

Press release

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FSF announces a new process to promote further improvements in offshore financial centres (OFCs)

The Financial Stability Forum (FSF) announced today a new process to promote further improvements in offshore financial centres (OFCs). This initiative reflects the need to address remaining problems in several OFCs, notably in the areas of effective cross-border cooperation and information exchange and adequacy of supervisory resources.

The FSF has taken a close interest in the progress made by OFCs in strengthening their regulatory, supervisory, cooperation and information exchange arrangements. In May 2000, the FSF encouraged OFCs to undertake needed reforms and asked the International Monetary Fund (IMF) to put in place an assessment program that would ensure progress on a lasting basis. At the time, the FSF also issued a list of 42 OFCs to help the IMF to set priorities for its assessment program.

With the first phase of the IMF's assessment program now almost complete, the 2000 list has served its purpose and is no longer operative. Virtually all of the 42 jurisdictions identified as having offshore financial activities have undergone an initial assessment by the IMF¹. These assessments identify strengths and weaknesses in relation to relevant international standards and codes and set out recommendations for improvement. Moreover, as part of regular IMF monitoring of OFCs' activities and compliance with supervisory standards, follow-up assessments have begun and will assess progress in addressing weaknesses.

The FSF has strongly encouraged all jurisdictions to publish their IMF assessment reports. Of the 39 OFC jurisdictions that have been assessed by the IMF, 34 have published their initial assessment reports and a further 2 have confirmed their intention to publish theirs². Summaries of these reports are available on the IMF website at www.imf.org/external/np/pp/eng/2005/022505.htm. The FSF also encourages OFCs to publish their detailed assessment reports.

As the FSF has previously noted, available IMF assessment reports show that significant reforms were initiated by many OFC jurisdictions in response to the FSF initiative and the IMF assessment program. However, problems remain in several OFCs with respect to compliance with international standards, notably in the areas of effective cross-border cooperation and information exchange and adequacy of supervisory resources. The FSF also considers that as business practices and international regulatory and supervisory standards evolve, there is a continuing need to ensure that OFCs meet international standards.

Therefore the FSF is committed to a process, based on objective criteria and due process, to promote further improvements in OFCs. Such a process was agreed at the FSF's recent meeting in Tokyo and will include a set of initiatives by its members at both international and national levels and appropriate steps by the FSF itself. This process has the following specific elements:

¹ With the exception of Bahrain for which a FSAP is planned for 2005, and Nauru and Niue for which assessments have been replaced by a program of technical assistance being delivered during 2004 and 2005.

² Dublin (Ireland) and Lebanon were assessed under the FSAP pilot program. According to the publication policy applicable to the FSAP pilot program, these two assessments cannot be published.

- *Actions by standard setting bodies*

The standard setting bodies – IOSCO, BCBS, IAIS – have effective tools to target and address specific problems of cooperation experienced in their respective sectors, and will utilise these tools as necessary on the basis of input from national authorities. In this regard, IOSCO has launched a process to raise standards of cross-border cooperation between securities regulators. This initiative encourages and assists both IOSCO members and non-members to meet the standards embodied in IOSCO's Multilateral Memorandum of Understanding, which provide a clear benchmark for cooperation and a practical mechanism for information sharing. As part of this process, IOSCO will identify jurisdictions that appear to be unable or unwilling to co-operate and will be prioritising follow-up work with the jurisdictions that present the greatest risks to IOSCO's objectives of investor protection, maintenance of fair and efficient markets and financial stability.

- *Assessment by the IMF*

The FSF encourages the IMF to give priority to follow-up assessments of OFCs with weaknesses that are most systemically important from an international perspective. The IMF will seek input from standard setting bodies and national authorities with respect to identification of specific problems to help prioritise and conduct assessments. OFCs will be incentivised to participate in this assessment process by the fact that participation itself draws attention to their willingness to co-operate.

- *Initiatives by national authorities*

Along with efforts of international bodies, individual national members of the FSF continue to engage bilaterally with OFCs to encourage further progress and to resolve specific bilateral issues. Supervisory and regulatory measures may be taken by them to apply pressure on OFCs for further improvement and cooperation.

- *Provision of technical assistance*

In view of the lack of capacity in some OFCs that need to enhance their supervisory practices, training and technical assistance should be continued and strengthened by the IMF, the World Bank, the standard setting bodies, and national authorities.

- *Role of Financial Stability Forum*

To complement and reinforce the efforts of its members, the FSF:

- Stresses the need for further progress on the part of a number of OFCs and the critical importance of the work of its members, notably IOSCO and the IMF, to encourage and facilitate such progress.
- Will establish a group to review reports by IOSCO, the IMF, and other bodies on the status of their efforts and the results that have been achieved, based on the procedures above. The first round of the IOSCO process is expected to be completed this summer, prior to the next FSF meeting in September.
- Drawing on the advice of this group, will consider as necessary follow-up actions, either to recognize improvement in cooperation in a particular OFC or to highlight non-cooperation with ongoing assessment processes. Such actions could take different forms, including a letter from the FSF to an OFC, a public statement further supporting a particular effort by its members, or publishing the names of non-cooperative OFCs.
- Will retain the option to engage directly with respect to a problematic OFC, if FSF members identify specific concerns with that OFC, supported by appropriate evidence, and if other processes underway have failed to address them.

Unless other considerations call for acceleration of the process, the FSF will review the adequacy of these initiatives in addressing the current concerns held by its members in two years' time.