

The Taxcast transcript, May 2022: Financial Secrecy Index 2022

Naomi: “Hello and welcome to the Taxcast, the Tax Justice Network podcast. We’re all about fixing our economies so they work for all of us. I’m your host, Naomi Fowler. You can find us on most podcast apps. Our website is www.thetaxcast.com If you’re on twitter, we’re on @thetaxcast. If you want to make sure you never miss a Taxcast, email me on naomi@taxjustice.net and I’ll put you on the subscriber’s list. OK, so, we’re hearing a lot from world leaders about sanctions against Russian oligarchs at the moment. We know financial secrecy is what the powerful, the corrupt, and criminals *really* love. With financial secrecy they can undermine the democratic will of any country’s government. They can drain the tax revenues that stop the rest of us living secure and happy lives. So which nations are the world’s worst offenders when it comes to financial secrecy? I’m going to tell you, because this month the Tax Justice Network’s released the latest results of the Financial Secrecy Index. Our specialist team ranks countries every two years on how secretive their financial and legal systems are. Then, they combine that with how big a financial secrecy global player they are – in other words, how much damage they’re doing in the world.

So, this isn’t a list of the world’s most secretive jurisdictions, as is sometimes *misreported*. It’s a list of countries ranked according to the level of secrecy services a country offers customers, *combined* with its size as a global player. I’ll give you an example – the very beautiful Maldives is a highly secretive jurisdiction – *but* it’s a really small player globally doesn’t have a significant impact on *global* financial secrecy – so it’s not at the top of the index. So it’s logical isn’t it, that the bigger a financial secrecy supplier a nation is, the more responsibility they have to reduce their secrecy services because they’re doing more damage. So...this is a ranking you *don’t* want to be at the top of. So, here’s the top ten – our 2022 roll call of shame [drum roll, star spangled banner, Jimmy Hendrix]

1. At number 1 is the United States, with the worst rating ever recorded by the Financial Secrecy Index.
2. is Switzerland
3. Joining the top 3 for the first time is Singapore
4. Hong Kong
5. Luxembourg
6. is Japan, which increased its supply of financial secrecy to the world by 10%
7. Germany’s shot up to number 7 from 14th place last time, it’s increased its secrecy supply by a third, a very bad result for them - so much for all that cheap talk on sanctions on oligarchs
8. And at number 8, the United Arab Emirates – at least they don’t pretend to care about oligarchs!
9. British Virgin Islands, a British Overseas Territory
10. Guernsey, a British Crown Dependency

[Clip of the British national anthem and the Sex Pistols God Save the Queen]

And yes, don’t be fooled by the United Kingdom not being in the top ten. This time the UK is at the number 13 spot. BUT as is ALWAYS the case, I’m ashamed as a British person to tell you that when you combine Britain with all its satellite havens around the world, it is *still* the world’s worst offender. We’re gonna talk about Britain later, and of course the shockingly bad result for the United

States and how other G7 states – Japan, Germany and Italy are holding back progress. By the way, when it comes to China it's zoomed up to number 11 in the index. And what China does is extremely impactful on for example, Africa, since China is their biggest trading partner. Anyway, there are 141 countries assessed in the index, so there's plenty more fascinating stuff there. I asked head of the Tax Justice Network Alex Cobham for his reaction to the 2022 Financial Secrecy results:"

Alex: "I guess the *least* surprising thing was the US actually getting to the top, as the biggest global threat, but the kind of the backsliding of the G7 was a bit unexpected. I hadn't thought we'd see that across that set of the most powerful countries. But the biggest surprise was Cayman. Cayman has dropped from the top, out of the top 10, and surprising because of the reason for it, you know, they've, they've spent so long, I think Cayman Finance has put more money and more time than anyone in the world into criticising the index. And the index rightly judges them as highly secretive - to be fair, they have genuinely improved, this year their secrecy score is down from 76 to 72, mainly because the UK required it to join the UN conventions on terrorist financing and the convention against corruption. But the reason the rank has dropped so sharply is because all of this time they've been refusing to publish the information about their share of international financial services exports, and now they've finally done it and it's revealed that, that their global role is actually much smaller than we, and pretty much everybody else had always estimated from the data that they *do* actually allow to become public. Now, what that means is that they must have known all of this time that their ranking in the index was seriously over inflated. And I suppose they took the decision that they'd rather look like they were the really really bad guys than actually come clean and tell people that they're not quite such a big player in global finance as they were allowing people to think. So that's, that's the big surprise. Of course, you know, the UK and its set of dependent territories remains the biggest overall problem despite Cayman's improvement."

Naomi: "That's interesting. I mean, when it comes to the G7 nations the Financial Secrecy Index points the finger really *really* strongly at the US, the UK, Japan, Germany and Italy and you know, they have been shouting the loudest about sanctions on Russian oligarchs yet we now know through the Financial Secrecy Index results that they're responsible for cutting back progress on financial transparency that would have allowed sanctions to happen, I mean - complete hypocrisy, so I mean what's going on with that?!"

Alex: "It's kind of fascinating, isn't it? Um, you know, these, this set of countries are not the most secretive jurisdictions in the world, not by a long shot, but they are big players. And so their secrecy matters, they have a big share of global financial services and so when they are more secretive it poses a bigger risk to everyone else. As you say, what's happened this year is that the progress that would have been made if the G7 had just stood still has been cut by more than half because actually they've gone backwards. Then, uh, Canada, France, um, to round out the G7, um, actually both getting, getting slightly better, so well done them, showing it can be done, including within the EU, but it takes a bit of commitment. So it's a slightly depressing picture. You know, these are the countries, as you say, in, in this moment of Russia's invasion of Ukraine that are looking to make sanctions effective and they need to be looking at themselves and saying the way that we deny progress on financial transparency, doesn't just deny the ability of other countries to tax fairly and to act against corruption, it also denies our own ability to impose effective sanctions if we want to. You have to hope that if there's a silver lining to any of that, it's a recognition including among these most powerful countries that allowing anonymous wealth is undermining for all of us, and we just have to finally push through and deliver on the beneficial ownership transparency, knowing who is behind companies, trusts, foundations, partnerships, and bank accounts so that we can all be

broadly confident that uh, you know, that law and order is applied across the board and that the system works and that we can tax progressively.”

Naomi: “Yeah. And another trend, I mean tell me if I'm right or not in suspecting that when it comes to autocratic states there's sort of a rise in the use of those states for financial secrecy, and surely oligarchs worldwide will be observing all this talk about sanctions against prominent Russians, now we've seen in this index, very interestingly rise of the United Arab Emirates. Um, Singapore has risen a lot too, which I know it's, uh, a democracy, but it's, uh, also described by many as a thinly veiled autocracy, Hong Kong also. Could this be a future trend in your view and what would that mean?”

Alex: “I think it's definitely crystallising as a trend and remembering that the index is in a sense backward looking because it takes a long time to, to bring together the data, the trends we're actually seeing this year, aren't yet reflected in the index and so it's already going to go further than, than what we are, what we're seeing in the index now. And I think the way you frame it is, is spot on. We are seeing a shift, which I think we can probably think is broadly positive, but with some caution, it's a shift away from the secrecy jurisdictions, the tax havens that have sold themselves as offering good governance, tax neutral investment platforms for the concerned international investor, right? Where the key thing in a sense is that you are saying, you know, ‘if you have a dispute, our legal systems are absolutely straight and you'll be appropriately protected. Your property rights will be protected. Now you may be doing all sorts of bad things elsewhere, but not to worry. we will look after you.’ What we're seeing now, as you say, is a shift towards a set of jurisdictions that really don't make those claims about good governance, or at least not with any seriousness because you know, the common thread, Hong Kong, Singapore, the United Arab Emirates is a pretty much complete disregard for human rights. Um, they may still claim that they've got systems in place to protect investors, but not as human beings, only as you know, the sources of money. And I think the fact that we are seeing that shift, we're seeing secrecy services increasingly going to that sort of jurisdiction is a positive sign in that it, it reflects a kind of marginalisation of illicit financial flows. It's no longer something that you can just do through London or Delaware. And you know, this is good business practice and everyone says, oh, that's, that's probably okay. Increasingly we're seeing people, you know, not least Russian oligarchs in effect being openly in defiance of the application of, of laws or sanctions that others try to put on them, and going to these places where most other people are denied full human rights, as a choice. So this is not something you could defend as, as good governance or investment practice or anything else. This is *clearly* nothing more than an attempt to defy others making their own laws effective on you. And you are so keen to do that, that you are willing to hold your nose about whatever other practices that jurisdiction has. So I don't think you could say, you know, this is anything like the end of the road, but I think we'll look back in a few years and this might seem like a bit of a turning point when that kind of good governance investor protection argument for secrecy jurisdictions was finally nailed. And it became clear that, you know, this is about hiding, and cheating, and dodging, and abusing, and nothing else. And if you want to do it well, you do it over there. And the rest of us will make our own judgements about you, but let nobody pretend this is good investor behaviour or anything of the sort.”

Naomi: “That's *really* interesting. Um, and I mean, we shouldn't be that surprised because in the end, you know, tax havens and secrecy jurisdictions are fundamentally anti-democratic. But the G7's gonna have to up its game, you know, a lot. And that's what we are are getting strong and clear from the secrecy index, isn't it? I mean, together they've *increased* their supplies of financial secrecy – Italy and Germany by a third, Japan by 10%, the UK by 2%, the US, well that's the worst rating ever recorded since the ranking began in 2009!”

Alex: "Yeah. Look, it's, you know, it's an interesting time to see whether, or the extent to which the, the financial sector broadly defined takes heed of what's going on. So, you know, I was looking at earlier this year, thinking about the British Virgin Islands. So here's a jurisdiction, a UK, uh, dependency under investigation by the UK - and that takes a lot, you know, for the depth of its corruption - and the question you're asking yourself is like, this is a major provider of anonymous companies used by investors of some description all around the world and a certain number of major multinationals and financial services firms too. Are those firms those kind of mainstream, responsible financial actors, are they gonna stay in the BVI or are they gonna say no? And you know, and now that the UK has confirmed in its findings the depth of the corruption, what's their decision? Do you say, 'okay, we, we can't be there. It's just, it's so obvious that we are just there to cheat people and, and, you know, there can't be any kind of good governance argument or anything.' Or do you say 'we don't care. We need the secrecy, we need the ability to cheat, so we're gonna stay anyway and we'll take a bit of a reputational hit' but now there's a lot more of the financial services actors around the world finding that they're in places that are really increasingly gonna be seen, or *are* seen as kind of beyond the pale. So what do you do? I think we're gonna see a bit of a separation and, you know, it's, I guess the, the tide going out to some extent, we'll see who's naked, you know, we'll see who really needs the secrecy regardless of the reputational damage and who has some kind of slightly more genuine commitment to responsible financial services practice."

Naomi: "Yes, the secrecy space is being squeezed, and the index team did identify a 5% global reduction in financial secrecy, although the increases in the G7 nations I mentioned really cuts that progress right back. But let's look at the number one global offender, the United States. Wow! After all the Biden administration has said about tackling tax havens and about sanctioning oligarchs! I mean, they've increased their financial secrecy supply to the world by almost a third, the largest supply ever recorded by the index! That's despite some fantastic anti-corruption coalitions in the States and achievements like the passing of the Corporate Transparency Act, finally passed after so many years. I spoke to Ryan Gurule of the FACT Coalition in the United States about the result for his country:"

Ryan: "I think that there are a lot of different factors that contribute to the score. The score itself is not surprising. Um, there are a couple of different factors that contribute to it and things that we'd seen as well. Um, first and foremost, uh, the US is behind in implementing transparency based reforms. And we know this, um, in fact, the US, which kind of kicked off the whole global transparency movement with FATCA, which is the US foreign account transparency mechanism in which US financial accounts held offshore are reported back to the US. That system is not reciprocal at all."

Naomi: "He means that while the US insists on other countries sharing information on their citizens abroad, it doesn't return the favour. So, information on the citizens of the world's activities in the US remain locked in secrecy. Yes, really!"

Ryan: "And in the meantime, after the US kind of created that system, uh, it failed to engage with the world in making a more reciprocal information exchange system in tax. And it failed to keep up in other transparency reforms related to beneficial ownership of entities, real estate, private investment funds, and regulating the enablers that help potentially corrupt actors access the extremely enticing US financial system. And it's enticing for a variety of reasons. The US financial system has very strong legal protection and it offers anonymity and complete secrecy."

I think it's a bit of a wake up call, especially in light of what's happening in the world right now. We've seen Russia invade Ukraine, we're talking about an authoritarian nation invading a democratic

country. And what we're seeing when the United States is leading a global response in sanctioning the oligarchs that are part of Putin's cadre, it's difficult to do that if you don't know where those oligarchs are keeping their money and, and hiding it. And from that perspective, I think that the Western countries are recognising that they've been playing a significant role in entrenching and empowering those regimes by allowing kleptocrats to pilfer from their own country and move that money back to secure, secretive Western jurisdictions, like US markets that are very attractive, and to do so on a completely anonymous basis and that has only entrenched their power at home, emboldened their actions and is resulting in a lot of the conflict that we're seeing. So I think that wake up call, along with this score will be a real call to act."

Naomi: "There are chinks of light though despite this disastrous scoring for the US which may not come into view until the next Financial Secrecy Index in 2024, I mean you've had the Corporate Transparency Act finally passed after so many years of trying. Once that's fully implemented there should be some serious progress that should filter into the next results?"

Ryan: "Yeah, the United States has begun to act and the Corporate Transparency Act was passed in January of 2021. And for the first time that will require the disclosure of beneficial ownership of most legal entities in the United States, corporations, limited liability companies, we expect it to cover every limited partnership but we are waiting on finalised regs to confirm as much. However, there are a couple of things that are holding that up, especially as it relates to this score. For one thing that bill hasn't been implemented, the Corporate Transparency Act passed in January 2021, but there's a tremendous amount of regulatory work to stand up the rules around that statute and the framework itself, as well as to stand up the infrastructure from a tech and digital information perspective to make sure that the law works as intended but at the same time, the US regulatory agency responsible for setting those rules up and that infrastructure up is horribly underfunded. And they're being pulled in a lot of different directions. And that's the Financial Crimes Enforcement Network at the Treasury Department, or FINCEN. They've been called into action in connection with the aggression towards Ukraine in helping coordinate international sanctions, including to discover who actually owns these entities. But it would be a lot easier to do that if these structural reforms had been in place a long time ago.

The last thing I'll say is the president, he has emphasised these things. Uh, he's actually identified a lot of core tenants that would both address the financial secrecy index score, but more importantly, actually create a more transparent regulatory environment in the US that would not only help to enforce sanctions, but also to help prevent the need for sanctions in the future, because it would undermine the abuse of Western financial systems by kleptocrats. Those reforms include standing up and implementing the Corporate Transparency Act, bringing greater transparency to US real estate markets on a nationwide permanent basis with respect to commercial and residential real estate, regulating the enablers who bring and shelter assets within our financial system, bringing transparency to private investment funds, an \$11 trillion industry in the United States that has no 'know your customer' or beneficial ownership rules, which is shocking, that would be the third largest economy in the world, and it's a black hole of secrecy and finally, covering other areas that have been developing and that are of concern, including relating to luxury assets, bringing transparency to art antiquities and digital assets, making sure that those, you know, emerging categories of harms from a money laundering perspective are pulled into the traditional, anti money laundering frameworks. We don't need to reinvent the wheel. We just need to make sure that they're covered. You know, right now the US is itself a tax haven, it's one of the biggest secrecy jurisdictions in the world. These results confirm that, and it's no longer time for the US to pretend that it can enact and create a less corrupt global environment and foster democracy without looking

internally and cleaning up its own house and catching up with global norms..and, uh, making sure that it's rhetoric is more than just talk. It's time to walk the walk."

Naomi: "Ryan Gurule of the FACT Coalition. Ok, let's talk about the UK. As I've said, combined with all its satellite havens it's still the worst offender even though taken alone it's ranked number 13. Unlike the United States, there aren't encouraging signs at all. Alex Cobham again of the Tax Justice Network:"

Alex: "Ah, you can, you can say that Britain is eating itself, you know, it's slightly sad. You know, we're sitting here as as two Brits and, you know, on the one hand look, I think the world is increasingly aware that the UK is the biggest driver of financial secrecy, of tax havenry. The UK is the UK. And I think, let's come back at the next index and see where the UK is. The UK government at present is absolutely not committed to transparency in almost any dimension, whether that's freedom of information requests from journalists or the public, or it's transparency about public procurement and public contracts, or indeed a great many other things, including financial secrecy. They haven't delivered, in fact they've, u-turned on a set of commitments that the predecessor, but still Conservative government made including around country by country reporting, and the UK's corruption is becoming both more pervasive and more visible, which is what you'd expect with a country that sits at the centre of this spider's web of secrecy. We know financial secrecy corrodes, and it corrodes in the secrecy jurisdiction as much as it does damage to others. The UK is responsible for very serious revenue losses for other countries, but it also suffers very serious revenue losses itself. It is increasingly finding it difficult to make progressive taxation effective because the tolerance of anonymous wealth and opaque corporate accounting is so high and it's so embedded politically that we don't regulate this stuff properly. And even if we pass the laws, we don't enforce them. The cost now to the British society is becoming increasingly clear. There will be a moment in UK politics when people say 'we have to try something else.'"

Naomi: "Yeah. Yeah. I mean, it's like a lost a lost nation at the moment, a pariah nation even, and there's this ongoing race to the bottom going on between New York and London, which is, also you can throw into the mix, but speaking about how to tackle long term these problems, I mean the Tax Justice Network and, and other anti-corruption campaigners want a Global Asset Registry and a United Nations Tax Convention. I know these are big subjects, but, can you briefly explain how the global asset registry would work practically?"

Alex: "Sure. So, you know, we already have registries of a lot of assets, you know, so a lot of countries have a land registry that records, depending, either the legal owner or ideally the ultimate warm blooded beneficial owner. And then a lot of countries have that for companies and an increasing number of countries have that for trusts and foundations as well. Then if you look at kind of high value assets like yachts and private aircraft, you often have registers sometimes international of who the owners are. And then even thinking about works of art in some cases and other assets we see similar types of registers. Now, not all of them are perfect. Not all of them identify the beneficial owner or don't do it entirely effectively, but there's a lot of information there. Most of it public, some of it held privately that could be joined up. And that's really what a global asset registry is. The idea that you could actually put together the company ownership register for all jurisdictions, and then the same for other types of assets, other types of legal vehicles. And you'd end up with an overall structure that let's say law enforcement would be able - imagine, for example, that you wanted to sanction some very rich oligarch or, you know, some major criminal, you could look through the global asset registry and effectively see every element of their ownership, every structure and every ultimate asset, and that would allow you equally to do things like taxing wealth effectively, if you wanted to. Not all of the information would be in public domain, as it's not now,

some of it would be private, so I don't think anyone's saying we should have information about people's financial accounts in the public domain, but where you've created a legal vehicle to do business, then that's, I think generally held should be, should be a factor of public information. So you'd have both public and private elements, and it would basically be a tool for different types of, uh, law enforcement, but also civil society, journalists, and so on, for all of us to understand really the distribution of wealth in our countries and internationally. And if we wanted to decide to tax it, um, or at least if we're not gonna tax it, to make that decision actively and with the power to do so and be choosing democratically not to, if that's a choice that's made. So it's really about empowering people both to make sure that laws and taxes are applied fairly, but also to allow us to curtail inequalities."

Naomi: "OK. And the UN Tax Convention? So important to enshrine tax rights in a legally enforceable way to protect citizens. That's another longer term thing we'd like to see happen right?"

Alex: "Yeah. I mean, look, I'm not so sure it's long term anymore. I think we've had a shift. There's been a sense that you know, the OECD has actually had 10 years on corporate tax and it's failed, you know, nobody, including the bigger OECD members, nobody is happy with what the OECD's put on the table after 10 years of trying. That's on the corporate tax side. Meanwhile, on the transparency side, you know, we have the Financial Action Task Force whose former long standing head has just come out and, you know, really ripped them apart and highlighted just how much they have failed to achieve things like beneficial ownership transparency among more than a, you know, a handful of members and how actually there's a small group of major members who really control it, and stop it delivering high standards for everyone. We know the UN tax committee already has kind of delivered on digital taxation in a way that the OECD is failing. It's kind of obvious that this stuff should be done at the UN.

My feeling is we might see negotiations on a convention begin within a year. It really feels, you know, we could be that close and there's still a long way to go even if we get started. But I think there's just this general sense that the architecture doesn't work. It doesn't work for lower income countries, in fact, it never has done, but even for OECD members, I think there's a frustration that they're not getting the kind of effective, uh, changes that they need. And something like the, you know, the failure of the G7 to be able to make sanctions effective in the case of Russia because of their own failure to be transparent, I think is shifting the dial on what might be acceptable as, as global standards. So, I feel pretty positive at the minute. I think it's not such a long term ambition after all."

Naomi: "And very interestingly, just in a short time since I spoke to Alex, the African Union has just passed a resolution calling on the UN for a tax convention. Alex, I'm cheered to see that the financial secrecy index 2022 finds that global financial secrecy actually shrank by 5%, so it *is* going down. But, once you factor in the G7 countries I mentioned earlier, they increased their secrecy services by so much it whittled that global percentage down to 2%. But there is an ongoing reduction, which is encouraging, even though in the last index it was down by 7%. I know that enforcement is a whole other question, but the secrecy space is being squeezed and it's a very important ongoing shift right?"

Alex: "Yeah, absolutely. You could say the continuing improvement in global transparency is really a reflection of the kind of the normalisation of the tax justice policy platform. There is much more automatic exchange of information about financial accounts, there is much more transparency of beneficial ownership, and there is continuing progress towards country by country reporting being transparent, there's a lot of progress being made. So we should feel pretty positive stuff is being

delivered in legislation, but it's also being delivered in practice. The fact that the G7 as a group is dragging the needle back the wrong way is a definite cause for concern. But that global trajectory is positive. And it feels like the momentum will continue.”

Naomi: “So, I’ve given you just some of the highlights here, there’s so much more to discover. There are 141 countries in the index, find out about your country on www.fsi.taxjustice.net/ That’s oit for now from the Taxcast. Thanks for listening, we’ll be back next month. Bye for now.”