

AML Atlas™

Geographic Risk Assessment Methodology

I. Introduction

Anti-Money Laundering (AML) and Counter-Terrorist Financing (CTF) regulations in the United States and other jurisdictions typically require financial institutions to assess the risk of money laundering or terrorist financing according to risk factors that include geography, customer characteristics, and products & services characteristics. This document summarizes a methodology for ranking countries¹ according to their risk of money laundering and terrorist financing. This methodology draws heavily upon regulatory guidance. Wherever possible, however, international sources of data are used.

II. Sources

A. List of Independent States, Dependencies & Areas of Special Sovereignty

We derive the list of (a) independent states and (b) dependencies and areas of special sovereignty from the website of the U.S. Department of State, at the following URL addresses: <http://www.state.gov/s/inr/rls/4250.htm> and <http://www.state.gov/s/inr/rls/10543.htm>.

It is our standard practice to include only those geographies that are recognized by the U.S. Department of State. We have made exceptions by including the Turkish Cypriot Administered Area of Cyprus due to the number of sources that began listing this region as a money laundering and terrorist financing concern in early 2008 and also by including the Palestinian Territories based on user feedback.

B. Data Sources

We derive our geographic risk data from the following sources:

- *Countries subject to sanctions programs* administered by the Office of Foreign Assets Control (OFAC) of the U.S. Department of the Treasury;
- *Countries subject to sanctions programs* decreed by the European Union (EU);
- *Countries subject to sanctions programs* decreed by the United Nations (UN);
- *Non-Cooperative Countries and Territories* (NCCT) identified by the Financial Action Task Force (FATF), and jurisdictions formerly on the list;

¹ For the purposes of this document, the term "country" refers not only to independent states, but also to dependencies and areas of special sovereignty, as identified by the U.S. Department of State.

- Countries identified as *Primary Money Laundering Concerns* by the U.S. Department of the Treasury under Sec. 311 of the USA PATRIOT ACT;
- *State Sponsors of Terrorism* identified by the U.S. Department of State;
- *Offshore Financial Centers* identified by the International Monetary Fund (IMF);
- *Un-cooperative Tax Havens* identified by the Organisation for Economic Co-operation and Development (OECD);
- *Implementation of the Internationally Agreed Tax Standard* identified by the OECD.
- *Major Drug Transit or Producing Countries* identified by the President of the United States through the Department of State;
- *Major Money Laundering Countries (Primary Concerns, Concerns, or Monitored)* as identified by the U.S. Department of State in its International Narcotics Control Strategy Report (INCSR);
- *Weak AML Legislation/Regulation Countries* with respect to sixteen factors cited by the U.S. Department of State's INCSR;
- *Worldwide Governance Indicators (Regulatory Quality, Rule of Law, and Control of Corruption)* as determined by the World Bank;²
- *FATF Statements*: geographies identified by the Financial Action Task Force (FATF) as having an inadequate AML/CFT system in place;
- *FinCEN Advisories*: geographies identified by the Financial Crimes Enforcement Network (FinCEN) as representing a money laundering threat;
- *Mutual Evaluation Reports* published by FATF and FATF-Style Regional Bodies; and
- *Equivalent Jurisdictions* guidance published by the Joint Money Laundering Steering Group (JMLSG).

III. Methodology

Data from the above sources is assigned a set of weighted values, which are combined to form composite geographic risk scores.

A) Dual-Ratings System (U.S./Non-U.S. Perspective)

Each country is assigned two geographic risk scores: the first reflects risk from the perspective of U.S.-based entities, and the second reflects risk from the perspective of non-U.S.-based entities. This dual-system model is designed to reflect differences in opinion over what constitutes AML/CTF risk. The first rating system, tailored for use by U.S.-based entities, calculates total AML/CTF risk using heavily-weighted OFAC and Sec. 311 values to reflect the importance of OFAC/Sec. 311 compliance from the perspective of the U.S. regulators. The second system, designed for non-U.S. entities, calculates total AML/CTF risk in the same way as the first rating system, except that it assigns slightly lower weights to OFAC and Sec. 311 values relative to the weights assigned to multi-national sanctions lists (the EU and UN).

² We use this data rather than the perception of corruption index published by Transparency International because Transparency International prohibits the "commercial use" of its data and, in any event, Transparency International relies on many of the same data sources on which the World Bank relies for its governance ratings.

B) International Consensus Coefficient

We have applied an *international consensus coefficient* of 1.5 to all data obtained from international sources.³ This is because international consensus as to a risk factor is often difficult to obtain. Accordingly, when international consensus does emerge with respect to a risk factor, it is often a sign that the country is particularly risky. To reflect the heightened risk posed by a country with respect to which there is sufficient multilateral agreement to support identification by international and non-governmental bodies, the *international consensus coefficient* thus increases the weight of values from international sources by 50% with respect to comparable values obtained from non-international sources.

C) Risk Classes

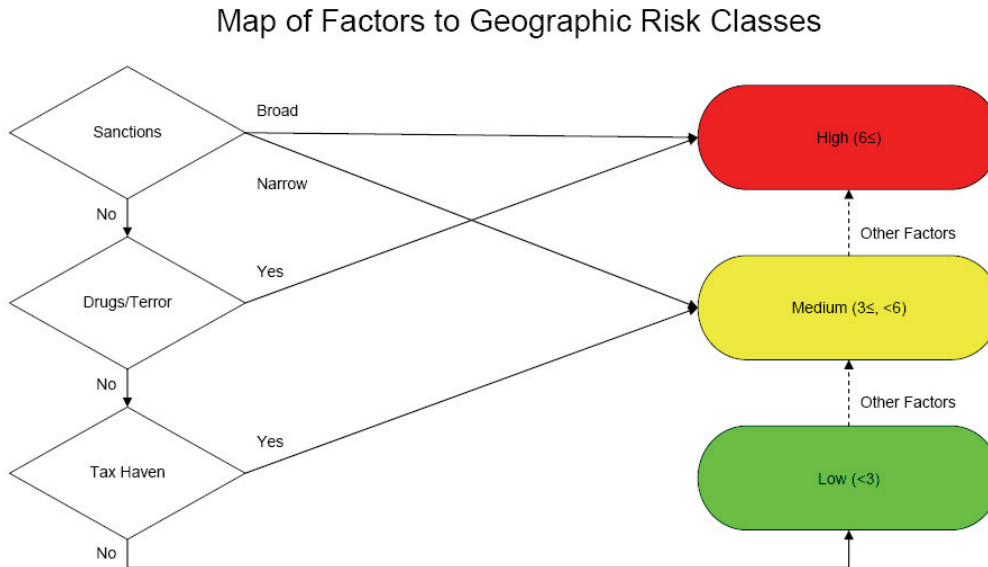
Each geographic risk score is classified as high, medium, or low risk. The criteria for each risk class are the same for both the U.S. and Non-U.S. scoring systems and are outlined in the table below.

Risk Score Range	Risk Class
0 - 2.99	Low
3 - 5.99	Medium
6 and above	High

³ The international sources utilized are the European Union, the United Nations, the Financial Action Task Force, the International Monetary Fund, the Organization for Economic Cooperation and Development, and the World Bank.

IV. Mapping of Risk Factors to Risk Classes

Each risk factor has been categorized into one of four categories. These categories are described below, along with the values and weights of each component risk factor. The overall mapping of risk factors to risk classes can be depicted, in summary, as follows:



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A) Sanctions and Special Measures (Maximum Impact: +40)

This category determines whether a country is sanctioned or the object of special measures imposed by the U.S. Treasury (OFAC and Sec. 311), the EU, the UN, or the FATF (NCCT). Weights of the OFAC and Sec. 311 values are increased for U.S.-based institutions, and decreased for non-U.S.-based institutions. To reflect the fact that some sanctions programs are more comprehensive than others, we have distinguished between broad and narrow sanctions programs, with the former weighted more heavily than the latter. For U.S. institutions, if a country is subject to broad sanctions, it receives a score that assures it will be high risk. For non-U.S. institutions, if a country is subject to broad OFAC sanctions, but no other sanctions, it receives a score that assures it will be at least medium risk. If a country is subject to narrow sanctions, it receives a score that assures it will be at least medium risk (except, with respect to non-U.S. institutions where narrow sanctions are imposed only by OFAC). Other factors (see below), can move a medium risk country up to high risk. Countries that have been removed from sanctions/special measures lists no longer receive sanctions-related scores, with the exception that countries continue to receive NCCT scores even after they are removed from the NCCT list, although their weights decrease with time. This is because it takes time for the legislative changes to become effective in practice.

The risk factors included in this category are outlined below.

1. Office of Foreign Assets Control

Value	Weight (US)	Weight (Non-US)
Broad Sanctions	10	4
Narrow Sanctions	5	2
Not Sanctioned	0	0

2. European Union

Value	Weight
Broad Sanctions	6
Narrow Sanctions	3
Not Sanctioned	0

3. United Nations

Value	Weight
Broad Sanctions	6
Narrow Sanctions	3
Not Sanctioned	0

4. FATF Non-Cooperative Countries and Territories

Countries identified by FATF as currently “non-cooperative” in the global fight against money laundering receive a weight of 6. Countries previously on the FATF NCCT list receive a weight that decays over time according to the following schedule:

Years since country was delisted	Weight
<1	5
1-2	4
2-3	3
3-4	2
>4	1

5. Primary Money Laundering Concerns/Sec. 311 (U.S. Treasury)

Value	Weight (US)	Weight (Non-US)	Explanation
N	0	0	The country and its banks do not appear on the Sec 311 list.
Bank(s)	3	2	The country is home to one or more banks on the Sec 311 list, but the country itself does not appear on the list.
Country	6	4	The country appears on the Sec 311 list.
Country/Bank(s)	9	6	The country and one or more of its banks appear on the Sec 311 list.

Countries identified by the U.S. Department of the Treasury as primary money laundering concerns, in accordance with Section 311 of the USA PATRIOT Act receive a weight of 6 (for U.S.-based institutions) or 4 (for non-U.S.-based institutions) if they do not have any Section 311 designated banks domiciled in their territory. Countries in which a Section 311 designated bank is domiciled receive a weight of 3 (U.S.) or 2 (Non-U.S.) if they themselves are not designated as primary money laundering concerns. Countries that are designated as primary money laundering concerns and are home to Section 311 designated banks receive a weight of 9 (U.S.) or 6 (Non-U.S.). Countries that are neither listed as primary money laundering concerns nor are home to Section 311 designated banks receive a weight of 0.

6. FATF Statements / FinCEN Advisories

Countries identified by either the FATF or FinCEN as posing a potential money laundering or terrorist financing threat:

Value	Weight (US)	Weight (Non-US)	Explanation
N	0	0	The country is not named in either a FATF Statement on AML/CFT system insufficiency or a FinCEN Advisory on the money laundering threat posed by the country.
Y	6	6	The country is the subject of either a FATF Statement on AML/CFT system insufficiency or a FinCEN Advisory on the money laundering threat posed by the country.

B) Terrorism and Drugs (Maximum Impact: +12)

1. State Sponsors of Terrorism (U.S. State Dept)

Countries identified by the U.S. Department of State as state sponsors of terrorism receive a weight of 6, which assures that they will be classified as high risk. Countries that are not on the list receive a weight of 0.

Value	Weight
Y	6
N	0

2. Major Drug Transit and Producing Countries (U.S. President/State Dept)

Countries that are identified by the President of the United States as Major Drug Transit and Producing Countries receive a weight of 6, thus ensuring that they will be considered high risk. Those countries that are not currently on the list receive a weight of 0.

Value	Weight
Y	6
N	0

C) Offshore/Tax Haven (Maximum Impact: +5)

1. Offshore Financial Centers (IMF)

Value	Weight
Y	2
N	0

Countries identified by the IMF as offshore financial centers receive a weight of 2. This list was discontinued in mid-2008, and the weights are planned to decay at 1 point per year beginning on 30 September 2009.

2. Un-Cooperative Tax Havens (OECD)

Value	Weight
Y	3
N	0

Countries identified by the OECD as un-cooperative tax havens receive a weight of 3, which ensures they will be at least medium risk. If a country is listed as both an un-cooperative tax haven (by the OECD) and as an offshore financial center (by the IMF), it will be considered high risk.

3. Implementation of the Internationally Agreed Tax Standard (OECD)

Value	Weight
Substantially implemented the tax standard ("SI")	0
Committed, but not substantially implemented the tax standard ("C")	1
Not committed to the tax standard ("NC")	2

Further information regarding this enhancement can be found in Section VI. Methodological Enhancements.

D) Other Factors (Maximum Impact: +5)

Other risk factors that contribute to a country's geographic risk score are the State Department's INCSR and the World Bank's Aggregate Governance Indicators. These factors can move a low risk country to a medium risk rating or a medium risk country to a high risk rating, but they cannot, in themselves, move a low risk country to a high risk rating.

1. International Narcotics Control Strategy Report (U.S. State Dept)

Each year, the U.S. Department of State publishes a list of Major Money Laundering Countries (MMLCs) as part of its INCSR. The INCSR MMLC list categorizes nearly every country in the world into one of three categories with respect to money laundering risk. The three categories are:

- Jurisdiction of Primary Concern;
- Jurisdiction of Concern; and,
- Jurisdiction Monitored

In addition, the INCSR includes a table of comparative data on each country in the report. The INCSR comparative table rates each country on sixteen factors related to AML legislation and regulation. Our weighting of each INCSR value is outlined in the below table:

Value	Weight	Comments
Primary	1	Jurisdiction of Primary Concern (MMLC Ratings)
Concern	0.5	Jurisdiction of Concern (MMLC Ratings)
Monitored	0	Jurisdiction Monitored (MMLC Ratings)
Not Rated	0	Not included in MMLC Ratings
Y	0	Yes (INCSR Comparative Table)
N	1	No (INCSR Comparative Table)
M	0	Mandatory Reporting (INCSR Comparative Table - Report Suspicious Txns)
P	0.5	Permissible Reporting (INCSR Comparative Table - Report Suspicious Txns)

The weighted scores of all 16 factors in the INCSR Comparative Table are added together and then divided by 16 to produce an overall "INCSR detailed" score.

2. World Bank Worldwide Governance Indicators

We utilize three of the World Bank's six Worldwide Governance Indicators in our geographic risk assessment process. These three indicators are:

- Regulatory Quality;
- Rule of Law; and,
- Control of Corruption

For each of the three World Bank Worldwide Governance Indicators, scores are reported on a scale ranging from -2.5 to 2.5, with higher values indicating better governance. We group the World Bank scores into three categories, which are then weighted in accordance with the below table.

Value	Weight
< -0.8	1
Between -0.8 and 0.8	0.5
> 0.8	0

The overall World Bank weighted score is the sum of the weights of each of the three indicators.

E) Experiential Judgment Adjustment

We have created a category called the Experiential Judgment Adjustment to allow users to add or subtract weight from a country's risk score based on their professional experience and judgment. There is also a free-form field called "rationale" which allows users to justify why they added or subtracted weight in the Experiential Judgment Assessment field.

V. Unrated Dependencies

Because the State Department's list of dependencies and areas of special sovereignty contains a number of jurisdictions for which limited or no risk-assessment data is available, we have associated dependencies with their sovereign parents and assigned a dependency the same risk score as its sovereign parent if there is no data specific to the dependency itself. In the event that only limited data is available for a dependency, the dependency's risk score may be calculated by combining data relating to the dependency itself with data related to the dependency's sovereign parent. The following procedure explains how a dependency's risk score is calculated:

- 1) A "Basic Score" is calculated by summing all weights with the exception of the INCSR Detailed weight and the World Bank weight. If a dependency's Basic Score is 0, and the parent's Basic Score is greater than 0, use the parent's Basic Score. The logic here is that most of the criteria that contribute to the Basic Score are binary---either a country is on the list or it is not. Thus, it is hard to tell if a dependency is not on the list because it is not risky or because it was not factored in as a sovereign country. Thus, if a parent is on a watch-list, but one of its dependencies is not on any watch-list, we assume the dependency should be on the watch-list.
- 2) If there is no INCSR Detailed Criteria data available for a dependency, we use the parent's INCSR Detailed Criteria Weight.
- 3) If there is no World Bank data available for a dependency, we use the parent's World Bank Weight.

Where a geography is related to a dependency or area of special sovereignty and no information is available on the geography or its associated dependency/area of special sovereignty the geography will be assigned the score of the sovereign parent for each factor listed above where information is unavailable.

VI. Methodological Enhancements

OECD Progress on Implementing Internationally Agreed Tax Standard:

The OECD's list of Unco-operative Tax Havens, while still being active, no longer contains any jurisdictions. Instead, the OECD has been focusing more on countries' progress towards implementing the internationally agreed tax standard.

Details of change

AML Atlas™ includes measures of offshore tax havens identified by the OECD as Unco-operative Tax Havens. In May 2009, the OECD removed the last remaining Unco-operative Tax Havens (i.e., Andorra, Liechtenstein, and Monaco) from the list in light of

1. The countries' commitments to implement the OECD standards of transparency and effective exchange of information; and
2. The timetable the countries set for this implementation.

To publish this information, the OECD produces periodical progress reports on the state of implementation of the internationally agreed tax standard on information exchange. The surveyed countries are grouped into three categories:

1. Jurisdictions that have *substantially implemented* the internationally agreed tax standard;
2. Jurisdictions that have *committed* to the internationally agreed tax standard, but have not yet substantially implemented it; and
3. Jurisdictions that have *not committed* to the internationally agreed tax standard.

Impact on AML Atlas™ Risk Score

The current AML Atlas™ treatment of the OECD Unco-operative Tax Haven status is the addition of 3 points for those jurisdictions identified as Unco-operative Tax Havens. The current release expands this categorization to further include the three categories noted above. The following table outlines the new combined scoring:

Uncooperative Tax Haven, or Progress on implementing the internationally agreed tax standard	Risk Score (U.S. perspective)	Risk Score (Non-U.S. perspective)
Substantially implemented the tax standard ("SI"), or not named on either list ("N")	0	0
Committed, but not substantially implemented the tax standard ("C")	1	1
Not committed to the tax standard ("NC")	2	2
Unco-operative Tax Haven ⁴ ("Y")	3	3

A number of jurisdictions experienced changes to their risk scores as a result of this change. These are available in Appendix 1.

FATF/ FATF-Style Regional Bodies (FSRB) Mutual Evaluations:

The FATF and FSRBs are increasingly important in setting AML regimes, and their Mutual Evaluation reports now cover more than one hundred countries. The findings in the Evaluations are easily comparable across countries, and can provide a strong multilateral source of AML Atlas™ data.

Details of change

AML Atlas™ now captures a jurisdiction's performance as measured by FATF / FSRB Mutual Evaluation Reports. These reports are conducted by one or more of the following organizations:

- FATF;
- International Monetary Fund (IMF);
- The World Bank;

- Asia/Pacific Group on Money Laundering (APG);
- Caribbean Financial Action Task Force (CFATF);
- Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (Moneyval);
- Eurasian Group on combating money laundering and financing of terrorism (EAG);
- Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG);
- Grupo de Acción Financiera de Sudamérica (GAFISUD);
- Inter-Governmental Action Group Against Money Laundering in West Africa (GIABA);
- Middle East & North Africa Financial Action Task Force (MENAFATF); and
- Offshore Group of Banking Supervisors (OGBS).

Mutual Evaluation reports assess a country's performance against the FATF 40+9 Recommendations, assigning a value of, for example, "Compliant", "Largely Compliant", "Partially Compliant", "Not Compliant", and "Not Applicable". AML Atlas™ records these scores and assign a mutual evaluation weight to each.

Scoring in AML Atlas™

The table below shows a possible set of base weights assigned to each of the 40+9 Recommendations' scores, where a higher score indicates a poorer performance:

Value	Base Weight
Compliant	0
Largely Compliant	1
Partially Compliant	2
Non-Compliant	3
Not Applicable	0

Some Recommendations are considered more important than others in assessing a jurisdiction's AML regime, as noted in the UK Joint Money Laundering Steering Group's document "Equivalent Jurisdictions" (see, [http://www.jmlsg.org.uk/content/1/c6/01/43/99/JMLSG - PAPER ON EQUIVALENCE.pdf](http://www.jmlsg.org.uk/content/1/c6/01/43/99/JMLSG_-_PAPER_ON_EQUIVALENCE.pdf)). Using the "Equivalent Jurisdictions" document as a guide, the following table shows each of the 40+9 Recommendations and the set of factor weights within AML Atlas™. In this table, a factor weight of 2 indicates a Recommendation that is weighted twice as heavily as a Recommendation that received a factor weight of 1.

Recom- mendation	Factor Weight	Recom- mendation	Factor Weight	Recom- mendation	Factor Weight
1	2	18	1	35	1
2	1	19	1	36	1
3	1	20	1	37	1
4	2	21	1	38	1
5	2	22	1	39	1
6	2	23	2	40	2
7	1	24	1	SR1 ⁵	1
8	1	25	1	SR2	2
9	2	26	1	SR3	1
10	2	27	1	SR4	2
11	2	28	1	SR5	1
12	1	29	2	SR6	1
13	2	30	2	SR7	1

⁵ SR: Special Recommendation

14	1	31	1	SR8	1
15	1	32	1	SR9	1
16	1	33	1		
17	2	34	1		

The jurisdiction's "FATF / FSRB Raw Score" is then calculated by summing the value of each of the 40+9 Recommendations using the following equation:

$$FATF / FSRB \text{ Raw Score} = (BaseWeight_1 * FactorWeight_1) + (BaseWeight_2 * FactorWeight_2) + (...)$$

$$+ (BaseWeight_{SR9} * FactorWeight_{SR9})$$

The minimum FATF / FSRB Raw Score in AML Atlas™ therefore would be 0 and the maximum would be 192.

Impact on AML Atlas™ Risk Score

Although AML Atlas™ now contains Mutual Evaluation scores, these do not inform the overall AML Atlas™ risk score. Currently, these scores are available for information and to inform the "EU Equivalence" determination (see below).

EU Equivalence:

AML Atlas™ now includes indicators for EU "Equivalent Jurisdiction" measures. The Third Money Laundering Directive allows firms (under Article 11) to carry out simplified due diligence in respect of other firms which are subject to the provisions of the Directive, and to rely (under article 16) on other firms that are subject to the provisions of the Directive to carry out customer due diligence measures on their behalf. The Directive extends these derogations to firms in those third countries where the firms are subject to legal obligations that are considered "equivalent" to those laid down in the Directive.

To include measures of EU equivalence, we AML Atlas™ now includes three categories of equivalence:

1. Equivalent;
2. Not Equivalent; and
3. Not Determined.

Details of each equivalence category are outlined below:

Equivalent

A jurisdiction is considered "Equivalent" within AML Atlas™ if it:

1. Is an EU / European Economic Area member state, through the implementation of the Third Money Laundering Directive; or
2. Is listed as an Equivalent Jurisdiction by the EU.

Not Equivalent

A jurisdiction is considered "Not Equivalent" within AML Atlas™ if it:

1. Is noted specifically by the UK Joint Money Laundering Steering Group as being "not equivalent" (see, http://www.jmlsg.org.uk/content/1/c6/01/43/99/JMLSG_-_PAPER_ON_EQUIVALENCE.pdf);
2. Is the subject of an AML / CFT advisory notice by FATF / FinCEN; or
3. Has a FATF / FSRB Mutual Evaluation Raw Score within AML Atlas™ greater than one

standard deviation from the mean Raw Score of the conducted Mutual Evaluations.

Not Determined

A jurisdiction is considered “Not Determined” within AML Atlas™ if it does not fall into either the category of Equivalent or Not Equivalent.

Impact on AML Atlas™ Risk Score

A jurisdiction’s Equivalence status does not inform the overall AML Atlas™ risk score for the jurisdiction. Rather, the Equivalence status is included in AML Atlas™ for the benefit of those subscribers wishing to have a centralized basis on which to develop their own equivalence methodology further.

VII. Periodic Review and Update Schedule

To minimize disruptions caused by changes to this methodology and the risk data contained in AML Atlas™, Promontory will conduct a full review of this methodology on a semi-annual basis and will issue a new release of AML Atlas™ at the conclusion of each review. During the review process, we will solicit feedback from our Tier I User Group (“the User Group”) and will consider any changes proposed by the User Group for incorporation into this methodology.

The semi-annual review will occur in March and September of each year, and new versions of AML Atlas™ will be released on March 31st and September 30th of each year.⁶

Promontory will issue a new release of AML Atlas™ outside of the regular release cycle if a change occurs in the underlying risk data that would significantly alter a country’s risk rating. We may also issue new software releases outside of the regular release cycle in order to push technical enhancements that do not affect the geographic risk data.

⁶ If one of these dates falls on a weekend or public holiday, the release will occur on the next business day.