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NEW LEAGUE TABLE OF WORLD'S MOST SECRETIVE TAX HAVENS

A league table of the world's most secretive tax havens has been compiled by campaigners seeking greater transparency about the operation of 'offshore' finance centres.

The Financial Secrecy Index (FSI) analyses the level of secrecy each haven offers, and the extent of their reluctance to co-operate with other countries tax authorities.

These factors give each haven an 'Opacity Score' which is then combined with a weighting that reflects the scale of the cross-border financial activity the haven hosts, to determine its 'financial secrecy' ranking.

According to the index, the most secretive havens are: (1) USA (Delaware)[i]; (2) Luxembourg; (3) Switzerland; (4) Cayman Islands; (5) United Kingdom (London). *Full list here*

The index has been drawn up by the Tax Justice Network, an international, non-aligned coalition of researchers and activists with a shared concern about the

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harmful impacts of tax avoidance, tax competition and tax havens, and Christian Aid, a leading UK development NGO.

John Christensen, director of the Tax Justice Network's International Secretariat, said: 'Secrecy is a core feature of the global financial system. Jurisdictions compete with each other to provide it in order to attract financial flows.

'But this comes at a price. Financial secrecy provides cover for all manner of crimes and abusive practices: money laundering, tax evasion and avoidance, insider trading, terrorist financing, embezzlement, Ponzi schemes, illicit financial flows, fraud and much more.

'The Financial Secrecy Index shows just how entrenched the problem of financial secrecy is. The index is an important tool that highlights the desperate need for new rules in international finance that would make the disclosure of information between different tax jurisdictions automatic.'

Mr Christensen added that Swiss-style bank secrecy is just one of many facilities that jurisdictions offer to provide confidentiality in international finance. In Anglo-Saxon countries, trusts and certain kinds of companies are often used to provide deeper, more devious forms of secrecy than can be achieved with bank privacy alone.

'Many other barriers to the flow of information exist, 'he said. 'None of this would be possible without the legal framework the havens provide.'

In popular imagination, tax havens are palm fringed island idylls with luxury yachts, shady law firms and expensive offices festooned with the brass name plates of anonymous shell companies.

The FSI reveals a much broader picture. The main global suppliers of

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financial secrecy are in fact rich nations operating specialised enclaves like Delaware, often with links to smaller ‘satellite’ jurisdictions that are conduits for illicit financial flows into the mainstream capital markets.

The research identified one country in particular – the United Kingdom – with political and other links to a huge global network of tax havens. With half the world’s secrecy jurisdictions located in Commonwealth Countries, Crown Dependencies or British Overseas Territories, the UK’s historic support for financial secrecy globally has been substantial. *Read more here*: http://www.financialsecrecyindex.com/documents/FSI%20-%20The%20British%20Connection.pdf

Mr Christensen said Delaware in the US was particularly poor at disclosing information, although it was a hub of corporate activity. Luxembourg and Switzerland specialised in ‘traditional bank secrecy’, while the Caymans are now the fifth largest financial centre in the world because of the huge amount of corporate activity they attract from the Americas, as well as the large number of personal investment corporations based there.

Meanwhile London sits at the centre of a web of satellite jurisdictions. It is the most transparent of the jurisdictions in the index, but its importance in global offshore finance means that the secrecy it does provide has the potential to do more damage than, for example, small island havens which are less transparent but play a smaller role in global offshore finance.

The FSI uses twelve key financial secrecy indicators, identified in the Tax Justice Network’s Mapping the Faultlines project, in order to identify the provision of secrecy in each jurisdiction.

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The indicators produced some striking statistics. For example, only one of the 60 jurisdictions reviewed - Monaco - requires all types of companies to disclose their beneficial ownership http://www.secrecyjurisdictions.com/PDF/Monaco.pdf

In other words, in 59 of the 60 havens, it is impossible to find out who owns the companies located within each. Not a single one has a central register of trusts and foundations that is publicly accessible via the internet. *Read more here:*
http://www.financialsecrecyindex.com/documents/FSI%20-%20Implications.pdf

One of the routine uses of tax havens is to facilitate illicit financial flows. The World Bank has endorsed estimates by Raymond Baker, director of Washington-based Global Financial Integrity (GFI) in 2005 that illicit financial flows across borders ranged between $1trillion and $1.6 trillion per year, with half the money coming from developing and transitional economies.

In a 2009 update, GFI estimated annual illicit cross-border flows out of developing countries alone at about $850 billion - $1 trillion. In testimony before the U.S. House of Representatives, Raymond Baker compared these figures to the size of foreign aid flows, which have ranged up to just $100 billion annually.

He noted: 'For every dollar Western governments have been handing out across the top of the table, crooked Western banks, businesses and middlemen of various descriptions have been taking back up to ten dollars of illicit proceeds under the table'.

The FSI's authors consider the main global initiative against tax havens - efforts being led by the Organisation for Economic Co-Operation and Development (OECD) to achieve greater transparency - woefully inadequate.

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In April 2009, following the London G20 summit, the OECD announced a list would be established of financial centres which fail to co-operate with other jurisdictions on tax and transparency issues.

'Unfortunately, the OECD system is based on extremely weak standards of transparency and information exchange,' said Alex Cobham, policy manager at Christian Aid.

'All a haven has to do to get its name removed from the list is to sign bilateral disclosure agreements with 12 other countries. Even if that number is increased, the problems will remain insurmountable - these agreements are riven with loopholes which make them virtually impossible to implement.

'Such flaws are perhaps unsurprising because, as the FSI shows, the biggest secrecy providers are in fact OECD members. The global body mandated to lead the fight against secrecy is therefore deeply compromised and conflicted in its aims.

'Nonetheless, the meeting of G20 Finance Ministers in St Andrews on 7 November has the chance to impose a level playing field among all jurisdictions, by mandating the creation of a multilateral agreement for the exchange of tax information, with effective sanctions against those jurisdictions providing offshore financial services which do not sign up – whether they are OECD members or not.

'Tackling secrecy in international finance requires a range of strategies, and a long-term approach. Crucially, we need to effect significant cultural change, so that the world becomes less tolerant of secrecy.

'In addition, international accounting standards need to be changed to force companies trading internationally to disclose the profits made, and taxes paid, in every country where they operate. That way abuses could be quickly spotted.'

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Clear international standards are needed, Mr Cobham added, for collecting and providing information on beneficial and legal ownership related to corporations, trusts, foundations, and a range of other facilities that secrecy jurisdictions provide.

And the economics profession should start researching how secrecy shapes and distorts international financial flows, and how secrecy in one jurisdiction can have an impact on other jurisdictions.

Ends

For further information please contact

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Notes To Editors:

1) The FSI is designed to identify the key contributors to global financial secrecy, on a jurisdiction-by-jurisdiction basis. However, in some important cases, different levels of secrecy prevail in different sub-jurisdictional entities. Since financial flow data are only systematically and comparably available at a jurisdictional level, this creates a potential problem. To deal with this, and recognising the impact that even marginal secrecy differences can have on the volume of illicit flows, we treat the most secretive sub-jurisdictional entity as representative of the potential for opacity of the whole jurisdiction, and therefore base its Opacity Score on this. The most obvious case where we have applied this technique is with the US state of Delaware, which is taken as representative of the maximum secrecy available within the whole jurisdiction.

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