

A Field Experiment on Regulatory Compliance in the Finance Industry

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DRAFT—NOT FOR PUBLICATION OR FURTHER CIRCULATION

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Via a global field experiment and associated audit study, this project tests the effectiveness of international rules mandating that banks screen out criminals' money from the financial system. The global financial crisis of 2007-11 once again demonstrated banks' crucial role in underpinning the global economy, but it also cast considerable doubt on the extent to which banks can be trusted to follow laws and regulations. These doubts were exacerbated by the revelations of the Panama Papers in 2016, showing a degree of negligence and/or collusion between banks and shell company providers like Panamanian law firm Mossack Fonseca in allowing criminals and high-risk individuals access to the financial system. The subsequent release of the Paradise Papers reinforced those impressions.

We analyze international rules mandating that banks verify the true owners of shell companies opening corporate bank accounts. The significance of this standard is that untraceable shell companies with bank accounts (meaning that the accounts are *de facto* anonymous) are perhaps the single most common mechanism for engaging in money laundering, transnational corruption, tax evasion, and other related crimes (World Bank 2011; FATF 2014; FATF 2016). Though it has been in place for roughly three decades, we simply do not know whether or to what extent this "Know Your Customer" rule is effective in practice. Building on our earlier field experiment in anonymous company formation (Findley et al. 2014), this study will push forward scholarly and policy knowledge on the subject in providing by far the most systemic, rigorous, and accurate picture of whether and to what extent the standards work.

The first part of our experiment consists of creating treatments by setting up shell companies with varying risk profiles and randomly assigning them to thousands of banks around the world to request corporate accounts. We will vary the risk profile of companies in two ways: by the jurisdiction of incorporation (e.g., some countries with a high risk of corruption versus others with a low risk), and by varying the language in our approach emails to banks (e.g., providing more or less information as to the rules banks should be applying). The specific treatments are described in detail below. A second element of the experiment is to solicit offers for corporate bank accounts indirectly, via Corporate Service Providers (CSPs) that often mediate and facilitate the establishment of shell companies and bank accounts.

We plan to supplement the experiment on banks and corporate service providers with several additional future studies: (1) an audit study involving setting up bank accounts, wiring money between them, and undertaking in-person solicitations, (2) a parallel survey experiment that approaches the same banks with similar treatments, but in a survey context in our identities as researchers employing fully informed consent, and (3) a set of lab experiments designed to root out some of the individual vs. institutional incentives facing banks. In the first extension, an experienced confederate with a prior career in white-collar law enforcement will visit financial centers around the world to inquire about setting up shell companies and accounts using scripts randomly assigning versions of the treatments described in this design. In the second extension, we intend to establish a protocol similar to Findley et al. (2017). We have not yet designed the third extension, but intend to do so during the period of the field experiment.

The outcomes of interest are whether banks are willing to open an account, and what identification documents they require (if any). As noted, this in effect shows us whether and how easily it is possible to obtain untraceable bank accounts, in contravention of international standards and national laws. Aside from providing an accurate picture of the practical effectiveness of the Know Your Customer rule around the world, this design will show what

causes banks to be more or less compliant with this requirement. For example, if banks are less willing to open accounts for companies formed in high-corruption-risk countries than in low-risk ones, and/or ask for more identity verification documents, we can confidently say that this difference was caused by the corruption risk.

Background and Policy Significance

Because most crime is motivated by profit – from tax evasion to corruption to fraud and human trafficking – criminals face the challenge of moving dirty money through the financial system while remaining undetected. Thanks to globalization, this dirty money increasingly crosses borders. Beyond relatively low thresholds, cash is bulky, conspicuous, and impractical for rapid cross-border transfers, so criminals need to get their money into the banking system. Since the 1980s or 1990s, however, banks have been required to establish the true identity of their customers and to identify and flag suspicious transactions to the authorities. Banks are further charged with adopting a risk-based approach, i.e., subjecting higher-risk clients to greater scrutiny and requiring more verification documentation. Authorities seek to “follow the money” by detecting criminals through their financial footprints.

A serious obstacle to this goal has been the use of shell companies, i.e., companies with no substantive business purpose that can be set up online for between a few hundred and a few thousand dollars in a matter of days, but that are nevertheless legal persons that can hold bank accounts and assets. Unless banks know the real person behind the shell company holding the account, the account is *de facto* anonymous, and inward and outward transfers are untraceable. Hence the Know Your Customer rule extends to mandate that banks know the identity of the real owners of shell companies holding corporate accounts.

Global Know Your Customer rules are set by the Financial Action Task Force (FATF 2012, 2014), the world’s anti-money laundering standard-setter and enforcer, an international club comprised of 35 of the world’s most powerful countries. Nine associate regional intergovernmental organizations extend the FATF standards to a total of 180 countries and financial jurisdictions. These rules have also been endorsed by a wide range of other international actors, from the OECD to the IMF to the World Bank, and they have been incorporated into international hard law through the UN Convention Against Corruption and the Convention on Transnational Organized Crime. However, our earlier field experiment, involving more than 3,700 of the Corporate Service Providers that sell shell companies, discovered that related corporate transparency rules are routinely flouted in practice (Findley et al. 2014).

FATF rules are supplemented by the Basel Committee on Banking Supervision (BCBS), which provides a second set of overlapping and complementary KYC rules specific to banks. *Core Principles for Effective Banking Supervision* thus includes instructions to banking regulators on ensuring customer due diligence (2012, 64-67).

Banks are the most important parties for the integrity of the financial system. But are they any more compliant than Corporate Service Providers? Because governments and international organizations have generally tried to measure effectiveness only by reading laws and regulations on the books, rather than by trying to ascertain the standards applied in practice, nobody really knows.

Here it is important to clarify the relationship between international organizations, states, and firms with regards to Know Your Customer rules. The rule we are testing has been set down by the FATF. FATF standards in this domain have subsequently been endorsed by and incorporated within the standards of other international organizations, including the Basel Committee on Banking Standards, the OECD Global Tax Forum, and the International Monetary Fund. States are responsible for implementing this rule, and their compliance is periodically and publicly assessed by the FATF. States have committed to ensuring that banks in their jurisdiction follow the rule by knowing the true identity of those controlling accounts, including accounts held in the name of shell companies. In keeping with recent work on Regulatory Intermediary Theory, and more general work on global governance, there is thus a chain of different actors involved in applying this international standard (Abbott et al. 2017). If banks fail to comply, they may be sanctioned by national authorities. If too many banks in a given jurisdiction fail to comply, the national government may be blacklisted and sanctioned by the FATF.

Governments cannot simply wash their hands and say non-compliance is a private-sector problem, as these governments have registered international commitments promising to make banks, Corporate Service Providers, and other financial institutions adhere to these international standards. Although what we are testing is international soft law, these requirements have generally been transposed into national legislation and regulations. Thus the banks and Corporate Service Providers are the locus of compliance for international rules, with the state acting as a crucial intermediary. This regulatory chain linking an international organization to states to firms, in which firms provide “the last mile” of compliance (or non-compliance) with international standards, is common with regards to nearly all international banking regulation (e.g., Basel III), and a wide range of other international agreements, from aviation safety to environmental standards (Abbott et al. 2017). The bottom line is that if banks and Corporate Service Providers do not apply the international Know Your Customer rule, no one else will.

Though the effectiveness of the Know Your Customer standard is essentially unknown, anecdotal evidence gives strong grounds for concern. Recently a string of the world’s biggest banks have been hit with multi-billion dollar fines, and in some cases criminal convictions, for deliberately or negligently aiding their customers’ tax evasion, sanctions-busting, money laundering, and rigging of key markets setting inter-bank interest rates and foreign exchange rates. Relating specifically to the requirement to Know Your Customer in connection with shell companies, a 2011 survey of British banks by the UK Financial Services Authority found that a third of banks did not establish the real owner of corporate accounts even where there was a very high risk of money laundering (FSA 2011: 24).

The release of the Panama Papers confirmed that international banks were intimately involved in much of the misconduct revealed (Obermayer and Obermaier 2016). Banks directly bought 15,600 shell companies from Mossack Fonseca, HSBC alone ordering 2,300, while others like UBS and Credit Suisse were also prominent clients (“Panama Papers: Biggest Banks are Top Users of Offshore Services,” *Wall Street Journal* April 5, 2016). The more recent Paradise Papers confirm the nature of the problem. For a large majority of other ne’er-do-wells named and shamed in the exposé, it was the combination of a bank account held by a shell company that was the crucial enabling mechanism for illicit financial flows.

Given the massive human suffering caused by for-profit crimes like human trafficking, the drug trade, and corruption, and the centrality of banks and shell companies for enabling these

illicit activities, our study has marked real-world policy value. The same private sector representatives and officials from governments and international organizations who have used and benefited from our earlier shell company experiment (Findley et al. 2014) have strongly encouraged us to follow up with the experimental study of banks as proposed here.

Empirical Challenges Facing Compliance and Effectiveness

Our experiment seeks to surmount the major challenges of causal inference that have previously hamstrung efforts to assess the effectiveness of international rules. Beyond scholarly concerns, any practical help academia can render policy-makers, NGOs, and others concerning “what works” (and does not) depends on causal claims with strong internal and external validity.

The problems of causal inference are above all endogeneity and selection bias, and the field experiment – with its combination of high internal and external validity – is a potential solution. A landmark article by Downs, Rocke, and Barsoom (1996) critiqued earlier managerial work asserting that very high levels of compliance proved the effectiveness of international law (Chayes and Chayes 1995), with compliance defined as “the degree to which states’ behavior conforms to what an agreement prescribes or proscribes” (Young 1979: 104). Downs et al. charged that because states deliberately self-select into international systems of rules, membership in regimes presumes predilection to follow the standards in the first place and is, thus, endogenous. Compliance might therefore tell us nothing about causation – whether international law actually makes a difference. States may well only commit to agreements that simply reflect what they would have done anyway. The correspondence between states’ conduct and the rules may be completely misleading, in that anticipations of the former may drive the latter, and not the other way around. In this case, international rules make no difference compared with what would have happened had no such rules existed. Compliance with a rule may thus tell us nothing about the effectiveness of that rule.

More recently, Simmons re-affirms that the distinction between compliance and effectiveness as causal impact is crucial (2013: 365-372; see also Martin and Simmons 2013: 341; Simmons and Hopkins 2005: 623; Simmons 2000: 832; Simmons 2010: 292). She argues that “not nearly enough care has been given to conceptualizing and measuring ‘effectiveness’” (2013: 365; see also Simmons 1998: 78 and 89). Von Stein agrees that we must concentrate on assessing change relative to the counterfactual condition, i.e., effectiveness, not compliance (2005: 611; 2016: 661).

The problem with studying compliance and, by extension, effectiveness based on observational data – that it may be an artifact of selection bias and endogeneity rather than indicating any causal effect of rules – is commonly identified as an enduring methodological stumbling block. Various statistical responses such as the use of Heckman models and instrumental variable designs have aroused controversy without resolving this difficulty (von Stein 2005, 2010; Simmons 2005, 2010). Though these and other techniques offer leverage in some areas, they also involve strong assumptions and substantial trade-offs.

More convincing is the solution that von Stein references as the ideal standard for causal inference in learning about the effects of international law: the use of experimental methods (2005). In expectation, random assignment to treatment and control groups neutralizes unobserved confounds and thus corrects potentially mistaken causal inferences that result

from endogeneity and selection bias. Proponents of experimental methods have made far-reaching critiques relating to the perils of advancing causal arguments on the basis of observational data (Druckman et al. 2006; Gerber and Green 2012). One response has been to use survey experiments to test public opinion related to international law (Tomz 2007). Yet in the context of our study, there are serious problems in using survey experiments to reveal behavior where non-compliance is both common and widely seen as inappropriate (see Findley et al. 2017). Thus, this study is instead based on a field experiment.

Field experiments are distinguished from laboratory experiments by the realism or naturalism of the treatments, outcomes, and settings, which together provide confidence in the ability to generalize from the results of the study to the wider world, i.e., stronger ecological validity (Gerber and Green 2012; Findley et al. 2017). If researchers can draw participants from the broader population in a representative way, then the representativeness of the subject pool combines with the naturalism of the experimental setting to generate high external validity. This study aspires to such strong generalizability.

Although experiments are increasingly popular in political science, these are disproportionately survey experiments. Even for the minority of political science studies that do use field experiments, these are usually one-country studies (e.g., Chong et al. 2016 in Mexico; Michelitch 2015 in Ghana; Gottlieb 2016 in Mali; Chen et al. 2016 in China; Avdeenko and Gilligan 2015 in Sudan; Fearon et al. 2015 in Liberia; Beath et al. in Afghanistan 2016), especially of the US (e.g., Gerber et al. 2015; Gerber et al. 2016; Nyhan and Reifler 2015; Green et al. 2015; Kalla and Broockman 2016). To our knowledge, the only field experiments on banking access are similarly limited to single countries, Nepal and the UK (Prina 2015; Yousafzai et al. 2005). While there are global field experiments using the Internet, these generally do not relate to political science concerns (e.g. Kramer et al. 2014). But for questions of global governance and International Relations, what is needed are field experiments that include a large number of countries and target the understanding of cross-border phenomena. However, in her review of the field, Hyde notes that, for all their popularity in other segments of political science, experiments are still rare in International Relations, and field experiments rarest of all (2015: 413; see also Jensen et al. 2014).

Given this scholarly context, what are the main contributions of our study? By conducting a global field experiment, we will be able to test the effectiveness of international rules in a manner that obviates the problems of endogeneity and selection bias that have bedeviled research on global governance. In this way, we can get to grips with what in some ways is the fundamental IR question: whether a law-governed order can function in an anarchical international system.

The proposed field experiment provides other advantages. Participants do not self-select, or even know they are being observed, and the study is conducted with a high degree of naturalism in the treatments and outcomes. These features mitigate the danger that participants' responses will be tainted by social desirability bias that could reasonably be expected to arise by simply asking banks or corporate service providers in a survey whether they adhere to due diligence rules (Findley et al. 2017). While most political science field experiments concentrate on a single country, or perhaps just a single region within a single country, this experiment is genuinely global, involving thousands of banks and firms in nearly every country in the world. As such, together with the naturalism of the exercise and the fact that participants do not self-select, it has strong external validity, and it is ideally suited to answer big questions in IR about the effect of global rules in an anarchical system.

From the perspective of causal inference, the ideal design would be to randomize international law and associated risk, penalties, and norms. This is, of course, not possible (nor perhaps ethnically desirable), and thus we employ the next best alternative, which is to randomly assign information about the law, risks, penalties, and norms. It is likely that some of our subjects will already know the international rules about which we are priming them with treatment conditions. But in our previous study of incorporation standards, a later survey revealed that only 30 percent of incorporation services had been briefed on the relevant international rules, and were instead familiar only their national laws, so we expect that for a large share of banks, the information treatments will be actual tests of the effects of knowledge about the applicable global rules. For the remainder, the treatments will prime subjects about the international standards by bringing to mind the rules. This priming effect, however, is also consistent with the argument that international standards have constraining effects.

Experimental Design

The experiment is based on legally incorporating a variety of shell companies and having agents working on behalf of these shell companies make email solicitations to thousands of banks around the world asking to set up an account for the company. The second element of the experiment is to indirectly solicit offers of corporate bank accounts through professional intermediaries (Corporate Service Providers), rather than directly with banks.

For the associated audit study, we will then go on to actually open some accounts with a sample of the banks offering us a positive reply, and then make wire transfers between our different shell companies' accounts. We will also employ an experienced confederate to make in-person solicitations to banks and corporate service providers in seven financial centers. The field experiment and audit study will then be followed by a survey experiment and a lab experiment, designed to address the limitations of any one experimental approach as well as to elucidate the theoretical mechanisms responsible for behavior in the field experiment.

The study will not involve any active deception in our dealings with banks: we will be legally incorporating shell companies, and we have a sincere interest in opening accounts and making wire transfers. Furthermore, we will delete the names of all individual bank employees and banks and otherwise thoroughly de-identify the data to protect banks from any adverse consequences from the study.

The study does involve deception in relation to the Corporate Service Providers. Specifically, in one set of conditions we will reach out to Corporate Service Providers using aliases and propose setting up shell companies along with the bank accounts. In another set of conditions, our extant companies will reach out to the Corporate Service Providers seeking just the bank account, though this approach will not require deception as the companies are legitimate.

The outcomes of interest for banking part of the field experiment are first whether banks are willing to offer accounts, and second whether they follow international rules in verifying the owner of the company. This is in line with our earlier discussion of firms as the proximate agents of compliance with rules set by international organizations, with states playing an intermediary role linking the two. The experiment creates different treatments in three ways.

The first is to set up shell companies of varying risk profiles, as signaled by the jurisdiction of incorporation. The second is to insert variations into the language of our approach email to the banks. In expectation, the random assignment of thousands of banks to different company risk profiles and approach emails will enable us to isolate the causes of banks' compliance and non-compliance with international Know Your Customer rules. Third, we will make email solicitations to Corporate Service Providers to learn if indirect approaches for corporate bank accounts affect the level of response and compliance with Know Your Customer standards. Half of these indirect solicitations will state that we have an existing company but need to open an account on its behalf, while the other half will request both a shell company and the associated bank account from the provider. Finally, in the individual approaches to CSPs for shell companies, we once again vary the riskiness of the individual by varying their nationality, and the wording of the approach email.

Subject Pool

The first step in our study was to compile a list of the world's banks and their contact details. The most complete list is that of the Society for Worldwide Inter-bank Financial Telecommunication (SWIFT), the organization that allocates codes for the message system that underpins international bank wire transfers. SWIFT has information on 34,000 banks (including subsidiaries), in almost every country of the world. Using this list, which comprised our sampling frame, research assistants obtained the relevant email address for a sample of more than 5,000 headquarter banks and branch offices to which we can make inquiries on opening accounts. We will make three approaches to each bank, for a total of more than 15,000 approaches, with a wash-out period of three months between each approach to minimize the risk of detection. Based on our earlier global field experiment and current response checks, we estimated a response rate of 20-30 percent.

Ahead of the experiment itself, we sent "non-response" checks to all banks in the sample in order to gauge which banks are responsive at baseline and which are not. It is extremely difficult to sort out exactly what non-response means, so the non-response checks allow us to gather some initial information on the banks and also include that information as blocking criteria to better balance the sample. We used five different email scripts, randomly assigned to the banks, for the non-response checks. The text of those emails appears in the Appendix. The non-response checks revealed that 70% of bank branches did not respond to our innocuous inquiry about international transactions.

Also prior to the launch of the experiment, we randomly sampled 95 of the banks that did not respond to these "non-response" checks and called them by phone to seek to understand why they did not respond. Banks were randomized and called based on their lack of response to our survey. Many banks lacked a phone number and we were unable to contact them. For the rest, we used a Google Voice number to contact each bank, and each were called between Monday and Friday, from 9 am to 5 pm in the institution's local time. When contacted, many calls continued to ring with no answer. Several banks had the call dropped before any contact was made. The vast majority of banks (over 75%) were still unable to be successfully contacted.

Of the banks that were contacted successfully, several had logistical issues, such as a language barrier when English was not the primary language used among the staff. We also faced wrong emails listed. One bank had fired the employee who had received the original emails we sent. We received a few responses where the bank chains are unable to open

accounts internationally or would need in-person verification. They were insistent that these were new international restrictions placed on the institution. These banks were located in Papua New Guinea, Switzerland, and Austria.

The pool of Corporate Service Providers is comprised of the subjects from our earlier *Global Shell Games* study, with verification of their continued business, as well as an expansion to include newly available information on additional providers. The final sample includes more than 7,000 firms from more than 200 jurisdictions that set up and sell shell companies and also commonly assist in establishing bank accounts. We will likewise make three approaches to each of these providers, again with a three-month wash-out period, for a total of approximately 21,000 approaches. A non-response check for the CSPs suggests a response rate of around 50%, roughly the same as our earlier study.

Control and Treatments

The variation between control and treatments arises from the different jurisdictions of incorporation and different language in the approach email. The jurisdiction and language treatment conditions appear in both the direct approaches to banks and those mediated via corporate service providers. This is thus a fully crossed factorial design involving five information conditions (invoking legal standards, noting penalties, referencing norms, recognizing central bank laws, and demanding secrecy) for a combined total of 32 unique language conditions. International and national standards mandate that banks assess the riskiness of a potential client in part based on their country of origin, e.g., a company from a country ranked poorly on Transparency International's Corruption Perceptions Index should be assigned a higher risk than one from a low-corruption country, all other things being equal. Countries have varying risk profiles for money laundering, terrorist financing, being a tax haven, and other concerns.

The standard approach template is a message from a representative (who is a research assistant on the project) corresponding on behalf of the legally incorporated company, stating the company name and jurisdiction of incorporation. In the approach email, the representative specifies that the company is concerned with financial analysis and research consultancy (on two topics randomly assigned from a list of five possibilities: development assistance, education and training, impact assessment, feasibility studies, information and communication technology). The RA discloses the amount of recent business (randomly assigned at "more than" three levels: \$250,000, \$2.5 million, and \$25 million). The RA further notes that the company would like to establish an account with the bank in the local currency, and that the account needs to be able to receive and send international wire transfers (international wire transfers from bank accounts held by shell companies are the most common channel for sending and receiving illicit funds, World Bank 2011). The email then asks how much establishing the account will cost, how long the process will take, and, crucially, what verification documents are required to set up the account.

The email approaches to the Corporate Service Providers for bank accounts will adopt the same language, with variation between those asking for a corporate bank account for an existing company that we have already created versus solicitations asking the provider to set up both a new shell company and a bank account. It is important to reiterate that all of the information in these base emails is true: the RAs use their real names; they represent actual, legally incorporated companies based in the stated jurisdictions; and the information presented states truthfully the substance and financing amounts of prior projects by the PIs.

The emails are truthful because we seek to minimize deception and because presenting false information to banks might be construed as fraud in many jurisdictions.

To avoid detection, we drafted ten base emails that are largely worded differently (for text that should not matter) with placeholders for experimental treatment language (that we expect should matter). We randomize the email body and slot in the experimental language accordingly. We also drafted 10 generic, but different, email subject lines and randomly assigned subject headings to each of the emails. Examples of the language to be used in the experimental conditions are found in the attached appendix. The appendix also includes the base approach emails and subject lines. Because the less-important contextual material in the emails also varies, we test for any letter-specific effects by including letter fixed effects in robustness checks.

We drafted the emails in similar fashion to our earlier experiment (Findley et al. 2014), such that the emails would be credible. Because we are shifting to the context of banks, we need to again ensure the credibility of the email approaches. Email is a standard medium for all but the highest net worth individuals and companies and has been a documented approach across more than 20,000 accounts in one bank alone (US Senate 2014: 83, 87, 88). Further, we carried out an in-person bank account approach so that the emails would be properly informed. Finally, we vetted the emails with several parties, including practitioners in the incorporation and banking industries, to ensure that they actually address the key issues of concern to banks and otherwise do not come across as overly fishy.

Approaches are made via email on specially created email accounts based on the name of the company formed (or the name of the company that we request the provider to form). Communicating via email, rather than phone or Skype, allows for identical treatments and more accurate coding (though the audit study relaxes this requirement, see below).

In our earlier study of anonymous incorporation, we sent all email requests through proxy servers. Unfortunately, most banks block communication from proxy servers, or filter it as spam, meaning we cannot as easily conceal the geographic origin of the email by masking the IP address. For this experiment, rather than the proxy network, we employed virtual private networks (VPNs) in each of the origin countries with a few exceptions where robust VPNs were not available. In those jurisdictions, UK VPNs were substituted; these should appear legitimate given the tight colonial ties. In our pre-treatment contacts with the banks and CSPs, we randomly assigned the use of VPNs and learned that they did not systematically or significantly reduce response rates compared to IP addresses from the actual origin locale of the emails.

To learn whether our experimental conditions are sufficiently clear, we plan to conduct an experimental manipulation check. To accomplish this, we will randomly sample a stratified subset of banks (by condition, outcome, and location) and call the banks to discuss our email inquiry. We will carefully script the inquiries to allow us to directly discuss the treatment language in each condition, but without revealing anything about the experiment itself. That script will enable us to probe whether the treatment language was noticed and understood.¹

Table 1 summarizes all experimental conditions. Note that the subjects column details which subjects will have the corresponding conditions assigned to them. Most importantly, it is

¹ Specific scripts for the manipulation check calls to be added.

critical to keep in mind that we have two sets of subjects – the banks and Corporate Service Providers, and this table indicates which subjects have which condition assigned to them.

Table 1: Experimental Conditions

Treatment	Approach Language	Subjects
Jurisdiction Treatments		
Control	Standard template	Banks / CSPs 1 / CSPs 2
United States	Standard template	Banks / CSPs 1 / CSPs 2
United Kingdom	Standard template	Banks / CSPs 1 / CSPs 2
Corruption	Standard template	Banks / CSPs 1 / CSPs 2
Terrorism	Standard template	Banks / CSPs 1 / CSPs 2
Terrorism (non-profit)	Standard template	Banks / CSPs 1 / CSPs 2
Offshore	Standard template	Banks / CSPs 1 / CSPs 2
Information Treatments		
Rules	FATF or Basel or Both Info. on KYC rules	Banks / CSPs 1 / CSPs 2
Punishment	Cue on sanctions for non-compliance	Banks / CSPs 1 / CSPs 2
Appropriateness	Appeal to reputation and shared norms.	Banks / CSPs 1 / CSPs 2
Domestic Enforcement	Cue on sanctions by domestic enforcement agency	Banks / CSPs 1 / CSPs 2
Secrecy	Cue on secrecy of transaction	Banks / CSPs 1 / CSPs 2

Our placebo control companies are incorporated in minor-power OECD states that pose a low risk of corruption and terrorist financing according to international rankings (e.g., ranking very high – and therefore with low corruption – in Transparency International’s Corruption Perception Index, respectively). Roughly one half of all emails emanate from placebo jurisdictions and contain no treatment language in order to minimize the false-discovery rate common to multiple testing. Research assistants as agents will be undertaking all communications on behalf of the shell companies. This further protects the study from detection. To repeat, the crux of the international standard we are testing mandates that banks should not open accounts for the companies without first determining the true owner.

Treatment via Jurisdiction of Incorporation

We include several treatments based on the jurisdiction of incorporation, which we describe below. The first treatment is designed to learn whether soliciting offers for bank accounts from companies formed in the United States, the dominant and perhaps even hegemonic country in the governance of the global economy, affects the response and compliance rate relative to our minor-power controls. The United States government has been particularly aggressive in applying extra-territorial law enforcement measures and tax regulation to pierce the corporate veil and scrutinize foreign corporate bank accounts.

The second set of treatment companies are incorporated in the UK (England & Wales). As well as being a leading financial center, the British government has sought to take the lead in enforcing corporate transparency initiatives in the G7 and G20. In 2015, the UK Parliament sharply tightened the country's Know Your Customer regulations.²

Corruption risk is signaled by companies incorporated in two countries perceived to have major corruption problems according to the Corruption Perceptions Index. This signal is in accord with the FATF guideline that the risk posed by companies should be in part assessed by the risks in their country of incorporation. On the same principle that, according to international standards, the country risk is transferred to its corporate citizens, we are seeking to form a for-profit and non-profit in a country with a high terrorism financing risk.

Our offshore treatment aims to learn whether approaches to banks from companies incorporated in stigmatized tax-haven jurisdictions are more or less likely to elicit a compliant response from banks. Offshore centers have been targeted by various multilateral regulatory initiatives and have suffered extensive reputational damage with adverse media coverage.

Finally, we formed a trust to test whether using a different type of legal arrangement changes banks' responses. Trusts have been identified by governments and international organizations as posing particular terrorist financing risks, though the evidence to support this association is at best inconclusive. Various authoritarian governments have recently imposed increased regulations on trusts, including limiting their access to the international financial system.

Treatment via Email Approach Language

As noted, we vary the language embedded in the approach email to inform (or, at the very least, prime) subject banks and CSPs about international legal standards or a demand for secrecy. These treatments are designed to test the causal impact of providing information to banks about international law of which they may be unaware or, at a minimum, to test the causal effects of priming the banks about the international standards on which they may have already been briefed. Both of the implications – direct information or prime – are consistent with the argument that information about international standards has a causal effect. Each of

² We expect that the US and UK treatments will be considered differently by banks and therefore we employ them as separate treatments. With that said, we acknowledge that banks could see these jurisdictions as fundamentally similar in some respects and therefore may end up concluding that we should collapse them for purposes of analysis.

the information conditions is assigned independently in a fully crossed factorial design (32 different combinations) with each condition roughly capturing the following ideas.

- Rules: Invokes either the FATF's or the Basel Committee's (randomly assigned) requirement that institutions demand documents establishing the identity of the beneficial owner.
- Appropriateness: Expresses interest in following global standards in order to establish and maintain a strong reputation.
- Punishment: Acknowledges that there may be penalties for failure to follow global rules.
- Domestic: Notes that the domestic central bank requires identity disclosure and that noncompliance may result in penalties.
- Secrecy: Makes clear that the owner will not disclose his identity because secrecy is of the utmost importance to him.

The response and compliance rates to the basic placebo control emails will form a baseline against which to measure what difference, if any, various risk profiles and information prompts make to banks' willingness to open an account and enforce Know Your Customer rules.

Variations in the approach language test the mechanisms, observable implications, or micro-foundations associated with various theoretical schools of thought (though we certainly cannot test the theories themselves directly in their entirety).

One school of International Law, managerialism, suggests that agents are more likely to follow rules if they are informed of them, because most non-compliance is a matter of ignorance or lack of capacity rather than ill-will or opportunism (Chayes and Chayes 1995). If this is true, banks receiving the Rules treatment should have a higher compliance rate than the control.

Rationalist work, and more particularly economic theories of crime, suggest that priming banks and CSPs by including a cue on punishment for non-compliance with rules (without specifying any particular rule) in our Punishment treatment will cause greater compliance (Becker 1968; Guzman 2010). An alternative perspective centering on the power of norms suggests that, rather than a logic of consequences focusing on cost-benefit calculations, actors follow a logic of appropriateness premised on conforming with shared norms of what are generally regarded as correct conduct and behavior (March and Olson 1998; Wendt 1999). The Appropriateness treatment will prime banks with an appeal to the relevant international rules as a generally accepted standard of appropriate behavior, and it will reference both the sender and the bank's concern with reputation or standing in the eyes of third parties in light of this standard.

The next treatment, Domestic, once again references the Know Your Customer rule, but this time informs/primes the recipient that the national central bank has responsibility for enforcing the standards. The rationale here is to learn whether the prospect of enforcement

from within the state and ultimately backed by the state's coercive powers, rather than by an international organization, affects the level of response and compliance.³

The final treatment addresses the issue of secrecy. In contrast to our earlier experiment, in this one we do not ask for confidentiality as a matter of course. Though there is a near-universal expectation that banking information is private, an explicit request for secrecy is increasingly associated with the risk that the customer wishes to hide illicit activities. In the immediate aftermath of the financial crisis, the 2009 G20 summit declared that "the era of banking secrecy is over." Our secrecy treatment will test this contention.

Theoretical Expectations

1. Banks

- a. Jurisdiction treatments on their own (the notion of organizational scripts indicates that respondents care about jurisdictional risk, and the expectations are as follows)
 - i. US (Risk ranking: 1 UK, 2 Offshore, 3 Corrupt 4 US, 5 Terror):
 1. Compliance: More than placebo
 2. Non-compliance: Less than placebo
 3. Refusal: More than placebo
 4. Non-response: More than placebo
 - ii. UK (Risk ranking: 1 UK, 2 Offshore, 3 Corrupt 4 US, 5 Terror):
 1. Compliance: No difference from placebo
 2. Non-compliance: No difference from placebo
 3. Refusal: No difference from placebo
 4. Non-response: No difference from placebo
 - iii. Corrupt (Risk ranking: 1 UK, 2 Offshore, 3 Corrupt 4 US, 5 Terror):
 1. Compliance: Less than placebo
 2. Non-compliance: No difference from placebo
 3. Refusal: More than placebo
 4. Non-response: More than placebo
 - iv. Terror (Risk ranking: 1 UK, 2 Offshore, 3 Corrupt 4 US, 5 Terror):
 1. Compliance: Less than placebo
 2. Non-compliance: Less than placebo
 3. Refusal: More than placebo
 4. Non-response: More than placebo
 - v. Offshore (Risk ranking: 1 UK, 2 Offshore, 3 Corrupt 4 US, 5 Terror):
 1. Compliance: More than placebo
 2. Non-compliance: Less than placebo
 3. Refusal: More than placebo
 4. Non-response: More than placebo
- b. Information treatments on their own (organizational scripts suggests that information prompts should not affect responses)
 - i. Rules

³ We had hoped to include an additional Premium treatment, in which we would suggest a bonus payment if banks do not require identity documents in opening an account. Unfortunately, banking laws in some jurisdictions make such a premium offer illegal and therefore we could not pursue this approach.

1. Compliance: Little difference from placebo
 2. Non-compliance: Little difference from placebo
 3. Refusal: Little difference from placebo
 4. Non-response: Little difference from placebo
 - ii. Appropriateness
 1. Compliance: Little difference from placebo
 2. Non-compliance: Little difference from placebo
 3. Refusal: Little difference from placebo
 4. Non-response: Little difference from placebo
 - iii. Punishment
 1. Compliance: Little difference from placebo
 2. Non-compliance: Little difference from placebo
 3. Refusal: Little difference from placebo
 4. Non-response: Little difference from placebo
 - iv. Domestic
 1. Compliance: Little difference from placebo
 2. Non-compliance: Little difference from placebo
 3. Refusal: Little difference from placebo
 4. Non-response: Little difference from placebo
 - v. Secrecy
 1. Compliance: Less than placebo
 2. Non-compliance: Less than placebo
 3. Refusal: More than placebo
 4. Non-response: More than placebo
 - c. Factorial (all possible combinations)
 - i. Any combination of managerial, norms, penalties and domestic enforcement (without secrecy) should be no different from placebo on any of the four outcomes
 - ii. Any combination in which secrecy is there, should follow the expectations of secrecy on its own
2. CSPs (with bank account request only)
 - a. Should be different from banks in that they are less regulated and they tend to be smaller and less formal. Hence CSPs should have more agency and constrained less by scripts
 - b. See Global Shell Games results
 - i. Should be similar to Global Shell Games results but weaker than if asking for company and for bank account
 3. CSPs (with company and bank account request)
 - a. CSPs should be different from banks in that they are less regulated and they are smaller and less formal, often being unlicensed. As such, they should have more agency and less constrained by organization scripts
 - b. See Global Shell Games results
 - i. Should be more similar to Global Shell Games results than other CSP treatments
 4. Costs expectations

- a. Bank subjects: there should not be much difference in costs across either jurisdictional or informational conditions due to the influence of organizational scripts.
- b. Bank subjects: for stepwise increases in financing, we should expect stepwise increases in costs relative to the increases in financing.
- c. CSP subjects: as CSPs are less likely to be bound by organizational scripts, increased risk from jurisdictional and or informational conditions are more likely to be reflected in higher prices, especially for the very high-risk Secrecy.
- d. CSP subjects: for stepwise increases in financing, we should expect stepwise increases in costs relative to the increases in financing.

5. Sub-groups

- a. Country profiles (of banks)
 - i. OECD: A more formalized regulatory environment and financial institutions, so more subject to scripts, so greater effects for jurisdictions and no effect for information treatments excluding secrecy.
 - ii. Developing: Less formalized, so less subject to scripts and more agency, so lower effects for jurisdictions but minor effects for the information treatments.
 - iii. Offshore: More formalized, so more subject to scripts, so greater effects for jurisdictions and no effects for information treatments excluding secrecy.
- b. Large vs. small
 - i. Large: The larger banks are, the more they are subject to scripts, and hence the greater effects for jurisdictions and no effect for information treatments excluding secrecy.
 - ii. Small: The smaller banks are, the less subject to scripts, then lesser effects for jurisdictions and less null for main information.
- c. International/Domestic
 - i. International: More international they are, more subject to scripts, then greater effects for jurisdictions and no effect for the information treatments excluding secrecy.
 - ii. Domestic: If domestic, less subject to scripts, then lesser effects for jurisdictions and minor effects for the information treatments.
- d. Bank and company jurisdiction similarities
 - i. When the bank approached is in a jurisdiction that exhibits the same type of jurisdiction risk as the company (e.g., perceived corruption risk, offshore), then negative stereotypes are less likely to have an effect in similar type countries.

Outcomes of Interest and Coding

Coding will be completed on the basis of the content of the email correspondence from banks and Corporate Service Providers.

The first outcome may be no response at all, which could indicate either disorganization, a commercial judgment that the inquiry is not worth answering, or a form of “soft screening”

risk management to turn away undesirable potential clients. This last could be construed as a form of compliance by keeping what are perceived to be risky customers out of the financial system.

In order to determine whether non-response represents soft screening, we conducted a preliminary response check by sending all banks an email with an entirely innocuous inquiry to determine the proportion of our sample that is in principle willing to respond to email solicitations. This attempted to separate non-response as soft screening and deliberate risk management from simple inattention or commercial disinterest.

The non-response category poses significant inferential challenges as non-response could be capturing a wide array of information. While a full understanding of non-response will remain elusive, we take some additional steps to attempt to understand this outcome better. For a randomly sampled subset of 95 banks that did not respond, we called the banks and probed further why they did not respond. We scripted these conversations so that the inquiries come across as natural, but specifically follow up on the email, who may have received the email (if anybody), and why no response to the email was offered. The sample size for these follow-ups is not large, but we expected that it would generate some qualitative evidence about the reasons underlying non-response. While the non-response checks did in fact yield a significant proportion of non-responders, our attempts to learn why there was no response were not terribly informative. The phone call approach primarily revealed that many international banks did not answer the calls.

The second outcome may be a reply that the bank or provider refuses to do business, with or without a reason. This will be coded as an independent, nominal category and labeled “refusal.”

Third, banks and providers may indicate a willingness to open an account, but require a suite of verification documents for both the company and the company’s owner. This would be coded as compliant. The documents required are laid out in FATF rules (FATF 2012, 2014). For companies, the required documents are proof that the company exists (e.g. certificate of incorporation, which shows jurisdiction of incorporation), a copy of the company’s by-laws (articles or memoranda of incorporation), and its registered address. Most important is proof of the owner’s identity, evidenced by a verified copy of a government photo identity document, usually a passport, or an in-person visit to the bank to establish identity. These same proofs of identity are the crucial litmus test of compliance for those selling shell companies to individual buyers.

Banks and providers that are willing to open an account and/or establish a company without this supporting documentation material to establish the owner’s true identity would be coded as non-compliant, as they are breaking international rules by offering what amounts to an anonymous or untraceable bank account and/or company. It is difficult or impossible to find the real person who controls the account via the company. We anticipate that there will be some banks and providers that ask only for partial documentation (e.g., just utility bills for proof of residence, and/or uncertified identification documents). Because such banks would not be compliant with international standards, even if asking for partial documentation, we would be justified in coding these responses as non-compliant. However, in order to code partially compliant responses in a way that works against our hypothesis, if the bank requires photo identification of the beneficial owner – even if no mention is made of notarization or document certification – we code these responses as compliant.

Hence there will be four outcomes: no response, refusal, compliant, and non-compliant. Emails will be independently coded by two research assistants for accuracy and consistency, with discrepancies adjudicated by a third senior coder.

While the main goal of the project is to test the effectiveness of international standards (as per the discussion above), for countries with a large number of banks and Corporate Service Providers (e.g., the United States, Britain, Switzerland), it will also be possible to test observationally the effectiveness of international and national standards among different kinds of financial firms (large vs. small, headquarters vs. branch, international vs. domestic). We thus expect to analyze the experimental results as well as a number of observational results, subgrouping along these key dimensions as well as by country status and other key dimensions as discussed elsewhere.

Power Analysis

We use base rates from the *Global Shell Games* experiment to provide priors for an analysis of the statistical power required to detect meaningful differences among experimental conditions. Statistical power is much better for this proposed study than for the previous incorporation project for three reasons. First, the size of the subject pool is much higher for banks, with more than 5,000 banks and 7,000 CSPs. Second, different research assistants representing different companies can approach each bank multiple times, allowing for the assessment of within-subject treatment effects as well as between-subjects. The current plan is to approach each bank three times, which enables a sample size of 15,000 and an expected number of responses of 3,000-5,000, based on the response rate from the prior incorporation study and rates of response to our current checks. Third, we are employing a factorial design in which the jurisdiction and information treatments are fully crossed and can be analyzed jointly through the employment of interaction terms in regression models.

Given these anticipated numbers, the study's statistical power should enable the detection of very small standardized effect sizes (as small as .05). Moreover, in order to mitigate the problem of multiple comparisons, the large sample size will enable us to assign half of all observations to the double control condition of Australia/New Zealand/UK and no additional information about global standards. Each treatment can therefore be compared to the base condition whose sampling characteristics are derived with greater precision.

Randomization

We assign experimental conditions to the subject using complete random assignment, within blocking strata. The blocking strata are comprised of the following factors: response or non-response to our initial email checkup, OECD vs. tax haven vs. developing country, headquarter bank vs. branch, and the Global Systematically Important Banks list (determined by the Financial Stability Board).⁴

⁴ The Global Systematically Important Banks list includes Bank of America, Bank of China, Bank of New York Mellon, Barclays, BBVA, BNP Paribas, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, Groupe BPCE, Crédit Agricole, HSBC, ING Bank, Industrial and Commercial Bank of China, JPMorgan Chase,

We will conduct randomization checks given all observable covariate information that we have. This means that we regress treatment conditions on all observable covariates including all blocking criteria above to learn if any are systematically related to treatment assignment.

Ethics and Legality

IRB clearance obtained at the University of Texas at Austin on July 8, 2015, at Brigham Young University on January 22, 2016, and at Cambridge University on May 4, 2017.

There is no active deception involved in the part of the experimental design focused on banks: we have set up the companies, and these companies will indeed open accounts and use international banking facilities. As such, although the project aims to shed light on criminal behavior, the core activities are entirely legal.

There will, however, be deception (though no illegality) associated with some approaches to Corporate Service Providers (CSPs). In three different types of approaches, we approach Corporate Service Providers rather than banks. In the first approach, we contact the CSPs on behalf of the companies and request assistance in establishing bank accounts just as we approached banks directly. In the second of those three approaches we the CSPs that we are interested in establishing a shell company as well as a bank account. In the third approach, we employ alias identities and request only the incorporation of a shell company. This is a faithful replication of our 2011-2012 audit study and experiment on CSPs intended to detect changes over time in rates of compliance and non-compliance.

At the conclusion of the study, we will anonymize the information by deleting the names of all individuals, CSPs, and banks from our database of email replies to minimize the possibility of harm as a result of our research. We followed a similar protocol in our earlier study on anonymous incorporation.

As noted, many policy and law enforcement agencies and NGOs have directly asked us to perform such a study on the grounds that it will be very useful in combating international crime, shoring up the integrity of the financial system, and helping to promote development in corruption-prone countries looted via shell companies and foreign bank transfers.

Aside from our response check of banks and providers to determine the population of potential respondents, we will pilot our control and treatment approaches on a small, representative sample to observe potential errors and probe the effectiveness of the experimental design.

Prior to deploying the full study, we notified via email on March 11, 2018 the U.S. Treasury's Financial Crimes Enforcement Network (FinCEN), the agency tasked with fielding suspicious activity reports. We provided sufficient information about the study without revealing any content that could compromise the integrity of the experiment.

Mitsubishi UFJ Financial Group, Mizuho Financial Group, Morgan Stanley, Nordea, Royal Bank of Scotland, Banco Santander, Société Générale, Standard Chartered, State Street, Sumitomo Mitsui FG, UBS, UniCredit, Wells Fargo.

Preliminary Results

The initial results we have so far are preliminary, and so particular treatments may gain or lose statistical significance as more data come in. The results below are for the first round of direct approaches to banks with our shell companies. They do not include the results for approaching Corporate Service Providers.

The first and most basic result is that a large enough proportion of banks do make valid responses to email solicitations for us to draw conclusions. Excluding auto replies, the response rate was slightly above 20 percent (i.e. including compliant, non-compliant and refusal responses), roughly 1000 responses from 5000 solicitations. Though the earlier response checks we had made indicated something about this level of responses, feedback from some in the banking industry had suggested that this kind of “cold call” emails we are sending would simply not get a response.

It is surprising to us nonetheless that so many banks ignore prospective customers, both in email and in the smaller number of phone follow-ups we tried. More generally, this level of response, and the common response that banks only deal with domestic customers, also indicate that in general banks are much less interested in or capable of catering to international customers than Corporate Service Providers. The response rate for the latter was around 50 percent in our earlier Global Shell Games project (and in our recent response checks performed on CSPs). Whether banks’ relative unrest in foreign customers has always been the case, or whether it is a more recent trend of banks “de-risking,” we cannot say.

Beyond the baseline result of having a viable number of replies, the second major endorsement of the research design is that in some instances banks do react to at least some language and jurisdiction treatments, though the effects for information treatments (see Figure 1) are weaker than for jurisdiction treatments (see Figure 2). In this sense, enough banks are reading and responding to the different emails and being affected by the treatments. For information treatments, all are associated with higher Non-Response, with Punishment statistically higher. For the remaining outcomes, Secrecy is associated with higher Refusal and lower Non-compliance. Similarly, the highest risk jurisdiction, Terrorism, gets statistically significant higher Non-Response, and decreases Refusal though not statistically so. The US treatment is associated with higher Non-Response, and the Offshore treatment is associated with lower levels of Compliance. The Corruption and Terrorism treatments increase Non-Response, decrease Non-Compliance, and increase Refusals, though the results for Non-Compliance and Refusal are not statistically strong.

In a sense, both high-risk treatments elicit a parallel response, weakly decreasing Non-Compliance and weakly increasing Refusal. Together with the fact that the treatments did not make a difference to the level of Compliance, this suggests that banks respond to risk by refusing would-be customers, and make a simple binary choice to accept or reject, rather than adjusting their propensity to conduct Know Your Customer checks. This is in contrast to the reaction that might be expected, and that the Risk-Based Approach at the heart of FATF Recommendations since 2012 would seem to demand, whereby high-risk customers would get more scrutiny relative to low-risk customers. Thus it appears that banks do not apply a Risk-Based approach to customers in holding due diligence procedures constant despite widely varying levels of customer risk, remembering that the treatments are generally directly derived from the FATF checklist of risk indicators that banks should be sensitive to.

One of the most surprising outcomes (which might wash out later, remembering these are preliminary data) was that approaches from our two offshore companies significantly decreased Compliance by around 10 percent. We had assumed that the negative media coverage of offshore jurisdictions, the regulatory initiatives targeting offshore centers, and interview material suggesting that banks have incorporated these factors into their risk models, meant that Compliance would be at least as high for offshore approaches as the Placebo and other treatments. We can think of two possible stories that are consistent with this result. The first is that banks know that offshore centers are more diligent in conducting Know Your Customer checks (as per our Global Shell Games results), and hence banks can apply fewer checks themselves. This seems unlikely. The opposite conclusion is that this fraction of banks are complicit with high-risk approaches, deliberately refraining from conducting due diligence on secretive customers. This too seems something of a stretch. If the result holds and banks are indeed less compliant in response to offshore corporate customers, further research will be needed to identify the causal mechanism involved.

Aside from our language and jurisdiction treatments, we also randomized the amounts of money our shell companies specified for their turn-over. The three figures provided: \$250,000, \$2.5 million or \$25 million over five years (the authors have in fact been involved with projects of these values, in accord with our no-deception rule for dealing with banks). The intuition here is fairly straight-forward: banks may treat rich customers differently than poorer ones. The greater attractiveness of a \$25 million turn-over firm might mean that banks are keener to accept such clients (lower Refusal and lower Non-Response). They might raise Compliance (as it's more worthwhile for banks to go to the trouble to conduct due diligence checks), or raise Non-Compliance (banks are more inclined to accept more risks in flouting the rules for greater rewards). In fact, however, we found that even across these three orders of magnitude the potential value of the customer made no significant difference to the results. This finding once again suggests that banks are comparatively unresponsive to risk and reward in deciding whether or not to accept customers, and whether or not to apply international Know Your Customer standards.

Turning from the experimental to the descriptive data are the destination results (i.e. where the responding banks are located), grouped for our purposes as those banks residing in OECD, Offshore, and Developing countries. See Figure 3. Offshore banks had notably higher response rates than those in developing and OECD countries, 30 percent compared to around 18 percent for the other two. This fits with our expectation that offshore banks are more able and willing to deal with foreign customers, relative to the domestic focus of their counterparts in both rich and poor onshore countries. The higher offshore response rate also fits with our findings on offshore CSPs from Global Shell Games.

Banks in OECD countries have lower Compliance than the other two groups but higher rates of Refusal, perhaps indicating that OECD banks manage risk by rejection, or that the expense of compliance means risky customers are not worth the cost of screening. Banks in developing countries had significantly higher Non-Compliance than OECD and offshore, in contrast to our findings for CSPs in Global Shell Games, where providers in developing countries were at least as compliant as those in OECD states.

Another unexpected descriptive result is a much lower level of compliance overall than we had assumed. Banks are highly regulated, and have been subject to anti-money laundering rules for decades, unlike CSPs which are much more lightly regulated, and in some

jurisdictions not regulated at all. If compliance is measured strictly in accord with our reading of the FATF Methodology, then full compliance is incredibly rare, perhaps only one bank in a thousand. This level of compliance requires notarized or otherwise verified government photo identity documents for the beneficial owner, director and signatory, but also information verifying the existence, nationality and creation date of the company. Banks were surprisingly focused on getting identity documents on the company director, even though it is relatively common to use nominee directors to obscure those exercising real control over the company, and thus this is a comparatively ineffective Know Your Customer move. Respondents also tended to concentrate on identifying the signatory on the account. But given the emphasis that the FATF regulations placed on the beneficial owner as the key priority, we were surprised that more banks did not concentrate their due diligence on this figure.

Partly in response to these trends, we relaxed our definition of compliance to the essence of the Know Your Customer regulation: whether the bank required a copy of a government-issued photo identity document for the beneficial owner (usually a scan of the picture page of a passport). This yard-stick dispenses with the requirement for notarization of the identity document, and that banks take copies of documentation on the company itself (e.g. articles of association or equivalents). Even with this relaxed definition of compliance, a lower hurdle for banks to clear, we were surprised by the relatively low rate of compliance, 173 banks in total compared with 328 Non-compliant.

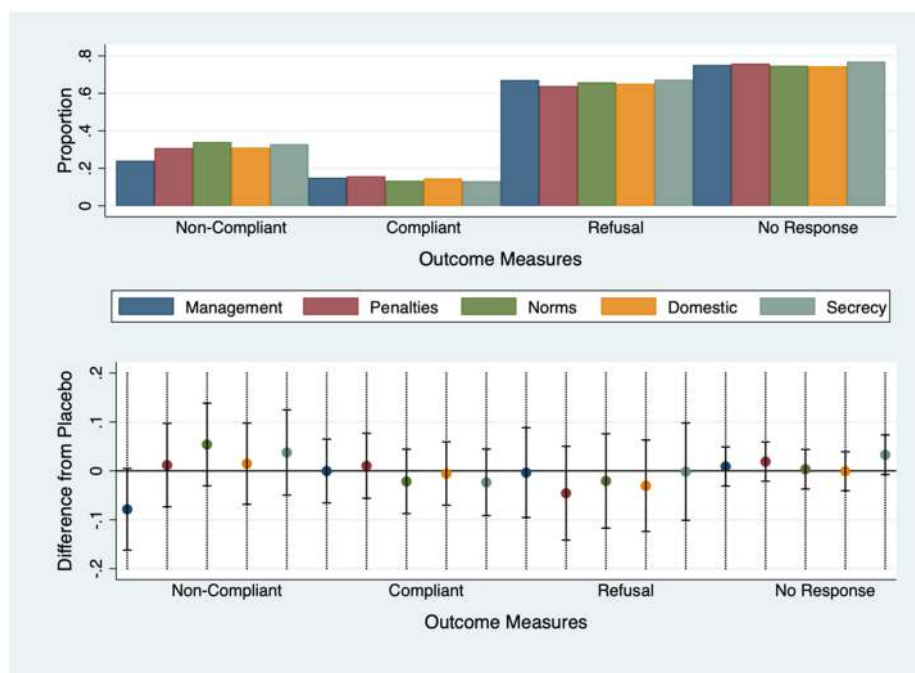


Figure 1: Information treatments. Note that the upper pane displays the raw proportions that fall into each category. Note that compliance/non-compliance/refusal are conditional on a response. Thus, those three categories should add to 100%, which comprises the full set of outcomes for the responders. The non-responders are only captured in the final column, which gives the response/non-response proportions. The lower pane shows the statistical significance of each of the treatments relative to the Placebo condition (meaning any of the conditions that did not have the specific treatment included anywhere). Where a confidence interval crosses zero, the specific treatment is not meaningfully different from the placebo condition.

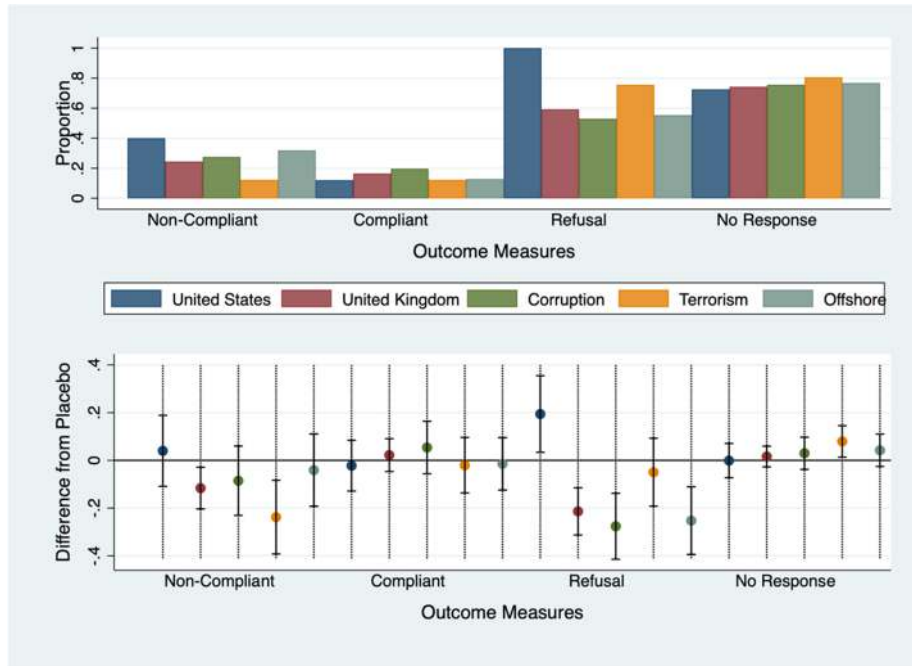


Figure 2: Jurisdiction treatments. Note that the upper pane displays the raw proportions that fall into each category. Note that compliance/non-compliance/refusal are conditional on a response. Thus, those three categories should add to 100%, which comprises the full set of outcomes for the responders. The non-responders are only captured in the final column, which gives the response/non-response proportions. The lower pane shows the statistical significance of each of the treatments relative to the Placebo condition (meaning any of the conditions that did not have the specific treatment included anywhere). Where a confidence interval crosses zero, the specific treatment is not meaningfully different from the placebo condition.

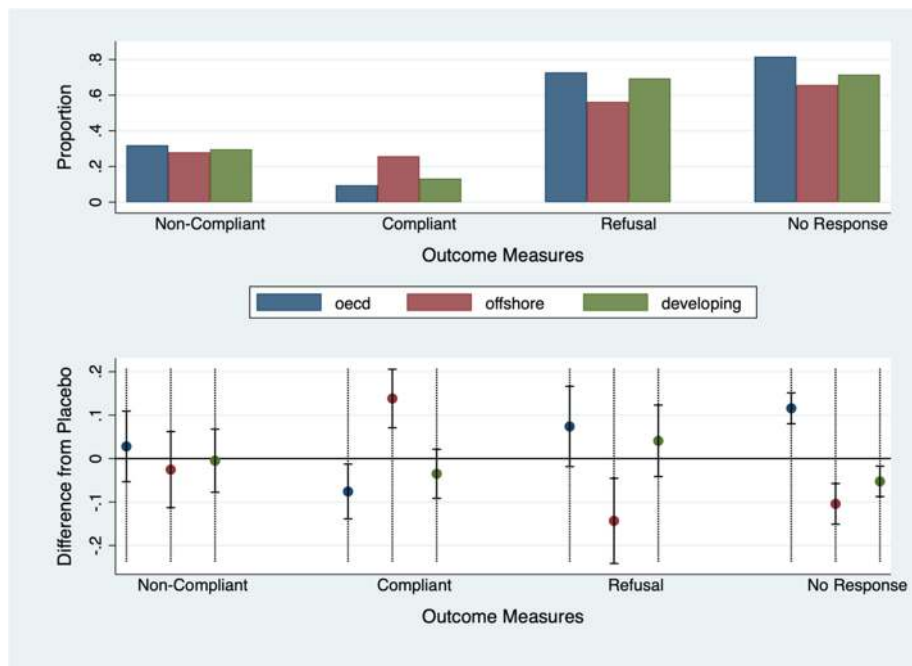


Figure 3: Descriptive patterns by country in which solicited bank is located. Given these results are descriptive, each of the proportions and difference tests are compared to each other rather than to a

Placebo. Specifically, the OECD is compared to the Offshore (blue bar), Offshore is compared to Developing (red bar), and Developing is compared to OECD (green bar).