

How to measure secrecy: The Financial Secrecy Index 2013

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Overview



- Conceptual issues
- Index structure
 - FSI qualitative component: *Secrecy score*
 - FSI quantitative component: *Global scale weight*
 - Combination *Secrecy score * Global scale weight*
- Results International
- Results Norway
- Applications
 - Contrasting views of the geography of secrecy (lists)
 - Assessing G8 commitments on tax and transparency
 - Research implications
- Conclusions

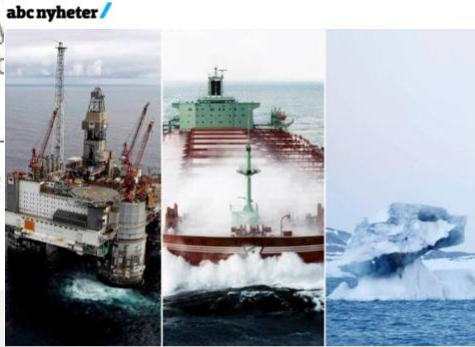
The Financial Secrecy Index (FSI)

- Published by Tax Justice Network. Identifies and ranks **secrecy jurisdictions** ('tax havens') by their contribution to opacity in international finance
- First launched 2009 after two years of research (*Mapping the Faultlines*, Ford Foundation), then releases 2011 and 2013
- Two broad goals:
 - Goal 1: to contribute to and encourage research by collecting data and providing an analytical framework to show how jurisdictions facilitate illicit financial flows
 - Goal 2: to focus policy debates, encourage and monitor policy changes globally towards more financial transparency, by engaging the media and public interest groupings

Britain rules the world of tax havens, Queen is warned

Tax Justice Network says Britain is among victims of 'web of tax havens'

Simon Bowers
theguardian.com, Thursday 7



Lider midtveis: Norge kritiseres både for shippingtransports skattelever, oljeindustriens utenlandsaktivitet og skatteleverne på Svalbard. Foto: [SARIS](#) / Hommedal, Slat Håkon Mosvold/SKANPIX.
- Vi skjuler mer enn Sverige og Danmark
Norge kritiseres på en rekke punkter i årets [FINANCIAL](#) Secrecy Index. Les hvorfor her.

The Economist

World p

Schumpeter

Business and management

Previous | Next | Latest Schumpeter

An index of financial secrecy

Lifting the veil

Nov 6th 2013, 23:05 by M.V. | NEW YORK

"The bad news is that financial secrecy is still very much alive and well."

Luxembourg called financial secrecy "death star" in Tax Justice Network report

LA LIBERTÉ

QUOTIDIEN ROMAND ÉDITÉ À FRIBOURG

07/11/2013

La Suisse brille par son opacité

La Suisse figure en tête du classement 2013 de l'opacité financière établi par le Tax Justice Network. Mais si on avait rajouté au Royaume-Uni l'ensemble du réseau britannique, y compris les Bermudes, Jersey ou Gibraltar, ce dernier aurait facilement détrôné la Confédération, ajoute l'organisation non gouvernementale.

7. November 2013 07:41 Internationale Studie

Steuerose Deutschland



Süddeutsche.de



Conceptual issues

A motivating question:

Why is there no consistent definition and identification of ‘tax havens’, and why have attempts to address problems associated with them failed?

- ‘Tax havenry’ is a matter of degree, not a binary variable (Wójcik 2012: p.7).
- Tax is not the crucial element for problems created by ‘tax havenry’ – rather, secrecy is (Murphy 2008).
- Blacklist approaches are difficult to insulate from political influence.

Conceptual Issues

The influential Gordon Report to the US-Treasury of 1981 notes:

“The term ‘tax haven’ has been loosely defined to include any country having a low or zero rate of tax on all or certain categories of income, and offering a certain level of banking or commercial secrecy. Applied literally, however, this definition would sweep in many industrialized countries not generally considered tax havens, including the United States. [...]

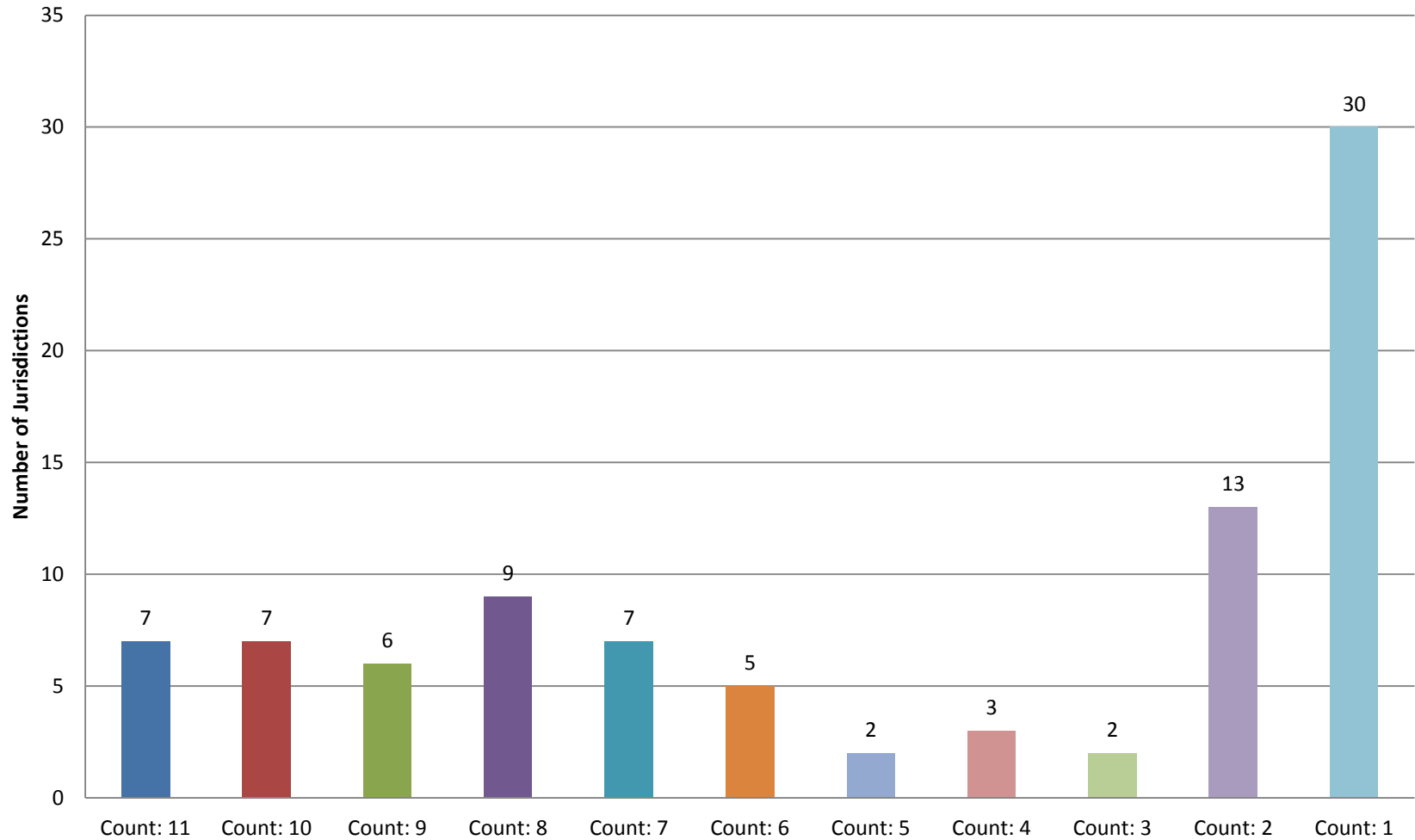
The term ‘tax haven’ may also be defined by a ‘smell’ or reputation test: a country is a tax haven if it looks like one and if it is considered to be one by those who care.” (Gordon 1981: 14).

US Senator Grassley, Ex-Chairman of the Committee on Finance of the US-Senate about the question on the definition of “tax shelter”:

“A tax shelter is a little like pornography. You can’t define it, but you know it when you see it”. (US Senate 2002).

Conceptual issues

Incidence of Tax Haven Listings – On how many lists (out of eleven maximum) are each of the 91 jurisdictions named?

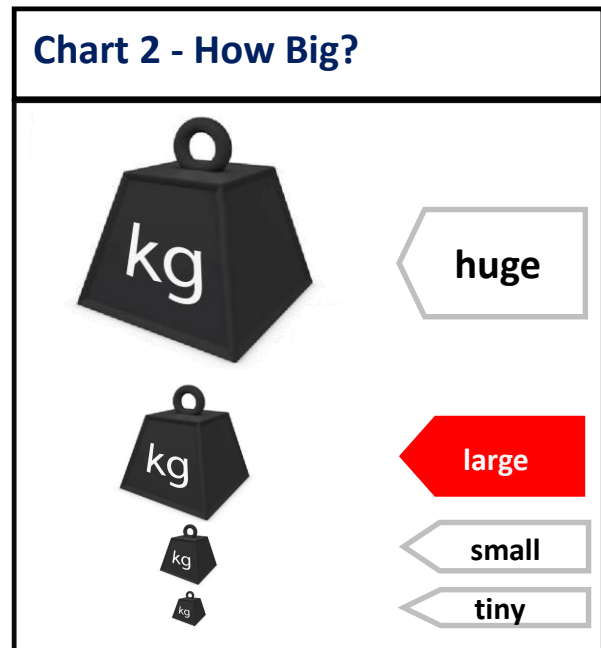
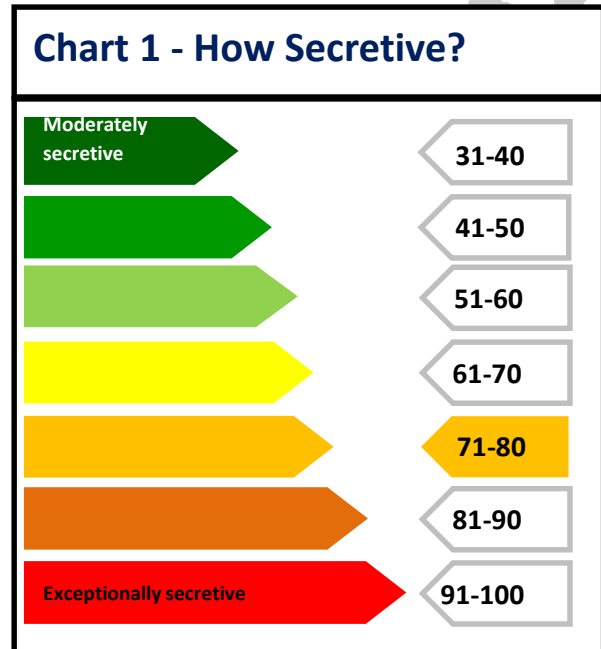


Conceptual issues

- Difficult research terrain because no agreed definitions of tax havens, offshore financial centres or even ‘offshore finance’:
 - ‘you know it when you see it’ approach
 - risk of time lag (e.g. Dubai/UAE, Guatemala, Botswana, Austria)
 - risk of political bias (e.g. OECD countries; Macao etc in 2009)
- **‘Secrecy jurisdiction’** is a potentially more useful and accurate concept (broadly defined and explored first by Murphy 2008).
- Definition: A secrecy jurisdiction is 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.
- Because “virtually any country might be a ‘haven’ in relation to another” (Picciotto 1992: 132), more nuance needed in order for definition to be operational.

Index structure

- FSI measures contribution to global financial secrecy via two components:
- **Secrecy Score:** Financial secrecy on offer for non-residents (based on 15 key financial secrecy indicators, KFSI)
- **Global Scale Weight:** Market share for cross-border financial services (based on Zoromé 2007)
- **Standard of Quality of FSI:** Verifiable, comparable, transparent



Index structure

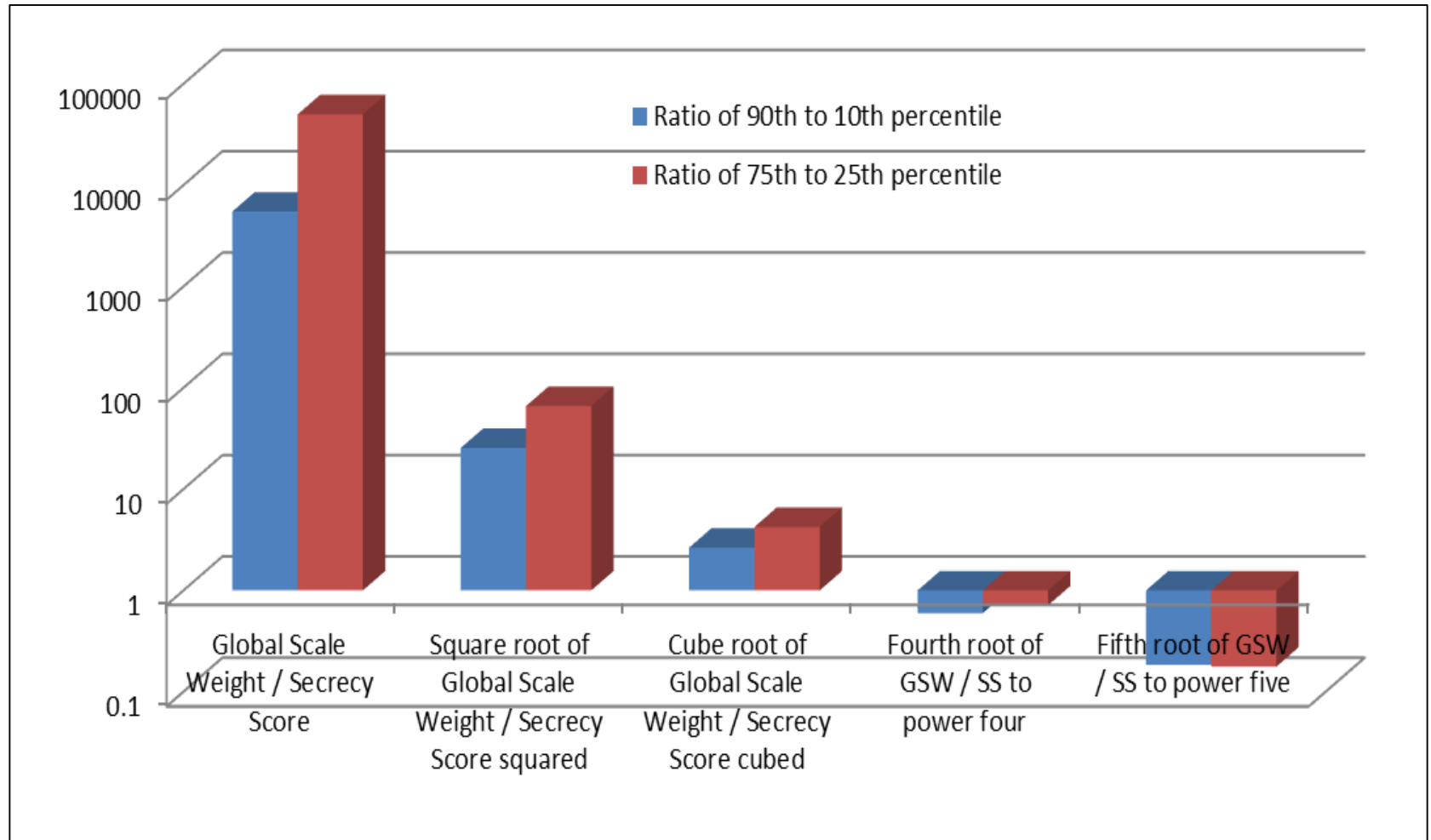
The two components are combined to give a score for jurisdiction (i), according to:

$$\begin{aligned}
 & \textit{Financial Secrecy Index}_i \\
 & = \textit{Secrecy Score}_i^3 * \sqrt[3]{\textit{Global Scale Weight}_i}
 \end{aligned}$$

An illustrative example:

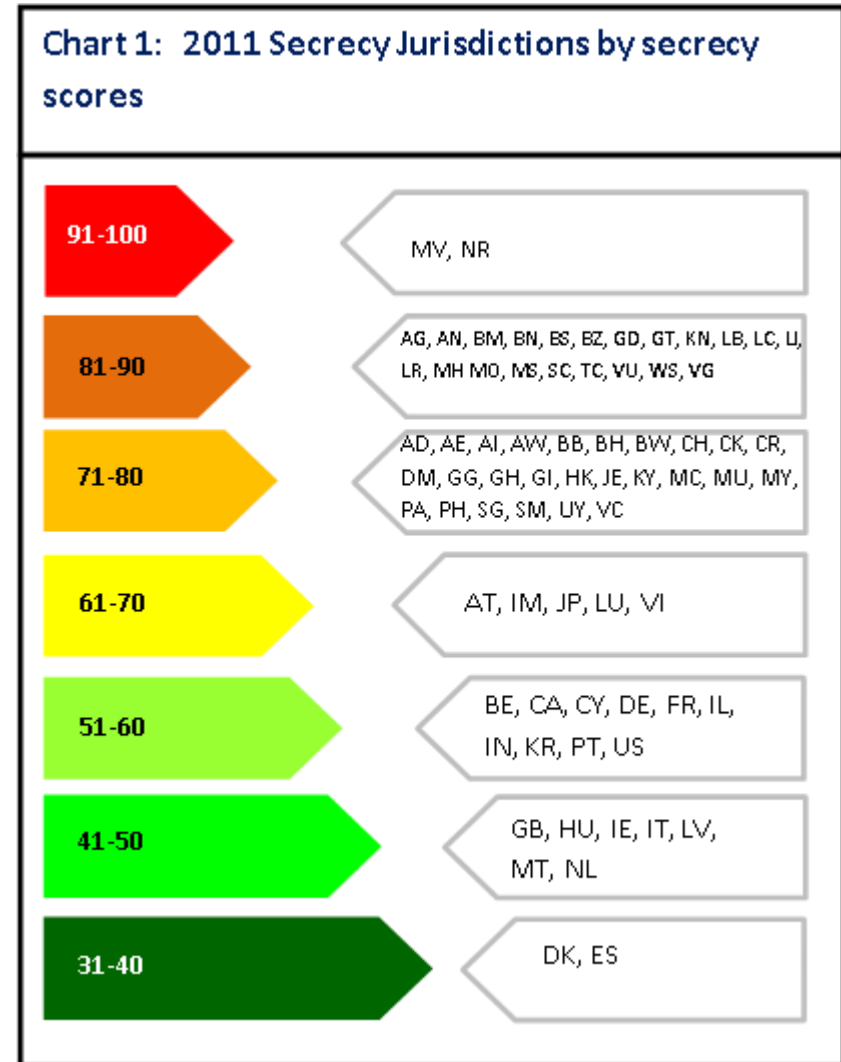
| | Secrecy Score | GSW | FSI-Rank |
|---------------|---------------|------------|----------|
| Germany | 59 | 4,426116% | 8 |
| Liechtenstein | 79 | 0,0117733% | 33 |

Index structure



Index structure: Secrecy score

- Secrecy Score fed by 15 equally weighted Key Financial Secrecy Indicators (KFSIs)
- All data feeding the KFSIs is publicly available in database reports, fully referenced to public data sources
- A maximum of 49 variables feeds the KFSIs, and the database reports contain up to 202 variables for each of the 82 countries
- Principle of data analysis: lowest available transparency denominator is decisive



Index structure: Secrecy score

| 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 |

Index structure: Global scale weight

Global scale weight for jurisdiction i is defined as:

$$\frac{\textit{Exports of financial services (true or extrapolated)}_i}{\textit{Sum of all world exports of financial services (true \& extrapolated)}}$$

| <u>Data</u> | <u>FSI</u> | <u>All</u> |
|--|------------|------------|
| 'True' data (BOPS) | 48/82 | 121/246 |
| Extrapolations - asset data (IIP/CIPS) | 9/82 | 20/246 |
| Extrapolations - liability data (CIPS) | 23/82 | 78/246 |
| No data | 2/82 | 27/246 |

Results International: FSI 2013






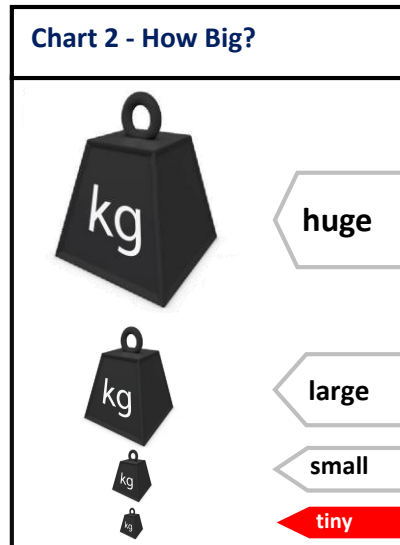
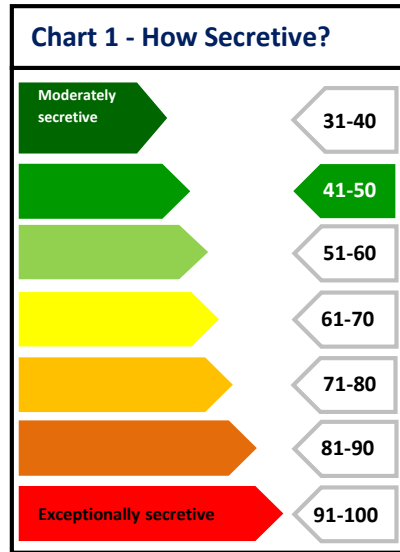
| Ranking | FSI | Secrecy Score | Global Scale Weight |
|----------------------|----------------|-------------------|---------------------|
| 1 | Switzerland | Samoa | United States |
| 2 | Luxembourg | Vanuatu | United Kingdom |
| 3 | Hong Kong | Seychelles | Luxembourg |
| 4 | Cayman Islands | St. Lucia | Switzerland |
| 5 | Singapore | Brunei Darussalam | Cayman Islands |
| 6 | USA | Liberia | Germany |
| 7 | Lebanon | Marshall Islands | Singapore |
| 8 | Germany | Barbados | Ireland |
| 9 | Jersey | Belize | Hong Kong S.A.R. |
| 10 | Japan | San Marino | France |
| Average of SS | 69.0 | 83.4 | 59.3 |
| Sum of GSW | 58.9% | 0.1% | 80.4% |

Results International: FSI 2013

| FSI 2013 - FINAL RESULTS | | | | |
|--------------------------|---|------------------------|----------------------------|----------------------------------|
| RANK | Jurisdiction | FSI-Value ⁴ | Secrecy Score ⁵ | Global Scale Weight ⁶ |
| 1 | Switzerland ² | 1.765,3 | 78 | 4,916 |
| 2 | Luxembourg ² | 1.454,5 | 67 | 12,049 |
| 3 | Hong Kong ² | 1.283,4 | 72 | 4,206 |
| 4 | Cayman Islands ^{1,2} | 1.233,6 | 70 | 4,694 |
| 5 | Singapore ² | 1.216,9 | 70 | 4,280 |
| 6 | USA ² | 1.213,0 | 58 | 22,586 |
| 7 | Lebanon ² | 747,9 | 79 | 0,354 |
| 8 | Germany ² | 738,3 | 59 | 4,326 |
| 9 | Jersey ^{1,2} | 591,7 | 75 | 0,263 |
| 10 | Japan ² | 513,1 | 61 | 1,185 |
| 11 | Panama | 489,6 | 73 | 0,190 |
| 12 | Malaysia (Labuan) ³ | 471,7 | 80 | 0,082 |
| 13 | Bahrain ² | 461,2 | 72 | 0,182 |
| 14 | Bermuda ¹ | 432,4 | 80 | 0,061 |
| 15 | Guernsey ¹ | 419,4 | 67 | 0,257 |
| 16 | United Arab Emirates (Dubai) ^{2,3} | 419,0 | 79 | 0,061 |
| 17 | Canada ² | 418,5 | 54 | 2,008 |
| 18 | Austria ² | 400,8 | 64 | 0,371 |
| 19 | Mauritius ¹ | 397,9 | 80 | 0,047 |
| 20 | British Virgin Islands ^{1,2} | 385,4 | 66 | 0,241 |
| 21 | United Kingdom ^{1,2} | 361,3 | 40 | 18,530 |

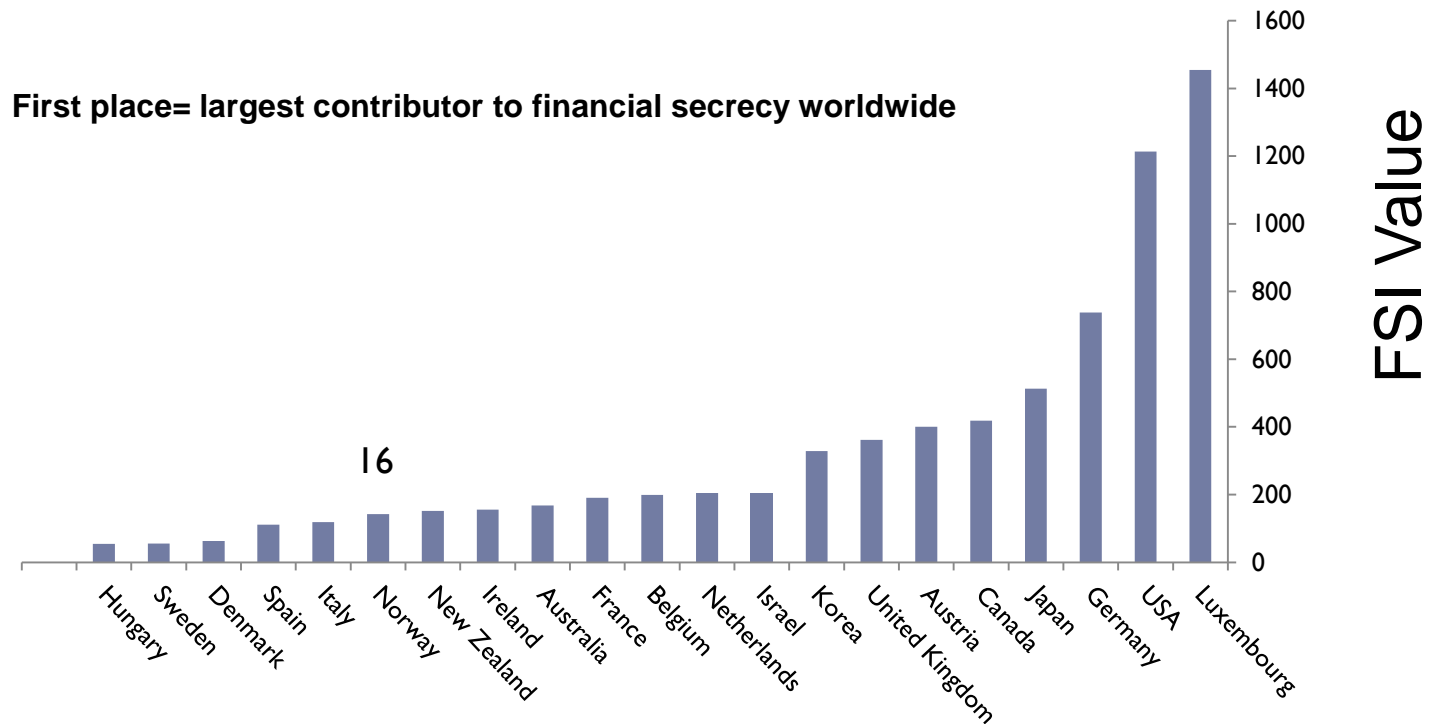
Results Norway: FSI 2013

| | | | | |
|----|--|--------------|----|-------|
| 34 |  Isle of Man¹ | <u>237.2</u> | 67 | 0.049 |
| 35 | Bahamas¹ | <u>226.8</u> | 80 | 0.009 |
| 36 | South Africa | <u>209.7</u> | 53 | 0.260 |
| 37 | Philippines | <u>206.6</u> | 67 | 0.033 |
| 38 | Israel² | <u>205.9</u> | 57 | 0.132 |
| 39 | Netherlands² | <u>204.9</u> | 50 | 0.430 |
| 40 | Belgium² | <u>199.2</u> | 45 | 1.031 |
| 41 | Cyprus | <u>198.9</u> | 52 | 0.264 |
| 42 | Dominican Republic | <u>193.7</u> | 73 | 0.012 |
| 43 | France | <u>190.9</u> | 41 | 2.141 |
| 44 | Australia² | <u>168.1</u> | 47 | 0.394 |
| 45 | Vanuatu | <u>164.9</u> | 87 | 0.002 |
| 46 | Costa Rica | <u>157.6</u> | 71 | 0.008 |
| 47 | Ireland² | <u>155.5</u> | 37 | 2.646 |
| 48 | New Zealand | <u>151.4</u> | 52 | 0.126 |
| 49 |  Gibraltar¹ | <u>147.8</u> | 79 | 0.003 |
| 50 |  Norway² | <u>142.7</u> | 42 | 0.667 |
| 51 | Guatemala² | <u>142.4</u> | 77 | 0.003 |
| 52 | Belize | <u>129.8</u> | 80 | 0.002 |
| 53 | Latvia | <u>128.1</u> | 51 | 0.090 |
| 54 | Italy | <u>118.9</u> | 39 | 0.748 |
| 55 | Aruba² | <u>113.3</u> | 71 | 0.003 |



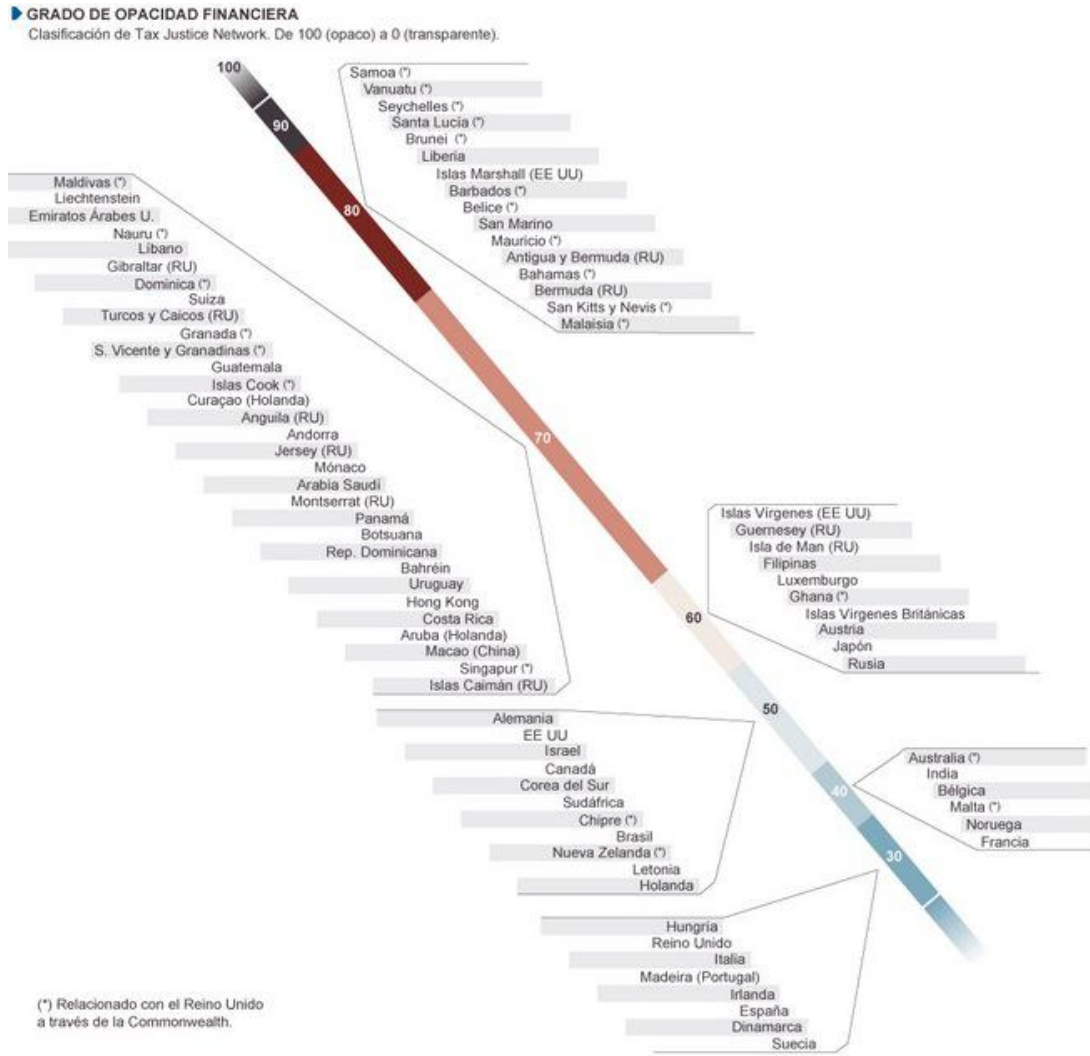
Results Norway: FSI 2013

Norway is ranked at 16th out of 22 **OECD** Countries



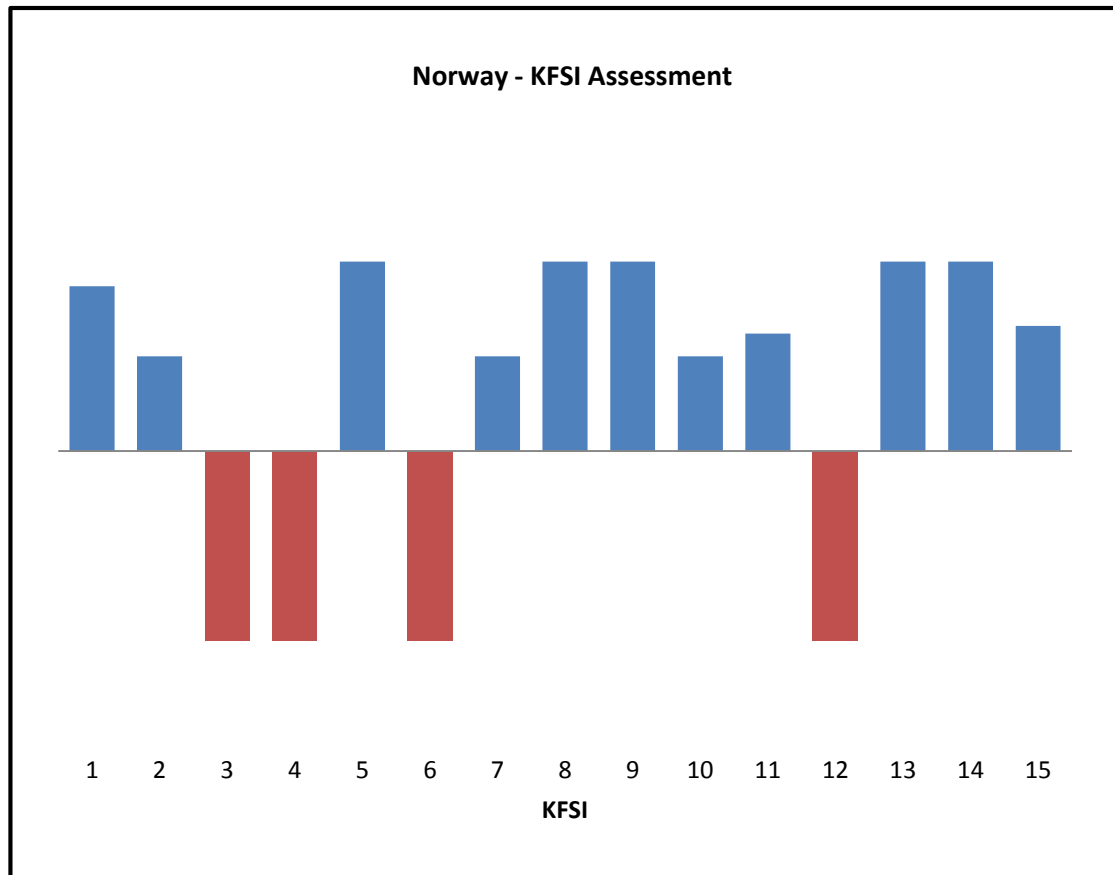
Results Norway: FSI 2013

By Secrecy Score only:



| | | | |
|----|--------------------|----|-------|
| 64 | Brazil | BR | 52,4 |
| 65 | Cyprus | CY | 52,4 |
| 66 | New Zealand | NZ | 51,97 |
| 67 | Latvia | LV | 51 |
| 68 | Netherlands | NL | 50,13 |
| 69 | Australia | AU | 47,4 |
| 70 | India | IN | 45,97 |
| 71 | Belgium | BE | 45,07 |
| 72 | Malta | MT | 43,87 |
| 73 | Norway | NO | 42,33 |
| 74 | France | FR | 40,97 |
| 75 | Hungary | HU | 40,47 |
| 76 | United Kingdom | GB | 39,87 |
| 77 | Italy | IT | 39,33 |
| 78 | Portugal (Madeira) | PT | 39,07 |
| 79 | Ireland | IE | 37,37 |
| 80 | Spain | ES | 35,6 |
| 81 | Denmark | DK | 32,6 |
| 82 | Sweden | SE | 32,4 |

Results Norway: FSI 2013



KFSI 2: trust and foundations register

KFSI 3: registration of company BO

KFSI 4: publication of company BO or LO

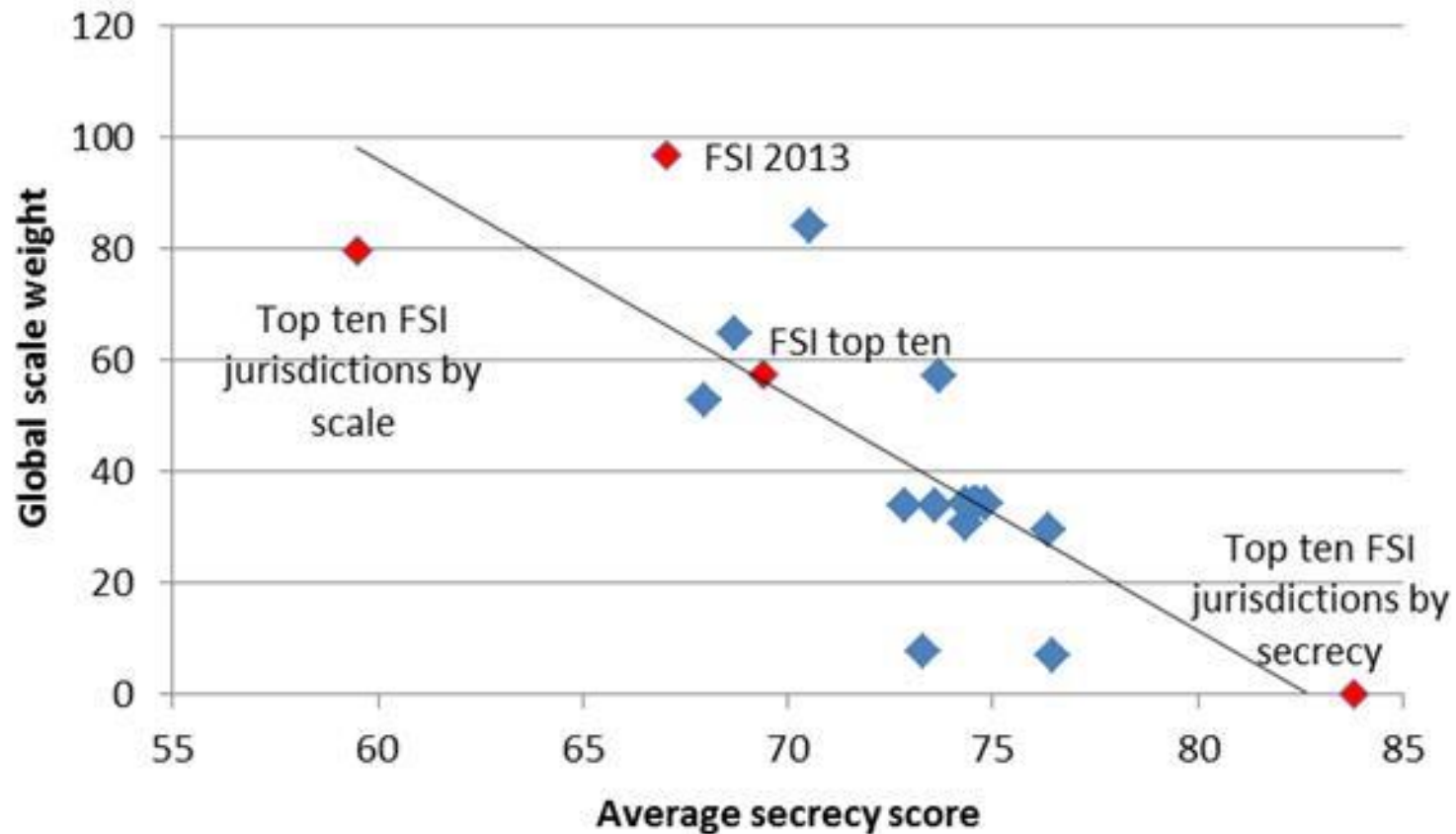
KFSI 6: CBCR

KFSI 12: AIE via EUSTD

Application: FSI vs blacklists

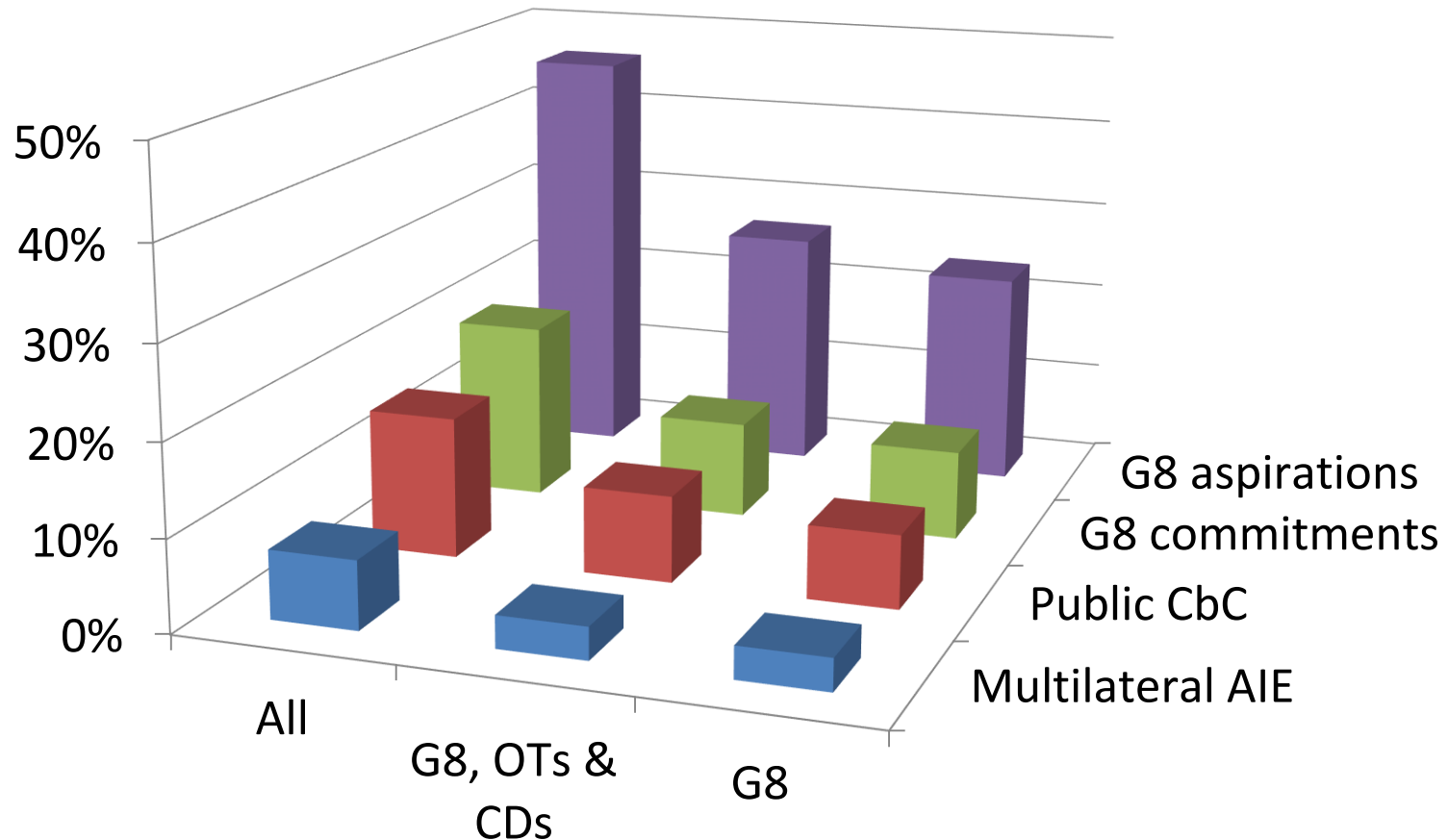
Blacklists: small, marginally more secretive; most < 40% GSW

FSI: include larger players; near 100% coverage by GSW



Application: The G8 agenda

Potential reductions in global financial secrecy



Research Implications

- Robustness of existing academic research relying on lists of tax havens / offshore financial centres? E.g. Hines/Rice 1994, Johannesen/Zucman 2014?
- “Bilateral FSI”: Country specific rankings where GSW would be substituted by bilateral economic data, including commodity trade or FDI, to identify country-specific vulnerabilities (“risks”)

Conclusions (I)

- Traditional views of financial secrecy and corruption show bias re smaller jurisdictions (lists) and poorer countries (CPI).
- FSI reflects subjective choices, like any index; but its reliance on verifiable, comparable and transparent criteria mitigates against potential biases.
- Revealed geography of secrecy shows importance of major jurisdictions (incl. US, UK, Ger) as well as biggest among the more ‘traditional’ secrecy juris’ns: Sui, Lux, Cay, Sgp.²⁴

Conclusions (II)

- British network of satellite jurisdictions is globally most important source of problem
- After many small steps, Switzerland on #1 remains key brakesman
- G8/G20 promised a lot, but not delivered yet
- Policy implications
 - Importance of major players (G8) cleaning house;
 - Limited benefits from ‘usual suspect’ squeeze;
 - Inclusive steps if dev. countries to benefit.

Literature

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Thank you!

More Information:

- <http://www.financialsecrecyindex.com>
- <http://www.taxjustice.net/blog/>
- <http://taxjustice.net>
- <http://treasureislands.org/>

