

INTERNATIONAL MONETARY FUND

Offshore Financial Centers
A Report on the Assessment Program and Proposal for Integration with the Financial Sector Assessment Program

Prepared by the Monetary and Capital Markets Department and the Legal Department

In consultation with the Policy Development Review and Statistics Departments

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GLOSSARY

AFSSRs	Assessment of Financial Sector Supervision and Regulation
AML/CFT	anti-money laundering/combating the financing of terrorism
BCP	Basel Core Principles for Effective Banking Supervision
BIS	Bank for International Settlements
CPIS	Coordinated Portfolio Investment Survey
FATF	Financial Action Task Force
FSAP	Financial Sector Assessment Program
FSF	Financial Stability Forum
FSRB	FATF-Style Regional Body
FSSA	Financial System Stability Assessment
FT	financing of terrorism
IAIS	International Association of Insurance Supervisors
IOSCO	International Organization of Securities Commissions
ML	money laundering
OFC	offshore financial center
ROSC	Report on the Observance of Standards and Codes
TA	technical assistance

I. INTRODUCTION

1. **This paper provides an update and overview of the Offshore Financial Center (OFC) program.** At the time of the November 2003 review of the OFC program, Directors indicated that the Board should conduct the next review of the program in 2–3 years and be updated periodically on the progress in implementing the OFC program. Progress reports have been issued to the Board annually, the most recent in February 2006.¹

2. **The paper also proposes the integration of the Offshore Financial Center program with the Financial Sector Assessment Program (FSAP).** This possibility was discussed during the last review of the OFC program in November 2003, and the Board asked then that the next review consider the need for a separate OFC program.² The arguments for pursuing integration now are threefold: (i) it would facilitate a more uniform and risk-based approach to financial sector surveillance and improve coordination of Fund analysis across jurisdictions;³ (ii) it would allow for a better allocation of Fund resources, focusing on the small number of OFCs that account for the overwhelming volume of offshore activity and could be expected to pose any major financial system risks; and (iii) it would eliminate the need to maintain a potentially discriminatory OFC list. Care would still be needed, however, to give anti-money laundering/combating the financing of terrorism (AML/CFT) vulnerabilities adequate attention.

II. BACKGROUND

3. **The OFC program began in 2000 in response to concern (including by the FSF) regarding weaknesses in OFC financial supervision and a dearth of information about OFC business.**⁴ The program involved either: (i) self-assessments, assisted by outside

¹ See *Offshore Financial Centers—The Assessment Program—A Progress Report*, <http://www.imf.org/external/np/pp/eng/2006/020806.pdf>

² See *IMF Executive Board Reviews the Assessment Program on Offshore Financial Centers*, (<http://www.imf.org/external/np/sec/pn/2003/pn03138.htm>). Specifically, the Executive Board noted that, “Directors agreed that it would be appropriate to continue periodic monitoring of OFCs’ compliance with relevant international regulatory standards...[and that] focusing mainly on those jurisdictions that are not covered by FSAPs, would generally be appropriate... Some Directors felt that the scope of OFC assessments should be consistent with that of the Reports on the Observance of Standards and Codes (ROSCs) and FSAPs. Directors noted that for the time being, the OFC program should remain separate from the FSAP, and that the next review of the OFC program should reevaluate the need for a separate program.” See also *Offshore Financial Centers—The Assessment Program: A Progress Report and the Future of the Program*, (<http://www.imf.org/external/np/mae/oshore/2003/eng/073103.htm>).

³ While FSAP and OFC assessments legally constitute technical assistance, and not Fund Surveillance, their key findings may be used to inform surveillance.

⁴ The July 2000 Board decision can be found in <http://www.imf.org/external/np/sec/nb/2000/nb0062.htm>. See also *Offshore Financial Centers—The Role of the IMF* <http://www.imf.org/external/np/mae/oshore/2000/eng/role.htm>.

experts (Module 1); (ii) stand-alone assessments by the Fund of relevant standards: Basel Core Principles for Effective Banking Supervision (BCP), International Association of Insurance Supervisors (IAIS) Insurance Core Principles (ICP), International Organization of Securities Commissions (IOSCO) Objectives and Principles of Securities Regulation, and the Financial Action Task Force (FATF) 40 Recommendations for Anti-Money Laundering and 9 Special Recommendations on Combating the Financing of Terrorism⁵ (Module 2); and (iii) comprehensive assessments of risks and vulnerabilities akin to the FSAP (Module 3).

4. **The initial assessments suggested that compliance levels for OFCs were comparable with those of other jurisdictions.** This first phase of the program was completed in 2005. It focused on the 44 jurisdictions that were initially contacted (42 of which were assessed). All but one OFC agreed to have their assessments published. Adherence to all four international standards among OFCs was broadly comparable or better, on average, than other countries assessed in the FSAP reflecting the higher average incomes of OFC jurisdictions (see Tables in Appendix I and earlier progress reports at <http://www.imf.org/external/np/ofca/ofca.asp>). Compliance was weaker in the securities and insurance sectors than in the banking sector, and deficiencies were often related to inadequate resources or skills (Figure 1).

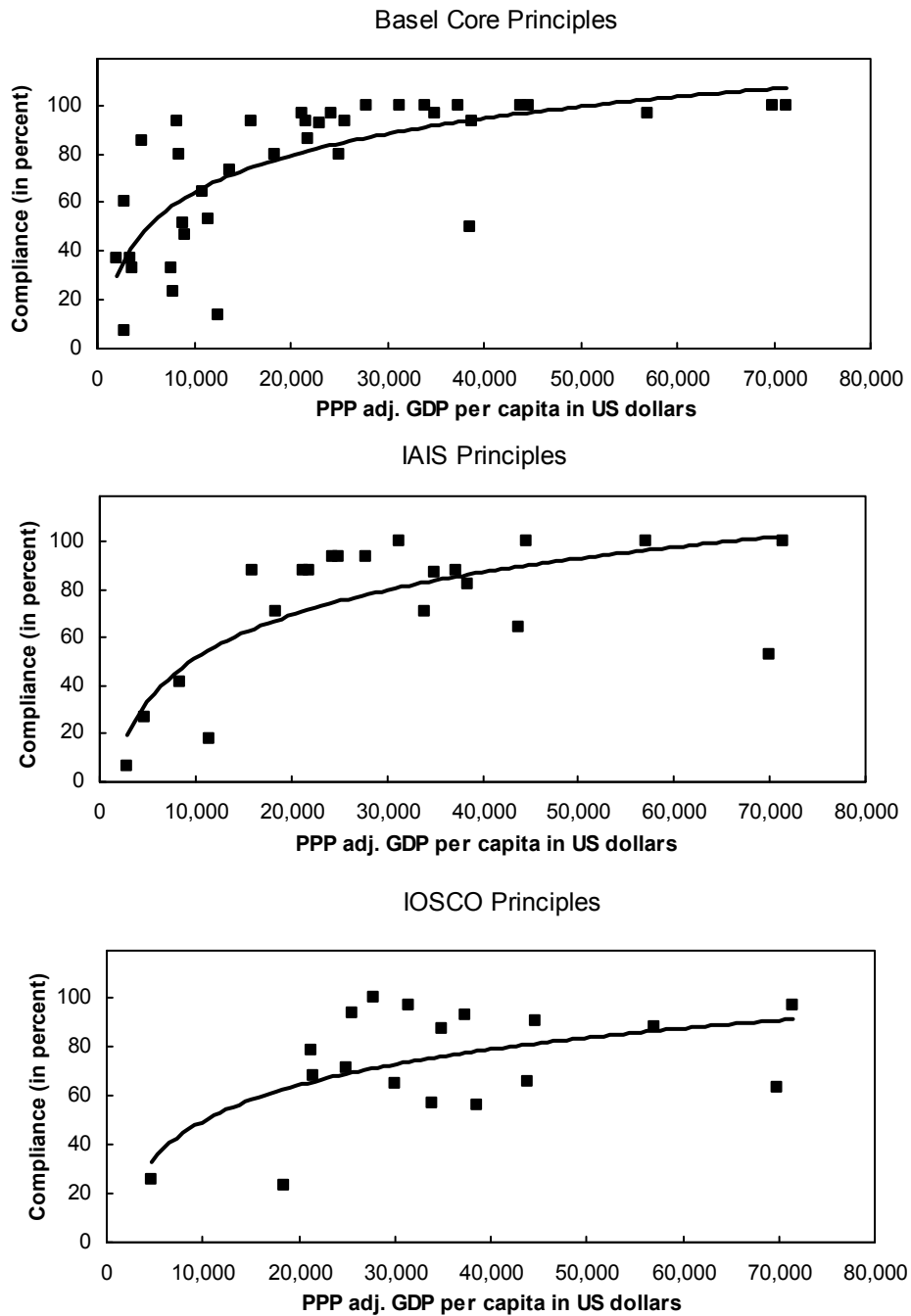
5. **In 2003, the Executive Board decided that monitoring of OFC activities and their compliance with supervisory standards should be a standard component of the financial sector work of the Fund.**⁶ Directors agreed that the second phase of the OFC program would incorporate four broad elements: (i) regular monitoring of OFCs' activities and compliance with supervisory standards; (ii) improved transparency of OFC supervisory systems and activities; (iii) technical assistance (TA) in collaboration with bilateral and multilateral donors; and (iv) collaboration with standard-setters and onshore and offshore supervisors to strengthen standards and the exchange of information.

6. **The Executive Board agreed that, for the time being, the OFC program would remain separate from the FSAP.** A distinct OFC program was viewed as preferable since it would allow for more frequent monitoring than the 5–10 year cycle then foreseen under the FSAP program; under the OFC program, assessments are to be conducted every four to five years. Nonetheless, some Directors suggested that the objective should be to integrate the program with the FSAP and the Executive Board asked for this possibility to be considered at the time of the next review.

⁵ In 2000, the Fund began exploring how it could incorporate AML work into its activities and adopted the FATF Recommendations as a standard in 2002.

⁶ See summary of Board discussion at (<http://www.imf.org/external/np/sec/pn/2003/pn03138.htm>).

Figure 1. Offshore Financial Centers: Level of Compliance with Three Prudential Standards and Codes in First Phase Assessments ^{1/}, (2000-2005)



Sources: Financial Sector Assessment Program and Module 2 detailed assessment reports.

1/ In percentage of the number of BCP/IAIS/IOSCO principles found to be applicable and assessed as compliant or largely compliant. Most AML/CFT assessments in the first phase were conducted using the 2002 FATF methodology. This was replaced in 2004. Results based on the earlier methodology are not representative of requirements under the new standard, and are therefore not included here.

III. THE OFC PROGRAM—AN UPDATE

7. **Progress has been made in each of the four elements of the OFC program:** (A) monitoring of activities and compliance with international standards; (B) enhancing transparency; (C) technical assistance; and (D) cooperation with other agencies. These areas are reviewed below.

A. Monitoring of activities and compliance with international standards

8. **The second phase of OFC assessments began in 2005, but the pace has been affected by the bunching of first-phase assessments in 2002.** A total of 13 second-phase assessments have been completed (Table 1), and a further three are underway, but the large number of assessments that took place in 2002 during the first phase (22)⁷ and the agreed four–five year cycle for assessments diminished the number during 2005–07. This means that a large number of assessments are due in 2008–09. These could prove difficult to complete given resource constraints.

9. **Second-phase assessments have been more focused and targeted.** The focus is on: (i) progress in addressing weaknesses identified in previous assessments; (ii) issues of cross-border cooperation; and (iii) relevant areas not covered in previous assessments. Assessments typically include an evaluation of banking supervision either through a full reassessment vis-à-vis the BCP or through a factual update, as well as similar assessments of insurance supervision and securities regulation when these sectors are significant.⁸ In addition, a full assessment against the FATF 40+9 Recommendations is, under Fund AML/CFT policies, always undertaken by the Fund, the Bank, the FATF, or FATF Style Regional Bodies (FSRBs).⁹

⁷ See summary of Board discussion at <http://www.imf.org/external/np/sec/pn/2001/pn01120.htm>.

⁸ Factual updates describe developments relevant for compliance with the standard, but do not contain a reassessment of the underlying ratings from the initial assessment (see <http://www.imf.org/external/np/fsap/faq/index.htm>).

⁹ See summary of Board discussion at <http://www.imf.org/external/np/sec/pn/2006/pn0672.htm>.

Table 1. Status of IMF Second-Phase Offshore Financial Center Assessments

	Total	FSAP	Module 2
Completed reports	13	1 Uruguay 2 Ireland 3 Switzerland 4 UAE (Dubai) 5 Mauritius 6 Botswana	1 Cyprus 2 Panama 3 Vanuatu 4 Samoa 5 Gibraltar 6 Andorra 7 Liechtenstein
Reports in progress	3	1 Barbados	1 Bermuda 2 Monaco
Total jurisdictions assessed 1/	16	7	9
Published reports 2/	9	1 Uruguay 2 Ireland 3 Switzerland 4 UAE (Dubai)	1 Cyprus 2 Panama 3 Samoa 4 Gibraltar 5 Andorra

1/ The jurisdictions taken into account here include both the 46 jurisdictions considered in the first phase of the program, and additional jurisdictions where staff is aware that there is significant international and offshore financial activity. Only 13 of the 16 assessed were included in the first phase of the OFC program.

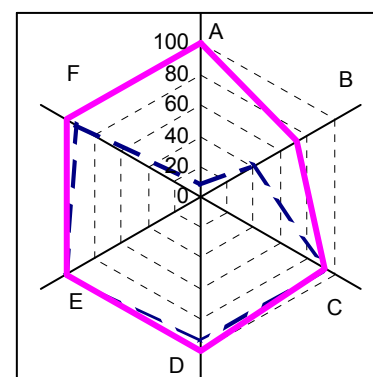
2/ Publication of Financial System Stability Assessments (FSSAs) and Assessments of Financial Sector Supervision and Regulation (AFSSRs) is voluntary. Publication of other FSAP and Module 2 documents (including detailed assessments) is also voluntary, but IMF management consent must first be obtained.

Findings

10. **Although the sample is relatively small, the results of the second phase suggest improvement in compliance with the three prudential standards:**¹⁰

- **Banking standards:** Compliance improved in the six jurisdictions that had detailed reassessments against the 1997 BCP.¹¹ There was 100 percent (full or large) compliance among high-income jurisdictions except in BCP 25, where one jurisdiction needed to reach formal agreements with home supervisors. Lower income jurisdictions

Offshore Financial Centers: Level of Compliance with Basel Principles^{1/} (First vs. Second Phase Assessments)



— First Phase — Second Phase

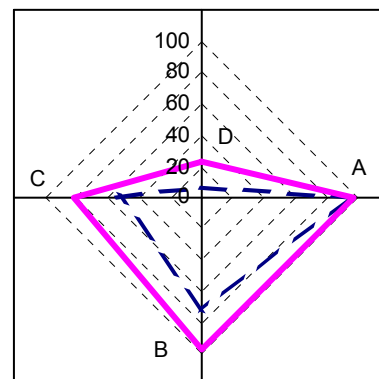
1/ The percentage of the number of principles found to be applicable and assessed as compliant or largely compliant is measured along axes. The farther from the origin (0.0), the higher the level of compliance. Each axis represents a country (A-F).

¹⁰ A discussion of progress in OFC compliance between phase I and phase II of the OFC program cannot include the FATF standard because the current FATF Recommendations and Methodology are substantially different than the version that was used for assessments in phase I.

¹¹ A seventh jurisdiction was assessed under the revised BCP of 2006.

were regarded as still needing improvement in their oversight of risk management. In the larger sample of 11 jurisdictions, which includes both reassessments and updates, remedial powers, and risk monitoring were the areas still requiring work (see Appendix II).¹²

Offshore Financial Centers: Level of Compliance with IAIS Principles^{1/} (First vs. Second Phase Assessments)



— First Phase — Second Phase

1/ The percentage of the number of principles found to be applicable and assessed as compliant or largely compliant is measured along axes. The farther from the origin (0.0), the higher the level of compliance. Each axis represents a country (A-D).

- Insurance standards:** Only six jurisdictions had an IAIS assessment or partial assessment, but compared with the earlier phase, there were substantial improvements in observance.¹³ The four high-income jurisdictions had higher observance than the 11 non-OFC jurisdictions in 19 of the 28 IAIS principles. Appendix II also shows a high degree of implementation of earlier recommendations, with significant improvements observed in the organization of the supervisor, prudential rules and inspection.
- Securities standards:** Three OFCs had IOSCO assessments for the first time, and one had a partial reassessment. This sample is too small to allow for meaningful comparison across jurisdictions. In jurisdictions where earlier IOSCO assessments were updated, implementation of recommendations produced improvements in the regulators' mandate, better staffing and inspection, and improved cooperation (see Appendix II).

11. **Offshore jurisdictions have made progress on prudential cross-border cooperation and information exchange issues.** Table 2 reviews the experience in the second phase in addressing shortcomings in prudential standards identified in the first phase, by bringing together assessment results from, or the principles related to, cooperation and information exchange in the three (prudential) standards assessed in OFCs. The table presents the findings of the second phase of assessments of OFCs, broken down between high-income and upper and lower middle-income jurisdictions.¹⁴ The results suggest success

¹² Progress is measured by the extent to which recommendations have been implemented (see Appendix II) and by inspection of the detailed results. Given the small sample, principle-by-principle tables are not provided.

¹³ However, only four of these were reassessments. Cyprus and Panama had insurance assessments for the first time in the second phase.

¹⁴ See footnote to Table 5 in Appendix I.

in improving cooperation in prudential areas, though for upper and lower middle-income OFCs more progress is necessary.

12. **Cooperation was also evident from staff contacts with other supervisors and standard setters.** Assessments in the second phase of the program typically also involved consultations with supervisors in home jurisdictions of the assessed center and with the main standard-setters. These consultations facilitated staff’s ability to gain a “third-party” view of the OFCs’ information exchange, but have not uncovered significant issues or concerns.

Table 2. IMF Offshore Financial Centers Program Second Phase: Profiles of Improvement in Compliance with Principles Related to Cooperation and Information Exchange

	Proportion of Jurisdictions in Which Progress Made 1/		Number of Jurisdictions in Which Standard Assessed		Number of Jurisdictions in Which Update for Sector	
	Upper and Lower		Upper and Lower		Upper and Lower	
	High-Income OFCs 2/	Middle Income OFCs 3/	High-Income OFCs	Middle Income OFCs	High-Income OFCs	Upper and Lower Middle Income OFCs
Basel Core Principles (1997, 2006) 4/	7/7	3/4	4	4	3	0
IAIS Core Principles (2003) 5/	7/8	1/2	4	2	4	0
IOSCO Objectives and Principles	3/4	0/1	1	1	3	0

Sources: Module 2 documents; and Financial Sector Assessment Program documents. The data are preliminary since some of the documents used were in draft.

1/ Limited numbers of jurisdictions have had detailed assessments. The proportions indicate the number of jurisdictions where progress was made in satisfying the standards and recommendations were addressed, even though compliance may not have been fully achieved; or there has been no change in compliance but there was high compliance found in the initial assessment; or, if first time assessed, there was compliance or broad compliance. Second assessments are counted in second phase for non-OFCs.

2/ Jurisdictions included are Andorra, Bermuda, Cyprus, Gibraltar, Ireland, Liechtenstein, and Switzerland.

3/ Jurisdictions included are Mauritius, Panama, Samoa, and Vanuatu. Very few upper and lower middle-income jurisdictions are assessed under the IOSCO standard.

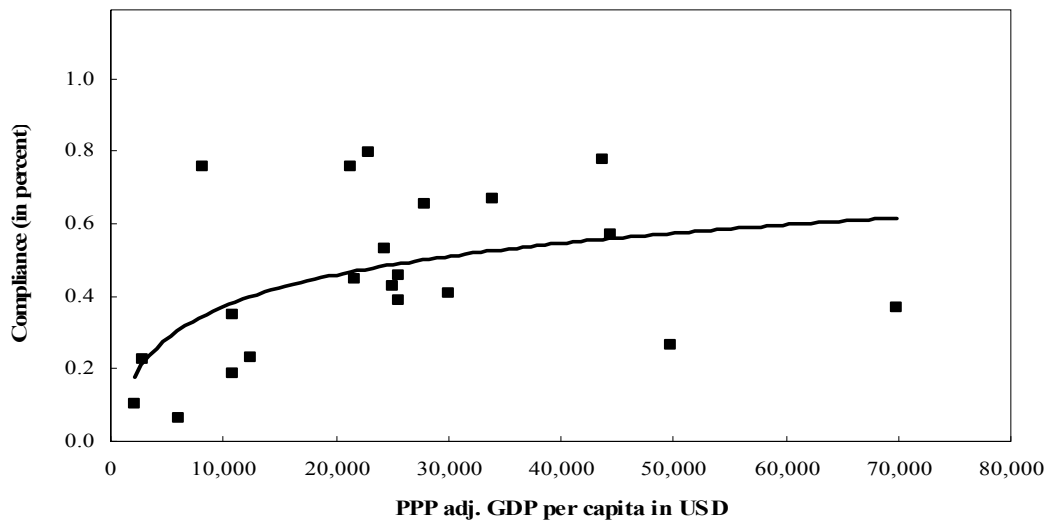
4/ One jurisdiction was assessed under the revised BCP.

5/ Jurisdictions had both updates and detailed assessments covering different segments of the industry.

13. **Anti-money laundering and counter terrorism regimes:** One area where concerns remain is AML/CFT, where OFC compliance with the 2003 FATF 40+9 Recommendations points to a number of vulnerabilities (see Figure 2 and Appendix I, Table 8). Twenty one OFCs have been assessed for AML/CFT under the current FATF methodology; eight of these

assessments have been conducted by the Fund.¹⁵ While the assessments demonstrate compliance that is generally comparable to that of non-OFC jurisdictions, OFCs show relatively low compliance levels in areas that are of key concern under the FATF 40+9 Recommendations, including customer identification, the monitoring of transactions, and international cooperation.¹⁶ Problems in these areas create particular ML/FT vulnerabilities not only for the OFCs in question but for other jurisdictions with which they interact.

Figure 2. Offshore Financial Centers: Level of Compliance with 2003 Financial Action Task Force 40+9 Recommendations



Note: Jurisdictions are listed in the footnotes to Table 8, Appendix I.

B. Enhancing Transparency

14. **Most jurisdictions have published their assessment reports.** Of the 13 jurisdictions that have completed second phase OFC reports, nine have published their main report (four FSSAs and five AFSSRs)¹⁷ and of the five jurisdictions that published their AFSSR, four also chose to publish their detailed assessment reports. Publication policy is similar to that of the FSAP: publication is voluntary for the main reports and jurisdictions can publish their detailed assessments with management's consent. All but one of the OFCs assessed under the current FATF methodology have published or indicated agreement to publish their detailed AML/CFT assessments.

¹⁵ To end 2007. Other assessor bodies have conducted the remaining thirteen as part of the FATF/FSRB AML/CFT assessment cycle.

¹⁶ International cooperation is measured by FATF Recommendations 35-40. The proportion of assessed OFCs found compliant or largely compliant with these Recommendations is 68 and 48 percent for high income and middle income jurisdictions, respectively, this compares to 86 and 65 percent for non-OFCs.

¹⁷ The main report of the OFC program is the Assessment of Financial Sector Supervision and Regulation (AFSSR).

15. **A data collection exercise, the Information Framework, was initiated for OFCs in 2004.** The goal of this initiative was to provide a common statistical template that would (i) help jurisdictions in their dissemination efforts, and (ii) provide the Fund with information for its ongoing monitoring of financial developments in these centers. Of the 46 jurisdictions invited to participate, 28 jurisdictions have submitted some data thus far, up from the 16 reported in the February 2006 Board paper (Table 3). Another seven have committed or indicated their intent to participate but have yet to submit any data. Three have yet to confirm participation. Staff plans to follow-up with these 10 jurisdictions regarding their participation. Eight jurisdictions refused participation because they did not want to be associated with the term “offshore,” they already publish such data, were already participating in other Fund initiatives, or no longer have OFC activity.

16. **The data collected are proving useful.** The information collected complements the data collected by the Coordinated Portfolio Investment Survey (CPIS), and includes aggregate data on structural and activity indicators of the banking, insurance, and securities sectors, which has allowed for cross-country comparisons and helped staff to prioritize second phase assessments and monitor developments.¹⁸ To avoid duplication, jurisdictions that provide data to the BIS authorize the BIS to transmit relevant locational banking statistics to the Fund. The supplement provides further discussion.

C. Technical Assistance

17. **Technical assistance (TA) has been provided to 37, mainly middle-income, jurisdictions (Figure 3).**¹⁹ Asian-Pacific region and Caribbean countries have received the bulk of the TA, with the focus largely on the areas of bank supervision and AML/CFT²⁰, but also covering the governance of supervisory bodies and insurance supervision. Much of the TA has been delivered through the regional centers (Pacific Financial Technical Assistance Centre and Caribbean Regional Technical Assistance Centre). TA has also been coordinated with and supported by donor governments and agencies, such as the JSA.

18. **TA has also been provided to improve statistics in the areas of monetary and financial statistics and balance of payment data.** In addition, the Fund has worked with OFCs to share information and experiences in the context of seminars related to the Coordinated Portfolio Investment Survey (CPIS) exercise. Participation of OFCs in the CPIS exercise has risen to 25 jurisdictions compared with 22 in 2001.

¹⁸ This is particularly important for members’ territories and dependencies that are not included in Article IV consultations, and for OFCs that are not members of the Fund.

¹⁹ Data on TA has been limited to the TA that is related to enhancing financial sector supervision, in line with the objective of the offshore financial center program, and to AML/CFT.

²⁰ AML/CFT TA has generally been provided through regional workshops and training seminars.

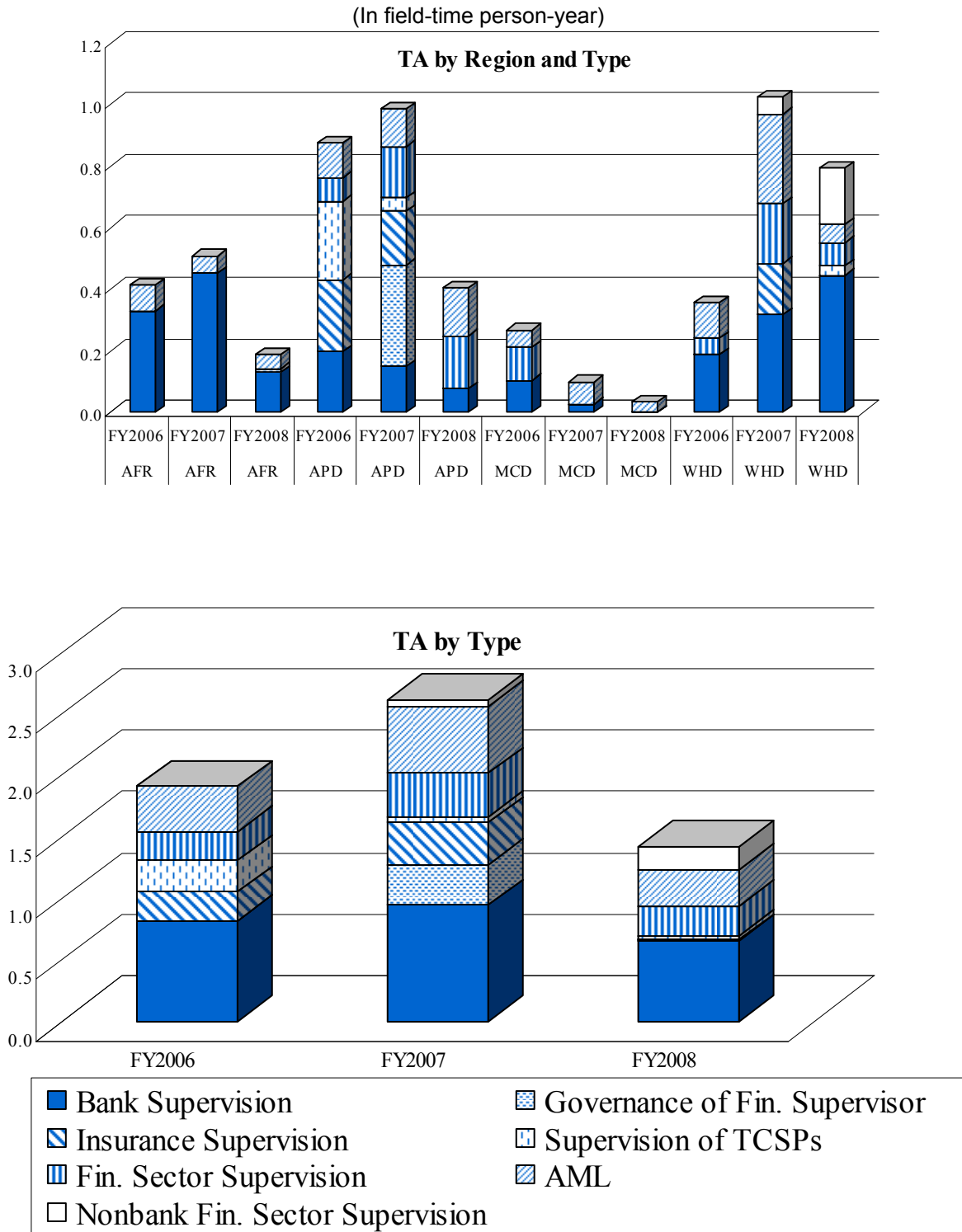
Table 3. Status of Participation in the Information Framework Initiative

Jurisdictions that have submitted data	Jurisdictions that have committed or indicated intent to participate but not yet submitted data	Jurisdictions that have yet to confirm participation	Jurisdictions that have declined to participate
Article IV			
Antigua & Barbuda	Barbados	Grenada	Costa Rica
Aruba	Marshall Islands		Hong Kong SAR 1/
Bahamas, The	Palau		Ireland 1/
Bahrain	St. Kitts & Nevis		Lebanon
Belize	St. Vincent and the Grenadines		Luxembourg
Cyprus	Malaysia (Labuan)		Malta
Dominica			Switzerland 1/
Mauritius			
Netherlands Antilles			
Panama			
Samoa			
Seychelles			
Singapore			
St. Lucia			
Vanuatu			
Non-Article IV 2/			
Andorra	Liechtenstein	Nauru	Niue
Anguilla		Turks and Caicos Islands	
Bermuda			
British Virgin Islands			
Cayman Islands			
Cook Islands			
Gibraltar			
Guernsey			
Isle of Man			
Jersey			
Macao SAR			
Monaco			
Montserrat			
Total			
28	7	3	8

1/ These jurisdictions, while declining to participate in the initiative, have authorized the Bank for International Settlements (BIS) to forward data on banks' external assets/liabilities to the Fund.

2/ Excepting Andorra, Monaco, Nauru, and Liechtenstein, these jurisdictions are Fund members, and member territories or dependencies but do not currently receive Article IV consultations.

Figure 3. Technical Assistance to Offshore Financial Centers, FY 2006–08



Source: IMF Travel Information Management System.

Note: Data to 31 October 2007. Categories used are not mutually exclusive (e.g., supervision of trust and company service providers (TCSPs) includes AML work) and only a proportion of regional workshop field-time has been used to reflect that some workshops comprise a mix of OFC and non-OFC jurisdictions.

D. Cooperation

19. **The Fund organizes an annual Roundtable as a vehicle for fostering closer collaboration among OFCs, home supervisors, and standard-setters.** The 2006 Roundtable, hosted by the Cayman Islands Monetary Authority, took as its theme risks in global financial markets and OFCs, discussing those stemming from the misuse of corporate vehicles, the lack of transparency in risk transfer, and institution failure. In early 2008, the BIS hosted the Fifth Annual Roundtable, which focused on issues related to transparency.

20. **Staff has participated in the FSF's Offshore Review Group that was formed in 2005 and has convened regularly to review OFCs' progress in improving regulation and supervision.** The Group's September 2007 report to the FSF acknowledged the progress that had been made in strengthening compliance with international standards and codes but also noted that a few concerns remained. The FSF subsequently agreed that it was not necessary for the Review Group to meet prior to each FSF meeting, but that the Group and the FSF stood ready to address any material concerns or problems identified by members.²¹

21. **Staff is following the IOSCO initiative to remove legislative and practical obstacles to cooperation and information exchange.** The process, which is confidential, engages jurisdictions (both OFCs and others) in a dialogue intended to assess the jurisdiction's ability to sign IOSCO's multilateral memorandum of understanding and has made substantial progress in improving cooperation with targeted jurisdictions.

22. **Staff has also worked closely with the FATF and FSRBs to coordinate AML/CFT assessment programs.** Staff has also provided TA to strengthen the assessment capacity of FSRBs.

IV. THE CASE FOR INTEGRATION OF THE OFC PROGRAM WITH THE FINANCIAL SECTOR ASSESSMENT PROGRAM

23. **As noted above, there has been a long-standing discussion on the need for a separate OFC program.** During its last review of the program in November 2003, the Fund's Executive Board discussed the possibility of integrating the OFC program with the FSAP and asked that the next review of the OFC program reevaluate the need for a separate program. More recently, participants in the December 2006 Fourth Annual IMF Roundtable for Offshore and Onshore Supervisors and Standard Setters suggested that consideration be given to an integrated program. The FSF's Offshore Review Group also considered the issue in its July 2007 meetings. In its report to the FSF, the Review Group

²¹ See http://www.fsforum.org/press/press_releases_109.html.

acknowledged the potential merit of integration, while urging the Fund to ensure its monitoring of OFCs remained commensurate with the systemic risks they might pose.

24. **A number of factors favor integration:**²²

- **Improved consideration of systemic and other risks.** Assessments under the OFC program have mainly centered on supervisory and regulatory practices, whereas FSAP assessments deal with a broader range of issues related to financial stability and developments that inform surveillance. Moreover, FSAPs consider cross-border issues, including those related to capital flows, contagion, and supervisory cooperation, which are also important for many OFCs. Integrating the two programs would help ensure that these broader systemic issues are routinely considered, especially for the larger jurisdictions with significant cross-border financial flows.²³
- **Maintaining a distinction between OFCs and other jurisdictions.** The absence of agreed objective criteria for defining an OFC (Box 1) makes it difficult to draw the line in a credible manner, and the FSF no longer maintains a list of OFCs. The distinction between OFCs and other financially active jurisdictions has been blurred by globalization, which has increased the range of cross-border transactions and intermediation in many countries, as well as by the active efforts of a number of countries to build or promote offshore business (Box 2).
- **Discriminatory treatment.** Some officials from OFC jurisdictions have expressed concern about the stigma that attaches to the OFC label, and/or that the Fund's OFC program singles out OFCs. Adopting a unified approach would blunt concerns that jurisdictions are being unduly targeted, while also underscoring the expectation that OFCs should meet commonly agreed international standards.
- **More effective prioritization and use of resources.** Both FSAP and OFC assessments are intended to take place roughly on the basis of a five-year cycle,²⁴ but, in practice, resources do not allow this timing to be observed in the FSAP. FSAPs are prioritized according to criteria that focus on a jurisdiction's systemic

²² Appendix III compares the two programs and summarizes the implications of integration.

²³ For example, OFCs can create potential vulnerabilities in the “onshore” jurisdictions with whom their business is transacted. Not all such risks may be mitigated by improved supervision, and an examination of them would help identify any broader threats to financial stability and to design appropriate policy responses. At the same time, issues (particularly reputation) that threatened the viability of their financial centers could have a serious macroeconomic impact on their own economies, and difficulties in headquarters can be transmitted to their institutions. Explicit examination of these may provide additional incentives to local regulators to monitor cross-border linkages in collaboration with home supervisors.

²⁴ See Financial Sector Assessment Program—Review, Lessons, and Issues Going Forward, (<http://www.imf.org/External/np/fsap/2005/022205.htm>), paragraph 90.

importance and vulnerability.²⁵ OFC prioritization criteria, however, are more mechanical and are based on size and performance under previous assessments. Under an integrated program, it would be possible to use the broader FSAP criteria for all jurisdictions, permit a more judicious timetabling of assessments, and help improve the manner in which resources are allocated across jurisdictions.

Box 1. What is the Definition of an Offshore Financial Center?

It has proven difficult to define an OFC using a widely-accepted description. A range of criteria have been used, including (i) orientation of business primarily toward nonresidents; (ii) favorable regulatory environment; (iii) low or zero tax rate; and (iv) offshore banking as an entrepôt business.

More objective criterion have also been sought, and the IMF Statistics Department in 2002 had proposed characterizing an OFC as “a jurisdiction in which international investment position assets, including as resident all entities that have legal domicile in that jurisdiction, are close to or more than 50 percent of GDP and in absolute terms more than \$1 billion.”

In a recent paper, Zoromé (2007)^{*} proposes an alternative data-based indicator, namely the *ratio of net financial services exports to GDP*. Utilizing this approach was complicated by the fact that many jurisdictions do not prepare sufficiently detailed balance of payments data, and in some cases the data for net financial services had to be inferred from other sources (including CPIS and International Investment Position data).

Subject to this caveat, Zoromé examines 104 jurisdictions and identifies 16 of 40 high-income countries, and 6 of the 64 middle/low-income jurisdictions, as having significantly higher levels of net financial services exports than their peers.

The sample of 104 countries considered by the paper included 23 of the 46 OFCs that were covered by the IMF’s OFC Program, and the filter used captured 19 of these jurisdictions, while identifying three additional jurisdictions.

^{*}Zoromé, A. (2007) *Concept of Offshore Financial Centers: In Search of an Operational Definition*, see document at <http://www.imf.org/external/pubs/ft/wp/2007/wp0787.pdf>.

25. At the same time, care would be needed to avoid the impression of a diminished focus by the Fund on OFCs’ implementation of regulatory standards. In particular, the OFC and FSAP programs have been successful in encouraging and helping jurisdictions to improve the quality of their supervisory, prudential, and AML/CFT systems, and this momentum would need to be maintained. This would mean

²⁵ The Bank and Fund Boards have endorsed criteria for prioritization, including the following: (i) systemic importance of the country; (ii) external sector weakness or financial vulnerability; (iii) upcoming likelihood of major reform programs; and (iv) features of the exchange rate and monetary policy regime that make the financial system more vulnerable. Maintaining geographical balance among countries and balance across different levels of financial sector development, and the time elapsed since the previous FSAP, are also considered when scheduling FSAP updates. See document at <http://www.imf.org/external/np/sec/pn/2001/pn0111.htm>.

continuing to work closely with other international bodies (including the FSF, prudential standard-setters, and the FATF and FSRBs) to press for further strengthening of supervision, prudential and AML/CFT systems in OFCs. Continuing close engagement with these bodies is important given that the FSF's OFC Review Group has discontinued its regular discussions. The Fund would also need to remain alert to changing circumstances and emerging risks and ensure that TA and assessments are directed in a flexible manner. Finally, the Fund would continue its efforts to promote improvements in the quality, scope, and timeliness of data provision by all OFCs, including through the Information Framework Initiative.

Box 2. The Growing Trend Toward Developing Offshore Financial Centers

A number of countries are actively fostering offshore business as a development tool. Indeed, several jurisdictions that were not considered in the initial program either already cater to nonresident clients or aspire to become an offshore financial center in the near future.

For example, in 2002 the government of Dubai announced its intention to establish the Dubai International Financial Centre (DIFC). To this end it established an independent integrated supervisory body, the Dubai Financial Services Authority, to regulate and supervise the activity of the DIFC.

Another example is Cape Verde. In 2002 the government of Cape Verde decided that one of its long-term goals would be to develop Cape Verde into an international financial center primarily to serve the lusophone community and the West African market.

In response to these and similar initiatives, staff added Brunei, Dubai, Botswana, San Marino, Uruguay, and Cape Verde to the list of jurisdictions to be monitored under the Fund's OFC program (see Table 3 in SM/06/51). Since then, there have been reports that the Dominican Republic, Ghana, and Trinidad and Tobago also plan to establish offshore financial centers.

This interest in promoting offshore business reflects a number of factors, including a desire for output diversification to provide employment opportunities and contribute to fiscal revenue. However, there are costs to this strategy, including that it significantly increases the pressure to strengthen supervisory capacity to meet international standards.

26. **On balance, staff recommends integration of the two programs.** Formally, the Fund's assessments of OFCs would be integrated into the FSAP program. With respect to OFC's, the Fund would continue to engage in stand-alone AML/CFT assessments, TA, the Information Framework Initiative, and collaboration with other agencies although these activities would not formally be part of the FSAP program. Some of the operational considerations of integration, including those related to coverage, prioritization and scheduling, the scope of assessments, the role of the World Bank, as well as non-assessment components and AML/CFT are discussed below.

V. OPERATIONAL CONSIDERATIONS IN AN INTEGRATED PROGRAM

Coverage, prioritization, and scheduling

27. **The coverage of the FSAP would be extended to encompass all OFCs, including the four nonmembers assessed under the OFC program.**²⁶ The FSAP is presently available only to members.

28. **In an integrated program, uniform criteria would be applied to prioritize assessments across all jurisdictions, with less frequent assessments likely for smaller, less systemically important jurisdictions.** Currently, of the 46 jurisdictions that were identified in the first phase as OFCs, 15 have already opted for FSAP assessments. Of the remaining 27 jurisdictions,²⁷ 8-9 account for the overwhelming volume of activity and would be considered as priorities for assessment every 5-7 years under the FSAP.²⁸ The remaining 18–19 OFCs are small and would be assessed less frequently under the integrated OFC-FSAP program.

29. **The smaller OFCs would continue to be monitored and there would be scope to reconsider their priority if circumstances warranted.** The FSAP prioritization exercise takes place every six months, thus allowing for a rolling reconsideration of jurisdictions. A number, but not all, of these smaller jurisdictions are subject to regular surveillance under Article IV consultations which place increasing emphasis on financial sector issues. The nonmembers and member territories that do not receive Article IV consultations would continue to be monitored offsite as part of the information framework initiative, and there would be scope for more frequent assessments if events warranted. In addition, all of the smaller jurisdictions save one (see footnote 35) would be subject to AML/CFT assessments about every five years as part of the global arrangements for assessments carried out by the Fund, Bank, FATF and FSRBs. Contact could also be maintained in the context of TA.

Scope of OFC assessments

30. **Integration would facilitate coverage of a broader range of issues in OFCs.** Module 2 OFC assessments typically include only standards assessments, whereas the FSAP includes a broader vulnerability analysis—covering the role of macro-financial linkages, financial safety nets, as well as a potentially larger set of standards and codes—

²⁶ The four nonmembers are Andorra, Liechtenstein, Monaco, and Nauru. Nauru no longer has financial arrangements catering to nonresidents.

²⁷ Two jurisdictions were assessed in the pilot phase of the FSAP before the introduction of the OFC program, and two jurisdictions received only technical assistance as a result of the very small scale of their activity.

²⁸ Priority jurisdictions would be Bermuda, Cayman Islands, Jersey, Guernsey and the Isle of Man, Panama, Labuan (Malaysia), and The Bahamas. The British Virgin Islands may also be included.

while also permitting flexibility in the issues and standards to be covered.²⁹ Under an integrated program, systemically important OFCs would undergo vulnerability analyses and reviews of contingency mechanisms in a manner that is more closely targeted at the underlying risks.

31. Vulnerability analysis would be tailored to the risk profile of the jurisdictions. While many of the risks faced by OFC institutions are common to those faced by non-OFCs (e.g., market risk, credit risk, operational risk, reputation risk, etc.), OFC institutions hold much larger cross-border positions. Most financial institutions in OFCs are associated with multinational institutions in industrial countries, and are often branches or subsidiaries of internationally active banks. This places a premium on the evaluation of cooperation and cross-border information sharing as part of the assessments. In addition, the share of GDP accounted for by financial services is generally considerably higher in OFCs, opening their economies to heightened exposure to operational and reputation risks associated with financial activity, e.g. money laundering.

Implications for the World Bank

32. The Bank would be expected to have a limited role in OFC assessments in an integrated program. The large and systemically relevant OFCs are mainly high income jurisdictions, where the Bank would typically not be involved. For the middle income member OFCs, joint assessments would be undertaken in line with current FSAP policy. Three of the four nonmember OFCs are high-income countries.

Non-assessment components of the OFC program

Transparency

33. There would be no material change in publication or reporting under an integrated program. In an integrated program, progress on OFC assessments would be covered in the periodic FSAP review that is typically published. In addition, the Board receives an annual report to inform them of FSAP participation. In both programs, country reports are published on a voluntary basis and this would be continued under an integrated program.³⁰

34. Ongoing efforts to improve the transparency of OFC activities and information exchange among supervisors would also continue. The Information Framework Initiative, with a particular focus on jurisdictions that do not receive Article IV consultations, and collaboration with the BIS to avoid duplication, would continue.

²⁹ In FSAPs conducted by the Fund and Bank, other standards assessed include accounting and auditing, and corporate governance.

³⁰ Access to OFC assessments would continue to be available on the Fund's website, with new reports accessible through the Fund's FSAP page.

Technical assistance

35. **Integration itself is not expected to affect the provision of TA to OFCs.** However, the volume of TA, which has been targeted principally to small and middle-income jurisdictions, would need to be considered in the broader context of the Fund's downsizing and refocusing.

Collaboration with other agencies

36. **Staff will continue to work closely with the FSF and standard setters on OFC-related concerns.** In addition, the Fund-sponsored Roundtables for offshore and onshore supervisors and standard setters have provided useful outreach opportunities especially since some OFCs are nonmembers or dependent territories. However, the annual frequency of these Roundtables may need to be reconsidered in light of emerging issues and resource constraints.

AML/CFT issues

37. **With integration, particular attention would need to be taken to ensure that the AML/CFT vulnerabilities posed by OFCs continue to be adequately addressed.** AML/CFT issues would continue to receive attention mainly through assessments and technical assistance.

38. **OFCs would continue to be subject to assessments against the FATF 40+9 Recommendations.** Integration would not have any significant implications for existing Fund policies on AML/CFT assessments. In accordance with the modalities that were established by the Executive Board in 2006, a full AML/CFT assessment is expected for all jurisdictions approximately every five years. For those OFCs that undergo an FSAP every 5–7 years, such assessments would continue to take place within a reasonable period (i.e., 18 months) of the FSAP mission itself. Other OFCs would continue to receive full AML/CFT assessments approximately every five years (where necessary, on a stand-alone basis) in line with existing Board guidance. AML/CFT assessments would continue to be conducted by the Fund, the Bank, the FATF or an FSRB under existing burden-sharing arrangements and procedures.³¹ In addition to the systemically-important OFCs, Fund staff, in its assessment work, would pay particular attention to jurisdictions that are not members of FATF or an FSRB and, therefore, are not subject to an assessment from any other body,³² and jurisdictions that are members of an FSRB whose

³¹ The procedures for the FATF and FSRB mutual evaluations provide that countries are subject to a formal follow-up procedures for addressing major deficiencies in their AML/CFT regimes. FATF requires that all countries report back on any recommendation that is rated partially or noncompliant.

³² With the exception of Gibraltar, all the smaller OFCs are members of either FATF or an FSRB. Gibraltar is a member of the Offshore Group of Banking Supervisors (OGBS) who are observer members of the FATF. (The larger U.K. dependencies of Guernsey, the Isle of Man, and Jersey are also members of the OGBS). The assessment of these four jurisdictions would likely need to be carried out by Fund staff.

assessment capacity is believed to be particularly weak.³³ Moreover, where appropriate, AML/CFT issues will continue to be addressed in Article IV consultations with OFCs.

39. **Technical assistance would continue to be provided to OFCs to address the major AML/CFT risks that OFCs pose.** The Fund's technical assistance to OFCs would continue to focus on weaknesses identified in AML/CFT assessment reports, and would emphasize elements that strengthen cross-border ML and FT risk management and international cooperation. Such technical assistance could be financed either through the Fund's internal budget (which will continue to provide for a limited amount of resources to finance technical assistance that supports the Fund's work on AML/CFT assessments) or through external financing.

Transition issues

40. If the Executive Board decides to integrate the two programs, staff proposes the following transition arrangements:

- OFC assessment missions currently planned for FY2009 would be scoped as Module 2s where planning with authorities is relatively advanced, or as FSAPs, taking into account the relevant risks facing the jurisdiction. From FY2010, all assessment missions to OFCs would be included in the FSAP.
- FSAP standards assessments of OFCs in the integrated program would be treated as FSAP Updates if the jurisdiction had already received an assessment under the OFC program. That is, the update would follow up on implementation of the initial assessment as part of the standards and codes work. This would avoid the presumption of completely new standards assessments providing "an opportunity to refresh the initial assessment, albeit with possible differences in scope."³⁴

Other issues

41. **There remains the issue of Board discussion of assessments of non-members.** OFC assessments in these cases have been submitted to the Board for information but have not been discussed and, during the 2003 Board review of the OFC program, some directors suggested the possibility of inviting representatives of OFCs to attend a Board discussion of the assessment. Staff's view is that, under an integrated program, FSSAs prepared for these jurisdictions would continue to be submitted to the Board for information with Board members having the option to request a discussion and to invite OFC representatives to participate.

³³ See summary of Board discussion at <http://www.imf.org/external/np/sec/pn/2006/pn0672.htm>.

³⁴ See <http://www.imf.org/external/np/fsap/faq/index.htm>. Note that full AML/CFT assessments would continue to be performed consistent with the May 2006 Board decision (See summary of Board discussion at <http://www.imf.org/external/np/sec/pn/2006/pn0672.htm>.)

VI. BUDGETARY IMPLICATIONS OF INTEGRATION

42. **For illustrative purposes, a scenario based on the FY2008 budget envelope was prepared to show the implications of integration for the frequency and intensity of assessments.** In this case, the higher cost of FSAP-style assessments is offset by a reduced frequency of assessments of smaller jurisdictions (Table 4).³⁵ In particular, 19 of the 46 jurisdictions presently covered by the OFC Program are already assessed under the FSAP. Of the remaining 27 jurisdictions, roughly 8–9 jurisdictions would be considered large and systemically important enough to warrant FSAP-style assessments roughly every six years. Given standard costs for FSAP and OFC assessments and the assumed budget constraint, the remaining 18–19 would be assessed on average every 12 years.

43. **The tighter budget envelope in FY2009 and beyond will likely constrain the resources available for stability assessments.** In this case, it would seem preferable to maintain the quality of assessments by adopting stricter, risk-based criteria for determining the scope and frequency of assessments for both smaller and larger jurisdictions. In any event, integration of the OFC program and the FSAP would be preferable since it would ensure a common platform for prioritization. Furthermore, as mentioned previously, Fund monitoring of OFCs would be maintained.

VII. ISSUES FOR DISCUSSION

44. **Does the proposed integration seem an appropriate means of obtaining more focused and cost-effective financial system monitoring?** In particular, Executive Directors might wish to comment on the following issues:

- Are Directors in agreement with staff's proposal to integrate OFC assessments into the FSAP (paragraphs 26, and 27–36)?
- Do Directors agree that the four nonmember jurisdictions, Andorra, Liechtenstein, Monaco and Nauru can be considered for the FSAP, AML/CFT assessments and technical assistance, as implied by paragraphs 27–36?
- Do Directors agree with the approach proposed for AML/CFT issues described in paragraphs 37–39?
- Do Directors concur with the transition and other proposals described in paragraphs 40 and 41?

³⁵ FSAP updates are projected to cost less in terms of person years, but these savings do not feed through to the dollar budget because of the higher ratio of more expensive staff working on FSAPs.

Table 4. Estimated Annual Cost of OFC Assessments: Comparing Module 2 with Integrated Financial Sector Assessment Program Updates

Type of Assessment	Annual Cost of OFC Assessments		
	In millions of U.S. dollars		
	In Person Years	Excluding Travel	Including Travel
Module 2 assessments 1/			
Planned 5-year assessment cycle 2/	3.9	0.8	1.1
Assuming 5-and 7-year assessment cycles 3/	3.2	0.6	0.9
Integrated FSAP Updates (6- and 12-year cycles) 1/ 4/	2.9	0.6	0.8
AML/CFT assessments 5/	4.5	0.8	1.0

1/ Estimates the total annual cost to MCM of assessing OFCs under Module 2 and the FSAP. Cost estimates comprise field and headquarters time for staff and experts plus overhead costs (estimated at 30 percent of staff time). Excludes cost of work by other departments and of AML/CFT assessments (assessment type does not affect AML/CFT cost). Costs excluding travel are based on standard cost per person for FY08 of \$213,800 for staff and \$193,200 for short-term experts. Costs including travel are based on standard travel costs of \$10,000 per person per mission. AML/CFT assessment costs are identified separately.

2/ Total of 9 larger and 18 smaller jurisdictions assessed every five years (an average of 5.4 assessments per year). Cost of assessments in person years is based on average cost of Module 2 assessments undertaken in FY2005–07.

3/ Assumes 9 larger jurisdictions assessed every 5 years and 18 smaller jurisdictions assessed every 7 years (an average of 4.4 assessments per year). Cost of assessments in person years are based on average cost of Module 2 assessments undertaken in FY2005–07.

4/ Assumes 9 larger jurisdictions assessed every 6 years and 18 smaller jurisdictions assessed every 12 years (an average of 3 assessments per year). The cost of an assessment under an integrated FSAP program is assumed to be the average of the average actual costs of an FSAP update and a Module 2 assessment. These average actual costs are estimated on the basis of FSAP updates conducted in FY2006–07 and Module 2 assessments undertaken in FY2005–07, as reported in the Time Reporting System.

5/ AML/CFT assessment costs assume that the Fund undertakes three assessments per year and are estimated using actual time and cost of past assessments. These costs are invariant to assessment program.

Appendix I. IMF Offshore Financial Sector Program: Compliance with Standards and Codes

Table 5. IMF OFC Program First Phase: Profiles of Compliance with Basel Core Principles (1997)

	Proportion of Jurisdictions Found Compliant or Largely Compliant 1/			Number of Jurisdictions in which Principle Assessed		
	OFCs			Non-OFCs		
	High-Income 2/	Low-and-Middle-Income 3/	High-Income	Low-and-Middle-Income	High-Income	Low-and-Middle-Income
CP1: Objectives, Autonomy, Powers and Resources						
CP1(1): Objectives	95	73	100	87	22	15
CP1(2): Independence	82	40	95	50	22	15
CP1(3): Legal Framework	100	60	100	87	22	15
CP1(4): Enforcement Powers	100	67	95	75	22	15
CP1(5): Legal Protection	95	87	89	52	22	15
CP1(6): Information Sharing	91	67	74	60	22	15
CP2: Permissible Activities	95	93	100	95	22	15
CP3: Licensing Criteria	100	73	95	71	22	15
CP4: Ownership	100	80	84	69	22	15
CP5: Investment Criteria	91	27	79	73	22	15
CP6: Capital Adequacy	86	40	89	55	22	15
CP7: Credit Policies	91	27	89	66	22	15
CP8: Loan Evaluation and Loan-Loss Provisioning	86	40	89	68	22	15
CP9: Large Exposure Limits	91	40	95	66	22	15
CP10: Connected Lending	86	33	84	56	22	15
CP11: Country Risk	86	14	84	28	22	14
CP12: Market Risks	73	21	84	33	22	14
CP13: Other Risks	86	20	89	39	22	15
CP14: Internal Control and Audit	91	40	95	58	22	15
CP15: Money Laundering	91	47	84	36	22	15
CP16: On-Site and Off-Site Supervision	82	33	89	81	22	15
CP17: Bank Management Contact	91	60	100	76	22	15
CP18: Off-Site Supervision	86	60	95	68	22	15
CP19: Validation of Supervisory Information	95	33	100	77	22	15
CP20: Consolidated Supervision	95	13	89	22	20	8
CP21: Accounting Standards	95	40	100	63	22	15
CP22: Remedial Measures	95	60	84	52	22	15
CP23: Globally Consolidated Supervision	100	38	94	48	17	8
CP24: Host Country Supervision	100	43	89	64	19	7
CP25: Supervision Over Foreign Banks' Establishments	95	75	95	70	21	12

Sources: FSAPs and Module 2 detailed assessment reports.

1/ In percentage of the number of jurisdictions in which the principle was found to be applicable and was assessed.

2/ Includes Andorra, Antigua and Barbuda, Aruba, Bahrain, Barbados, Bermuda, British Virgin Islands, Cayman Islands, Cyprus, Gibraltar, Guernsey, Hong Kong SAR, Isle of Man, Jersey, Liechtenstein, Luxembourg, Macau, Malta, Netherlands Antilles, Singapore, Switzerland and The Bahamas.

3/ Includes Anguilla, Belize, Cook Islands, Costa Rica, Labuan (Malaysia), Marshall Islands, Mauritius, Montserrat, Palau, Panama, Samoa, Seychelles, St. Vincent and the Grenadines, Turk and Caicos, and Vanuatu.

Table 6. IMF Offshore Financial Sector Program First Phase: Profiles of Compliance with International Association of Insurance Supervisors Principles (2000)

	Proportion of Jurisdictions Found Observant or Largely Observant 1/			Number of Jurisdictions in which Principle Assessed		
	High-Income 2/	OFCs Middle-Income 3/	Non-OFCs Low-and Middle-Income	High-Income	OFCs Middle-Income	Non-OFCs High-Income Low-and Middle-Income
C1: Organisation of an Insurance Supervisor	76	0	58	17	4	26
C2: Licensing	100	50	86	17	4	28
C3: Changes in Control	94	50	64	17	4	28
C4: Corporate Governance	67	0	11	12	4	28
C5: Internal Controls	76	0	25	17	4	28
C6: Assets Standards	82	25	46	17	4	28
C7: Liabilities	88	25	82	17	4	28
C8: Capital Adequacy and Solvency	88	25	82	17	4	28
C9: Derivatives	69	50	40	16	2	15
C10: Reinsurance	88	0	100	17	4	26
C11: Market Conduct	80	25	31	15	4	26
C12: Financial Reporting	94	0	100	17	4	28
C13: On-site Inspection	59	0	82	17	4	28
C14: Sanctions	100	50	82	17	4	28
C15: Cross-border Business	100	0	75	17	3	12
C16: Coordination and Cooperation	94	25	63	17	4	27
C17: Confidentiality	100	75	96	17	4	28

Sources: FSAPs and Module 2 detailed assessment reports.

1/ In percentage of the number of jurisdictions in which the principle was found to be applicable and was assessed.

2/ Includes Aruba, Barbados, Bermuda, British Virgin Islands, Cayman Islands, Gibraltar, Guernsey, Hong Kong SAR, Isle of Man, Jersey, Liechtenstein, Luxembourg, Macau, Malta, Netherlands Antilles, Singapore, and Switzerland.

3/ Includes Belize, Labuan (Malaysia), Turk and Caicos, and Vanuatu.

Table 7. IMF Offshore Financial Sector Program First Phase: Profiles of Compliance with International Organization of Securities Commissions Objectives and Principles

	Proportion of Jurisdictions Found to Have Implemented or Broadly Implemented 1/		Number of Jurisdictions in which Principle Assessed	
	OFCs	Non-OFCs	OFCs	Non-OFCs
	High-Income 2/3/	High-Income	High-Income	High-Income
Q01: Clear Responsibilities	82	94	17	17
Q02: Operational Independence	53	71	17	17
Q03: Adequate Powers	47	71	17	17
Q04: Clear Regulatory Processes	88	88	17	17
Q05: Professional Standards	94	88	17	17
Q06: Self-Regulatory Organizations (SROs)	100	86	10	14
Q07: SRO Oversight	50	77	10	13
Q08: Inspection and Investigation	71	94	17	16
Q09: Comprehensive Enforcement Powers	76	75	17	16
Q10: Effective Compliance Program	76	76	17	17
Q11: Information Sharing	76	71	17	17
Q12: Information Sharing Mechanism	71	81	17	16
Q13: Assistance to Foreign Regulators	82	69	17	16
Q14: Disclosure of Financial Results	71	76	14	17
Q15: Treatment of Holders of Securities	71	88	14	17
Q16: Accounting and Auditing Standards	88	82	17	17
Q17: Standards for Collective Investment Schemes	76	65	17	17
Q18: Legal Form of Collective Investment Schemes	82	76	17	17
Q19: Suitability of a Collective Investment Scheme	82	82	17	17
Q20: Asset Valuation of Collective Investment Schemes	76	76	17	17
Q21: Minimum Entry Standards	81	88	16	16
Q22: Capital and Other Prudential Requirements	88	59	16	17
Q23: Standards for Internal Organization	75	76	16	17
Q24: Failure of a Market Intermediary	50	71	16	17
Q25: Regulatory Authorization of Trading Systems	90	88	10	17
Q26: Supervision of Trading Systems	90	76	10	17
Q27: Transparency of Trading	91	88	11	17
Q28: Unfair Trading Practices	86	82	14	17
Q29: Management of Large Exposures	55	88	11	17
Q30: Clearing and Settlement of Securities Oversight	67	73	9	11

Sources: FSAPs and Module 2 detailed assessment reports.

Table 8. Offshore Financial Centers: Profiles of Compliance with Financial Action Task Force Recommendations (2003)

	Proportion of Jurisdictions Found Observant or Largely Observant 1/				Number of Jurisdictions in which Principle Assessed			
	OFCs		Non-OFCs		OFCs		Non-OFCs	
	High-Income 2/	Middle-Income 3/	High-Income	Middle-Income	High-Income	Middle-Income	High-Income	Middle-Income
R1: ML offence	57	29	68	30	14	7	19	30
R2: ML offence—mental element and liability	93	57	79	63	14	7	19	30
R3: Confiscation and provisional measures	71	57	84	50	14	7	19	30
R4: Secrecy laws	93	71	89	87	14	7	19	30
R5: Customer due diligence	7	14	21	10	14	7	19	30
R6: Politically exposed persons	43	14	16	10	14	7	19	30
R7: Correspondent banking	29	14	32	27	14	7	19	30
R8: Non face-to-face business etc	36	14	53	27	14	7	19	30
R9: Third parties and introducers	36	0	33	26	14	6	15	23
R10: Record keeping	86	57	79	50	14	7	19	30
R11: Unusual transactions	36	14	53	30	14	7	19	30
R12: DNFBP—R.5, 6, 8-11	7	0	0	3	14	7	19	30
R13: Suspicious transaction reporting	43	29	53	20	14	7	19	30
R14: Protection & no tipping-off	64	71	84	63	14	7	19	30
R15: Internal controls, compliance & audit	50	14	63	30	14	7	19	30
R16: DNFBP—R.13-15 & 21	7	0	16	0	14	7	19	30
R17: Sanctions	36	29	53	23	14	7	19	30
R18: Shell banks	71	29	47	50	14	7	19	30
R19: Other forms of reporting	79	86	84	70	14	7	19	30
R20: Other NFBP & transactions	79	43	84	47	14	7	19	30
R21: Special attention for higher risk countries	29	14	47	20	14	7	19	30
R22: Foreign branches & subsidiaries	36	17	42	25	14	6	19	28
R23: Regulation, supervision and monitoring	57	14	37	20	14	7	19	30
R24: DNFBP - regulation, supervision etc	21	0	11	3	14	7	19	30
R25: Guidelines & Feedback	50	0	42	23	14	7	19	30
R26: The FIU	79	29	63	43	14	7	19	30
R27: Law enforcement authorities	79	43	89	57	14	7	19	30
R28: Powers of competent authorities	93	57	100	87	14	7	19	30
R29: Supervisors	64	43	68	50	14	7	19	30
R30: Resources, integrity and training	50	0	42	40	14	7	19	30
R31: National co-operation	71	29	95	40	14	7	19	30
R32: Statistics	29	14	47	27	14	7	19	30
R33: Legal persons—beneficial owners	64	14	26	20	14	7	19	30
R34: Legal arrangements – beneficial owners	75	17	10	35	12	6	10	17
R35: Conventions	57	43	63	33	14	7	19	30
R36: Mutual legal assistance (MLA)	64	43	95	77	14	7	19	30
R37: Dual criminality	86	57	89	80	14	7	19	30
R38: MLA on confiscation and freezing	64	57	89	47	14	7	19	30
R39: Extradition	71	57	95	87	14	7	19	30
R40: Other forms of co-operation	64	29	84	67	14	7	19	30
SRI: UN instruments	43	29	47	13	14	7	19	30
SRII: Criminalize terrorist financing	71	14	74	13	14	7	19	30
SRIII: Freeze & confiscate terrorist assets	36	0	42	7	14	7	19	30
SRIIV: STRs related to terrorism	57	29	68	10	14	7	19	30
SRV: International cooperation on TF	64	14	89	30	14	7	19	30
SRVI: Alternative Remittance	71	14	53	30	14	7	19	30
SRVII: Wire transfers	21	14	32	17	14	7	19	30
SRVIII: NPOs	29	0	58	17	14	7	19	30
SRIX: Cash Couriers	14	0	33	21	14	7	18	29

Sources: IMF, World Bank, FATF and FSRB detailed assessment reports.

1/ In percentage of the number of jurisdictions in which the principle was found to be applicable and was assessed.

2/ Includes: The Bahamas, Bahrain (phase 1 assessment), Bermuda, Brunei Darussalam, Cayman Islands, Cyprus, Gibraltar, Ireland, Liechtenstein, Macau SAR, Malta, Monaco, Switzerland, and the United Arab Emirates.

3/ Includes: Botswana, Cape Verde, Costa Rica, Panama, Samoa, Uruguay and Vanuatu.

Appendix II. Summary of Measures taken to Implement the Recommendations made in the First Phase of the Program, by Prudential Standard

Recommendation	Measures taken to Implement the Recommendations
General Recommendations	
<ul style="list-style-type: none"> Introduce new legislation for the supervision of the offshore sector that would, inter alia, require a physical presence 	<ul style="list-style-type: none"> In all cases, new legislation and reformed supervision, which required a physical presence, was put in place.
Basel Core Principles for Effective Banking Supervision (1997)	
BCP 1: Objectives, autonomy, powers and resources of the authority	
<ul style="list-style-type: none"> Expand powers to regulate and supervise; Provide full budgetary independence for the supervisor; Increase staff, training for staff and supervisory resources generally; Remove the requirement that the minister approve, for example, licensing and remedial actions; Improve access to customer information, formalize information exchange 	<ul style="list-style-type: none"> New laws expanded the powers of the supervisor, providing it with budgetary independence, full licensing and remedial authorization, and security of tenure plus transparent rules for removal of head. Staff, training and overall resources were increased; Legislation clarified supervisory access, provided gateways, supervisor improved outreach to foreign supervisors; Need legislation for budgetary independence not universally accepted.
BCPs 2–5: Licensing and ownership structure	
<ul style="list-style-type: none"> Disallow nonblank deposit taking; Require physical presence for license; Increase investigations, increase or clarify formal license requirements; Limit bank equity holdings and increase analysis for bank purchase 	<ul style="list-style-type: none"> Monitored for consistency with BCP; New law requiring physical presence; New regulations requiring police clearance, robust criteria; Limits imposed and increased analysis.
BCPs 6–15: Prudential regulations and requirements	
<ul style="list-style-type: none"> Improve capital requirement system; Improve supervision of credit policy; Reform loan classification systems; Enhance policy on connected lending; Strengthen onsite and improve evaluation loan loss reserves; Formal reporting/limits on country risk; Improve supervision of risk management, liquidity monitoring; More formal/standardized approach to AML supervision; Measures improve internal controls and audit; Introduce corporate governance standard. 	<ul style="list-style-type: none"> Risk framework put in place; Onsite inspection paying more attention to credit policy, improved data collection; Guidelines for classification, detailed credit analysis; Revised rules and guidance on connected lending; Guidelines and onsite/offsite improved; More intense monitoring, ad hoc reports; Revised guidelines on risk management, prudential reporting; 2 cases where more reporting and monitoring called for; Increased regulation, supervision; Supervisory review internal controls; Corporate governance standard introduced.

Recommendation	Measures taken to Implement the Recommendations
BCPs 16–20: Methods of ongoing banking supervision	
<ul style="list-style-type: none"> • Improved onsite capacity; • More frequent onsite; • Increase discussion with bank management; • More bank data analysis; • Mandate material adverse change reporting, early warning; • Expand auditors' complementary work; • Implement group-wide supervision 	<ul style="list-style-type: none"> • Dedicated onsite unit, increased staff and training, improvement onsite and offsite; • Instituted regular meetings senior management; • Increased analysis, dedicated risk analysis unit; • Law reformed, financial crisis committee formed; • Work expanded, more evaluation external auditor work, discussions with accountants; • Supervisors started insurance supervision, including group members in bank analysis;
BCP 22: Corrective measures	
<ul style="list-style-type: none"> • Increase authority take remedial measures; publish decisions • Require physical presence to permit implementation remedial measures; • Share supervisory reports with bank management. 	<ul style="list-style-type: none"> • Law amended, guidelines under consideration; bill providing for enforcement, including right to publish • Physical presence now required; • Formal sharing now underway
BCPs 23–25: Control of cross-border banking	
<ul style="list-style-type: none"> • Same supervisory standards for offshore and onshore banks; • More formal information sharing; • Strengthened cooperation with foreign supervisors, through legislation, onsite supervision and strengthened capacity 	<ul style="list-style-type: none"> • New banking laws and arrangements; • Enhanced arrangements in place; • Stronger capacity for cooperation. • Attempted enter into MOUs •
IAIS Insurance Core Principles	
ICP 1: Organization of an insurance supervisor	
<ul style="list-style-type: none"> • Legal changes • • Improve IT systems and actuarial techniques • Increase staff and staff planning 	<ul style="list-style-type: none"> • Jurisdictions brought new acts or amendments in place • New IT systems and database • Staff increased sharply in all jurisdictions
ICPs 2–3: Licensing and changes in control	
<ul style="list-style-type: none"> • Develop fit and proper licensing criteria and checklist • • Take structured approach to exposure analysis 	<ul style="list-style-type: none"> • Act amended to introduce minimum licensing criteria, application checklist and fitness and propriety criteria introduced • Stress and scenario testing introduced, introduction of exposure analysis
ICPs 4–5: Corporate governance and internal controls	
<ul style="list-style-type: none"> • Require internal controls • Adopt corporate governance guidelines 	<ul style="list-style-type: none"> • Requirements and guidance on internal controls; • Proposal on corporate governance under review
ICPs 6–10: Prudential rules	
<ul style="list-style-type: none"> • Require more detailed reporting from the industry 	<ul style="list-style-type: none"> • More detailed filings required, new regulations introduced

Recommendation	Measures taken to Implement the Recommendations
<ul style="list-style-type: none"> Strengthen supervision of risk management 	<ul style="list-style-type: none"> Significant progress made
ICP 11: Market conduct	
<ul style="list-style-type: none"> Review market conduct 	<ul style="list-style-type: none"> Introduced code of conduct, considering ombudsman
ICPs 12–14: Monitoring, inspection and sanctions	
<ul style="list-style-type: none"> More detailed financial reporting; More staff in onsite inspections Structured onsite program with AML checklist 	<ul style="list-style-type: none"> Staff sharply increased, and reporting requirements expanded; Checklists for onsite introduced including AML
ICPs 15–17: Cross-border business operations, supervisory cooperation, coordination and confidentiality	
<ul style="list-style-type: none"> Implement MOUs with foreign supervisors; Increase remedial powers to supervisor Increase information exchange with FIU re AML 	<ul style="list-style-type: none"> MOU not necessary for cooperation; Considering necessary actions Regular meetings held with FIU
IOSCO Objectives and Principles of Securities Regulation (2003)	
SCPs 1–5: Principles relating to the regulator	
<ul style="list-style-type: none"> Expand and/or clarify supervisory mandate and authority in law, including authority to make binding regulations; Improve criteria and rules governing executive appointment and actions Increase transparency Increase staff resources and training Provide budgetary autonomy 	<ul style="list-style-type: none"> New laws passed or prepared with supervisory responsibility for investor protection, systemic risk; authority for licensing; Laws provided criteria for board and management appointment; Website now has all laws, guidelines etc f Increased staff, staff training Budgetary independence increased; one jurisdiction judged, after review, that law did not require change
SCPs 6–7: Principles relating to self-regulation	
<ul style="list-style-type: none"> Adopt more oversight of SROs 	<ul style="list-style-type: none"> More proactive approach adopted and rules and codes for self regulation adopted
SCPs 8–10: Principles relating to enforcement	
<ul style="list-style-type: none"> Improve inspection of CISs, increase direct supervision, formalize process Obtain authority supervise trustees who undertake asset management Provide more administrative sanctions, ability to remove license and fine, strengthen enforcement 	<ul style="list-style-type: none"> Regulator adopted legislation with wider range of powers including wide inspection and sanctions Trustees no longer able to do asset management without license New sanctions regime, increase enforcement powers, new act provided new powers
SCPs 11– 13: Principles relating to cooperation	
<ul style="list-style-type: none"> Adopt policies and procedures to share information Make information sharing agreements with key counterparts Strengthen cooperation with counterparts 	<ul style="list-style-type: none"> New legislation provided for information sharing Signed MoUs with other supervisors, discussing information sharing agreements with others
SCPs 14–16 : Principles relating to issuers	
<ul style="list-style-type: none"> Grant authority and responsibility for 	<ul style="list-style-type: none"> Judged that issue very rare, but implemented

Recommendation	Measures taken to Implement the Recommendations
issuer regulation <ul style="list-style-type: none"> • Develop rules on insider trading, reporting requirements, takeover bids 	more oversight <ul style="list-style-type: none"> • New regulations introduced
SCPs 17–20: Principles relating to collective investment schemes	
<ul style="list-style-type: none"> • Develop staff's technical skills • Additional guidance to CIS • Better asset valuation, NAV rules • More rules for investment undertakings, custodians etc 	<ul style="list-style-type: none"> • New teams with more skill, additional staff made available • Amended regulations put NAV rules in place • New laws, regulations for CIS
SCPs 21–24: Principles relating to intermediaries	
<ul style="list-style-type: none"> • Better inspection rights, supervision, onsite • Better rules for asset managers 	<ul style="list-style-type: none"> • New acts to improve inspection rights and staff to implement; onsite program introduced • New laws to cover asset managers, allowing regulators to make binding rules
SCPs 25–29: Principles relating to secondary markets	
<ul style="list-style-type: none"> • Develop staff skills • Strengthen supervisory role in secondary markets 	<ul style="list-style-type: none"> • New training, head of department • Working group revising regulations
SCP 30: Principle related to securities settlement	
<ul style="list-style-type: none"> • Increase oversight clearing and settlement systems, develop standards 	<ul style="list-style-type: none"> • Staff training increased

Appendix III. Comparison of the Offshore Financial Center and the Financial Sector Assessment Programs and Integration Implications

OFC	FSAP	Integration Implications
<p>Jurisdictions assessed</p> <p>List of jurisdictions under the program maintained by staff based on an initial FSF list of 42 jurisdictions. Currently 51 jurisdictions are monitored, including four nonmembers.</p>	<p>All members and member territories or dependencies.</p>	<p><i>Pro</i>: Uniform treatment across participating jurisdictions based on a risk-focused approach.</p> <p><i>Pro</i>: Enhance the targeting of Fund resources to stability concerns.</p> <p><i>Con</i>: Reduced frequency of assessments of smaller OFC jurisdictions.</p>
<p>Participation voluntary, staff adopts a pro-active stance in encouraging non participants to volunteer, supported by efforts to name nonparticipants that are on the FSF list of OFCs.</p>	<p>Participation voluntary, members write a letter to request assessment; where countries are on the FSAP surveillance priority list, staff also take a proactive stance vis-à-vis the authorities.</p>	<p><i>Pro</i>: Eliminate need to maintain separate and difficult to define list of OFC list.</p> <p><i>Pro</i>: Consistent prioritization would help ensure resources allocated toward systemically important and/or vulnerable cases.</p> <p><i>Con</i>: Lessened pressure to participate, especially among smaller jurisdictions.</p>
<p>Content of assessments</p>		
<p>Discussion of compliance with standards assessed and overall supervisory conditions. Evaluation of overall cooperation and information exchange;</p>	<p>Assessment of macro and financial linkages and financial sector risks and vulnerabilities, including potential spillovers, effectiveness of financial sector infrastructure, and safety nets and crisis management arrangements.</p> <p>For FSAP Updates, progress report on FSAP recommendations; more focused risk analysis based on financial sector</p>	<p><i>Pro</i>: Integrated financial surveillance framework allows to better tailoring vulnerability analysis.</p> <p><i>Pro</i>: Better use of resources, taking into account Fund resource constraints.</p> <p><i>Pro</i>: Specific assessment of financial sector risks and vulnerabilities.</p>

OFC	FSAP	Integration Implications
Standards assessed: BCP, IAIS and IOSCO core principles; FATF 40+9; recent OFC assessments include updates for less significant sectors.	developments and its infrastructure. These four plus IMF Code of Good Practices on Transparency in Monetary and Financial Policies; Core Principles for Systemically Important Payment Systems (CPS), Recommendations for Securities Settlements Systems. World Bank involvement includes attention to accounting and corporate governance standards in some FSAPs. For FSAP Updates, mainly factual updates on the standards, unless major reforms have taken place since FSAP, in which case full assessment of selected standards possible. AML/CFT treatment same as under initial FSAPs.	Pro: Greater flexibility in choice of standards and codes based on underlying risks and vulnerabilities. Con: Greater use of factual updates, which do not include ratings, could reduce objective measures of gauging compliance.
Focus on codes and standards assessments has not required an emphasis on collecting data and indicators of financial sector performance.	Attention to risk and vulnerabilities involves priority to data analysis of financial systems, including stress testing. FSAP Updates build on financial data and indicators generated during FSAP (FSIs, stress tests, etc.).	Pro: Uniform treatment with more transparency and data requirements for OFCs consistent with other jurisdictions.
Assessment Reports		
AFSSRs go to the Board only for information and are not discussed.	FSSAs are circulated to the Board as background information for Article IV reports.	Pro: The FSAP approach would be applied to all jurisdictions.
Publication, including of detailed assessments, is voluntary but recommended by staff and monitored by the FSF. (All but one of the AFSSRs has been published.)	Fund policy of voluntary publication prevails, with only implicit encouragement to publish (FSSA publication rates are 70-75 percent).	Pro: FSAP participants may be under greater pressure to publish their detailed assessments, in line with current practice under the OFC program. Con: OFCs may align themselves to current FSAP practices.

OFC	FSAP	Integration Implications
<p>Participating Institutions</p> <p>IMF staff with experts drawn from participating supervisory authorities. AML/CFT assessments conducted by FATF/FSRBs are accepted.</p>	<p>IMF in all member countries and teams including both World Bank and IMF staff in middle and low-income countries. AML/CFT treatment is similar.</p>	<p><i>Pro</i>: Some jurisdictions would be eligible for World Bank involvement.</p>