The Orchestration of Global Standards Combatting Anonymous Incorporation: A Field Experiment

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Abstract
In order to fight money laundering and terrorist financing, the world’s leading governments created the Financial Action Task Force (FATF) and empowered it to issue and enforce regulations in the domain. One of the FATF’s most important rules requires that private corporate service providers demand notarized identification documents when incorporating new businesses in order to prevent anonymous incorporation. But large questions arise over the FATF’s effectiveness at inducing compliance with this rule. To investigate, this study employs a randomized field experiment. Using aliases and posing as consultants, we sent more than 3,000 emails requesting confidential incorporation to corporate service providers in 160 countries. Experimental conditions varied information in the emails to test the effectiveness of other modes of governance available to the FATF. We informed services about FATF rules, invoked a threat of legal penalties (hierarchy), and appealed to global norms (collaboration). We compared these treatments to a condition that attributed the standards to the private Association of Certified Anti-Money Laundering Specialists (ACAMS) and found that ACAMS significantly increased compliance compared to the other conditions. The results provide causal evidence suggesting confirmation of the orchestrator capabilities hypothesis that IGOs orchestrate when they lack capabilities to achieve their goals through other means. Indeed, the FATF strongly endorses private certification bodies. A fifth condition, attributing the documentation standards to both ACAMS and the FATF, caused a decrease in compliance compared to ACAMS alone, suggesting that closer association of the two bodies (perhaps through employment of other orchestration techniques beyond endorsement) might undermine the compliance goal.
The Orchestration of Global Standards Combatting Anonymous Incorporation: A Field Experiment

Alarmed at the havoc wreaked by international money laundering, the Group of 7 countries created the Financial Action Task Force (FATF) in 1989 to combat the rising threat. Hosted by, but formally independent of, the Organization for Economic Cooperation and Development (OECD), the FATF issues policy recommendations for governments to fight money laundering and terrorist financing. It also researches and publishes extensive reports assessing governments’ compliance with the standards. And it “blacklists” countries found to be egregiously violating the rules.

FATF actions combating anonymous shell corporations, however, ultimately target not governments but the private incorporation services and business law firms that create millions of new companies for clients each year. Disturbingly, many of these new corporations are made anonymously – they cannot be traced to an actual person in charge. Law enforcement investigations must therefore effectively stop at post-office boxes. Such anonymous shell corporations enable tax evasion, transfer of funds from government corruption, money laundering, and terrorist financing, along with a host of other international financial crimes.

Given the challenges faced by the FATF in preventing the anonymous incorporation of potentially millions of companies in the borderless domain of the Internet, a serious question arises over the FATF’s ability to fulfill its mandate. Thus, this paper primarily investigates the central hypothesis in the orchestration framework focusing on orchestrator capabilities. We should expect to see orchestration where international governmental organizations (IGOs) “lack the capabilities to achieve their goals through other governance modes” (Abbott et al. 2012).

We employ a field experiment to explore the causal effects of orchestrator capabilities compared to intermediary influence. The experimental design enables greater confidence in the study’s internal validity, going beyond correlation to reflect causal effects. In expectation, randomization balances not only observable factors but all unobservable confounds as well. Only causal effects are left in outcome measures showing differences between experimental conditions. Additionally, performing the experiment in the field with the actual subjects of interest ameliorates external validity concerns that often plague laboratory experiments.

After receiving clearance from our university’s IRB, using aliases we sent more than 3,000 emails to corporate service providers in 160 countries. Each email requested confidential incorporation, but experimental conditions varied the information provided to subjects about international incorporation requirements for identity disclosure. The first condition, the placebo, made no mention of identification standards. The second noted that the FATF requires identity documentation. The third condition invoked the possibility of legal penalties – suggesting hierarchy – for failing to comply with the FATF identification rule. The third treatment implied the governance mode of collaboration by noting the FATF rule but then referencing global norms and expressing an interest in behaving as “reputable businessmen.” A fourth condition attributed the transparency requirements not to the FATF but to the Association of Certified Anti-Money Laundering Specialists (ACAMS), the leading
private certification body and prime candidate for the role of intermediary. A fifth condition attributed the identification standard to both the FATF and ACAMS.

The experimental results suggest that the ACAMS condition caused a significant increase in the compliance rate compared to all other conditions, even the placebo. This provides strong evidence for the orchestrator capabilities hypothesis: IGOs turn to intermediaries when they lack the capability to achieve their goals through other governance modes. Invoking the FATF’s identification rule, legal penalties, and global norms did not increase compliance compared to the placebo. But reference to the private intermediary caused a significant improvement in subject compliance with international law compared to all conditions, suggesting that orchestration should follow.

Indeed, the FATF employs the important orchestration strategy of endorsement. In the FATF’s focal 49 recommendations that outline global standards combatting money laundering and terrorist financing, the FATF mandates that financial investigation officials in member governments be “competent” to enforce relevant domestic laws. In its methodology document instructing member countries on how to insure officials’ competence, the FATF recommends training and certification in standards combatting money laundering and controlling terrorist financing. Some governments have the internal capability to provide the necessary training and certification, but for many countries in practice these services are provided by private certification bodies.

Indeed, in its voluminous official reports the FATF publicly praises governments when bureaucrats receive certification from ACAMS. In many other documents the FATF recommends that financial regulators participate in conferences and workshops sponsored by private standards bodies. Thus, the FATF clearly uses endorsement in orchestrating private intermediaries. But this orchestration employs a decidedly light touch – the FATF did not help to organize ACAMS or other private certification bodies, does not host their meetings, and provides no financing for their activities. But the FATF indeed promotes ACAMS activities that train and certify government personnel and private firms. This presents a puzzle. The experimental results demonstrate weak FATF capabilities to achieve its goals and significantly improved ability of ACAMS to promote compliance compared to all other conditions. Moreover, the FATF is focal and entrepreneurial, intermediaries are available, and member governments appear to hold very different preferences over combating anonymous incorporation. Why not additional orchestration?

The results for the fifth condition suggest a possible answer. When the identity document standards are attributed to both the FATF and ACAMS, compliance rates drop significantly when compared to ACAMS standards alone. One possible interpretation of these results is that endorsement is the “sweet spot” for orchestration in the domain of financial transparency. No orchestration would decidedly undermine the FATF’s fight against anonymous incorporation. Indeed, without the FATF endorsements, it is hard to imagine ACAMS and the other private certification bodies thriving. However, the results suggest that too close an association between the FATF and ACAMS might cause lower compliance rates.

Thus, the relationship between the FATF and ACAMS fits key features of the concept of orchestration, but in a rather quiet way. The FATF has no legal personality and thus cannot make hard law. While the FATF and its standards have been endorsed by the UN Security Council, the World Bank, the IMF, and a plethora of other international organizations, its
regulatory capacity remains very modest. Despite these limitations, the FATF has shown itself to be innovative and aggressive in working to fulfill its mission, including, we argue, by employing orchestration to reach the targets of its regulation. The business of ACAMS is to sell training, conferences, and specialized publications that diffuse knowledge of and compliance with FATF standards among private financial firms, the targets that the FATF largely cannot reach directly. FATF endorsement of private intermediaries clearly promotes its goals; more direct and complete association with the private bodies might undermine them. In the balance of what follows, we develop this argument by providing context for the issue area, an overview of the research design, a discussion of the results, and an assessment of their implications for the orchestration framework.

Background and Motivation
The Financial Action Task Force (FATF) is an inter-governmental organization that both sets standards for and monitors enforcement of regulations to counter money laundering and terrorist financing. The Organization for Economic Cooperation and Development (OECD) physically and institutionally hosts the small 20-member FATF secretariat, but the Task Force is a formally independent institution. As the FATF is not a treaty organization it has no legal personality and can only make soft law. The FATF monitors practices and patterns in the control of money laundering and terrorist financing in order to nudge governments toward more effective enforcement (FATF 2010a). Because this mission involves the responsibility of inducing more than 180 countries to bring their corporate, financial and banking codes, criminal law, and (in relation to the financing of terrorism) national security policy in line with FATF standards, the FATF epitomizes the situation of a body with “ambitious governance goals but moderate governance capacity” (Abbott, Genschel, Snidal, and Zangl 2012).

All evidence suggests that the FATF faces a formidable challenge in inducing compliance among the private firms that constitute the ultimate target of its regulations. Through innovative “audit” studies, Sharman (2009, 2010) has found that anonymous corporations are remarkably easy to establish in many jurisdictions, including the United States and United Kingdom, despite the FATF prohibition on such untraceable corporations. In our follow-up field experiments (Findley et al. 2011, 2012) assessing the compliance of 3,500 firms in 182 countries – 1,400 in the United States and 2,100 elsewhere – we learned that at least one fourth of all contacted companies worldwide failed to ask for notarized identifying documents. The response rate was fifty-one percent, which means that more than half of the companies that actually answered our inquiries failed to require certified proof of ID. In many countries, including Denmark, Panama, and the Czech Republic, more than three fourths of responding services failed to require notarized identification. Incorporation services in the United States, though not business law firms, failed to require certified ID for 78 percent of the inquiries they answered, as did China’s firms for 80 percent, Mexico’s for 89 percent, and Kenya’s for an astounding 93 percent.

To address this global problem, the FATF has published formal recommendations for its 36 member states and the 180 other jurisdictions that have signed onto its standards. First composed in 1990 and revised on several occasions since, these standards focus on measures to be taken by financial institutions, businesses, law firms, and relevant government officials. Additionally, the recommendations outline legal procedures for
dealing with noncompliance and give instructions for international cooperation on related
matters (FATF 2010b).

FATF recommendations fall under what Abbott and Snidal term “soft law” (2000). Hard law
in the same domain has been established by the UN Convention against Transnational
Organized Crime and the International Convention for the Suppression of the Financing of
Terrorism. But it is generally understood that the FATF’s standards, given its reporting
practices and ability to “blacklist,” has sharper teeth than the two UN conventions. Even
confirmed realists like Daniel Drezner argue that states take their obligation to meet FATF
standards seriously (2007). We quote the two most relevant FATF Recommendations (5
and 33) here:

“Financial institutions should undertake customer due diligence measures, including
identifying and verifying the identity of their customers, when:

- establishing business relations;
- carrying out occasional transactions: (i) above the applicable designated threshold; or (ii)
  that are wire transfers in the circumstances covered by the Interpretative Note to Special
  Recommendation VII;
- there is a suspicion of money laundering or terrorist financing; or
- the financial institution has doubts about the veracity or adequacy of previously obtained
  customer identification data” (FATF 2010b, 4).

Later, Recommendation 5 explicitly enjoins the identification of “the customer and verifying
that customer’s identity using reliable, independent source documents, data or information”
(FATF 2010b, 5). Recommendation 33 states: “Countries should take measures to prevent
the unlawful use of legal persons [i.e., companies] by money launderers. Countries should
ensure that there is adequate, accurate and timely information on the beneficial ownership
and control of legal persons that can be obtained or accessed in a timely fashion by
competent authorities” (FATF 2010b, 11).

Growing from a membership of 16 at its founding, the FATF currently comprises 36
member countries, two regional organizations, and 24 observers including international
financial institutions, other intergovernmental organizations, and a number of non-
governmental organizations. Beyond the usual-suspect OECD countries, the FATF also lists
as members Argentina, Brazil, China, Hong Kong, India, Russia, Singapore, and South Africa.
Eight associate members include regional satellite organizations built on the FATF model
and devoted to spreading FATF standards to combat money laundering and terrorist
financing in the regions of Asia/Pacific, the Caribbean, Eurasia, Eastern/Southern Africa, the
Council of Europe, West Africa, South America, and the Middle East/North Africa.

While much of the FATF’s activity through its voluminous reports focuses on government
regulation, the actual locus of compliance with FATF standards is sub-national. A perusal of
FATF reports makes clear that its ultimate targets are incorporation services, banks, law
firms, brokerages, and other financial institutions that enable – deliberately or unwittingly –
money laundering and terrorist financing. The sense emerges from the reports that the
FATF faces strong limitations on its ability to affect the behavior of the target private actors.
This is thus an archetypal case for orchestration (see Abbott, Genschel, Snidal and Zangl
2012).
The FATF can be compared to other intergovernmental organizations (IGOs) on the dimensions relevant to orchestration. First, the FATF possesses intermediate capability – it cannot regulate private actors or states directly, but it can blacklist governments whose statutes fail to incorporate international transparency standards. First published in 2000, the inaugural official list of “Non-Cooperative Countries and Territories” mostly targeted “tax havens” such as the Bahamas, the Cayman Islands, Liechtenstein, and Panama, but it also rebuked Israel, the Philippines, and Russia – signaling that states with significant resources could also come under censure. Indeed, later blacklisted countries included Egypt, Hungary, Indonesia, Nigeria, Ukraine, Iran, and Pakistan, among others.

Governments worked assiduously to remove themselves from the blacklist and, tellingly, by March 2011 no countries remained on the FATF blacklist as having failed to commit to the transparency standards. However, several nations persist on the “gray” list by neglecting to substantially implement the standards in policy and/or practice. So the FATF’s work of browbeating and shaming governments into legislating against money laundering and terrorist financing continues despite what most would acknowledge as significant statutory progress.

But the FATF’s leadership also understands that instantiating FATF standards into national law is only the beginning of the project; ensuring that private actors actually comply with the standards is more important still. And in reaching private actors and altering their behavior, the FATF is much more limited. Orchestrating the efforts of private intermediaries could potentially help close the gap between national law and industry practice.

Second, the FATF finds itself in the central position for the issue area of international financial transparency. On the orchestration dimension of focality, the FATF thus appears very focal as the only global IGO of its kind producing standards for anti-money laundering and the control of terrorist financing. The regional associations all take their cues about standards from the FATF in Paris, and all country reports by the regional organizations employ the FATF standards as the metrics against which government practices are compared. FATF standards have been endorsed by a huge range of other international organizations, as well as in the text of various hard law treaties and conventions.

Third, the FATF is an unusually entrepreneurial organization. It prides itself on being business-like and efficient. There are no set speeches or media events at its plenaries, delegates often refer to each other by their first names in session, speakers almost always keep their remarks short and to the point, routinely apologizing if they speak twice on the same point (Author’s observations, FATF plenaries 2007 and 2009). Interviewees from bodies like the United Nations Office on Drugs and Crime and the World Bank remark (somewhat wistfully) on the energy and success of the FATF. The FATF succeeded in establishing its worldwide primacy over this sensitive policy area by 2000, at which time it had a secretariat of 9 and budget of under $1 million. It pioneered the use of unconventional strategies like blacklisting. Despite its own lack of legal standing, it feels at ease in issuing commands to both member and non-member states as to how their laws and in some cases constitutions must be changed, commands which are obeyed more often than not.

Fourth and finally, the FATF has been delegated significant autonomy from member governments in promulgating its standards. The FATF has publicly threatened to suspend or expel member states like Austria, Turkey and Argentina that have proved too dilatory in
adopting required standards. It sometimes issues findings that admonish its most powerful
governments for their neglect of the standards. For example, the official FATF report on the
United States in 1997 was critical of the U.S. government’s laissez-faire approach to the fight
against money laundering. However, the most current report on the U.S., issued in 2006,
directed more praise at the U.S. for the strong provisions in the USA Patriot Act of 2001,
which tightened many of the provisions in U.S. law that had previously enabled money
laundering (FATF 2006).

Nevertheless, the 2006 FATF report on the U.S. also reprimanded the U.S. government for
failing to implement key anti-money laundering provisions. The report noted that for the
vast majority of U.S. companies, which do not offer securities, “...the information available
within the jurisdiction is often minimal with respect to beneficial ownership.” In other
words, when investigating criminal activities, law enforcement officials have no way to
learn who is actually in charge of the companies involved – the firms are anonymous shell
corporations. The report continues, “in the case of the states visited [i.e. Delaware and
Nevada], the company formation procedures and reporting requirements are such that the
information on beneficial ownership may not be adequate and accurate, and competent
authorities would not be able to access this information in a timely fashion” (FATF 2006,
237-238). Reading through the polite bureaucratese, it is clear that U.S. state laws
fundamentally frustrate FATF efforts to combat money laundering when it involves the
United States, and the U.S. was publicly awarded the failing grade of “Non-Compliant” for
this section of the standards.

Thus the FATF evaluations, such as the 2006 U.S. report, implicitly acknowledge that the
organization is quite limited in its ability to reach into countries and compel compliance of
the actual service providers with international financial transparency law for many of the
reasons enumerated in the orchestration framework: it is effectively barred from regulating
states directly, it has little actual enforcement clout beyond the shaming effects of the
blacklist, and it cannot delegate authority to another IGO or state. Because its budget is
currently less the $3 million, the FATF does not have the administrative capacity to train
government officials on anti-money laundering practices that might improve compliance.
Again, this makes the international financial transparency regime a strong candidate for
orchestration.

**ACAMS and its Relationship with the FATF**

The previous section explained the nature and functioning of the FATF, but what of the
“orchestratee”? The Association of Certified Anti-Money Laundering Specialists, or ACAMS,
is fundamentally the product of one person: Charles A. Intriago. The Association grew out of
Intriago’s newsletter, *Money Laundering Alert*, which was launched in October 1989, just
before the FATF was created, and at a time when the United States was almost the only
country that had criminalized money laundering. The newsletter grew into a subscription
website ([www.moneylaundering.com](http://www.moneylaundering.com)), and series of conferences. The discussion to found
the Association began in the late 1990s and came to fruition in 2001. An important model
was provided by the Association of Certified Fraud Examiners, founded in 1988. By
capitalizing on its first-mover advantage in the field of anti-money laundering, ACAMS has
pulled itself up by its bootstraps. Despite the ‘Certified’ moniker, the certification is self-
referential, given that ACAMS itself has no delegated authority from either the FATF or any national government, though increasingly it does garner endorsements from both. Intriglio himself sold out of the organization for $12 million, leaving in 2008 to found the Association of Certified E-Discovery Specialists and the Association of Certified Financial Crime Specialists.

ACAMS is headquartered in Miami, and now has over 12,000 members worldwide. Although the majority are from the United States, there are significant ACAMS nodes in Latin America, the Caribbean, Europe, Asia and Africa. In Britain, however, rival organizations such as the Institute for Money Laundering Prevention Officers, also founded in 2001, mean that ACAMS does not enjoy the same dominance in the United Kingdom as it does elsewhere. The centerpiece of ACAMS is the certification process, aimed at individuals in banks and other private firms as well as government agencies. Indeed, increasingly it is public bodies that comprise much of the business growth for ACAMS (Author’s interview March 2012).

The certification process involves mastering a handbook, which is structured around the FATF Recommendations, and then passing a 210-minute exam, a process that retails at $1600. Through its training, the Association thus serves to diffuse and entrench FATF standards among the target private financial firms that are the crucial “last mile” in terms of compliance, exactly those who the FATF finds it most difficult to reach. ACAMS also offers a range of other bespoke training courses, as well as regular conferences and seminars and a money publication. In the United States in particular, the ACAMS qualification has become almost obligatory as a means by which to communicate expertise and credibility in the field.

There is no formal relationship between ACAMS and the FATF. Indeed, the FATF had no formal outreach to any part of the private sector before 2007, and it is still very much focused on inter-governmental processes. Yet many members of ACAMS board are former U.S. government employees who had roles within the FATF and maintain close contacts with the organization (Author’s interviews 2012). The FATF orchestrates by setting and amending its standards, and ACAMS has since its creation has acted as a transmission belt to private firms (the targets in the orchestration framework). Co-ordination is based on the profit motive rather than normative appeal, though members of both organizations do hold strong value commitments to fighting financial crime.

Given that ACAMS operates in an international market, its examination and certification process must reflect FATF standards, rather than being based on the national law of the United States or any other single country. Yet the FATF has no legal authority over ACAMS and lacks the means to offer financial or other material support. Aside from creating the demand that keeps ACAMS in business, the FATF has increasingly endorsed and thereby legitimated ACAMS training. In keeping with the orchestration framework, the relationship is based on soft law and indirect coordination to assist and/or bypass states in regulating targets. It should be noted that FATF does not rely exclusively on orchestration, as it also makes direct appeals to private firms and issues guides to best practice in banking and other sectors (or engages in collaboration as described in the orchestration framework paper).

Orchestration in this issue area thus has a “light-touch” quality to it, or what we refer to in the title as “orchestration pianissimo,” played very softly. The FATF endorses the private Association of Certified Anti-Money Laundering Specialists (ACAMS). These endorsements
occur through positive prescriptions in FATF policy documents encouraging anti-money laundering training and certification for which ACAMS is the dominant private provider.

More explicitly, the FATF endorses ACAMS in its country reports in the sections titled “Supervision and Oversight,” which at times specifically praise government personnel for receiving ACAMS certification. For example, in its 2008 report on Canada, the FATF assesses the policies and procedures of the government’s Financial Transactions and Reports Analysis Centre (FINTRAC). The report praises FINTRAC personnel for attending conferences on anti-money laundering and the control of terrorist financing and also for having a significant number of officials that are certified by ACAMS (FATF 2008, 185). Likewise, the report commends the Canadian government’s Office of the Superintendent of Financial Institutions (OSFI) for having nine of its staff as members of ACAMS and three certified by ACAMS as anti-money laundering specialists (FATF 2008, 187).

ACAMS membership and certification is thus publicly encouraged by the FATF, but the FATF did not catalyze the creation of ACAMS, its does not support ACAMS financially, and it does not help organize or host ACAMS meetings. This relationships thus reflects an orchestration, rather than a delegation, framework. Despite the FATF’s frustration in its inability to encourage all governments to regulate target private actors effectively, and despite the need for energetic orchestration through an intermediary that ACAMS might provide, the FATF has chosen only to endorse ACAMS membership and certification.

According to the public record and multiple interviews with personnel from both organizations, endorsement is the only orchestration activity that the FATF employs vis-à-vis ACAMS. The question of why FATF orchestration of ACAMS is so quiet provides one of the central puzzles of this study. Why the light touch?

In asking this question of officials at both the FATF and ACAMS, it appears that the FATF wants to avoid the appearance that it is playing favorites with any one certification group over the others, even if ACAMS is the dominant actor in the industry. Moreover, the FATF had no official relations with any private actors until 2007, and since then the public-private links have been fleeting and tenuous. The FATF, we were told, did not openly promote ACAMS because it is an intergovernmental body focused primarily on government activities.

Senior FATF Secretariat official and former U.S. Treasury bureaucrat, Kevin Vandergrift, summarized the FATF’s position on ACAMS: “The FATF does not have any formal relationship with ACAMS, nor does the FATF certify or endorse any qualifications offered by private or commercial bodies. We are of course pleased that AML/CFT training is provided by bodies such as ACAMS” (Author correspondence). In a nutshell, there is no formal relationship, but the FATF is happy that ACAMS is working with firms to improve dissemination of standards for anti-money laundering and the control of the financing of terrorism.

Whatever the reason for the lack of formal connections between ACAMS, it is possible that this quiet orchestration may function better to promote financial transparency standards than a more formal relationship. ACAMS standards alone may more effectively cause incorporation services to require identifying documents than FATF standards in conjunction with ACAMS. In an issue area where there is broad neglect of international standards and many actors are behaving inappropriately, a private actor promoting voluntary standards may thus have greater sway over private firms than the
intergovernmental institution. And more formal connections between the IGO and the private certifier may actually undermine its effectiveness and work against the goals of both.

We thus compare the effectiveness in causing compliance of priming incorporation services with information about the two bodies independently. We also investigate the additive effect of ACAMS standards when combined with FATF requirements. This leads us directly to the design of the field experiment.

**Research Design and Procedures**
Following prominent precedents in economics and political science (see Bertrand and Mullainathan 2004, Carpusor and Loges 2006, and Butler and Brookman 2011), this research makes use of aliases to hide from subjects the fact that they are part of an experiment. Before we proceeded, the project received clearance from BYU’s Institutional Review Board, which cleared the research for two reasons. First, participants are firms and thus not “human subjects,” so they fall under the Common Rule’s “exempt” category from IRB scrutiny in experimental research.

Second, the research fulfills all of the Belmont Report guidelines for waiving the requirement of informed consent (see Belmont Report 1979). First, the costs were minimal. We estimate that it took subjects 5-10 minutes to answer our inquiries, and they typically responded with “canned” language likely used habitually with clients. Second, the research caused no emotional or physical pain. Indeed, subjects’ actions were entirely consistent with their normal day-to-day routines. Third, the research could not be performed in another way. Informing actors who may regularly violate international laws and standards that they are being scrutinized would likely cause them to alter their behavior and thus induce debilitating bias to results. Fourth and finally, the benefits of the research are significant. Since no systematic cross-national research has been conducted on the actual behavior of incorporation services, this study promises significant new knowledge in a vital area of international relations.

The subject pool was developed with online searches in Google using a systematic set of related search terms employed in tandem with host country names. We subsequently gathered contact information from the web sites of companies suggested by the searches. The set of firms selected for the experiment should be roughly representative of incorporation services that have an online presence. Because Google searches list companies by their page rank, the subject pool is naturally weighted toward the companies with the most prominent profiles on the Internet and that thus likely incorporate the most firms. Given that all subject firms have an Internet presence, observed non-compliance with international law likely understates the actual rate of non-compliance: the most questionable incorporation services probably fly below the radar and thus are less likely to appear on the web.

We randomly assigned alias identities that purportedly hailed from one of eight low-corruption, minor-power OECD countries that collectively we dubbed “Norstralia”: Australia, Austria, Denmark, Finland, the Netherlands, New Zealand, Norway, and Sweden. To further hide the purposes behind the email inquiries, researchers employed Google mail accounts secured with cell phone numbers acquired in Uganda and further veiled by acquiring the accounts within proxy servers. Also, all email correspondence occurred through a proxy...
server network so that the aliases’ originating IP addresses were randomly distributed throughout the world, with a concentration in Europe and East Asia.

We developed and randomly assigned 33 different email messages all requesting “confidential” incorporation for tax and liability reasons. Each email contained the same information but was written with a different style, diction, and syntax from the others. For aliases based in non-English-speaking countries, two small linguistic errors were introduced to enhance authenticity. The language for each experimental condition was folded into these 33 email texts. The variety of emails minimized the risk of detection and reduced the probability that anomalies or emphases in the language of a specific email could bias the overall results. Robustness checks indicate few fixed effects for specific letter texts, and controlling for the fixed effects did not qualitatively alter the results reported below. Examples of emails for each experimental condition are available in the appendix.

We randomly assigned one of four experimental conditions to each incorporation service. (1) Placebo: the email requests confidential incorporation for tax and liability reasons but provides no additional information about international standards. (2) FATF: the email references the Financial Action Task Force and its requirements for identity disclosure. (3) ACAMS: the email notes the Association of Certified Anti-Money Laundering Specialists and references its identity disclosure standards. (4) FATF + ACAMS: the email mentions that both the FATF and ACAMS require identity disclosure. See appendix for examples.

The outcome of interest is the degree to which firms require notarized identity documents as part of the incorporation process. Responses were categorized according to whether they (1) required no documents, coded Non-Compliant; (2) asked for at least one identifying document but did not require that it be notarized, coded Part-Compliant; (3) demanded notarized copies of identification, coded Compliant; (4) Refusal of service; or (5) No Response.

Results
Figure 1 reports the frequency distributions for each of the experimental conditions across all five outcomes. The substantive differences between experimental conditions are relatively modest, and the statistical differences, as might be inferred from the 95-percent confidence bars, are also marginal. There were, however, some small differences in outcome proportions across the treatments.

Notably, the ACAMS condition displayed marginally less non-compliance, more part-compliance, more full compliance, and fewer refusals than the other conditions, with response rates roughly similar to the Placebo and FATF conditions. This is very modest evidence for the hypothesis that the ACAMS condition might prove especially effective.

Interestingly, against expectations the greatest differences appear between the ACAMS condition and the FATF+ACAMS condition. It might be expected that information about the reinforcing standards of both the intergovernmental and private organizations would have an additive effect on the degree of compliance. Instead, the combined condition appears to have caused the opposite result: subjects in the FATF+ACAMS condition were less likely to respond, but when they did reply they were also less likely to comply with international standards than in the ACAMS condition.
Table 1 reinforces this impression by displaying the contingent frequencies for the four experimental conditions across the five outcomes. Simple difference of proportions tests suggest that the differences in non-compliance and compliance rates between the ACAMS and FATF + ACAMS conditions are statistically significant at the .1 level, as shown in bold.

Because, in expectation, random assignment balances both observable and unobservable factors across experimental conditions, such simple statistical analysis of results is defensible. Indeed, randomization checks indicate that the co-variates of country group (OECD, tax havens, and developing countries) and company type (incorporation service or law firm) were well balanced across conditions. So the simple difference of means test is defensible. However, it is very likely the case that given response outcomes are conditional on other outcome categories and therefore may require a more sophisticated analysis strategy.

Multinomial logit provides a method that can account for conditional selection across multiple outcomes, and it also requires relatively few strong assumptions about the order or priority among the outcomes. It thus seems particularly appropriate given the structure of our data. For example, ordered probit would appear less applicable given the fact that there is not a natural order to the five outcomes. For example, is No Response more law-abiding than Part-Compliant? Is Refusal better than Compliant? Multinomial logit requires no ordering (as in ordered probit) or staging (as in a selection model) of the outcomes and thus appears better suited to our analysis purposes here.

Table 2 displays the predicted probabilities generated by multinomial logit estimation for each of the categories across the experimental conditions. It also displays the differences between the conditions and notes the statistical significance of the differences. This more sophisticated analysis reinforces the impressions created by Figure 1 and Table 1: the major differences between conditions are, surprisingly, between the ACAMS treatment and the FATF + ACAMS treatment.

Three of these differences are statistically significant at the .05 level, as shown in Table 2. It appears that the ACAMS treatment caused significantly fewer Non-Compliant responses, more Part-Compliant responses, and also more Compliant responses than the FATF + ACAMS condition. On the one hand, this provides some evidence for the hypothesis that the ACAMS condition may cause greater compliance with international transparency standards. On the other hand, it suggests that, contrary to expectation, the combined treatment explicitly noting both FATF and ACAMS standards appeared to cause lower degrees of compliance compared to the ACAMS condition.
Figure 1: Outcome Proportions and Differences from Placebo across Experimental Conditions

![Graph showing outcome proportions and differences from placebo across experimental conditions]

Table 1: Contingency Table for Experimental Conditions and Outcomes

<table>
<thead>
<tr>
<th>Condition</th>
<th>N</th>
<th>No Response</th>
<th>Non-Compliant</th>
<th>Part-Compliant</th>
<th>Compliant</th>
<th>Refusal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Placebo</td>
<td>593</td>
<td>271</td>
<td>48</td>
<td>87</td>
<td>119</td>
<td>68</td>
</tr>
<tr>
<td>Proportion</td>
<td></td>
<td>45.7%</td>
<td>8.1%</td>
<td>14.7%</td>
<td>20.1%</td>
<td>11.5%</td>
</tr>
<tr>
<td>FATF</td>
<td>230</td>
<td>105</td>
<td>22</td>
<td>35</td>
<td>45</td>
<td>23</td>
</tr>
<tr>
<td>Proportion</td>
<td></td>
<td>45.7%</td>
<td>9.6%</td>
<td>15.2%</td>
<td>19.6%</td>
<td>10.0%</td>
</tr>
<tr>
<td>ACAMS</td>
<td>108</td>
<td>51</td>
<td>5b</td>
<td>20</td>
<td>23b</td>
<td>9</td>
</tr>
<tr>
<td>Proportion</td>
<td></td>
<td>47.2%</td>
<td>4.6%</td>
<td>18.5%</td>
<td>21.3%</td>
<td>8.3%</td>
</tr>
<tr>
<td>FATF + ACAMS</td>
<td>113</td>
<td>60</td>
<td>13</td>
<td>14</td>
<td>15a</td>
<td>11</td>
</tr>
<tr>
<td>Proportion</td>
<td></td>
<td>53.1%</td>
<td>11.5%</td>
<td>12.4%</td>
<td>13.3%</td>
<td>9.7%</td>
</tr>
</tbody>
</table>

a Significantly different from Placebo at .1 level

b Significantly different from ACAMS + FATF at .1 level
### Table 2: Predicted Probabilities from Multinomial Logit Model & Differences across Experimental Conditions

<table>
<thead>
<tr>
<th>Condition</th>
<th>N</th>
<th>No Response</th>
<th>Non-Compliant</th>
<th>Part-Compliant</th>
<th>Compliant</th>
<th>Refusal</th>
</tr>
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<tbody>
<tr>
<td>Placebo</td>
<td>593</td>
<td>45.7%</td>
<td>8.1%</td>
<td>14.7%</td>
<td>20.1%</td>
<td>11.5%</td>
</tr>
<tr>
<td>FATF</td>
<td>230</td>
<td>45.7%</td>
<td>9.6%</td>
<td>15.2%</td>
<td>19.6%</td>
<td>10.0%</td>
</tr>
<tr>
<td>Difference from Placebo</td>
<td></td>
<td>0.0%</td>
<td>1.5%</td>
<td>0.5%</td>
<td>-0.5%</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Difference from ACAMS</td>
<td></td>
<td>-1.6%</td>
<td>4.9%</td>
<td>-3.3%</td>
<td>-1.7%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Difference from ACAMS + FATF</td>
<td></td>
<td>-7.4%</td>
<td>-1.9%</td>
<td>2.8%</td>
<td>6.3%</td>
<td>0.3%</td>
</tr>
<tr>
<td>ACAMS</td>
<td>108</td>
<td>47.2%</td>
<td>4.6%</td>
<td>18.5%</td>
<td>21.3%</td>
<td>8.3%</td>
</tr>
<tr>
<td>Difference from Placebo</td>
<td></td>
<td>1.5%</td>
<td>-3.5%</td>
<td>3.8%</td>
<td>1.2%</td>
<td>-3.1%</td>
</tr>
<tr>
<td>Difference from FATF</td>
<td></td>
<td>1.6%</td>
<td>-4.9%</td>
<td>3.3%</td>
<td>1.7%</td>
<td>-1.7%</td>
</tr>
<tr>
<td>Difference from ACAMS + FATF</td>
<td></td>
<td>-5.9%</td>
<td><strong>-6.9%</strong>&lt;sup&gt;d&lt;/sup&gt;</td>
<td><strong>6.1%</strong>&lt;sup&gt;b&lt;/sup&gt;</td>
<td><strong>8.0%</strong>&lt;sup&gt;b&lt;/sup&gt;</td>
<td>-1.4%</td>
</tr>
<tr>
<td>FATF + ACAMS</td>
<td>113</td>
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<td>12.4%</td>
<td>13.3%</td>
<td>9.7%</td>
</tr>
<tr>
<td>Difference from Placebo</td>
<td></td>
<td><strong>7.4%</strong>&lt;sup&gt;a&lt;/sup&gt;</td>
<td><strong>3.4%</strong>&lt;sup&gt;c&lt;/sup&gt;</td>
<td>-2.3%</td>
<td><strong>-6.8%</strong>&lt;sup&gt;a&lt;/sup&gt;</td>
<td>-1.7%</td>
</tr>
<tr>
<td>Difference from FATF</td>
<td></td>
<td>7.4%</td>
<td>1.9%</td>
<td>-2.8%</td>
<td>-6.3%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Difference from ACAMS</td>
<td></td>
<td>5.9%</td>
<td><strong>6.9%</strong>&lt;sup&gt;d&lt;/sup&gt;</td>
<td><strong>-6.1%</strong>&lt;sup&gt;b&lt;/sup&gt;</td>
<td><strong>-8.0%</strong>&lt;sup&gt;b&lt;/sup&gt;</td>
<td>1.4%</td>
</tr>
</tbody>
</table>

**Bold** indicates statistical significance

- **a** Significantly different at .1 level with Non-Compliant as baseline condition
- **b** Significantly different at .05 level with Non-Compliant as baseline condition
- **c** Significantly different at .1 level with Compliant as baseline condition
- **d** Significantly different at .05 level with Compliant as baseline condition

The FATF + ACAMS treatment also appeared to cause lower compliance compared to the Placebo condition at the .1 level of significance, a result that is robust in a selection model. The most likely explanation for these results is that the combination of information on both FATF and ACAMS standards triggered an alarm in the minds of some subjects, and they engaged in “soft refusal” by failing to reply to the inquiry. If the remaining subjects that actually responded did not alter their standard procedures in reaction to the treatment, this may have left a greater proportion of non-compliant subjects in the pool compared to the other conditions where response rates were higher. The soft refusals may thus help account for the lower compliance rates.

Interestingly, this soft-refusal explanation does not hold for the ACAMS treatment. In executing related experiments on the same subject pool, we have tried ten treatments in total. These included the three treatments here: (1) FATF, (2) ACAMS, and (3) FATF + ACAMS. Other treatments reported elsewhere (4) informed subjects that violation of FATF standards may result in legal penalties; (5) invoked reputational and normative rationales...
for complying with FATF rules; (6) noted for subjects in the U.S. pool that the IRS enforces transparency standards; (7) offered to “pay a premium” for confidentiality; and purported to be a citizen from the (8) the United States, (9) one of eight corrupt countries, and (10) one of four nations associated with terrorism (see Findley et al. 2011a, 2011b).

Among all 10 treatments, only one significantly boosted the degree of compliance compared to any other condition, and that treatment is the ACAMS condition reported here. Most other treatments depressed response rates and some, like the FATF + ACAMS treatment, also lowered compliance rates. Comparing results across more experimental conditions reinforces the evidence that the ACAMS treatment may have a positive effect on compliance with international law.

**Conclusion**

This memo sought to explore the FATF’s orchestration in the realm of international financial transparency. The FATF uses its reports to endorse the training and certification provided to governments and firms by the private organization ACAMS. Persuaded by the orchestration framework paper, we speculated that, as a fellow private actor, ACAMS may have closer, more immediate and thus more effective influence over target private firms than the intergovernmental FATF. We also hypothesized that FATF rules and ACAMS standards might reinforce one another and together produce even greater compliance with international financial transparency law.

The FATF has important features that make it a likely practitioner of orchestration. It is the unchallenged standard-setter and enforcer for anti-money laundering standards, with an effective organizational structure and entrepreneurial culture. The FATF Recommendations are soft law, and its governance responsibilities far outrun its operational capacity. The FATF has reasonable autonomy relative to its members, for example, in singling out even its most powerful members for public criticism, while members often have somewhat diverging preferences. ACAMS provides an available Intermediary by which the FATF can potentially improve compliance among the targets of its reputation. The relationship between the FATF and ACAMS is indirect, however; light-touch or pianissimo orchestration as we have styled it.

In our experimental results, we found some evidence supporting the argument that ACAMS may exert special influence over private firms in encouraging compliance with international corporate transparency standards. Additional research will be needed to uncover specific causal mechanisms and trace relevant processes. But the experiment yielded intriguing evidence that a core orchestration hypothesis appears robust: IGOs may use orchestration of private intermediaries when their own influence is limited and when intermediaries can better alter targets’ behavior. This appears to be the case with the FATF and ACAMS.

Yet the experiment also produced evidence against the additive hypothesis that two standards are stronger than one. In an unexpected way, the results may also suggest an answer our puzzle asking why the FATF has selected such a limited means of orchestration by mere endorsement of private intermediary action. The results reveal that ACAMS standards are more influential on their own than in conjunction with FATF rules. And this suggests that the FATF may do more to promote financial transparency by allowing ACAMS maximum independence than by making common cause and orchestrating ACAMS activities more directly and obviously.
As is often the case with experimental social science, these findings may have generated more puzzles than they resolve. But the intriguing and unexpected results at least point us in potentially fruitful directions suggesting the conditions under which some forms of orchestration may be effective and others may backfire.
References


Appendix – Examples of Letters Across Experimental Conditions

**Placebo**

Dear [name/company]

I am contacting you as I would like to form an international corporation for my consulting firm. I am a resident of [Norstralia] and have been doing some international consulting for various companies. We are now growing to a size that makes incorporation seem like a wise option. A lot of our newer business is in your region.

My two associates and I are accustomed to paying [Norstralia] income tax, but the rising tax rates make incorporation in another country a more economic alternative. Also, our contracts grow larger and more complicated, so reducing personal liability through incorporation seems more attractive.

As I am sure you understand, business confidentiality is very important to me and my associates. We desire to incorporate as confidentially as we can. Please inform us what documentation and paperwork is required and how much these services will cost?

I would like to start the process of incorporation as soon as possible.

Due to numerous professional commitments, I would prefer to communicate through email. I hope to hear from you soon.

Thank you very much,
[alias]

**FATF Treatment**

Dear [name/company]

I am contacting you regarding a business I am trying to set up. I am a consultant and my colleagues and I are seeking to establish an international corporation. I am a [Norstralia] resident, but I do business both locally and with some international client, including some in your region. Our business has been growing substantially, and our goal is to limit tax obligations and business liability.

We would like as much business confidentiality as possible in these early stages of formation. My Internet searches show that the international Financial Action Task Force requires disclosure of identifying information. But I would rather not provide any detailed personal information if possible.

So, we would like to know what identifying documents will be required to establish this company. We would also like to know what start-up costs will be.

Due to my travel schedule, email will be the best way to reach me. I look forward to hearing
from you soon.

Regards,
[alias]

---

**ACAMS Treatment**

Dear [name/company]

I am an international consultant living in [Norstralia]. My associates and I have been based in [Norstralia] for some time and we have done extensive international work, especially in your area. After looking at the specific needs of our growing company, we were feeling that it would make sense for us to expand and to set up an international company.

We especially hope to limit taxes and reduce liability. We were wondering what you require us to give in order to do this.

My internet searches show that the Association of Certified Anti-Money Laundering Specialists requires disclosure of identifying information when forming a company. But I would like to avoid providing any detailed personal information if possible.

We would like to form this corporation as privately as possible. What identifying documents will you need from us? We would also like to know what your usual prices are. We appreciate the help.

I travel a lot for my work, so I communicate best via email.

I hope to hear from you soon.

Yours,
[alias]

---

**FATF + ACAMS Treatment**

Dear [name/company]

I am seeking information on how to incorporate an international company. I hope that you might be able to offer what I need.

I am a consultant, and my business associates and I live in [Norstralia]. Much of our business originates here, where we operate, but our company also grows quickly among international clients. Many of them are in your area. So, we feel that incorporation is a necessary option for us. We hope to limit taxes obligations and business liability.

We would like to know if you feel that you will be able to service us with a corporation.
What identifying documents will you request for this transaction? We would prefer to limit disclosure as much as possible.

My internet searches show that international Financial Action Task Force requirements and Association of Certified Anti-Money Laundering Specialists standards mandate disclosure of identifying information when forming a company. But I would like to avoid providing any detailed personal information if possible.

If you could answer these questions and also let us know about your prices, we very much appreciate it. Thank you for the time to address our query. Business obligations make communication difficult, so we would prefer to correspond with email.

Until we speak again,
[alias]