and domestic criminal activities. Limited government capacities to reduce the AML/FT risks serve as the additional driver for keeping them in the jurisdictions of primary concerns in AML.

See figure 1 for an illustration of this.

What leads to high risk ranking in the Basel AML Index?
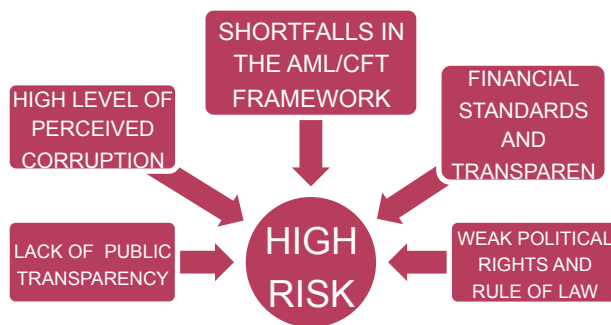
Figure 1 - What leads to high risk in the Basel AML Index

4.2 Low-risk countries

The list of low-risk countries has not changed significantly during the last six years. Baltic and Eastern European countries represent half of the list. For the last four years, Finland remained the lowest risk country in the Basel AML Index. Lithuania and Estonia managed to keep their positions from 2016, holding the second and the third positions. Among the low-risk countries, Bulgaria holds its 4th fourth position despite the slight deterioration in the risk performance (0.04).

Most countries grouped near the lower risk category can demonstrate a strong AML/CFT compliance level. In some cases, the results are likely also associated with the adoption of new legislation under the conditionality for joining the EU. For a majority of countries with lower risk ratings, their ranking stems importantly from the FATF Mutual Evaluation Report (MER). Additionally, the lower risk countries typically portray strong public and financial transparency regimes and low levels of corruption. Some of these countries are also positively influenced in comparison to other jurisdictions because they are not considered a significant financial centre and play a smaller role in the global economy.

Country	Overall Score
1 Finland	**3.04**
2 Lithuania	**3.67**
3 Estonia	**3.83**
4 Bulgaria	**3.87**
5 New Zealand	**3.91**
6 Slovenia	**4.02**
7 Denmark	**4.05**
8 Croatia	**4.11**
9 Sweden*	**4.25**
10 Israel	**4.25**

Table 3 - Low risk countries in 2017

*: Overall score based on a new FATF evaluation, which includes an effectiveness assessment.

2012	2013	2014	2015	2016	2017
Norway	Norway	Finland	Finland	Finland	Finland
Estonia	Slovenia	Estonia	Estonia	Lithuania	Lithuania
Slovenia	Estonia	Slovenia	Slovenia	Estonia	Estonia
Sweden	Finland	Lithuania	Lithuania	Bulgaria	Bulgaria
Finland	Sweden	Bulgaria	New Zealand	New Zealand	New Zealand
New Zealand	Lithuania	New Zealand	Bulgaria	Slovenia	Slovenia
Lithuania	Malta	Belgium	Sweden	Denmark	Denmark
Chile	New Zealand	Poland	Poland	Hungary	Croatia
South Africa	Hungary	Malta	Chile	Croatia	Sweden
France	Bulgaria	Jamaica	Malta	Jamaica	Israel

Table 4 – Top 10 low-level risks countries during 2012-2017

However, in assessing countries it is important to look at practical enforcement of standards as much as at the quality of laws and regulations, which is why the new FATF evaluation methodology is an important component of the Index. The Basel AML Index illustrates that the revised FATF methodology tends to result in less favourable rating in some countries because the actual implementation of laws seems to lag behind the technical compliance. Hungary, for example, worsened its score due to the FATF new evaluation report on its effectiveness. This year it did not enter the list of 10 low-risk countries. It can be expected that the scores of some of the lower risk countries might worsen in the

coming years as the revised FATF methodology is applied in more countries.[1] From the 10 lowest risk countries in the 2017 Basel AML Index, only Sweden has been assessed with the new FATF evaluation method already.

Finally, it needs to be emphasized that while the Index identifies these countries as lower-risk countries, there is no such thing as a zero money laundering risk country. The criminals have always been looking for new ways to launder money; governments need to be constantly on the look out for new risks and adjust their legal, institutional and policy responses when required.

4.3 Largest improvements and deteriorations

Top 10 improvers 2017

Country	Overall Score 2017	Overall Score 2016	Change in score 2016-2017
Sudan	7.02	7.85	-0.83
Taiwan, China	4.34	5.12	-0.79
Israel	4.25	4.89	-0.64
Bangladesh *	5.79	6.40	-0.61
Germany	4.78	5.33	-0.55
France	4.52	5.03	-0.51
Australia*	4.49	4.99	-0.50
Luxembourg	5.40	5.89	-0.49
Latvia	4.44	4.91	-0.46
Greece	5.11	5.53	-0.42

*: Overall score based on a new FATF evaluation, which includes an effectiveness assessment.

Sudan has addressed some key deficiencies pertaining to the FATF recommendations as attested by the FATF-Follow up report, which led to a significantly better evaluation report compared to its last (2012) evaluation report.[2] Sudan also demonstrated a slight improvement in its TI CPI score (from 8.8 to 8.6). However, the country continues to be one of the highest risk countries in the Basel AML Index with a score of 7.02. High level of corruption and political risks, low scores in freedom of press remain to be key issues of the country.

Bangladesh also saw substantial improvements in its ranking in the Basel AML Index 2017 edition due to the results of the FATF Mutual Evaluation Report in October 2016. According to this report, Bangladesh has made significant progress since its last evaluation in 2009, reflecting political commitment and leadership on AML/CFT. The positive changes were seen in developing preventive measures for the financial sector and applying significant resources to raise awareness of AML/CFT[3].

Positive changes for the majority of other countries that improved their ranking in the 2017 Basel AML Index were driven by the recent updates of US INCR data. For instance, Australia, France, Germany, Greece, Israel, Latvia, Luxembourg and Taiwan (China), were excluded this year from the list of jurisdictions of primary concern for AML.

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[1]   See chapter 6.2 for more details on the use of the new FATF MERs in the calculation of the Basel AML Index.
[2]   MENAFATF Follow-up Report on Sudan, 2016: http://www.menafatf.org/sites/default/files/SUDAN_3RD_EXIT_FUR_EN.pdf (last accessed June 2017
[3]   http://www.fatf-gafi.org/media/fatf/documents/reports/mer-fsrb/APG-MER-Bangladesh-2016.pdf

Top 10 decliners 2017

Country	Overall Score 2017	Overall Score 2016	Change in score 2016 - 2017
Jamaica*	6.60	4.16	+2.44
Tunisia*	6.37	4.62	+1.74
Hungary*	5.41	4.15	+1.26
Uzbekistan	6.09	5.10	+0.99
Peru	5.25	4.31	+0.95
Senegal	6.31	5.37	+0.94
Egypt	5.66	4.74	+0.92
Ecuador	6.37	5.48	+0.89
Trinidad and Tobago*	6.80	5.92	+0.89
Laos	8.28	7.40	+0.88

*: Overall score based on a new FATF evaluation, which includes an effectiveness assessment.

Jamaica, Tunisia, Hungary, Trinidad and Tobago recorded a higher risk rating this year due to the new evaluation methodology adopted by the FATF. Hungary further also deteriorated its ranking in the TI CPI, on the Freedom House evaluations and the WEF indicators. The rankings of Uzbekistan, Peru, Senegal, Egypt and Laos deteriorated because they were all included in the US INSCR list as jurisdictions of major concerns in 2017.

EU Countries

Country	Overall Score	Country	Overall score
Hungary *	5.41	Ireland	4.62
Italy *	5.41	Czech Republic	4.57
Luxembourg	5.40	Norway *	4.56
Greece	5.11	France	4.52
Austria *	5.06	Romania	4.50
Netherlands	4.93	Poland	4.50
Portugal	4.90	Latvia	4.44
Spain *	4.87	Sweden *	4.25
Cyprus	4.87	Croatia	4.11
United Kingdom	4.81	Denmark	4.05
Slovakia	4.78	Slovenia	4.02
Germany	4.78	Bulgaria	3.87
Belgium *	4.66	Estonia	3.83
		Lithuania	3.67
		Finland	3.04

4.4 Regional results

Top 15 higher risk in Europe & Central Asia

Country	Overall Score
Tajikistan	8.28
Turkey	6.65
Ukraine	6.52
Kazakhstan	6.42
Kyrgyzstan	6.33
Russia	6.22
Uzbekistan	6.09
Bosnia-Herzegovina	5.91
Serbia *	5.76
Albania	5.75
Moldova	5.43
Hungary *	5.41
Italy *	5.41
Luxembourg	5.40
Georgia	5.37

* Overall score based on a new FATF evaluation, which includes an effectiveness assessment.

The Middle East & North Africa

Country	Overall Score
Iran	8.60
Lebanon	7.07
Yemen	6.80
Algeria	6.48
Morocco	6.38
Tunisia *	6.37
United Arab Emirates	6.06
Bahrain	5.80
Egypt	5.66
Kuwait	5.53
Saudi Arabia	5.43
Qatar	5.10
Jordan	4.90
Malta	4.37
Israel	4.25

Latin America & the Caribbean

Country	Overall Score
Paraguay	7.53
Haiti	7.50
Bolivia	7.17
Panama	7.01
Trinidad and Tobago *	6.80
Argentina	6.69
Dominican Republic	6.69
Nicaragua	6.64
Jamaica *	6.60
Venezuela	6.53
Ecuador	6.37
Guyana	6.24
Brazil	6.20
Guatemala *	6.17
Grenada	6.04
Honduras *	5.97
St. Vincent and the Grenadines	5.96
Costa Rica *	5.93
Mexico	5.75
St. Lucia	5.72
El Salvador	5.48
Peru	5.25
Uruguay	5.16
Dominica	5.12
Chile	4.94

* Overall score based on a new FATF evaluation, which includes an effectiveness assessment

East Asia & Pacific

Country	Overall Score
Laos	8.28
Cambodia	7.94
Myanmar	7.58
Vietnam	7.44
Marshall Islands	6.70
Thailand	6.65
China	6.53
Timor-Leste (East Timor)	6.43
Indonesia	6.32
Philippines	6.20
Papua New Guinea	6.13
Mongolia	6.10
Malaysia *	6.10
Hong Kong, China	5.54
Japan	5.36
Korea, South	4.90
Singapore *	4.83
Australia *	4.49
Taiwan, China	4.34
New Zealand	3.91

* Overall score based on a new FATF evaluation, which includes an effectiveness assessment.

South Asia

Country	Overall Score
Afghanistan	8.38
Nepal	7.57
Sri Lanka *	7.15
Pakistan	6.64
Bangladesh *	5.79
India	5.58

* Overall score based on a new FATF evaluation, which includes an effectiveness assessment.

Sub-Saharan Africa

Country	Overall Score
Guinea-Bissau	8.35
Mozambique	8.08
Mali	7.97
Uganda	7.95
Tanzania	7.89
Kenya	7.72
Liberia	7.62
Burkina Faso	7.54
Zambia	7.43
Sao Tome and Principe	7.42
Niger	7.38
Benin	7.37
Lesotho	7.15
Sierra Leone	7.14
Sudan	7.02
Cape Verde	6.99
Mauritania	6.92
Nigeria	6.90
Ghana	6.84
Zimbabwe *	6.80
Gambia	6.70
Rwanda	6.69
Namibia	6.59
Angola	6.55
Cote D'ivoire	6.51
Senegal	6.31
Botswana	6.02
Mauritius	5.92
Malawi	5.86
South Africa	5.32

* Overall score based on a new FATF evaluation, which includes an effectiveness assessment.

4.5 Notes on the findings

The Basel AML Index scores provide an overall picture of a country's risk level and serve as a solid starting point for examining changes over time. While the Basel AML Index scores summarise a complex and multidimensional issue, they should not be viewed as an actual quantitative measurement of money laundering and terrorist financing activity, nor should they be taken as a specific policy recommendation for countries or institutions. For a detailed country diagnostic, the Basel AML Index should be complemented by a more fine-grained country profile study. Researchers, policy-makers and compliance officers who are interested in better understanding a country's risk rating/result are encouraged to consult the specific sub-indicators employed in the compilation of the Basel AML Index. The sub-indicators provide for each country a score that might be more relevant to a specific risk assessment such as for different client segments. A detailed view on the sub-indicators can be accessed via the Expert Edition. For more information on the Expert Edition see chapter 7.

5 Methodology

5.1 Methodological approach

The objective of the Basel AML Index is to provide a risk rating and not to measure money laundering itself as there is no reliable data to assess this but to provide ranking countries according to their risk of money laundering and terrorist financing. Such an approach presents several methodological challenges. To date, there has been no universally agreed definition or methodological approach that prescribes whether a particular country represents a high risk. Experts and regulatory institutions may have different requirements on the best method of assessing a country's risk. To address these challenges, the Basel Institute conducted extensive research and created a conceptual framework to be considered for assessing money laundering and terrorist financing risk. In developing the Basel AML Index, a simplified approach, as prescribed in the best practices of creating a composite indicator[4], has been used.

Figure 2 provides an overview of the steps that are being conducted to develop the Basel AML Index overall score.

Methodological overview

Independent research	Data selection	Weighting	Data validation
• Creating a conceptual framework	• Based on research and expert assessment	• Based on research and expert assessment	• Annual review by external experts • Statistical analysis
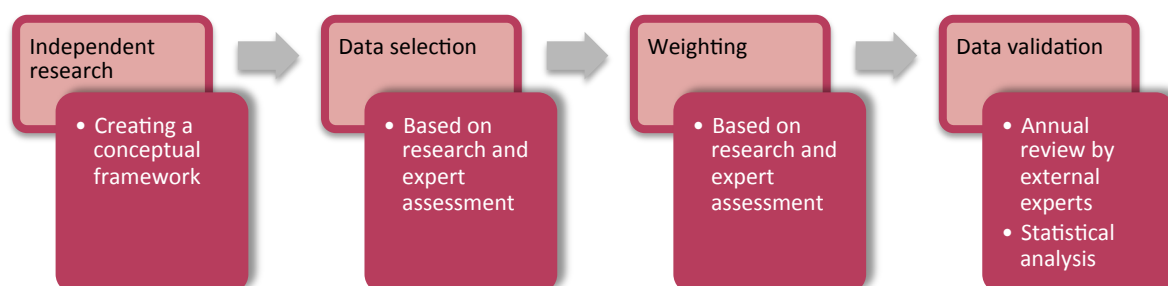
Figure 2 - Methodological overview

In sum, the development and conceptual framework of the Basel AML Index model is characterised by:

- A scientific approach of development (using the OECD composite index guidelines)
- Research and expert based selection of indicators
- A transparent annual review testing and validating its methodology and results with external experts from the AML community

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[4] Handbook on constructing composite indicators: methodology and user guide, OECD, 2008: http://www.oecd.org/els/soc/handbookonconstructingcompositeindicatorsmethodologyanduserguide.htm (as of 18 July 2016).

5.2 How is the overall score calculated?

The Basel AML Index is a composite index, which entails that the overall score is a weighted average of 14 indicators. The Basel Institute does not generate its own data but relies on data from various publicly available sources such as the FATF, Transparency International, the World Bank and the World Economic Forum. This year the Institute based on the Annual Review Meeting Decided to replace the World Bank Disclosure Index with the World Bank Corporate Transparency Index (See Chapter 6 on Annual Review Meeting). The indicators are grouped into five categories, based on the selected indicators and the conceptual framework to capture the multidimensionality of data (see figure 2).

Overall Score	Money Laundering / Terrorist Financing Risk (65%)	FATF Recommendations (30%)
		TJN– Finance Secrecy Index (25%)
		US INCSR – Volume II on Money Laundering (10%)
	Corruption Risk (10%)	TI CPI – Perception of Public Corruption (10%)
	Financial Transparency & Standards (15%)	WB Doing Business – Corporate Transparency Index (1.88%) WEF GCR – Strength of auditing & reporting (5.63%) WEF GCR – Regulation of securities (5.63%) WB IDA IRAI – Financial Sector (1.88%)
	Public Transparency & Accountability (5%)	Int. Idea – Political Finance Database (1.67%) IBP – Open Budget Index (1.67%) WB IDA IRAI – Transparency, Account & Corr. (1.67%)
	Political Risk (5%)	FH – Press Freedom & Freedom in the World (1.67%) WEF GCR – Institutional Strength (1.67%) WJP – Rule of Law (1.67%)

Figure 3 - Basel AML Index Overall Score (percentages rounded to two decimal digits)

5.3 Selection of data

The Basel AML Index attempts to capture the whole scope of money laundering and terrorist financing risk and therefore applies a holistic approach in selecting the relevant risk indicators. Although there is no universally accepted list of indicators in assessing a country's money laundering and terrorist financing risk, some guidance exists. A key consideration is whether a jurisdiction has an adequate AML/CFT framework in place. An increasing focus is on the effectiveness of the implementation of such a framework as addressed in the revised FATF methodology. Other factors include the level of

corruption and the rule of law. Additional factors such as financial and public transparency as well as a country's global role in the financial system should be considered to assess the whole picture. The criteria for the selection and inclusion of indicators are:

- Relevance and relationship to risks of money laundering and terrorist financing (related survey questions or assessment of relevant financial standards and regulations)
- Methodology of sources
- Availability of recent data (maximum age of data is three years, except FATF Mutual Evaluation Reports)
- Country coverage
- Public availability
- Low overlap with other indicators

Annexe 1 contains a table of sources including their weightings.

5.4 Scaling

Most indicators chosen for the Basel AML Index have their own scoring system. The individual sources (raw data) are rescaled to run from 0 – 10 where 0 indicates the lowest risk level and ten the highest risk level. To reach a unified coding system all raw data or individual indicator scores were collected and rescaled using the Min-Max method into a 0 – 10 system. Only after rescaling the data is the indicator then applied in our composite index.

5.5 Weighting/Aggregation

In creating a composite index, each indicator or component receives a weight to aggregate all scores into one overall score. A standard and comparatively simple system would consist of adding all indicators and weighting them equally.[5] Such an approach assumes however that all indicators are equally relevant in the context of money laundering and terrorist financing. The Basel AML Index though resorts to a diverse set of indicators, each of them measuring a different issue. Consequently, certain indicators are more important than others in assessing money laundering and terrorism financing risk. The Basel Institute has been applying its own weighting scheme to reflect an appropriate overall score. These individual weightings were agreed upon by senior anti-money laundering experts from the Basel Institute and the International Centre for Asset Recovery (ICAR) and are annually reviewed by independent external experts.[6] The Basel AML Index team is also in contact with regulatory and supervisory institutions that are subscribed to the Expert Edition to discuss the weighting scheme. During our review and feedback phase, no major criticism was received to change the current weighting methodology.

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[5] Another method would be through statistical models, such as factor analysis and data development analysis. Weights are in this case chosen to reflect the statistical quality of the data. Statistically more reliable data with broad coverage are assigned with more weighting. The OECD Handbook on Composite Indicators states however that "this method could be biased towards the readily available indicators, penalising the information that is statistically more problematic to identify and measure" OECD Handbook on Constructing Composite Indicators: Methodology and User Guide, OECD (2008): http://www.oecd.org/dataoecd/37/42/42495745.pdf

[6] This approach is also known as expert weighting scheme or so-called participatory method, where experts rank or categorise each of the identified indicators regarding their degree and relative importance. For example, the FATF Mutual Evaluation Reports which deal specifically with the topic of AML/CFT have been weighted stronger than, for instance, indicators reflecting the civil rights or political risk indices, which should also be factored in but in a less representative way.
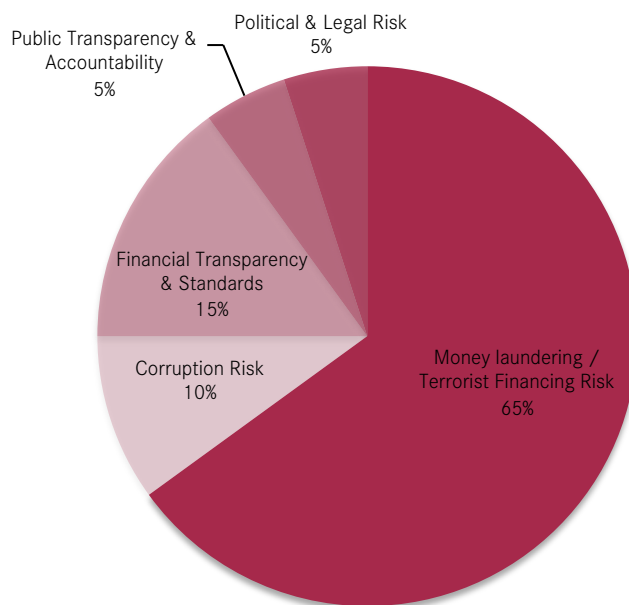
Figure 4 - Weighting scheme

5.6 Missing data/imputation of missing data

There is not always a complete set of 14 indicators available for all countries. Therefore, a country's overall score is calculated based on available data only. Missing values are not replaced, except for US INCSR data for 2017 (See Chapter 6 on Annual Review Meeting). In the Public Edition of the 2017 Basel AML Index, only countries for which data is available for a minimum of 8 out of 14 indicators are included in the ranking. Countries for which data is missing in relation to all three indicators in the key category (ML/TF Risk) were excluded as well, regardless of whether in total data on 8 or more indicators was available for them.[7] Applying these criteria, the 2017 version of the Public Edition of the Basel AML Index features 146 countries. By contrast, in the Expert Edition 203 countries are included, due to the inclusion of countries with less than eight indicators. These are explicitly marked and indicated in the Expert Edition.

5.7 Data validation

As a final step, data is validated and crosschecked against a qualitative expert assessment and through an annual review. Each year a review meeting is conducted to assess the methodology anew and ensure that the country risk rating is being tested independently. The annual review meeting process entails verifying the quality of data/indicators and provides an additional layer of analysis to identify possible mistakes or inconsistencies within the ranking. The results of the annual review are published each year in the annual Basel AML Index report (see Chapter 6 below), which allows for public scrutiny and verification by external experts, researchers and academics.

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[7] Due to our own weighting methodology, the impact of certain missing indicator such as the ones within the ML/TF risk categories is higher than in other categories.

6 Annual Review 2017

In order to provide a reliable risk ranking on AML/CFT, a regular quality check of the methodology and selection of indicators is for the Basel AML Index is essential. The Basel AML Index team assesses and tests the methodology and its country risk model outputs through a comprehensive annual review process based on external independent expert review.

Each year, the Basel AML Index team invites external experts from various backgrounds including the financial industry, law enforcement and dedicated international and non-profit organisations. They participate in the annual review meeting to review the current Basel AML Index methodology and to provide feedback in order to ensure a transparent and participatory approach in calculating and validating the Basel AML Index.

The 2017 annual review meetings were held in Basel in the form of conference calls between 06 June and 13 June 2017. The talking points of the annual review meetings and any additional feedback received via emails as well as the decisions made based on these meetings are summarised below.

6.1 General methodological approach and selection of indicators

The Basel Institute provided a short overview of the main methodological aspects and reminding participants that the Basel AML Index is intended to serve as an application for practical compliance purposes in the context of country risk assessments.

The Basel Institute informed the participants that there were no significant changes in the Index methodology. The only one minor change was proposed in the category of Public Transparency and Standards, where the Extent of Disclosure Index is replaced with the Corporate Transparency Index. Participants confirmed the current weighting concept of the Basel AML Index and did not suggest any changes to this.

On the methodology and selection of indicators of the Basel AML Index, participants asked about the technical possibility to decompose 5 categories into 14 subcategories as this may further assist users, and in particular financial institutions, to adapt the Index to their particular risk appetite and other factors influencing the use of the Index by the concerned agencies. In response to this, the Basel Institute referred to the ability of users of the Expert Edition to look at country listings separately by category and sub-category. It is however not possible to change the weighting of categories or sub-categories. As such, the overall ranking remains the same and cannot be individually customized. The Basel Institute agreed to look for further opportunities to develop additional services for customers, based on their requests on certain sub-categories of the Index.

6.2 Update on the new FATF Mutual Evaluation Reports (4th Round)

Taking into account that the FATF indicator continues to be the most important indicator in the composite Basel AML Index, the Basel Institute provided a status update on its use of the FATF Mutual Evaluation Reports (MERs). The Institute emphasised the increased coverage of countries according to the new FATF methodology.

Since 2015 the FATF has conducted and published 32 MERs under a new assessment methodology, which combines an assessment of the FATF 40 Recommendations on the basis of technical compliance

with an effectiveness assessment of the AML system. Participants discussed the FATF's new assessments methodology and agreed on its efficiency. In particular they noted that the latest FATF evaluation results fully correspond to the structural characteristics of the countries, giving the examples of Cuba and Armenia. For instance, low ML risks in these countries in the FATF reports are the consequences of overregulated and largely isolated economics and their insignificant roles as financial centres.

Following the recommendation arising from last year's annual review meeting, the 32 countries that have been assessed under the new methodology are marked specifically in the Basel AML Index. It was further suggested indicating whether the FATF evaluation was conducted by the FATF itself or by FATF-Style Regional Bodies (FSRB). The Basel Institute responded that both FATF and its regional bodies have been using the same methodology for countries evaluations and that therefore such a distinction would be misleading.

Finally, the Basel AML Index team informed participants that since the first quarter of 2017, the Basel Institute is offering a detailed and comparative analysis of the FATF Mutual Evaluation Reports as an additional service to the Expert Edition of the Basel AML Index.

FATF Mutual Evaluation Reports based on the new methodology (standardised 0=low risk 10=high risk)					
Rank	Country	Compliance average	Effectiveness average	Final weighted average score 1:2	Date
1	Spain	1.50	3.94	3.13	12/2014
2	United States	3.75	3.33	3.47	12/2016
3	Italy	2.83	4.24	3.77	02/2016
4	Cuba	2.33	5.15	4.21	09/2015
5	Switzerland	3.58	4.55	4.22	12/2016
6	Sweden	3.42	4.85	4.37	04/2017
7	Armenia	2.25	5.45	4.39	12/2015
8	Malaysia	2.25	5.45	4.39	09/2015
9	Australia	4.17	4.85	4.62	04/2015
10	Singapore	2.33	5.76	4.62	09/2016
11	Guatemala	3.08	5.45	5.66	11/2016
12	Belgium	3.33	5.45	4.75	04/2015
13	Canada	3.75	5.45	4.89	09/2016
14	Honduras	3.25	6.06	5.12	10/2016
15	Austria	3.50	6.36	5.41	09/2016
16	Norway	4.42	6.06	5.51	12/2014
17	Isle of Man	2.92	6.97	5.92	12/2016
18	Bangladesh	3.83	6.97	5.92	10/2016
19	Hungary	4.75	7.27	6.43	09/2016
20	Costa Rica	4.83	7.27	6.46	12/2015

21	Samoa	5.08	7.27	6.54	09/2015
22	Serbia	4.58	7.58	6.58	06/2016
23	Trinidad & Tobago	3.75	8.18	6.70	06/2016
24	Jamaica	4.92	8.18	7.09	01/2017
25	Fiji	5.00	8.18	7.12	10/2016
26	Tunisia	4.83	8.48	7.27	05/2016
27	Ethiopia	4.19	9.39	7.66	06/2015
28	Zimbabwe	4.58	9.39	7.79	09/2016
29	Bhutan	5.67	9.39	8.15	10/2016
30	Sri Lanka	6.25	9.39	8.35	09/2015
31	Vanuatu	6.83	10.00	8.94	09/2015
32	Uganda	7.67	10.00	9.22	04/2016

Figure 5 – Update on FATF MER including effectiveness

6.3 US International Narcotics and Control Strategy Report (INCSR)

In 2017 the US INCSR has changed its classification system, with only one classification level – "Jurisdictions of Primary Concern" – remaining. The other two classification levels have been removed. Reasons for this were not communicated. As a result, the INCSR now consists only of one list of countries – those classified as "Jurisdictions of Primary Concern", and a large number of countries ranked by the Basel AML Index are no longer reflected in the US INCSR scores. This brings significant challenges in relation to how to deal with the missing data.

The Institute reported on the suggested model to impute the missing data based on last year's observations. With the goals in mind of minimizing the level of missing data in the Basel AML Index and maintaining its comparability over time, the following three principal options for responding to this change have been identified, with the first two being considered unsuitable, and option 3 further detailed in the subsequent section:

1. Consider only the available data (Jurisdictions of Primary Concern) and treat the rest as missing data. This would mean that the highest score of 10 would be assigned to the countries listed on the "Jurisdictions of Primary Concern" list. All other countries would not be ranked at all, as is the practice for other indicators when for selected jurisdictions no data is available. As a result, a large majority of the countries in the Basel AML Index will lack data from the US INCSR; their rating will overly rely on the two other indicators within the ML/TF category (FATF and FSI).
2. Assign 0-scores (lowest risk) for the countries not on the Jurisdictions of Primary Concern list. This option leads to a significant downgrading of risk of all countries that are not listed on that list, as they would be treated a zero risk for the purpose of this indicator, which is unlikely to adequately reflect the intention of the US INCSR report.
3. Impute the missing data with a replacement of values, and treating these values as if they were observed. For example, missing data might be assigned, based on the last year's observations, which are carried forward, or on the calculations of the mean, etc.

It was suggested to treat changes in US INCSR, based on the imputing of non-available data with replacement values, and treating these values as if they were observed previously, as follows:

- The countries that are listed as "Jurisdictions of Primarily Concern" are assigned the highest score of 10. In total there are 87 of them. There are no changes here in comparison to the previous system of scoring.
- Score 5 is assigned for those countries that were previously listed in the category of "Jurisdictions of Concern". In this case we impute data, based on the principle of the previous year's observation. The score 5 is also given to the countries that improved their position by being excluded from the list of "Jurisdictions of Primarily Concern" in comparison with the previous year.
- All other jurisdictions (jurisdictions that were previously listed in the "Other Jurisdictions Monitored") do not receive a score and will be treated as missing data. This same principle has been applied in previous years in the Basel AML Index, as the US INCSR never listed all the countries that are ranked in the Basel AML Index.

This option implies that unless the US INSCR would go back to the previous three-level classifications, which is not expected at this point, the year 2016 will remain the main year of comparison. Participants suggested that assigning countries a score of zero could reward them for being removed from the list of primary concern jurisdictions. In response to this suggestion the Basel Institute noted that the US INSCR methodology is strict about not assigning zero risks scores to any countries.

Participants agreed that the suggested model will help to avoid poor data coverage and to preserve comparability of the Index data with previous years and will lead to minimum changes in the way of treating the data, but that the model is only viable for a limited amount of time as the reference year will loose validity soon. Participants suggested that the indicator might have to be removed in 1-2 years or treated only as additional source of information, similar to example to sanctions. This approach of treating missing data in the Basel AML Index is not consistent with how this problem is approached for other indicators, and that it should not be used as a method for other such situations in future.

6.4 Replacing World Bank (WB) Doing Business - Extent of Disclosure Index with WB – Extent of Corporate Transparency Index

As a part of constant monitoring and revision of data sources it was suggested to replace the World Bank Extent of Disclosure Index with the World Bank's Extent of Corporate Transparency Index, which is more comprehensive and covers data on ownership and management of corporations. Both indices employ a similar methodology and the replacement is not expected to pose challenge in making historical comparisons. Alternatively, participants suggested to consider combining the two indices rather than replacing one with the other. This proposal was however in the end disregarded because of the risk of duplicating similar data due to the high correlation of both sources of data.

6.5 Terrorism Financing Risks

As per discussions during previous Basel AML Index annual review meetings, the Basel Institute continues monitoring potential data sources to more pertinently reflect terrorism financing risks as part of the ranking. To improve the coverage of terrorism financing risks it was suggested to include the US Terrorist safe heaven list.

Participants did not support this idea. Key concerns raised related to difficulties of covering regional level ML risks and integrating this in a country-level Index. Members were also concerned about the possibility of political bias of the list. One more caution had to do with the fact that all the countries listed are qualified according to the criteria of bad governance. Thus, the financial terrorism risks are rather the consequences of this fact.

Participants also discussed the possibilities of including other available sources of information on terrorism financing risks. However, they agreed that the data with particular focus on terrorism financing on a comparative basis remains scarce, and that the FATF MER covered the topic rather comprehensively. A sufficient comprehensive indicator of the issue of terrorism financing was not identified.

6.6 Risk Levels

The Basel Institute encouraged discussion among participants about how to break down the risk rating into distinct risk levels, which is sometimes requested by users. The current scale of rating is from 0 (low risk) to 10 (high risk) and is broken down into three risk levels for illustration purposes:

- 0 – 3.3 (low risk), 1 country
- 3.3 – 6.6 (medium risk), 100 countries
- 6.6 – 10 (high risk), 52 countries.

In this context it was first stressed that the division between low and medium risk is less significant than the division between medium and high risk because the high risk level typically determines when to conduct enhanced due diligence measures.

As a contribution to this discussion a and in preparation of the meeting, the Basel Institute had developed a method for creating risk categories, which is calculated statistically between the minimum and the maximum risks of the final scores. If applied to the 2017 preliminary results, this translates into the lowest risk score measured at 3.04 and the highest at 8.60 with the average risk level equal to 6.15 based on which the following distinction between the low, medium and high risk could be considered:

Alternative risk level distinction for the Basel AML Index

- 3.04 – 4.9 (low risk), 33 countries
- 4.9 – 6.75 (medium risk), 79 countries
- 6.75 – 8.6 (high risk), 41 countries

Participants agreed that this alternative risk level distinction potentially provides better distribution of countries, whilst stressing the fact that it should be strongly emphasized that the assigned levels should be used rather for illustrative purposes. From a methodological point of view, the review group also pointed out that it is arbitrary to determine a specific cut-off for the risk levels. There is also no known regulatory standard as to where the cut-off should be, thus institutions must apply their own categorisation depending on their risk-appetite and institutional needs. Participants also suggested that the risk rating should be on a continuous scale.

It was decided that the new proposal for calculating risk categories could be used if suitably explained in terms of how the three risk levels should be treated by users.

6.7 Statistical Testing

The Basel Institute presented statistical regression testing of the weighting concept of the Index. Statistical validation was conducted to meet the requirements of the regulators for quantitative approaches to evaluate AML risks.

Tests validated that the results of 2017 are consistent with the underlying concept of the assigned weighting of the categories that compose the Index. It was one of the examples to validate the concept behind the Index. Additional statistical validations can be provided upon request.

6.8 Discussion on final ranking scores

The Basel Institute presented the preliminary results of the 2017 Public Basel AML Index to the review group. An excel sheet was distributed prior to the meetings with a column added that indicates the countries that have notably improved or deteriorated since last year. Most changes in the country risk ratings have been due to updated FATF Reports and/or changes in the US INSCR. The US INSCR added 41 countries to the jurisdiction of primary concern and removed 21.

The Basel Institute reported that Jamaica, Tunisia, Hungary and Peru demonstrated the highest deterioration in comparison to 2016. These countries increased their scores of ML risks significantly.

Overall, the review group did not identify any inconsistencies or significant outliers in the results but discussed some of the ranking positions on the basis of the underlying methodology.

Participants also discussed the Financial Secrecy Index and the global score weight, covering a jurisdictions' share in global financial services exports. The members and the Institute addressed the issue of distinguishing between jurisdictions as large economic centers and jurisdictions with a big share on the global market for financial services provided to non-resident clients.

7 Expert Edition

In addition to the publicly available Basel AML Index, the Basel Institute offers a subscription-based Expert Edition, which is a more comprehensive country risk assessment tool to assist financial institutions and other stakeholders to deal with diverse compliance and regulatory purposes. In contrast to the Public Edition, it provides:

- An overview of 203 countries according to their risk level in money laundering and terrorist financing;
- Per country details of all sub-indicators
- Online access to web-interface including the option to download the data as an Excel file;
- Monitoring of U.N. sanctions, U.S. State Sponsor of Terrorism lists and FATF Public Statements; and
- Periodic updates and email notifications/alerts.

Public version	Expert Edition
Overall score	Overall score, 14 sub-indicators and sanctions list
146 countries	203 countries
Update annually	Periodic Updates
For general public	For financial institutions, compliance & due diligence experts, AML/CFT regulators, Financial Intelligence Units (FIUs), academics & researchers
Provided as-is	Expert advice and tailor-made solutions are available upon request

Table 2: Public vs. Expert Edition

7.1 Why use the Expert Edition?

The rationale for creating the Expert Edition is to assist financial institutions and reporting entities that are facing considerable regulatory, legal and reputational risk. With a subscription to the Expert Edition, financial institutions and other reporting entities have a new standardised AML country risk-rating tool at their disposal to mitigate money laundering and terrorist financing risk. The Expert Edition can be used as a stand-alone solution to satisfy regulatory requirements or as an independent benchmarking tool to validate in-house risk assessments.

Our in-house experts on anti-money laundering and compliance have extensive experience and insight into industry practice and regulatory requirements regarding country risk models. In the development stages and during the Basel AML Index annual review, the Basel Institute further extensively consults with key stakeholders and representatives from academia, finance (e.g. Wolfsberg Group and its member banks), international organisations (e.g. UNODC), law enforcement and regulatory institutions.

The financial industry considers the Expert Edition an invaluable tool for regulators and financial institutions, and particularly values its foundation in scientific research and the independence of its developers. Within the first year of its existence, the FATF listed the Basel AML Index in its publication as one of the Indexes to be considered for country or geographic risk factors.[8]

Since the launch of the Basel AML Index in 2012 more than 120 institutions have subscribed to the Expert Edition and consider it an indispensable tool for their risk assessment. Subscribers include not only financial institutions and firms, but also public institutions and financial regulatory authorities such as the:

- Bank of Canada
- Dubai Financial Service Authority
- Europol
- International Finance Corporation of the World Bank
- International Monetary Fund
- Reserve Bank of Australia
- Reserve Bank of New Zealand
- UK HM Treasury
- Various FIUs and Central Banks.

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[8] FATF Report *Specific Risk Factors in the Laundering of Proceeds of Corruption - Assistance to reporting institutions*, FATF 2012: 31. http://www.fatf-gafi.org/media/fatf/documents/reports/Specific%20Risk%20Factors%20in%20the%20Laundering%20of%20Proceeds%20of%20Corruption.pdf (as of 18 July 2016).

Since the Basel Institute is a non-profit organisation, access to the Expert Edition is provided free of charge to academics, public and supervisory institutions and other relevant non-profit organisations. Commercially oriented institutions are charged an annual subscription-based fee of 2000 CHF (or more depending on usage levels), which is used for non-commercial purposes and serves to fund the research, development and maintenance costs of the Basel AML Index.

For more information regarding the Expert Edition, please see this link:
https://index.baselgovernance.org/expert-edition-intro

7.2 Expert Edition Plus

The Basel Institute now offers Expert Edition users an additional service, the Expert Edition Plus or FATF dataset. The FATF dataset / Expert Edition Plus is a detailed analysis of the FATF Mutual Evaluation Reports (MER) and provides individual scorings of the FATF 40 recommendations and effectiveness measures to support or customise in-house country risk assessments.

The FATF assessment methodology rates countries in the MERs according to each of the FATF recommendations on a four-tiered scale: "non-compliant", "partly compliant", "largely compliant", and "compliant". The Basel Institute extracts these ratings and converts them into a numerical code: non-compliant = 0, partly compliant = 1, largely compliant = 2, compliant = 3. An average of these scores is calculated so that each country receives an overall average score between 0 and 3 based on its compliance rating in the MER. Final scores are converted into a 0-10 scaling system.

The FATF dataset / Expert Edition Plus also covers the fourth round of FATF assessments which is conducted according to the new methodology (as of 2013), which also evaluates countries according to effectiveness, and not only technical compliance, as explained in earlier sections of this report. The ratings for the new 11 effectiveness categories are also done according to a four-tiered scale: "low", "moderate", "substantial", "high". The Basel Institute extracts ratings and converts them into a numerical code: low = 0, moderate = 1, substantial = 2, high = 3.

The detailed tables on FATF data, calculated by the Basel Institute, give users a break down of the FATF ratings for reach recommendation and effectiveness measure. This gives users an individual assessment of each FATF recommendation focusing on their specific compliance needs (e.g. FATF Due Diligence requirements or terrorism financing regulations). This detailed and comparative FATF analysis can enhance clients country risk model by addressing specific risks tailored to your institution.

8 About the Basel Institute on Governance

The Basel Institute on Governance is an independent not-for-profit competence centre specialized in corruption prevention and public governance, corporate governance and compliance, Collective Action, anti-money laundering, criminal law enforcement and the recovery of stolen assets.

Based in Switzerland, the Basel Institute's multidisciplinary and international team works around the world with partners in the public and private sector to counter corruption and other financial crimes, and to improve the quality of governance globally.

The Basel Institute is affiliated with the University of Basel and regularly works with international organisations and other institutions, including the World Bank, United Nations Office for Drugs and Crime (UNODC), Organisation for Economic Cooperation and Development (OECD), Council of Europe, International Monetary Fund, the Egmont Group and Interpol.

9 Annex 1

Overview of risk indicators including weighting

This table provides you with our table of sources and weightings in compiling the Basel AML Index.

Risk Indicators	Weighting	Type	Link
ML/TF Risk	65%		
1.) FATF Member countries Mutual Evaluation Reports; Assessment of the 40+9 recommendations	30%	Expert Assessment (Mutual Evaluation Country Report)	http://www.fatf-gafi.org/
2.) Financial Secrecy Index (Tax Justice Network)	25%	Composite Index Score (qualitative + quantitative data)	http://www.financialsecrecyindex.com/
3.) US State Department International Narcotics Control Strategy Report (INCSR): Volume II Money Laundering and Financial Crimes	10%	Expert Assessment (List of jurisdictions according to their level of concern)	https://www.state.gov/documents/organization/268024.pdf
Corruption Risk	10%		
4.) TI Corruption Perceptions Index (CPI)	10%	Composite Index (Survey/perception based data)	https://www.transparency.org/news/feature/corruption_perceptions_index_2016
Financial Transparency & Standards	15%		
5.) Doing Business Ranking (World Bank) Business extent of corporate transparency	1.875%	Expert Survey	http://data.worldbank.org/indicator/IC.BUS.DISC.XQ

6.)	WEF Global Competitiveness Report (GCR) – Strength of auditing and reporting standards	5.625%	Expert Survey	https://www.weforum.org/reports/the-global-competitiveness-report-2016-2017-1
7.)	WEF GCR – Regulation of securities exchanges	5.625%	Expert Survey	https://www.weforum.org/reports/the-global-competitiveness-report-2016-2017-1
8.)	World Bank IDA Resource Allocation Index (IRAI) – Financial Sector regulations	1.875%	Expert Assessment	http://go.worldbank.org/S2THWI1X60
Public Transparency & Accountability		**5%**		
9.)	International IDEA Political Finance (Political disclosure)	1.6667%	Public data assessment	http://www.idea.int/political-finance
10.)	Open Budget Index – Budget transparency score	1.6667%	Expert Assessment	http://internationalbudget.org/what-we-do/open-budget-survey/
11.)	World Bank IDA Resource Allocation Index (IRAI) – Transparency, Accountability and Corruption	1.6667%	Expert Assessment	http://go.worldbank.org/S2THWI1X60
Political & Legal Risk		**5%**		
12.)	Freedom House – Freedom in the World (Political Rights and Civil Liberties) & Press Freedom Index	1.6667 %	Expert Survey	https://freedomhouse.org/report/freedom-press/freedom-press-2017 & https://freedomhouse.org/report/freedom-world/freedom-world-2017
13.)	WEF GCR – Institutional Pillar	1.6667%	Expert Survey	http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf
14.)	WJP – Rule of Law	1.6667%	Expert and Public Survey	http://worldjusticeproject.org/rule-of-law-index