Fighting the Abuses of the Global Financial System

Report transmitted by G7 Finance Ministers to the Heads of State and Government

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A. Introduction

1. Last year in Okinawa, G7 Leaders endorsed our report on Actions Against Abuse of the Global Financial System. In particular, our report recommended that Governments intensify their cooperation and strengthen international frameworks to effectively combat money laundering and harmful tax practices, and to improve the observance of international standards and good governance. We asked for better coordination of efforts under way in various international fora and for expeditious follow-up actions and stressed the need for open dialogue and the provision of technical assistance where necessary to help countries meet international standards. We also underlined the need to promote international cooperation between law enforcement and tax and regulatory authorities in the fight against financial crime and abuse.

2. Significant progress has been achieved during the past year, and we recommend the following actions to continue the international fight against financial abuse in the year ahead.

B. Money laundering

3. Last year the Financial Action Task Force (FATF) listed 15 jurisdictions as Non-cooperative countries and territories (NCCTs), and we issued coordinated advisories to encourage our domestic financial institutions to pay special attention to transactions with entities located in NCCTs.

4. We note that the situation has improved markedly. We welcome the progress in enacting legislation and enhancing practices in the Bahamas, the Cayman Islands, Liechtenstein and Panama, while noting the need for continuous attention to several implementation aspects. We note the FATF’s decision to de-list these jurisdictions. We will rescind or revise our advisories. We recommend that the FATF, in connection with the relevant FATF-style regional bodies, continue to monitor these jurisdictions’ implementation.

5. However challenges remain:

- The FATF concluded that Nauru, the Philippines and Russia have failed to make adequate progress. We will implement coordinated countermeasures against these jurisdictions later this fall if they have not enacted significant reforms by then, as recommended by FATF.

- Another eight jurisdictions (Cook Islands, Dominica, Israel, Lebanon, Marshall Islands, Niue, St. Kitts and Nevis and St. Vincent and the Grenadines) have made some progress, though not sufficient to bring their legislation to the required standard or to complete the implementation of legislative reforms. We call on those jurisdictions to take the necessary measures so that they can be de-listed as soon as possible.
Finally, Egypt, Guatemala, Hungary, Indonesia, Myanmar and Nigeria have been added by the FATF to the NCCTs list. We urge these jurisdictions to quickly correct identified deficiencies in their anti-money laundering regimes.

6. We welcome the FATF’s decision to continue to monitor the progress of all jurisdictions on the NCCTs list. We recommend that, should those jurisdictions fail to sustain their efforts, the FATF should consider additional actions. We will maintain ongoing dialogue with, and provide technical assistance, as appropriate, to, jurisdictions willing and committed to strengthening their anti-money laundering efforts.

7. Evolving money laundering trends and experience over recent years indicate the need to strengthen anti-money laundering standards. We welcome the process of revising the FATF 40 Recommendations (FATF 40), which should lead to an updated set of standards. We call on the FATF, as an international standard-setting organization, to ensure that the revision process is open, transparent and consultative. In particular this should include dialogue with FATF style bodies, IFIs and other relevant international organisations, non-FATF members and private sector experts.

8. We note that important progress has been made on four issues identified in our Fukuoka report as vital to combat money laundering:

- **Gatekeepers**: the 1999 G8 Moscow Ministerial Conference on Combating Transnational Organized Crime recognized the need to involve professionals such as lawyers and accountants in the fight against money laundering; since then this issue has been discussed extensively, taking into account differences in national legal systems. We will continue to consider appropriate solutions. In this respect, we note the recent Canadian legislation and the proposed EU directive. We will also continue our efforts to define appropriate solutions and urge the FATF to consider such issues in the context of reviewing the FATF 40.

- **International Payments System**: we welcome the clarification by the Committee on Payment and Settlement Systems of the G10 central banks that technical issues are not an obstacle to including originator identification in international wire transfers. We commit to including this information in our systems and urge the FATF to seek a similar result during its revisions of the FATF 40.

- **Corporate vehicles**: we underscore our continued concern that corporate vehicles, under certain conditions, can be misused for money laundering and other illegal purposes. We welcome the OECD’s report on corporate vehicles, which suggests a menu of possible options to address this matter. National authorities should be able to obtain and share information on the beneficial ownership and control of corporate vehicles established in their own jurisdictions for the purpose of investigating illicit activities and fulfilling their regulatory/supervisory functions, in accordance with legal frameworks. We welcome the FATF intention to set appropriate standards to combat the misuse of corporate vehicles.

- **Stolen assets**: We express our concern about money laundering of illegal proceeds derived from theft and diversion of public assets and corruption by government officials. Our experts have begun to review and discuss best practices with regard to identification, tracing and restoration to the rightful owner of foreign stolen assets. We urge broader and enhanced international cooperation on this matter.
C. Offshore Financial Centres

9. Last year the Financial Stability Forum (FSF) published a report with recommendations for improving supervisory and regulatory systems and co-operation practices in all OFCs. This report was followed by an assessment of OFCs’ adherence to relevant international standards and then grouped these OFCs by the perceived quality of their supervision, regulation and co-operation. In some OFCs, financial regulation and supervision were considered to be weak, potentially increasing the vulnerability of the global financial system. In some cases weaknesses extended to corporate vehicles.

10. We note that the FSF’s publication of the OFC Report and grouping has successfully induced many OFCs to initiate positive action. We welcome the legislative steps initiated by some OFCs as well as their efforts to build up supervisory resources and enhance the reporting of financial data and we encourage them to adhere to relevant international standards, in particular to those relating to (i) cross-border co-operation and information sharing, (ii) essential supervisory powers and practices, and (iii) customer identification and record keeping.

11. In its report, the FSF recommended that the IMF put in place a process for assessing adherence to standards in OFCs. We welcome the IMF’s decision to implement these recommendations and note that its initiative, covering both financial sector supervision and statistics, is under way. We welcome the decision by several OFCs to work closely with the Fund and observe that the initiative has already led them to review their practices.

12. National authorities, standard-setting bodies and other international financial institutions are supporting the IMF’s assessment program, making available resources to assist OFCs in implementation, and providing training opportunities. We note however that many OFCs, while committed to concrete action, do not possess sufficient resources to carry out the needed improvements. We will continue our efforts to supply technical expertise, both bilaterally and through multilateral channels.

13. Last year in Fukuoka we welcomed the identification by the FSF of priority jurisdictions that were perceived not to meet international standards for financial supervision and regulation adequately. We urged the IMF to conduct quickly a specific assessment of these offshore financial centers. We expect the IMF to provide an extensive report to the September meeting of the FSF, spelling out the number of jurisdictions assessed to date and summarizing the results of those assessments. We welcome the Forum’s decision to take stock of the IMF’s assessment exercise and request the Forum to prepare for our September 2001 meeting a report on progress in implementing its recommendations and options for any future action.

D. Tax

Harmful tax practices

14. We welcome the report of the Committee on Fiscal Affairs of the OECD on the harmful tax practices project and affirm our support for the work, with its recent developments, aimed at addressing such practices in OECD Member countries, non-OECD economies and tax haven jurisdictions. We look forward to the publication of the OECD 2001 progress report.

15. We note that the project does not seek to dictate to any country what its tax rates should be, or how its tax system should be structured. By providing a co-operative framework within which countries can work together to eliminate harmful tax practices, the work seeks to preserve the
effective fiscal sovereignty of all States and to encourage an environment in which fair tax competition can take place. It will also contribute to reduce the scope of financial crime.

16. We note that the ongoing work by the OECD has led thus far to commitments by 10 tax haven jurisdictions to eliminate their harmful tax practices by the end of 2005, and that other jurisdictions listed as tax havens in the June 2000 OECD Report are engaged in a continuing dialogue with the OECD. We also note that the OECD envisages to extend to 30th November 2001 the time for making commitments. We encourage remaining jurisdictions to commit by that date to transparency and effective information exchange, and to work in a co-operative dialogue with the OECD. We would also welcome the removal by tax havens of other practices to the extent that they inhibit fair tax competition.

17. We also note the developments with respect to the timing of a potential framework of co-ordinated defensive measures, which would apply to jurisdictions outside the OECD no earlier than it would apply to OECD Member countries. However we acknowledge that the adoption of defensive measures is at the discretion of individual countries.

18. We note the continuing commitment by the OECD Members to eliminate their harmful tax practices by April 2003 and we urge the OECD to develop the guidance needed to assist OECD Member countries in determining whether preferential regimes are harmful.

19. We ask the OECD to continue to monitor the effective implementation of commitments.

20. We note the fruitful dialogue that has started with non-OECD economies on their experiences with harmful tax practices and look forward to its continuation. The project would be enhanced as countries outside the OECD associate themselves with the work and we urge them to do so.

21. We recognize that jurisdictions may require technical assistance in implementing the commitments undertaken, notably in the field of exchange of information, and we therefore ask OECD Member countries, IFIs and others to consider providing such assistance as appropriate in developing their programs.

**Electronic Commerce**

22. We welcome the progress made by the OECD on addressing electronic commerce taxation issues and we note in particular the considerable progress that has been achieved since our Fukuoka Report of last year on specific issues relating to direct and indirect taxation, as well as on the tax administration challenges and opportunities.

23. We also note that Tax Administrations of OECD and non OECD countries gathered recently in Montreal, and that the validity of the Taxation Framework Conditions, that were agreed in Ottawa in 1998 by OECD countries, has gained considerable endorsement.

24. We encourage a continued fruitful dialogue between OECD and non OECD governments and business.

25. We urge the OECD to continue working towards implementation of the Ottawa Taxation Framework Conditions in particular with respect to consumption tax aspects.
E. Role of the International Financial Institutions

26. The IFIs have an important role to play in the protection of the integrity of the international financial system against abuse. Strengthening a country's capacity to combat money laundering is an integral part of that agenda.

27. We welcome the IMF and World Bank Boards’ recent decisions to recognize the FATF 40 Recommendations as the appropriate international standard for combating money laundering. We underscore our call on the IFIs, working in collaboration with FATF, to incorporate the relevant FATF 40 Recommendations into a Report on Observance of Standards and Codes module on money laundering as soon as possible.

28. We welcome the decision by the Fund and the Bank to include evaluation of anti-money laundering measures in their assessment and surveillance of financial sectors, including in Financial Sector Assessment Programs.

29. As part of the enhanced focus on anti-money laundering, we welcome the MDBs increased due diligence relating to transactions and dealings with entities located in NCCTs.

30. We urge the IFIs to support with technical assistance jurisdictions committed to strengthening their institutional capacity and to correcting deficiencies in their anti-money laundering regimes. We encourage the Regional and Sub Regional Multilateral Development Banks to continue incorporating anti-money laundering efforts into their dialogue and programs with their members. The results should be incorporated in the Joint Report on the Implementation of Codes and Standards we have asked the MDBs to prepare by the end of the year.