

Press release

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EMBARGO

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Financial Stability Forum Releases
Grouping of Offshore Financial Centres (OFCs)
to Assist in Setting Priorities for Assessment

In April 1999, the Financial Stability Forum (FSF) asked a working group to consider the implications of offshore financial centres (OFCs) for global financial stability and to make recommendations for addressing any concerns identified. The Working Group on Offshore Financial Centres completed its work in March this year, and its report was endorsed by the FSF on 26 March 2000. The report was publicly released on 5 April.¹

The report noted that offshore financial activities are not inimical to global financial stability provided they are well supervised and supervisory² authorities co-operate. It noted that some OFCs are well supervised and co-operate with other jurisdictions. At the same time, it concluded that OFCs that are unable or unwilling to adhere to internationally accepted standards for supervision, co-operation, and information sharing create a potential systemic threat to global financial stability. Such OFCs constitute weak links in an increasingly integrated international financial system and hinder broader efforts to raise standards of soundness and transparency in the global financial system.

To address the concerns posed by some OFCs, the report recommended a framework to encourage such jurisdictions to adhere to relevant international standards. The framework identifies priority standards for OFCs, recommends that the IMF take responsibility for developing, organising, and carrying out a process for assessing OFCs' adherence with these standards, and proposes a menu of incentives that could be applied to enhance adherence to these standards. To support this framework, a survey of banking, insurance, and securities supervisors in both onshore and offshore jurisdictions to obtain information on the quality of supervision and degree of co-operation in jurisdictions generally thought to have significant offshore financial activities³ was conducted to help set priorities for the standards assessment process recommended by the Working Group. A detailed description of the survey, including the questionnaires that were sent to

¹ See *Report of the Working Group on Offshore Financial Centres*, April 2000, available on the FSF web site at www.fsforum.org.

² The term 'supervision' is generally understood to apply to government oversight of the banking and insurance industries, while the similar term for the securities industry is 'regulation'. For ease of reference, the terms 'supervisory' and 'supervision' are understood here also to include 'regulator' and 'regulation'.

³ The Working Group did not attempt to identify jurisdictions as OFCs. Rather, OFCs surveyed were drawn from lists of OFCs included in publications of other international organisations and groups.

onshore and offshore supervisors, is included in the report. Supervisors from 30 major financial centres and from 37 financial centres with significant offshore financial activities were surveyed.

Based on the results of the survey, the jurisdictions considered to have significant financial offshore activities were grouped into three categories reflecting their perceived quality of supervision and perceived degree of co-operation. It is important to stress that the categorisation of OFCs into these three groupings is based on responses of OFC supervisors and the impressions of a wide range of onshore supervisors at a particular point in time. The categorisation does not constitute judgements about any jurisdiction's adherence to international standards, and inclusion in a particular group does not imply that such a categorisation applies to all sectors of the financial system within an OFC.

The Forum concluded that it would be in the public interest to release the grouping of OFCs based on the results of the survey. It is hoped that its publication, combined with the assessment process being put in place, will encourage all OFCs to take appropriate steps to raise the quality of their supervision and their degree of co-operation as quickly as possible.

Group I

The jurisdictions in this category are generally perceived as having legal infrastructures and supervisory practices, and/or a level of resources devoted to supervision and co-operation relative to the size of their financial activities, and/or a level of co-operation that are largely of a good quality and better than in other OFCs. These jurisdictions are Hong Kong SAR, Luxembourg, Singapore, and Switzerland. Dublin (Ireland), Guernsey, Isle of Man, and Jersey are also generally viewed in the same light, though continuing efforts to improve the quality of supervision and co-operation should be encouraged in these jurisdictions.

Group II

The jurisdictions in this category are generally perceived as having legal infrastructures and supervisory practices, and/or a level of resources devoted to supervision and co-operation relative to the size of their financial activities, and/or a level of co-operation that are largely of a higher quality than Group III, but lower than Group I. These jurisdictions are Andorra, Bahrain, Barbados, Bermuda, Gibraltar, Labuan (Malaysia), Macau SAR, Malta, and Monaco.

Group III

The jurisdictions in this category are generally perceived as having legal infrastructures and supervisory practices, and/or a level of resources devoted to supervision and co-operation relative to the size of their activity, and/or a level of co-operation that are largely of a lower quality than in Group II. These jurisdictions are Anguilla, Antigua and Barbuda, Aruba, Belize, British Virgin Islands, Cayman Islands, Cook Islands, Costa Rica, Cyprus, Lebanon, Liechtenstein, Marshall Islands, Mauritius, Nauru, Netherlands Antilles, Niue, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Samoa, Seychelles, The Bahamas, Turks and Caicos, and Vanuatu.

The IMF, which as noted above has been urged by the Forum to lead an effort to assess OFCs' adherence with standards, might give highest priority to those in Group II. Their perceived legal infrastructures and supervisory practices, and level of resources and co-operation suggest that these OFCs are likely to show the greatest improvement by undertaking an assessment process. The IMF might also give high priority to those OFCs in Group III whose scale of financial activity has the greatest potential impact on global financial stability. It might give lower priority to those in Group I.

The framework endorsed by the Forum outlines several steps through which OFCs can demonstrate their commitment to achieve high standards of supervision and co-operation with other authorities. These include a declaration of intent by a jurisdiction to implement relevant standards, completing assisted self-assessments of adherence with these standards, addressing shortfalls identified through action plans, and undergoing an external (i.e. third party) assessment, which could also include participation by experts from OFCs. Public disclosure of assessment findings would provide an avenue through which progress towards adherence to international

standards could be demonstrated by an OFC. An OFC could also demonstrate its willingness to improve its practices by achieving sufficient progress in implementing international standards to obtain membership in relevant international groups.

The Forum recognises that resource limitations are often a constraint in the implementation of international standards by OFC jurisdictions and has, therefore, encouraged onshore centres to make available the expertise and other resources that will be necessary to assist OFCs in improving their supervisory systems.

Given its concerns about some OFCs, the Forum underscored the importance of making progress in implementing the report's recommendations. The Forum will review progress.

This publication is intended for the purposes of assisting in the setting of priorities for the assessment process endorsed by the Forum and encouraging OFCs to take appropriate steps to raise the quality of their supervision and degree of co-operation as quickly as possible. It should not be viewed as an assessment, and it is not intended to be used for any other purpose than those stated above.

Note for editors

For further information on the FSF please visit the FSF web site (www.fsforum.org).