Does Changing the Rules Change Behaviour? Comparing Regulatory Reform and Behavioral Outcomes in Shell Company Transparency

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This paper combines the insights of two independent but complementary research programs seeking to understand changes in the availability of untraceable shell companies over time. The first, led by Haberly, Cobham and Gullo, "Does Financial Transparency bring Cleanliness?" has generated a global dataset of how regulation related to key dimensions of financial secrecy, client due diligence, and Anti-Money Laundering (AML) have changed 1990-2015. The second, Findley, Nielson and Sharman's "Global Shell Games" is a repeated global field experiment from 2011-12 and 2020-2021 based on over 12,000 solicitations for prohibited untraceable shell companies. This paper compares the results of the two projects in tracking whether changing rules mandating shell company transparency are effective in practice. In brief: does changing the rules change behavior? Initial results suggest some important areas of correspondence. Tightening beneficial ownership laws offshore corresponds with the positive performance of offshore centres compared to onshore equivalents in the 2010-11 round of Global Shell Games. However in other areas the association between rules and behaviour is surprisingly weak, confirming worries about a disconnect between AML rules and reality. The introduction of new, stricter rules on shell company transparency worldwide does not seem to have produced an improvement in corporate transparency over the last decade; in fact, performance may have actually declined.

In the study of the world's Anti-Money Laundering (AML) policy regime perhaps no question looms larger than whether the extensive system of rules set up over the last 30 years to reduce flows of dirty money has actually done so. Long a question of interest to scholars, the effectiveness of the AML system has recently become the subject of increasingly public doubts from key policy-makers in this area.

On the one hand the achievements of the Financial Action Task Force (FATF) since its creation in 1989 are manifest and highly impressive. It has induced nearly every country in the world to set up a complex legal apparatus designed to detect, report and counter illicit financial activity. This regulatory regime is deep as well as broad, with FATF rules prompting the rise of a massive compliance industry in the private sector, at first in the banking industry, and then in an expanding set of ancillary professions. In doing so, the FATF has decisively refuted 1990s concerns about the inevitably of a regulatory race to the bottom in the financial sector due to the supposedly irresistible force of international competition for globally mobile capital.

Yet for all the transformative legal and regulatory achievements, there are increasing doubts about the practical effectiveness of regulatory regime. Has this new system reduced the amount of money being laundered? Has it reduced the predicate crimes that give rise to money laundering in the first place? Measuring policy effectiveness in response to a crime defined by secrecy is inherently difficult, even after the re-orientation of the FATF's mutual evaluation review process in 2012 with this end in mind. There has long been a distinct note of skepticism in the scholarly literature about the effectiveness of AML policy, with titles like *What Went Wrong With Money Laundering Law?* (Alldridge 2016) being typical, and scholars' descriptions of the AML system as a regulatory 'Potemkin Village' (Halliday, Levi, Reuter 2014).

Beyond the ivory tower, the succession of money laundering and related scandals at leading OECD banks, affecting every member of the Wolfsberg Group of major international banks at one time or another, sharpens doubts concerning whether the system is working as it should, or indeed whether it is working at all. If the largest banks in Scandinavia have recently been exposed as having participated in huge and long-running money laundering schemes, despite being the most strictly regulated financial entities in FATF founder-member countries that are supposedly the paragons of financial rectitude and probity, can we be confident that AML policy is working anywhere?

More surprisingly, over the last few years doubts about effectiveness have been publicly expressed by leading lights in the FATF itself. The current FATF President has spoken of "a widespread failure in effective supervision and compliance of anti-money laundering measures. That's why the FATF wants governments to re-think their regulatory culture in this area. Supervisors and compliance officers in banks and companies are meant to understand and mitigate the financial crime risks they face. But at the moment, most take a basic tick-box approach: they make sure forms are filled in correctly but don't focus on the real risks" (Pleyer 2021). Executive Secretary David Lewis has been equally damning, stating that "When we look at the [AML] measures, the preventative measures that we expect banks to take... There's a 100% failure rate... all too often it just becomes a tick-box process. People do it because they think they have to, their supervisors say they have to... They're not applying a proper risk-based approach" (Lewis 2019). Elsewhere he commented that when it

comes to AML, "everyone is doing badly" even if "some are doing less badly than others."

The repeated mention of a "tick-box" approach suggests that those in the system are merely going through the motions, rather than actually countering money laundering, resulting in a fundamental disconnect between AML rules and actual effectiveness. It is this potential disconnect that is the principle motivation for this paper.

In the context of this basic policy uncertainty, this brief paper is a preliminary attempt to compare the results from two major research projects so as to shed new light on the basic question of AML policy effectiveness. It does so by comparing the insights of a new database of country-by-country AML legal changes over the period 1990-2015 (the Regulation of Illicit Financial Flows or RIFF dataset) with a global field experiment based on thousands of email solicitations designed to test whether AML corporate transparency standards are applied in practice (the Global Shell Games project). The sections below briefly introduce each of the research projects, before then venturing thoughts on the combined picture comparisons between them suggest.

Rather than trying to come to some general judgment on the whole AML policy apparatus, the paper is focused on one narrow but important aspect: regulation of corporate transparency, or more properly regulations mandating identification of the beneficial owners of shell companies. These are 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 hours or days that are nevertheless legal persons that can hold bank accounts and assets. As such, shell companies can be used by criminals as a corporate veil to screen and conceal their illicit financial activities behind a corporate alter ego. As one enthusiastic Corporate Service Provider (CSP, the intermediary businesses that set up and sell shell companies) put it: "A corporation is a legal person created by state statute that can be used as a fall guy, a servant, a good friend or a decoy. A person you control… yet cannot be held accountable for its actions. Imagine the possibilities!" (Reuters 2011).

From at least the 1990s to the present, shell companies that cannot be linked back to their real (beneficial) owners have been repeatedly identified as one of the most important mechanisms for money laundering, and committing associated crimes such as tax evasion, sanction-busting and large-scale corruption (UNDCCP 1998; OECD 2001; StAR 2011). Beneficial ownership remains a policy priority for the FATF today, with a working group currently scrutinizing the wording of the relevant Recommendation. Leading member government have also made beneficial ownership a priority, from Britain and the European Union's efforts to build and diffuse public registries of beneficial ownership, to the recent US Corporate Transparency Act. Again, however, the basic question lingers: have or will these legal changes make any practical difference?

Introducing the Regulation of Illicit Financial Flows (RIFF) Dataset

Tailored to analyze the use of shell companies for illicit purposes, the RIFF is the first panel dataset of regulatory variables selected to represent a number of key dimensions of financial secrecy, client due diligence, and AML regulation that are likely to have an impact on the use of shell companies for illicit purposes. It is part of the larger Global Integrity Anti-Corruption Evidence funded project "Does Transparency Bring Cleanliness? Offshore Financial Secrecy

and Corruption Control." The dataset has been created combining and coding data from different sources (the Tax Justice Network's Financial Secrecy Index, OECD, FATF, national law repositories and consultancy reports) to create the longest time series of financial secrecy-related regulations created to date.

Constructed with the help of guidance from researchers at the Tax Justice Network, the RIFF dataset makes substantial use of information and expertise drawn from TJN's Financial Secrecy Index (FSI) dataset. However, in comparison to the FSI, which has been compiled since 2009, the RIFF extends over the 25-year period 1990 to 2015. As it is intended to be used as a basis for time series statistical analysis, regulatory scores and changes are also recorded on an annual basis for all jurisdictions, in contrast to the FSI, which is released every other year. Furthermore, given that the RIFF is intended primarily to provide a map of laws and regulations as they exist on paper, that can in turn be used as a raw material for statistical analyses empirically evaluating the impact of these laws and regulations, it does not generally attempt to assess the effectiveness of regulations in the same way that the FSI does. Instead, it represents the changing regulatory landscape in formal legal terms. Finally, in contrast to the strong emphasis of the FSI on taxation, the primary emphasis of the RIFF is on recording the global financial secrecy landscape as it applies to non-tax illicit financial flows, in particular those related to corruption.

The RIFF covers annual changes in 9 key regulatory indicators and 7 sub-indicators (16 variables in total) for 61 jurisdictions 1990-2015. An additional 4 indicators and 5 sub-indicators (21 variables in total) are recorded annually, for these same 61 jurisdictions, over 15 years from 2000 to 2015 (see table 1 and figure 1). The 61 jurisdictions covered include not only "offshore" jurisdictions used for the incorporation of shell entities, or other activities such as the provision of banking secrecy, but also "onshore" jurisdictions that play a key role in administering offshore financial services, or that are important within the global financial system more broadly. These have been selected based on weighted multi-factor criteria including 1) previous evaluations in TJN's FSI, 2) the number of registered addresses in the International Consortium of Investigative Journalists (ICIJ) leaked datasets, 3) Palan et al. 2010's list of Offshore Financial Centers and Tax Havens, and 4) headquarters of large publicly listed business groups included in the Forbes global 2000 company list (to ensure coverage of "onshore" jurisdictions playing a leading general role as business hubs).

Figure 1: Jurisdictions in the Regulation of Illicit Financial Flows (RIFF) Dataset

Table 1: Regulation of Illicit Financial Flows (RIFF) Dataset Indicators

Indicator	Sub-Indicator	Years available
Banking secrecy		1990-2015
Shell banking	prohibition of establishment	1990-2015
	prohibition of correspondence	1990-2015
Money laundering criminalization	drugs-related	1990-2015
	other activities	1990-2015
Terrorist finance criminalization		1990-2015
Financial Intelligence Unit		1990-2015
Suspicious Transaction Reporting	reporting obligation	1990-2015
	legal protection for whistle-blowers	1990-2015
	no tipping-off provisions	1990-2015
Client due diligence		1990-2015
Politically Exposed Persons enhanced due diligence		1990-2015
Bearer shares	Permitted	1990-2015
	registered/immobilized	1990-2015
Automatic Exchange of Information		1990-2015
Exchange of information and judicial cooperation	tax matters	2000-2015
	other matters	2000-2015
Trust registration		2000-2015
Beneficial ownership	B.O registration with public authority	2000-2015
	mandatory update of information	2000-2015
	Provisions specifically target B.O.	2000-2015

Trends in global financial secrecy and IFF regulation

By using factor analysis to extract the single most important dimension of shared variation across all RIFF indicators, we can construct a composite RIFF score without resorting to arbitrary indicator weightings. This composite score captures overall changes in all regulatory domains, for the 61 jurisdictions covered. Figures 2a-2d show the changing world map of IFF regulation and financial secrecy as captured by the RIFF composite score, for the years 1990, 2000, 2010, and 2015. Keeping in mind that the RIFF measures regulatory changes at the

formal legal level rather than in terms of substantive effectiveness, the maps paint a detailed picture of the changing world map of IFF regulation and financial secrecy over a far longer historical period than has been captured by any similar datasets.

Figure 2a: RIFF composite regulatory score, 1990

Figure 2b: RIFF composite regulatory score, 2000

As can be seen, in 1990, all countries, onshore or offshore, would have scored very poorly across most areas of IFF-related regulation by present day standards. However, by 2000, most of the major developed, and a number (albeit not all) of the major developing country "onshore" jurisdictions, had substantially improved their overall composite scores. This largely reflects a push from the late 1980s through 1990s by the US and its allies, and more broadly implemented by "onshore" economies, to put in place a basic framework of IFF-regulatory controls, initially connected largely to the US war on drugs, and later extending into anti-terrorist finance controls. Meanwhile, most "offshore" jurisdictions, including both "small islands," and OECD jurisdictions such as Switzerland and Luxembourg, lagged behind in terms of reform.
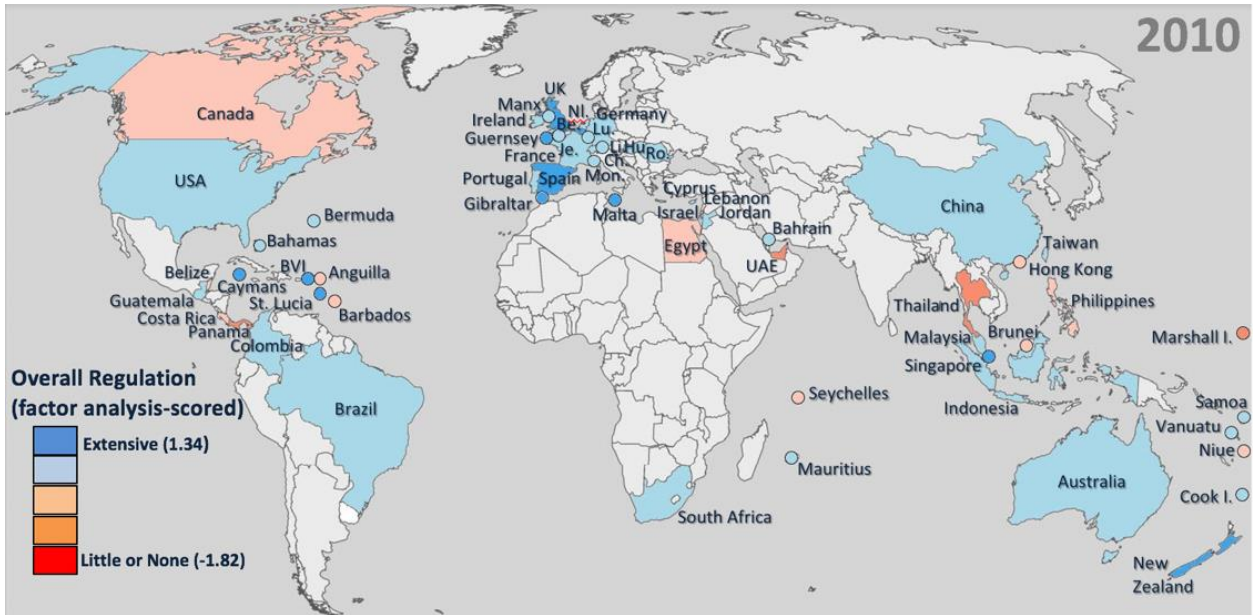
Figure 2c: RIFF composite regulatory score, 2010

Figure 2d: RIFF composite regulatory score, 2015

As can be seen in figure 2d, as of 2015, even the worst scoring countries scored, in absolute terms, better than most of the best performing countries in 1990. During the second half of this time period, mounting political pressure was placed by the major onshore countries and international organizations on offshore jurisdictions to tighten IFF-regulation in areas including client due diligence procedures, and to roll back the foundations of financial secrecy via the implementation of mechanisms including information exchange, the abolition and immobilization of bearer shares, and the tracking of beneficial ownership.

This disproportionate application of pressure to offshore jurisdictions appears to have produced an offshore-onshore geographic inversion of the old world map IFF-regulation and financial secrecy, at least in a formal legal sense. Whereas the 2000 map shows a landscape of "red dots," corresponding to weakly regulated and secretive offshore jurisdictions,

surrounded by more regulated and less secretive onshore jurisdictions, the map in 2015 (and to a large extent also 2010) shows a landscape of "blue dots" corresponding to offshore jurisdictions that had on paper taken more extensive measure to combat IFFs than most onshore jurisdictions. As we show in section three, there is evidence to show that this reform in offshore jurisdictions has in fact translated into at least some level of improved behavior on the part of local financial services providers.

Introducing Global Shell Games 1 & 2

The Global Shell Games studies are global field experiments for which data was collected 2010-11 and 2020-21. The studies are based on thousands of email solicitations from fictitious consultants asking Corporate Service Providers for shell companies to test whether these providers comply with the Know Your Customer rule. If CSPs do not verify the identity of their customers, the resulting shell companies are *de facto* untraceable, and thus the perfect vehicle to commit and abet money laundering and related crimes. Because the solicitations are designed to closely mimic a typical customer approach, and because providers do not know their correspondence is being observed and recorded, the unique value of this approach is that we get as close as possible to what is actually going in the provision of shell companies, especially in terms of practical compliance and non-compliance with beneficial ownership standards.

The first round of the study conducted around 2010-11 was based on a sample of almost 3800 CSPs from over 170 jurisdictions and 7146 approaches. In the 2020-21 sequel a larger pool of over 6000 CSPs were included, with 5,400 approaches over a three rounds. The total number of email approaches to CSPs was 18,710, but more than two-thirds of these were part of the separate "Banking Bad" field experiment soliciting offers for corporate bank accounts. These are not directly comparable with the first round Global Shell Games results.

As a field experiment, Global Shell Games is centered on the random allocation of different high- and low-risk customer profiles to CSPs. In expectation, this random assignment tests the sensitivity of respondents and their adherence to the fundamental principle of the risk-based approach to AML through variations in the response, refusal and compliance rates between low-risk placebo solicitations and to high-risk solicitations. Risk is varied by varying the national origins of the fictitious consultant, and by text prompts inserted into the standard email approach.

However for the purposes of comparison with the RIFF dataset, it is the descriptive results on global compliance, country-by-country compliance, and changes in compliance over time from the first Shell Games study to the second that are most relevant, rather than the experimental results on risk sensitivity (which largely showed that providers are largely insensitive to varying customer risk).

CSPs are not regulated in many jurisdictions, so any person or firm can form and sell shell companies. This means that there is no definitive list of those selling shell companies. Thus the list of providers we approached was compiled by Google searches for "company formation," "business law," and cognate terms for every country in the world. In the first iteration of the experiment, these searches resulted in a pool of 3,773 providers in general, of which 1,785 were from the United States, 444 from other OECD countries, 505 from offshore

financial centers, and 1,039 from developing countries. Though this did not represent every provider at the time, it did capture a large share of those engaged in international company formation.

The 21 fictitious consultants' names were the most common male names from each of their ostensible countries of origin, which ranged from Northern Europe, to Australasia, to West Africa, Central Asia and the United States. All email approaches were made from dedicated Internet email accounts registered to mobile phone numbers purchased in an African country. All emails were sent out by researchers based in the United States, but this point of origin was disguised by the use of proxy servers to make it appear the emails came from various countries in Europe and East Asia. Where no reply was received within roughly one week, a follow-up email was sent. When replies did not answer the question of what identity documents (if any) were required, a specific prompt was sent to elicit this information. Two approaches were made to each provider with at least a three-month wash-out period in between to minimize the chances of detection.

All of the fictitious customers soliciting offers for shell companies were consultants, as this common rationale for forming a shell company, but also because it is a common cover story for those looking for an alibi for the proceeds of crime. The next common element was the specific rationale for wanting a shell company, revolving around limiting legal liability, reducing "excessive" taxes, and preserving confidentiality. From interviews conducted in countries including the US, the UK, Switzerland, Singapore, Hong Kong, the British Virgin Islands, Panama and the Cayman Islands, as well as from attending CSPs' industry conferences, these are the most common reasons people form shell companies. Finally, each approach asked how much a company would cost and, crucially, what identity documents were necessary to have a company formed. Beyond this common frame, as noted treatment differences were designed to experimentally test the response to different customer nationalities, different amounts of information, and hence different levels of risk.

The next major task was to decide which email responses to our solicitations counted as compliant or non-compliant with the FATF rule that shell companies must be able to be traced back to their real (beneficial) owners. There were five possible outcomes in the first round: no response, refusal, non-compliant, partially compliant and compliant.

To some extent the "no response" category is self-explanatory, but working out why so many providers did not respond was one of the most challenging aspects of the study. CSPs may have failed to respond to the solicitation emails for a variety of reasons, from commercial grounds, to excessive workload, to a judgment that these potential customers involved too much risk ("soft-screening"). Providers might simply never respond to international clients ("never-responders").

Of those that did reply, many providers gave a range of grounds for refusing business. Though there is no direct way to test the sincerity of the reasons they gave for refusal, the lack of variation in refusal rates between high- and low-risk customer profiles suggests that soft-screening was the decisive factor in only a relatively small minority of cases.

The crucial distinction between compliant and non-compliant replies hinged mainly on whether providers required government-issued photo identification from the would-be

beneficial owner of the shell company, usually a scanned copy of the picture page of the passport. Non-compliant providers were willing to form the shell company without any identification, completely violating the Know Your Customer rule. Once again, unless the provider forming the shell company verifies the customer's true identity, it is very difficult for law enforcement or anyone else to find the beneficial owner later on. A distinction as to whether the copy of the identification document was authenticated or not, divided compliant from partially compliant codings.

What did the Global Shell Games studies demonstrate about the actual effectiveness of AML rules on shell companies? As noted, the main experimental finding from both rounds, and the associated Banking Bad study of banks' due diligence in setting up accounts for shell companies, was that respondents show remarkably little sensitivity to customer risk. Clearly this is a strongly negative verdict on the effectiveness of the risk-based approach that is meant to be at the heart of the AML regime. This verdict tends to confirm the recent pessimistic pronouncements from FATF leadership about the failure of the risk-based approach, thanks to an unthinking "tick-box" stance by those meant to be assessing risk.

Yet for the purposes of the comparison here, it is the descriptive results on compliance that are more relevant than the experimental findings on risk. We explain some of these results with reference to a "Dodgy Shopping Count," which measures the average number of providers a particular type of customer would have to approach to receive a non-compliant response, that is, to be offered a shell company with no need to supply any identity documents. A 5 percent non-compliance rate would thus equal a Dodgy Shopping Count of 20. The lower the Dodgy Shopping Count, the easier it is to get an untraceable shell corporation. This count takes the generous view that any response except non-compliance is equivalent to compliance (i.e. all non-response, refusals and partial compliance are equivalent to compliance because the customer does not get an untraceable shell company).

The headline figures for Global Shell Games 1 were that of those CSPs that replied, 22 percent did not require any customer identification at all to form a shell company, marking them as clearly non-compliant. Specifically, from 7146 approaches in total, 4365 failed to receive a response (60.5 percent), 747 were met with refusal (10.5 percent), 1418 with compliant or partially compliant responses for identity documents (9.7 and 10.2 percent, respectively), and 616 were non-compliant (8.7 percent), with no ID required to form a shell company (Findley et al. 2014 appendix A2.5 and A2.6).

Perhaps the most surprising finding was that OECD countries, who are also FATF founder-members, performed much worse than offshore centers, which were (and are still) routinely stigmatized for their supposed lax regulation and complicity with money launderers. Those shopping for an untraceable company offshore would on average have to approach more than 25 providers before obtaining satisfaction, compared with around 10 for shell company providers from OECD countries. Even developing countries (with a Dodgy Shopping Count of 12) performed on average better than the OECD countries.

The results within the OECD countries were just as noteworthy. Australia, Canada, Britain and United States did especially poorly. The US was distinguished from the rest of the sample by its much higher rate of non-response (2336 non-responses from solicitations 2996, 78 percent) and much lower rate of compliance (62 replies, 2 percent, once again combining

partially compliant with compliant). There were 324 refusals (11 percent). Thus while it was difficult to get a response from a US provider (probably because so many have an exclusive focus on the domestic market), if customers did get a response, they had a better than 40 percent chance (274 non-compliant responses from a total of 660) of being offered exactly the sort of untraceable shell company prohibited by international rules that the United States itself had done so much to propagate. Providers from Delaware, Wyoming and Nevada were especially blasé, worrying because these jurisdictions are disproportionately like to market shell companies to international clients.

The second round of Global Shell Games closely followed the research design of the first described above. The two relevant change was the more extensive search for CSPs in assembling the larger pool, many of which were then reserved for the separate Banking Bad study.

What changed after a decade? As of October 2021, the second round had made slightly over 5,400 solicitations (18,710 including all the Banking Bad approaches). This larger figure reflected both a larger number of providers found in the second search (remembering that the CSPs are a convenience sample, given the lack of any central registration requirement), and the fact that there were at least three rather than two rounds of approaches to each provider, once again with a wash-out period to guard against detection. Of these solicitations 13,115 did not receive responses (a non-response rate of 70 per cent), while of the responses 2121 were compliant (11 percent), 2716 were refusals (15 percent), and 821 were non-compliant (4 percent).

However, as noted earlier, because the Banking Bad solicitations were focused on getting access to the banking system rather than shell company formation in itself, the Table below breaks out the Global Shell Games 2 results separately. Comparisons between the two Global Shell Games rounds must take into account that the pools for each were different. Aside from the search protocol being different and more exacting second time around (which might have brought in more domestic-only "never responders"), the industry itself had changed, with some providers going out of business (most notably Mossack Fonseca), and others entering. It is very hard to tell how these changes in the pool affect the changes in results between the two rounds, and thus conclusions must be tentative.

Table 2. Global Shell Games 1 & 2 Results, Global Shell Games 2 Plus Banking Bad

Outcome	GSG round 1	GSG round 2	GSG 2 & Bank Bad
Non-response	60.5%	61.9%	68.7%
Non-compliance	8.7%	10%	7.3%
Partial Compliance	10.2%	9.1%	5.4%
Full Compliance	9.7%	5.6%	4.3%
Refusal	10.5%	14.5%	14.8%

The comparison between the two Global Shell Games rounds indicates that there was a decline in full and partial compliance, and an increase in non-compliance; according to this measure, things are getting worse rather than better. The global Dodgy Shopping Count has marginally fallen (i.e., worsened), such that whereas a decade ago it would have taken an

average of 11 approaches to obtain a response from a CSP offering a shell company without customer identification, now it would require an average of 10 approaches. These differences may be too slight to put much weight on, but at the very least it seems hard to maintain that the effectiveness of beneficial ownership regulations has improved over the last decade.

Figure 3. River Plot Comparing Findings of Global Shell Games 1 and 2
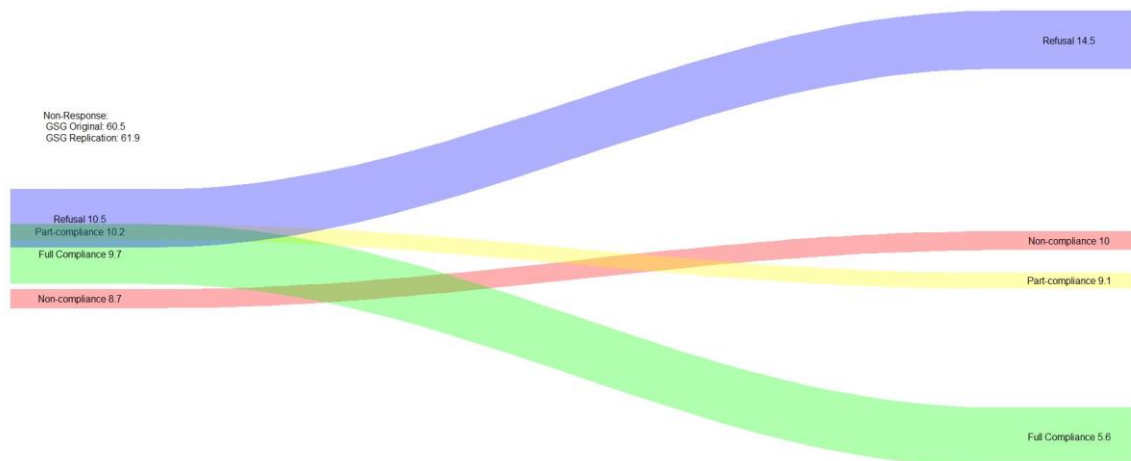
What might account for this disappointing result of static or declining policy effectiveness over the last 10 years? Though it can only be speculation, it is interesting to consider that the major beneficial ownership policy development in this period has been the rise of public beneficial ownership registries. These are in contrast to previous arrangements where company registries held (at best) the identity of the legal owner of the company, who might have been simply a nominee stand-in for the real owner in control. Despite being enthusiastically championed by the UK, European Union and many NGOs, these registries do not contain any verification mechanism. Beneficial owners are bound by law to declare their status on the registry, but the registry does not require any proof in support. Many entries in the UK company registry are obviously false, including Mr Jesus Christ whose country of residence is listed as "Heaven," and the inscrutable Mr XXXXXX. Given how full compliance and partial compliance are coded in Global Shell Games, in line with verification demands for identity documents, the rise of these registries does not show up in these studies because registries do not demand documentary proof of identity (as FATF regulations require). Whether this mismatch is a problem for the Global Shell Games research design or the policy of unverified beneficial ownership registries (or both) is an open question.

Conclusion: Comparative Answers from the Two Projects

Having laid out the individual design and results of Regulation of Illicit Financial Flows and Global Shell Games (rounds 1 and 2), what does the combined picture tell us about the effectiveness of FATF beneficial ownership rules, both across time and across countries?

Comparing first the RIFF composite regulatory scores against those from the Global Shell Games 1 what patterns are apparent? As noted, the RIFF dataset is primarily designed to capture the regulatory and financial secrecy a formal legal level. It is not primarily designed to assess effectiveness.
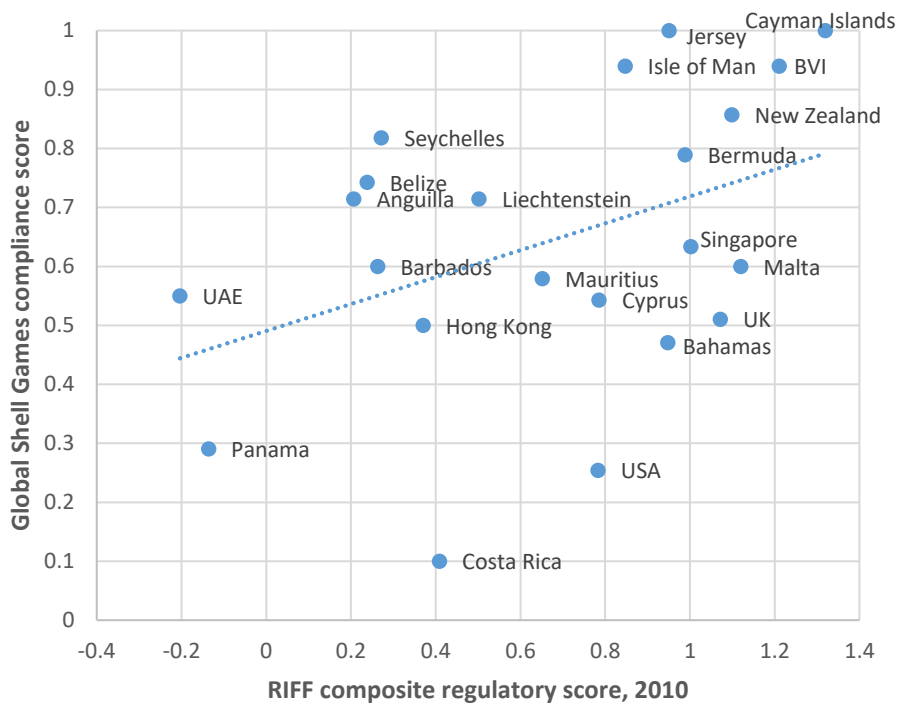

Figure 4. Relationship between 2010 RIFF composite regulatory scores, and Global Shell Games service provider compliance scores

Figure 4 shows the relationship between the RIFF composite regulatory scores for 2010, and the Global Shell Games 1 compliance scores, representing service providers' adherence to Know Your Customer requirements for clients seeking to purchase shell companies (note that jurisdictions with less than 10 service provider responses are omitted). As can be seen, there is a relatively strong relationship between the two indicators (overall r^2 of 0.17), suggesting that the areas of regulatory change captured in the RIFF are to some extent indeed being reflected in changes in service provider behavior. To this extent, changes in the rules are indeed associated with practical changes in behavior and effectiveness.

In this sense, RIFF's 2010 results confirm perhaps the most counter-intuitive aspect of Global Shell Games 1, i.e. that those countries stigmatized as "offshore secrecy jurisdictions," are actually more compliant than their onshore peers and FATF members. A possible retort might be that progress offshore is largely the result of pressure from the FATF (and the US in particular). While probably true, this does not change the picture of double-standards when it comes to weak regulatory compliance by large, rich states inside the tent and compared to stricter adherence with the rules by smaller, poorer ones kept outside the key clubs.

Focusing on particular country results, it can also be seen that there are a number of jurisdictions that show a particularly wide discrepancy between the overall level of regulatory reform on paper, and observed service provider due diligence. In this respect, among major intermediary jurisdiction, the United States stands out as by far the most important outlier.

Observed practice in the UK also apparently somewhat underperforms the overall state of regulations on paper—particularly when viewed, rather ironically, in comparison to the leading offshore company incorporation jurisdictions among the UK's own overseas territories and dependencies. This again confirms the picture of relative offshore virtue above.

Comparisons with the second round of Global Shell Games 2020-21 are hindered by the mismatch of time period covered: the RIFF ends in 2015. Some consolation might be offered in that the RIFF data suggest that a "big bang" of beneficial ownership legal reform occurred in 2012-13, when the FATF was refreshing its Recommendations and introducing the distinction between technical compliance and effectiveness. If so, the Global Shell Games rounds might off something of a crude "before and after" picture, but this can only be guesswork.

What, then, can be said about the relationship between rules and reality in AML regulation mandating the transparency of shell companies? The RIFF database show a legal and regulatory landscape that was transformed 1990-2015, in keeping with the broader growth of the global AML system at this time. From a baseline of little or no regulation in 1990, it shows first onshore countries instituting far-reaching legal reforms to counter Illicit Financial Flows, followed later by offshore jurisdictions introducing similar measures, but perhaps even going further than their onshore counterparts.

To what extent is the general transformation in the rules governing the provision of shell companies reflected in the practical availability of untraceable shell companies? Here the conclusion can only be tentative; as the Global Shell Games study only began collecting data in 2010, it may well have missed the most important period of regulatory reform in the previous 20 years. However at least in terms of the last decade, the evidence from the Global Shell Games studies failed to show any practical improvement in the effectiveness of beneficial ownership regulation. It may actually be easier to buy an untraceable shell company now than it was 10 years ago. In sum, the results tend to confirm worries about a disconnect between AML rules and reality.