Transcript: Basel AML Index 2025 launch event

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Elizabeth Andersen
Good morning, good afternoon, good evening, wherever you are in the world. My name is Kateryna Boguslavska, and I am the Executive Director of the Basel Institute on Governance. It gives me great pleasure to welcome you to the launch of the 2025 Basel AML Index. It is a commonplace to say that if you want to change something, you have to measure it.

This is certainly the case when it comes to money laundering and other financial crime risks. The work of measuring risks is important for at least three reasons. It forces us to be conceptually clear and rigorous about the problem that we are trying to measure and its various elements, causes and manifestations. Second, measurement can provide a powerful diagnostic of the problem and what the major drivers behind it are.

And third, it helps us benchmark progress and hold ourselves accountable as we work to address the issue. At the Basel Institute on Governance, we are very proud of the contributions that the Basel AML Index makes in all of these ways. I'm delighted that you have joined us today to hear about the latest findings, what they tell us about the state of the fight against financial crime, and how they can be used to drive change.

This work is led at the Institute by Dr Kateryna Bogsulavska, Head of Financial Crime Risk, under the leadership of Iker Lekuona, Director of the Institute's International Centre for Asset Recovery. My huge congratulations to the team for the launch of yet another Index and for this important work they do. Now, I'd like to turn it over to Iker, who will introduce our distinguished guests and moderate today's session. Thank you.

Iker Lekuona
Thanks, Betsy, for those opening remarks, and welcome all to the launch of the 2025 edition of the Basel AML Index. As Betsy mentioned, I'm the Director of ICAR, and I'm very excited to be the moderator for today's launch event. As many in the audience know, the Basel AML Index supports financial institutions in assessing money laundering and broader economic crime risks.

But it's also a global reference for researchers and policymakers, and increasingly has become a key tool to support our partner jurisdictions to prepare for FATF evaluations and also to support their efforts to be removed from the FATF grey list. Katja and our local teams have supported several countries in this way. In fact, we recently celebrated Mozambique's removal from the grey list just a month ago.

Now, allow me to walk you through the agenda for today. First, Katja will present the findings of this year's public edition of the Basel AML Index. Then we'll welcome our three distinguished speakers to discuss this year's findings. These are: Ned Conway, who's the Executive Secretary of the Wolfsberg Group – welcome, Ned – Jean Filippo Priminta, who's the Director General of the Financial Intelligence Authority of Malawi – welcome, Jean – and last but not least, Nico Di Gabriel, who is the Senior Team Leader responsible for digital finance at the European Central Bank. Welcome, Nico.

Thank you to the three of you for being part of the launch. It's truly a privilege for us to have such high-calibre speakers contributing to the discussion today. Now, before I hand over to Katja for the presentation, very quickly, two housekeeping points. The first is that you'll see there is a Q&A chat function, which I encourage all of you to use to post questions.

The second point is that the focus of today's discussion will mostly be on global trends. For country-specific questions, we'll ask you to please send us an email at index@baselgovernance.org. And now, without further ado, over to you, Katja, for the presentation. Thank you.

Kateryna Boguslavska
Thank you, Iker. I will start by saying it's my great pleasure to present to you today the findings of the public edition of the Basel AML Index 2025. Before we go to the key results and global trends, I wanted briefly to remind you what the Basel AML Index is and how we measure risks. We started this work in 2012.

Since that time, it has been an independent, research-based ranking to assess risks of money laundering and wider financial crimes at the jurisdictional level. We never attempt to measure the actual amount of money laundered in a jurisdiction or across several jurisdictions. We are looking at measuring the risk of money laundering at the level of the jurisdiction. How do we do that?

We start by thinking about what constitutes a high-risk jurisdiction in terms of money laundering and wider financial crime. Here we have an answer. A high-risk jurisdiction will be one with shortfalls in the AML/CFT/CPF framework; with high levels of corruption, bribery

and fraud; with poor financial transparency and poor standards for public transparency and accountability; and with weak political rights and rule of law.

This is our first line of thinking in answering what a high-risk jurisdiction is. We then apply this thinking in our model of how we measure it. Here we should say that the Basel AML Index is a composite index. We use 17 different indicators to first measure a score within each domain. As I mentioned, we have five specific dimensions of what constitutes a high-risk jurisdiction – five domains.

We calculate a score for each domain based on available indicators, and then we assign an overall score for the country. We use a weighting system, which is reflected on this graph, with the most important indicators and domains being within the first domain on the quality of the AML/CFT/CPF framework. Our full methodology, including the indicators, is available on our website, and I strongly advise you to consult it.

Here I would like to present the 2025 results. What we see from the data is that the global average score in the Basel AML Index improved slightly in 2025. This improvement was from 5.30 to 5.28 on a scale where zero is the minimum risk and ten is the highest level of risk. We saw increased risks overall for certain regions: North America; the EU and Western Europe; Eastern Europe and Central Asia; and the Middle East.

At the same time, several regions – such as sub-Saharan Africa, Malaysia, South Asia, East Asia and the Pacific, and Latin America and the Caribbean – all saw small overall improvements. Very interestingly, sub-Saharan Africa stands out. First, 70% of the jurisdictions in the region improved significantly in 2025. Second, countries in the region are coming off the FATF grey list. Seven of the top ten global improvers this year are also from the sub-Saharan African region, and two countries – Burkina Faso and Côte d'Ivoire – managed to move from the higher- to the medium-risk category.

While these are positive results, the picture shows a slow drift towards the middle, with improvements among several higher-risk jurisdictions, particularly in Africa. At the same time, what we've been seeing is that such improvements are often offset by real declines, and these declines are seen among historically strong performers.

Let us move and look at how different domains changed in 2025. We see that there was modest progress in terms of the quality of the AML/CFT framework. The average risk level improved from 5.58 to 5.54. Risk related to corruption also edged down slightly from 5.12 to 5.09. We see the most notable deterioration in terms of financial transparency and standards, with the risk level going up from 5.42 to 5.47.

When it comes to risks related to public accountability, they increased quite markedly from 4.23 to 4.35. Risks in the political and legal area stayed almost the same, with a very slight increase from 4.45 to 4.46. Clearly, the situation differs across regions, and the regional infographics as well as key regional figures are available in our report and on our website. Please do not hesitate to check them and to find a deeper dive into your region.

As you know, every year we not only look at the numbers and overall scores and performances; we also try to take up a topic of particular importance related to global financial crime. This year we looked at streamlining the risk-based approach. I would be surprised if you did not know that the risk-based approach is a key backbone of any efforts to prevent money laundering, terrorist financing and financial crime. Yet what we have been seeing is that in many jurisdictions, in both the public and private sectors, the risk-based approach is not used as effectively as intended.

One of the key issues is that, in most cases, the attention is placed on identifying high-risk clients, high-risk services or products, or high-risk jurisdictions – for example, by using the FATF grey and black lists, international sanctions regimes, or other high-risk lists. By contrast, we have seen far less discussion and focus on what should count as lower risk and on lower-risk areas.

This gap is very important because when we identify lower-risk situations, that is where we can apply simplified, proportionate measures – and that is key for financial institutions. Yet we see that in many cases these lower-risk situations and simplified measures are not applied properly, often because there is no recent clear position from supervisors on how to assess lower-risk situations.

Interestingly, recent FATF developments encourage proportionality. They advise jurisdictions to actively use simplified measures where it is appropriate. However, the challenge is still there, and we still have to take this path from the conceptual level of what risk is to making it operational. This year, the Basel AML Index decided to change its classification of risk.

We moved from fixed, equal intervals to natural breaks. This helps us to provide a more nuanced classification that takes into account the actual distribution of the data. As you can see on the graph, we moved from an overall range with equal-sized categories to a more nuanced approach and identification of lower, medium and higher risk.

We also renamed the categories from low, medium and high to lower, medium and higher to emphasize that risk is relative. The second topic we looked at this year was the assessment of risks related to virtual assets. We know that currently governments and the private sector are under growing pressure to understand the risks associated with virtual assets.

This is especially true with the new round of FATF assessments and the strong focus on virtual assets. At the same time, what we observe is that such risk assessment is inherently challenging and difficult. First, virtual assets are borderless by design, and in many cases they operate outside the regulatory environment. Most importantly, we lack reliable data at national level related to virtual assets.

We have seen several attempts from commercial blockchain analytics providers to publish global indicators on virtual assets in terms of adoption and possible illicit usage. Even though such attempts may be helpful to understand general trends, we still have to be careful in interpreting those results. Additionally, there is guidance from the World Bank on understanding virtual asset risks in line with national risk assessments, which can serve as a starting point for such assessments. When doing virtual asset risk assessments, we have to remember that virtual assets do not exist in a vacuum.

Activity involving virtual assets often exploits the same underlying weaknesses that we see in money laundering, corruption and other predicate offences within the traditional financial system. Even though the Basel AML Index as such does not provide a dedicated indicator for virtual assets, what it does provide is an understanding of the structural vulnerabilities of a country and what mitigating measures the country can apply to address actual risks related to virtual assets.

By showing this picture, I invite you to explore more around the Basel AML Index, not only its public edition but also the Expert Edition. Within the Expert Edition you can get deeper insights and coverage of 203 jurisdictions, 17 different indicators and regular updates. We have mentioned FATF data several times, and that is what you can access through the Expert Edition Plus, where we provide the numerical FATF dataset and analysis. The Expert Edition and Expert Edition Plus are free for all public agencies, media, universities and most actors in the public sector.

They are available for a fee for the private sector. If we look at the usage of the Basel AML Index, it is valuable for both the private sector and the public sector. For the private sector, it may serve as a standalone methodology to assess money laundering and wider financial crime risks within a risk-based approach to understanding jurisdictional risks. It may also be used as a benchmarking exercise when the private sector already has its own developed methodology. Clearly, the Index helps to build mitigating measures and to understand where a country stands.

For public agencies, it is also a valuable source of information and assessment. You can see the underlying deficiencies across 17 indicators, with particular focus on the AML/CFT/CPF framework. It is especially important before the next round of FATF assessments as part of

preparation for them. It can also show the performance of countries across different indicators over time and help to identify and mitigate the risk of being grey-listed well ahead of any actual grey-listing.

Thank you for your attention. If you want to learn more, please go to our website. All relevant links are there, and if you have any specific country requests, please write an email to us. Thank you for your attention.

Iker Lekuona
Thank you very much, Katja, for laying out the key results and trends in this year's Basel AML Index. I'd now like to turn to our speakers. I'd be very interested to hear your thoughts on Katja's presentation and, especially, what struck you and what you would want to emphasize to your counterparts in your respective institutions or communities of practice. Maybe starting off with Ned – over to you.

Ned Conway
Excellent. Thanks, Iker, and a big congratulations to Katja for getting this out before the end of the year. It must be very satisfying, and it is very well embraced by the industry. My initial impression is that there is a great reference in the foreword to the very unsettled world we are living in.

The Basel AML Index has always been an objective anchor for all of us in the industry when it comes to assessing country risk, and the 2025 edition continues that legacy. It is no secret that this is a foundational element for any major bank's country-risk team. What I think is really nice about the 2025 edition, as well as the features you have in the Expert Edition, is that it brings the analysis much further along while maintaining a lot of transparency on how you got there. That will ultimately result in a lot of hours saved within banks that might otherwise try to do this on their own.

So, at a high level, my response is that it is a fantastically objective product in a world where finding objectivity is increasingly challenging.

Thank you very much for that very positive feedback. Now over to Jean for your first quick reflections on this year's results and trends. Over to you.

Jean Phillipo-Priminta
Thank you very much. I echo the congratulations, as stated by Ned, on the good job done and also on a new way of thinking about and approaching risk assessment. We have been challenged on how the cut-off point approach could leave out certain granular elements that

do not assist us in coming up with appropriate measures for the risks that apply to situations and jurisdictions.

So it is a very good development. What struck me first is that I naturally had to go to the list and see where Malawi is, and I was glad to see that we are on the decrease in terms of risk. But one thing that particularly caught my attention is the question of the "missing piece": what is lower risk?

I think that is really the new dimension that we will have to think about and adopt as we move on in Malawi, updating our next NRA and also preaching this to our counterparts in financial institutions, reporting entities and all the other sectors – to say, "also focus on this". The advantages stated in the report cannot be over-emphasized. Instead of just defining everything in terms of what we can do, we also need to know what to prioritize.

It helps us to tick off things that we do not need to focus on now because we have properly classified them. That is what I would say for now.

Iker Lekuona
Thanks again for that reflection, and congratulations on Malawi's improved performance, no doubt in great part thanks to the contribution of financial crime fighters like you. So congratulations for that, Jean. And now over to you, Nico, for your first quick initial reaction.

Nico Di Gabriele (personal views)
Thanks. Let me say one thing: I do consider the Basel AML Index as a sort of lighthouse that is very helpful to give, at first glance, an indication about how problematic a country is. I say this on the basis of the experience we have made by using the Index, because to have a comprehensive picture about jurisdictions that are far away from the place where you run your business – either as a bank or as a supervisor – you need to make quite important investments.

The investment you have to make is to get access to the AML Index provided by the Basel Institute, because it provides you with a quite comprehensive picture of the situation of a country. What should be clearly understood is that the rating given by the FATF is based on a quite large but not exhaustive set of pieces of information, and you add additional components that provide financial institutions, but also non-financial and financial crime supervisors, with added value.

Obviously, the Index can be used only if you understand the logic behind it, because with whichever benchmark or assessment you get from a third party, you cannot place blind trust in it – not because you are not a trustworthy institution, but because the assessment you

conduct is inspired by a logic, and the way we conduct our supervision may be inspired by a different logic.

So the ranking should be clearly understood. Not all supervisors are in the same situation, because for some supervisors it is more relevant to know what the assessment of the FATF is; for others, it is more important to understand whether the environment where a bank operates is more prone to corruption or not. If a bank is doing a lot of business with the public sector and there is a high level of corruption, probability of corruption is the most important dimension to look at, rather than considering whether there is a high level of terrorist financing, which is problematic but probably not the first concern for that bank and its supervisor.

So, all in all, the Index is a useful source of information that we consider in our assessments, but we need to understand the logic behind it. The message I would like to pass is that it is important to participate in these meetings – not because people keep listening to me, but because this is a way to grasp the logic and rationale behind the Index. We supervisors understood very well with the great financial crisis of 2008 that placing trust in black boxes was a big mistake.

Iker Lekuona

Very much amen to that, Nico, and thank you very much for that reflection. I'd like now to direct a question to Ned. The Basel AML Index, among many things, recognizes that we are witnessing some significant shifts in how the risk-based approach is being applied. The Wolfsberg Group has provided valuable guidance on this approach in the past, particularly for the banking sector.

I understand that you're currently in the process of updating that guidance. Could you share what the latest developments are in this regard and what is driving these changes? Over to you, Ned.

Ned Conway

Thank you for sure, and thanks for the question. First, let me say, Nico, we love hearing you talk, so we do come in to listen to you. It's fantastic to hear your insights. Let me pick up on a theme that Jean noted in her opening observations, which is this focus on lower risk, which I also very much welcome.

I think the implementation of the Basel methodology that has led the Index to have this bigger segment of lower-risk jurisdictions is really welcome. As Katja mentioned in her briefing, a large aspect of this is the FATF initiative stemming from the reforms in

Recommendation 1, which are really trying to get us to think beyond a risk-based approach that is simply about high-risk mitigation.

That conversation is equally one that we've been having within the Wolfsberg Group for quite a while, which led us, as you mentioned, Iker, to release a statement over the summer. It's a one-page statement that basically says two things. First, it says we are looking at all of our existing risk-based approach materials and reviewing them through a new lens, because we recognize that they haven't been updated in a while and a lot has evolved since then.

Second, we try to put our finger on the idea that, for us, a risk-based approach is about proportionality – which comes from the FATF language – but it is also about prioritization, allocation of resources and effectiveness. That is the lens through which we are looking at everything within our side of the industry.

How does that manifest itself in practice? First, it's not just about doing more for high-risk customers; it is also about doing less, in a KYC sense, when there is lower risk. Our bigger objective is to break out of the idea that, for the private sector, the risk-based approach is just KYC due diligence. There is so much more to how we use the risk-based approach within our financial institutions.

For example, if you think about how we monitor for suspicious activity within a bank, we are constantly calibrating our appetite for false positives versus false negatives – that is, missing something suspicious versus generating large numbers of false alarms. That calibration is very much about risk and risk appetite. I can easily see how the level of granularity in the Basel AML Index would better inform that calibration exercise, based on where we have subsidiaries, what the underlying predicate offences of concern are, and so on, which the Index highlights very well.

So there are many ways within a bank where risk-based decisions are being made all the time. Often, part of that decision is jurisdiction or geography. Our wider initiative is trying to get the supervisory side to recognize that the risk-based approach is much more than just KYC. That is where we're focusing our energy at the moment, and you'll see that reflected in a lot of our engagements and publications over 2026.

Iker Lekuona
Excellent. Thank you, Ned. Thank you for sharing that experience in terms of how banks are thinking about proportionality and risk-based decisions. I'd now like to turn to Jean to delve a little bit into the Malawi experience. Malawi is now preparing for the upcoming fifth round of FATF evaluation, and as Director General of the FIU you are leading the efforts to understand the national risk of money laundering and related crimes.

The question for you, Jean, is: how are you going about this, and how will you differentiate between high, medium and lower risks as part of this national risk assessment? Over to you.

Jean Phillipo-Priminta

Thank you very much indeed. We have just started out with a roadmap as we move towards the 2028 evaluation, and the national risk assessment and its findings are critical in these preparations and in whatever we do between now and 2028. We have a 2024 national risk assessment that, of course, followed the traditional way of conducting risk assessments.

We started with the high, medium, low categorizations – I think we used a four-band categorization. But now you have shown us, with this report, another way of doing this. So that is what we will focus on now in terms of how we categorize risks when we update the 2024 NRA, because it will have to be updated and the updated version will be the most recent one by the time we approach the mutual evaluation.

Already, with the results from the 2024 risk assessment, we are now going full throttle into awareness-raising with all the concerned sectors – with a risk-based approach in dissemination, in supervision, and in reaching out to entities or sectors that had never previously started their work on AML/CFT at all. So we are reaching out to those as well.

Something that struck me, and that is very relevant here and will help us in how we present ourselves for the mutual evaluation, is again the missing piece – the focus on high risk, yes, but what about lower risk? As an FIU, if we do not do this clearly and we do not take into account granular elements, we end up receiving defensive reporting. We may have a huge volume of statistics and data as an FIU, but, for instance, if we say we received 20,000 STRs and we are only disseminating 10% of them, the question arises during the evaluation: something is not working.

Maybe we lost it during the national risk assessment; maybe we lost it when we were disseminating to the reporting entities; maybe the reporting entities missed it when they were conducting their own risk assessments on their products and customers, so they are sending everything. We may categorize that as defensive reporting, but maybe they simply do not know. So those are key takeaways from this report for us as we focus on updating the 2024 risk assessment and implementing and sharing its findings, in view of the 2028 exercise, which is largely about effectiveness.

It is an issue of data, which brings us back to how to conduct the risk assessment. We are still a jurisdiction that is struggling with institutions not keeping accurate, comprehensive and well-maintained data, which is useful for the risk assessment and will also be useful for the evaluation exercise. So it is about the accuracy of the data, how you collect it and how you

apply it when you are doing and updating risk assessments, and also when you present your story to assessors in 2028. That is what I'll say in brief. Thank you.

Iker Lekuona

Thank you very much again for sharing the Malawi experience and how you are implementing the risk-based approach and conducting national risk assessments, and how you are overcoming some of those challenges. I'd now like to turn to Nico for a question on virtual assets. The Basel AML Index highlights the challenges of assessing national risks related to virtual assets, not least since these are obviously cross-border and data is relatively unreliable or inconsistent.

Drawing on your experience at the European Central Bank, what is your experience in assessing risks related to virtual assets, and how have you managed to overcome some of these challenges? Over to you, Nico.

Nico Di Gabriele (personal views)

Thanks. This question summarizes probably the key concerns regulators have been facing over the last 15 years and will probably continue to face in the future. The key issue we face is that we live in a paradoxical situation. The paradox of the blockchain is that the industry claims that it is transparent – all transactions are on public ledgers – but in practice this transparency is superficial.

This is not a problem just for anti-financial-crime supervision; it is also a problem for prudential supervision. If you are a supervisor of a bank, you want to check that what the bank reports is true, and you might look for the wallet of the bank on the blockchain. But, thankfully, you will not find on the blockchain a wallet bearing the name of the bank, because that level of transparency would itself be problematic.

The issue is that, when you look for the owner of a wallet, if the provider of the wallet is in a FATF- and FSB-compliant jurisdiction, you are lucky, because by using the appropriate administrative tools you can get access to information about the wallet owner. Unfortunately, there are quite a number of jurisdictions that are not fully FATF-compliant or FSB-compliant.

So the claim of transparency remains on paper. Plus there is the factor represented by mixers, cross-chain bridges and privacy-enhancing tools that obscure the trail, creating opacity where transparency is assumed. The industry claims that, because of transparency, there is no need for regulation and that the ledger itself is a substitute for supervisory oversight.

I would say that if there were a solution that made our work unnecessary, I would be relieved, because I could enjoy more life, but I am not persuaded by this argument. It rests on the assumption that visibility equals accountability, which is misleading. Supervisors need comprehensive and reliable data to conduct oversight, and also because when we implement a decision that is legally binding, it must be built upon facts, and the facts must be demonstrable. If the affected party is not satisfied with the decision, they should be able to go to court and challenge it. With the blockchain, up to now we do not always have this evidentiary robustness.

What are we doing? First, we have to accept that we are confronting a paradigmatic shift. With traditional finance, we have quite a well-tested reporting framework that helps us to see which risks are building up, where and because of whom. With crypto-assets, we struggle to have certainty. The first problem is that we have a fragmented global regulatory landscape.

We can collect data only from entities that are subject to licensing in the Union and only from those already under our regulation. Because of grandfathering options in certain Member States, legislation in place before MiCA still applies until the end of June 2026, and those CASPs are not subject to the reporting obligation under MiCA. This means there is a data gap that we cannot easily fix.

Then we have the issue that quite a few entities are new to operating in a regulated sector, and they are still in the phase of building a proper compliance culture, if I may put it in this diplomatic way. In conclusion, the quality of supervisory reporting is not yet as it should be. The market is concentrated, and the largest players have vertically integrated structures, which is not a problem per se, but when it comes to transparency this is a key challenge.

If transactions among clients of these players are recorded not on the public ledger but only on the internal ledger of these players, and therefore leave no trace on the blockchain, you have no tool other than asking these players to provide information. If the player is conducting business outside your jurisdiction and there is no cooperation from the supervisory authority of that country, you remain blind.

The third issue is limited supervisory cooperation, despite the tremendous efforts made by the FSB, the Basel Committee, IOSCO and the FATF. Let me conclude with a consideration. We have quite good transparency about what banks are doing because there are balance sheets and supervisory returns, but this is not the complete picture, because we do not see what the clients of the banks are doing.

Banks are exposed to financial and non-financial risks because of the business of their clientele, and banks do not always have the right tools to scan client behaviour. This is

decisive in determining whether a client's transaction is suspicious and needs to be reported to the FIU. From a banking supervisor's perspective, it is also a source of concern because, if we do not know what the business of the client is, we miss a crucial piece of information to estimate how volatile the deposits of that client are – which is decisive in estimating whether a bank has a sound liquidity profile.

Let me make a short remark on stablecoins, which are the crypto-assets most resembling traditional finance. They are not so easy to monitor. They have issuers that are a sort of narrow bank, but a large chunk of stablecoins are entered through unhosted wallets, which creates another huge data gap. Combined with an emerging multi-jurisdictional issuance scheme – where two or more entities in different jurisdictions issue and redeem the same token – this is a tremendous issue for supervisors of financial stability and financial crime.

In this multi-jurisdictional stablecoin scheme, one entity may be redeeming a token it did not issue because it was issued on the other side of the world by a partner subject to different rules. This complicates transaction monitoring dramatically. Needless to say, this keeps us busy, because in certain jurisdictions this scheme is fully permitted, in others it is still unclear, and we do not yet have all the tools we need to contain the risks arising from it.

Iker Lekuona
Thank you, Nico, for that very insightful contribution on the complexities of assessing risks related to virtual assets from a central bank perspective. I wonder if, Ned, you want to weigh in on this question from your perspective?

Ned Conway
That was a very comprehensive response from Nico and provided really good insights into how he sees the issue, so I'll just add quickly. As regards geographic or jurisdictional risk, we have released guidance on the provision of services to virtual asset service providers, which is on our site. We indicate in that guidance that one of the factors that should be considered is the jurisdiction.

But similar to what Katja said during her presentation, we also see the regulatory developments as volatile and changing very quickly. At the moment, the best North Star is the overall capacity of the jurisdiction to manage AML/CFT risks. So we embrace that and it is something we look at. I also definitely agree with Nico's comments on unhosted wallets, which continue to be a major concern for us.

From our jurisdictional risk perspective, we are very much aligned with the direction of travel of the Basel AML Index in looking at the overall health of the country itself.

Iker Lekuona

Thank you, Ned. We have about ten minutes left, and I wanted to ask a follow-up question to Nico.

Iker Lekuona

We see through the Index that criminals who misuse virtual assets for money laundering tend to exploit the same structural vulnerabilities that enable other abuses of the financial system. Does that align with what you see, and if so, what would your advice be to jurisdictions that are seeking to develop regulatory and supervisory frameworks on virtual assets?

This is a question that is very dear to us, because in a lot of the jurisdictions we support we find that the regulatory frameworks are very underdeveloped. What would be your recommendations in this regard? Over to you.

Nico Di Gabriele (personal views)

Unfortunately, you are right, and it would be preferable if you were wrong. Illicit actors are often very smart – sometimes even smarter than the people going after them – and they are always in search of the weakest regulatory and supervisory links. I must say they are quite good at that, also because not all authorities around the world are adopting the right measures.

Clearly, there are countries suffering from capacity gaps that need to rely on assistance from international bodies; technical assistance is of paramount importance. But there are also countries where the political will is not oriented towards closing gaps. We have to factor this in, because we can have the best regulatory framework and the most effective supervisors, but if we cannot collect inputs from abroad and we have no cooperation from key partners, we are somehow ineffective – and with crypto this is magnified.

From a financial stability and banking supervision perspective – and this has strong resemblance with the anti-financial-crime domain – we see two factors. One is based on an entity operating from a country with permissive crypto regulation and possibly lax supervision. This entity uses the badge of being in a regulated country and then tries to expand its business in neighbouring jurisdictions. The FSB and the FATF have both raised attention to this practice.

The second scheme we see also in Europe entails a foreign group establishing one or more subsidiaries that are somehow empty shells. In certain cases, the foreign group was subject in its home country to penalties for lapses in AML controls. When you have an entity that has already a tainted reputation entering a new jurisdiction with a shell company, it is problematic.

It is quite frequent that these shell companies rely completely on services – from treasury management to transaction monitoring – provided by the parent company. The consequences, when these services are not delivered appropriately, are unfortunately felt in the host country. The penalty recently imposed by the Central Bank of Ireland in November is an example of the consequences and of the implications of this practice.

But that penalty and enforcement measure is also an example of what authorities should do: deploy technical and human resources to conduct supervision and focus on entities that are material, not necessarily only within the country but on a global basis. With crypto, you do not have any certainty on whether business is conducted in your country, but if in your country there is an entity that is big on a cross-border basis, look at that.

The risk-based approach is a concept frequently abused, but I will keep using it, because we have to look at where risks are and who the big fish in our pond are. Rogue actors come first in exploiting regulatory gaps, and if there is an understanding that there is a regulatory gap, supervisors should go to the political level and ask that legislation is passed or amended to close the gap. Not all solutions are in our hands; some solutions can come only with the cooperation of legislators. That is my strong advice.

Iker Lekuona
Thank you very much for that advice. In the final minutes – we still have a few minutes left – I'll propose that we do a lightning round and ask a slightly controversial question. Some people say that the AML/CFT system doesn't work. They say it's not enough to tweak it to apply to virtual assets, and that it's not enough to adapt it to be applied more proportionately for lower-risk jurisdictions.

So, in one minute each: do we need an overhaul of the AML/CFT system, or are we largely on the right path? Maybe starting with Jean – over to you.

Jean Phillipo-Priminta
I would go back to the initial question on criminals exploiting the already-existing structures when they are dealing with or using virtual assets to commit crime. It is the same structure that already exists. So, in my view, what we have can work, but it has to be tweaked a lot. A lot.

Standing on this side as a supervisor, I am looking at having a complete set of tools that I can use to check compliance among reporting entities. For the reporting entities to have a complete set of tools, the traditional tools for AML/CFT compliance used for fiat money obviously do not fully work for virtual assets.

I think that explains why laws have been adopted just to tick the box on technical compliance with the FATF Recommendations, but implementation has been difficult. You have the law, but as a supervisor or a public entity, how do you go about implementing it and what message do you pass on to the private sector? So I would say: tweaking, and a lot of tweaking.

Iker Lekuona
Thank you, Jean, for that constructively critical support of the system. Over to you, Ned.

Ned Conway
Thanks. I would say, first of all, that the good news is that the necessary resources for resolving the challenges are there. If you look at the financial and human resources dedicated within the private sector and the public sector, I think we have what we need.

There is recognition of the scale of the challenge and of the capacity required. The question is how to redirect those resources to the right areas.

That aligns very much with what Nico said with respect to the risk-based approach, risk-based supervision and risk-based decision-making. For us, the big challenge is the reallocation and redeployment of existing resources to the right areas, not increasing the overall resources.

Iker Lekuona
Thank you, Ned, for highlighting the need for prioritization. Over to you, Nico, for your final contribution.

Nico Di Gabriele (personal views)
I am not very much in favour of reshaping the regulation repeatedly, because regulation has to be understood and this takes time.

Supervisors also have to deploy the right tools against the background of the regulatory framework they have. What is important, and still missing in many places, is the application of the right controls at the entrance to the market. Frequently, people who have a tainted reputation – and sometimes, when I say tainted reputation, I mean criminal convictions – are permitted to be qualifying shareholders, directors or senior managers in gatekeeper institutions. This should not happen.

If you let people with a tainted reputation operate in the financial sector, there is no rule and no supervisor capable of fully mitigating the consequences. Looking better at the rules we

have and enforcing them seriously is probably the most important thing from my point of view.

Iker Lekuona
Thank you, Nico, for those final reflections. This brings the launch event to a close. I want to thank again the team behind the Basel AML Index, with very special thanks to Katja, who works really hard all year long to ensure that the Basel AML Index continues to deliver global impact.

My sincere appreciation also goes to the Communications team, led by Monica Guy. They do outstanding work to communicate the key trends and ensure that the advocacy messages arising from the Basel AML Index are well understood by diverse audiences. Thanks also to our three brilliant speakers, and to all of you in the audience, for your participation and continued interest in AML/CFT issues.

We look forward to working with all of you to turn the Basel AML Index into global action. Fighting financial crime demands collective action, and we feel privileged to stand alongside you in this effort. Thank you very much, everyone.