

INTERNATIONAL MONETARY FUND

**Offshore Financial Centers
The Assessment Program—A Progress Report**

Prepared by the Monetary and Financial Systems Department
(In consultation with Other Departments)

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ACRONYMS AND ABBREVIATIONS

AML	anti-money laundering
APG	Asia-Pacific Group on Anti-Money Laundering
BCBS	Basel Committee on Banking Supervision
BCP	Basel Core Principles
BIS	Bank for International Settlements
CCE	Coordinated Compilation Exercise
CFT	combating the financing of terrorism
CPIS	Coordinated Portfolio Investment Survey
CY	calendar year
DNFBP	designated nonfinancial businesses and professions
FATF	Financial Action Task Force
FIU	financial intelligence unit
FSAP	Financial Sector Assessment Program
FSF	Financial Stability Forum
FSRB	FATF-style regional body
FSSA	Financial System Stability Assessment
IAIS	International Association of Insurance Supervisors
ICP	IAIS Insurance Core Principles
IOFC	international and offshore financial center
IOSCO	International Organization of Securities Commissions
LEG	Legal Department
MFD	Monetary and Financial Systems Department
OFC	offshore financial center
OGBS	Offshore Group of Banking Supervisors
PIN	Public Information Notice
SCP	IOSCO Objectives and Principles of Securities Regulation
STA	Statistics Department
TA	technical assistance
TCSP	trust and company service provider
TGS	Technology and General Services Department

EXECUTIVE SUMMARY

This paper provides an update on the actions taken under the offshore financial center (OFC) program since the last update issued in February 2005.

Three jurisdictions were assessed in 2005 and nine assessments have been scheduled. To avoid duplication, assessments are being coordinated with mutual evaluations conducted by FATF and FATF-style regional bodies. Several jurisdictions asked to postpone assessments, so that they may continue to focus on enhancing their supervisory arrangements.

Technical assistance has been provided mostly to small, lower-income jurisdictions in banking and insurance supervision, AML/CFT legislation and supervision, and statistics.

While significant progress has been made on implementing the information framework initiative, the success of the initiative will depend on the number of participating jurisdictions. The data collected so far provide useful comparisons of the significance of different centers and a more complete picture of the geographical distribution of the financial services industry. Of the 46 jurisdictions invited to participate, thus far 16 have submitted data and another 18 are preparing to provide data. A few are making significant changes to their collection systems to improve data availability. Staff are following up with jurisdictions to encourage broader participation and data dissemination by jurisdictions.

The third IMF roundtable for onshore and offshore supervisors and standard setters held in November 2005 highlighted the need for continued attention to cooperation and information sharing, risk-based supervision, and appropriate sequencing of standards implementation as the means to address increasingly complex cross-border issues. Participants agreed that: supervisors and standard setters should consider disseminating good practices on information sharing; providing website guides to jurisdictions' information sharing arrangements; and assigning priority and resources to information exchange issues.

I. INTRODUCTION

1. **This paper updates Executive Directors on the progress since February 2005 in implementing the second phase of the offshore financial center (OFC) program as agreed in November 2003** (see PIN No. 03/138 at <http://www.imf.org>). At that time, Directors recognized that OFCs could pose prudential and financial integrity risks to the international financial system. In this context, Directors agreed that the monitoring of OFCs' activities and their compliance with supervisory and integrity standards should become a standard component of the financial sector work of the Fund. They also requested periodic updates on the progress with implementation of the program. Earlier updates were provided in March 2004 (*Offshore Financial Centers—The Assessment Program—An Update*) and February 2005 (*Offshore Financial Centers—The Assessment Program—A Progress Report*). With the completion of the first round of assessments, staff have begun implementing the second phase of the program.

2. This paper is outlined as follows: Section II summarizes assessments and technical assistance delivered since the last Board paper in February 2005. Section III focuses on the transparency and monitoring targeted by the information framework initiative. Section IV describes themes emerging in collaboration and discussion with standard setters and supervisors. Appendices I and II provide the implementation status of assessments in the first and second phase of the program, respectively. Appendix III briefly reviews the data that has been received thus far under the information framework initiative.

II. SECOND PHASE OF THE PROGRAM: MONITORING AND TECHNICAL ASSISTANCE¹

3. **In November 2003, Directors agreed that the second phase of the OFC program should incorporate four broad elements:**

- Regular monitoring of OFCs' activities and compliance with supervisory standards;
- Technical assistance in collaboration with bilateral and multilateral donors;
- Improved transparency of OFC supervisory systems and activities; and
- Collaboration with standard setters and the onshore and offshore supervisors to strengthen standards and exchanges of information.

In the past year, staff has focused on encouraging jurisdictions to volunteer for assessments, on implementing the information framework initiative, and on collaborating with standard setters and supervisors to identify potential measures to address gaps in cross-border financial supervision.

¹ Summary of first round assessments is shown in Appendix I.

Monitoring

4. **Countries are being invited to volunteer for Module 2 assessment in accordance with the 4–5 year frequency agreed by Directors** (see PIN No. 03/138 at <http://www.imf.org>), with priority being given to jurisdictions where there is significant activity, or important weaknesses were identified. Members may also choose to be assessed under the FSAP which has an average frequency of five years (see PIN No. 05/47 at <http://www.imf.org>). To avoid duplication, assessments are being coordinated with mutual evaluations of anti-money laundering and combating the financing of terrorism (AML/CFT) arrangements by the FATF and FATF-style regional bodies (FSRBs).² Three jurisdictions—Cyprus, Panama, and Uruguay—were assessed in 2005, and nine assessments have been scheduled (see Appendix II). Several jurisdictions have asked to postpone assessments, in some cases to allow continuing development of their supervisory arrangements. Nevertheless, there is as yet no indication that these jurisdictions will not agree to assessment at a later date, and in the interim staff has proposed to visit some major centers to review recent developments.

5. **Assessments are focusing on the areas of particular relevance to each jurisdiction.** Priority is being given to assessing progress in addressing substantial shortcomings identified in earlier assessments, to significant areas not previously assessed, and to evaluating important reforms.³ An increased emphasis is being given to cooperation and information exchange. Standard setters and jurisdictions that have significant cross-border activity and relations with the jurisdiction being assessed are being invited to identify issues in cooperation and information exchange with the jurisdiction, including home/host supervisory relationships, that could be followed up during the assessment. Thus far, the feedback has provided useful information to the assessment teams.

6. **Monitoring results continue to inform the Financial Stability Forum (FSF)'s work.** At its March 2005 meeting, the FSF, in acknowledging the progress in the assessments of OFCs conducted by the Fund, withdrew its 2000 listing of OFCs. The FSF noted that while reforms were initiated by many OFCs, problems remain with respect to compliance with international standards in several jurisdictions, particularly in the area of cross-border cooperation and information exchange. The FSF therefore established a Review Group on Offshore Financial Centers, in which the Fund is represented, to monitor progress and advise the FSF of any necessary follow-up actions. This group will review reports by the Fund, as

² Mutual evaluations are assessments by the FATF or FSRBs.

³ As indicated in *Offshore Financial Center Program—A Progress Report*, March 2003, pages 16–17, oversight of TCSPs is addressed in AML/CFT assessments.

well as by the International Organization of Securities Commissions (IOSCO) and other standard-setting bodies, on the status of their efforts and the results that have been achieved.⁴

Technical Assistance

7. **TA delivery has generally been extended to small, lower-income jurisdictions and has focused on banking supervision and AML/CFT.** Seventeen jurisdictions from all regions received TA in banking supervision or closely related areas during 2005 and two in insurance supervision. In the Asia-Pacific region, three jurisdictions received assistance with AML/CFT supervision and legislation from MFD and LEG; and several international and offshore financial centers (IOFC) participated in three AML/CFT supervision, legislative and FIU workshops hosted by the Singapore Training Institute, in cooperation with MFD and LEG. To address the TA requirements of the several small jurisdictions in the Pacific region, staff, in cooperation with PFTAC, is strengthening cooperation with bilateral agencies working in the region. Jurisdictions in the Caribbean and Middle East also benefited from three AML/CFT workshops held for each region by MFD and LEG, and two Caribbean countries received AML/CFT TA for legislative drafting and establishment of FIUs.⁵

8. **The TA provided by STA on statistical collection for the Coordinated Portfolio Investment Survey (CPIS) is improving CPIS coverage.** Eleven of the more significant jurisdictions with IOFCs participated in a workshop in May 2005 to review 2003 results, plan for the 2004 survey, and discuss coverage and collection.⁶

III. MONITORING AND TRANSPARENCY

9. **The information dissemination and monitoring framework initiative was undertaken (i) to help improve the transparency in the activities of international and offshore financial centers; and (ii) to provide the IMF with information for its ongoing monitoring of financial developments in these centers.**⁷ The information framework

⁴ See Financial Stability Forum Press Release 11 March 2005 (http://www.fsforum.org/press/press_releases_74.html).

⁵ This brief review does not cover the TA delivered exclusively by the Caribbean Regional Technical Assistance Center (CARTAC), the Middle East Technical Assistance Center (METAC), and the Pacific Financial Technical Assistance Center (PFTAC). However, the TA described has been in part supported by the Government of Japan, FIRST, and these TA centers.

⁶ The workshop was funded by the Government of Japan.

⁷ See *Offshore Financial Centers—The Assessment Program—A Progress Report*, February 2005, and its *Supplementary Information* for description and variables included in the framework.

provides structural and activity indicators for banking, insurance sectors, and collective investment schemes. The information framework complements existing statistical reporting by jurisdictions, including through their participation in the CPIS and the BIS's international banking statistics. To avoid duplication, jurisdictions who report banking data to the BIS have authorized the BIS to transmit relevant data to the Fund. Forty-six jurisdictions were invited in December 2004 to participate in the pilot phase of this voluntary initiative.

10. **To kick off the initiative, MFD, with assistance from STA and TGS, held a workshop on May 11–12, 2005 to discuss how the information framework initiative would be implemented.**⁸ Presentations and discussions at the workshop explained the variables in the framework, and responded to queries on data collection, compilation, and dissemination of variables.⁹ Operational arrangements for data submission—via a secure Fund website (the Integrated Correspondence System (ICS))—to the Fund were also explained. The workshop was well attended with 27 international and offshore financial centers represented.

11. **Thus far, 16 countries have provided the data requested under the information framework initiative** (Table 1). Five jurisdictions have declined to participate¹⁰ and staff are in the process of following up with the remaining 25 jurisdictions. Twenty-one of these either committed/indicated their intentions to participate or attended the workshop but have yet to submit their data. In addition, 6 jurisdictions have provided banking sector external assets/liabilities data through the BIS, including 3 jurisdictions who have declined to otherwise participate. The initiative has given some jurisdictions the impetus to expand their data collection. The data submissions are discussed in Appendix III.

12. **The usefulness of this initiative will be enhanced by higher participation rates**—the larger the number of jurisdictions who participate, the more cross-country comparable data will be available to staff, and gaps in the global monitoring framework reduced. The data collected through the initiative are already providing useful information on the significance of different centers, and a more complete global picture of the geographical distribution of the financial services industry (see Appendix III). For example, data show a

⁸ The workshop was supported by FIRST Initiative and JSA, which helped finance the travel costs of participants from low- and middle-income countries.

⁹ To promote the use of a consistent methodology across jurisdictions, definitions and concepts of relevant variables in the framework were based on internationally accepted definitions (e.g., as defined in IMF and BIS publications; see *Offshore Financial Centers—The Assessment Program—A Progress Report, Supplementary Information*, February 2005 for details), where available.

¹⁰ See *Offshore Financial Centers—The Assessment Program—A Progress Report*, February 2005, paragraph 16, page 9, on the reasons provided for nonparticipation.

regional concentration in the placement of banks' cross-border assets and liabilities. While the initiative's start has been encouraging (based on what we have already received and participation at the workshop in May 2005), staff are following up with the remaining jurisdictions to encourage broader participation and promote dissemination of data on their websites. In evaluating the pilot to plan follow-up work, staff will review participation, publicly available statistics, and the remaining gaps in data availability.

Table 1. Status of Participation in the Information Framework Initiative
(As of end-January 2006)

Jurisdictions that have submitted data	Jurisdictions that have committed/indicated intention to participate but not yet submitted data	Jurisdictions that have yet to confirm participation	Jurisdictions that have declined to participate
Bahrain*	Andorra	Aruba	Hong Kong SAR* ‡ 1/
Belize	Anguilla	Grenada	Ireland* ‡ 1/
Bermuda*	Antigua & Barbuda	Lebanon‡ 3	Luxembourg* ‡
Cayman Islands*	Bahamas, The* 2/	Malaysia (Labuan) 3/	Malta‡
Cyprus‡	Barbados	Marshall Islands 3/	Switzerland* ‡ 1/
Gibraltar	British Virgin Islands	Nauru	
Guernsey*	Cook Islands	Turks and Caicos Islands	
Isle of Man*	Costa Rica‡		
Jersey*	Dominica		
Macao SAR	Liechtenstein		
Mauritius	Netherlands Antilles* 2/		
Monaco	Niue		
Montserrat	Palau		
Samoa	Panama* 2/		
Seychelles	St. Kitts and Nevis		
Singapore* ‡	St. Lucia		
	St. Vincent and the Grenadines		
	Vanuatu		
16	18	7	5

* These jurisdictions report data to the BIS.

‡ These jurisdictions are participating in the IMF's FSI Coordinated Compilation Exercise.

1/ These jurisdictions while declining to participate in the initiative have authorized the BIS to forward data on banks' external assets/liabilities to the Fund.

2/ While these jurisdictions have yet to submit data as part of the initiative, data on banks' external assets/liabilities have been received from the BIS.

3/ While these jurisdictions have yet to confirm participation they were represented at the May 2005 workshop which discussed how this initiative would be implemented.

IV. COLLABORATION AND COOPERATION

13. **The Third Annual Roundtable for offshore and onshore supervisors and standard setters was held in Sydney on November 17–18, 2005**, hosted jointly by four Australian agencies,¹¹ to discuss issues in cross-border financial activities and supervisory responses. It was attended by 27 jurisdictions, the 4 standard setting bodies (BCBS, FATF, IAIS, and IOSCO), the FSF, OGBS, the Egmont Group, and the APG. Participants discussed cross-border issues from both sectoral and cross-sectoral perspectives. Advance copies of the Proceedings of the 2004 MFD-hosted conference on cross-border cooperation and information exchange, incorporating the background paper and information exchange survey results, were distributed at the Roundtable. Formal publication is expected in mid-2006.

14. **The roundtable highlighted the complexity of international financial services associated with increasing cross-sectoral and cross-border integration and the development of new instruments and products.** International and offshore financial centers are often used to domicile new instruments/products developed to share and transfer risk across sectors and agents. Participants discussed supervisory responses to the developments in each sector.

- In **banking**, effective supervision of complicated, cross-border banking conglomerates requires extensive two-way information exchange between supervisors in the home and host supervisors—not only host to home, but host to host, home to host, and home to home. Basel II has provided new impetus for such exchange. For example, ‘supervisory colleges’¹² are discussing approaches to Basel II, but there are as yet no established practices as regards content and modalities.
- In **insurance**, participants concluded that enhanced cooperation among supervisors is required to monitor risk transfer occurring through nontraditional arrangements.¹³ In

¹¹ The Australian Prudential Authority (APRA), Australian Securities and Investment Commission (ASIC), Australian Transaction Reports and Analysis Centre (AUSTRAC), and the Reserve Bank of Australia (RBA). The Roundtable was held in Sydney to facilitate participation from the Asia/Pacific region. The earlier Roundtables were held at the Fund in Washington D.C. in 2003 and in the Bank for International Settlements in Basel in 2004.

¹² Supervisory colleges are groups of home and host supervisors for major international banking groups convened by the home supervisors to discuss among themselves and with the institutions.

¹³ Nontraditional insurance or reinsurance includes captive insurance in which noninsurance firms establish insurance companies to insure their own risk and that of affiliates, finite reinsurance which combines the risk transfer of traditional reinsurance with risk financing, and securitization which transfers the risk to investors by the sale of bonds or derivative transactions.

particular, cross-border and cross-sectoral cooperation is required for supervising the insurance industry's use of the capital market for insuring catastrophic risks.

- In **securities**, the widespread operations of hedge funds and their opacity were seen as requiring enhanced disclosure that can be facilitated by supervisory cooperation in collecting data.
- In **AML/CFT**, challenges lie in implementing the increased scope of the standard. The standard explicitly provides for a risk-based approach to rationalize and prioritize the use of resources. However, further work is needed to develop accepted approaches to risk-based supervision in the AML/CFT context.

15. **Information sharing, risk-based supervision, and appropriate sequencing of standards implementation were identified as the means to address increasingly complex cross-border issues and demanding financial sector supervisory and integrity standards.** Work is needed in each of these areas. In the discussions, cooperation and information sharing emerged as a crucial means of ensuring adequate understanding and oversight of complex cross-border financial activities, but improved formal and informal channels of cooperation are required. Risk-based supervision requires refinement; and approaches to sequencing standards implementation must be developed to effectively prioritize areas of higher risk.

16. **Participants agreed on the need to improve information exchange and pointed to a number of additional actions that should be considered by supervisors and standard setters.** In particular, supervisors and standard-setters should consider disseminating good practices in information exchange; providing website guides to jurisdictions' information-sharing arrangements; and assigning priority to information exchange, including the allocation of adequate resources to the cooperation function. Participants viewed the Roundtable as a very useful forum in which to discuss issues of mutual interest.

Table 2. Summary Status of Contacted Jurisdictions
 First Phase of the OFC Program
 (As of end-January 2006)

	Total	FSAP	Module 2
Published	40	14	26
To be published	1	1	0
Not published	1	0	1
Total jurisdictions assessed	42	15	27
TA delivered in lieu of assessments in CY 2004 1/	1	n.a.	n.a.
TA scheduled in lieu of assessments in CY 2005 1/	1	n.a.	n.a.
Total jurisdictions contacted	44		

1/ This excludes TA provided as part of the regular TA program.

Table 3. Offshore and International Financial Center Assessments

Initial Assessment					Updates or Assessments
Jurisdictions 1/	Date 2/	Type of assessment 3/	Standard(s) Assessed		
1 Bahrain	2000	Stand Alone	BCP	FSAP (1st round, 2005) completed; FSSA issued to the IMF Board	
2 Ireland 4/	2000	FSAP		FSAP update scheduled (2006)	
3 Lebanon 4/	2001	FSAP			
4 Aruba	2001	Module 2	BCP, ICP		
5 Costa Rica	2001	FSAP	BCP		
6 Cyprus	2001	Module 2	BCP	Module 2 (2nd round) missions took place in 2005	
7 Gibraltar	2001	Module 2	BCP, ICP, SCP	Module 2 (2nd round) scheduled (2006)	
8 Luxembourg	2001	FSAP	BCP, ICP, SCP, FATF 5/	Updated AML/CFT assessment (2004)	
9 Macao SAR	2001	Module 2	BCP, ICP	Module 2 (2nd round) scheduled (2006/2007)	
10 Panama	2001	Module 2	BCP	Module 2 (2nd round) missions took place in 2005	
11 Switzerland	2001	FSAP	BCP, ICP, SCP, FATF 5/	FSAP update scheduled (2007)	
12 Andorra	2002	Module 2	BCP, FATF 5/	Module 2 (2nd round) scheduled (2006)	
13 Anguilla	2002	Module 2	BCP, FATF 6/		
14 Bahamas, The	2002	Module 2	BCP, SCP, FATF 6/		
15 Barbados	2002	FSAP	BCP, ICP, SCP, FATF 5/		
16 British Virgin Islands	2002	Module 2	BCP, ICP, FATF 6/		
17 Guernsey	2002	Module 2	BCP, ICP, SCP, FATF 6/		
18 Hong Kong SAR	2002	FSAP	BCP, ICP, SCP, FATF 6/		
19 Isle of Man	2002	Module 2	BCP, ICP, SCP, FATF 6/		
20 Jersey	2002	Module 2	BCP, ICP, SCP, FATF 6/		
21 Liechtenstein	2002	Module 2	BCP, ICP, SCP, FATF 6/	Module 2 (2nd round) scheduled (2007)	
22 Malaysia (Labuan)	2002	Module 2	BCP, ICP, SCP, FATF 6/		
23 Malta	2002	FSAP	BCP, ICP, SCP, FATF 6/		
24 Marshall Islands	2002	Module 2	BCP, FATF 5/		
25 Mauritius	2002	FSAP	BCP, FATF 6/		
26 Monaco	2002	Module 2	BCP (partial), SCP, FATF 5/		
27 Montserrat	2002	Module 2	BCP, FATF 6/		
28 Netherlands Antilles	2002	Module 2	BCP, ICP, FATF 5/		
29 Palau	2002	Module 2	BCP, FATF 5/		
30 Samoa	2002	Module 2	BCP, FATF 5/	Module 2 (2nd round) scheduled (2006)	
31 Seychelles	2002	Module 2	BCP, FATF 5/		
32 Singapore	2002	FSAP	BCP, ICP, SCP, FATF 6/		
33 Vanuatu	2002	Module 2	BCP, ICP, FATF 5/	Module 2 (2nd round) scheduled (2006)	
34 Belize	2003	Module 2	BCP, ICP, FATF 6/		
35 Bermuda	2003	Module 2	BCP, ICP, SCP, FATF 6/	Module 2 (2nd round) scheduled (2007)	
36 Cayman Islands	2003	Module 2	BCP, ICP, SCP, FATF 6/		
37 Dominica 7/	2003	FSAP	BCP, FATF 6/		
38 Grenada 7/	2003	FSAP	BCP, FATF 6/		
39 St. Kitts and Nevis 7/	2003	FSAP	BCP, FATF 6/		
40 St. Lucia 7/	2003	FSAP	BCP, FATF 6/		
41 St. Vincent and the Grenadines	2003	FSAP	BCP, FATF 6/		
42 Turks and Caicos Islands	2003	Module 2	BCP, ICP, FATF 6/		
43 Antigua and Barbuda	2003	FSAP	BCP, FATF 6/		
44 Cook Islands	2004	Module 2	BCP, FATF 6/		
45 Nauru 8/	n.a.	n.a.			
46 Niue 8/	n.a.	n.a.			
Additional jurisdictions for consideration in the second phase:					
47 Brunei				Initial FSAP requested by authorities; timing to be determined	
48 Dubai (U.A.E.)					
49 Botswana				Initial FSAP requested by authorities; timing to be determined	
50 San Marino				Initial FSAP requested by authorities; timing to be determined	
51 Uruguay				FSAP missions took place in 2005	
52 Cape Verde				Initial FSAP requested by authorities; timing to be determined	

1/ Forty six jurisdictions were considered in the first phase. In the second phase additional jurisdictions, where staff are aware that there is international and offshore financial activity, are being considered.

2/ Calendar year of first mission. Some FSAPs have had multiple missions which did not occur in a single year.

3/ A Module 2 assessment evaluates the compliance of supervisory and regulatory systems with international standards in the banking and, if significant, in the insurance and securities sectors. It also includes an assessment of the AML/CFT regime. An FSAP considers, in addition, risks to macroeconomic stability, and includes assessments of other standards, as appropriate.

4/ FSAP assessments were conducted as part of the FSAP pilot. The Fund did not publish reports produced in the pilot.

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

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

7/ Offshore activities in these jurisdictions were not significant enough to warrant an assessment. These jurisdictions have been invited to participate in the information dissemination and monitoring initiative to facilitate offsite monitoring.

8/ Given the limited volume of activities in these jurisdictions, they are receiving TA in lieu of assessment.

THE INFORMATION FRAMEWORK

17. This section briefly reviews the data that have been submitted (as of end-January 2006) directly by the 16 jurisdictions and the banking data forwarded by the BIS. The initial submission allowed for partial submission; as a result some variables and their components were not provided. Nevertheless, the framework is providing some jurisdictions with the impetus to improve their data collection and compilation. Four jurisdictions that made partial submissions have indicated that they are in the process of enhancing their data collection and would be able to provide data on additional variables in the second submission.

Monitoring

18. **The framework focuses on documenting the size of the major financial sectors, allowing useful comparisons of the magnitude of activities across jurisdictions.** These will help staff to focus on those with more significant activity. While the data still provides only point estimates, over time the data is expected to provide information on trends in the aggregate activity of these centers. Figures 1–4 below compare the volume of activity across the jurisdictions that have submitted data. In addition, we have included (for reference) data from other major financial centers.

Banking

19. **The reporting centers show a marked dispersion in size of banking sector.** Assets ranged from just above \$100 million to over \$1 trillion compared with banking assets of close to \$10 trillion in a sample of G7 countries (Figure 1a).¹⁴ As expected, most of these centers' assets are cross-border assets (Figure 1b), but a few jurisdictions were unable to provide the breakdown of external assets/liabilities. About two thirds submitted some off-balance sheet information; and 7 of the 16 jurisdictions provided limited information on derivatives. In addition, 10 jurisdictions provided optional data on financial soundness indicators (FSIs).¹⁵

20. **The BIS locational statistics indicate that there is a pronounced regional concentration (a possible time-zone effect) in the placement of cross-border assets and liabilities.** Assets of banks located in European and Middle Eastern financial centers are

¹⁴ The jurisdictions reporting under the initiative have been numbered in order of banking asset size (Figure 1a). This numbering or labeling is carried through in the remaining charts, i.e., "1" represents the same jurisdiction, that with the lowest banking sector assets, in each chart, and so on. Numbered jurisdictions provided data to the Fund on a confidential basis. Data on named jurisdictions were obtained from public sources.

¹⁵ Only one of these is participating in the Fund-wide FSI Coordinated Compilation Exercise (CCE). The jurisdictions participating in the CCE should be able to provide FSIs for end-2005 when they become available in mid 2006.

invested largely in Europe and the United Kingdom (Figure 2a). Similarly, assets in banks located in the Western Hemisphere are primarily invested in the United States, and banks located in the Asia-Pacific region invest most of their assets in Japan and the rest of Asia-Pacific region. This pattern is also evident in the source of funds to these centers, i.e., the cross-border liabilities mirror the regional pattern of the assets (Figure 2b).¹⁶

Insurance

21. **The insurance industry also reflects a marked dispersion in size of activities conducted in these centers.** Gross premiums range from about \$10 million to \$100 billion (Figure 3a). However, based on the data received thus far, most of the markets' aggregate gross premiums are below or about \$1 billion. Setting aside one center which is one of the world's largest insurance services providers, the markets vary significantly in development and in the products offered (e.g., various types of captives, protected cell companies, etc). Only five jurisdictions provided the optional balance sheet information for this industry.

Collective investment schemes

22. **The establishment of collective investment schemes (CIS) is mainly undertaken in middle- and high-income jurisdictions.** These jurisdictions recorded aggregate net assets value of CIS of over \$1 billion (Figure 3b). Ten of the 16 reporting jurisdictions provided data on this sector.¹⁷ Absence of data from the others reflects mainly the lack of activity in those centers. One major jurisdiction, the Cayman Islands, partly in response to this initiative, recently announced a proposal to collect data on hedge funds from the industry.

Other data

23. **The data show that the financial sector plays an important role in economic activity in many of these centers** (Figure 4a) and in some provides significant employment opportunities. In one instance, contribution to GDP is as high as 50 percent. The information framework also collects the aggregate number of **trust and company service providers** as this sector is important to many of these jurisdictions. Again, the number reported varies greatly across jurisdictions (Figure 4b).

Transparency

24. **An important objective of the framework is the provision of a common template to help jurisdictions in their dissemination efforts.** Two have reported that they have

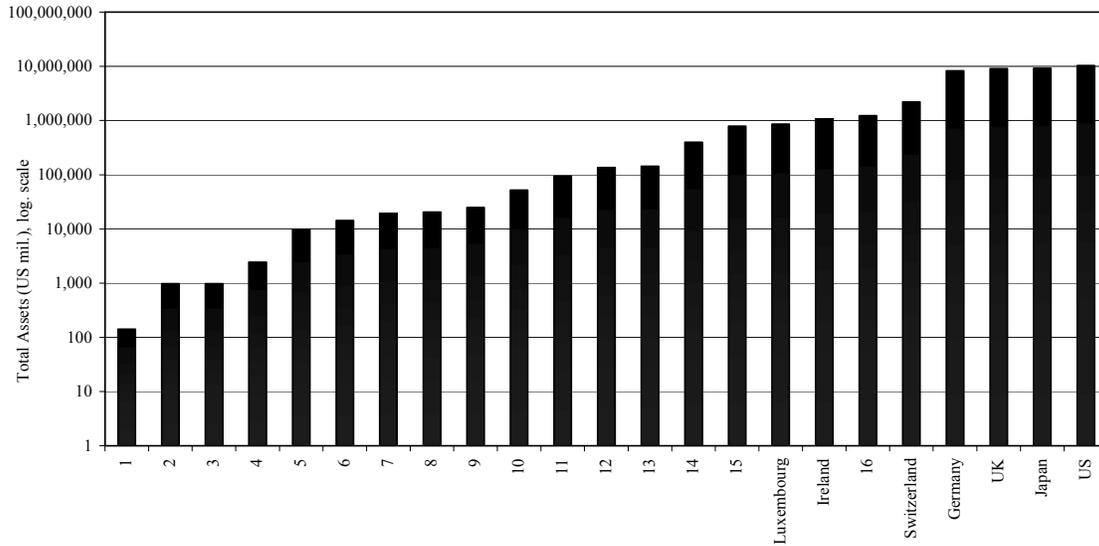
¹⁶ These data indicate the direction of cross-border assets/liabilities, but do not indicate the holder of ultimate risk.

¹⁷ The framework requested gross and net asset values. However, only half of those who submitted CIS data reported gross assets.

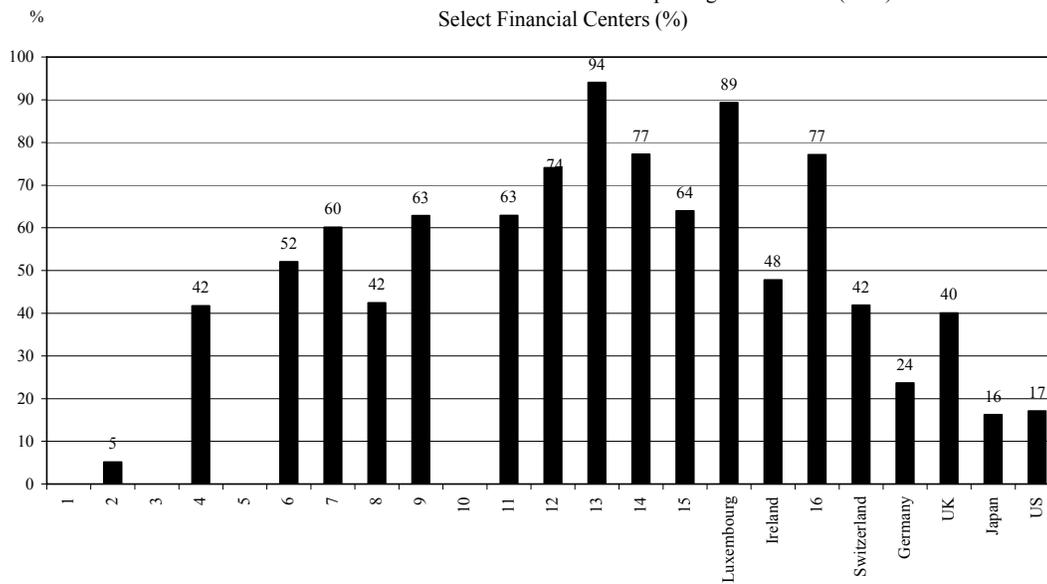
increased the number of variables that they disseminate following the start of this initiative. Five have indicated that they plan to increase dissemination based on the framework in the near future (e.g., after the second submission of data in the pilot phase) or following requisite changes in their publication formats.

Figure 1. Banking Sector (end 2004)^{1/}

1.a. Size of the Banking Sector in Reporting Jurisdictions (1-15) and Select Financial Centers (log. scale)^{2/}



1.b. External Assets as a Share of Total Assets in Reporting Jurisdictions (1-15) and Select Financial Centers (%)

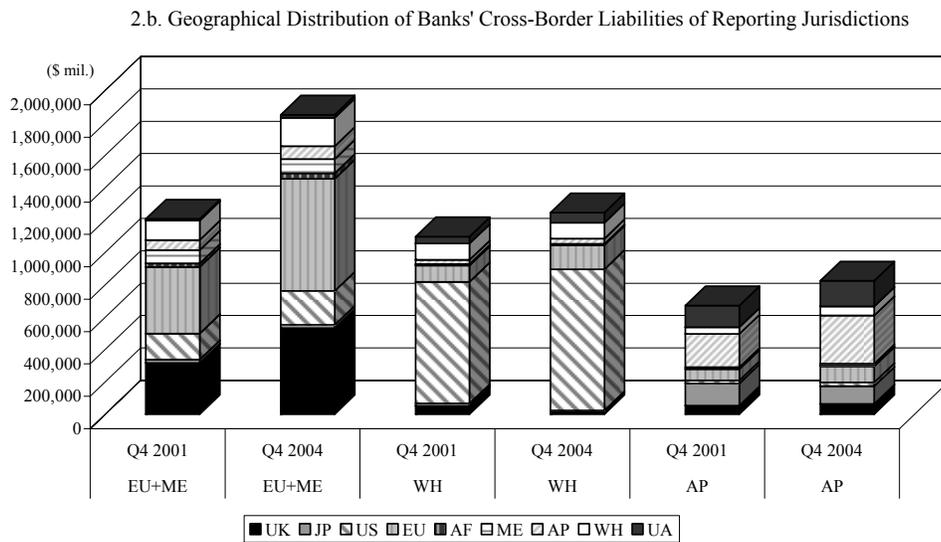
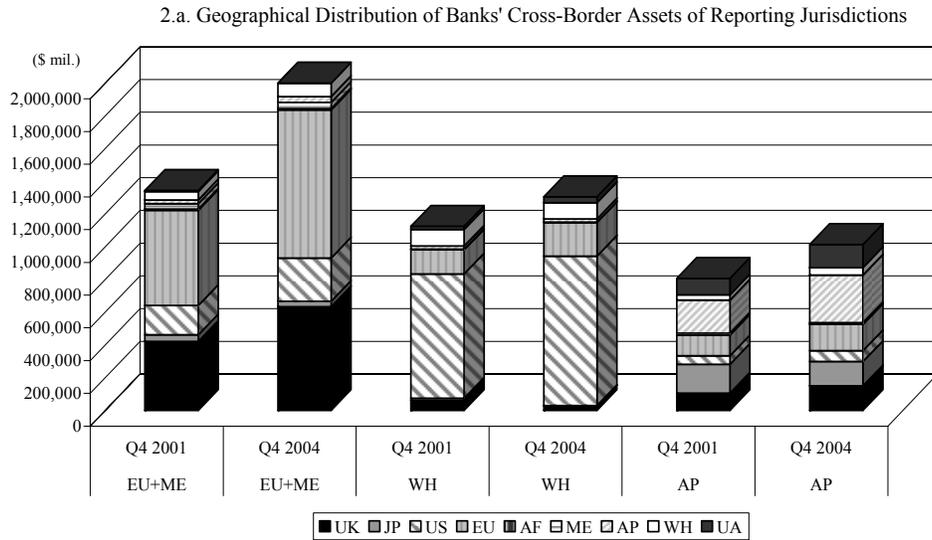


Sources: Information Framework submissions; Bank for International Settlements; and country authorities' websites.

1/ The jurisdictions reporting under the initiative have been numbered in order of banking asset size. This labeling is carried through in the remaining charts, i.e., "1" represents the same jurisdiction, that with the lowest banking sector assets, in each chart, and so on. Numbered jurisdictions provided data to the Fund on a confidential basis. Data on named jurisdictions were obtained from public sources.

2/ The data have been plotted on a logarithmic scale because of the wide dispersion in asset size among jurisdictions.

Figure 2. Geographical Distribution of Banks' Cross-Border Assets and Liabilities of Reporting Jurisdictions ^{1/}

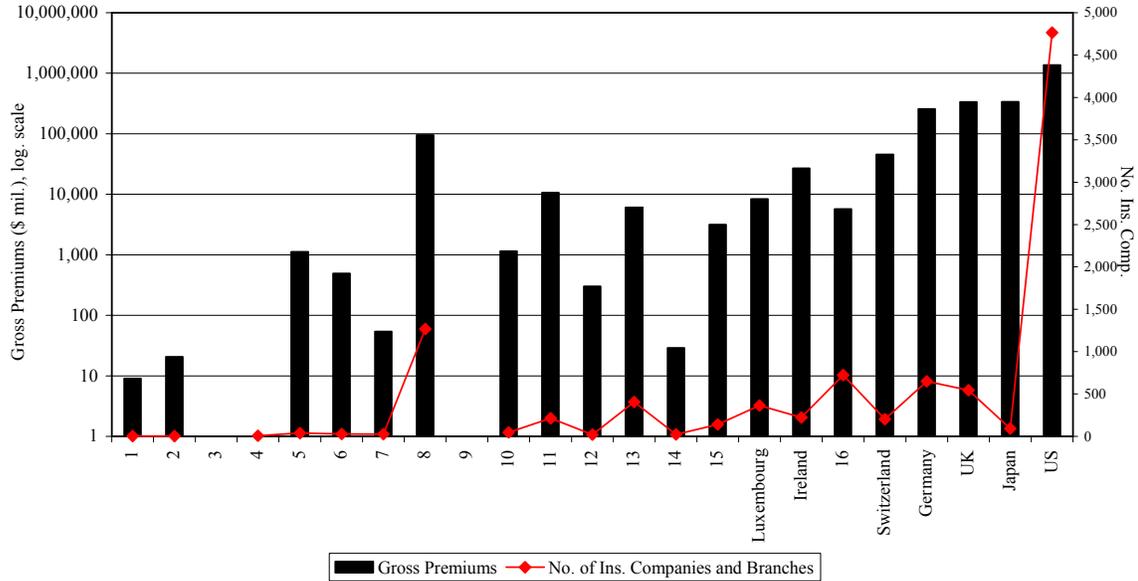


Source: Bank for International Settlements, locational banking statistics.

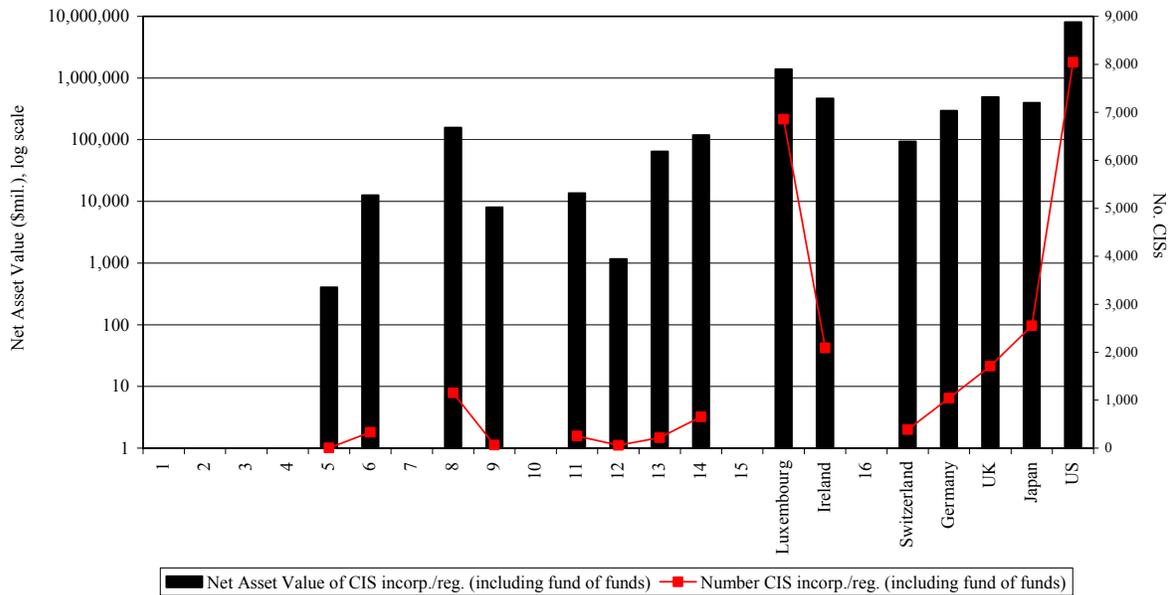
^{1/} The reporting jurisdictions are: The Bahamas, Bahrain, Bermuda, Cayman Islands, Guernsey, Hong Kong SAR, Ireland, Isle of Man, Jersey, Netherlands Antilles, Panama, Singapore, and Switzerland. They have been grouped regionally as follows: Europe (EU); Middle East and Central Asia (ME); Western Hemisphere (WH); and Asia/Pacific (AP). The cross-border assets/liabilities are reported vis-a-vis the following countries/regions: United Kingdom (UK); Japan (JP); United States (US); Africa (AF); ME; AP; WH; and unallocated (UA).

Figure 3. Insurance and Collective Investment Schemes Sectors (end 2004)^{1/}

3.a. Size of the Insurance Sector in Reporting Jurisdictions (1-15) and Select Financial Centers (gross premiums on log. scale)



3.b. Size of the Collective Investment Schemes Sector in Reporting Jurisdictions (1-15) and Select Financial Centers (net asset value on log. scale)

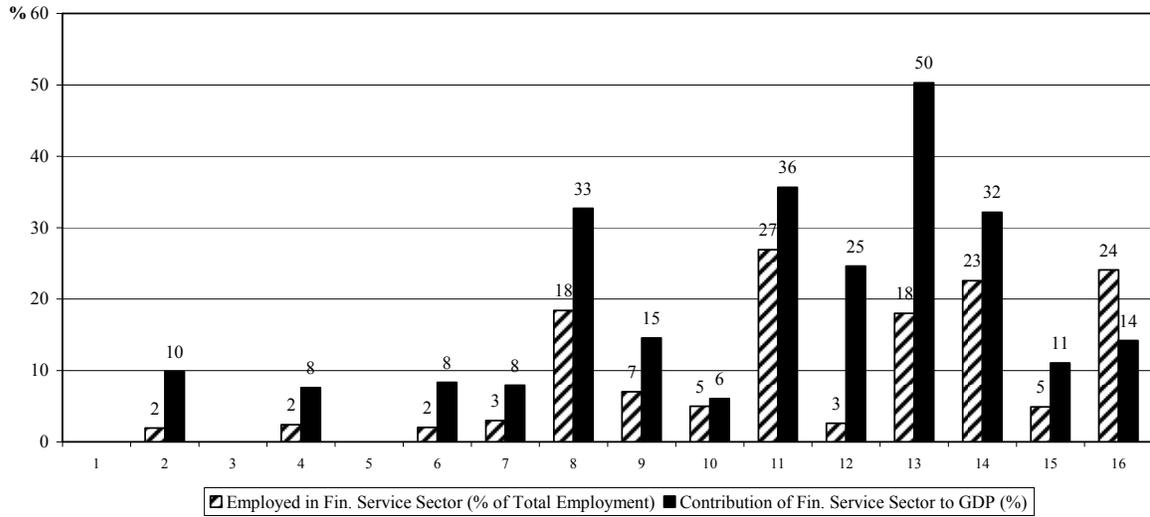


Sources: Information Framework submissions; country authorities websites; and industry associations websites.

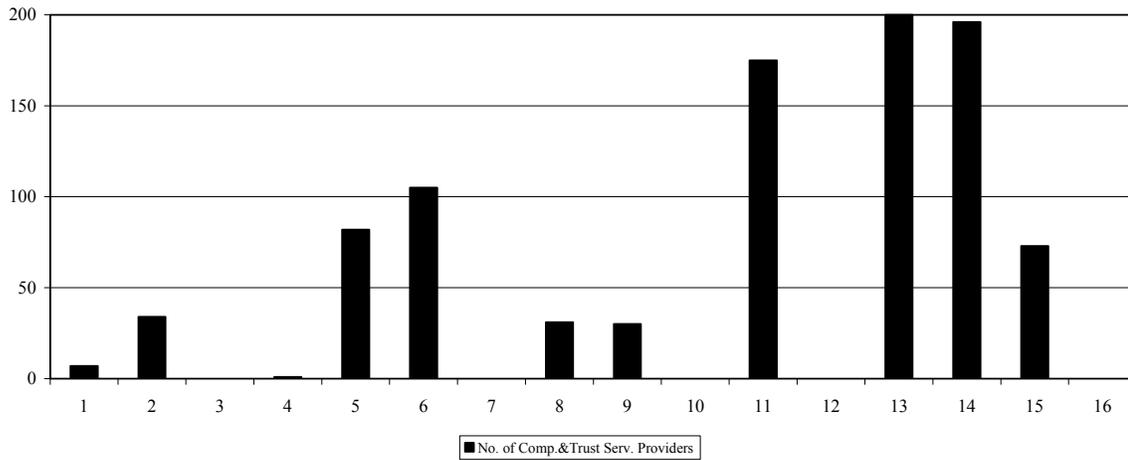
1/ See footnotes 1 and 2 in Figure 1.

Figure 4. Other Sectors (end 2004)^{1/}

4.a. Financial Service Sector Contribution in Reporting Jurisdictions (1-15)



4.b. Number of Company and Trust Service Providers in Reporting Jurisdictions (1-15)



Source: Information Framework submissions.

1/ See footnote 1 in Figure 1.