

Narrative Report on Bahrain

Bahrain is ranked at 13th position on the 2013 Financial Secrecy Index. This ranking is based on a combination of its secrecy score and a scale weighting based on its share of the global market for offshore financial services.

Bahrain has been assessed with 72 secrecy points out of a potential 100, which places it towards the top end of the secrecy scale (see chart 1).

Bahrain accounts for less than 1 per cent of the global market for offshore financial services, making it a tiny player compared with other secrecy jurisdictions (see chart 2).

Part 1: Telling the story

3 November 2013

Bahrain emerged as a major regional financial centre after it launched Offshore Banking Units in 1973. The OPEC oil price shocks of the 1970s [boosted](#) the market sharply, as did the Lebanese civil war which displaced some banking activity to Bahrain, helping it overtake Beirut as the banking and financial hub of the Middle East. It has since come to specialise especially in Islamic finance.

Severe [protests](#) in 2011, quelled by security forces, helped caused banking assets to shrink [by some 15 percent](#), and some international banks to [relocate](#) operations, principally to Dubai, but financial stability has since returned. Bahrain has been buffered to a fair degree by its own oil revenues and also from economic support from Saudi Arabia and several other Gulf states, which are politically allied to the Bahraini government: these links have encouraged regional banking activity.

Bahrain constitutes another surprise in the 2013 Financial Secrecy Index, normally overshadowed in the discourse by its better-known regional rival Dubai. However, with a very high secrecy score of 72 and quite 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 and the efficiency of tax regulation and anti-money laundering. It also suffers from [concerns about financial regulation](#), [money laundering](#), and [governance](#) more generally.

Chart 1 - How Secretive?

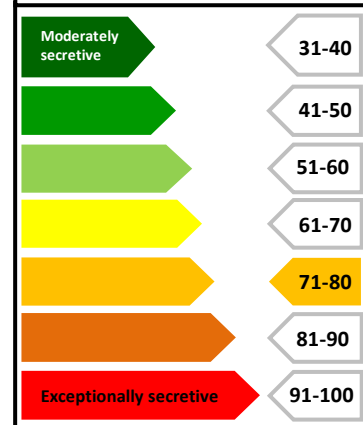
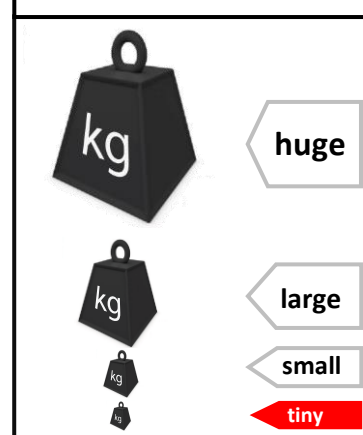


Chart 2 - How Big?

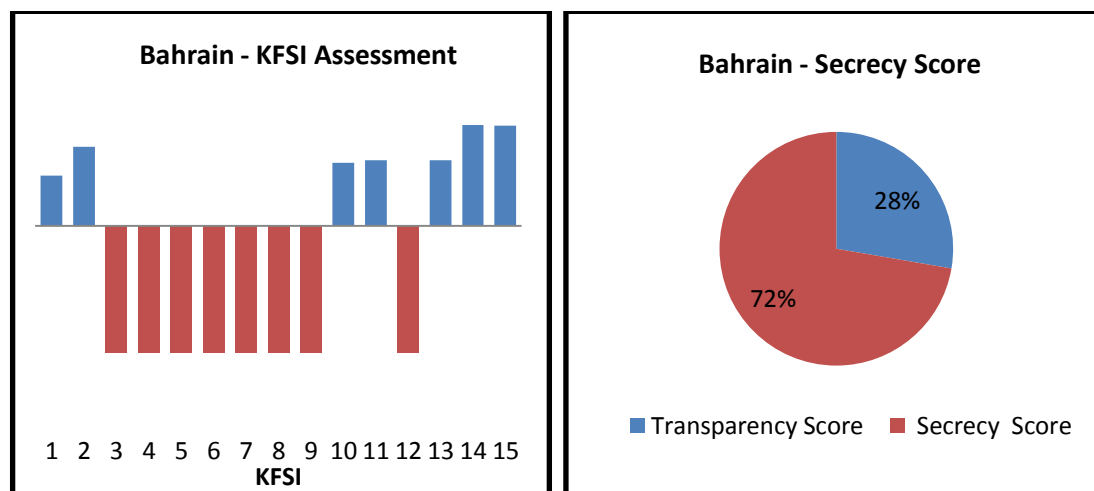


Next steps for Bahrain

Bahrain's 72 per cent secrecy score shows that it must still make major progress in offering satisfactory financial transparency. If it wishes to play a full part in the modern financial community and to impede and deter illicit financial flows, including flows originating from tax evasion, aggressive tax avoidance practices, corrupt practices and criminal activities, it should take action on the points noted where it falls short of acceptable international standards. See part 2 below for details of Bahrain's shortcomings on transparency. See this link <http://www.financialsecrecyindex.com/kfsi> for an overview of how each of these shortcomings can be fixed.

Part 2: Secrecy Scores

The secrecy score of 72 per cent for Bahrain has been computed by assessing the jurisdiction's performance on the 15 Key Financial Secrecy Indicators, listed below.



The numbers on the horizontal axis of the bar chart on the left refer to the Key Financial Secrecy Indicators (KFSI). The presence of a **blue** bar indicates a positive answer, as does **blue** text in the KFSI list below. The presence of a **red** bar indicates a negative answer as does **red** text in the KFSI list. Where the jurisdiction's performance partly, but not fully complies with a Key Financial Secrecy Indicator, the text is coloured **violet** in the list below (combination of red and blue).

This paper draws on key data collected on Bahrain. Our data sources include regulatory reports, legislation, regulation and news available at 31.12.2012¹. The full data set is available [here](#)². Our assessment is based on the 15 Key Financial Secrecy Indicators (KFSIs, below), reflecting the legal and financial arrangements of Bahrain. Details of these indicators are noted in the following table and all background data can be found on the [Financial Secrecy Index website](#)³.

The Key Financial Secrecy Indicators and the performance of Bahrain are:

TRANSPARENCY OF BENEFICIAL OWNERSHIP – Bahrain	
1.	Banking Secrecy: Does the jurisdiction have banking secrecy? Bahrain does not adequately curtail banking secrecy
2.	Trust and Foundations Register: Is there a public register of trusts/foundations, or are trusts/foundations prevented? Bahrain partly discloses or prevents trusts and private foundations
3.	Recorded Company Ownership: Does the relevant authority obtain and keep updated details of the beneficial ownership of companies? Bahrain does not maintain company ownership details in official records
KEY ASPECTS OF CORPORATE TRANSPARENCY REGULATION – Bahrain	
4.	Public Company Ownership: Does the relevant authority make details of ownership of companies available on public record online for less than US\$10/€10? Bahrain does not require that company ownership details are publicly available online
5.	Public Company Accounts: Does the relevant authority require that company accounts are made available for inspection by anyone for a fee of less than US\$10/€10? Bahrain does not require that company accounts be available on public record
6.	Country-by-Country Reporting: Are all companies required to comply with country-by-country financial reporting? Bahrain does not require country-by-country financial reporting by all companies

EFFICIENCY OF TAX AND FINANCIAL REGULATION – Bahrain	
7.	<p>Fit for Information Exchange: Are resident paying agents required to report to the domestic tax administration information on payments to non-residents?</p> <p>Bahrain does not require resident paying agents to tell the domestic tax authorities about payments to non-residents</p>
8.	<p>Efficiency of Tax Administration: Does the tax administration use taxpayer identifiers for analysing information efficiently, and is there a large taxpayer unit?</p> <p>Bahrain does not use appropriate tools for efficiently analysing tax related information</p>
9.	<p>Avoids Promoting Tax Evasion: Does the jurisdiction grant unilateral tax credits for foreign tax payments?</p> <p>Bahrain does not avoid promoting tax evasion via a tax credit system</p>
10.	<p>Harmful Legal Vehicles: Does the jurisdiction allow cell companies and trusts with flee clauses?</p> <p>Bahrain partly allows harmful legal vehicles</p>
INTERNATIONAL STANDARDS AND COOPERATION – Bahrain	
11.	<p>Anti-Money Laundering: Does the jurisdiction comply with the FATF recommendations?</p> <p>Bahrain partly complies with international anti-money laundering standards</p>
12.	<p>Automatic Information Exchange: Does the jurisdiction participate fully in Automatic Information Exchange such as the European Savings Tax Directive?</p> <p>Bahrain does not participate fully in Automatic Information Exchange</p>
13.	<p>Bilateral Treaties: Does the jurisdiction have at least 46 bilateral treaties providing for information exchange upon request, or is it part of the European Council/OECD convention?</p> <p>As of 31 May, 2012, Bahrain had less than 46 tax information sharing agreements complying with basic OECD requirements</p>
14.	<p>International Transparency Commitments: Has the jurisdiction ratified the five most relevant international treaties relating to financial transparency?</p> <p>Bahrain has partly ratified relevant international treaties relating to financial transparency</p>
15.	<p>International Judicial Cooperation: Does the jurisdiction cooperate with other states on money laundering and other criminal issues?</p> <p>Bahrain partly cooperates with other states on money laundering and other criminal issues</p>

¹ With the exception of KFSI 13 for which the cut-off date is 31.05.2012. For more details, look at the endnote number 2 in the corresponding KFSI-paper here:

<http://www.financialsecrecyindex.com/PDF/13-Bilateral-Treaties.pdf>.

² That data is available here: <http://www.financialsecrecyindex.com/database/menu.xml>.

³ <http://www.financialsecrecyindex.com>.