Financial Secrecy Index 2015

Methodology[1]

Tax Justice Network

This paper explains the construction of the qualitative and quantitative components of the Financial Secrecy Index (FSI) 2015. The qualitative component is composed of 15 Key Financial Secrecy Indicators. The paper explains what each measures, including any methodological changes since FSI 2013, what the underlying data sources are, and how the overall secrecy scores are calculated. With respect to the quantitative component, the underlying data sources and methods for data extrapolation are explained. The combination of the qualitative and quantitative components is then detailed. Questions of research principles and process are also addressed. Finally, the Annex provides all the underlying data used for FSI 2015. A major review of the FSI methodology is scheduled to take place throughout 2016; all input to that process is warmly welcomed.

[1] This paper is based to some extent on materials published in 2009, 2011 and 2013 on www.financialsecrecyindex.com/ and on some occasions uses its text without explicitly highlighting this fact. It is deemed appropriate since the authorship is broadly the same. The creation of the FSI 2015 and its methodology was a team effort by far too many experts to thank individually, and we are grateful to all. Closely involved in drafting (parts) of this methodology were Alex Cobham, Petr Janský, Andres Knobel and Moran Harari, and in 2011 John Christensen and Steven Eichenberger (in 2011). All remaining errors are the responsibility of Markus Meinzer.

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1. Summary

The Financial Secrecy Index (FSI) uses a combination of qualitative data and quantitative data to create a measure of each jurisdiction's contribution to the global problem of financial secrecy.

Qualitative data based on laws, regulations, cooperation with information exchange processes and other verifiable data sources, is used to prepare a **secrecy score** for each jurisdiction.

Secrecy jurisdictions with the highest secrecy scores are more opaque in the operations they host, less engaged in information sharing with other national authorities and less compliant with international norms relating to combating money-laundering. Lack of transparency and unwillingness to engage in effective information exchange makes a secrecy jurisdiction a more attractive location for routing illicit financial flows and for concealing criminal and corrupt activities.

Quantitative data is then used to create a **global scale weighting**, for each jurisdiction, according to its share of offshore financial services activity in the global total. To do this, we have used publicly available data about the trade in international financial services of each jurisdiction. Where necessary because of missing data, we follow International Monetary Fund methodology to extrapolate from stock measures to generate flow estimates. Jurisdictions with the largest weighting are those that play the biggest role in the market for financial services offered to non-residents.

The secrecy score is cubed and the weighting is cube-rooted before being multiplied to produce a **Financial Secrecy Index** which ranks secrecy jurisdictions according to their degree of secrecy and the scale of their trade in international financial services.

A jurisdiction with a larger share of the offshore finance market, and a high degree of opacity, may receive the same overall ranking as a smaller but more secretive jurisdiction. The reasons for this are clear – the ranking not only reflects information about which are the most secretive jurisdictions, but also the question of scale (i.e. the extent to which a jurisdiction's secrecy is likely to have global impact).

In this way, the Financial Secrecy Index offers an answer to the question: by providing offshore financial services in combination with a lack of transparency, how much damage is each secrecy jurisdiction actually responsible for?

Critics have argued that scale unfairly emphasises large financial centres. However, to dispense with scale risks ignoring the big elephants in the room. While large players may be slightly less secretive than other jurisdictions, their greater financial sector size offers far more opportunities for illicit financial flows to hide. Therefore, the larger a jurisdiction's international financial sector becomes, the greater its responsibility to ensure appropriate regulation and transparency. This logic is reflected in the FSI and it therefore avoids the conceptual pitfalls of 'tax haven' lists, which tend to focus on smaller players – often remote islands whose overall share in global financial markets is tiny.

Although it lacks a consistent and agreed definition, the term 'tax haven' continues to dominate political and academic debates around issues of offshore tax evasion and illicit financial flows. However, in a world where economies are deeply integrated across borders and where more than 200 tax jurisdictions exist, "virtually any country might be a `haven' in relation to another" (Picciotto 1992: 132). Arguably, the lack of clarity, consistency and objectivity in defining and identifying tax havens has contributed to a failure to counter the associated problems (see Cobham/Jansky/Meinzer 2015).

The FSI provides a (partial) remedy to this problem by replacing the term 'tax haven' with the term 'secrecy jurisdiction'. We define the latter as a jurisdiction which "provides facilities that enable people or entities escape or undermine the laws, rules and regulations of other jurisdictions elsewhere, using secrecy as a prime tool".

We emphasize that a secrecy jurisdiction is not a natural phenomenon that is, or is not, observable[2]. Rather, we assume that all countries may have some attributes of secrecy jurisdictions, ranging on an imagined continuum from highly secretive to perfectly transparent. Based on those premises, we develop a set of 15 verifiable indicators (Key Financial Secrecy Indicators, KFSI) which allow an assessment of the degree to which the legal and regulatory systems (or their absence) of a country contribute to the secrecy that enables illicit financial flows. Taken together, these indicators result in one compound secrecy score allocated to each jurisdiction. The scores are normalised to a range zero to 100 and in practice vary between 30.9 (Denmark) and 86.6 (Vanuatu).

The FSI has two broad objectives. First, it contributes to and encourages research by collecting data and providing an analytical framework to show how jurisdictions facilitate illicit financial flows. Second, it focuses policy debates by encouraging and monitoring policy change globally towards greater financial transparency, by engaging the media and public interest groups.

The FSI 2015 is the fourth biennial edition after releases in 2009, 2011 and 2013[3]. Since its first release, the index enjoys a high international media profile and has been widely adopted for a broad range of practical purposes (from the Italian central bank and the Basle

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[2] TJN prefers the term secrecy jurisdiction over tax haven but uses both interchangeably. For more background on this please read www.financialsecrecyindex.com/PDF/SecrecyWorld.pdf.

[3] www.financialsecrecyindex.com/archive.

Anti-Money Laundering Index, to a number of private sector risk/rating agencies), and increasingly in academic research[4].

In 2015, country coverage has increased to 102 jurisdictions in 2015, while data constraints reduced the number of jurisdictions included in the final rankings to 92. The methodology has remained largely the same as for the FSI 2013. KFSI 3, 4, 5, 10 and 12 have been refined at the margins to take into account recent policy developments and to emphasize open data requirements.

This project continues to break new ground. Changes to the content, structure and emphasis of the database and the indicators are a natural reflection of both a learning process by all involved and a fast-changing international tax and financial environment. As we explore in more detail in chapter 5, we do not pretend that there is a single, objectively best measure for financial secrecy. It is rather the fruit of an ongoing debate that has been and will continue to be driven to a large extent by the input of the many experts associated with the Tax Justice Network.

Chapter 2 introduces the reader to all changes, underlying data sources, methodological principles and details concerning the secrecy scores. Chapter 3 discusseseach of the 15 KFSIs. Chapter 4 explains the global scale weights, underlying data sources and address some issues of data consistency. Chapter 5 explains the formula for combining the secrecy scores and the global scale weights to arrive at the final FSI-ranking, including some analysis of potential alternative formulas. The annexes contain overview tables and all the underlying data of the FSI except for full country-level details. The latter can be found in country database reports, accessible via www.financialsecrecyindex.com/database/menu.xml.

After the launch of the FSI 2015, a major review of the FSI is scheduled to take place throughout 2016, for which any feedback would be gratefully received.[5] The review will consist of three main components: a statistical audit, expert analysis and stakeholder engagement.

2. The Qualitative Component: Secrecy Scores

2.1 Main Changes 2013-2015

2.1.1 Jurisdictions Covered

The number of jurisdictions covered by the FSI has increased gradually over time, from 60 in 2009 to 102 in 2015. The selection criteria have changed slightly over time to reflect the commitment to eventually have global, or near-global coverage for the FSI, while taking into account resource and data constraints. In 2009, the 60 jurisdictions were selected on the basis of eleven listings issued by international bodies and academics (e.g. IMF, FATF, OECD,

[4] For an overview of the various uses of the FSI, see: http://www.financialsecrecyindex.com/researchanalysis.

[5] Please send any feedback to markus@taxjustice.net, or to alex@taxjustice.net.

IBFD).[6] Places named on at least two of those international listings were included. In the following years, we considered two distinct groups as potential additions to the FSI: first, jurisdictions that account for a large share of international financial services exports (weight); and second, jurisdictions which are indicated by various sources including public media to be playing or seeking a role in the provision of financial secrecy.

For the FSI 2011, the sample was extended to include all 20 jurisdictions which in 2009 had the highest global market share in financial services exports (based on 2007 data). Nine of the 13 newly added jurisdictions were included in 2011 based on this criterion[7], and four countries were added because of their known or suspected provision of financial secrecy.

For the FSI 2013, in regard to the first group, seven jurisdictions with a 2011 FSI global scale weighting (i.e. a share of international financial services exports) in the top 30 were added. With respect to the second group, two more countries were added.

For the FSI 2015, six countries were added because of their share in the global market of offshore financial services was in the Top 40 (in the data for the FSI 2013). Seven countries were added because of indications of secrecy or financial centre ambitions. In addition to this, for the FSI 2015, we have also included all OECD members, following various publications about the role these countries play in absorbing and facilitating illicit financial flows.[8] All the countries are listed in the table 2.1 below.

Table 2.1: New jurisdictions covered in 2015

Total of 20 new jurisdictions included because of		
Secrecy or financial centre ambitions	**Top 40 GSW of FSI 2013**	**OECD membership**
Bolivia*	China	Czech Republic
Chile	Finland	Estonia
Gambia*	Mexico	Greece
Macedonia	Taiwan*	Iceland
Montenegro*	Venezuela*	Poland
Paraguay*	Turkey	Slovakia
Tanzania*		Slovenia

* While these countries were assessed for the FSI 2015, they were not given a final ranking in the FSI due to data availability constraints. See section 2.2 for further details.

2.1.2 Key Financial Secrecy Indicators (KFSI)

The fifteen KFSIs used for the FSI 2015 remain broadly the same as for the FSI 2013, and are set out in full in chapter 3 – here we address only the methodological changes. The KFSIs can be grouped around four dimensions of secrecy: 1) knowledge of beneficial ownership (total

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[6] The selection process for the initial 60 jurisdictions is explained in detail here: www.financialsecrecyindex.com/Archive/Archive2009/Notes and Reports/SJ_Mapping.pdf.

[7] For all details, see page 3, here: www.financialsecrecyindex.com/Archive/Archive2011/Notes and Reports/SJ-Methodology.pdf.

[8] Organisation for Economic Co-Operation and Development 2013: Measuring OECD Responses to Illicit Financial Flows from Developing Countries, Paris, in: http://www.oecd.org/corruption/IFFweb.pdf; 31.1.2014.

of three KFSIs); 2) corporate transparency (three KFSIs); 3) efficiency of tax and financial regulation (four KFSIs); and 4) international standards and cooperation (five KFSIs).

Between the FSI 2013 and 2015, there were changes to the assessment of KFSI 3, 4, 5, 10 and 12. Indicator 3 has changed because the latest EU-Anti Money Laundering Directive (AMLD) now provides for the world's first beneficial ownership registration requirement for companies. As this requirement, however, only applies to ownership stakes above 25% of a company's shares, the indicator has been modified to allow for a quarter of a credit to be awarded in that situation. Previously, the indicator was rated flat zero for all jurisdictions, in absence of any country requiring full beneficial ownership registration.

KFSIs 4 and 5 on the online publication of beneficial or legal ownership of companies, and of companies' annual financial accounts, have been modified to reflect open data requirements. Because free of charge access to online data is vital for open data applications, full credits are now only given in situations in which the data is available for free. If the cost for access ranges between nil and 10 € or US$, only half the credit is given (previously this was sufficient to gain full credit). If the cost is higher than 10 €/US$, no credit is given, exactly as was the case in the FSI 2013.

KFSI 10 on harmful legal vehicles has been changed to add so-called "series LLCs" to the list of harmful legal entities, as one variant of a protected cell company. Series LLCs serve the same purpose as PCCs and are available in Delaware and other states of the United States.

Finally, KFSI 12 on automatic information exchange has been modified to take into account the new global infrastructure for automatic exchange of financial account information, as is embodied in the Common Reporting Standard (CRS) by the OECD. The former consideration of the EUSTD now is outdated, as a truly global system for AIE has been created. A country's public declaration to adhere to the multilateral platform (multilateral competent authority agreement) and to begin exchanging data in 2017 was awarded a full transparency credit, with later or less ambitious commitments being awarded between 0.1 and 0.5 credits.

2.2 Underlying Data and Procedural Issues

The dataset underlying the 15 KFSIs is publicly available for review through an online database (accessible http://www.financialsecrecyindex.com/database/menu.xml[9]). All data in the database is fully referenced and the underlying data sources can be identified. The main data sources were official and public reports by the OECD, the associated Global Forum[10], the FATF, IMF and the US State Department (INCSR[11]). In addition, specialist tax databases and websites such as by the IBFD[12], PwC[13], Lowtax.net and others have been

[9] http://www.financialsecrecyindex.com/database/menu.xml.
[10] The Global Forum peer reviews refer to the peer review reports and supplementary reports published by the Global Forum on Transparency and Exchange of Information for Tax Purposes. They can be viewed at: http://www.eoi-tax.org/; 2.9.2015.
[11] The US State Departments annually publishes an International Narcotics Control Strategy Report (INCSR 2015) which in one volume contains country reviews, including specific and comparative anti-money laundering data.
[12] International Bureau of Fiscal Documentation, Amsterdam.

consulted. Furthermore, surveys have been sent to the Ministries of Finance and the Financial Intelligence Units of all 102 reviewed jurisdictions which included targeted questions about the jurisdiction's tax and regulatory system (for more details see further below).

It is important to understand that not all the information contained in the database is used to compute secrecy indicators and the secrecy score. Out of 204 variables available in the database for each jurisdiction, up to 46 are used to compute the secrecy score (see Annex C for an overview table of the 46 variables). As regards the cut-off date of information in the database, we generally relied on reports, legislation, regulation and news available as of 31.12.2014. For some indicators, more recent data has been included. All jurisdictions had the opportunity to provide up-to-date information by answering the questionnaires sent out in October 2014.

For some indicators, data availability and comparability is problematic. For instance, an OECD publication (2015) with comparable information used for two of our 15 Key Financial Secrecy Indicators (KFSIs) contains information on 56 countries, of which **47** are included in the FSI 2015. This leaves **55** countries in the FSI 2015 without a primary data source for those two indicators.

If a jurisdiction did not respond to our questionnaires and if (in some cases) follow-up enquiries with local researchers did not yield additional insights, we reflect this absence of data by marking the relevant field as 'unknown'. The jurisdictions without data have been assessed as if their policies (under that particular indicator) provide secrecy: so absence of data was awarded a secrecy score.

These gaps in the data are worse for two more KFSIs (particularly KFSI 13, on bilateral treaties). These rely on data generated through peer reviews carried out by the Global Forum. Nine of the countries in our 2015 index are either not members of the Global Forum or had not had their treaties reviewed by the Global Forum as of 31 May 2015 (the cut-off date for this KFSI).[14] It would be a huge research job to cover this gap: establishing not only how many DTAs and TIEAs jurisdictions have in place, but also whether or not each of these, and the jurisdictions' domestic legal frameworks, meet the international standard. A closely related problem, albeit on a smaller scale, also occurs in KFSI 1 on banking secrecy, because one part of the indicator (0.2 credits out of one full credit) is based on the results of a Global Forum peer review.

Because of these extra difficulties, and the risk of distorting the ranking unfairly as a consequence, we decided not to establish a secrecy score for those nine jurisdictions; they are consequently removed from the ranking.

For researchers using the database, note that in some jurisdiction reports, questions are not always numbered strictly sequentially. This reflects the database's built-in logic of display,

[13] PriceWaterhouseCoopers, Worldwide Tax Summaries.

[14] Bolivia, Gambia, Maldives, Montenegro, Paraguay, Taiwan, Venezuela: not member of Global Forum; Tanzania and Dominican Republic: member of Global Forum, but all treaties unreviewed.

and occurs when the answer to a prior question has been negative so as to invalidate the relevance of the following, omitted questions. For instance, if trusts do not need to be registered, the database does not display answers to the subsequent questions on the registered information of trusts. Similarly, answers are not displayed as to whether annual accounts must be submitted by companies, or if underlying accounting records have a minimum retention period, in the absence of an obligation to keep accounting records.

For the FSI 2015, the layout of the website and supporting documents has been updated to increase accessibility. Similar to the FSI 2013, since January 2015 an outreach process including monthly phone calls and optional training has been offered to anyone interested in using the FSI.

Two questionnaires[15] addressed to the Ministries of Finance and Financial Intelligence Units of each of the reviewed jurisdictions have been sent via hard copy mail in November 2014. The purpose of these questionnaires is to collect data for the index and database, not least giving jurisdictions an opportunity to provide data and sources about controversial regulatory questions. The questionnaires were distributed late October 2012 by hard copy mail. The deadline for answering was 15 February 2015 in order to allow respondents to take into account regulatory and legal changes at the very least up to 31.12.2014. Ten Ministries of Finance answered to our survey (9.8%), and twelve Financial Intelligence Units (11.8%). The final launch date for the FSI on 2 November 2015 was announced in June 2015, after coordinating with Tax Justice Europe's Tax Solidarity Week.

2.3 Guiding Methodological Principles

The guiding principle for data collection was to always look for and assess the lowest standard (or denominator) of transparency available in each jurisdiction. For example, if a jurisdiction offered three different types of companies, two of which require financial statements to be published online, but the third is not required to disclose this information, then we have answered the particular question about the online availability of accounts with "no".

Despite our efforts to use the best data sources available and applying the principle of the lowest available denominator, it has to be acknowledged that an assessment procedure on the issue of financial secrecy and with the scale of the FSI cannot be rooted in evident facts alone. Necessarily, it will involve occasional use of reasoned judgment. Where this was the case, transparency about criteria and reasons was aimed for.

The lack of data integrity and conflicting information is a potential problem even when we rely on official and professional data sources such as the OECD, the Global Forum, the FATF, or the IBFD. This is partially explained by the different legal jargons being used for instance by the anti-money laundering and the international tax communities (Meinzer 2012b: 14-15). Political bias in the reports appears to be another important element for explaining

[15] The questionnaire sent to the ministries of finance can be viewed here: www.financialsecrecyindex.com/PDF/FSI2015_JurisdictionQuestionnaire_MoF.pdf; the questionnaire to the FIUs can be viewed here: www.financialsecrecyindex.com/PDF/FSI2015_JurisdictionQuestionnaire_FIU.pdf.

conflicting information. For example, it is astonishing to see how the entire Qualified Intermediary Program run by the USA, which allows foreign investors to invest anonymously in the US financial system, has been completely omitted from the Global Forum's review of the USA[16]. Especially when such conflicts were of relevance for the indicators, additional sources and country level expertise were sought. As a result, in addition to references to all underlying sources, the database reports also include a large amount of supporting information and notes relating to data analysis.

The problem of a lack of available relevant data has been addressed in the following way. If a jurisdiction did not respond to the questionnaires, and if follow-up enquiries with local researchers did not yield additional insights, this absence of data is reflected in the database by marking the relevant field as 'unknown'. However, when constructing the indicators, the jurisdictions without relevant data have been assessed under these circumstances as if their policies with respect to the particular indicator under assessment provide secrecy. Absence of data after investigation is generally interpreted as evidence of opacity, and awarded a secrecy score (for details and special cases see chapter 2.2 above).

As regards the cut-off date for the key financial secrecy indicators, we generally relied on regulatory reports, legislation, regulation and news available as of 31.12.2014. On some occasions, more recent data has been used. A general exception to the cut-off-date concerns KFSI 13 on bilateral treaties where the cut-off date is 31 May 2015. All jurisdictions had the opportunity to provide us with up-to-date information by answering our questionnaire.

2.4 Secrecy Score

Once each KFSI has been assessed with a value between zero and one, it is straightforward to arrive at one compound secrecy score for each jurisdiction. We simply add the values of each of the assessed KFSIs and divide the sum by the number of assessed KFSIs, expressing the resulting value (between 0 and 1) as a percentage score (0% to 100%). As a consequence, a jurisdiction can always achieve a maximum value of 0% secrecy (equivalent to 100% transparency).

For example, if a jurisdiction was given a transparency credit for all 15 indicators, the resulting secrecy score would be 0%. No indicator being rated as transparent, in contrast, would result in a 100% secrecy score.

A list of all 15 KFSI values for each jurisdiction can be found in Annex D below. Each jurisdiction's secrecy score is displayed in alphabetical order in Annex G.

[16] For more background see www.financialsecrecyindex.com/database/USA.xml#t31 and Meinzer (2012a: 42-43). For further examples of political bias in the Global Forum, read for example Meinzer 2012b: 10.

3 The 15 KFSIs 2015

Table 3.1 below provides a summary overview of the 15 Key Financial Secrecy Indicators (KFSI), while Annex B provides a table with some more detail, and the remaining chapter 3 discusses each indicator in full detail.

Three principles guided the design of the KFSIs. First and foremost, the selected indicators should most accurately capture a jurisdiction's status as a secrecy jurisdiction ("provides facilities that enable people or entities escape or undermine the laws, rules and regulations of other jurisdictions elsewhere, using secrecy as a prime tool"). The choice of these indicators has necessarily been subjective, but it must be acknowledged that an objective choice of indicators does not exist, and never will: the issue boils down to whether or not our selected indicators are plausible.

To achieve plausibility, the research team relied on expert and practitioners' input and knowledge. The tremendous amount of expertise available in and to the Tax Justice Network has proven invaluable during the research process.

An aim was to be open and transparent about the choices we made and not to claim objectivity when all we can hope for is an understanding based on a wide range of different perspectives. If the reader feels uncomfortable with some of the choices made we would welcome suggestions for improving our methodology. In fact, with the database containing data on more than 200 variables, we have made publicly available the resources for testing alternative indicators at relatively low cost.[17]

Second, we wanted to be as parsimonious as possible by selecting a relatively small number of indicators. We did this largely to avoid unnecessary complexity for the reader and also in order to ensure that this work can be carried forward without undue cost or delay caused by data gaps.

Third, we considered it important that the index should be sufficiently simple and transparent to provide clear indication of what steps a secrecy jurisdiction should take to enhance its secrecy ranking. Our approach is based on encouraging policy change in secrecy jurisdictions to improve performance.

The following chapters provide detailed explanations of what exactly is measured by each indicator, what sources we used for each of them, and why we think the underlying issue is relevant to financial secrecy.

Table 3.1: Overview of 15 Key Financial Secrecy Indicators

[17] We are open to share the data in the database in a more accessible format than via online xml-files, depending on the needs of researchers. To this end, we invite any interested researchers to get in touch with alex@taxjustice.net or markus@taxjustice.net,

Knowledge of beneficial ownership		Key aspects of corporate transparency regulation		Efficiency of tax and financial regulation		International standards and cooperation	
1	Banking Secrecy	4	Public Company Ownership	7	Fit for Information Exchange	11	Anti-money Laundering
2	Trust and Foundations Register	5	Public Company Accounts	8	Efficiency of Tax Administration	12	Automatic Information Exchange
3	Recorded Company Ownership	6	Country-by-country reporting	9	Avoids Promoting Tax Evasion	13	Bilateral Treaties
				10	Harmful Legal Vehicles	14	International Transparency Commitments
						15	International Judicial Cooperation

3.1 KFSI 1 - Banking Secrecy

3.1.1 What is measured?

This indicator assesses whether a jurisdiction provides banking secrecy. We go beyond the statutory dimension to assess the absence or inaccessibility of banking information as a form of banking secrecy. For a jurisdiction to obtain a full credit on this indicator, the jurisdiction must ensure that banking data exists, and that it has effective access to this data. We consider that effective access exists if the tax authorities can obtain account information without the need for separate authorisation, for example, from a court, and if there are no undue notification requirements or appeal rights against obtaining or sharing this information.

In order to measure whether banking secrecy enjoys legal status in a jurisdiction, we use data[18] from table B1 of the OECD 2010 report[19] and from the Global Forum peer reviews[20]. If a jurisdiction does not legally endorse banking secrecy, we award 0.2 credit points.

The availability of relevant banking information is measured by a jurisdiction's compliance with FATF-recommendations 5 and 10[21].

Recommendation 5 states that "financial institutions should not keep anonymous accounts or accounts in obviously fictitious names". The recommendation specifies that the financial institution must be able to identify not just the legal owner but also the beneficial owner(s),

[18] To see the sources we are using for particular jurisdictions please check out the assessment logic table in Annex C here http://www.financialsecrecyindex.com/PDF/FSI-Methodology.pdf and the corresponding information for individual countries in our database, available at www.financialsecrecyindex.com/database/menu.xml.

[19] The full title of this annual publication is "Tax Co-operation: Towards a Level Playing Field" (henceforth "OECD-report"). The OECD provides the following explanation: "Table B1 shows for all of the countries reviewed whether the basis for bank secrecy arises purely out of the relationship between the bank and its customer (e.g. contract, privacy, common law) […or] whether it is reinforced by statute […]." (OECD 2010: 142; [TJN-note]).

[20] The Global Forum peer reviews refer to the peer review reports and supplementary reports published by the Global Forum on Transparency and Exchange of Information for Tax Purposes. They can be viewed at: http://www.eoi-tax.org/; 15.07.2013.

[21] These recommendations refer to the 49 FATF recommendations of 2003. While the FATF consolidated its recommendations to a total of 40 in 2012, the old recommendations are used here because the assessment of compliance with the new recommendations only began in 2013. The corresponding recommendations in the new 2012 set of recommendations are numbers 10 (replacing old Rec. 5) and 11 (replacing old Rec. 10). FSI 2015 takes into account the results of the new assessments. The old recommendations can be viewed at: www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202003.pdf; 01.06.2015; the new recommendations are available at: www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF_Recommendations.pdf; 16.7.2015.

both in the case of natural and legal persons[22]. If a jurisdiction fully complies with this recommendation, we award a further 0.2 credit points[23].

FATF-recommendation 10 requires financial institutions to "maintain, for at least five years, all necessary records on transactions, both domestic and international"[24]. A further 0.2 credits are awarded if a jurisdiction fully applies this recommendation. We have relied mainly on the mutual evaluation reports by the FATF, FATF-like regional bodies or the IMF for the assessment of these two criteria[25].

In addition, and in order to diversify our sources, we have also used data contained in the 2014 International Narcotics Control Strategy Report (INCSR, Volume 2 on Money Laundering and Financial Crimes)[26]. This report indicates for a large number of countries a) whether banks are required to maintain records over time, especially of large or unusual transactions, and b) whether banks are required to report large transactions. We award 0.1 credit points for a positive answer for each a) and b)[27].

However, since it is not sufficient for banking data to merely exist, we also measure whether this data can be obtained and used for information exchange purposes, and if no undue notification[28] requirements or appeal rights[29] prevent effective sharing of banking data. We rely on Global Forum's element B.1[30] for addressing the first issue at hand (powers to obtain

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[22] www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202003.pdf; 01.06.2015. Also see footnote above.

[23] In order to measure compliance the FATF uses the following scale: 1 = non-compliant; 2 = partially compliant; 3 = largely-compliant; 4 = fully compliant. We give 0 credits for non-compliant, 0.7 for partially compliant, 0.13 for largely compliant and finally 0.2 credit points for fully compliant jurisdictions.

[24] www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202003.pdf; 01.06.2015. Also see footnote above.

[25] We ignored the results of updated reports to mutual evaluations, and instead only included the results of full mutual evaluations. This is because only a comprehensive re-assessment of all recommendations gives a complete picture of the anti-money laundering system and offers a fair basis for comparison across jurisdictions.

[26] This report is available here: http://www.state.gov/documents/organization/222880.pdf; 17.07.2015.

[27] The information is presented in this table: www.state.gov/documents/organization/191500.pdf (01.06.2015) under the columns "Report Large Transactions" and "Maintain records over time".

[28] While the GF peer reviews assess whether a notification (to the taxpayer) could delay or prevent the exchange of information, we also consider whether any notification to the taxpayer takes place at all, even if it is after the exchange of information, because the taxpayer could start taking actions (transfer assets, leave the country, etc.) to prevent the legal and economic consequences of the requesting jurisdiction's investigation or proceedings. By becoming aware, he/she could also take precautionary measures with respect to assets, bank accounts, etc. located in other jurisdictions.

[29] In those cases when the taxpayer is not notified (either because it is not a legal requirement or because there are exceptions to this notification), we still evaluate whether the information holder has any right to appeal or to seek judicial review. In this case, we consider whether there are legally binding timeframes for the appeal procedures and appropriate confidentiality safeguards which would ensure that the exchange of information would not be delayed or prevented.

[30] The full element B.1 reads as follows: "Competent authorities should have the power to obtain and provide information that is the subject of a request under an exchange of information arrangement

and provide data), and we use Global Forum's element B.2[31] for the second issue (notification requirements/appeal rights). Each will be attributed 0.1 credits if no qualifications apply to the elements and underlying factors[32]. An overview of the rating for B.1 and B.2 can be seen below:

KFSI 1 – Assessment of Global Forum Data		
Assessment Credits	Results as in table of determinations of Global Forum B.1 / B.2, "**Determination**"[33]	Results as in table of determinations of Global Forum B.1 / B.2, "**Factors**"[34]
0.1	"The element is in place."	No factor mentioned.
0	"The element is in place."	Any factor mentioned.
0	"The element is in place, but certain aspects of the legal implementation of the element need improvement."	Irrelevant.
0	"The element is not in place."	Irrelevant.

from any person within their territorial jurisdiction who is in possession or control of such information (irrespective of any legal obligation on such person to maintain the secrecy of the information)." (See page 27 in: Global Forum on Transparency and Exchange of Information for Tax Purposes 2010: Implementing the Tax Transparency Standards. A Handbook For Assessors and Jurisdictions, Paris).

[31] The full element B.2 reads as follows: "The rights and safeguards (e.g. notification, appeal rights) that apply to persons in the requested jurisdiction should be compatible with effective exchange of information." (See page 28, in Global Forum 2010, op. cit.).

[32] Because under Global Forum's methodology there are no clear criteria to determine when identified problems as described in "factors" are going to affect the assessment of an "element", we are only awarding a credit if no problems (factors) have been identified, irrespective of the element's assessment. However, we do consider both: (i) whether the factors mentioned are related to bank information; and (ii) whether information described in the report (even if not mentioned as a factor) is also relevant to assess a jurisdiction's power to obtain and exchange bank information. Also see footnotes below for more background.

[33] The Global Forum peer review process analyses and determines if the 10 elements considered by the OECD to be necessary for "upon request" information exchange are in place. A three-tier assessment is available (element "in place", "in place, but", "not in place"), and this assessment is called "determination". See footnote above and below for more details.

[34] Each of the "determinations" (as explained in footnotes above) of the 10 elements may have underlying factors which justify the element's determination and the recommendations given. They are shown in a column next to the determination in the "table of determinations" in the corresponding peer review reports.

All of KFSI 1 is summarized in the following table:

KFSI 1 – Banking Secrecy			
Dimensions	**Condition(s)**	**Assessment**	**Source(s)**
Statutory standing	Banking secrecy does not have legal standing	0.2 credit points	OECD Tax-Cooperation report 2010, table B.1; Global Forum peer reviews
Availability of relevant information	No anonymous accounts – FATF Rec. 5	0.2 credit points	FATF, FATF-like regional bodies, or IMF
	Keep banking records for at least five years– FATF Rec. 10	0.2 credit points	
	Maintain records over time, especially of large or unusual transactions	0.1 credit points	Bureau for International Narcotics and Law Enforcement Affairs (INCSR 2014)
	Report large transactions	0.1 credit points	
Effective access	Sufficient powers to obtain and provide banking information	0.1 credit points	Global Forum peer reviews elements B.1 and B.2 (incl. factors and text)
	No undue notification and appeal rights against information exchange	0.1 credit points	

3.1.2 Why is it important?

Factual and formal banking secrecy laws can obstruct information gathering requests from both national and international competent authorities such as tax administrations or financial regulators. Until 2005, most of the concluded double tax agreements[35] did not

[35] http://www.taxjustice.net/cms/upload/pdf/Tax_Information_Exchange_Arrangements.pdf; 01.06.2015.

specifically include provisions to override formal banking secrecy laws when responding to information requests by foreign treaty partners.

Some countries defend their banking secrecy by means of criminal prosecution which provides a way to silence, retaliate against, and prosecute critics as well as whistle-blowers. Bank secrecy was, and in many cases remains, a significant obstacle to progress in obtaining information required to secure law enforcement and deter tax dodging.

Another way of achieving factual banking secrecy which has become increasingly fashionable[36] since formal banking secrecy came under attack by the OECD in 2009 consists of not properly verifying the identity of the account holders, or in allowing nominees such as custodians, trustees, or foundation council members to be acceptable as the only names on bank records. Furthermore, the absence of or neglect in enforcing record keeping obligations for large transactions, for instance through wire transfers, is another way in which banks are complicit in aiding their clients to evade investigation.

Since most trusts, shell companies, partnerships and foundations need to maintain a bank account, the beneficial ownership information banks are required to hold on the accounts they operate is often the most effective route for identifying the natural persons behind these legal structures. Together with the recorded transfers, ownership records of bank accounts therefore are often the sole available evidence of criminal or illicit activity of individuals, such as the payment of bribes, illegal arms trading or tax fraud. Therefore, it is of utmost importance that authorities with appropriate confidentiality provisions in place can access relevant banking data routinely without being constrained by additional legal barriers such as formal banking secrecy or factual barriers, such as missing or outdated records.

[36] www.taxjustice.net/cms/upload/pdf/TJN_1110_UK-Swiss_master.pdf; 01.06.2015.

3.2 KFSI 2 - Trust and Foundations Register

3.2.1 What is measured?

KFSI -2 indicates whether a jurisdiction has a central register which is publicly accessible via the internet at a cost not exceeding 10 €/US$[37] for:

(i) all trusts (those created according to the local law and called 'domestic law trusts' as well as those created under a 'foreign law' but which have a connection to the jurisdiction because they are administered by a local trustee), and

(ii) all private foundations.

Alternatively, this indicator considers whether a jurisdiction precludes the creation of trusts or similar arrangements such as *Treuhands*, *fideicomisos* or *waqfs* under its domestic laws, and/or whether it prevents its residents from administering trusts created under a foreign law, and/or if its legislation prevents the creation of private purpose foundations.

The logic behind this indicator is that a jurisdiction may neutralise the risks embedded in the opacity of trusts and private foundations either (i) by requiring the registration and publication of relevant information relating to all the parties involved in both types of legal entities, or (ii) by prohibiting their creation or administration in their territories.

To obtain a positive transparency assessment for this indicator, all trusts (domestic law trusts and foreign law trusts administered by a resident trustee) and all private foundations must be required to register with a central agency. However, in most circumstances, registration alone is not sufficient: all the related parties of trusts and private foundations (or similar structures) must be publicly disclosed, as long as their overall payments either exceed €15.000 per year or their underlying asset value exceeded €100.000 at any moment in a calendar year.[38] In these cases, for a full credit, disclosure should include the appropriate information for assessing its tax and ownership implications, at least comprising the full names and birthdates (or passport IDs) or addresses or TINs and country of residence for the settlor(s), the trustee(s), protector(s) and identified beneficiaries of the

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[37] We believe this is a reasonable criteria given a) the prevalence of the internet in 2015, b) as international financial flows are now completely relying on the use of modern technology, it would be an omission not to use that technology to make information available worldwide especially as c) the people affected by these cross border financial flows are likely to be in many jurisdictions, and hence *need* information to be on the internet to get hold of it.

[38] See our research on bank account registries (2012), chapter 8, pages 46-49, for more background of these relevant structures and the suggested registries (http://www.taxjustice.net/cms/upload/pdf/BAR2012-TJN-Report.pdf; 22.7.2015).

arrangement.[39] Under specific circumstances, partial credit is given when all trusts are being registered or partial information is published online for all foundations.

Alternatively, a full transparency credit can be obtained if a jurisdiction does not provide legislation for the creation of private foundations (half credit), and does not provide legislation for the creation of trusts as well as ruling out the administration of foreign law trusts by domestic trustees (half credit).

However, we also differentiate between situations in which countries merely by omission fail to regulate and register foreign law trusts administered by domestic lawyers, tax advisers and notaries, and other situations in which jurisdictions actively attract foreign law trusts, either by adherence to the Hague Convention on the Law Applicable to Trusts and on their Recognition[40] or by legislating equivalent domestic rules which regulate aspects of foreign law trusts for use in a domestic economic and legal context.

KFSI-2 draws upon a variety of sources, mainly using information contained in the Global Forum peer reviews[41], but also private sector internet sources, FATF and IMF reports, the TJN-Survey 2015 and original legal analysis. In cases where there is indication that online registries on trusts/foundation registries are available, related websites have also been consulted.

For full details of the assessment, please consult Annex H with a mind map of KFSI 2.

3.2.2 Why is it important?

Trusts change property rights. That is their purpose. A trust is formed whenever a person (the settlor) gives legal ownership of an asset (the property) to another person (the trustee) on condition that they apply the income and gains arising from that property for the benefit of another person or persons (the beneficiaries).

Trusts have many legitimate purposes, but they can easily be abused for the purpose of concealing illicit activity, for example, by concealing the identity of a settlor or beneficiary. There is a particular risk when the trust is a 'sham' i.e. the settlor is also a beneficiary and controls the activities of the trustee. This is a commonplace mechanism for evading tax since their principal effect is to conceal the actual controlling ownership of assets.

The most basic secrecy jurisdiction 'product' comprises a secrecy jurisdiction company that operates a bank account. That company is run by nominee directors on behalf of nominee

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[39] For comprehensive policy guidelines on what features an effective registry of trusts should possess, please read pages 46-49 here: www.taxjustice.net/cms/upload/pdf/BAR2012-TJN-Report.pdf; 22.7.2015.
[40] http://www.hcch.net/index_en.php?act=conventions.text&cid=59; 22.7.2015.
[41] The Global Forum peer reviews refer to the peer review reports and supplementary reports published by the Global Forum on Transparency and Exchange of Information for Tax Purposes. They can be viewed at: http://www.eoi-tax.org/; 22.7.2015.

shareholders who act for an offshore trust that owns the company's shares. Structures like these are created primarily to avoid disclosing the real identity of the settlor and beneficiaries who hide behind the trust: these people will be 'elsewhere'[42] in another jurisdiction as far as the secrecy jurisdiction 'secrecy providers' (the lawyers, accountants and bankers actually running this structure) are concerned. If - as is often the case - these structures are split over several jurisdictions then any enquiries by law enforcement authorities and others about the structure can be endlessly delayed by the difficulties incurred when trying to identify who hides behind the trust.

Private foundations serve a similar purpose to trusts. By definition they do not have any owners, being designed to allow wealth owners to continue to control and use their wealth hidden behind the façade of the foundations. Discretionary foundations - equivalent to discretionary trusts - are a speciality of Liechtenstein, though they are also available in other secrecy jurisdictions.

Private foundations have a founder, a foundation council and beneficiaries. Foundations are created around a foundation statute, often complemented by secret by-laws. In all secrecy jurisdiction contexts, private foundations need to be registered, though only very limited information, for example about a registered office or some foundation council members, is required to be held in government registries. These registries are normally subject to strict secrecy rules.

The existence of a central register recording the true beneficial ownership of trusts and foundations would break down the deliberate opacity surrounding this type of structure. The prospects of proper law enforcement would be greatly enhanced as a result.

For more information and analysis of the uses and abuses of trusts please read TJN's extensive blog here[43].

For more background on the way discretionary trusts and foundations can used to hide offshore wealth, read this analysis[44].

[42] By 'elsewhere' we mean 'An unknown place in which it is assumed, but not proven, that a transaction undertaken by an entity registered in a secrecy jurisdiction is regulated'. See our glossary here: http://www.financialsecrecyindex.com/glossary/glossary.html; 22.7.2015.
[43] http://taxjustice.blogspot.de/2009/07/in-trusts-we-trust.html; 22.7.2015.
[44] www.taxjustice.net/cms/upload/pdf/TJN_1110_UK-Swiss_master.pdf; 22.7.2015.

3.3 KFSI 3 – Recorded Company Ownership

3.3.1 What is measured?

This indicator assesses whether a jurisdiction requires all available types of companies to submit beneficial ownership information upon incorporation to a governmental authority, and whether it requires this information to be updated upon subsequent transfers or issuance of shares (or upon any other event or action which changes beneficial ownership information), regardless of whether or not this information is made available on public record.

To receive a full credit on this indicator, registered ownership information must comply with minimum requirements. It should include:

a) the full names of all beneficial owners holding at least 10% of ownership in the entity[45], and for each beneficial owner:

b) their country of residence, and

c) full address, or a passport ID-number, or a birthdate and place or a Taxpayer Identification Number.

Alternatively, countries subject to the 4th EU Directive on Anti-Money Laundering will receive 0.25 credits. Adopted on May 20th, 2015 by the European Parliament[46], Article 30 of this Directive contains provisions regarding the registration of beneficial ownership information in all EU Member States for companies and other legal entities incorporated within their territories. The directive needs to be implemented by each EU member state by 2017.

The recorded beneficial owners must be the natural human beings who have the right to enjoy ownership or the rewards flowing from ownership of the entity, as prescribed by anti-money laundering standards.[47] For this purpose, trusts, foundations, partnerships, limited liability corporations and other legal persons do not count as beneficial owners.

[45] While the ideal transparency scenario would encompass registration of absolutely all beneficial owners, we believe a threshold of at least 10% of ownership in a company is reasonable. Opposite to this, we consider that the Financial Action Task Force's definition of beneficial owner (which is triggered by 'more than 25%' of ownership) is too high a threshold because it allows easy avoidance of beneficial ownership registration (e.g. by appointing a spouse and two children as owners). Therefore, jurisdictions requesting registration of those individuals holding more than 25% of interest in a company (e.g. the United Kingdom and EU countries subject to the 4th AML Directive, as explained hereinafter) will receive only 0.25 credit.

[46] http://www.consilium.europa.eu/en/press/press-releases/2015/04/20-money-laundering-strengthened-rules/; http://register.consilium.europa.eu/pdf/en/15/st05/st05933.en15.pdf; http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P8-TA-2015-0201+0+DOC+XML+V0//EN&language=EN; https://euobserver.com/justice/128776; 13.7.2015.

[47] FATF defines beneficial owners as the "natural person(s) who ultimately owns or controls a customer and/or the natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate effective control over a legal person or arrangement." See page 110 in Financial Action Task Force 2012: The FATF Recommendations. International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation (February 2012), Paris,

A precondition for awarding a positive result is that all available types of companies with limited liability must be required to submit beneficial ownership information except for publicly listed companies, where owners of the listed shares are not required to be recorded. In addition, bearer shares[48] should not be available in the jurisdiction or, if available, there should be mechanisms to ensure that all existing bearer shares are[49] immobilised or registered (for instance, by a custodian) and that updated information on holders of bearer shares is also filed with a government authority. Furthermore, appropriate disclosure mechanisms should be in place to disallow recording of specific discretionary legal structures such as trusts and foundations or their trustees and nominees as alleged beneficial owners of companies.

This indicator is mainly informed by four different types of sources.[50] First, the Global Forum peer reviews[51] have been analysed to find out what sort of ownership information companies must register with a government agency. An important distinction is made between beneficial ownership information which refers to the ultimate human beings owning the company on the one hand, and legal ownership which "refers to the registered owner of the share, which may be an individual, but also a nominee, a trust or a company, etc." (OECD 2010[52]: 189). A governmental authority is defined so as to include "corporate registries, regulatory authorities, tax authorities and authorities to which publicly traded companies report" (ibid.) and is used interchangeably here with "government agency" or "public institution".

The second source was the aforementioned 4th EU Directive on Anti-Money Laundering. While in the Financial Secrecy Index 2013 no jurisdiction was considered to have any beneficial ownership registration, this has changed in 2015. Subsequent to the adoption of the 4th EU Directive on Anti-Money Laundering all EU members will receive a partial credit. The new directive entails minimum standards for the registration of adequate, accurate and current information on the beneficial owners of corporates and other legal entities to be

in: http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF_Recommendations.pdf; 26.05.2015.

48 Bearer shares are shares which are not registered, where the owner can be any person holding the share certificate and the transferring of the ownership involves only delivering the physical certificate.

49 We consider that the obligation to register bearer shares exists when legal provisions establish a timeframe for immobilization/registration of all existing bearer shares before 2017 and where the consequence for non-compliance is the loss of those shares. Provisions where the only consequence of non-compliance is the loss of voting rights or rights to dividends are not considered to be sufficient because this would involve the mere suspensions of rights. In such case, the holders of bearer shares may still transfer those shares or avoid identification until they are able to regain their rights.

50 To see the sources we are using for particular jurisdictions please check out the assessment logic table in Annex C here http://www.financialsecrecyindex.com/PDF/FSI-Methodology.pdf and the corresponding information for individual countries in our database, available at www.financialsecrecyindex.com/database/menu.xml.

51 The Global Forum peer reviews refer to the peer review reports and supplementary reports published by the Global Forum on Transparency and Exchange of Information for Tax Purposes. They can be viewed at: http://www.eoi-tax.org/; 26.05.2015.

52 Organisation for Economic Co-Operation and Development 2010: Tax Co-operation 2010. Towards a Level Playing Field - Assessment by the Global Forum on Transparency and Exchange of Information, Paris.

accessed by competent authorities, FIUs, entities obliged to conduct customer due diligence (such as banks) and persons and organizations with a legitimate interest. Member States may choose to go beyond this standard and publish the information on registries accessible by the public.

The definition of 'beneficial owner' under the Directive, however, is subject to a threshold above 25% ownership rights. In line with various other international developments, we consider any threshold above 10% ownership rights to be too high for effective identification of company ownership.[53] In addition, at time of writing it remains unclear whether the new requirements will pierce through legal structures such as discretionary trusts and foundations or bearer shares. The Directive does not prohibit bearer shares but merely requires EU Member States to prevent their misuse. Given that the obligation to register beneficial ownership is incompatible with the existence of bearer shares, it can be expected that effective mechanisms will need to be implemented to immobilise bearer shares or require their registration. Taking account of these uncertainties, European jurisdictions which are subject to the adopted proposal will be awarded only 0.25 credit.

The third type of source used was private sector websites (Lowtax.net, Ocra.com, Offshoresimple.com, etc.), the fourth, Financial Action Task Force (FATF) peer reviews[54], and the fifth, the results of the TJN-Survey 2015 (or earlier).

KFSI 3 resembles KFSI 4 relating to public company ownership information. However, KFSI 3 assesses only whether the beneficial ownership information needs to be recorded at a government agency and updated, without the provision that the information is available online. Therefore, if a jurisdiction is credited for published beneficial ownership in KFSI 4, it was credited for this indicator too. However, the opposite does not hold true: some jurisdictions may require beneficial ownership information to be submitted and updated, but do not require its publication online.

3.3.2 Why is it important?

Absence of beneficial ownership information obstructs law enforcement. When a jurisdiction, such as the US state of Wyoming (see here[55], page 236, or here[56]), allows private companies to be formed without recording beneficial ownership information, the scope for domestic and foreign law enforcement agencies to look behind the corporate veil[57] is very restricted.

[53] For instance, 10% of shares/capital in an entity is FATCA's threshold to define a US substantial ownership ("FATCA + AML = an equation with too many variables?, Weis, Thinnes, PWC Luxembourg, May 2012, at: http://www.pwc.lu/en/press-articles/2012/fatca-aml-an-equation-with-too-many-variables.jhtml; 20.7.2014).

[54] The FATF consolidated its 49 (40 plus 9 special) recommendations to a total of 40 in 2012 (the "new recommendations"). Because the mutual evaluation of compliance with the new recommendations has only begun in 2013, we are predominantly using the old evaluations.

[55] http://www.fatf-gafi.org/media/fatf/documents/reports/mer/MER%20US%20full.pdf; 26.05.2015.

[56] http://www.economist.com/node/21529021; 26.05.2015.

[57] http://www.oecdbookshop.org/en/browse/title-detail/?ISB=212001131P1; 26.05.2015.

These so-called 'shell companies' are nothing more than letterboxes serving as conduits for financial flows in many different guises. Non-resident persons (both natural and legal) can use a shell company to shift money illicitly while claiming to their domestic government authorities that they have no ownership interest in the company. For example, the proceeds of bribery and corruption can be hidden and transferred via shell companies. The World Bank reported in 2011:

> "Our analysis of 150 grand corruption cases shows that the main type of corporate vehicle used to conceal beneficial ownership is the company [...] Companies were used to hide the proceeds of corruption in 128 of the 150 cases of grand corruption reviewed." (World Bank 2011: 20, 34)[58].

For illustrative purposes, two examples are provided below:

On March 1, 2010, BAE Systems plc. (BAE) was ordered to pay a US$400 million criminal fine following its admission of guilt, among others, of conspiracy to defraud the United States and to making false statements about its Foreign Corrupt Practices Act (FCPA) compliance programme[59]. BAE's conspiracy involved the use of offshore shell companies - most of which were owned by BAE - to conceal the role of intermediaries it had hired to assist in promoting Saudi Arabian fighter deals. One of the shell companies used by BAE was incorporated in the British Virgin Islands (BVI), where incorporation of a legal entity does not require disclosure of the physical location of the place of business nor the legal and beneficial ownership information[60].

According to the United States District Court, for reasons related to its business interests BAE gave the US authorities inadequate information related to the identity and work of its advisers and at times avoided communicating with its advisers in writing. Furthermore, the contracts and other relevant materials related to the intermediaries were maintained by secretive legal trusts in offshore locations[61]. The use of shell entities allowed BAE to conceal the stream of payments to these agents and to circumvent laws in countries that did not allow agency relationships. It also hindered the ability of authorities to detect the schemes and trace the money[62].

Another example is the case of Haiti's state-owned national telecommunications company ('Haiti Teleco'), which used corporate vehicles to accept bribes and launder funds. Bribes were paid to Haiti Teleco's officials, including the director of Haiti Teleco, by representatives of three international telecommunications companies, based in the U.S., with which Haiti

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[58] http://star.worldbank.org/star/sites/star/files/puppetmastersv1.pdf; 26.05.2015.
[59] See http://www.justice.gov/opa/pr/2010/March/10-crm-209.html; 26.05.2015.
[60] See British Virgin Islands Bus. Co's Act § (9)(1)(2004), British Virgin Islands Bus. Co's Act § (41)(1)(d) (2004).
[61] See http://www.justice.gov/criminal/fraud/fcpa/cases/bae-system/02-01-10baesystems-info.pdf; 26.05.2015.
[62] The World Bank & UNDOC, "The Puppet Masters- How the Corrupt Use Legal Structures to Hide Stolen Assets and What to Do About it" (2011) (hereinafter: "The Puppet Masters"), pp.198-202.

Teleco contracted. In exchange, Haiti Teleco's officials provided these companies commercial advantages (e.g. preferential and reduced telecommunications rates), at the expense of Haiti Teleco's revenue. The representatives systematically used intermediary shell companies to funnel wire transfers and cheque payments for fake consulting services that were never rendered. The use of shell companies as intermediaries concealed the names of the individual bribe-givers and bribe-takers as direct counterparties in any transactions transferring bribe money[63].

With respect to tax evasion, consider this hypothetical example: suppose that a Kenyan national, normally resident in Nairobi, claims that a Wyoming registered company delivers consultancy services to his Kenyan business and the Wyoming company charges US$1,000 a month for these services. As a consequence the Kenyan national pays US$1,000 every month to the Wyoming company and claims that a) he is no longer in possession of these funds since he paid them to a foreign company for services supplied, and b) that the US$1,000 paid monthly is a business expense that he may off-set against his income in his next tax return.

In reality, however, the Wyoming company is a shell owned and controlled by the Kenyan national. While the Kenyan tax authority might have a suspicion that these fund transfers are for illicit purposes e.g. tax evasion, in the absence of registered ownership information the only way for the Kenyan tax authority to confirm its suspicions may be - under certain conditions - to contact its US-counterpart.

However, the US-tax authority cannot readily access the required data on behalf of the Kenyan authorities if the ownership information is not registered. In order to find out it could undertake the lengthy exercise of going through the judicial system to summon the registered company agent in Wyoming. But the due process necessary may take months to initiate and even then, a possible outcome is that the required beneficial ownership information is unavailable in the USA and is held in a third country. That third country may, of course, be a secrecy jurisdiction where a trust has been placed into the ownership structure for exactly this reason.

Faced with such time consuming and expensive obstacles to obtaining correct information on beneficial ownership of offshore companies, most national authorities seldom, if ever, pursue investigations.

[63] The Puppet Masters, pp. 212-217. According to the U.S. Department of Justice, in 2010, following the admission of guilt to money laundering conspiracy by Haiti Teleco's director, he was sentenced to four years in prison and was ordered to pay US$1,852,209 in restitution and to forfeit US$1,580,771. Additional individuals involved in the bribery scheme were also sentenced to prison terms and were ordered to pay high monetary fines as a result of their convictions. As of July 2012, additional indictments were made against new defendants involved in the scheme. See Press Release, U.S. Department of Justice, "Former Haitian Government Official Pleads Guilty to Conspiracy to Commit Money Laundering in Foreign Bribery Scheme" (March 12, 2010); 15.07.13; *See also* Plea Agreement pp. 8-9, United States v. Antoine, No. 09-cr-21010 (S.D. Fla. February 19, 2010); 27.9.12. *See also* The Puppet Masters, pp. 212-217.

3.4 KFSI 4 - Public Company Ownership

3.4.1 What is measured?

KFSI 4 considers whether a jurisdiction requires all available types of company with limited liability to publish updated beneficial ownership or legal ownership information on public records accessible for free via the internet.[64] If beneficial ownership (BO) information is published for free, a full transparency credit is awarded. If there is a fixed cost for accessing the data not exceeding US$10, €10 or £10, only half the credit (0.5) is awarded. If only legal ownership (LO) information is available for all types of company for free, a 0.2 transparency credit is awarded. If access to legal ownership data entails a cost not exceeding US$10, €10 or £10, a 0.1 credit is awarded.

For practical purposes we consider ownership information to be publicly available when it is not necessary to establish complex payment or user-registration arrangements for accessing the data (e.g. registration of bank account, requirement of a local identification number or sending of hard-copy mails).[65] We performed a random search on each of the relevant corporate registries to ensure that all relevant information is effectively available and that technical problems do not persistently prevent access to information. As a precondition, the information must be updated at least once yearly (see KFSI 3).

To meet a reasonable standard, published ownership information must comply with minimum requirements. In the case of beneficial owners, the information must relate to the natural human beings who have the right to enjoy ownership of the rewards flowing from ownership of the entity, as prescribed by anti-money laundering standards[66]. For this purpose, trusts, foundations, partnerships, limited liability corporations and other legal persons or structures do not qualify as beneficial owners. The published details of beneficial owners must include:

d) the full names of all beneficial owners holding 10% or more of ownership rights in the entity[67], and for each

[64] We believe this is a reasonable criteria given a) the prevalence of the internet in 2015, b) as international financial flows are now completely relying on the use of modern technology, it would be an omission not to use that technology to make information available worldwide especially as c) the people affected by these cross border financial flows are likely to be in many jurisdictions, and hence *need* information to be on the internet to get hold of it.

[65] We consider that for something to be truly 'on public record' prohibitive cost constraints must not exist, be they financial or in terms of time lost or unnecessary inconvenience caused.

[66] FATF defines the beneficial owners as the "natural person(s) who ultimately owns or controls a customer and/or the natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate effective control over a legal person or arrangement." See page 110 in Financial Action Task Force 2012: The FATF Recommendations. International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation (February 2012), Paris, in: http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF_Recommendations.pdf; 25.05.2015.

[67] While the ideal transparency scenario would encompass registration of absolutely all beneficial owners, we believe a threshold of at least 10% of ownership in a company is reasonable. Opposite to this, we consider that the Financial Action Task Force's definition of beneficial owner (which is

e) country of residence, and

f) full address, or passport ID-number or birthdate and place, or Taxpayer Identification Number (TIN).

In the case of only legal ownership (that is, the nominee and/or trustee and/or corporate shareholders of the company) being published, a partial transparency credit of 0.1 (cost)/0.2 (for free) is awarded because such availability may, in some circumstances, reduce the time required to identify the beneficial owners of the company. The minimum details required to be published online about legal owners must include:

a) the full names of nominees and/or trustees and/or legal entities acting as legal owners or shareholders, and for each

b) country of residence or incorporation, plus

  a. in case of individuals, passport ID-number or birthdate and – place or Taxpayer Identification Number (TIN) or full address;

  b. in case of legal entities, company registration number and address of principle place of business or registered address.

When access to relevant data involves a fee it can be prohibitively expensive to import this information into an open data environment, even if the cost per record is low. This creates substantial hurdles for conducting real time network analyses, for constructing cross-references between companies and jurisdictions, and for new creative data usages.[68] These innovative ways to exploit the data are both widespread in the open data community and would greatly increase the likelihood of identifying illicit activity hidden behind corporate vehicles. Therefore, a full credit is only awarded when access to the information is free.

The indicator draws information mainly from five sources[69]: first, the Global Forum peer reviews[70] have been analysed to find out what sort of ownership information companies must register with a government agency. An important distinction is made between beneficial ownership information which refers to the ultimate human beings owning the company on the one hand, and legal ownership which "refers to the registered owner of the share, which may be an individual, but also a nominee, a trust or a company, etc." (OECD 2010[71]: 189). A governmental authority is defined as including "corporate registries,

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triggered by 'more than 25%' of ownership) is too high a threshold because it allows easy avoidance of beneficial ownership registration (e.g. by appointing a spouse and two children as owners).

[68] For more information about this see http://opencorporates.com/; 26.05.2015.

[69] To see the sources we are using for particular jurisdictions please see the corresponding information in our database, available at www.financialsecrecyindex.com/database/menu.xml.

[70] The Global Forum peer reviews refer to the peer review reports and supplementary reports published by the Global Forum on Transparency and Exchange of Information for Tax Purposes. They can be viewed at: http://www.eoi-tax.org/; 25.05.2015.

[71] Organisation for Economic Co-Operation and Development 2010, Tax Co-operation 2010: Towards a Level Playing Field - Assessment by the Global Forum on Transparency and Exchange of Information, Paris.

regulatory authorities, tax authorities and authorities to which publicly traded companies report" (ibid.) and is used interchangeably here with "government agency" or "public institution".

The second source was private sector websites (Lowtax.net, Ocra.com, Offshoresimple.com, etc.), the third, Financial Action Task Force (FATF) peer reviews[72] and fourth, the results of the TJN-Survey 2015 or previous.

Finally, where the above sources indicate that beneficial or legal ownership information is recorded by a government agency and may be made available online, we have searched for this information on the corresponding websites.

This indicator resembles KFSI 3 relating to registered company ownership information. However, KFSI 4 assesses whether the ownership information is available online, while KFSI 3 only checks if beneficial owner information must be recorded at a government agency and updated (including regarding bearer shares), without the provision that the information is available online. Unlike KFSI 4, which gives a partial credit to legal ownership details published online, KFSI 3 awards a credit if beneficial ownership is recorded without giving partial credit for recording legal ownership.

As is explained in detail in KFSI 3, on 20th May 2015 the European Parliament approved[73] the 4th EU Directive on Anti-Money Laundering. Article 30 of the Directive contains provisions regarding the registration of beneficial ownership information in all EU Member States for companies and other legal entities incorporated within their territories. The directive needs to be implemented by each EU member state by 2017. The 4th Anti-money laundering directive also prescribes public access to the data subject to a legitimate interest test. Since the registries are not yet in place and public access cannot be tested, KFSI 4 does not yet take the new provisions for EU countries into account.

3.4.2 Why is it important?

The absence of readily available beneficial ownership information obstructs law enforcement and distorts markets due to information asymmetries, for example in public procurement. Incentives to break laws are greatly increased when companies or individual traders can hide behind anonymity in combination with limited liability. Law enforcement is drastically impeded when there is little or no chance of revealing the true identity of the real human-beings hidden behind corporate structures.

There is an abundance of cases where the absence of beneficial ownership information has allowed the abuse of legal entities. For example, the proceeds of bribery and corruption can

[72] The FATF consolidated its 49 (40 plus 9 special) recommendations to a total of 40 in 2012 (the "new recommendations"). Because the mutual evaluation of compliance with the new recommendations has only begun in 2013, we are predominantly using the old evaluations.

[73] http://www.consilium.europa.eu/en/press/press-releases/2015/04/20-money-laundering-strengthened-rules/; http://register.consilium.europa.eu/pdf/en/15/st05/st05933.en15.pdf; http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P8-TA-2015-0201+0+DOC+XML+V0//EN&language=EN; https://euobserver.com/justice/128776; 13.7.2015.

be hidden and transferred by anonymous shell companies. The World Bank reported in 2011:

> "Our analysis of 150 grand corruption cases shows that the main type of corporate vehicle used to conceal beneficial ownership is the company […] Companies were used to hide the proceeds of corruption in 128 of the 150 cases of grand corruption reviewed." (World Bank 2011: 20, 34)[74].

In a joint publication of 2011 by the United Nations and the World Bank relating to stolen assets (by embezzlement, bribery, etc.), both argued that company registries should be searchable online:

> "Jurisdictions should develop and maintain publicly available registries, such as company registries, land registries, and registries of nonprofit organizations. If possible, such registries should be centralized and maintained in electronic and real-time format, so that they are searchable and updated at all times" (UNODC/World Bank 2011: 93[75]).

Furthermore, in cases where a company has been used for criminal purposes and the real identity of the beneficial ownership is required to be recorded in an online directory but is not correctly disclosed, the responsible party (company secretary, company administrator, etc.) is also open to being prosecuted for failure to disclose accurate information.

Where online disclosure of beneficial ownership information does not exist, the availability of detailed legal ownership information may enable a foreign authority to follow up some initial suspicions on wrong-doing and may enable it to successfully file a request for information exchange with its foreign counterpart. The legal owner can be addressed by an information request and will sometimes be required to hold beneficial ownership information which it then must provide to an enquiring authority. At the same time, delays are created through an absence of beneficial ownership information, and the provision of tipping-off provisions may frustrate law enforcement efforts. For these reasons we only award a 0.2 credit for legal ownership being made publicly available.

If ownership information is only held secretly on a government database to which there is no public access, there is little likelihood of appropriate checks being undertaken to ensure that the registry actually complies with its obligation to collect and regularly update beneficial ownership information. It is third party use that is likely to create the pressure to ensure compliance. In a global setting of fierce regulatory and tax competition for capital, the likely outcome of this scenario would be registries that are not diligently maintained, and whose data is outdated or non-existent.

The recent case of Swiss Leaks[76] about secret bank accounts held at HSBC private bank, many of which were related to tax evasion and money laundering, revealed that some

[74] http://star.worldbank.org/star/sites/star/files/puppetmastersv1.pdf; 25.05.2015.
[75] http://star.worldbank.org/star/publication/barriers-asset-recovery; 25.05.2015.
[76] http://www.independent.co.uk/news/business/hsbc-leaks-email-from-whistleblower-to-hmrc-proves-authorities-were-told-of-tax-evasion-10043456.html; 25.05.2015.

authorities had failed to request access to the data, and some others did not use the information they had received to investigate. Some authorities only started to take action after the data had been leaked to the media.

This does not mean that we demand that everybody must put his or her identity online for everybody else to view. Far from it: if somebody prefers to keep her financial dealings and identity confidential, she can dispense with opting for limited liability status in the company type chosen and deal in her own name instead. In such a case, personal identity information would not be required to be revealed online and thus the link between an individual and a business ownership would remain confidential.

Limited liability is a privilege conferred by society at large. In exchange, the minimum safeguard it legitimately requires for the functioning of markets and the rule of law is that the identity of owners must be publicly available. This holds true especially for private companies that do not trade their shares on a stock exchange.

3.5 KFSI 5 - Public Company Accounts

3.5.1 What is measured?

KFSI 5 shows whether a jurisdiction requires all types of companies with limited liability to file their annual accounts and makes them readily accessible online via the internet for free (full credit) or at a maximum cost of US$ 10, € 10 or £10 (0.5 credit).[77]

For practical purposes we consider ownership information to be publicly available when it is not necessary to establish complex payment or user-registration arrangements for accessing the data (e.g. registration of bank account, requirement of a local identification number or sending of hard-copy mails).[78] We performed a random search on each of the relevant corporate registries to ensure that the accounts are effectively available and that technical problems do not persistently block access to information. A precondition for awarding a credit is that all available types of companies with limited liability are required to keep accounting records, including underlying documentation.

If relevant data can only be accessed by paying a fee, it can be prohibitively expensive to import this data into an open data environment, even if the cost per record is low. This creates substantial hurdles for conducting real time network analyses, for constructing cross-references between companies and jurisdictions, and for new creative data usages.[79] These

[77] We believe this is a reasonable criteria given a) the prevalence of the internet in 2015, b) as international financial flows are now completely relying on the use of modern technology, it would be an omission not to use that technology to make information available worldwide especially as c) the people affected by these cross border financial flows are likely to be in many jurisdictions, and hence *need* information to be on the internet to get hold of it. This criteria is now also in line with the open data movement according to which all available company registry information, including accounts, should be made available, for free, in open and machine readable format. For more information about this see http://opencorporates.com/; 15.05.2015.

[78] We consider that for something to be truly 'on public record' prohibitive cost constraints must not exist, be they financial or in terms of time lost or unnecessary inconvenience caused.

[79] For more information about this see http://opencorporates.com/; 26.05.2015.

innovative ways to exploit the data are both widespread in the open data community and would greatly increase the likelihood of identifying illicit activity hidden behind corporate vehicles. Therefore, a full credit is only given if the access to the information is for free.

We have drawn this information from four principal sources[80]:

First, the 2010 OECD-report (Tax Co-operation 2010[81]) and the Global Forum peer reviews[82] have been used to find out whether a company's financial statements are required to be submitted to a government authority.

Second, private sector internet sources have been consulted (Lowtax.net, Ocra.com, Offshoresimple.com, etc.).

Third, results of the TJN-Survey 2015 or older have been included.

Fourth, in cases where the previous sources indicated that annual accounts are submitted and/or available online, the corresponding company registry websites have been consulted.

A precondition for a positive assessment is that all available types of limited liability companies must be required to publish their annual accounts online. If any exceptions are allowed for certain types of limited liability companies we assume that anyone intending to conceal information from public view will simply opt for company types where no accounts need to be prepared or published.

3.5.2 Why is it important?

Access to timely and accurate annual accounts is crucial for every company with limited liability in every country for a variety of reasons.

First, accounts allow public assessment of potential risks they face in trading with limited liability companies. This can only be done when accounts are available for public scrutiny.

Second, in times of financial globalisation, financial regulators and tax authorities need to be able to assess cross-border implications of the activities of companies. Unhindered access to

[80] To see the sources we are using for particular jurisdictions please check the corresponding information in our database, available at www.financialsecrecyindex.com/database/menu.xml.

[81] The full title of this annual publication is "Tax Co-operation: Towards a Level Playing Field". Table D6 is the main source in the OECD report. The OECD notes for table D6: "This table shows for each of the countries reviewed the legal requirements relating to the nature of the accounting records that must be created and retained, specific requirements with respect to their auditing and lodgement with a governmental authority and the rules regarding the retention of the records." (OECD 2010: 245). Column four and five are described as follows: "Column 4 shows whether jurisdictions require the preparation of financial statements. Column 5 shows whether a requirement exists to file financial statements with a governmental authority and/or to file a tax return" (ibid.).

[82] The Global Forum peer reviews refer to the peer review reports and supplementary reports published by the Global Forum on Transparency and Exchange of Information for Tax Purposes. Section A.2. in the reports refers, among others, to the requirement to keep underlying documentation as well as to the retention period for keeping accounting records. The reports can be viewed at: http://www.eoi-tax.org/; 15.5.2015

foreign companies' and subsidiaries' accounts empowers regulators and authorities to double check the veracity and completeness of locally submitted information and to assess the macro-consequences of corporate undertakings without imposing excessive costs.

Third, no company can be considered accountable to the communities where it is licensed to operate (and where it enjoys the privilege of limited liability) unless it places its accounts on public record.

Many transnational corporations structure their global network of subsidiaries and operations in ways that take advantage of the absence of any requirement to publish accounts on public record. Secrecy jurisdictions enable and encourage corporate secrecy in this respect. If annual accounts were required to be placed online in every jurisdiction where a company operates, the resultant transparency would inhibit transfer pricing abuse and other tax avoidance techniques. We do not, however, regard this requirement as a substitute for a full country-by-country reporting standard (see indicator 6).

3.6 KFSI 6 – Country by Country Reporting

3.6.1 What is measured?

KFSI 6 measures whether the companies listed on the stock exchanges or incorporated in a given jurisdiction are required to publish worldwide financial reporting data on a country-by-country reporting (CBCR) basis, and if the data is accessible to the public. A full credit is awarded when country-by-country reporting[83] is required by all companies (which is not yet the case). A 25% credit is awarded if a country requires limited, but periodic worldwide country-by-country reporting for specific economic sectors, namely banking or extractive industries.

In principle, any jurisdiction could require all companies incorporated under its laws (including subsidiaries and holding companies) to publish in their accounts financial information on their global activity on a country-by-country basis. In practice, however, no jurisdiction does this today. Appropriate reporting requirements can be implemented either through regulations issued by the stock exchange or by a legal or regulatory provision enacted by the competent regulatory or legislative body.

Country-by-country reporting for financial institutions was adopted by EU member states in 2015[84]. The EU-CBCR rules for banks include annual disclosure of turnover, number of

[83] http://www.taxresearch.org.uk/Documents/CBC2012.pdf; 9.6.2015.

[84] The EU Capital Requirements Directive IV (CRD IV) required disclosure according to Article 89, here: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:176:0338:0436:EN:PDF; 10.6.2015. The only main item missing for full CBCR is capital assets. According to Article 89(1), the EU-commission had to carry out an impact assessment of the envisaged publication of the data, and the EU-commission was empowered to defer or modify the disclosure through a so-called "delegated act" in case it identified "significant negative effects" consequences (Art. 89 (3)). In October 2014 the EU-commission has adopted a report containing this assessment of the economic consequences of CBCR by banks and investment firms under CRD IV. The EU- Commission adopted the report's conclusion

employees, profit or loss before tax, tax on profit or loss, and public subsidies received. On this ground, a quarter of a transparency credit (0.25 credits) has been awarded to all EU member states.

Another set of (far narrower) CBCR rules applying to the extractives industries has become law in the USA[85], and similar rules were passed for EU member states, too[86]. The annual financial information to be published in both cases is limited to data required under the principles elaborated by the Extractive Industries Transparency Initiative (EITI)[87]. These principles prescribe that all "material payments" to governments made by companies active in the extractive sector must be published.

A quarter of a transparency credit (0.25 credits) has been awarded to EU member states, but none to the USA. This is because the implementation of the law in the USA has been delayed. Section 1504 of the Dodd Frank Act requires the US Securities and Exchange Commission (SEC) to issue rules mandating the disclosure of payments. These rules issued by the SEC were successfully challenged by the American Petroleum Institute at the U.S. District Court that finally vacated the rules. The SEC has decided not to appeal against this decision and instead has been working on redrafting Section 1504 rules in light of the court's decision[88]. Given that these rules have yet to be reissued by the SEC as of 21 June 2015 and are unlikely to be issued before 2016, CBCR is currently not implemented in the USA and its future application appears uncertain.

Following the Dodd- Frank rules in the USA and the EU rules for extractive industries, Norway has regulated CBCR for enterprises in the extractive industry and in logging of non-planted forestry[89], effective as of 1st January 2014. The scope of the Norwegian rules is wider than

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according to which: "the reporting obligation under CRD IV are not expected to have a significant negative economic impact, including on competitiveness, investment, credit availability or the stability of the financial system". For the press release see: http://europa.eu/rapid/press-release_IP-14-1229_en.htm; 5.8.2015.

[85] See Section 1504 in the "Dodd-Frank Wall Street Reform and Consumer Protection Act", in: https://www.sec.gov/about/laws/wallstreetreform-cpa.pdf; 10.6.2015.

[86] The scope of the European rules is broader than the US rules, for example by extending the requirements to loggers of primary forests. According to the European Directive, member states "shall require large undertakings and all public-interest entities active in the extractive industry or the logging of primary forests to prepare and make public a report on payments made to governments on an annual basis." (Article 42, 2013/34/EU Directive). Member states have time until July 2015 to issue enforcing rules of the Directive, and reporting must begin for financial years commencing on or after 1.1.2016 (Article 53, 2013/34/EU Directive). For the full text of the Directive see here: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013L0034&from=EN; 10.6.2015..

[87] The EITI criteria require the "regular publication of all material oil, gas and mining payments by companies to governments ("payments") and all material revenues received by governments from oil, gas and mining companies ("revenues") to a wide audience in a publicly accessible, comprehensive and comprehensible manner", in: http://eiti.org/eiti/principles 15.07.2013.

[88] For a summary of the legal development regarding Section 1504 of Dodd-Frank Act see the report of the Congressional Research Service, published in 2.4.2015 at: http://fas.org/sgp/crs/misc/R43639.pdf; 10/6/2015.

[89] The regulations can be viewed here: https://www.regjeringen.no/nb/dokumenter/forskrift-om-land-for-land-rapportering/id748525/; https://www.regjeringen.no/no/dokumenter/prop-1-ls-20132014/id740943/?q=land-for-land&ch=3; 21.6.2015. The announcement of the Norwegian

the similar rules in the EU and the USA with regard to the elements that are required to be disclosed (e.g. sales income, production volume, acquisitions of goods and services, and number of employees in every subsidiary). However, Norwegian companies are not required to report the data for their activities in countries where they only have “supportive functions”[90], which allows them in practice not to report on their activities in tax havens. While as of 21 June 2015, the Norwegian parliament has decided the government should review the current CBCR regulations[91], no implementation date has been set for the Parliament's decision, and therefore we consider the current exemption for 'supportive functions' to be too material to award Norway a quarter transparency credit.

On 16th December, 2014, Canada legislated the Extractive Sector Transparency Measures Act, which entered into force on 1st June 2015. According to the new law, extractive companies that engage in the commercial development of oil, gas or minerals will be required to report - on a project basis - on payments including taxes, royalties and fees to all levels of government in Canada and abroad. The reports will be available to the public, with the first reports to be submitted in November 2016[92].

In our assessment it is not sufficient for a country merely to oblige or allow extractive companies operating on their territory to publish payments to this country’s government agencies. Instead, for a quarter transparency credit, a country must require either all companies incorporated in its territory or those listed on a stock exchange to disclose payments made worldwide in countries with extractive operations (including by its subsidiaries), and not merely in the same country.

Compared to full CBCR and compared to the European rules on CBCR in the banking sector, the EITI principles are also far narrower in geographical scope because they require disclosure of payments only with respect to countries where the corporation actually has extractive operations. Payments to other country governments, for example where holding, financing or intellectual property management subsidiaries of the same transnational group are located, are not required to be reported. This limits the data’s usefulness for tackling corporate profit shifting. The rule’s value for resource rich (developing) countries however is substantial.

An even weaker requirement applies in Hong Kong. The requirement to disclose details about “payments made to host country governments in respect of tax, royalties and other

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Ministry of Finance can be view here: https://www.regjeringen.no/nb/aktuelt/forskrift-om-land-for-land-rapportering/id748537/; 21.6.2015.

[90] While the definition for the term 'Supportive functions' is missing in the Norwegian regulations, it is explained in the remarks for the Finance Committee's proposal, available here: https://www.stortinget.no/nn/Saker-og-publikasjoner/Publikasjoner/Innstillingar/Stortinget/2013-2014/inns-201314-004/30/#a1; 21.6.2015.

[91] https://www.stortinget.no/no/Saker-og-publikasjoner/Saker/Lose-forslag/?p=61783; 21.6.2015

[92] See http://www.publishwhatyoupay.org/wp-content/uploads/2015/04/Factsheet_for_Canadian_mandatory_reporting_legislation.pdf; Communication with PWYP International and Global Witness of 1.7.2015; Communication with PWYP Canada of 6.7.2015.

significant payments on a country by country basis”[93] is only triggered either at the time of the extractive company’s initial listing on the stock exchange or on the occasion of the company issuing fresh shares. It remains unclear how the provisions to disclose “significant payments” on a “country-by-country basis” will ultimately be interpreted and implemented. Because one-off disclosure is better than no disclosure, but nonetheless unlikely to deter bribery or tax evasion, we only award 0.1 credits in this circumstance.

The main data[94] sources we used for this indicator were the TJN-Survey 2015, original sources from the EU, Norway, USA and Hong Kong and interviews and/or email-exchanges with various experts from, among others, www.revenuewatch.org, www.eiti.org, www.publishwhatyoupay.org and http://www.foei.org/en.

Table 1: KFSI 6 - Country-by-Country Reporting - Construction

Conditions	Assessment	Sources
(1) Some one-off country-by-country reporting required for corporations active in the extractive industries (EITI equivalent, at least for those listed) (2) Some annual country-by-country reporting required for corporations active in the extractive industries (EITI equivalent, at least for those listed) or banking (3) Full annual country-by-country reporting required for corporations of all sectors (at least for	(1) = 0.1 credit points (2) = 0.25 credit points for each sector covered (3) = 1 credit point	• TJN Survey 2015 • www.eiti.org • www.revenuewatch.org • www.publishwhatyoupay.org • http://www.foei.org/en

[93] See chapter 18.05(6)(c), in: http://www.hkex.com.hk/eng/rulesreg/listrules/mbrules/documents/chapter_18.pdf; 10.6.2015. Neither the "Continuing Obligations” section in the same chapter (applicable to extractive companies) nor other HKSE regulations require disclosure of such payments (e.g. general disclosure regulations of financial information for all listed companies): http://www.hkex.com.hk/eng/rulesreg/listrules/mbrules/documents/appendix_16.pdf; 10.6.2015.
[94] To see the sources we are using for particular jurisdictions please check out the corresponding information in our database, available at www.financialsecrecyindex.com/database/menu.xml.

Table 1: KFSI 6 - Country-by-Country Reporting - Construction		
Conditions	**Assessment**	**Sources**
those listed)		

3.6.2 Why is this important?

TJN's proposal for CBCR[95] requires transnational corporations of all sectors, listed and non-listed, to disclose key information in their annual financial statements for each country in which they operate. This information would comprise its financial performance, including:

a) Sales, split by intra-group and third party

b) Purchases, split the same way

c) Financing costs, split the same way

d) Pre-tax profit

e) Labour costs and number of employees.

In addition, the cost and net book value of its physical fixed assets, the gross and net assets, the tax charge, actual tax payments, tax liabilities and deferred tax liabilities would be published on a country-by-country basis.

Current reporting requirements are so opaque that it is almost impossible to find even such basic information as which countries a corporation is operating in. It is even more difficult to discover *what* transnational companies are doing in particular countries, and how much they are effectively paying in tax in any given country. The consequence is that corporations can minimise their global tax rates without being successfully challenged anywhere[96]. Large scale shifting of profits to low tax jurisdictions and of costs to high tax countries ensues from this lack of transparency.

The means used for profit shifting are primarily based on transfer mispricing, internal financing or reinsurance operations, or artificial relocation and licensing of intellectual property rights. These transactions take place within a transnational corporation, i.e. between different parts of a related group of companies. Today's financial reporting standards allow such intra-group transactions to be consolidated with the normal third-party trade in the annual financial statements. Therefore, a corporation's international tax and financing affairs are effectively hidden from view.

[95] http://www.taxresearch.org.uk/Documents/CBC2012.pdf; 10.6.2015.

[96] For instance: http://www.reuters.com/article/2012/10/15/us-britain-starbucks-tax-idUSBRE89E0EX20121015; 10.6.2015 and http://www.reuters.com/article/2012/12/06/us-tax-amazon-idUSBRE8B50AR20121206; 10.6.2015; and http://www.bloomberg.com/news/2010-10-21/google-2-4-rate-shows-how-60-billion-u-s-revenue-lost-to-tax-loopholes.html; 10.6.2015.

As a consequence, tax authorities do not know where to start looking for suspicious activity, and civil society does not have access to reliable information about a company's tax compliance record in a given country in order to question the company's policies on tax and corporate social responsibility and make enlightened consumer choices.

Making this information available on public record would significantly enhance the financial transparency of transnational corporations. Investors, trading partners, tax authorities, financial regulators, civil society organisations, and consumers would be able to make better informed decisions on the basis of this information. Investors, for instance, could evaluate if a given corporation piles up huge tax liabilities or is heavily engaged in conflict-ridden countries. Tax authorities could make a risk assessment of particular sectors or companies to guide their audit activity by comparing profit levels or tax payments to sales, assets and labour employed. The recent cases of LuxLeaks[97] showed that it may not be enough in all circumstances for tax administrations to have access on such data, since tax administrations may be entering into special and tailored tax arrangements with corporations. Public scrutiny of CBCR instead will ensure a deterrent effect by disclosing the extent of profit shifting and potential associated political interference in tax administrations.

While much narrower in scope, the Extractive Industries Transparency Initiative (EITI) has succeeded in raising awareness of the importance of transparency of payments made by companies to governments. If a country voluntarily commits to the EITI, it is required after a transitional period to annually publish details on the activities of extractive companies active in the country. These details include all the payments the government received by companies active in this sector. EITI also requires the companies to publish this information so that discrepancies from both reporting parties can be questioned by civil society. Mismatches can be indicative of illicit activity such as bribery or embezzlement.

The information provided under the EITI requirements is of particular interest because it may reveal for the first time in a given country information on tax payments made by companies to governments. It may help trigger further questions which could result in greater transparency, such as full country-by-country reporting. Without such information, electorates, civil society and consumers cannot make informed choices and bribe paying is more easily hidden.

3.7 KFSI 7 - Fit for Information Exchange

3.7.1 What is measured?

This indicator enquires into whether resident paying agents (such as joint stock companies and financial institutions) are required to report to the domestic tax administration information on all payments (of dividends and interest) to all non-residents, without exceptions.

[97] The relevant articles are available at: http://www.icij.org/project/luxembourg-leaks; 10.6.2015.

In order to assess this indicator we have principally relied[98] on our TJN-Survey 2015, on the OECD publication entitled "Tax Administration 2015: Comparative Information on OECD and Other Advanced and Emerging Economies"[99], and on the IBFD database[100]. In addition, we have consulted legal sources and/or country experts in instances where the available information appeared contradictory or uncertain. For instance, whenever the OECD noted that reporting and withholding of taxes was available in one jurisdiction but IBFD described exceptions to withholding of taxes, we considered that there were exceptions to reporting too, unless another source suggested the contrary.

3.7.2 Why is it important?

In many countries, dividend payments and interest payments are automatically reported to the tax administrations, not least to levy withholding taxes. In the case of dividend payments, this information is reported mainly by joint stock companies and/or by custodian banks, and in the case of interest payments, the reporting institutions are mainly banks.

However, this reporting requirement is frequently limited to payments to resident taxpayers.

Payments to non-residents are often not (comprehensively) reported, especially if the specific underlying income payments are tax exempt, either for non-residents, or for everybody. Alternatively, only particular categories of non-residents (e.g. those resident in countries selected for automatic information exchange under the new OECD Common Reporting Standard, CRS[101]) may be covered by reporting while others are not. Furthermore, some types of interest or dividend payments may be reportable, while others (such as interest on bank deposits or government bonds) are not.

The absence of current, regular and reliable information of all such income payments prevents tax administrations from answering information requests by relevant foreign counterparts in a timely and accurate manner. The information reported would inform the tax administration not only about the level of payments, but also the identity of the recipient.

Without regular information being provided by paying agents (banks and companies), the tax administration will often not even know about the existence of a certain financial account or company in the name of the non-resident person who receives the payment. Even if the tax administration wanted to cooperate with effective automatic or spontaneous information exchange to foreign counterparts, it could not do so since it has not obtained the necessary information.

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[98] To see the sources we are using for particular jurisdictions please check out the corresponding information in our database, available at www.financialsecrecyindex.com/database/menu.xml.

[99] http://www.keepeek.com/Digital-Asset-Management/oecd/taxation/tax-administration-2015_tax_admin-2015-en#page1; 26.08.2015.

[100] http://online.ibfd.org/kbase/; 21.07.2015.

[101] http://www.taxjustice.net/wp-content/uploads/2013/04/TJN-141124-CRS-AIE-End-of-Banking-Secrecy.pdf; 5.8.2015.

The outcome of this absence of information reporting is that non-residents are encouraged to hold their bank deposits, financial accounts and company ownership records offshore in order to evade tax in their country of residence. Similarly, bribe payments, money laundering operations, and other illicit activity can more easily be hidden in a jurisdiction where dividend and interest payments are not regularly reported to the tax administration.

This holds true for countries which apply anonymous withholding taxes for their residents or even non-residents, such as Germany. There is an incentive to invest fresh untaxed money into a bank account if the evader can be certain that there will be no report sent to the tax administration concerning the account balance and interest payments. While the withholding tax may be applied correctly, the underlying, and often much larger problem of evading income taxes on the principal (e.g. consultancy fees paid via an offshore entity), and not merely on the investment income, cannot be addressed by (domestic or international) anonymous withholding taxes.

Automatic tax information exchange[102] requires as a first step that (income) information is reported regularly by all paying agents to the tax administration, irrespective of whom or where the recipients of the payments are. Without such a reporting requirement, a tax administration cannot be deemed fit for information exchange.

3.8 KFSI 8 - Efficiency of Tax Administration

3.8.1 What is measured?

This indicator shows whether the tax administration of a given jurisdiction uses taxpayer identifiers for efficiently analysing information, and whether the tax administration has a dedicated unit for large taxpayers.

Specifically we ask whether the tax administration makes use of taxpayer identifiers for matching information reported by a) financial institutions on interest payments and b) by companies on dividend payments. In each case, where the tax administration uses taxpayer identifiers for information matching, it receives 0.4 credit points. A further 0.2 credit is awarded when the tax authority is equipped with a large taxpayer unit.

Our research draws on both the TJN-Survey 2015 and on the OECD publication entitled “Tax Administration 2015. Comparative Information on OECD and Other Advanced and Emerging Economies”[103]. Table 9.4 of this publication provides information as to whether taxpayer identifiers are used for information reported by both financial institutions on interest payments and companies on dividend payments. Table 2.1 provides information as to whether a tax administration has a large taxpayer unit.

[102] http://www.taxjustice.net/cms/upload/pdf/AIE2012-TJN-Briefing.pdf; 21.07.2015. Also see http://www.taxjustice.net/cms/upload/pdf/AIE_100926_TJN-Briefing-2.pdf; 21.07.2015.
[103] http://www.keepeek.com/Digital-Asset-Management/oecd/taxation/tax-administration-2015_tax_admin-2015-en#page1; 26.08.2015.

3.8.2 Why is it important?

National tax administrations face a globalising domestic economy with increasing shares of value added and income received from external sources. Scale effects realised through cross-border economic activity are among the most relevant factors for strategic business investment decisions and among the chief reasons for the existence of transnational corporations. A tax administration that does not adapt to this increasingly complex environment through organizational and technical innovations will rapidly loose its ability to effectively levy taxes.

The absence of adequate organizational and technical capacity of a tax administration, whether by accident or design, can attract wealthy individuals and corporations wanting to evade taxes.

With respect to the taxpayer identifiers, the OECD noted (2015: 290)[104]:

> "Regardless of whether the identification and numbering of taxpayers is based on a citizen number or a unique TIN, many revenue bodies also use the number to match information reports received from third parties with tax records to detect instances of potential non-compliance, to exchange information between government agencies (where permitted under the law), and for numerous other applications."

Taxpayer identifiers provide a practical means of detecting instances of non-compliance and improving information exchange between government agencies. They are therefore an effective deterrent to cross-border tax evasion.

Large taxpayer units (LTU) make sense on the grounds of efficiency for a number of reasons. The taxpayers dealt with by these LTUs share common characteristics which require highly specialist and skilled expertise that can hardly be mobilised in a context of a decentralised tax administration. The arguments in favour of having an LTU include high concentration of revenue in the hands of a small number of taxpayers, the high degree of complexity of their business and tax affairs, major compliance risks from the viewpoint of the tax authority and the use of professional tax advice on behalf of the large taxpayers (ibid.: 84-85).

We would not argue that LTUs are a panacea to tax evasion, but the absence of an LTU might indicate a willingness on the part of a jurisdiction to allow large taxpayers to go untaxed. In this case, the tax and financial dealings of a multinational corporation can be expected to remain unchallenged, effectively contributing to financial opacity.

Furthermore, if a jurisdiction operates several regional LTUs without central management, this could potentially create incentives for tax wars and lax and uneven enforcement of tax laws between the different regions. In addition, multiple parallel institutions might create opacity through (unnecessary) complexity and restricted cooperation.

[104]Organisation for Economic Co-Operation and Development 2015: Tax Administration 2015. Comparative Information on OECD and Other Advanced and Emerging Economies, Paris, in: http://www.keepeek.com/Digital-Asset-Management/oecd/taxation/tax-administration-2015_tax_admin-2015-en#page1; 1.9.2015.

3.9 KFSI 9 - Avoids Promoting Tax Evasion

3.9.1 What is measured?

KFSI 9 indicates whether a jurisdiction includes worldwide capital income in its income tax base and if it grants unilateral tax credits for foreign tax paid on certain foreign capital income. The types of capital income included are interest and dividend payments.

Three different payment scenarios are considered. First, payments received by an independent legal person. Second, payments received by a related party legal person. Third, payments received by a natural person.

A 50% transparency score is awarded for jurisdictions which grant unilateral tax credits for all payment scenarios for one type of payment (dividend or interest). If unilateral tax credits are granted only in some payment scenarios, for each single payment scenario with a tax credit, a 10% transparency score is awarded.

No points are awarded where a jurisdiction effectively exempts foreign income from domestic taxation, be it through a) a pure territorial tax system, or through exemptions; for b) specific payments (such as dividends); for c) specific legal entities (such as International Business Companies); through d) deferral rules which disable taxation unless income is remitted; or through e) zero or near zero tax rates (e.g. on corporate income).[105]

Similarly, in payment scenarios where countries only offer the option to deduct foreign payments from the tax base, or provide no unilateral double taxation relief whatsoever, no points are awarded.

The data[106] has been collected primarily through the IBFD-database[107]. In some instances we have also consulted the Worldwide Tax Summaries from PricewaterhouseCoopers[108] and other websites.

3.9.2 Why is this important?

In a world of integrated international economic activity and cross-border financial flows, the question about who taxes what portion of income has become increasingly complex. A conflict exists between the emphasis on taxing the income where it arises (i.e. at source), or

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[105] Examples of pure territorial tax systems (a) include Panama and Hong Kong; examples of selective payment exemptions (b) include Cyprus and the United Kingdom; examples of specific legal entity exemption (c) include Luxembourg and Saint Kitts and Nevis; examples of exemption of income except if remitted (d) include the USA and Liberia; examples of countries applying a zero or near zero tax rate resulting in exemption (e) include Jersey and Guernsey. In practice, some of the aforementioned mechanisms may be combined to achieve non-taxation of foreign income.

[106] To see the sources we are using for particular jurisdictions please check out the corresponding information in our database, available at www.financialsecrecyindex.com/database/menu.xml.

[107] http://www.ibfd.org/IBFD-Tax-Portal/About-Tax-Research-Platform; 12.05.2015.

[108] http://www.pwc.com/taxsummaries; 12.05.2015.

taxing it where its recipient resides[109]. A mixture of both principles is implemented in practice.

However, this may lead to instances of so-called double taxation, when both countries claim the right to tax the same income (tax base). While the concept of "double taxation" is theoretically plausible, the real life occurrence is exceptionally rare[110] , especially since many countries have adopted unilateral relief provisions to avoid double taxation. In addition, countries also negotiate bilateral treaties to avoid double taxation, so-called double taxation avoidance agreements (DTA). A potential third option, a multilateral legal platform for the taxation of transnational corporations' income is currently being explored by the OECD's BEPS[111] project, but is unlikely to come into effect in the foreseeable future.

Assuming that cross-border trade and investment can be mutually beneficial, the problem of overlapping tax claims (double taxation) needs to be addressed in one of both ways because it hinders cross-border economic activity. Bilateral treaties are expensive to negotiate, and often impose a cost on the weaker negotiating partner which is frequently required to concede lower tax rates in return for the prospect of more investment[112].

Home countries of investors or transnational companies offer unilateral relief from double taxation because they want to support outward investment. They do this primarily through two different mechanisms[113]:

a) By exempting all foreign income from tax liability at home (exemption);

b) By offering a credit for the taxes paid abroad on the taxes due at home (credit).

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[109] TJN-Briefing on source and residence-based taxation: http://www.taxjustice.net/cms/upload/pdf/Source_and_residence_taxation_-_SEP-2005.pdf; 12.05.2015.

[110] See pages 3 and 7 here: www.taxjustice.net/cms/upload/pdf/Unitary_Taxation_Responses-1.pdf; 12.05.2015.

[111] http://www.oecd.org/ctp/BEPSActionPlan.pdf; 19.7.2013.

[112] See, for instance, 1) a comprehensive analysis of the Netherlands double tax treaty network, here: somo.nl/publications-en/Publication_3958/at_download/fullfile; 12.5.2015; 2) the example of Switzerland renegotiating its DTAs with developing countries, pages 23-24, here: www.taxjustice.net/cms/upload/GlobalForum2012-TJN-Briefing.pdf; 12.05.2015, or for more details on this case (in German): http://www.alliancesud.ch/de/publikationen/downloads/dokument-24-2013.pdf ; 12.05.2015; 3) Neumayer, Eric 2007: Do Double Taxation Treaties Increase Foreign Direct Investment to Developing Countries?, in: Journal of Development Studies 43: 8, 1501–1519; and 4) Dagan, Tsilly 2000: The Tax Treaty Myth, in: New York University Journal of International Law and Politics 32: 939. A full literature review on the relationship between DTAs, development, growth and FDI can be found (in German) here: www.suz.uzh.ch/herkenrath/publikationen/workingpapers/FDI_EL-Forschungsnotiz-01-10.pdf; 12.05.2015.

[113] There is a third mechanism called "deduction" which is sometimes used to offer relief from double taxation. However, the deduction method does not offer full relief from double taxation. It allows deducting from foreign income (e.g. as a business expense) any taxes paid abroad before including this income in the domestic tax base. Therefore, we consider deduction to be similar to offering no mechanism for double taxation relief, since the incentives to conclude DTAs remain largely in place.

As the tables included in the database[114] indicate, in most cases it is a myth that bilateral treaties are necessary to provide relief from double taxation. Countries that are home to investors and transnationals typically offer provisions in their own laws to prevent or reduce double taxation.[115]

Where (especially capital exporting) countries refrain from providing unilateral relief, or only provide deduction of foreign taxes from the domestic tax base, they contribute to a problem of double taxation and thus indirectly exert pressure on capital importing countries to conclude bilateral treaties with the other country. These treaties in turn can expose capital importing countries to risks and disadvantages (see Note 8 above).

In addition, with more than 3000 double tax treaties currently in operation, the system has become overly complex and permissive, encouraging corporations to engage in profit shifting, treaty shopping and other practices at the margins of tax evasion (see here[116] for ways to address these issues and the various reports of the BEPS Monitoring Group[117]). This is the context in which we review unilateral mechanisms to avoid double taxation in the first place. However, not all such mechanisms are equally useful[118].

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[114] http://www.financialsecrecyindex.com/database/menu.xml.

[115] It must be conceded, however, that unilateral provisions to avoid double taxation are not as effective at preventing double taxation as double tax treaties. For instance, there may be cases in which the rules determining the residency of taxpayers conflict between countries, leading to both claiming residence and full tax liability of one legal entity or taxpayer. However, for a number of reasons this argument is of limited relevance: a) these cases are the exception rather than the rule; b) pure economic "single taxation" is a theoretical concept derived from economic modelling that is only of limited value in real life. In many countries different types of taxes are levied on the same economic activity, for instance VAT is levied on the turnover of a company, then the profits stemming from the turnover are taxed through federal and state corporate income taxes, and in a third stage the investment income in form of dividends is again taxed in the hands of the shareholders. Nobody would reasonably speak about "triple taxation" in such a case. In a similar way, it is dubious to speak about double taxation in a cross-border context. To paraphrase Professor Sol Picciotto: "But double taxation is a dubious concept. First, it does not mean companies' tax bills doubling: it means that there may (rarely) be some overlap between states' taxing claims (think of this in terms of the overlap in a Venn diagram). Any overlap may result in a modestly higher overall effective tax rate, not a 'double' rate." (See page 3, here: www.taxjustice.net/cms/upload/pdf/Unitary_Taxation_Responses-1.pdf; 12.05.2015). This "modestly higher overall effective tax rate" could be higher than the corporate tax rate of one particular country, but it may still be lower than another country's corporate tax rate. If one called this situation double taxation, then this implies speaking about double taxation also in situations in which two unrelated companies operate in two different countries, with one country levying twice as high a corporate tax rate as the other country. This, of course, is non-sense and reveals the dubious and theoretically flawed nature of the concept of double taxation.

[116] www.taxjustice.net/cms/upload/pdf/Towards_Unitary_Taxation_1-1.pdf; 12.05.2015.

[117] https://bepsmonitoringgroup.wordpress.com/tag/bmg/; 12.05.2015.

[118] We are not looking at deduction in more detail because deduction of foreign taxes from domestic tax bases only provides partial relief from double taxation whereas the credit and exemption method both have in principle the capacity to completely avoid double taxation (see endnote 11 above for details). For details about the exemption and credit method, see for instance pages 19-22 in: United Nations Department of Economic & Social Affairs 2003: Manual for the Negotiation of Bilateral Tax Treaties between Developed and Developing Countries (ST/ESA/PAD/SER.E/37), New York, in: http://unpan1.un.org/intradoc/groups/public/documents/un/unpan008579.pdf; 12.05.2015.

When using a **unilateral exemption mechanism** to exempt all foreign income from liability to tax at home, the residence country may be forcing other jurisdictions to compete for inwards investment by lowering their tax rates. Because investors or corporations will not need to pay any tax back home on the profit they declare in the foreign jurisdiction (source), they will look more seriously at the tax rates offered. This encourages countries to reduce tax rates on capital income paid to non-residents, such as withholding taxes on payments of dividends and interest.

Many countries provide tax exemption on capital income payable to non-residents, especially on interest payments on bank deposits and government debt obligations, or dividends. This may have an important collateral effect: countries not offering an exemption mechanism to their residents nonetheless may see their resident taxpayers move their assets and legal structures (such as holding companies) into those countries where capital income is not taxed or taxed lowly. By doing so, and because information sharing between states is weak, taxpayers can easily evade the taxes due at home on their foreign income. As a consequence, a country offering low or no taxes to non-residents promotes tax evasion in the rest of the world.

To summarise the logic:

First, unilateral tax exemption on foreign income puts pressure on source countries to reduce tax rates on investments by non-residents in a process of tax war (or competition).[119] Second, citizens and corporations from other countries make use of the low tax rates by shifting assets into these low-tax countries for the purpose of committing tax evasion. Third, in the medium term, the tax exemption of foreign income acts as an incentive for ruinous tax wars that will eventually lead to the non-taxation of capital income.

In contrast, a unilateral **tax credit system** does not promote tax evasion and does not incentivise the host countries of investments to lower their tax rates. A tax credit system requires that income earned abroad must be taxed at home as if it was earned at home, **unless** it has already been taxed abroad. In the latter case, the effective amount of tax paid abroad on the income will be subtracted from the corresponding amount of tax due at home.

Therefore, for an investor the tax rate in a host country is no longer relevant to her investment decisions. Countries wishing to attract foreign investment will not feel compelled to lower the tax rates in the hope of increasing their inward stock of foreign investment. As a consequence, the tax evading opportunities of investors are reduced because fewer countries offer zero or very low taxation on capital income.

[119] For a background on the terminology around tax competition and tax wars, see: http://foolsgold.international/fools-gold-rethinking-competition/; 12.5.2015.

3.10 KFSI 10 - Harmful Legal Vehicles

3.10.1 What is measured?

This indicator has two components. On the one hand, it shows whether a jurisdiction allows the creation of "series limited liability companies (Series LLCs)" and/or "protected cell companies" (PCC) in its territory. The latter is also known as an "incorporated cell company" or "segregated account company". On the other, it measures whether the administration of trusts with flee clauses is prohibited.

The main sources[120] for this information are the Global Forum peer reviews[121] and private internet websites such as www.offshoreinvestment.com/, www.lowtax.net, www.ocra.com and www.offshoresimple.com. These sources display the availability of Series LLCs and/or protected cell companies either in a tabular or textual format. They have also helped us determine whether trusts with flee clauses are prohibited. In some cases the TJN-Survey 2015 provided useful information. We have also referred to local regulators' websites.

Protected Cell Companies are a rare type of corporate entity found almost exclusively in secrecy jurisdictions. Essentially a PCC is a legal entity that contains within itself, but not legally distinct from it, a number of cells which behave as if they are companies in their own right, but are not. Every cell has its own share capital, assets and liabilities and the income and costs of each cell are kept separate. Moreover, each cell is assigned its own share of the overall company share capital so that each owner can be the sole owner of one cell but owns only a percentage of the overall PCC. Series LLCs serve the same purpose as PCCs and are available in Delaware[122] and other states of the United States.

Flee clauses in trust agreements[123] (also termed flight clause) are defined in our glossary[124] as follows:

> "A flee clause is a provision included in a tax haven / secrecy jurisdiction trust deeds requiring that the management and administration of a trust be changed to a different jurisdiction if a disadvantageous event occurs such as the breakdown of law and order in the place in which the trust is administered or the imposition of taxation on the trust."

Importantly, the definition of a 'disadvantageous event' in this context includes awareness on the part of a trustee of any investigation involving the trust. The flee clause may mandate a trustee to relocate the trust from one secrecy jurisdiction to another as soon as anyone attempts to find any information about it, for example who the real people behind the trust

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[120] To see the sources we are using for particular jurisdictions please check out the corresponding information in our database, available at www.financialsecrecyindex.com/database/menu.xml.

[121] The Global Forum peer reviews refer to the peer review reports and supplementary reports published by the Global Forum on Transparency and Exchange of Information for Tax Purposes. They can be viewed at: http://www.eoi-tax.org/; 21.07.2015.

[122] http://www.delawarellc.com/learning/Series-LLC.htm; 21.07.2015.

[123] An excellent introduction to trusts can be found in this blog: http://taxjustice.blogspot.com/2009/07/in-trusts-we-trust.html; 21.07.2015.

[124] http://www.financialsecrecyindex.com/PDF/Glossary.pdf.

are (beneficiaries and settlors). This mechanism allows the settlor or beneficiary to remain one step ahead of law enforcement authorities or private investigators and therefore provides factual secrecy to users of trusts.

We award half a credit each if a jurisdiction does not allow the creation of protected cell companies and prohibits the administration of trusts with flee clauses.

3.10.2 Why is this important?

PCCs originated in Guernsey in 1997 with the intention of providing a cost-saving mechanism for the reinsurance sector where many deals look much like one another, and where assets and liabilities need to be ring fenced to prevent inappropriate exposure to claims. We are also aware that PCCs are now readily available in locations such as the Seychelles and that they may now be used for other, illicit, purposes rather than that for which they were originally created. We think it likely that the level of asset protection that a PCC provides might allow illicit financial flows to escape the attention of law enforcement authorities. We therefore question whether the potential benefits these structures might allow to the reinsurance sector justify the broader risks and costs they impose on society at large.

The structure of PCCs has been compared to a house with a lock at the entrance and many rooms inside, each room locked separately with its own key, but also with an escape tunnel only accessible from inside the room. If an investigator seeks to find out what is going on in one room inside the house, she first needs to unlock the main outer door. But imagine that by opening that first door everybody inside the building is alerted to the fact that someone has entered the house. Anybody seeking to flee the investigator will be given enough time to do so thanks to the second lock at the individual room door. While the investigator tries to unlock the second door (by filing a costly and time-consuming information request), the occupant of that particular room has plenty of time to erase evidence and escape through the secret tunnel. This colourful metaphor neatly illustrates how a PCC might work in practice.

We have been advised that procedures to make international enquiries about PCC structures have not yet been developed by law enforcement agencies and serious doubts remain about the effectiveness of current mutual legal assistance agreements when applied to them, meaning there is significant restriction in scope for law enforcement in this area. This is, of course, in part a function of the considerable opacity they provide in hiding potentially illicit activity behind a single corporate front.

PCCs can be used to conceal identities and obscure ownership of assets because what appears to be a minority ownership from the outside may in fact be an artificial shell purposefully created to conceal fully-fledged ownership of a cell within the “wrapper”.

Trust flee clauses are particularly obstructive of law enforcement. There are few situations in which flee clauses cannot be deployed for some kind of evasion of the consequences of illegal actions. The marketing and use of trusts as “asset protection” facilities including flee clauses often advertise the advantages in terms of “shielding” corporate assets from creditors, fleeing bankruptcy orders, spouses or inheritance provisions of the resident state of the settlor and/or beneficiary.

3.11 KFSI 11 - Anti-Money Laundering

3.11.1 What is measured?

This KFSI examines the extent to which the anti-money laundering regime of a jurisdiction is considered effective by the Financial Action Task Force (FATF), the international body dedicated to counter money laundering.

In 2003, the FATF established its 49 recommendations[125] concerning the laws, institutional structures, and policies deemed necessary to counter money laundering and terrorist financing.

Since then the FATF, regional analogous bodies or the IMF have assessed the implementation of these recommendations through peer-review studies carried out in five-year cycles. The comprehensive reports with results have generally been published online.

In 2012, following the conclusion of the third round of mutual evaluations, the FATF reviewed and updated its 49 recommendations (hereinafter: the "old recommendations") and consolidated them to a total of 40[126] (hereinafter: the "new recommendations"). The compliance assessment based on the new recommendations began in 2013 and at the cutoff date for this KFSI only four of the FSI-2015 jurisdictions have been assessed accordingly (Australia, Belgium, Norway and Spain). For those four jurisdictions we have adjusted our calculation of the overall compliance to take into account the 40 new recommendations.

FATF's assessment methodology for both old and new recommendations rates compliance with every recommendation on a four-tiered scale, from "compliant" to "largely compliant" to "partially compliant" to "non-compliant".

For our indicator, we have calculated the overall compliance score using a linear scale giving each old recommendation and each new recommendation equal weight[127]. A 100% rating indicates that all recommendations have been rated as "compliant", whereas a 0% rating indicates that the jurisdiction is wholly non-compliant.

3.11.2 Why is this important?

Many of FATF's anti-money laundering (AML) recommendations touch upon minimal financial transparency safeguards within the legal and institutional fabric of a jurisdiction.

[125] The (old) 2003 recommendations can be viewed at http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202003.pdf; 7.6.2015. The 2003 recommendations include 40 recommendations and 9 special recommendations on terrorist financing, and referred to jointly as the FATF Recommendations. For the methodology for assessing compliance with the FATF Recommendations see: http://www.fatf-gafi.org/topics/fatfrecommendations/documents/methodologyforassessingcompliancewiththefatf40recommendationsandfatf9specialrecommendations.html; 7.6.2015.

[126] The (new) 2012 recommendation can be viewed at: http://www.fatf-gafi.org/media/fatf/documents/methodology/FATF%20Methodology%2022%20Feb%202013.pdf; 7.6.2015.

[127] To see the sources we are using for particular jurisdictions please check out the corresponding information in our database, available at www.financialsecrecyindex.com/database/menu.xml.

Through low compliance ratios with AML recommendations, a jurisdiction knowingly invites domestic money launderers and criminals from around the world to deposit and launder the proceeds of crime (e.g. drug trafficking, tax evasion) through their own financial system.

For instance, old recommendation five (equivalent to new recommendation ten, with minor changes) sets out minimal standards for the identification of customers of financial institutions (such as banks and foreign exchange dealers). If this recommendation is rated "partially compliant", as is the case with the Cayman Islands, this clearly signals that this jurisdiction is prone to money laundering.

The Cayman Islands assessment arises because there is "No legislative requirement to verify that persons purporting to act on the behalf of a customer is so authorised and identify and verify the identity of that person." (see Cayman Islands-assessment here[128]; page 145-146). In plain language this means that a bank employee does not need to ask questions of, or seek to prove the identity of, a person who routinely runs a bank account although the bank account is effectively in the name of somebody else. The person the bank routinely deals with is only a nominee. This means that financial service providers and their affiliates can act as nominee bank account holders so that the ultimate and effective bank account holder can conceal her/his identity.

In February 2015, Swiss Leaks[129] revealed that HSBC private bank has provided services to clients engaged in a spectrum of illegal behaviours. These client relationships were facilitated by various acts of negligence revealed in an FATF mutual evaluation report of Switzerland. The country was rated "partially compliant" on the old recommendation five which relates to customer due diligence. The FATF report specified a long list of deficiencies in customer due diligence procedures, including: "There is no general obligation on financial intermediaries to identify the purpose and envisaged nature of the business relationship desired by the customer." (see Switzerland's assessment summary here[130], page 13-14). Since banks have been assessed as not being obliged to enquire about the purpose and nature of a new client requesting financial services, important details of a new customers background can be ignored.

Another issue assessed by the FATF relates to shell banks (old recommendation 18, now a part of new recommendation 13). In the case of Ireland, a 'partially compliant' assessment revealed: "There is no prohibition on financial institutions from entering into, or continuing

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[128] https://www.cfatf-gafic.org/index.php?option=com_docman&Itemid=414&task=doc_download&gid=149&lang=en; 7.6.2015.

[129] http://www.icij.org/project/swiss-leaks/banking-giant-hsbc-sheltered-murky-cash-linked-dictators-and-arms-dealers; 7.6.2015

[130] http://www.fatf-gafi.org/media/fatf/documents/reports/mer/mer%20switzerland%20resume%20english.pdf; 7.6.2015

correspondent banking relationships with shell banks." (See Ireland's assessment here[131]; page 157).

The FATF defines a shell bank as "a bank that has no physical presence in the country in which it is incorporated and licensed, and which is unaffiliated with a regulated financial group that is subject to effective consolidated supervision." (See here[132]; page 120 in the old recommendations and here[133], page 121 in the new recommendations).

Some secrecy jurisdictions allow or condone shell banks to operate. Often these are little more than money laundering schemes. Therefore, the absence of measures targeted at shell banks allows banks in an apparently respectable jurisdiction (such as Ireland) to enter into business relationships with a shell bank and thus become the connecting interface between a highly dubious shell bank jurisdiction and the regulated banking world. Individual tax evaders, other criminals and banks willing to help facilitate this process can take advantage of this absence of scrutiny.

We consider the swift and thorough implementation of all FATF recommendations by all jurisdictions as crucial to global financial transparency, to prevent the undermining of democracies by organized and financial crime, and to curb tax evasion and capital flight.

3.12 KFSI 12 - Automatic Information Exchange

3.12.1 What is measured?

This indicator registers whether jurisdictions have signed the Multilateral Competent Authority Agreement[134] (MCAA) which provides the legal framework to engage in automatic exchange of information (AIE) pursuant to OECD's Common Reporting Standard[135] (CRS). Regardless of signing the MCAA, we also consider whether or not jurisdictions have committed exchanging information automatically in either 2017 or 2018 pursuant to the CRS.

A full credit is given in instances where a jurisdiction has signed the MCAA and committed to start exchanging information in 2017.

A 0.5 credit is given in instances where a jurisdiction has signed the MCAA and committed to start exchanging information in 2018.

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[131] http://www.fatf-gafi.org/media/fatf/documents/reports/mer/MER%20Ireland%20full.pdf; 7.6.2015.
[132] http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202003.pdf; 7.6.2015
[133] http://www.fatf-gafi.org/media/fatf/documents/methodology/FATF%20Methodology%2022%20Feb%202013.pdf; 7.6.2015.
[134] http://www.oecd.org/tax/exchange-of-tax-information/multilateral-competent-authority-agreement.htm; 15.6.2015.
[135] http://www.oecd.org/ctp/exchange-of-tax-information/standard-for-automatic-exchange-of-financial-information-in-tax-matters.htm; 15.6.2015.

A 0.25 credit is given in instances where a jurisdiction has not yet signed the MCAA but has committed to start exchanging information in 2017.

A 0.10 credit is awarded when a jurisdiction has not signed the MCAA but has committed to start exchanging information in 2018.

No credit is awarded in instances where a jurisdiction has neither signed the MCAA nor committed to start exchanging information.

We are aware that many developing countries lack capacity to implement AIE and hence have not yet signed the MCAA nor committed to exchange information either in 2017 or 2018. Therefore, we still award 0.5 credit for developing countries that have declared their interest in joining the Global Forum's Pilot Program, which consists of partnering with a developed country to start exchanging some kind of information and prepare for AIE. This pilot programme is part of the Global Forum's roadmap[136] for developing countries' participation in AIE.

The data sources used for collating KFSI 12 are the OECD's: (i) list of jurisdiction which committed[137] to exchanging information in either 2017 or 2018, (ii) list of jurisdictions which signed the MCAA[138], and (iii) the April 2015 Report [139] on Progress which provides the most up-to-date list of developing countries interested in the pilot programmes.

We acknowledge that signing the MCAA provides no guarantee that a jurisdiction will engage in multilateral AIE, because Section 7 of the MCAA[140] prevents jurisdictions from exchanging information until several conditions are met, including availability of a legal framework to implement AIE, compliance with confidentiality requirements, etc.

Moreover, Annex E of the MCAA provides a type of 'dating-system' whereby jurisdictions may choose which other jurisdictions they want to exchange information with in practice, out of all those which signed the MCAA. However, as of June 15, 2015 no information is available about the number of jurisdictions that will be implementing AIE with each other.

Likewise, jurisdictions which only committed to the CRS but did not sign the MCAA, may end up signing bilateral CAAs, in which case they would receive no credit. For instance, recent new reports suggest this will be the case for Hong Kong[141]. However, since there is no confirmation of any jurisdiction willing to engage in the CRS only via bilateral CAAs, we could not take that into account at this stage.

[136] http://www.oecd.org/ctp/exchange-of-tax-information/global-forum-AEOI-roadmap-for-developing-countries.pdf; 15.6.2015.
[137] http://www.oecd.org/tax/transparency/AEOI-commitments.pdf; 15.6.2015.
[138] http://www.oecd.org/tax/exchange-of-tax-information/MCAA-Signatories.pdf; 15.6.2015.
[139] http://www.oecd.org/tax/transparency/2015-April-GF-report-G20.pdf; 15.6.2015.
[140] http://www.oecd.org/ctp/exchange-of-tax-information/multilateral-competent-authority-agreement.pdf; 15.6.2015.
[141] http://www.ey.com/Publication/vwLUAssets/hong-kong-tax-alert-4-may-2015-fs/$FILE/EY-HK-Tax-alert-4May2015-FS.PDF; 15.06.2015.

This KFSI may change again in 2017 when more information is available as to the number of jurisdictions which are engaging in multilateral AIE in practice. However, for the FSI 2015, we have considered information which is available to distinguish between jurisdictions which are likely to engage in multilateral AIE (especially those which signed the MCAA and committed to exchange information in 2017) and those which did neither (such as Panama, Cook Islands, etc.) or those which even declared that they will not implement the CRS (as the United States[142] did).

3.12.2 Changes since FSI 2013

KFSI 12 used to be based on the participation[143] of jurisdictions in the European Union's Savings Tax Directive (EUSTD) because that was the only existing standard for multilateral automatic exchange of information until 2014.

Since the CRS is now available, this KFSI treats it as the only truly global standard for multilateral AIE. Moreover, the EUSTD will likely become obsolete[144] because the European Union will start implementing the Revised Directive on Administrative Cooperation (called DAC 2) which encompasses the CRS and also includes automatic exchange of information on other types of income (directors' fees, salaries, income from real estate, etc.).

As for changes in credits, this will hardly affect jurisdictions which were exchanging information automatically pursuant to the EUSTD, because almost all of them have signed the MCAA and committed to exchange information in 2017, with the exception of Aruba which signed the MCAA but committed only to exchange information in 2018.

While the CRS has its origins in the United States' Foreign Account Tax Compliance Act (FATCA) and its Inter-Government Agreements (IGAs) to receive and in some cases exchange information, KFSI 12 does not consider participation in FATCA for two reasons. First, FATCA does not entail multilateral AIE but only agreements between the US and other countries, though the latter cannot exchange any information with each other under FATCA.

Second, out of all the IGAs signed between the US and other countries, only IGAs 1 A entail some kind of reciprocity, while all other IGAs request information to be sent to the US only. On top of this, even IGAs 1 A do not require full reciprocity but much more information being sent to the US.

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[142] The United States indicated here (footnote 1: http://www.oecd.org/tax/transparency/AEOI-commitments.pdf; 15.6.2015) that they will not implement the CRS because they are implementing FATCA. However, FATCA is a bilateral framework for AIE between the United States and some, but not all countries. More importantly, FATCA agreements are either non-reciprocal or only partially reciprocal, but always in favour of the United States (more information flows to the United States than what the latter has to provide other jurisdictions). Therefore, we do not consider that FATCA is a good proxy for multilateral AIE.

[143] Credit was not awarded in case of participation, but only if a jurisdiction was actually exchanging information automatically, instead of withholding taxes without exchanging information.

[144] http://www.taxjustice.net/2014/10/16/eu-savings-tax-directive-repealed/; 15.6.2015.

In contrast to FATCA, the CRS allows for multilateral AIE between all countries on a reciprocal basis.

3.12.3 Why is this important?

Tax authorities around the world face immense difficulties with identifying cases of tax evasion committed through bank accounts held abroad. To a lesser extent, obtaining foreign-country based evidence when investigating already identified cases of suspected domestic tax evasion and/or aggressive tax avoidance is also a problem. The latter issue is partly addressed by the international standard for information exchange "upon request" promoted by OECD's Global Forum. But even for this limited purpose, the Global Forum peer review process remains riddled with problems (as we have pointed out in great detail in "Creeping Futility"-report here[145], in a shorter briefing paper here[146] and time and time again in our blog here. The Financial Times has also addressed this here[147]). For identifying unknown cases of tax evasion, which are by far the majority of all cases (see page 12-13, here[148]), the upon-request Global Forum process is utterly useless.

The consequences of this difficulty in identifying offshore assets reach far beyond mere tax enforcement, but have huge implications for the global economy. For instance, the scale of privately held and undeclared offshore wealth was estimated in 2012 to stand at US$ 21-32tn (see our study here[149]). These distortions imply, for instance, that:

> "…a large number of countries, which are traditionally regarded as debtors, are in fact creditors to the rest of the world. For our focus group of 139 mostly low-middle income countries, traditional data shows they had aggregate external debts of $4.1 trillion at the end of 2010. But once you take their foreign reserves and the offshore private holdings of their wealthiest citizens into account, the picture flips into reverse: these 139 countries have aggregate net debts of **minus US$10.1-13.1tn**. […] The problem here is that their assets are held by a small number of wealthy individuals, while their debts are shouldered by their ordinary people through their governments." (The Price of Offshore Revisited: Key Issues[150] – 19th July 2012).

Ultimately, the failure to automatically exchange taxpayer data among responsible governments incentivises a distorted pattern of global financial flows and investment that is known best in terms of capital flight. As we have argued in our policy paper[151], this distortion creates huge imbalances in the world economy and impacts both southern and northern countries with devastating effects on all citizens and on the environment.

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[145] www.taxjustice.net/cms/upload/GlobalForum2012-TJN-Briefing.pdf; 15.6.2015.
[146] www.taxjustice.net/cms/upload/pdf/Tax_Information_Exchange_Arrangements.pdf; 15.6.2015.
[147] http://www.ft.com/intl/cms/s/0/0f687dee-5eea-11e0-a2d7-00144feab49a.html#axzz1PtjiCeHN; 15.6.2015.
[148] www.taxjustice.net/cms/upload/GlobalForum2012-TJN-Briefing.pdf; 15.6.2015.
[149] http://taxjustice.blogspot.ch/2012/07/the-price-of-offshore-revisited-and.html; 15.6.2015.
[150] www.taxjustice.net/cms/upload/pdf/The_Price_of_Offshore_Revisited_Key_Issues_120722.pdf; 15.6.2015.
[151] http://www.taxjustice.net/cms/upload/pdf/AIE_100926_TJN-Briefing-2.pdf; 15.6.2015.

Moreover, as Nicholas Shaxson has argued in the book Treasure Islands (2011: 74-79)[152], the root of this scandal dates back to at least the mid-1940s when the USA blocked the newly created IMF from requiring international cooperation to stem capital flight, and instead used European flight capital to institute the Marshall Plan.

While tax authorities domestically often have the powers to cross-check data obtained through tax returns, for instance through access to bank account information, this does not hold true internationally. While economic activity has globalised, the tax collector's efforts remain nationally focussed and are deliberately obstructed by secrecy jurisdictions.

The previous -but still existing- OECD-standard for information exchange consists of bilateral treaties that rely on information exchange 'upon request' only. However, the power to judge what constitutes an appropriate request rests with the secrecy jurisdictions' tax authorities, financial ministries and/or courts. Secrecy jurisdictions pride themselves on maintaining 'financial privacy' in spite of tax information exchange treaties and of exchanging information very reluctantly under these agreements (click here for the example of Jersey). They go to great lengths to reassure their criminal clients that they will block 'fishing trips' by foreign tax authorities.

While the peer review process of the Global Forum does not require statistical disclosure of a country's performance in responding to requests for information and therefore does little to reveal the effectiveness of the "upon request" model, France nationally disclosed such data. The resulting picture broadly confirms[153] the analysis provided so far:

> "The report said, among other things, that in 2011 France made 1922 information requests of its partners, including 308 requests to jurisdictions with which France has some kind of information exchange agreement. Of these 308, only 195 responses had been received by the end of the year [2012], and 113 had not replied - 84 of which concerned Switzerland and Luxembourg. The less transparent countries include Belgium, and Antigua and Barbuda (0% responses); Luxembourg (45%); Cayman Islands and Switzerland (55% each) and BVI (75%)." (source here)[154].

Few bilateral Tax Information Exchange Agreements have been concluded between secrecy jurisdictions and the world's poorer countries. We are concerned that even when such agreements are negotiated, they prove ineffective in practice due to the practical barriers imposed by the cost and effort involved in making 'on request' applications. In addition, there is evidence that developing countries may be forced to pay a high price in terms of lowered withholding tax rates in exchange for "exchange upon request"-clauses being

[152] http://treasureislands.org/; 15.6.2015.
[153] http://taxjustice.blogspot.de/2013/02/french-updates-hollande-supports-full.html; 15.6.2015.
[154] http://taxjustice.blogspot.de/2013/02/french-updates-hollande-supports-full.html; 15.6.2015.

introduced in Double Taxation Conventions (see pages 23-24 on Switzerland, here[155], and these recent reports in German on Switzerland[156] and Germany[157]).

Multilateral automatic information exchange would help overcome both problems. Such a system should exchange data about the financial accounts of natural persons and disregard legal entities and arrangements such as shell companies and trusts and foundations, which today are often used to hide the identity of the real owners of assets. This system should cover all types of capital income. Participation in such a scheme would need to be open to any responsible requesting country (with appropriate confidentiality and human rights safeguards) and, where needed, technical assistance should be provided to build capacity to make use of this scheme. While the CRS is indeed a first big step towards a truly global framework for multilateral AIE, it is filled with loopholes which will prevent its effectiveness, as we have identified here[158].

3.13 KFSI 13 - Bilateral Treaties

3.13.1 What is measured?

KFSI-13 examines the extent to which a jurisdiction has signed and ratified bilateral treaties conforming to the 'upon request' information exchange standard developed by the OECD and the Global Forum with 53 other countries, and/or whether the jurisdiction has signed and ratified the Amended Council of Europe / OECD Convention on Mutual Administrative Assistance in Tax Matters[159] ("Tax Convention"). The cut-off-date is 31 May 2015[160].

In respect of bilateral treaties, the 'upon request' provisions can either be tax information exchange agreements (TIEAs)[161] or full double taxation agreements (DTAs) whose scope extends far beyond information exchange.

The main source[162] for this information is the table on agreements in the Exchange of Information online portal of OECD's Global Forum[163]. This table displays the bilateral

155 www.taxjustice.net/cms/upload/GlobalForum2012-TJN-Briefing.pdf; 15.6.2015.
156 http://www.alliancesud.ch/de/publikationen/downloads/dokument-24-2013.pdf; 15.6.2015.
157 http://steuergerechtigkeit.blogspot.de/2013/04/neue-verhandlungsgrundlage-fur.html; 15.6.2015.
158 http://www.taxjustice.net/wp-content/uploads/2013/04/TJN-141124-CRS-AIE-End-of-Banking-Secrecy.pdf; 15.6.2015.
159 http://www.oecd.org/tax/exchange-of-tax-information/conventiononmutualadministrativeassistanceintaxmatters.htm; 21.07.2015.
160 While the cut-off date is many months before the publication of the Financial Secrecy Index, there is no reason to believe that the *relative* amount of treaties in November 2015 dramatically deviated from the situation on 31.05.2015.
161 http://www.taxjustice.net/cms/upload/pdf/Tax_Information_Exchange_Arrangements.pdf; 21.07.2015.
162 To see the sources we are using for particular jurisdictions please check out the corresponding information in our database, available at www.financialsecrecyindex.com/database/menu.xml.
163 The Global Forum peer reviews refer to the peer review reports and supplementary reports published by the Global Forum on Transparency and Exchange of Information for Tax Purposes. They

agreements allowing for information exchange upon request, broken down into various categories. We have included those treaties that a) were in force as of 31.05.2015 and which b) met the OECD "upon request" standard (column 5 of the table).

A chart of the signatures and ratifications of the Tax Convention can be found on the OECD website[164]. A detailed analysis of the Convention can be found here[165].

We have awarded a full credit for this indicator either if a jurisdiction is party to the Tax Convention or if a jurisdiction has at least 53 qualifying treaties in place, with a proportionate credit awarded where fewer agreements are in place. This number of agreements was selected because it is the average number of information exchange provisions contained in bilateral treaties signed up to by the G20 member states by 31.05.2015[166]. Since many secrecy jurisdictions claim to be major financial services centres we have taken them at their word and compared their treaty network with those of the world's leading trading nations, represented by the G20 member states.

It follows from this that the figure of 53 qualifying agreements is a moving target; when the average number of treaties signed by G20 member states either decreases or increases the average we use will change accordingly. Since 2011 the average number of qualifying agreements has decreased from 60 to 53, because – as confirmed by the OECD[167] -"the assessment has become different", reflecting "the results of the peer review process, which considers both an analysis of the international treaties and an analysis of the domestic legal framework". For this reason, a number of agreements which used to be considered as "meeting the standard" are now considered "unreviewed[168]" and others as not meeting the standard (because of domestic obstacles not reflected in the agreement itself), reducing the number of qualifying treaties.

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can be viewed at: http://www.eoi-tax.org/; 21.07.2015. For the purpose of our research, we relied on a dataset sent by the OECD secretariat on 22.06.2015.

[164] www.oecd.org/ctp/exchangeofinformation/Status_of_convention.pdf; 21.07.2015.

[165] www.taxjustice.net/cms/upload/CoE-OECD-Convention-TJN-Briefing.pdf; 21.07.2015.

[166] The exact average per G20-nation is 53 as of 31 May 2015, according to the dataset provided by the OECD secretariat on 22 June2015.

[167] Communication with OECD of 8 March, 2013.

[168] According to the Communication with OECD of March 8, 2013, "unreviewed" means that:

- "The text of the agreement is not reviewed as both parties have not been reviewed under the Peer Review process; or
- The text of the agreement is considered to be meeting the standard, the legal framework of the reviewed jurisdiction is sufficient, but we have no information on the treaty partner as the other partner is not a GF member (or it has recently joined the GF)".

On the contrary, "Not meeting the standard" means that:

- "The text of the agreement is not to the standard; or
- The text of the agreement is good, but one of the two treaty partners' C1 section (regarding EOI instruments) in the peer review is rated as "not in place"; or
- Both the text of the agreement and the domestic legal framework related to EOI instruments (section C1 of the peer review) of the two jurisdictions (or just one of them) are not sufficient to meet the standard".

3.13.2 Why is it important?

Tax authorities around the world face immense difficulties when trying to secure foreign-country based evidence relating to suspected domestic tax evasion and/or tax avoidance. While tax authorities domestically often have powers to cross-check data obtained through tax returns, for instance through access to bank account information, this does not hold true internationally. While economic activity has become increasingly global, the tax collectors' efforts remain locally based and are frequently deliberately obstructed by secrecy jurisdictions. Barriers to effective information exchange undermine the rule of law and impose huge costs on revenue authorities wanting to tackle tax dodging and on society at large who is footing the bill for missing tax revenues from mobile and international activity.

The upon request standard for information exchange promoted by the OECD and the Global Forum is weak and largely ineffective (as we have pointed out in great detail in our "Creeping Futility"-Report from March 2012[169]). The consequences of this weakness reach far beyond mere tax enforcement, and have huge implications for the global economy. Ultimately, it incentivises a distorted pattern of global financial flows and investment that is known best in terms of capital flight. As we have argued in our policy paper (esp. page 25)[170], this distortion creates imbalances in the world economy, with devastating effects on ordinary people and the environment. Moreover, as Nicholas Shaxson has argued in the book Treasure Islands (2011: 74-79)[171], the root of this scandal dates back to at least 1944 when lobbying by special interests in the USA blocked attempts to require the new IMF to enforce international cooperation to stem capital flight, and instead used European flight capital to institute the Marshall Plan.

While the upon request standard for information exchange promoted by the OECD has severe shortcomings, such a system may be a step forwards if a sufficient number of countries, including poorer countries, are able to effectively use the upon request model to collect evidence needed to prosecute offenders. In April 2009, the OECD announced that the conclusion of just twelve bilateral agreements for information exchange is sufficient to be taken off the OECD's grey list of tax havens. This number appears to have been picked at random and there is no reason to believe that the requirement to have twelve agreements in place changes in any material way the level of secrecy found in a jurisdiction. Unfortunately, by allowing many secrecy jurisdictions to conclude just 12 agreements, often negotiating agreements between themselves, the OECD created a 'white list' of secrecy jurisdictions[172] which offered some form of official endorsement from the OECD itself.

[169] See the full report here: www.taxjustice.net/cms/upload/GlobalForum2012-TJN-Briefing.pdf; 21.07.2015. International Tax Review broadly reported about this study here: http://www.internationaltaxreview.com/Article/2994829/EXCLUSIVE-Why-tax-justice-campaigners-and-the-OECD-are-not-seeing-eye-to-eye.html; 21.07.2015.
[170] http://www.taxjustice.net/cms/upload/pdf/AIE_100926_TJN-Briefing-2.pdf; 21.07.2015.
[171] http://treasureislands.org/; 21.07.2015.
[172] http://www.oecd.org/tax/transparency/Tax%20Transparency%202012_JM%20MB%20corrections%20final.pdf; 21.07.2015.

Despite having strong reservations about the operational effectiveness of the 'upon request' model promoted by the OECD, we have opted to set the bar far higher than 12 agreements and employ the average number of tax treaties of G20-countries as our yardstick.

We argue that bilateralism does not and cannot tackle the issue of information exchange in an effective and efficient manner. For this reason we award a credit to any jurisdiction that participates in the Tax Convention which is open to participation to all countries, not just OECD or European ones. The Amending Protocol entered into force on 1 June 2011, and in May 2015 had been ratified by 53 countries[173].

Our concerns about the effectiveness of the 'upon request' model of information exchange also relate to the need for a 'smoking gun' to alert tax authorities to possible cases of tax evasion (see KFSI number 12). This explains why we regard automatic information exchange as a more effective deterrent of tax evasion, and propose a simplified system of automatic information exchange of the type proposed by Richard Murphy (downloadable here) as a means of making sense of the existing OECD structure by providing the necessary 'smoking gun' information to make it work. Trust registries[174] would be one important pillar of such a system.

While jurisdictions may now become party to the OECD's Common Reporting Standard (CRS) for Automatic Information Exchange (AIE), many loopholes and obstacles for the inclusion of developing countries have been identified[175], so the upon request standard will be the only mechanism whereby some countries can obtain at least some information. Moreover, even countries able to implement AIE will still depend on the upon request model: after automatically receiving large records of bulk information, many countries will depend on subsequent specific requests to obtain more detailed information about a particular taxpayer.

3.14 KFSI 14 - International Transparency Commitments

3.14.1 What is measured?

KFSI-14 measures the extent to which a jurisdiction has entered into international transparency commitments. We have checked whether a jurisdiction is party to five different international conventions. A credit of 0.2 points is awarded for each of the specified conventions adhered to by a jurisdiction as at 18 June 2015[176]. Thus, if a jurisdiction has ratified all five conventions it is awarded one full credit.

The five conventions are:

[173] www.oecd.org/ctp/exchangeofinformation/Status_of_convention.pdf; 21.07.2015.
[174] www.taxjustice.net/cms/upload/pdf/BAR2012-TJN-Report.pdf; 21.07.2015.
[175] http://www.taxjustice.net/wp-content/uploads/2013/04/TJN-141124-CRS-AIE-End-of-Banking-Secrecy.pdf; 21.7.2015.
[176] Adherence means ratification. Signature alone is not enough.

1) Amended Council of Europe / OECD Convention on Mutual Administrative Assistance in Tax Matters[177] ("Tax Convention");

2) 2003 UN Convention against Corruption[178];

3) 1988 UN Drug Convention[179], full title: UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances;

4) 1999 UN International Convention for the Suppression of the Financing of Terrorism[180];

5) 2000 UN Convention against Transnational Organised Crime[181].

The Tax Convention aims to promote "administrative co-operation between states in the assessment and collection of taxes, in particular with a view to combating tax avoidance and evasion"[182]. Its amending protocol stipulates that bank secrecy cannot be deployed as grounds for denying the exchange of information upon request and opened the Convention up to countries which are not members of either the Council of Europe or the OECD. It allows for spontaneous and automatic information exchange, but requires the signatory parties only to implement upon request information exchange. A detailed analysis of this Tax Convention can be found here[183].

The 2003 UN Convention against Corruption (UNCAC) aims to promote the prevention, detection and sanctioning of corruption, as well as cooperation between State Parties on these matters[184]. Relevant provisions include the prohibition of tax deductibility of bribe payments (Art. 14, Para. 4), a requirement to include bribery within the context of an effective anti-money laundering framework (Art. 23 and 52), and to rule out bank secrecy as a reason to object against investigations in relation to bribery (Art. 40).

The 1988 UN Drug Convention "provides comprehensive measures against drug trafficking, including provisions against money-laundering and the diversion of precursor chemicals. It provides for international co-operation through, for example, extradition of drug traffickers, controlled deliveries and transfer of proceedings"[185].

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[177] http://www.oecd.org/tax/exchange-of-tax-information/conventiononmutualadministrativeassistanceintaxmatters.htm; 21.07.2015.
[178] http://www.unodc.org/unodc/en/treaties/CAC/index.html; 21.07.2015.
[179] http://www.unodc.org/unodc/en/treaties/illicit-trafficking.html; 21.07.2015.
[180] http://www.un.org/law/cod/finterr.htm; 21.07.2015.
[181] http://polis.osce.org/portals/orgcrime/index/details?doc_id=3210&lang_tag=&qs; 22.07.2015.
[182] http://www.oecd.org/ctp/exchange-of-tax-information/conventiononmutualadministrativeassistanceintaxmatters.htm; 21.07.2015.
[183] www.taxjustice.net/cms/upload/CoE-OECD-Convention-TJN-Briefing.pdf; 21.07.2015.
[184] The official site of the convention is here: http://www.unodc.org/unodc/en/treaties/CAC/index.html; 21.07.2015. A succinct summary of the convention's measures can be found here: http://www.uncaccoalition.org/about-the-uncac; 22.07.2015.
[185] http://www.unodc.org/unodc/en/treaties/illicit-trafficking.html; 22.07.2015.

The 1999 UN Terrorist Financing Convention requires its parties to prevent and counteract financing of terrorists. The parties must identify, freeze and seize funds allocated to terrorist activities[186].

Finally, the UN Convention against Transnational Organised Crime seeks to prevent and combat transnational organised crime, notably by obliging the State Parties to adopt new frameworks for extradition, through mutual legal assistance and law enforcement cooperation, the promotion of training and technical assistance for building or upgrading the capacity of national authorities[187].

The United Nations Treaty Collection served as a source[188] for all four UN conventions[189]. A chart of the signatures and ratifications of the Tax Convention can be found on the OECD website[190].

3.14.2 Why is this important?

In today's globalised world, organised crime, bribery, terrorism and large-scale tax evasion are essentially international problems that easily cross national borders. Some jurisdictions aim to attract substantial amounts of that criminal money by offering a thin fabric of weak national rules and regulations or an absence of cross-border cooperation. Against this background, it is important to verify to what extent a jurisdiction is committed to certain principles.

While the ratification of international conventions does not necessarily translate into commitment to take positive actions, it is certainly a step in the right direction. It signals to treaty partners as well as to offenders a willingness to cooperate internationally and a proactive stance with respect to national legislation and policing.

The Conventions will contribute to varying degrees to solving the problems they are intended to address. They have already or are likely to become means through which civil society within the countries concerned can begin to hold governments and others to account. Similarly, they are likely to improve the chances of government authorities, such as tax administrations, public prosecuting offices, financial crime investigative police, and counter terror agencies, to successfully request cooperation from a foreign counterpart.

As with all commitments, however, implementation is what ultimately matters. Out of the five international Conventions, only one (UNCAC) has started implementing a systematic and partly transparent review process of adherence to commitments made under UNCAC[191].

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[186] http://www.un.org/law/cod/finterr.htm; 21.07.2015.

[187] http://polis.osce.org/portals/orgcrime/index/details?doc_id=3210&lang_tag=&qs; 22.07.2015.

[188] To see the sources we are using for particular jurisdictions please check out the corresponding information in our database, available at www.financialsecrecyindex.com/database/menu.xml.

[189] http://treaties.un.org/home.aspx;22.07.2015. The specific source for each jurisdiction and convention can be found in the corresponding database report of each country, here: http://www.financialsecrecyindex.com/database/menu.xml.

[190] www.oecd.org/ctp/exchangeofinformation/Status_of_convention.pdf; 22.07.2015.

3.15 KFSI 15 - International Judicial Cooperation

3.15.1 What is measured?

KFSI-15 measures the degree to which a jurisdiction engages in international judicial cooperation on money laundering and other criminal matters. We use the degree of compliance with the Financial Action Task Force recommendations[192] 36 through 40 as the appropriate measure.

The Financial Action Task Force (FATF) is the international body dedicated to counter money laundering. In 2003, the FATF established its 49 recommendations concerning the laws, institutional structures, and policies considered necessary to address money laundering and terrorist financing.

Recommendation 36[193] encourages countries to "provide the widest possible range of mutual legal assistance in relation to money laundering and terrorist financing investigations, prosecutions, and related proceedings".

Recommendation 37[194] requires that countries "to the greatest extent possible, render mutual legal assistance notwithstanding the absence of dual criminality". Extradition or mutual legal assistance is to take place irrespective of legal technicalities as long as the underlying conduct is treated as a criminal offence (is a predicate offence) in both countries.

Recommendation 38[195] requires a country to have "authority to take expeditious action in response to requests by foreign countries to identify, freeze, seize and confiscate property laundered, proceeds from money laundering or predicate offences, instrumentalities used in or intended for use in the commission of these offences, or property of corresponding value". In addition, there should also be arrangements in place for coordinated action and sharing of confiscated assets.

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[191] http://www.uncaccoalition.org/uncac-review/uncac-review-mechanism; 22.07.2015.

[192] The (old) 2003 recommendations can be viewed at http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202003.pdf; 7.6.2015. The 2003 recommendations include 40 recommendations and 9 special recommendations on terrorist financing, and referred to jointly as the FATF Recommendations. For the methodology for assessing compliance with the FATF Recommendations see: http://www.fatf-gafi.org/topics/fatfrecommendations/documents/methodologyforassessingcompliancewiththefatf40recommendationsandfatf9specialrecommendations.html; 7.6.2015.

[193] See page 10 in: www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202003.pdf; 7.6.2015.

[194] See page 10 in: www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202003.pdf; 7.6.2015.

[195] See page 10 in: www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202003.pdf; 7.6.2015.

Recommendation 39[196] asks a country to "recognise money laundering as an extraditable offence". It further details the grounds on which extradition is to take place, and in what manner.

Recommendation 40[197] prompts countries to "ensure that their competent authorities provide the widest possible range of international co-operation to their foreign counterparts". The competent authority denotes "all administrative and law enforcement authorities concerned with combating money laundering and terrorist financing, including the FIU and supervisors".

Compliance with these recommendations requires that a jurisdiction is not just willing to receive requests for cooperation by foreign authorities, but is able to take effective action to cooperate with such requests.

Since 2003 the FATF, regional analogous bodies or the IMF have assessed the implementation of the FATF recommendations in peer-review studies that are carried out in five-year cycles. The comprehensive reports usually contain a table showing the degree of compliance of a given jurisdiction to each recommendation. The reports have generally been published online and were the main source[198] for this indicator.

In 2012, following the conclusion of the third round of mutual evaluations, the FATF reviewed and updated its 49 recommendations (hereinafter: the "old recommendations") and consolidated them to a total of 40[199] (hereinafter: the "new recommendations"). However, the compliance assessment based on the new recommendations has only begun in 2013 and at the cut-off date for this KFSI only four of the FSI-2015 jurisdictions have been assessed accordingly (Australia, Belgium, Norway and Spain). For those four jurisdictions we have adjusted our credit calculation to take into account the 40 new recommendations.

The five 36-40 old recommendations, considered for this indicator, are now the four new recommendations 37-40 with the following changes:

New recommendation 37[200] (formerly old recommendation 36 combined with old special recommendation 5) exhorts countries to "provide the widest possible range of mutual legal

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[196] See pages 10-11 in: www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202003.pdf; 7.6.2015.

[197] See page 11 in: www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202003.pdf; 7.6.2015.

[198] To see the sources we are using for particular jurisdictions please check out the corresponding information in our database, available at www.financialsecrecyindex.com/database/menu.xml.

[199] The (new) 2012 recommendation can be viewed at: http://www.fatf-gafi.org/media/fatf/documents/methodology/FATF%20Methodology%2022%20Feb%202013.pdf; 7.6.2015.

[200] See pages 27-28 in: http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF_Recommendations.pdf; 7.6.2015. While old recommendation 37 was officially omitted, most of its content was merged to new recommendation 37.

assistance in relation to money laundering and terrorist financing investigations, prosecutions, and related proceedings". In addition, countries must "Maintain the confidentiality of mutual legal assistance requests they receive and the information contained in them [...]". Furthermore, countries should "make best efforts to provide complete factual and legal information that will allow for timely and efficient execution of requests [...]". Finally, they should ensure that their authorities "maintain high professional standards, including standards concerning confidentiality [...]".

New recommendation 38[201] (formerly old recommendation 38) requires a country to have "authority to take expeditious action in response to requests by foreign countries to identify, freeze, seize and confiscate property laundered, proceeds from money laundering or predicate offences, instrumentalities used in or intended for use in the commission of these offences, or property of corresponding value". In addition, countries' authority should be "able to respond to requests made on the basis of non-conviction-based confiscation proceedings and related provisional measures [...]" as well as to "have effective mechanisms for managing such property [...]". Finally, there should also be arrangements in place for coordinated action and sharing of confiscated assets.

New recommendation 39[202] (formerly old recommendations 39) requires a country to "ensure money laundering and terrorist financing are extraditable offences". It further details the grounds on which extradition has to take place, and in what manner. It also calls countries to "take all possible measures to ensure that they do not provide safe havens for individuals charged with the financing of terrorism, terrorist acts or terrorist organisations".

New recommendation 40[203](formerly old recommendations 40) prompts countries to ensure that their competent authorities "provide the widest range of international co-operation in relation to money laundering, associated predicate offences and terrorist financing". The competent authorities "should have clear and efficient processes for the prioritisation and timely execution of requests, and for safeguarding the information received".

FATF's assessment methodology of both the old and the 40 new recommendations rates compliance with every recommendation on a four-tiered scale, from "compliant" to "largely compliant" to "partially compliant" to "non-compliant".

If a jurisdiction fully complies with a recommendation according to the FATF, we award a full fifth (0.2, old recommendations) or quarter (0.25 new recommendations) credit. Where it is largely compliant, it receives two thirds of this credit (2/15 old recommendations versus 1/6 new recommendations). If it is partially compliant, it receives one third of the value for this particular recommendation (1/15 old recommendations versus 1/12 new

[201] See page 28 in: http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF_Recommendations.pdf; 7.6.2015.
[202] See page 29 in: http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF_Recommendations.pdf; 7.6.2015.
[203] See pages 29-30 in: http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF_Recommendations.pdf; 7.6.2015.

recommendations). Thus, a jurisdiction receives full credit (1 point) if it fully complies with all five old recommendations or with all four new recommendations.

See KFSI 11 for more details on these reports.

3.15.2 Why is this important?

In a world of unimpeded financial flows money launderers find it easy to establish schemes for moving money across borders to cover their tracks. If judicial cooperation across borders is not as seamless as the criminal money flowing between two companies or bank accounts, law enforcement agencies such as public prosecutors or police inevitably remain one step behind the criminals.

From the stages of investigation and prosecution to extradition of perpetrators and the confiscation and repatriation of criminal assets, at every step law enforcement processes are fragile and require cross-border cooperation. Without established means of cooperation, the only resort a judge may have consists of a letter rogatory, which is a time-consuming, costly and uncertain process

> "In terms of efficiency, exchange of information through letters of rogatory may take months or years since some requests may have to be processed through diplomatic channels." (OECD 2001[204]: 66).

Compliance with old recommendations 36 through 40 / new recommendations 37 through 40 can be seen as the minimum threshold of judicial cooperation required to take part in the international financial system.

4. Quantitative component: Global Scale Weights

The second component of the FSI is the global scale weight (GSW) attributed to each jurisdiction. It is based on an assessment of the size of each jurisdiction's share of the global market for financial services provided to non-resident clients. We explain how this assessment is made, before considering potential criticisms of the approach.

The global scale weights are based on publicly available data about the trade in international financial services of each jurisdiction. Where necessary because of missing data, we follow IMF methodology (Zoromé 2007) to extrapolate from stock measures in order to generate flow estimates. This allows us to create a ranking of jurisdictions' importance in the total global trade in financial services. When this is subsequently combined with the secrecy scores, it creates a ranking of each jurisdiction's contribution

[204] Organisation for Economic Co-Operation and Development 2001, Behind the Corporate Veil: Using Corporate Entities for Illicit Purposes, Paris.

to the ultimate global problem of financial secrecy: this ranking is the Financial Secrecy Index.

We begin with the best data available on an internationally comparable basis. The preferred source is the IMF's Balance of Payments Statistics (BOPS), which provides data on international trade in financial services. For 2013, the most recent year which has achieved relatively full coverage, the BOPS cover 125 jurisdictions for exports. Next, following IMF research (ibid.), we fill in missing values for these flows of financial services for other jurisdictions, by extrapolating from data on stocks of internationally-held financial assets (see table 4.1 below).

Data on stocks of portfolio assets and liabilities are taken from two IMF sources: the Coordinated Portfolio Investment Survey (CPIS) and the International Investment Position (IIP) statistics, of which the latter is part of the BOPS.[205] CPIS data for 2013 covers 76 jurisdictions for total portfolio assets, and 213 jurisdictions for total portfolio liabilities, which are derived from reported assets. IIP data for 2013 covers 123 jurisdictions, and is filtered (again following Zoromé 2007) to exclude foreign direct investment, reserve assets, and all assets belonging to general government and monetary authorities.

There is an argument for preferring liability data, since it ought to reflect – for example – that French clients holding assets in German banks create a German services export, and a German liability. Gabriel Zucman (2013) focuses in his estimation of "the missing wealth of nations" on liability mismatches. TJN has made some critical comments on this approach (see footnote 1, here[206]), and for the purpose of the FSI, there are two reasons to use assets. First, and prosaically, it is assets that are directly reported by jurisdictions; so these data are more likely to capture the full range of assets, than liability data which are made up by inverting the stated asset claims of other jurisdictions, and hence are likely to be incomplete. Second, a jurisdiction's overseas assets, beyond a certain point dictated by their own economic structure and scale (a different point for the US to that for the island of Jersey, for example), will be managed on behalf of non-residents and hence also reflect the export of financial services. As discussed below, there is, as would be expected given the nature of

[205] All of IMF's data (BOPS, IIP and CPIS) was downloaded on 3 June 2015. However, there is one exception. The CPIS data downloaded on 3 June 2015 included an obviously extremely high value of derived liabilities of 27,426 million US dollars for Maldives, which was out of line with observations for the previous periods for this jurisdiction (which were no higher than 56 million US dollars since 2001). Therefore we checked the data again on 27 August 2015 and used the value of 2.75 million US dollars for Maldives, which was available for download at this later date. One of the hypotheses explaining this inconsistency is that an error had occurred in the decimal place, which was later corrected (the former number is almost exactly 10,000 times higher). We asked the IMF about the reasons for the discrepancies in the values of the derived liabilities for Maldives, but we have not received a reply from them until 8 September 2015.

[206] www.taxjustice.net/wp-content/uploads/2014/06/The-Price-of-Offshore-Revisited-notes-2014.pdf; 9.10.2015.

financial markets, a strong correlation between assets and liabilities where data for both are present.

We use the liabilities data to assess the reasonableness of reported assets, which leads us to identify a discrepancy specific to the Cayman Islands (see Annex I). In general, there is a strong correlation between assets and liabilities, but in a small number of cases the recorded value for liabilities – i.e. that based on the recording of other jurisdictions – far exceeds the declared value for assets. To consider how reasonable these differences are, we consider liabilities minus assets as a ratio to jurisdictions' GDP.[207] The top thirteen FSI-jurisdiction-year observations in our dataset all relate to the Cayman Islands. On this basis we can conclude that the recorded Cayman asset and liability data exhibits some unique feature (see Annex I).

The corrected data on stocks of assets are then used to estimate current flows of financial services. We improve on the IMF extrapolation by using a panel of data (2001-2014) rather than a single year on which to base the extrapolation, which appears to allow marginally more accurate estimation of flows from stock data.

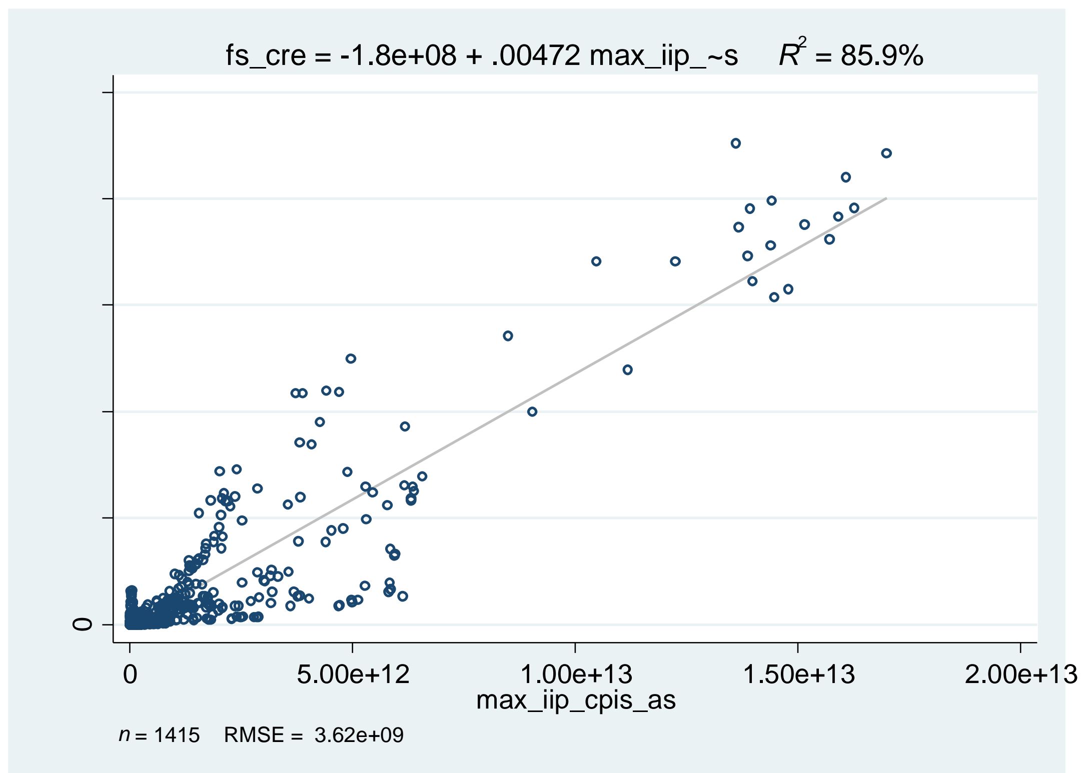
Table 4.1: Regression results for extrapolation - specification makes little difference

Model	**Coefficient on independent variable (asset stock)**	**R-squared**
Pooled OLS, no constant	0.0046987	0.8679
Pooled OLS	0.0047246	0.8593
Panel, fixed effects	0.0049599	0.8593
Panel, random effects	0.0049276	0.8593
N (number of observations)		1415
Number of groups (in panel)		130
Average observations per country (out of 13, 2001-2014)		10.9

As Table 4.1 shows, the implied coefficients (all significant at the 1% level) are very similar regardless of the specification chosen, including fixed-effects panel regressions. We ultimately select a pooled OLS regression to allow the constant to be constrained to zero, as in Figure 4.1 (allowing a nonzero constant only trivially affects the goodness of fit).

[207] This allows us to scale the size of the difference according to jurisdiction, so that for example Jersey is not necessarily more likely to stand out than the United States. We use GDP from the World Bank's World Development Indicators or when not available, from the CIA's World Factbook. Also, where necessary we use the values of GDP from the closest year available.

Figure 4.1: Relationship between asset stocks and financial services exports of jurisdictions



In total, we are able to create flow data (true or extrapolated) for 222 jurisdictions (out of 247 jurisdictions theoretically considered), which we believe to cover the majority of the global provision of financial services to non-residents.

Table 4.2 (below) shows the breakdown of data availability. For those jurisdictions without direct data on financial services exports (case 1), extrapolations were used as follows. First, where possible, asset stock data allows extrapolation using the regression relationship detailed above (case 2 and case 3, distinguishing between asset data sources). Where asset data is simply not credible (the Cayman Islands: see Appendix J), we rely on liability data declared by other jurisdictions (case 4). Where asset data is not available (not declared by jurisdictions), we again rely on liability data declared by other jurisdictions (case 5) and use the extrapolation applied for the Cayman Islands (and described in detail in Appendix J).

For the 102 jurisdictions considered in the Financial Secrecy Index 2015, we have true data for just over half, and can extrapolate for all but one of the remainder. That is Nauru, which while highly opaque is not thought to play a major role in international financial flows of any type.

Table 4.2: Data availability for global scale weights, by type of underlying data sources for global scale weight, the year of the data is 2013

Data source	**Number of jurisdictions evaluated for FSI 2015**	All
1. ‘True’ financial services	66	125

exports data (Balance of Payment Statistics, IMF)		
2. Extrapolated from asset data (filtered International Investment Position data, IMF)	4	19
3. Extrapolated from asset data (Coordinated Portfolio Investment Survey, IMF)	6	6
4. Extrapolated from liability data, based on non-credible declared asset data (Coordinated Portfolio Investment Survey, IMF)	1	1
5. Extrapolated from liability data, based on non-declaration of asset data (Coordinated Portfolio Investment Survey, IMF)	24	71
6. No data available	1	24
TOTAL	102	247

Finally, then, we can use the total level of financial service exports for the 222 jurisdictions where exports can be established, and take the exports of each of the 102 FSI-2015 jurisdictions with data as a share of this global total. This creates a global scale weight reflecting the relative importance of each jurisdiction.

The global scale weight is defined as

$$Global\ Scale\ Weight_i = \frac{Exports\ of\ financial\ services\ (true\ or\ extrapolated)_i}{Sum\ of\ all\ world\ exports\ of\ financial\ services\ (true\ \&\ extrapolated)}.$$

The total global scale weight for the 102 FSI jurisdictions is 98.93.

It is important to note that this weighting alone does not imply harbouring or supporting inappropriate behaviour by the jurisdictions in question. Arguably, those near the top should be congratulated on their success in the field of international trade in financial services (although in light of recent examples such as Iceland, Ireland and Cyprus, they may of course also want to consider the extent of their reliance on this risky sector). Rather, the global scale weight is an indicator of the potential for a jurisdiction to contribute to the global problem of financial secrecy, *if* secrecy is chosen in the range of policy areas discussed above.

It is then only in the subsequent step, where this ranking by scale of activity is combined with the secrecy scores, that we create a Financial Secrecy Index which reflects the potential global harm done by each jurisdiction.

We believe that this methodology represents the most robust possible use of the available data as a means to evaluate the relative contribution of different jurisdictions to the global total of financial services provided to non-residents. Nonetheless, the fact that researchers must follow such a convoluted path to reach this point is further evidence of the failure of policymakers to ensure that global financial institutions and national regulators have access to the necessary data to track and understand international finance.

One reasonable criticism of this approach to scale is that a large part, perhaps the majority, of illicit financial flows may occur through trade in goods rather than through financial flows[208]. Illicit flows including corporate tax evasion, laundering of criminal proceeds and cross-border flows related to bribery and the theft of public assets, represent a primary reason for concern about financial secrecy. A broad literature including e.g. De Boyrie et al. (2005a, 2005b), Baker (2005), Christian Aid (2009) and Ndikumana/Boyce (2011), and Kar & Freitas (2011) highlight the potential for illicit flows to occur through trade. However, trade mispricing is not thought to occur simply to shift profits or income to random jurisdictions: rather it is likely to be specifically for the purpose of ensuring the resulting assets are held in secrecy jurisdictions (providing, of course, a resulting flow of financial services exports for the Swiss or other economies). As such, the approach taken here is likely to identify important jurisdictions also with respect to trade mispricing, at least as destination countries of illicit financial flows. Nonetheless, future work could consider a reweighting with trade flows.

Another relevant criticism of this approach relates to a lack of clarity around what kinds of services are included or left out in the computation of the financial services exports in the Balance of Payments. While fees and costs associated with holding assets and related custodian services ought to be captured, it is not clear for instance if fees for the provision of supporting legal services are included as well. More importantly, while costs directly associated with assets may be covered, the fees associated with hosting and managing the legal structures which in turn hold those assets, such as trusts, shell companies and foundations, are likely not to be captured by financial services. This may result in underestimating the scale of activity in some secrecy jurisdictions, such as British Virgin Islands or Liechtenstein, in which the management of shell companies and foundations is arguably the most important business segment. Until better data become available, however, it is not obvious how the current approach could be substantially strengthened.

A related question, given the extent of their activity in both the provision of services associated with financial secrecy and in lobbying jurisdictions to provide secrecy, is the role played by major professional firms in law, banking and accounting. This is a potentially

[208] For Sub-Sahara Africa, trade mispricing does not account for the majority of illicit financial outflows, and is more pronounced in countries with important natural resource extraction sectors, as documented on pages 50-51 of (Ndikumana/Boyce 2011).

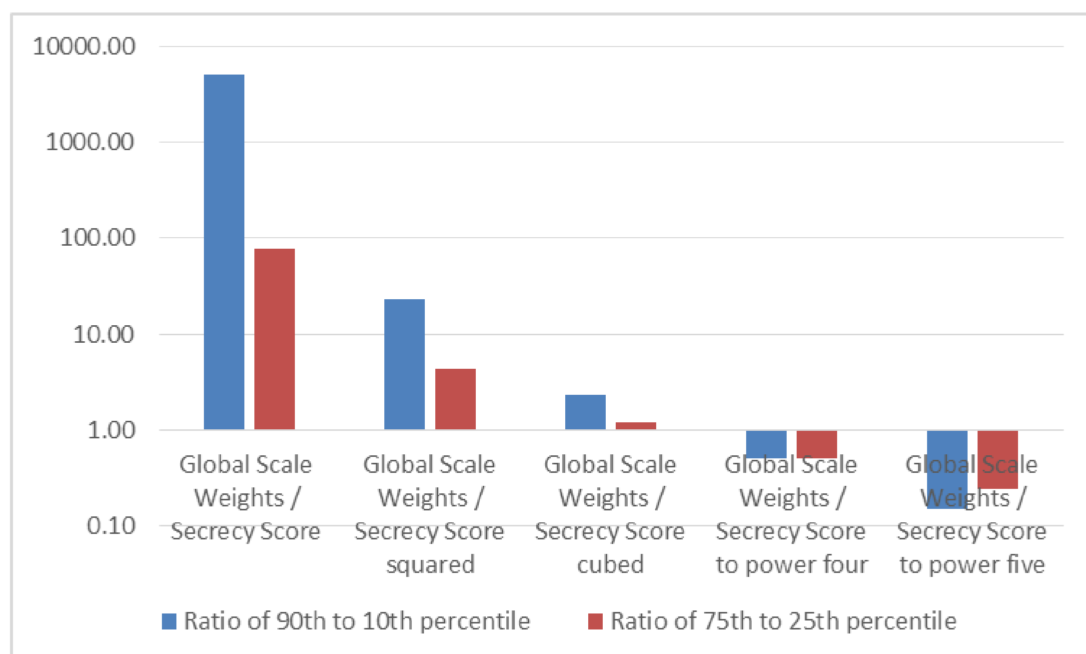
fruitful research agenda, in which early work suggests there may be consistent patterns of activity (Harari et al. 2012).

5. The FSI – Combining Secrecy Scores and Global Scale Weights

The final step in creation of the FSI is to combine the ranking by scale of activity with the secrecy scores, to generate a single number by which jurisdictions can be ranked, reflecting the potential global harm done by each. As with the choice of secrecy indicators and their relative weighting in the secrecy score, and with the focus on financial services exports to determine relative scale, the method of combination cannot be objectively “right”. Underlying the choice made is a desire for neither secrecy nor scale to dominate the final ranking.

Because in practice, there is significantly more variation in the scale weighting than the secrecy score, we transform the two to generate series with variation of a similar order. Consider the ratios in each original series between the 90th and 10th percentiles, and between the 75th and 25th percentiles. The higher the ratio, the wider the range in the series. Figure 5.1 shows the relative size of these ratios, by taking the further ratio between each for the global scale weight, divided by the same for the secrecy score. In the original series, the 90/10 percentile ratio is more than five thousand times higher for GSW; the 75/25 ratio nearly a hundred times higher. If we square the secrecy score and take the square root of the GSW, these ratios fall to below 26 and 6 respectively; and if we cube the secrecy score and take the cube root of the GSW, they fall below 3 and 2 respectively. Finally, looking at fourth and fifth roots and powers, we see these result in the variation of the GSW series becoming disproportionately small – so the cube root/cube combination is preferred.

Figure 5.1: Relative size of ratios of global scale weights / secrecy score



We consider these transformations sufficient to ensure neither secrecy nor scale alone determine the FSI. The mathematical notation for the construction of the index can be described in the following way for each country i:

$$Financial\ Secrecy\ Index\ 2015_i = Secrecy\ Score_i{}^3 * \sqrt[3]{Global\ Scale\ Weight_i}$$

To put it in plain language: Before multiplication, the cube of the secrecy score and the cube root of the global scale weight is taken. The full index for 2015 is shown in Annex A.

Literature

The full references for each jurisdiction are provided in the database report of each jurisdiction. Online news articles and website sources are referenced separately for each info-number in the database report, accessible by clicking on "notes" (on the right hand side of each database report). The full bibliography for each database report including academic articles, books, reports by international organisations, law firms or others, can be found in the section "References" of each database report (either by scrolling down or by clicking on link in top right corner of every database report). All database reports can be accessed under www.financialsecrecyindex.com/database/menu.xml.

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Annexes

Annex A: FSI 2015 - Ranking of 102 Jurisdictions

RANK	Jurisdiction	FSI-Value	Secrecy score	Global scale weight
1	Switzerland	1.466,1	73	5,625
2	Hong Kong	1.259,4	72	3,842
3	USA	1.254,8	60	19,603
4	Singapore	1.147,1	69	4,280
5	Cayman Islands	1.013,2	65	4,857
6	Luxembourg	817,0	55	11,630
7	Lebanon	760,2	79	0,377
8	Germany	701,9	56	6,026
9	Bahrain	471,4	74	0,164
10	United Arab Emirates (Dubai)	440,8	77	0,085
11	Macao	420,2	70	0,188
12	Japan	418,4	58	1,062
13	Panama	415,7	72	0,132
14	Marshall Islands	405,6	79	0,053
15	United Kingdom	380,2	41	17,394
16	Jersey	354,0	65	0,216
17	Guernsey	339,4	64	0,231
18	Malaysia (Labuan)	338,7	75	0,050
19	Turkey	320,9	64	0,182
20	China	312,2	54	0,743
21	British Virgin Islands	307,7	60	0,281
22	Barbados	298,3	78	0,024
23	Mauritius	297,0	72	0,049
24	Austria	295,3	54	0,692

RANK	Jurisdiction	FSI-Value	Secrecy score	Global scale weight
25	Bahamas	273,1	79	0,017
26	Brazil	263,7	52	0,678
27	Malta	260,9	50	0,990
28	Uruguay	255,6	71	0,037
29	Canada	251,8	46	1,785
30	Russia	243,3	54	0,397
31	France	241,9	43	3,104
32	Isle of Man	228,6	64	0,068
33	Liberia	218,2	83	0,006
34	Bermuda	217,7	66	0,042
35	Cyprus	213,9	50	0,518
36	Liechtenstein	202,4	76	0,010
37	Ireland	187,4	40	2,313
38	Belgium	181,2	41	1,863
39	Guatemala	177,2	76	0,007
40	Israel	173,8	53	0,166
41	Netherlands	168,4	48	0,322
42	Chile	166,7	54	0,120
43	Saudi Arabia	163,9	61	0,037
44	Australia	148,1	43	0,586
45	India	148,0	39	1,487
46	Philippines	146,1	63	0,020
47	Vanuatu	142,8	87	0,001
48	Ghana	139,2	67	0,010
49	Korea	124,3	44	0,302

RANK	Jurisdiction	FSI-Value	Secrecy score	Global scale weight
50	US Virgin Islands	118,2	69	0,004
51	Samoa	117,5	86	0,001
52	Mexico	117,1	45	0,211
53	Norway	110,7	38	0,731
54	New Zealand	109,4	46	0,129
55	Gibraltar	109,3	67	0,005
56	Sweden	100,9	36	1,006
57	Aruba	99,5	68	0,003
58	Italy	98,7	35	1,218
59	Latvia	92,8	45	0,113
60	Belize	92,5	79	0,001
61	South Africa	90,9	42	0,203
62	Botswana	90,6	71	0,002
63	Anguilla	89,4	69	0,002
64	St Vincent & the Grenadines	79,7	78	0,000
65	Antigua & Barbuda	79,6	81	0,000
66	Spain	77,5	33	1,090
67	Costa Rica	74,9	55	0,010
68	Turks & Caicos Islands	72,5	71	0,001
69	St Kitts & Nevis	68,4	78	0,000
70	Curacao	67,8	68	0,001
71	Iceland	67,1	46	0,035
72	Seychelles	60,8	71	0,000
73	Slovakia	60,1	50	0,011
74	Macedonia	59,5	66	0,001

RANK	Jurisdiction	FSI-Value	Secrecy score	Global scale weight
75	Poland	57,2	36	0,172
76	Monaco	53,7	74	0,000
77	Estonia	52,9	44	0,023
78	Portugal (Madeira)	52,5	39	0,063
79	St Lucia	51,7	83	0,000
80	Brunei Darussalam	47,4	83	0,000
81	Czech Republic	44,2	35	0,105
82	Grenada	42,2	76	0,000
83	Denmark	38,2	31	0,219
84	Hungary	37,3	36	0,052
85	Greece	37,2	36	0,046
86	San Marino	33,3	70	0,000
87	Andorra	27,3	77	0,000
88	Slovenia	22,5	34	0,019
89	Dominica	21,3	76	0,000
90	Finland	19,4	31	0,025
91	Cook Islands	17,8	76	0,000
92	Montserrat	10,9	67	0,000
NA*	Bolivia	-	(72-80)	0,001
NA*	Dominican Republic	-	(65-73)	0,007
NA*	Gambia	-	(73-81)	0,000
NA*	Maldives	-	(76-84)	0,000
NA*	Montenegro	-	(60-68)	0,001
NA*	Paraguay	-	(75-83)	0,001
NA*	Taiwan	-	(67-75)	0,513

RANK	Jurisdiction	FSI-Value	Secrecy score	Global scale weight
NA*	Tanzania	-	(73-81)	0,006
NA*	Venezuela	-	(64-72)	0,230
NA*	Nauru	-	78,91	-

Annex B: 15 Key Financial Secrecy Indicators 2015

KNOWLEDGE OF BENEFICAL OWNERSHIP	
1	Banking secrecy: **Does the jurisdiction have banking secrecy?**
2	Trust and Foundations Register: **Is there a public register of trusts/foundations, or are trusts/foundations prevented?**
3	Recorded Company Ownership: **Does the relevant authority obtain and keep updated details of the beneficial ownership of companies?**
KEY ASPECTS OF CORPORATE TRANSPARENCY REGULATION	
4	Public Company Ownership: **Does the relevant authority make details of ownership of companies available on public record online for free, or for less than US$10/€10?**
5	Public Company Accounts: **Does the relevant authority require that company accounts are made available for inspection by anyone for free, or for a fee of less than US$10/€10?**
6	Country-by-Country Reporting: **Are all companies required to publish country-by-country financial reports?**
EFFICIENCY OF TAX AND FINANCIAL REGULATION	
7	Fit for Information Exchange: **Are resident paying agents required to report to the domestic tax administration information on payments to non-residents?**
8	Efficiency of Tax Administration: **Does the tax administration use taxpayer identifiers for analysing information efficiently, and is there a large taxpayer unit?**
9	Avoids Promoting Tax Evasion: **Does the jurisdiction grant unilateral tax credits for foreign tax payments?**
10	Harmful Legal Vehicles: **Does the jurisdiction allow cell companies and trusts with flee clauses?**
INTERNATIONAL STANDARDS AND COOPERATION	
11	Anti-Money Laundering: **Does the jurisdiction comply with the FATF recommendations?**
12	Automatic Information Exchange: **Does the jurisdiction participate fully in multilateral Automatic Information Exchange via the Common Reporting Standard?**
13	Bilateral Treaties: **Does the jurisdiction have at least 53 bilateral treaties providing for information exchange upon request, or is it part of the European Council/OECD tax convention?**

14	International Transparency Commitments**: Has the jurisdiction ratified the five most relevant international treaties relating to financial transparency?**
15	International Judicial Cooperation**: Does the jurisdiction cooperate with other states on money laundering and other criminal issues?**

Annex C: Assessment Logic of 15 KFSIs, all details

	KSFI	Description	Result	Component weighting
		KNOWLEDGE OF BENEFICIAL OWNERSHIP		
1	**Bank Secrecy**	Does it have a statutory basis?	YN	20%
		To what extent are banks subject to stringent customer due diligence regulations ("old" FATF-recommendation 5/"new" 10)?	(a): compliant; (b): largely compliant; (c): partially compliant; (d): non-compliant.	20%
		To what extent are banks required to maintain data records of its customers and transactions sufficient for law enforcement ("old" FATF-recommendation 10/"new" recommendation 11)?	(a): compliant; (b): largely compliant; (c): partially compliant; (d): non-compliant.	20%
		Are banks and/or other covered entities required to report large transactions in currency or other monetary instruments to designated authorities?	YN	10%
		Are banks required to keep records, especially of large or unusual transactions, for a specified period of time, e.g. five years?	YN	10%
		Sufficient powers to obtain and provide banking information on request?	(a): Yes without qualifications; (b): Yes, but some problems; (c): Yes, but major problems; (d): No, access is not possible, or only exceptionally.	10% (only if answer is (a))
		No undue notification and appeal rights against bank information exchange on request?	(a): Yes without qualifications; (b): Yes, but some problems; (c): Yes, but major problems; (d): No, access and exchange hindered.	10% (only if answer is (a))
2	**Trust and Foundations Register**	Trusts Available?	'(a): Foreign law trusts cannot be administered and no domestic trust law; (b): Foreign law trusts can be administered, but no domestic trust law; (c): Domestic trust law and administration of foreign law trusts.	Complex Assessment - see KFSI 2 for details; trusts maximum of 50% in KFSI 2
		Convention of 1 July 1985 on the Law Applicable to Trusts and on their Recognition	YN	
		Trusts: Is any formal registration required at all?	'(z): Neither domestic law trusts nor foreign law trusts domestically managed have to register; (a): Domestic law trusts have to register and foreign law trusts domestically managed have to register; (b): Only domestically managed trusts have to register (both foreign and domestic law trust); (c): Domestic law trusts cannot be created and foreign law trusts domestically managed have to register; (d): Domestic law trusts cannot be created, but no registration of domestically managed foreign law trusts; (e): Domestic law trusts have to register, but no registration of domestically managed foreign law trusts; (f): Domestic law trusts do not have to register, but foreign law trusts domestically managed have to.	
		Trusts: Is registration data publicly available ('on public record')?	(z): No, neither for foreign law trusts nor domestic law trusts (if applicable); (a): Only for domestic law trusts, but not for foreign law trusts (if applicable); (b): Yes, for both domestic and foreign law trusts (if applicable).	
		Foundations available (private)?	YN	Complex Assessment - see KFSI 2 for details; foundations maximum of 50% in KFSI 2
		Foundations: Is any formal registration required at all?	YN	
		Is the settlor named?	(z): Not all always named; (a): Only the names are always registered; (b): Only addresses and names are always registered; (c): Yes, names plus either TIN, birthdate, passport ID or personal ID are always registered.	
		Are the members of the foundation council named?	See categories above.	
		Are the beneficiaries named?	See categories above.	
		Foundations: Is registration data publicly available ('on public record')?	(z): No online disclosure for all private foundations; (a): Partial online disclosure for all private foundations; (b): Yes, full online disclosure of all private foundations.	
3	**Recorded Company Ownership**	Companies: Registration comprises owner's identity information?	(z): no; (a): only legal; (b): BO always recorded according to EU-AMLD	25% (only if answer is (b) and answer re update is not "no")
		Is the update of information on the identity of owners mandatory?	YN	

Annex C (ctd.): Assessment Logic of 15 KFSIs, all details

	KSFI	Description	Result	Component weighting
		KEY ASPECTS OF CORPORATE TRANSPARENCY REGULATION		
4	**Public Company Ownership**	Companies - Online Availability of Information: On public record (up to 10 €/US$/GBP): Owners' identities?	(z): No, ownership information not always available online (up to 10 €/US$); (a): No, only legal ownership is always available but only at a cost of up to 10€/10US$; (b): No, only legal ownership is always available for free; (c): Yes, beneficial ownership is always available online but only at a cost of up to 10 €/US$; (d): Yes, beneficial ownership is always available for free.	(z): 0%; (a): 10%; (b): 20%; (c): 50%; (d): 100%
5	**Public Company Accounts**	Accounting data required?	YN	(z): 0%; (a): 50%; (b): 100% (only if answers re accounting data and submission are not "no")
		Accounts submitted to public authority?	YN	
		Online Availability of Information: On public record (up to 10 €/US$/GBP): Accounts?	(z): No, company accounts are not always online (up to 10 €/US$); (a): Yes, company accounts are always online but only at a cost of up to 10€/10$; (b): Yes, company accounts are always online for free.	
6	**Country-by-Country Reporting**	Requirement to comply with worldwide country-by-country reporting standard for companies listed on the national stock exchange or incorporated in the jurisdiction?	(z): No country-by-country reporting at all; (a): No, except one-off EITI-style disclosure for new listed companies; (b): No, except for partial disclosure in either extractives or banking sector; (c): Yes, partial disclosure for both extractives and banking sector; (d): Yes, full country-by-country reporting for all sectors.	(z): 0%; (a): 10%; (b): 25%; (c): 50%; (d): 100%
		EFFICIENCY OF TAX AND FINANCIAL REGULATION		
7	**Fit for Information Exchange**	Are all payers required to automatically report to the tax administration information on payments to all non-residents?	(a): no, none; (b): yes div, no int; (c): no div, yes int; (d): yes, both	(b) or (c): 50%; (d): 100%
8	**Efficiency Tax Administration**	Does the tax authority make use of taxpayer identifiers for information reporting and matching for information reported by financial institutions on interest payments and by companies on dividend payments?	(a): no, none; (b): yes int, no div; (c): no int, yes div; (d): yes, both	(b) or (c): 40%; (d): 80%
		Does the tax authority have a dedicated unit for large taxpayers?	YN	20%
9	**Avoids Promoting Tax Evasion**	Absent a bilateral treaty, does the jurisdiction apply a tax credit system for receiving interest income payments?	(a): yes, all three types of recipients [i) legal person – independent party; ii) legal person – related party; iii) natural person]; (b): for 2; (c): for 1; (d): 0 for none.	(d): 0%; (c): 10%; (b): 20%; (a): 50%
		Absent a bilateral treaty, does the jurisdiction apply a tax credit system for receiving dividend income payments?	(a): yes, all three types of recipients; (b): for 2; (c): for 1; (d): 0 for none.	(d): 0%; (c): 10%; (b): 20%; (a): 50%
10	**Harmful legal vehicles**	Companies - Available Types: Cell Companies?	YN	50%
		Trusts - Are trusts with flee clauses prohibited?	YN	50%

Annex C (ctd.): Assessment Logic of 15 KFSIs, all details

	KSFI	Description	Result	Component weighting
		INTERNATIONAL STANDARDS AND COOPERATION		
11	**Anti-Money Laundering**	Money Laundering: Overall Compliance Score of FATF-standards in Percentage (100% = all indicators rated compliant, 0%=all indicators rated non-compliant)	49 criteria ("old" FATF recommendations) / 40 criteria (each given an equal weight); each criteria: (a): compliant; (b): largely compliant; (c): partially compliant; (d): non-compliant	scaled up to 100%
12	**Automatic Information Exchange**	Participating in Automatic Information Exchange (CRS) and signed the multilateral competent authority agreement (MCAA)?	(z): Neither signed the MCAA nor committed to a timeframe to exchange information pursuant to the CRS; (a): Did not sign the MCAA but committed to exchange information in 2018; (b): Did not sign the MCAA but committed to exchange information in 2017; (c): Signed the MCAA and committed to exchange information in 2018; (d): Signed the MCAA and committed to exchange information in 2017; (e): Committed to participate in the pilot program for developing countries.	(z): 0%; (a): 10%; (b): 25%; (c): and (e): 50%; (d): 100%
13	**Bilateral Treaties**	Number of Double Tax Agreements (DTA)	Number	Sum % of 536; or
		Number of Tax Information Exchange Agreements (TIEA)	Number	
		1988 CoE/OECD Convention / Amending Protocol	YN	Yes, then 100%
14	**International Transparency Commitments**	1988 CoE/OECD Convention / Amending Protocol	YN	20%
		UN Convention Against Corruption	YN	20%
		UN Drug Convention 1988	YN	20%
		UN International Convention for the Suppression of the Financing of Terrorism	YN	20%
		UN Convention Against Transnational Organized Crime	YN	20%
15	**International Judicial Cooperation**	Will mutual legal assistance be given for investigations, prosecutions, and proceedings (FATF-recommendation 36)?	(a): compliant; (b): largely compliant; (c): partially compliant; (d): non-compliant	20%
		Is mutual legal assistance given without the requirement of dual criminality (FATF recommendation 37)?	(a): compliant; (b): largely compliant; (c): partially compliant; (d): non-compliant	20%
	(old FATF recommendations: 36-40; new recommendations: 37-40)	Is mutual legal assistance given concerning identification, freezing, seizure and confiscation of property (FATF recommendation 38)?	(a): compliant; (b): largely compliant; (c): partially compliant; (d): non-compliant	20%
		Is money laundering considered to be an extraditable offense (FATF recommendation 39)?	(a): compliant; (b): largely compliant; (c): partially compliant; (d): non-compliant	20%
		Is the widest possible range of international co-operation granted to foreign counterparts beyond formal legal assistance on anti-money laundering and predicate crimes (FATF recommendation 40)?	(a): compliant; (b): largely compliant; (c): partially compliant; (d): non-compliant	20%

Annex D: Detailed breakdown of results for 15 KFSI

Jurisdiction	KFSI-1	KFSI-2	KFSI-3	KFSI-4	KFSI-5	KFSI-6	KFSI-7	KFSI-8	KFSI-9	KFSI-10	KFSI-11	KFSI-12	KFSI-13	KFSI-14	KFSI-15
Andorra	0,23	0,75	0	0	0	0	0	0	0	0,5	0,39	0,1	0,34	0,6	0,6
Anguilla	0,5	0	0	0	0	0	0	0	0	0	0,58	1	1	0,6	0,93
Antigua & Barbuda	0,37	0	0	0	0	0	0	0	0	0	0,34	0,1	0,38	0,8	0,87
Aruba	0,53	0,75	0	0	0	0	0	0	0	0,5	0,23	0,5	1	0,8	0,53
Australia	0,8	0,5	0	0,1	0	0	1	1	0,5	0,5	0,58	0,5	1	1	1,00
Austria	0,47	0,25	0,25	0	0,5	0,5	0	0,2	0,7	0,5	0,54	0,5	1	1	0,53
Bahamas	0,34	0	0	0	0	0	0	0	0	0	0,55	0,1	0,49	0,8	0,87
Bahrain	0,3	0,5	0	0	0	0	0	0	0	0,5	0,52	0	0,53	0,8	0,80
Barbados	0,27	0,5	0	0	0	0	0	0	0	0	0,5	0,25	0,47	0,6	0,67
Belgium	0,93	0,25	0,25	0	1	0,5	0	0,6	0,5	0,5	0,67	1	1	1	0,67
Belize	0,37	0,125	0	0	0	0	0	0	0	0	0,31	0,1	1	0,8	0,47
Bermuda	0,53	0,5	0	0	0	0	0	0	0	0	0,43	1	1	0,8	0,80
Bolivia	-	0,5	0	0	0	0	0	0	0	0,5	0,26	0	-	0,8	0,53
Botswana	0,53	0,5	0	0	0	0	0	0	1	0,5	0,24	0	0,19	0,8	0,53
Brazil	0,5	0,75	0	0	0	0	1	1	1	0,5	0,48	0,1	0,36	0,8	0,73
British Virgin Islands	0,8	0,5	0	0	0	0	0	0	0	0	0,67	1	1	1	1,00

Jurisdiction	KFSI-1	KFSI-2	KFSI-3	KFSI-4	KFSI-5	KFSI-6	KFSI-7	KFSI-8	KFSI-9	KFSI-10	KFSI-11	KFSI-12	KFSI-13	KFSI-14	KFSI-15
Brunei	0,37	0,5	0	0	0	0	0	0	0	0	0,28	0,1	0	0,8	0,53
Canada	0,73	0,5	0	0	0	0,25	1	1	0,4	0,5	0,51	0,5	1	1	0,73
Cayman Islands	0,5	0,5	0	0	0	0	0	0	0	0	0,68	1	1	0,6	0,93
Chile	0,4	0,625	0	0	0	0	1	1	0,5	0,5	0,52	0,5	0,4	0,8	0,67
China	0,6	0,5	0	0	0	0	0	1	1	0,5	0,49	0,1	1	0,8	0,87
Cook Islands	0,5	0,125	0	0	0	0	0	0	0,2	0,5	0,56	0	0,26	0,8	0,67
Costa Rica	0,5	0,5	0	0	0	0	1	1	0	0,5	0,28	0,5	1	1	0,53
Curacao	0,6	0,375	0	0	0	0	0	0	0	0	0,53	1	1	0,6	0,73
Cyprus	0,4	0,5	0,25	0	0	0,5	0	0,2	0,6	0,5	0,71	1	1	1	0,87
Czech Republic	0,5	0,75	0,25	0	1	0,5	1	1	0	0,5	0,49	1	1	1	0,73
Denmark	0,57	0,25	0,25	0	1	0,5	1	1	1	0,5	0,5	1	1	1	0,80
Dominica	0,4	0,5	0	0	0	0	0	0	0,2	0,5	0,26	0,25	0	0,8	0,67
Dominican Republic	-	0,625	0	0	0	0	0	0	1	0,5	0,3	0	-	0,8	0,47
Estonia	0,56	0,5	0,25	0,1	0,5	0,5	0	0,8	0,3	0,5	0,62	1	1	1	0,73
Finland	0,57	0,75	0,25	0	0,5	0,5	1	1	1	0,5	0,49	1	1	1	0,73
France	0,66	0,625	0,25	0	0,5	0,5	1	0,2	0	0,5	0,65	1	1	1	0,73
Gambia	-	0	0	0	0	0	0	0	1	0,5	0,31	0	-	0,4	0,33

Jurisdiction	KFSI-1	KFSI-2	KFSI-3	KFSI-4	KFSI-5	KFSI-6	KFSI-7	KFSI-8	KFSI-9	KFSI-10	KFSI-11	KFSI-12	KFSI-13	KFSI-14	KFSI-15
Germany	0,6	0	0,25	0	0	0,5	0	0	0,7	0,5	0,53	1	1	0,8	0,67
Ghana	0,47	0,5	0	0	0	0	0	0,2	0,2	0,5	0,23	0,5	1	1	0,33
Gibraltar	0,54	0,5	0	0	0	0	0	0	0	0	0,63	1	1	0,6	0,67
Greece	0,6	0,75	0,25	0	0	0,5	1	1	1	0,5	0,34	1	1	1	0,60
Grenada	0,33	0,5	0	0	0	0	0	0	0	0,5	0,29	0,1	0,23	0,8	0,87
Guatemala	0,4	0,5	0	0	0	0	0	0,2	0	0,5	0,56	0	0,02	0,8	0,67
Guernsey	0,53	0,25	0	0	0	0	0	0	0,2	0	0,82	1	1	0,8	0,87
Hong Kong	0,44	0,5	0	0	0	0,1	0	0	0	0,5	0,58	0,1	0,38	0,8	0,80
Hungary	0,73	0,75	0,25	0	0,5	0,5	0	1	0,6	0,5	0,78	1	1	1	1,00
Iceland	0,67	0,5	0	0	0	0	1	0,8	0,6	0,5	0,49	1	1	1	0,60
India	0,8	0,625	0	0	0	0	1	1	1	0,5	0,53	1	1	1	0,67
Ireland	0,77	0,625	0,25	0	0,5	0,5	0,5	0,6	0,1	0,5	0,6	1	1	1	1,00
Isle of Man	0,67	0	0	0,1	0	0	0	0	0,2	0	0,66	1	1	1	0,80
Israel	0,64	0,5	0	0	0	0	0,5	1	1	0,5	0,58	0,1	0,6	0,8	0,87
Italy	0,77	0	0,25	0,1	0,5	0,5	1	1	0,5	0,5	0,63	1	1	1	1,00
Japan	0,73	0,625	0	0	0	0	1	0,2	0,7	0,5	0,45	0,1	1	0,6	0,47
Jersey	0,57	0,25	0	0,1	0	0	0	0	0	0	0,74	1	1	0,8	0,80

Jurisdiction	KFSI-1	KFSI-2	KFSI-3	KFSI-4	KFSI-5	KFSI-6	KFSI-7	KFSI-8	KFSI-9	KFSI-10	KFSI-11	KFSI-12	KFSI-13	KFSI-14	KFSI-15
Korea	0,5	0,625	0	0	0	0	1	0,8	1	0,5	0,42	1	1	0,8	0,73
Latvia	0,34	0,75	0,25	0	0	0,5	0	1	0,6	0,5	0,56	1	1	1	0,80
Lebanon	0,47	0,5	0	0	0	0	0	0	0	0,5	0,45	0	0	0,6	0,67
Liberia	0,67	0	0	0	0	0	0	0	0	0,5	0,14	0	0,19	0,8	0,27
Liechtenstein	0,37	0	0	0	0	0	0	0	0	0	0,51	1	0,38	0,8	0,53
Luxembourg	0,3	0,5	0,25	0	0,5	0,5	0	0,4	0,2	0	0,35	1	1	1	0,73
Macao	0,5	0,75	0	0	0	0	0	0,8	0	0,5	0,55	0,1	0,19	0,8	0,33
Macedonia	0,47	0,75	0	0	0	0	0	0	1	0,5	0,35	0	0,57	0,8	0,60
Malaysia (Labuan)	0,73	0	0	0	0	0	0	0,2	0	0	0,61	0,1	0,66	0,8	0,60
Maldives	-	0,75	0	0	0	0	0	0	0	0,5	0,09	0	-	0,8	0,13
Malta	0,63	0	0,25	0	0,5	0,5	0	0,8	0,2	0	0,69	1	1	1	1,00
Marshall Islands	0,4	0,625	0	0	0	0	0	0	0	0	0,45	0,1	0,17	0,8	0,53
Mauritius	0,6	0	0	0	0	0	0	0,2	0	0	0,48	1	0,42	0,8	0,67
Mexico	0,57	0,5	0	0	0	0	0,5	1	1	0,5	0,51	1	1	1	0,67
Monaco	0,5	0,5	0	0	0	0	0	0	0,3	0,5	0,48	0,1	0,4	0,6	0,47
Montenegro	-	0,75	0	0	0	0	0	0	1	0,5	0,55	0	-	0,8	0,73
Montserrat	0,3	0,5	0	0	0	0	0	0	0	0,5	0,53	1	1	0,4	0,67

Jurisdiction	KFSI-1	KFSI-2	KFSI-3	KFSI-4	KFSI-5	KFSI-6	KFSI-7	KFSI-8	KFSI-9	KFSI-10	KFSI-11	KFSI-12	KFSI-13	KFSI-14	KFSI-15
Nauru	0,4	0,5	0	0	0	0	0	0	0	0,5	0,43	0	0	0,8	0,53
Netherlands	0,7	0,25	0,25	0	0	0,5	0,5	1	0	0,5	0,56	1	1	1	0,47
New Zealand	0,63	0,625	0	0,2	0	0	1	1	0,6	0,5	0,44	0,5	1	0,8	0,73
Norway	0,8	0,5	0	0	0,5	0	1	1	0,7	0,5	0,56	1	1	1	0,67
Panama	0,56	0,25	0	0	0	0	0	0,2	0	0,5	0,67	0	0,3	0,8	0,87
Paraguay	-	0,5	0	0	0	0	0	0	0	0,5	0,17	0	-	0,8	0,33
Philippines	0,5	0,625	0	0	0	0	0	0	1	0,5	0,42	0,5	0,53	0,8	0,67
Poland	0,47	0,75	0,25	0	0	0,5	1	1	1	0,5	0,42	1	1	1	0,67
Portugal (Madeira)	0,63	0,75	0,25	0	0	0,5	0,5	0,6	0,7	0,5	0,66	1	1	1	1,00
Russia	0,5	0,75	0	0	0	0	0,5	1	0,2	0,5	0,55	0,1	1	1	0,87
Samoa	0,44	0	0	0	0	0	0	0	0,2	0	0,28	0,1	0,23	0,6	0,27
San Marino	0,4	0,5	0	0	0	0	0	0	0,2	0,5	0,24	1	0,66	0,6	0,47
Saudi Arabia	0,57	0,625	0	0	0	0	1	1	0	0,5	0,54	0,1	0,17	0,8	0,53
Seychelles	0,37	0,125	0	0	0	0	0	0,2	0	0	0,23	1	1	1	0,40
Singapore	0,36	0,5	0	0	0	0	0	0,2	0	0,5	0,69	0,1	0,64	0,8	0,87
Slovakia	0,4	0,75	0,25	0	1	0,5	0	0,2	0	0,5	0,35	1	1	1	0,53
Slovenia	0,73	0,75	0,25	0	1	0,5	0	1	0,6	0,5	0,71	1	1	1	0,87

Jurisdiction	KFSI-1	KFSI-2	KFSI-3	KFSI-4	KFSI-5	KFSI-6	KFSI-7	KFSI-8	KFSI-9	KFSI-10	KFSI-11	KFSI-12	KFSI-13	KFSI-14	KFSI-15
South Africa	0,74	0,625	0	0	0	0	1	1	0,6	0,5	0,5	1	1	1	0,80
Spain	0,73	0,75	0,25	0	0	0,5	1	1	0,6	0,5	0,85	1	1	1	0,92
St Kitts and Nevis	0,33	0,125	0	0	0	0	0	0	0	0,5	0,44	0,1	0,4	0,6	0,80
St Lucia	0,3	0,5	0	0	0	0	0	0	0	0	0,14	0,1	0,45	0,8	0,27
St Vincent & Grenadines	0,33	0,5	0	0	0	0	0	0	0	0	0,42	0,1	0,42	0,6	0,93
Sweden	0,5	0,25	0,25	0	0,5	0,5	1	1	0,7	0,5	0,53	1	1	1	0,87
Switzerland	0,37	0	0	0	0	0	0	0	0	0,5	0,61	0,5	0,53	0,8	0,80
Taiwan	-	0,5	0	0	0	0	0	0	0,4	0,5	0,48	0	-	0,8	0,67
Tanzania	-	0,5	0	0	0	0	0	0	0,5	0,5	0,13	0	-	0,8	0,27
Turkey	0,4	0	0	0	0	0	1	0,2	0,6	0,5	0,38	0,1	0,81	0,8	0,60
Turks & Caicos Islands	0,47	0,5	0	0	0	0	0	0	0	0	0,34	1	1	0,4	0,60
United Arab Emirates (Dubai)	0,53	0,5	0	0	0	0	0	0	0	0	0,43	0,1	0,49	0,8	0,53
United Kingdom	0,67	0,5	0,25	0	1	0,5	0	0,6	0,2	0,5	0,72	1	1	1	0,93
Uruguay	0,47	0,625	0	0	0	0	0	0	0	0,5	0,65	0,1	0,36	0,8	0,87
US Virgin Islands	0,6	0,5	0	0	0	0	0	0	0,2	0	0,7	0	1	0,8	0,80
USA	0,6	0,5	0	0	0	0	0	1	0,6	0	0,7	0	1	0,8	0,80

Jurisdiction	KFSI-1	KFSI-2	KFSI-3	KFSI-4	KFSI-5	KFSI-6	KFSI-7	KFSI-8	KFSI-9	KFSI-10	KFSI-11	KFSI-12	KFSI-13	KFSI-14	KFSI-15
Vanuatu	0,34	0	0	0	0	0	0	0	0	0	0,33	0	0	0,8	0,53
Venezuela	-	0,5	0	0	0	0	0	0	1	0,5	0,4	0	-	0,8	0,67

Annex E: Secrecy Scores, alphabetical order

ID	Jurisdiction	S/Score	ID	Jurisdiction	S/Score
1	Andorra	76,60	42	Hungary	35,93
2	Anguilla	69,24	43	Iceland	45,60
3	Antigua & Barbuda	80,96	44	India	39,19
4	Aruba	67,71	45	Ireland	40,37
5	Australia	43,47	46	Isle of Man	63,80
6	Austria	53,71	47	Israel	52,76
7	Bahamas	79,02	48	Italy	35,00
8	Bahrain	73,67	49	Japan	57,52
9	Barbados	78,29	50	Jersey	64,93
10	Belgium	40,89	51	Korea	44,14
11	Belize	78,86	52	Latvia	44,67
12	Bermuda	66,27	53	Lebanon	78,76
13	Bolivia	(72-80)	54	Liberia	82,89
14	Botswana	71,38	55	Liechtenstein	76,04
15	Brazil	51,84	56	Luxembourg	55,11
16	British Virgin Islands	60,20	57	Macao	69,84
17	Brunei	82,78	58	Macedonia	66,40
18	Canada	45,84	59	Malaysia (Labuan)	75,33
19	Cayman Islands	65,24	60	Maldives	(76-84)
20	Chile	53,92	61	Malta	49,53
21	China	54,29	62	Marshall Islands	79,48
22	Cook Islands	75,92	63	Mauritius	72,22
23	Costa Rica	54,58	64	Mexico	45,02
24	Curacao	67,74	65	Monaco	74,36
25	Cyprus	49,82	66	Montenegro	(60-68)
26	Czech Republic	35,18	67	Montserrat	67,36
27	Denmark	30,87	68	Nauru	78,91
28	Dominica	76,16	69	Netherlands	48,49
29	Dominican Republic	(65-73)	70	New Zealand	46,48
30	Estonia	44,24	71	Norway	38,49
31	Finland	31,38	72	Panama	72,36
32	France	42,54	73	Paraguay	(75-83)
33	Gambia	(73-81)	74	Philippines	63,06
34	Germany	56,36	75	Poland	36,29
35	Ghana	67,11	76	Portugal (Madeira)	39,40
36	Gibraltar	67,09	77	Russia	53,56
37	Greece	36,40	78	Samoa	85,89
38	Grenada	75,89	79	San Marino	69,56
39	Guatemala	75,69	80	Saudi Arabia	61,08
40	Guernsey	63,56	81	Seychelles	71,17
41	Hong Kong	72	82	Singapore	68,96

ID	Jurisdiction	S/Score	ID	Jurisdiction	S/Score
83	Slovakia	50,11	93	Tanzania	(73-81)
84	Slovenia	33,96	94	Turkey	64,07
85	South Africa	41,57	95	Turks & Caicos Islands	71,27
86	Spain	32,69	96	United Arab Emirates (Dubai)	77,44
87	St Kitts and Nevis	78,03	97	United Kingdom	40,84
88	St Lucia	82,96	98	Uruguay	70,86
89	St Vincent & Grenadines	77,98	99	US Virgin Islands	69,33
90	Sweden	36,02	100	USA	60,00
91	Switzerland	72,60	101	Vanuatu	86,64
92	Taiwan	(67-75)	102	Venezuela	(64-72)

Annex F: Secrecy Scores, descending order

ID	Jurisdiction	S/Score	ID	Jurisdiction	S/Score
1	Vanuatu	86,64	42	Gibraltar	67,09
2	Samoa	85,89	43	Macedonia	66,4
3	St Lucia	82,96	44	Bermuda	66,27
4	Liberia	82,89	45	Cayman Islands	65,24
5	Brunei	82,78	46	Jersey	64,93
6	Antigua & Barbuda	80,96	47	Turkey	64,07
7	Marshall Islands	79,48	48	Isle of Man	63,8
8	Bahamas	79,02	49	Guernsey	63,56
9	Nauru	78,91	50	Philippines	63,06
10	Belize	78,86	51	Saudi Arabia	61,08
11	Lebanon	78,76	52	British Virgin Islands	60,2
12	Barbados	78,29	53	USA	60
13	St Kitts and Nevis	78,03	54	Japan	57,52
14	St Vincent & Grenadines	77,98	55	Germany	56,36
15	United Arab Emirates (Dubai)	77,44	56	Luxembourg	55,11
16	Andorra	76,6	57	Costa Rica	54,58
17	Dominica	76,16	58	China	54,29
18	Liechtenstein	76,04	59	Chile	53,92
19	Cook Islands	75,92	60	Austria	53,71
20	Grenada	75,89	61	Russia	53,56
21	Guatemala	75,69	62	Israel	52,76
22	Malaysia (Labuan)	75,33	63	Brazil	51,84
23	Monaco	74,36	64	Slovakia	50,11
24	Bahrain	73,67	65	Cyprus	49,82
25	Switzerland	72,6	66	Malta	49,53
26	Panama	72,36	67	Netherlands	48,49
27	Mauritius	72,22	68	New Zealand	46,48
28	Hong Kong	72	69	Canada	45,84
29	Botswana	71,38	70	Iceland	45,6
30	Turks & Caicos Islands	71,27	71	Mexico	45,02
31	Seychelles	71,17	72	Latvia	44,67
32	Uruguay	70,86	73	Estonia	44,24
33	Macao	69,84	74	Korea	44,14
34	San Marino	69,56	75	Australia	43,47
35	US Virgin Islands	69,33	76	France	42,54
36	Anguilla	69,24	77	South Africa	41,57
37	Singapore	68,96	78	Belgium	40,89
38	Curacao	67,74	79	United Kingdom	40,84
39	Aruba	67,71	80	Ireland	40,37
40	Montserrat	67,36	81	Portugal (Madeira)	39,4
41	Ghana	67,11	82	India	39,19

ID	Jurisdiction	S/Score	ID	Jurisdiction	S/Score
83	Norway	38,49	93	Denmark	30,87
84	Greece	36,4	94	Maldives	(76-84)
85	Poland	36,29	95	Paraguay	(75-83)
86	Sweden	36,02	96	Gambia	(73-81)
87	Hungary	35,93	97	Tanzania	(73-81)
88	Czech Republic	35,18	98	Bolivia	(72-80)
89	Italy	35	99	Taiwan	(67-75)
90	Slovenia	33,96	100	Dominican Republic	(65-73)
91	Spain	32,69	101	Venezuela	(64-72)
92	Finland	31,38	102	Montenegro	(60-68)

Annex G: Global Scale Weights, alphabetical order

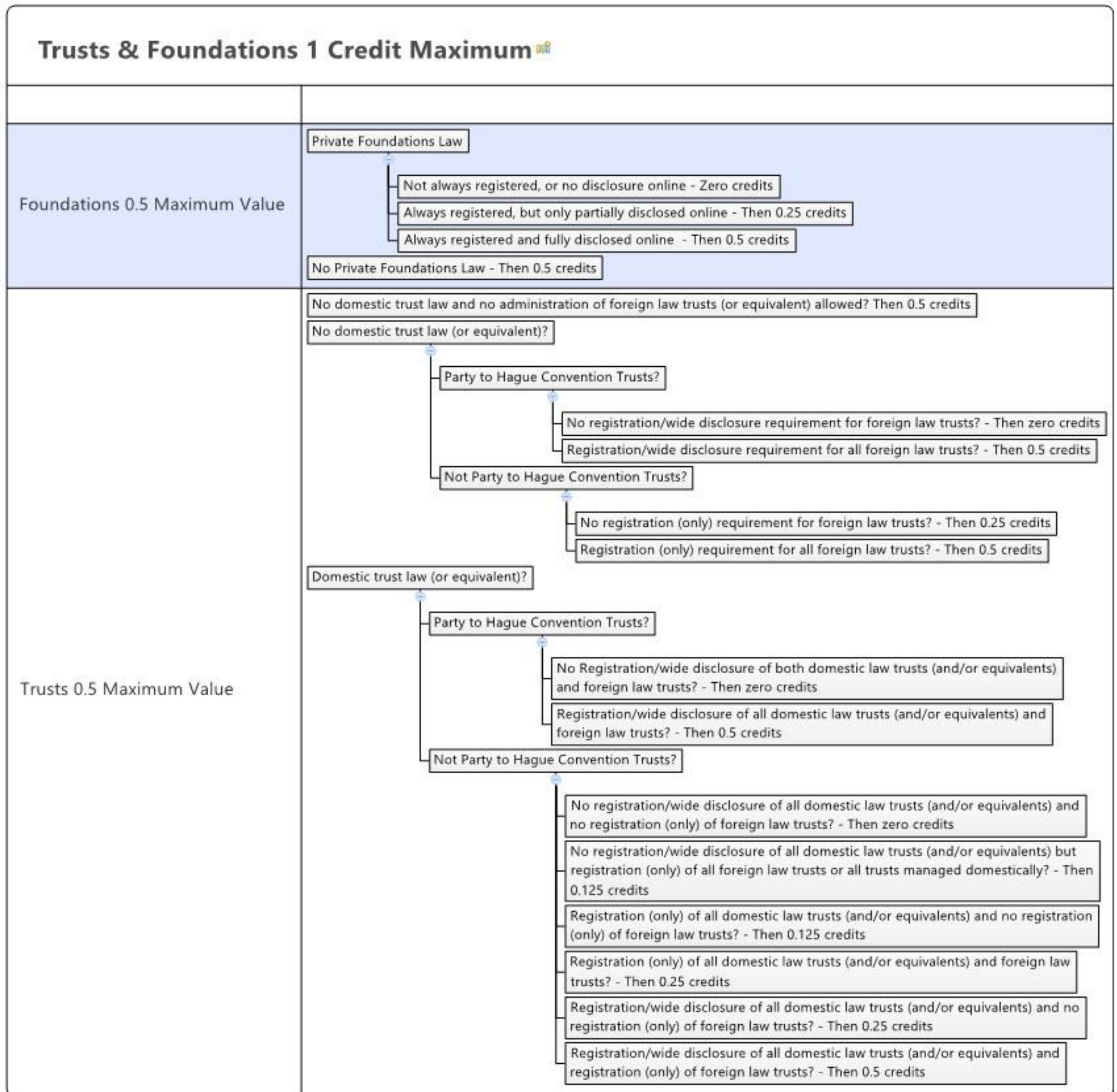
ID	Jurisdiction	GSW	Source	ID	Jurisdiction	GSW	Source
1	Andorra	0,00002	5	42	Hungary	0,05206	1
2	Anguilla	0,00195	5	43	Iceland	0,03546	1
3	Antigua & Barbuda	0,00034	5	44	India	1,48672	1
4	Aruba	0,00330	1	45	Ireland	2,31270	1
5	Australia	0,58577	1	46	Isle of Man	0,06821	3
6	Austria	0,69240	1	47	Israel	0,16566	2
7	Bahamas	0,01695	3	48	Italy	1,21834	1
8	Bahrain	0,16389	2	49	Japan	1,06249	1
9	Barbados	0,02403	3	50	Jersey	0,21635	3
10	Belgium	1,86260	1	51	Korea	0,30180	1
11	Belize	0,00067	1	52	Latvia	0,11279	1
12	Bermuda	0,04186	1	53	Lebanon	0,37675	1
13	Bolivia	0,00093	1	54	Liberia	0,00563	1
14	Botswana	0,00154	1	55	Liechtenstein	0,00975	5
15	Brazil	0,67800	1	56	Luxembourg	11,62992	1
16	British Virgin Islands	0,28053	5	57	Macao	0,18765	1
17	Brunei	0,00006	5	58	Macedonia	0,00084	1
18	Canada	1,78531	1	59	Malaysia (Labuan)	0,04976	1
19	Cayman Islands	4,85743	4	60	Maldives	0,00001	5
20	Chile	0,12019	1	61	Malta	0,99030	1
21	China	0,74270	1	62	Marshall Islands	0,05270	5
22	Cook Islands	0,00001	5	63	Mauritius	0,04904	1
23	Costa Rica	0,00978	1	64	Mexico	0,21130	2
24	Curacao	0,00104	1	65	Monaco	0,00022	5
25	Cyprus	0,51788	1	66	Montenegro	0,00095	1
26	Czech Republic	0,10494	1	67	Montserrat	0,00000	5
27	Denmark	0,21903	1	68	Nauru		6
28	Dominica	0,00001	5	69	Netherlands	0,32208	1
29	Dominican Republic	0,00704	1	70	New Zealand	0,12930	1
30	Estonia	0,02285	1	71	Norway	0,73110	1
31	Finland	0,02487	1	72	Panama	0,13205	1
32	France	3,10412	1	73	Paraguay	0,00075	1
33	Gambia	0,00006	5	74	Philippines	0,01976	1
34	Germany	6,02606	1	75	Poland	0,17162	1
35	Ghana	0,00977	5	76	Portugal (Madeira)	0,06328	1
36	Gibraltar	0,00475	3	77	Russia	0,39687	1
37	Greece	0,04603	1	78	Samoa	0,00064	1
38	Grenada	0,00009	5	79	San Marino	0,00010	5
39	Guatemala	0,00682	1	80	Saudi Arabia	0,03718	1
40	Guernsey	0,23089	3	81	Seychelles	0,00048	5
41	Hong Kong	3,84166	1	82	Singapore	4,28010	1

ID	Jurisdiction	GSW	Source	ID	Jurisdiction	GSW	Source
83	Slovakia	0,01092	1	93	Tanzania	0,00644	1
84	Slovenia	0,01888	1	94	Turkey	0,18165	1
85	South Africa	0,20252	1	95	Turks & Caicos Islands	0,00080	5
86	Spain	1,09043	1	96	United Arab Emirates (Dubai)	0,08549	5
87	St Kitts and Nevis	0,00030	5	97	United Kingdom	17,39418	1
88	St Lucia	0,00007	5	98	Uruguay	0,03707	1
89	St Vincent & Grenadines	0,00047	5	99	US Virgin Islands	0,00447	5
90	Sweden	1,00557	1	100	USA	19,60270	1
91	Switzerland	5,62458	1	101	Vanuatu	0,00106	1
92	Taiwan	0,51291	5	102	Venezuela	0,23022	2

Key for Data Source:

1. 'True' financial services exports data (Balance of Payment Statistics, IMF)
2. Extrapolated from asset data (filtered International Investment Position data, IMF)
3. Extrapolated from asset data (Coordinated Portfolio Investment Survey, IMF)
4. Extrapolated from liability data, based on non-credible declared asset data (Coordinated Portfolio Investment Survey, IMF)
5. Extrapolated from liability data, based on non-declaration of asset data (Coordinated Portfolio Investment Survey, IMF)
6. No data available

Annex H: Mind Map of KFSI 2



Annex I: GSW, addressing the Cayman discrepancy

During preparation of data for the first Financial Secrecy Index, it was noted that the Cayman Islands was a distant outlier in terms of the relationship between recorded assets and liabilities. A normalising adjustment made at the time addressed this.

For the second, third as well as this fourth release of the Financial Secrecy Index, however, we have assembled a larger dataset covering now more jurisdictions in a 2001-2013 panel on international financial flows and stocks, and this confirms the existence of a systematic discrepancy in relation to the Cayman Islands.

Following the IMF working paper by Zoromé (2007), we take assets of each jurisdiction to be the maximum of the values given by the Coordinated Portfolio Investment Survey (CPIS) and the International Investment Position (IIP). For liabilities, only the CPIS provides a value. In general, there is a strong correlation between assets and liabilities.

In a small number of cases, however, the recorded value for liabilities – i.e. that based on the recording of *other* jurisdictions – far exceeds the declared value for assets. To consider how reasonable these differences are, we consider liabilities minus assets as a ratio to jurisdictions' GDP (we use GDP from the World Bank's World Development Indicators and when not available, we use information from the CIA's World Factbook and from forthcoming or previous years when data is available). This allows us to scale the size of the difference according to jurisdiction, so that for example Jersey is not necessarily more likely to stand out than the United States. The top thirteen all relate to the Cayman Islands.

Jurisdiction	Year	(Liabilities-Assets)/GDP
Cayman Islands	2013	9.400.747
Cayman Islands	2007	899.459
Cayman Islands	2012	8.694.298
Cayman Islands	2011	8.184.183
Cayman Islands	2009	7.420.479
Cayman Islands	2005	7.124.349
Cayman Islands	2006	6.913.038
Cayman Islands	2004	690.263
Cayman Islands	2010	6.735.805
Cayman Islands	2008	6.512.032
Cayman Islands	2003	5.064.803
Cayman Islands	2002	3.780.023
Cayman Islands	2001	2.879.693

On this basis we can conclude that the recorded Cayman asset and liability data exhibits some unique feature. In fact, IMF researchers have recently attributed this to a specific difference in Cayman reporting, namely that it excludes "the very large collective investment schemes industry". They go on to note that "data [on collective investment schemes] are sometimes hard to reconcile with data on bilateral holdings reported by partner countries", and that "the Net Asset Value reported by hedge funds registered in the Cayman Islands totalled over $2.2 trillion at end-2007. However, portfolio equity claims on the Cayman Islands reported by the main investor countries participating in the CPIS were only $768bn" (Lane/Milesi-Ferretti 2010: 6).

On this basis, an adjustment is necessary to ensure that the index more accurately reflects Cayman's role. We proceed as follows. We take the liabilities data – that recorded by all other reporting jurisdictions – to be the most accurate reflection of Cayman's activity (albeit far from perfect). We then perform a simple ordinary least squares regression of our asset value on CPIS reported liabilities, with no constant, using the pooled data for all jurisdictions except Cayman, from 2001-2014. The coefficient on CPIS reported liabilities is 2.071.[209] Taking this as the average ratio of assets to liabilities in our dataset, we multiply the 2001-2013 values for Cayman liabilities by this to obtain a value for Cayman assets which we believe reflects more closely the actual scale of Cayman activity in this sphere. Given the IMF analysis, this is likely if anything to be an underestimate.

[209] This is significant at the 1% level; the R-squared for the regression is 0.89.