

Actions Against Abuse of the Global Financial System

**Report from G7 Finance Ministers
to the Heads of State and Government**

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Actions Against Abuse of the Global Financial System

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A. Challenges and Our Approach

1. Financial crime is increasingly a key concern in today's open and global financial world, which is characterized by the high mobility of funds and the rapid development of new payment tools. To secure the benefits of the international financial system, we, the Finance Ministers of the G-7 countries, must ensure that its credibility and integrity are not undermined by financial crime. Further, in order to fight effectively against the abuse of the global financial system, we must not allow poor regulatory standards, excessive bank secrecy, and harmful tax competition.
2. Governments must intensify their cooperation and strengthen international frameworks to effectively combat money laundering and harmful tax competition, and to improve the observance of international standards and good governance. For this reason, we need to better coordinate our efforts and provide further impetus to efforts under way at various international fora and expeditious follow-up actions. We also need to promote international cooperation between law enforcement and tax and regulatory authorities in the fight against financial crime and abuse.

B. Money Laundering

3. It is crucial that all financial centers throughout the world meet relevant international standards and cooperate effectively in the fight against money laundering. We welcome the initial work of the Financial Action Task Force (FATF), which published its review of the rules and practices of 29 countries and territories and its identification of 15 non-cooperative countries and territories (NCCTs) in June 2000 on the basis of the criteria agreed in February 2000. In accordance with the decision taken by the FATF and its Recommendations, we have joined other FATF members in informing our financial institutions about the findings of the report. Our authorities have issued advisories to our domestic financial institutions that they should take cognizance and enhance their scrutiny of the risks associated with doing business in NCCTs or with cross-border transactions carried forward by individuals or entities domiciled or holding accounts in such jurisdictions. We call on the FATF to continue its work on identification of NCCTs and to revise its list on a regular basis to take into account changes made in these jurisdictions identified and the situations elsewhere. We endorse the FATF's

decision to remain fully engaged with all those countries and territories. We also strongly urge the NCCTs to improve expeditiously their anti-money laundering regime and to remedy the deficiencies identified. We are ready to give our advice and provide, where appropriate, our technical assistance to jurisdictions that commit to taking steps for necessary reform. We are prepared to act together when required and appropriate to implement coordinated countermeasures against those NCCTs that do not take steps to reform their system appropriately, including the possibility to condition or restrict financial transactions with those jurisdictions. We will review the situation for the 2001 Summit.

4. We welcome the creation of Financial Intelligence Units (FIUs) in Canada and Japan, and endorse the establishment of information exchange arrangements among FIUs operating in the G-7 in order to facilitate an active exchange of information among the anti-money laundering authorities.
5. Moving forward from the Birmingham and Cologne Summits, we value the opportunity to discuss a range of measures to fight money laundering. We agree to continue to strengthen our efforts within existing mechanisms, drawing on our experts. We will review and report progress on the following issues in preparation for the 2001 Summit. We also call upon the FATF to consider the scope for revising its Forty Recommendations to address these issues.
 - a. **Gatekeepers:** We take note that, as a follow-up to the October 1999 Moscow Ministerial Conference on Combating Transnational Organized Crime, an experts group was convened to study the issues related to the involvement of professionals such as lawyers and accountants (“gatekeepers” to the international financial system) in money laundering. We express our support for the continuation of this work.
 - b. **International Payments System:** We urge the financial community to find ways to identify originators in executing cross-border payment orders. In this respect, we believe that it would be useful if the Committee on Payment and Settlement Systems of the G10 central banks and other appropriate agencies could explore the technical aspects of this issues and consider possible concrete measures, taking into account the efficiency and evolution of the international payments system as well as privacy concerns regarding the information.
 - c. **Corporate Vehicles:** Corporations are sometimes established simply in order to gain access to the financial system. If there is obscurity about their ownership, banks and other financial institutions may not be able to discover the identity of the beneficiary of the account and will be unable to meet their

“know your customer” obligation. The combination of market access and obscurity of ownership can facilitate money laundering and market abuse. We agree to consider how introductory measures to prevent unlawful use of corporate structures would be best tackled. We stress, in particular, the need to enable law enforcement and administrative authorities to identify beneficial owners. We welcome the OECD’s forthcoming review of this subject.

- d. **Stolen Assets:** International money laundering has often been used by government officials to assist the clandestine diversion of public assets. The vulnerability of government institutions to such crime can be especially substantial in countries with emerging democratic systems and developing or transitional economies. We agree that it would be useful if we could take stock of existing legal tools and the agencies that administer them in each of our countries that would be available to identify, trace, and seize such laundered assets, as a first step to enhancing international cooperation on this issue.

C. Tax Havens and Other Harmful Tax Practices

6. We reaffirm the need to prevent harmful tax competition, which distorts economic behavior and erodes national tax bases. We welcome the Report on Progress on Identifying and Eliminating Harmful Tax Practices, presented to the Ministerial Council of the OECD in June 2000, and which includes two lists: certain jurisdictions meeting tax haven criteria; and potentially harmful regimes within the OECD member countries. We encourage the OECD to continue its efforts to counter harmful tax practices. In this respect, we support the continuation of the efforts of the OECD member countries to eliminate any harmful features of their preferential tax regimes. We welcome the public commitments already made by jurisdictions to eliminate harmful tax practices and we urge all jurisdictions to make such commitments. We commit ourselves to supporting the OECD’s efforts to intensify its dialogue with non-member economies.
7. We reaffirm our support for the OECD’s report on improving access to bank information for tax purposes and call on all countries, using the report as a starting point, to work rapidly towards a position where they can permit access to, and exchange, bank information for all tax purposes.
8. Although tax evasion and money laundering are different crimes, there are many similarities in the methods used to commit them. We welcome the progress made through the joint efforts of the OECD’s Committee on Fiscal Affairs (CFA) and the FATF on information exchange. We look forward to further regular dialogue between the CFA and the FATF that will enable them

to give attention to joint studies, such as on the typologies used by both tax evaders and money launderers.

D. Offshore Financial Centers

9. Efforts to impede financial crime and to prevent tax evasion and avoidance are being undermined by those so-called “offshore financial centers” (OFCs) that do not comply with international standards. In addition to ongoing initiatives in the FATF and the OECD, the Report of the OFCs Working Group of the Financial Stability Forum (FSF) has made recommendations to enhance OFCs’ observance of international standards on financial supervision and cooperation, assigning immediate priority to those relating to cross-border cooperation and information sharing, essential supervisory powers and practices, and customer identification and record keeping. The three initiatives together address the three key areas: inadequate anti-money laundering standards, harmful tax practices, and poor financial regulation. We endorse these initiatives and urge these bodies to cooperate with each other and coordinate their actions, as appropriate, to address problematic OFCs.
10. We call on OFCs to respond positively to these initiatives by implementing all recommendations of the fora mentioned above and by improving their systems in the following eight areas.
 - a. **International cooperation:** We expect the authorities responsible for anti-money laundering, tax and financial regulations to cooperate closely to combat cross-border financial crime, tax evasion and regulatory abuse respectively. These authorities should permit effective routine supervision of the cross-border activities of financial institutions.
 - b. **Exchange of information:** The authorities responsible for tax and anti-money laundering compliance, and the regulatory authorities, should be able to exchange information with their counterparts in other jurisdictions.
 - c. **Customer identification:** All jurisdictions should prohibit anonymous accounts, and should require financial institutions to establish the true identity of their customers. Companies and trust structures should not provide a mechanism for inappropriately concealing ownership, allowing tax evasion, money laundering and regulatory abuse to flourish.
 - d. **Abolition of excessive secrecy:** All jurisdictions should prevent bank secrecy rules from inhibiting the enforcement of international standards, obstructing criminal, tax and regulatory investigations, and from constraining effective cooperation with overseas authorities.

- e. **Effective vetting of financial institutions:** There should be effective procedures to ensure that the ownership and management of financial institutions do not become infiltrated, controlled or influenced by criminals, or those with a history of regulatory abuse.
 - f. **Enhanced resources for financial supervision and anti-money laundering compliance:** Jurisdictions which derive economic benefits from the provision of transnational financial services need to devote sufficient resources to prevent effectively the abuse of those services. In particular, sufficient resources should be devoted to financial regulation, the enforcement of anti-money laundering standards, and cooperation with overseas authorities.
 - g. **Improved legislation:** All jurisdictions should make it a crime to launder the proceeds of all serious crime; should give financial regulators effective powers and sanctions; and should ensure that gaps in their legislation do not inhibit investigations into money laundering, tax evasion and regulatory abuse.
 - h. **Elimination of harmful tax practices:** We expect all jurisdictions to cooperate internationally in identifying and dismantling harmful tax practices.
11. Where jurisdictions give strong political endorsement to, adhere to, and make progress in implementing international standards, and where possible and necessary, we are prepared to provide technical assistance and support, either directly or through appropriate international bodies.
12. Where jurisdictions demonstrate failure to meet certain standards and are not committed to enhancing their level of compliance with international standards, we will take steps to encourage jurisdictions to make the necessary changes and take measures to protect the international financial system against the effects of these failures. These measures could include:
- a. **Market incentives** including disclosure, in which the market's assessment of a jurisdiction's compliance with international regulatory standards translates into its risk assessment and effects the costs for institutions doing business with that jurisdiction;
 - b. **Official incentives** applied by the official sector, which can be detailed further under international organization activities and memberships, and national supervisory and regulatory incentives; and
 - c. **Counter-measures designed to protect the international financial system**, including (i) specific requirements for financial institutions to pay special attention to all financial transactions with non-cooperative jurisdictions, (ii) requirements to report certain financial transactions conducted with

individuals or legal entities operating from non-cooperative jurisdictions, and (iii) measures designed to restrict, condition or even prohibit financial transactions with these jurisdictions.

13. We will urge relevant bodies to review the progress in all these areas.

E. Role of International Financial Institutions

14. Money laundering and corruption threaten the credibility and effectiveness of international financial institution (IFI) programs and the integrity of the IFIs themselves. Thus, we urge the IMF and the World Bank to continue to conduct an authoritative review of their financial procedures and controls and those of recipients, and to improve ways to strengthen safeguards on the use of their funds as well as governance and anti-corruption measures in their programs.

15. Money laundering activities have the potential to bring serious macroeconomic distortions, misallocation of resources and capital around the world, and greater prudential risks to bank soundness. Thus, we call on the IFIs to help countries adopt international standards to include, for example, the FATF Forty Recommendations, the Basel Committee's Core Principles, and IOSCO's Objectives and Principles aimed at fighting money laundering, strengthening regulation and international cooperation, and building stronger domestic financial systems. To this end, we urge the IMF, the World Bank, and other IFIs to encourage and support countries in their fight against money laundering in the context of financial sector program design and assistance, where money laundering is identified as a particular vulnerability or risk. We propose that the Fund-Bank Financial Sector Assessment Program (FSAP) and the IMF's Article IV process include evaluation of anti-money laundering measures where appropriate. We urge the World Bank to raise the issue of money laundering more prominently in its ongoing anti-corruption campaign. The regional development banks, such as the Asian Development Bank, the Inter-American Development Bank, the European Bank for Reconstruction and Development, and the African Development Bank should also play an important role in raising awareness about the importance of combating money laundering as part of financial sector development efforts to strengthen supervision and promote good governance.

16. We acknowledge the potential threats posed to the international financial system by those OFCs which do not adequately meet international standards. In this respect, we welcome the report of the FSF Working Group on OFCs and call on the IMF to play its part in implementing its recommendations regarding the assessment process to enhance OFCs' adherence to international standards.