

Press release

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FSF reviews its Offshore Financial Centres (OFCs) initiative¹

The Financial Stability Forum (FSF) has taken a close interest in the progress made by offshore financial centres (OFCs) in strengthening their regulatory, supervisory, cooperation and information exchange arrangements. In May 2000, the FSF encouraged OFCs to undertake needed reforms and asked the International Monetary Fund (IMF) to put in place an assessment program that would ensure progress on a lasting basis. Taking notice of the 7 February statement of G7 Finance Ministers and Central Bank Governors, the FSF will continue to take a close interest in this matter.

At the time of writing, virtually all of the 42 jurisdictions that the FSF identified as having offshore financial activities have undergone an initial assessment by the IMF.² These assessments identify strengths and weaknesses in relation to relevant international standards and codes and set out recommendations for improvement. The FSF thanks the IMF for these assessments and welcomes the 5 November 2003 decision by the IMF Executive Board to make the regular monitoring of OFCs a standard component of the work of the Fund.

While it is difficult to generalize, available IMF assessment reports show that significant reforms were initiated in response to the FSF initiative and the IMF assessment program. The IMF assessments found that, in general, wealthier OFC jurisdictions have a much higher rate of compliance with the assessed standards compared with jurisdictions with lower levels of income, which must strengthen their efforts to improve their prudential and regulatory arrangements. However, shortcomings in the independence of the regulator, the level and quality of technical supervisory skills, and onsite and offsite inspections are recurrent concerns. In addition, resources of regulators and supervisors are insufficient if compared with the work load required by effective prudential activity and co-operation.

The FSF urges those OFCs who do not meet high supervisory standards to progressively strengthen their regulatory and supervisory arrangements, making good use of the technical assistance that the IMF and others have made available to take concrete steps to implement assessment recommendations. The FSF attaches particular

¹ The present press communiqué has been issued following the FSF's meeting in Rome on 29-30 March 2004.

² With the exception of Bahrain for which a FSAP is planned for 2005, and Nauru and Niue for which assessments will be replaced by a program of technical assistance to be delivered during 2004.

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importance to all OFCs improving cross-border co-operation and information exchange practices. It encourages the IMF to place greater emphasis on international standards in these areas in its future risk-focused evaluations, and welcomes stepped up efforts among the IMF, international standard setters and onshore and offshore authorities to review and strengthen these standards.

In carrying forward its assessment program, the IMF should evaluate both the ability of OFC authorities through their existing procedures to obtain relevant information on financial activities originating in their own jurisdictions, as well as the willingness to share this information with foreign authorities in a co-operative, non-discriminatory, timely and effective manner. As a general indication, assessments of OFCs and international co-operation with them should be aimed at pre-emptively addressing matters of common concern before vulnerabilities and risks materialise.

The FSF reiterates the paramount importance it attaches to OFC jurisdictions' publication of the initial IMF assessment reports and, in due course, IMF follow-up assessments. Publication enables the position of individual OFCs to be evaluated by all concerned parties, is indicative of OFC jurisdictions' commitment to co-operate, and enhances transparency more generally. Follow-up assessments should detail progress made by OFC jurisdictions in the implementation of the initial assessment recommendations.

The FSF strongly encourages all jurisdictions to publish their IMF assessment reports. At the time of writing, of the 39 OFC jurisdictions that have been assessed by the IMF, 22 have published their IMF assessment reports and a further 14 have confirmed their intention to publish the finalised reports.³ Appendix I of the IMF March 2004 report attached to this press communiqué provides the status of individual OFCs in the assessment program and brief descriptions of the published assessments. The FSF urges the Marshall Islands, which has not yet committed to publish its IMF report, to do so.

The FSF will continue to work with the IMF and others, notably IOSCO, to encourage particular OFCs to address prudential shortcomings and to improve cooperation and exchange of information practices, relying on the full range of assessment options. This may include direct engagements with individual OFCs as needed, in order to improve OFCs' compliance with international standards and practices, including in the corporate sector.

Attachment

³ Dublin (Ireland) and Lebanon were assessed under the FSAP pilot program. According to the publication policy applicable to the FSAP pilot program, these two assessments cannot be published.

FOREWORD

1. The attached tables are extracted from the IMF report “Offshore Financial Centers—The Assessment Program—An Update” March 12, 2004 available at <http://www.imf.org/external/np/mfd/2004/eng/031204.htm>.
2. Since the publication of the attached tables, the publication status of the following jurisdictions have changed accordingly:

| Jurisdiction | Publication status |
|----------------------------------|----------------------------------|
| • Antigua and Barbuda | to be published |
| • Bahamas | to be published |
| • Belize | to be published |
| • Bermuda | to be published |
| • British Virgin Islands | published |
| • Cayman Islands | to be published |
| • Malaysia (Labuan) | to be published |
| • Marshall Islands | actively considering publication |
| • Netherlands Antilles | published |
| • St. Kitts and Nevis | to be published |
| • St. Lucia | to be published |
| • St. Vincent and the Grenadines | to be published |
| • Seychelles | to be published |

ASSESSMENT STATUS

Table 2. International and Offshore Financial Centers Contacted—Module 2 Assessments

| Jurisdiction | Year of Assessment ^{1/} | Assessment status ^{2/} | Publication status ^{3/} | Comments ^{4/} |
|----------------------|----------------------------------|---------------------------------|----------------------------------|--|
| Africa | | | | |
| Seychelles | 2002 | completed | declined to publish | Standards assessed: BCP, FATF ^{5/} . |
| Asia and the Pacific | | | | |
| Cook Islands | 2004 | ongoing | to be published | Standards to be assessed: BCP, FATF ^{6/} . |
| Macao SAR | 2001 | completed | published | Standards assessed: BCP, ICP. The results of the assessments indicate that supervision is generally effective and thorough. It meets most of the international standards with respect to banking and insurance. There is some scarcity of resources, resulting in insufficient onsite supervision in the insurance sector. Current anti-money laundering measures as they relate to the BCP, and the ICP Principles need strengthening. |
| Malaysia (Labuan) | 2002 | review | not expected to publish | Standards assessed: BCP, ICP, SCP, FATF ^{6/} . |
| Marshall Islands | 2002 | completed | declined to publish | Standards assessed: BCP, FATF ^{5/} . Follow-up mission undertaken. |
| Nauru | 2004 | scheduled | n.a. | TA in lieu of assessment. |
| Niue | 2004 | scheduled | n.a. | TA in lieu of assessment. |
| Palau | 2002 | completed | to be published | Standards assessed: BCP, FATF ^{5/} . Follow-up mission undertaken. |
| Samoa | 2002 | completed | to be published | Standards assessed: BCP, FATF ^{5/} . |
| Vanuatu | 2002 | completed | published | Standards assessed: BCP, ICP, FATF ^{5/} . The legal and regulatory framework for the offshore sector falls far short of international standards. With respect to the measures to combat money laundering and the financing of terrorism, Vanuatu has made important progress, but still has some way to go in making the system robust. |

Table 2. International and Offshore Financial Centers Contacted—Module 2 Assessments

| Jurisdiction | Year of Assessment ^{1/} | Assessment status ^{2/} | Publication status ^{3/} | Comments ^{4/} |
|-------------------|----------------------------------|---------------------------------|----------------------------------|--|
| Europe Andorra | 2002 | completed | published | Standards assessed: BCP, FATF ^{5/} . The results of the assessment indicate that financial sector supervision is generally sound with respect to material activities of the financial system. This view largely reflects considerations of the supervision of banking activities, which represent in excess of 95 percent of all financial sector activities. There is a generally high compliance with international standards for anti-money laundering. The mission observed that the current framework for funding the supervisory agency is strained, with little capacity for increasing its level of activity, and that there is a cumbersome process to assure its independence. |
| Cyprus | 2001 | completed | published | Standards assessed: BCP. The mission undertook a BCP assessment of the supervision of the offshore banking sector. The results indicated that supervision was generally effective and thorough. There was some scarcity of resources, and this has meant that the amount of onsite supervision has been somewhat less than would be desirable. |
| Gibraltar | 2001 | completed | published | Standards assessed: BCP, ICP, SCP. The results of the assessments indicated that supervision is generally effective and thorough and that Gibraltar ranks as a well-developed supervisor. There is a high level of compliance with the BCP. Insurance is also supervised to a good standard. There is some scarcity of resources, and this has meant that the amount of onsite supervision has been somewhat less than desirable. |

Table 2. International and Offshore Financial Centers Contacted—Module 2 Assessments

| Jurisdiction | Year of Assessment ^{1/} | Assessment status ^{2/} | Publication status ^{3/} | Comments ^{4/} |
|--------------|----------------------------------|---------------------------------|----------------------------------|--|
| Guernsey | 2002 | completed | published | Standards assessed: BCP, ICP, SCP, FATF ^{6/} . The jurisdiction has been assessed to have a high level of compliance with the four standards. The authorities were encouraged to enhance the independence of the regulator, include safety, soundness, and integrity of the financial system as its objectives, address the resource deficit in the Banking Division; enhance certain powers and procedures, and enhance the legal framework on AML/CFT, broaden the coverage of the guidance notes in certain areas, and reinforce the communication of certain AML/CFT policies. |
| Isle of Man | 2002 | completed | published | Standards assessed: BCP, ICP, SCP, FATF ^{6/} . The jurisdiction has been assessed to have a high level of compliance with the four key standards. The authorities were encouraged to adopt legislation to provide for appropriate independence and accountability of the financial regulators; upgrade the onsite supervisory process; amend the legal framework on AML/CFT and broaden the coverage of the guidance notes in certain areas; and enact the Fiduciary Services Bill quickly. |
| Jersey | 2002 | completed | published | Standards assessed: BCP, ICP, SCP, FATF ^{6/} . The financial regulatory and supervisory system complies well with international standards. The authorities were encouraged to enhance the independence of the supervisory commission; increase its resources and improve its processes with respect to onsite banking supervision; issue instructions on onsite examination work in banking on matters related to prudential risks; introduce capital requirements for market risk; increase the staff of the insurance division and institute more frequent onsite inspections; and amend AML/CFT-related laws as recommended. |

Table 2. International and Offshore Financial Centers Contacted—Module 2 Assessments

| Jurisdiction | Year of Assessment ^{1/} | Assessment status ^{2/} | Publication status ^{3/} | Comments ^{4/} |
|--------------------------------|----------------------------------|---------------------------------|----------------------------------|---|
| Liechtenstein | 2002 | completed | published | Standards assessed: BCP, ICP, SCP, FATF ^{6/} . With regard to BCP and SCP, the mission noted a high level of dedication in the supervisory authority and a good foundation of modern laws and regulations, but noted material weaknesses in the staff resources. For the ICP, the issue of resources was less pronounced but remained a concern. The mission observed a high level of compliance with the FATF standard. |
| Monaco | 2002 | completed | published | Standards assessed: BCP (partial), SCP, FATF ^{5/} . The banking sector is subject to French regulations and supervision. However, AML arrangements are a Monegasque responsibility, so the AML-related BCPs were assessed. The assessments found that, while the supervisory structure is relatively complex, current AML/CFT arrangements are sound and generally effective; and securities regulation as currently structured is effective within the Monegasque context of careful government planning of commercial activity. The mission found that the system would be enhanced by additional formal agreements for information exchange and cooperation, additions to the AML/CFT regime, and some fine-tuning of supervisory arrangements. |
| Western Hemisphere Anguilla | 2002 | completed | published | Standards assessed: BCP, FATF ^{6/} . Anguilla is in process of strengthening its legal and supervisory framework, which includes the creation of an operationally independent regulatory body. In the areas of AML/CFT, there has been progress in the legislative and regulatory framework but more intensified efforts are required to implement the legislation. Although Anguilla has recently licensed two offshore banks, it has still to put in place the necessary mechanisms for compliance with many of the BCP. |

Table 2. International and Offshore Financial Centers Contacted—Module 2 Assessments

| Jurisdiction | Year of Assessment ^{1/} | Assessment status ^{2/} | Publication status ^{3/} | Comments ^{4/} |
|------------------------|----------------------------------|---------------------------------|----------------------------------|--|
| Aruba | 2001 | completed | published | Standards assessed: BCP, ICP. The authorities have successfully engaged in a process of rapid development and improvement of the system of rules and regulation, and in increasing its supervisory capacity. The mission recommended that the supervisor focus on more in-depth scrutiny of some of the key risks areas in banks. The law on regulation and supervision of the insurance sector had only been in force since July 1, 2001, and many implementation methods still need to be put in place. |
| Bahamas, The | 2002 | review | unknown | Standards assessed: BCP, SCP, FATF ^{6/} . |
| Belize | 2003 | review | expected | Standards assessed: BCP, ICP, FATF ^{6/} . |
| Bermuda | 2003 | review | unknown | Standards assessed: BCP, ICP, SCP, FATF ^{6/} . |
| British Virgin Islands | 2002 | completed | to be published | Standards assessed: BCP, ICP, FATF ^{6/} . |
| Cayman Islands | 2003 | review | expected | Standards assessed: BCP, ICP, SCP, FATF ^{6/} . |
| Montserrat | 2002 | completed | published | Standards assessed: BCP, FATF ^{6/} . The volcanic eruptions effectively suspended financial sector supervision in the offshore sector between 1996 and 1999. The whole supervisory process resumed almost from scratch after 1999. Montserrat is materially non-compliant or non-compliant with most of the BCPs, particularly those relating to prudential requirements and supervision. However, the legal framework relating to autonomy and supervisory powers was found to be relatively sound particularly with regards to BCPs on licensing and information sharing. Where progress has been achieved in developing a comprehensive AML/CFT legislative and regulatory framework, significant gaps remain in its implementation, particularly in the offshore banking sector. |
| Netherlands Antilles | 2002 | completed | expected | Standards assessed: BCP, ICP, FATF ^{5/} . |

Table 2. International and Offshore Financial Centers Contacted—Module 2 Assessments

| Jurisdiction | Year of Assessment ^{1/} | Assessment status ^{2/} | Publication status ^{3/} | Comments ^{4/} |
|--------------------------|----------------------------------|---------------------------------|----------------------------------|---|
| Panama | 2001 | completed | published | Standard assessed: BCP. Module 2 assessment validates that Panama has achieved substantial progress towards putting in place a supervisory and regulatory framework for the banking system that meets most international standards. While Panama was compliant or largely compliant with 23 of the 25 BCPs, the remaining two, offsite monitoring and investment activities, showed shortcomings in analysis of financial factors. Follow-up assessment planned. |
| Turks and Caicos Islands | 2003 | review | to be published | Standards assessed: BCP, FATF ^{6/} . |

Notes:

^{1/} Refers to calendar year of mission.

^{2/} The categories in the table have the following meanings:

completed = assessment mission and review have been completed;

ongoing = missions are underway, or reports are being prepared for review;

review = assessment undergoing IMF's internal review, receiving comments from authorities, or report being finalized;

scheduled = a date for the assessment has been agreed with the authorities.

^{3/} The categories in the table have the following meanings:

declined to publish = jurisdiction opted not to publish the completed report;

unknown = the jurisdiction's publication intention is not known;

published = the assessment report (s) has been published. See <http://www.imf.org/external/np/ofca/ofca.asp>;

not expected to publish = jurisdiction has indicated that they don't expect to publish when the report is completed;

n.a. = not applicable;

expected = jurisdiction is expected to publish the assessment (staff estimate);

to be published = jurisdiction has indicated its intention to publish.

^{4/} Indicates areas of formal assessment and provides brief summaries of findings for reports that are published. These summaries relate only to the situation encountered at the time of the assessment, and do not reflect any subsequent changes. BCP = Basel Core Principles, ICP = IAIMS Core Principles, SCP = IOSCO Objectives and Principles, FATF = FATF Forty Recommendations against Money

Laundering and Eight Special Recommendations on Terrorist Financing.

^{5/} The AML/CFT standard was assessed using draft versions of the methodology available at the time of the assessment.

^{6/} The AML/CFT standard was assessed relative to the October 2002 methodology endorsed by FATF and the Fund.

| Jurisdiction | Year of Assessment ^{1/} | Assessment status ^{2/} | Publication status ^{3/} | Comments ^{4/} |
|----------------------|----------------------------------|---------------------------------|----------------------------------|---|
| Africa | | | | |
| Mauritius | 2002 | completed | published | Standards assessed: BCP, FATF ^{5/} . The assessment of standards and codes found that the authorities have made substantial progress and are upgrading key financial sector legislation and regulations. The supervisory and regulatory framework would be further strengthened by implementation of recommendations regarding consolidated supervision, monitoring of group exposure, supervisory focus on operational risk, and further strengthening the legal and institutional framework for AML/CFT. |
| Asia and the Pacific | | | | |
| Hong Kong SAR | 2002 | completed | published | Standards assessed: BCP, ICP, SCP, FATF ^{5/} . The financial sector regulatory system is well developed by international standards. In the banking sector the main supervisory challenges relate to enhancing measures for credit risk and risks associated with banks' activities in the insurance and securities' markets. The securities regulatory regime is undergoing modernization and reform. The insurance sector is posing new supervisory challenges with high supervisory reliance on the actuarial system in the absence of proper standards for the approval of an appointed actuary. The regulatory and supervisory framework for AML/CFT is largely in place though the assessment found a weakness in the oversight of remittance agents and money changers. |
| Singapore | 2002 | completed | to be published | Standards assessed: BCP, ICP, SCP, FATF ^{5/} . |
| Middle East | | | | |
| Bahrain | 2004-05 | planned | n.a. | n.a. |

Table 3. International and Offshore Financial Centers Contacted—Assessments under the FSAP

| Jurisdiction | Year of Assessment ^{1/} | Assessment status ^{2/} | Publication status ^{3/} | Comments ^{4/} |
|----------------------|----------------------------------|---------------------------------|----------------------------------|--|
| Europe Luxembourg | 2001 | completed | published | Standards assessed: BCP, ICP, SCP, FATF ^{6/} . The mission found strong conformance with supervisory and regulatory principles with reliance on the work of external auditors in the banking and securities industries. The mission recommended improving the capacity of the insurance supervisor. The authorities have undertaken a comprehensive Action Plan in order to further strengthen and reinforce their AML policies. |
| Malta | 2002 | completed | published | Standards assessed: BCP, ICP, SCP, FATF ^{5/} . The Maltese authorities have a comprehensive legal framework and strongly adhere to most international standards and codes. Nevertheless, the overall supervisory framework could be improved by establishing effective cooperation between the single financial regulator and the central bank, by clearly delineating their respective roles in capital markets supervision, and by improving the supervision of insurance company internal controls and investment policies. The authorities should ensure that the financing of terrorism is fully criminalized, and that the newly introduced elements of the comprehensive methodology should be swiftly implemented. |
| Switzerland | 2001 | completed | published | Standards assessed: BCP, ICP, SCP, FATF ^{6/} . The supervisory system is effective and has been strengthened in recent years in terms of quality and quantity, with a focus on large institutions and a more risk-based approach. External auditors and self-regulatory bodies play a key role in the supervisory process, and staff notes that this approach would benefit from a more formalized quality assurance program for supervising external auditors. Staff favored rapid adoption of the new law on insurance, and notes that the supervisors would benefit from clearer enforcement powers. Staff recommended that all asset managers be brought within the overall prudential regulatory framework. The Swiss AML regime in the financial supervisory area is broadly in line with international best practice. |

Table 3. International and Offshore Financial Centers Contacted—Assessments under the FSAP

| Jurisdiction | Year of Assessment ^{1/} | Assessment status ^{2/} | Publication status ^{3/} | Comments ^{4/} |
|---------------------|----------------------------------|---------------------------------|----------------------------------|--|
| Western Hemisphere | | | | |
| Antigua and Barbuda | 2004 | ongoing | expected | BCP, FATF ^{5/} . |
| Barbados | 2002 | completed | published | Standards assessed: BCP, ICP, SCP, FATF ^{6/} . Compliance with international supervisory standards is high both in the onshore and the offshore banking sectors. There are serious weaknesses in the regulatory and supervisory framework for insurance arising in the organization and resources of the supervisor, implementation of prudential rules, and onsite inspections. There is a low level of capital market activity, nevertheless implementation of the SCP in line with international standards require effective inspections and prudential and regulatory requirements. The authorities have worked hard to develop an effective framework for AML/CFT - the degree of effectiveness is commensurate with the broader supervision in each sector. |
| Costa Rica | 2001 | completed | published | Standards assessed: BCP. As of end-2001, a substantial part of the financial system (particularly offshore banking) was not subject to regulation and supervision. However, since then, in response to concerns raised by the FSAP, important reforms were undertaken. These included efforts to enable consolidated cross-border supervision, a new regulatory framework for financial groups, training in risk management for supervisors, accounting standards, and new know-your-customer guidelines. |

Table 3. International and Offshore Financial Centers Contacted—Assessments under the FSAP

| Jurisdiction | Year of Assessment ^{1/} | Assessment status ^{2/} | Publication status ^{3/} | Comments ^{4/} |
|--------------------------------|----------------------------------|---------------------------------|----------------------------------|---|
| Dominica | 2003 | review | expected | Standards assessed: BCP, FATF ^{5/} . |
| Grenada | 2003 | review | expected | Standards assessed: BCP, FATF ^{5/} . |
| St. Kitts and Nevis | 2003 | review | expected | Standards assessed: BCP, FATF ^{5/} . |
| St. Lucia | 2003 | review | expected | Standards assessed: BCP, FATF ^{5/} . |
| St. Vincent and the Grenadines | 2003 | review | expected | Standards assessed: BCP, FATF ^{5/} . |

Notes:

^{1/} Calendar year of first mission.

^{2/} The categories in the table have the following meanings:

completed = assessment mission and review have been completed;

review = assessment undergoing IMF and/or World Bank internal review, receiving comments from authorities, or report being finalized;

planned = the scheduling of an FSAP is under discussion with the authorities;

ongoing = missions are underway, or reports are being prepared for review.

^{3/} The categories in the table have the following meanings:

published = the Financial System Stability Assessment (FSSA) has been published. See <http://www.imf.org/> at the relevant country pages;

unknown = the jurisdiction's publication intention is not known;

n.a. = not applicable;

expected = jurisdiction is expected to publish the assessment (staff estimate).

^{4/} Indicates areas of formal assessment and provides brief summaries of findings for reports that are published. These summaries relate only to the situation encountered at the time of the assessment, and do not reflect any subsequent changes. BCP = Basel Core Principles, ICP = IAIMS Core Principles, SCP = IOSCO Objectives and Principles, FATF = FATF Forty Recommendations against Money Laundering and Eight Special Recommendations on Terrorist Financing.

^{5/} The AML/CFT standard was assessed relative to the October 2002 methodology endorsed by FATF and the Fund.

^{6/} The AML/CFT standard was assessed using draft versions of the methodology available at the time of the assessment.