tax justice network

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The Financial Secrecy Index: the G20's broken promise

The Financial Secrecy Index (FSI) identifies the jurisdictions that are most aggressive in providing secrecy in international finance. It combines a secrecy score with a weighting to create a ranking of the countries that most aggressively provide secrecy in global finance.

Click here: Financial Secrecy Index

Overview of the key issues

Secrecy is alive and well

World leaders at a G20 summit meeting in April 2009 promised that "the era of banking secrecy is over" and put the OECD, a club of rich countries, in charge of implementing its wishes. Many people hoped this marked the start of a serious crackdown on tax havens, or secrecy jurisdictions.

But they have let us down. The rhetoric is trillions of dollars away from reality. The Financial Secrecy Index (FSI), a massive and independent research project with global scope, reveals that financial secrecy is as entrenched as ever.

Why are things still so bad?

Secrecy jurisdictions have been frantically signing information-exchange agreements with other jurisdictions, to qualify for a 'white list' put together by the OECD. Nearly all are on the white list now, and each proclaims itself to be co-operative, respectable, transparent, clean and well-regulated. But the OECD's standards are woefully inadequate. To squeeze information out of a secrecy jurisdiction, you must already know the information for before you ask for it! This is not effective information exchange. G20 leaders asked the OECD to drain a swamp – and the OECD has been handing out drinking straws.

Many jurisdictions, while merrily signing up to these information-exchange agreements, have quietly been adding stronger and more devious new secrecy facilities to their already ferocious offshore arsenals.

Moves by the likes of Jersey and Guernsey to allow the use of foundations, for instance, constitute just one of many areas of concern. Recent deals between Switzerland, on the one hand, and Germany and the UK on the other, that will entrench Swiss banking secrecy in exchange for uncertain short-term tax revenues, demonstrate that politicians in all three countries are prepared to protect a secrecy industry that operates in the service of criminal elites. Hong Kong and Singapore have welcomed huge inflows of tax-evading and other criminal money as they cash in on those limited attempts in the United States and Europe to track down illicit funds. Luxembourg continues to play an especially pernicious and aggressive role undermining European efforts to promote financial transparency. The United Kingdom remains as committed as ever to its global network of secrecy jurisdictions that feed vast assets, and the business of handling those assets, through to the City of London.

Some bright spots

There have been occasional bright spots since 2009, though these are often less important than they appear.

- A path-breaking initiative in the United States to push forwards country-by-country reporting in the Dodd-Frank Act has reduced its secrecy score. The United States also deserves credit for seriously cracking down on tax evasion facilitated by Swiss banks. It remains a massive secrecy jurisdiction in its own right, however.
- There has been some penetration of Swiss banking secrecy – though only in very limited ways. Switzerland has adopted a 'circle the wagons' approach, making incremental concessions here and there, but keeping its core secrecy model firmly intact.
- Belgium, Guernsey and the Isle of Man improved their secrecy scores after they decided to adopt a model of automatic information exchange with the European Union: an approach that represents the basis for the gold standard of information exchange.
- Although the OECD's model of information exchange does not effectively deter tax evasion and other crimes, the OECD's Global Forum peer review process has, despite its political weaknesses, delivered some useful pressure on jurisdictions to shape up.
- Some jurisdictions, such as Denmark and Spain, stand out as being "moderately secretive" -- the cleanest on our 2011 rankings – though even these are very far from being clean.
- More than anything, a general public mood amid economic crisis and austerity is changing the political culture for the better, across the world. Tax evasion, for instance, is far less tolerated than it was just a few years ago.

Why has my country ranking changed since 2009?

The Financial Secrecy Index ranking is significantly different from the one we published in 2009. Several factors lie behind the changes, but two are dominant.

First, we have added 13 new jurisdictions, including some of the world's biggest financial centres. Many people will be surprised to see the likes of Germany and Japan coming in the top 10 world

secrecy jurisdictions, but this is where the analysis leads us. (See which countries we have added **here**.)

Second, we have changed the way we calculate the FSI. A jurisdiction's ranking is built on two components: a secrecy score, based on the secrecy facilities it offers, and a weighting, based on the size of its financial sector. After long deliberation, we decided this year to mathematically enhance the importance of the secrecy score relative to the weighting. So jurisdictions with big financial centres such as the United States, United Kingdom and Ireland have moved down, while those with a high secrecy score, such as Switzerland, Cayman, Jersey and Panama, have moved up. We think this shift in emphasis helps focus attention where it is needed.

Read more about our methodology **here**.

The details: a country by country view

In more fine-grained detail, here are some comments with respect to specific countries.

1. Switzerland

Since the financial crisis emerged, Switzerland's share of the global market in offshore financial services has increased, as a result of its role as a safe haven. Although Switzerland has signed a number of OECD-style information exchange agreements, which have allowed a limited penetration of Switzerland's fabled bank secrecy, we consider these operationally ineffective, so they have only a limited impact on our ranking (what is more, many other jurisdictions competing with Switzerland in our rankings have signed significant numbers of information-exchange agreements too.) Switzerland also continues to resist automatic information exchange -- the effective kind – and its widespread involvement in the administration and use of trusts, foundations and offshore companies remain a major barrier to tackling tax evasion and illicit financial flows.

In partnership with Luxembourg in particular, Switzerland has fought hard against efforts by the European Union to expand automatic information exchange and tighten up on tax collections, preferring to play a divide-and-rule game by signing individual deals with powerful EU players countries such as Germany and the United Kingdom.

Swiss banks have also sought to mitigate the limited efforts of crackdowns elsewhere – notably by the United States – by increasing their efforts to attract illicit flows from developing countries, to make up a supposed 'shortfall,' and by increasing their activity in Asian centres such as Singapore and Hong Kong, where there is perceived to be less 'heat.'

Switzerland remains a major, active and interventionist impediment to global financial transparency, and despite some recent timid improvements it fully deserves its position at the top of our ranking.

See our full report on Switzerland here.

2. The Cayman Islands

Like Switzerland, the Cayman Islands has moved higher up the financial secrecy index. Its scale weighting has remained high, and it has done nothing of significance to impact its secrecy score. Cayman has also moved higher because other countries such as the United States, which previously ranked higher than the Cayman Islands, have moved downwards following our decision to de-emphasize the weighting in the 2011 index, while increasing the importance of the secrecy score.

Cayman's Confidential Relationships (Preservation) Law – under which you can go to jail not just for disclosing information, but merely for *asking* for it, remains a talismanic secrecy facility creating a chilling deterrent against those who would disclose data to legitimate foreign authorities. Its widespread facilitation of opaque offshore companies and trusts, which can be used to hide all manner of illegitimate activities, combined with the sheer size of its financial sector, make it a massive player in the field of global financial secrecy.

See our full report on the Cayman Islands here.

3. Luxembourg

While the Cayman Islands and Switzerland are synonymous in the popular imagination with offshore business, Luxembourg too often gets forgotten. Yet it has a huge role in the worldwide web of secrecy: John Christensen of the Tax Justice Network calls Luxembourg the "Death Star" because of its obsession with and aggressive defence of financial secrecy, combined with the sheer size and range of the financial and secrecy services that it provides.

As our special report shows, Luxembourg has persistently striven to resist European Union efforts to promote financial transparency, particularly through the EU's flagship Savings Tax Directive. The Directive is full of loopholes which are being tightened up, but primarily because of Luxembourg's intransigence, the amendments currently being considered have been shorn of many of the transparency aspects. Its harassment of those, at home and abroad, who have challenged its secrecy facilities, mark it out as a particularly troublesome jurisdiction.

See our full report on Luxembourg here.

4. Hong Kong

Hong Kong is one of the world's fastest-growing and most important secrecy jurisdictions. Its ranking has risen significantly since the last index. This significantly reflects the fact that it has grown in size, very fast indeed, not just as a result of economic growth in China, but also because illicit activities are being displaced away from North Atlantic secrecy jurisdictions in the face of (mostly timid) crackdowns there. In addition, our decision to de-emphasise the weighting in our new index, relative to the secrecy, means that several large financial centres, notably the United States, United Kingdom and Ireland, have slipped down the rankings, thus pushing Hong Kong upwards.

Hong Kong enjoys the strong and powerful support of mainland China, which in turn is undoubtedly influenced by the fact that Chinese élites use Hong Kong to evade Chinese taxes, criminal laws and

much more. Chinese support has enabled Hong Kong to resist pressure from the OECD and other quarters to improve transparency.

See our full report on Hong Kong here.

5. United States

The United States has moved down the rankings primarily because of our decision to de-emphasise the importance of the weighting in our index, and to accentuate the importance of the secrecy score.

The United States offers significant secrecy facilities. As our special report explains, the United States offers a number of especially pernicious secrecy facilities at the level of individual U.S. states – as some excellent Reuters reports (such as this and this) have recently highlighted. But more important, at least in terms of scale, are the secrecy facilities offered at a Federal level, for those who would use the United States as a bolt-hole for illicit assets. For decades, the United States has offered secrecy (and tax-free treatment) as a lure for foreign capital in order to finance its external deficits. It is, without doubt, one of the world's biggest secrecy jurisdictions, or tax havens.

Recently, however, the United States has taken some welcome steps to improve its performance, in two main areas. First, its Dodd-Frank legislation, requiring **extractive industries** companies listed in U.S to adopt country-by-country reporting: this has improved its secrecy score. Second, efforts are afoot at a Federal and a state level to try and crack down on state-level secrecy facilities, and to improve access to information about the ultimate beneficial ownership of assets. These **state-focused** initiatives have not yet become law and are not reflected in our index, but they are to be welcomed nevertheless. It is also notable that while major OECD partner countries like United Kingdom and Germany have been negotiating pernicious and weak settlements with Switzerland on information exchange, the United States authorities continue to apply robust pressure on Swiss banks.

See our full report on the United States here.

6. Singapore

Singapore is one of the world's fastest-growing and most important offshore centres, which has deliberately set out to build a financial services industry based on secrecy. A PWC report in June 2011 predicted that Singapore would be the world's top wealth management centre by 2013.

With a secrecy score of 71, Singapore is one of the most secretive of the world's large financial centres. It has risen modestly up our index since 2009, partly because it has grown so fast as a financial centre, but also because two jurisdictions that were previously above it – notably Ireland and the United Kingdom – slipped down the index as a result of our decision to de-emphasise the size weighting in our index.

To the extent that there have been limited crackdowns in Atlantic Basin countries, notably by the United States and inside the European Union, illicit funds have shifted to other centres, and Singapore has actively and aggressively courted these funds. Swiss banks are especially closely connected with Singapore (just as British banks are especially closely involved in Hong Kong).

Read our full report on Singapore here.

7. Jersey

Jersey's proximity to the City of London, less than an hour away by jet, makes it an important satellite of the world's biggest offshore financial centre. The capital Saint Helier hosts international banks, law firms and trust administration companies that serve as conduits for huge business flows into London.

The Jersey financial services authorities make great play of how transparent and cooperative the island is. We reject that view and, as our special report on Jersey shows, so does the OECD's Global Forum looking at transparency issues. Jersey remains outside the EU's automatic information exchange process, even though fellow Crown Dependencies Guernsey and Isle of Man signed up in 2009. Local officials having said they needed to stay secretive in order to be "internationally competitive" - but this raises questions about what exactly they're competing in. And finally, Jersey's new foundations law significantly increases the island's attraction for people seeking to hide their identity behind highly opaque and slippery offshore structures.

For all of these reasons, plus the continued opacity of Jersey trusts and offshore companies, and despite the flurry of tax information exchange agreements signed since 2009, Jersey is assessed with a secrecy score of 78 and clearly well deserves its position at number seven in the overall ranking.

Read our full report on Jersey here.

8. Japan

Japan, like Germany, is not known in the popular market as a secrecy jurisdiction – but our decision finally to include it in this year's index is vindicated. With a relatively high secrecy score of 64, and a huge offshore market - it has slightly under 2% of the global market share in offshore financial services - Japan is a major player in the secrecy world.

Japan's Big Bang in terms of offshore finance happened with the setting up of the so-called Japan Offshore Market in 1986. Essentially, this was an effort to attract foreign financial business by exempting it from tax and a range of financial regulations, and it was modeled on a similar U.S. facility set up by the United States two years earlier (and it was also a reaction to the rapid growth of the offshore Euromarkets generally, pioneered by the City of London since the 1950s.) This was followed by similar tax exemptions for Japanese government bonds in 1999, and for municipal bonds in 2007. The scope of the tax exemption was widened in 2010 to include corporate bonds.

Japan's weak provisions on transparency and information exchange, combined with its tax-free treatment of various forms of foreign investment (and exemption from financial regulations) has made it a major destination for illicit financial flows. The country's relatively poor record of co-operation with foreign governments on money-laundering concerns adds to our concerns about this little-noticed secrecy jurisdiction.

Surprising though it may be, Japan has long earned a place as one of the world's most important secrecy jurisdictions.

See our report on Japan for more details here.

9. Germany

It will surprise many people to see Germany in our secrecy index, as it is not widely considered to be a tax haven or secrecy jurisdiction. (Indeed, it surprised us when we ran the numbers.) However, careful examination reveals Germany to be a major player in the global web of financial secrecy.

First of all, it is a huge financial centre, with a nearly five percent share of the global market for offshore financial services. The Financial Action Task Force (FATF) estimated in 2010 that non-residents held over €1.3 trillion in German financial institutions; more recently the IMF estimated that German banks have the world's second largest cross-border exposures in terms of assets and liabilities, surpassed only by Luxembourg.

Not only that, but Germany also has a number of weak disclosure requirements for beneficial ownership information on companies and Treuhand. Alongside this, Germany offers widespread tax exemptions for non-residents, particularly from developing countries, and this, combined with its secrecy facilities, has sucked in massive illicit financial flows. The recent freezing of billions of dollars of deposed Arab despots undoubtedly represents the tip of a much larger iceberg.

Making matters worse, the German tax administration is compartementalised and suffers from a lack of cooperation and centralisation, and its efficiency is further constrained by staff shortages.

Even though this does not fit into people's pre-conceived notions about Germany, it fully deserves ist position in our top ten.

See our report on Germany for more details here.

10. Bahrain

Bahrain emerged as a major regional financial centre when it launched Offshore Banking Units in 1973, and soon benefited from the oil price rise, as well as the Lebanese civil war which displaced a significant part of ist banking system to Bahrain, helping it overtake Beirut as the banking and financial hub of the Middle East. It has come to specialise especially in Islamic finance.

Bahrain constitutes another surprise in the 2011 Financial Secrecy Index, normally overshadowed in the discourse by its better-known regional rival Dubai. However, with a very high secrecy score of 78 and a large financial centre in regional terms, Bahrain is clearly a jurisdiction of great concern. It is assessed with particularly weak scores for knowledge of beneficial ownership, corporate transparency, the efficiency of tax regulation and anti-money laundering. It also suffers from concerns about financial regulation, concerns about money laundering, and governance more generally.

See our report on Bahrain for more details here.

See also – full report on Ireland. An interesting case study in the emergence of offshore finance

See also the list of all reports in the table below and access the reports by clicking on the country name or flag.

List of covered Secrecy Jurisdictions					
	Jurisdiction	**ISO**		**Jurisdiction**	**ISO**
	Andorra	AD		Korea	KR
	Anguilla	AI		Latvia	LV
	Antigua & Barbuda	AG		Lebanon	LB
	Aruba	AW		Liberia	LR
	Austria	AT		Liechtenstein	LI
	Bahamas	BS		Luxembourg	LU
	Bahrain	BH		Macau	MO
	Barbados	BB		Malaysia (Labuan)	MY
	Belgium	BE		Maldives	MV
	Belize	BZ		Malta	MT
	Bermuda	BM		Marshall Islands	MH
	Botswana	BW		Mauritius	MU
	British Virgin Islands	VG		Monaco	MC
	Brunei Darussalam	BN		Montserrat	MS
	Canada	CA		Nauru	NR
	Cayman Islands	KY		Netherlands	NL
	Cook Islands	CK		Netherlands Antilles	AN
	Costa Rica	CR		Panama	PA
	Cyprus	CY		Philippines	PH
	Denmark	DK		Portugal (Madeira)	PT
	Dominica	DM		Samoa	WS
	France	FR		San Marino	SM
	Germany	DE		Seychelles	SC
	Ghana	GH		Singapore	SG
	Gibraltar	GI		Spain	ES

	Grenada	GD		St Kitts and Nevis	KN
	Guatemala	GT		St Lucia	LC
	Guernsey	GG		St Vincent & Grenadines	VC
	Hong Kong	HK		Switzerland	CH
	Hungary	HU		Turks & Caicos Islands	TC
	India	IN		United Arab Emirates (Dubai)	AE
	Ireland	IE		United Kingdom	GB
	Isle of Man	IM		Uruguay	UY
	Israel	IL		US Virgin Islands	VI
	Italy	IT		USA	US
	Japan	JP		Vanuatu	VU
	Jersey	JE			