

# STUDY ON FINANCIAL OFFSHORE CENTRES, THE RISKS AND DEREGULATION OF THE INTERNATIONAL FINANCIAL SYSTEM, CAPITAL LAUNDERING AND TERRORISM FINANCING

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## Abstract

*After the end of the 90's crisis, the settlement of the international financial system has taken an important place within the international organizations. There are important debates regarding the need of a compulsory reform to prevent crises.*

*Means of preventing crises, especially within the field of foreign vulnerability assessment regard: transparency, following the international regulations and codes, refoundation of the financial compartments, liberalization of the capital movements.*

*In addition, a set of work program is needed regarding the crises settlement and sovereign debt restructuring. Serious matters are requested regarding the adoption of fight tools against money laundering and terrorism finance.*

*Offshore financial centers assessment is placed in the field of activity by refinancing of the financial sector, it is one of the health balance sheet elements achieved by the IMF and by the World Bank within the financial compartment assessment program.*

**Key words:** *offshore financial centers (CFO), risks CFO, FATF (Financial Action Task Force), FSF (Financial Stability Forum), bankruptcy risk.*

## Introduction

The aim of this study is to analyze the role of the offshore financial centers within the international financial system and the risk for its stabilization. The main thesis on the result analysis is the following:

The risk for international financial system stabilization increases together with the development of the activities from the offshore financial centers. The surveillance and control of the offshore financial centers is a must. The risk for the international financial system diminishes with the increase of the respect for the international regulations. In the future, information transparency and international regulation enforcement could replace offshore financial centers surveillance and control. Their Assessment program drawn by IMF is an important factor in risk reduction.

The drawn analysis regards:

- Features of the offshore financial centers (CFO);
- Risks cause through CFO;
- CFO Assessment results.

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### Literature review

## 1.Features of the offshore financial centers (CFO)

### 1.1 Offshore financial centers concept

The offshore financial centers belong to the international financial market, which concerns activities among non-residents.

Four types of transactions are available in the international financial centers, represented in Diagram no.1.

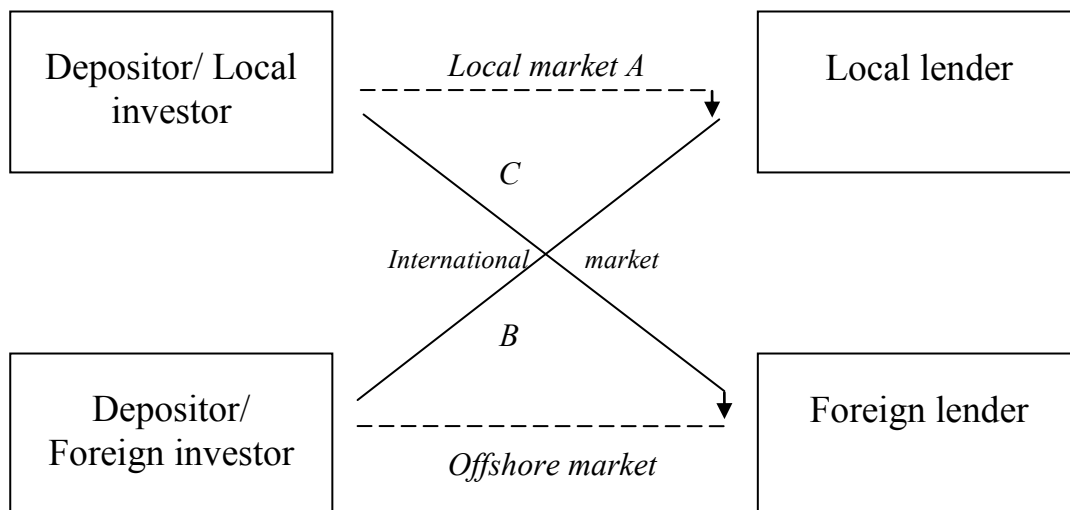


Diagram no. 1. Transactions scheme in international financial centers

If the depositors or local investors offer real funds to the local lenders, we deal with Local market A.

We deal with an international market B, C if the foreign funds offered to the local customers or the local funds offered to foreign customers.

The offshore market D appears when the foreign funds are offered to foreign investors.

It's not a satisfactory definition for the offshore financial centers.

We should mention that, in general, a financial offshore center is a right where many activities are undergone by non-resident persons and which have unfavorable circumstances for international financial activities.

The word "offshore" means "outside the continent" and regards the islands situated far from America and Europe, which offer reduced taxes and mild terms to register companies. In English, the terms "offshore" and "overseas" are used with the meaning "external". The beginning of the concept's use in USA dates back in the 30's. The development of the CFO takes place in the 60's and the 80's once with the taxation increase and restraints regarding the capital circulation and exchanges, and, also, the expense increases on the national markets.

The appearance of the euro market in the 60's represented the beginning of the financial operation liberalization in a currency, other than those of the countries or the establishment where it is situated. The European financial places (London, Paris) offer deposits, loans, bonds issuing in Eurocurrency. Then the transactions are achieved through offshore centers.

We should notice that the offshore centers are difficult to compare and classify due to the great differences on their size, their geographical position, their population, the GDP level, according to their main activities. Among the offshore financial centers, greater jurisdictions such as: Hong-Kong SAR, Luxemburg, Singapore or Switzerland can distinguish, but also smaller economies with international financial centers such as: Bahamas, Belize, Anguilla or Gibraltar. Richer centers, better structured, are competitive due to the efficiency of the services provided. The new centers, smaller and poorer, don't have time or funds to increase the efficiency of the financial compartment. The GDP level is very weak in comparison with the financial inset which is being transferred. In order to get acquainted with the CFO classification, there is no unique list according to which a country of the offshore center can be classified.

The offshore lists are created by the countries, international organizations, agencies marked by the country risk and used to end the differences among them. If the countries admit "high tax", they apply the prescriptions against the fiscal paradises the other way round.

FATF (Financial Action Task Force on capital laundry) and FSF (Financial Stability Forum) set a list of the "uncooperative" countries which don't follow the international regulations or don't do any effort to approach them. The lists are altered and updated periodically. The list drawn by the IMF together with OECD, Financial Stability Forum and the World Bank, contains 40 centers of offshore financial centers. The present document uses a list of 44 jurisdictions published in 2005 with the IMF report<sup>1</sup> (1).

## 1.2 Activities led within the offshore centers

The financial activities undergone offshore are numerous. They offer banking services, insurance operations, stocks and shares, shares control. They can also achieve such non-financial transactions such as the marine or car book, airlines or home.

International Business Companies (IBC), located in CFO, are screen companies with duty free limited responsibility, interceding to fulfilling activities at the capital level via shares, stocks and deed tools issuing.

The main customers of the offshore centers are private multinational companies for their own fortunes.

The offshore centers offer the customers a reduced or zero tax a convenient legal system, a high quality banking system and experienced auxiliary force. Finally, the offshore centers adopt, in order to attract customers, a larger notion of the bank secrecy.

The most frequent activity types are the banking services offered through the international bank branches located in the offshore centers. The number of the financial institutions which offer services in the offshore centers and the number of local institutions is given in Appendix 1.

The banks don't exist in centers, or they are in minority. For instance, in Labuan-Malaysia there are only 49 offshore banks, Vanuatu has 34 offshore banks and 4 home banks, in Bahamas there are also 212 banks, from which 203 are offshore. Another example of offshore institution domination is Barbados with 199 insurance companies, from which 180 are offshore.

If we analyze the international business companies, they are plenty. For example, in the British Virgin Islands there are 350.000 international business companies, 47.000 in Bahamas and 35.500 in the Mau Islands.

The organization of offshore centers offers advantages and costs for the receiving countries. The advantages are (2):

- function expenses through the offshore institutions (banks, insurances);
- salary payments to institution public servants can be a major advantage;
- taxes on benefits and license rights are a revenue source for the receiving countries;

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<sup>1</sup> From a list of 44 contacted jurisdictions, 41 were assessed offshore.

- easier access to the international financial markets;
- increase of the local staff experience;

The costs for an offshore center for the host countries are:

- activating an expensive communication service;
- control making to follow minimum regulations, which induce the costs;
- losing the local currency independence;
- increased competition in local finance through international banks;

The offshore typology analysis shows three types:

(1) the New York type, where there is a special agreement of founding the offshore center such as N. York, Tokyo and Singapore;

The international activity accounts are different from the national accounts. The international accounts benefit from the reinforcement of some national activities mandatory restrictions (for example the mandatory reserves);

(2) the London type which is characterized by transaction liberalization for both residents and non-residents;

(3) the “high installment” (fiscal paradises) where there are no duties for non-resident transactions.

The offshore centers are used both as transaction counting centers and operation centers (3). London is a typical transaction operation center at large. Cayman is an example of transaction counting which takes place outside the center.

The fiscal paradises are used to:

- diminish the person’s duties;
- reduce taxes on civilians.

The fiscal paradises are one of the CFO forms concerned with diminishing taxation. In order to obtain such advantages, individuals can receive citizenship of CFO (actors, athletes). Company tax reduction is possible only for companies registered within the fiscal paradises.

## **2.Risks caused by CFO**

In the beginning, the activities and financial inset weakness in the offshore centers didn’t imply surveillance and assessment through international institutions due to the reduced deregulation risk for the international financial system.

Risks have increased once with the growth of the CFO activity and world financial market growth integration.

The CFO more important risks are:

- international financial destabilization;
- run away from taxation;
- bank crises;
- capital laundry and terrorism finance.

### **International financial destabilization**

If we consider the financial stability from the country’s point of view and not from the CFO’s, the aspect of the financial activity from the offshore center it’s not so important because it can regard tax evasion and diminish of the budget expenses.

But in host countries the offshore center, especially in small countries where there is a great inequality between the number of local and offshore institutions, the offshore activity can destabilize

the economy of the host country. This can lose its political currency independence and there can occur the possibility of a financial crisis.

From an international perspective, it is emphasized that today the centers wind hundreds billion dollars; the effective amount of the financial activities is large and it concerns many people from the world.

The IMF experts calculations which are based on data given by the BRI, suggests that the CFO cross-border assets were almost 4.6 trillion USA dollars (an average of the total cross-border assets), from which 0.9 trillion USA dollars in Caribbean and a trillion USA dollars in Asia. Most of it (2.7 trillion), is CFO assets from London, J'IBF (International Banking Facilities) from New York and JOM (Japanese Offshore Market)<sup>2</sup>.

Unfortunately, the smaller ones, the offshore financial centers are today about 20% from the cross-border banking outset.

Every year, about 60 thousand companies are registered in offshore centers. The deposit value in centers exceeds 1300 billion USA dollars. Their role is to transfer capital and manage growing assets. About 60% from the world assets are underwritten through offshore centers.

These aspects of the activities from the centers risk compromising the international financial stability. The abilities of the centers to attract global financial operations, imply an important surveillance factor against competition on the international market.

The competition and the benefit brought when it corresponds to the innovation tools and the financial products reduce the cost of the financial services all over.

But it is concerning when cost reduction comes from not obeying the regulations and control laws.

A jurisdiction that doesn't obey the minimal norms can be subjected to financial instability.

The absence of the reduced data regarding the operations from the centers still represents an obstacle in risk assessment for the international finance stability.

### **Run away from taxation**

Run away from taxation can be a movement of the activity in a fiscal paradise where taxation can be reduced in comparison to the native country. Moreover, registering an offshore company makes it not to pay taxes. The revenue level in the world hit taxation. The loss of budget revenues by the countries are estimated at 3% (Finland) and 23% (France).

The company Euron is an example of tax reduction due to the registration of 900 branches in the offshore centers. Euron created 692 branches in Caimans, 119 branches in the Turkish islands and Caicos, 43 in the Maurice Islands and 8 in the Bermuda. For three years, Euron didn't pay taxes and in the same time received VAT refund. In total, the bursary of the USA lost about 382 billion USA dollars. The recent obligations in branches, the creative compatibility and the audit considered distorted led to the fall of the Euron stock course, after the relevant information and eventually the Euron bankruptcy and destabilization of the capital market.

### **Banking crises**

The most important risk on the bank market is the bankruptcy of the offshore banks. For example, the famous case of bankruptcy of the Credit and International Trade Bank in 1991 and of the Meridian International Bank in 1995.

The operations of the offshore banks play an important role in the financial crisis from Latin America and Asia and now in the 2007 global crisis. The absence of the real regulations at the consolidated banks allowed arbitration operations to take place by frequent transfer between the offshore establishments and the offshore related banks.

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<sup>2</sup> Offshore Financial Centers – IMF Background Paper, June 23, 2000, p. 9.

More offshore banks from Asia are used for operation on the capital markets. They don't know the contribution of the offshore funds to the credits in the region. This is the cause of a liquidity risk on the exchange market and on the financial system of those countries.

Another risk is represented by the greater offshore banks in comparison with the onshore banks. The assets concentration in offshore banks produces a risk for the local banks. The solution doesn't consist only in a close surveillance of a CFO, but a consolidated surveillance in the origin countries is imposed. This is due to the fact that IMF introduced the financial vulnerability assessment for both: onshore and offshore centers.

### **Capital laundry and terrorism financing**

Nobody knows exactly what the actual level of world capital laundry is. The level is estimated to reach between 2 to 5% from the global GDP (4).

After September 11 2001, capital laundry and terrorism financing have become issues to be discussed globally.

The social and political costs of capital laundry are consistent. "Organized crime can be the core of the financial institutions, which can produce reduction in large economic sectors and can corrupt the political system. Dirty money also destabilizes the financial system of a country and supports a severe crisis."<sup>3</sup>) The offshore financial centers offer favorable conditions for such activities, due to the fact that the offshore financial centers assessment program contains FATF norms.

## **3. Results of the offshore financial centers assessment**

### **3.1. Initiatives of the international institutions**

The control authorities and a number of international courts work together on control issues on offshore financial centers activities. The analyzed issues regard less than three aspects: money laundry, fiscality and financial regulations. We should emphasize the role of IMF, GASI, OCDE and FSF among the institutions who deal with CFO.

The financial action group for capital laundry (FATF) deals with the implications of money laundry and terrorism financing at criminal and legal level.

In FATF last report it was signaled that from 12 centers, the anti-money laundry devise shows weak criticism. FATF publishes in his report a list of 15 "non-cooperative jurisdictions". This list was corrected in the sense that seven jurisdictions in progress were removed from the "non-cooperative" list from the countries territory, but they supported 6 new centers. In 2005 IMF and the World Bank made 48 FATF recommendations regarding the reference their operational activities register.

OCDE focuses on fraud, fiscal competition and fiscal regulation differences. It launched a project on "damaging fiscal practices", which regards the centers. OCDE published a list with 35 jurisdictions identified as a fiscal paradise ("high installment"). During the Barbados reunion, OCDE and the developing countries (CFO included) created a special group to deal with the regulations acceptable for the operations from the fiscal paradises.

The Financial Stability Forum (FSF) delegated the work group in April 1999 to study the implications of the offshore financial centers in the international financial stability.

The first report<sup>4</sup>) of the group regards the financial surveillance of the CFO, the second (May, 2005) classifies the centers in three categories according to the control quality, cooperation level and priority set for the future assessments.

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<sup>3</sup> Op. Cit. <sup>5</sup>).

<sup>4</sup> The report of the work group was published in April, 5th, 2005, it is available on the Forum site.

In the first group there are included the CFO which have the fiscal paradise status opposite the ones which use the regulations against the fiscal paradises. The second group regards the countries which are not fiscal paradises. And the third contains the countries which are occasionally included in the paradises list.

### **Other assessments**

The results of some of the CFO assessments are published in the following reports:

- “The Edwards Report”, published by the government of Great Britain in 1998, which assesses the centers situated on the territories from Great Britain (Jersey, Guernsey, Sark and the Man Islands);
- “The KPMG Report”, completed in 2000, assesses 6 overseas territories of Great Britain which offer offshore services (Caimans, the British Virgin Islands, Turk Islands and Caicos, Anguilla, Monserrat and Bermuda).
- “The Ad-Hock Group on Non Cooperative Jurisdictions”, created by FATF in 1998<sup>5</sup>, assessed 31 non cooperative jurisdictions, according to 25 criteria from the capital laundry point of view.
- A 15 non cooperative jurisdiction list was published as a result of this activity in 2000.

### **3.2. CFO assessment program by IMF**

In 1999, IMF together with the World Bank started the activities regarding CFO, by announcing an assessment program of the financial sector (PESF), launched as an experiment. The program consists of a health exam for the financial sector of the countries and allows interpretation of the macro caution indicators which shows the past crises. The assessment program (PESF) equally regards the offshore financial centers.

The program which assesses the offshore financial centers was launched by the IMF in 2000. It contains two groups (5):

- Financial control, containing the assessments;
- Technical assistance and statistics.

The assessment of the offshore financial centers is optional and it is achieved on three levels of intensity (6).

- The 1<sup>st</sup> module is a self-assessment, with the professionals’ technical assistance, if the PFO follows the regulations. It regards the PFO responsibility and it is an introduction to the independent assessment.
- The 2<sup>nd</sup> module is an independent assessment performed by the IMF on keeping the regulations.
- The 3<sup>rd</sup> module is a complete assessment, set by the IMF, of the risks and vulnerabilities if the presumptive international and regulation observance.

As the assessment in modules 2 and 3 is concerned, it can be achieved by a group of surveillance professionals from the surveillance agencies from the offshore centers, experts from the World Bank and additional experts as the one from FATF. In assessing the standards from each module, the priorities are decided according to the activated lead within the centers, insisting on the effort against capital laundry.

IMF supports the offshore centers to gather information which can allow voluntary self-assessment through its technical assistance. In 2004, 4.3% (7) from the technical assistance it was

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<sup>5</sup> <http://www.imf.org/external/rp/mae/osshore/2000/eng/role.htm>.

offered by IMF for the offshore financial centers and the fight against capital laundry and terrorism financing.

Technical assistance to support the centers decreases the statistics and especially helps their participation to the statistical data collection.

### 3.3. Results of the first CFO assessment stage

According to the IMF report from February 25, 2005 (8), the first stage of the CFO Assessment program was ended (1). 41 from 44 contracted jurisdictions were assessed and published in their reports. Within the 2<sup>nd</sup> module, 24 jurisdictions were assessed; 14 chose PSEF (Financial Sector Assessment Program). From the last three, one was assessed within the PSEF and two received technical assistance.

During the first stage the international norms were assessed, as follows:

- The basic principles from Bale – for a more effective financial control – were assessed in 41 jurisdictions and partially in one (Monaco).
- The basic AIS principles (Association Internationale des Controleurs d'Assurance) were assessed in 21 jurisdictions.
- The objectives and the regulation principles for the OICV securities (Organisation Internationale de Commissions des Valeurs) were assessed in 16 jurisdictions.
- The FATF norms (Groupe d'action financiere sur le blanchement de capitaux) were assessed in 25 jurisdictions.

Two jurisdictions (Nauru and Nine), whose activities were limited, weren't subjected to an assessment, but they received technical assistance. We should still add that the assessment doesn't hint the same centers: it is distinctive at the centers which don't take part in Module 1, Module 2 and in the assessment programs of the financial sector (PESF). The statistics background is not the same.

The assessment depends on the development level of the activity sector, especially of the banking sector, money laundry and terrorism financing, company and stock exchange markets, as well as suppliers and fiduciary services.

### BANKING SECTOR

The more important activities from the offshore centers are the banking services. More banks placed in CFO represent the branches and subsidiaries of the international banks. Their first activity is receiving deposits on different markets and their sending to their origin establishments.

The offshore banks make, in companies' accounts, capital tax free operations in foreign currency, on companies, value added, dividends or interest and exchange control. Banks offer special services to natural persons such as managing goods, successional planning, and currency trade and withdrawal regimes. Such proposals regard the non-banking services such as the fiduciary and surveillance services. Assets management in CFO is motivated by different factors: further protection against origin country quest, fiscal optimization.

The contribution of the financial sector in GDP in CFO is large enough.

But there is not enough information on the subject. For example, this indicator reaches 53% from GDP in Jersey, 40% in the Virgin British Islands, 25% in Gibraltar and only 7% in Barbados.

The number of banks registered in centers differs a lot: from one bank in Sf. Lucia to 427 in the Caiman Islands (appendix 1).

The extension of the cross-border financial assets in connection to the % GDP is enormous in certain centers. For example, in the last years, in the Caiman Islands, this indicator has risen to 56871%, in Guernsey to 7384% and in Jersey to 6879% from GDP. GDP is in these centers.



The results of the assessment are shown in Chart no. 1 on 27 offshore financial<sup>6)</sup>. Within the assessments, the compatibility level with the banking surveillance principles of the Basel Committees (BCP – Basel Core Principles)<sup>7)</sup>.

Chart no. 1 Level of compatibility with the Core Principles for an effective financial control

No.	Principle Title	Part of the centers consistent with the principles– in %		Number of assessed centers	
		In 60 <sup>th</sup> group	In 27 <sup>th</sup> group	In 60 <sup>th</sup> group	In 27 <sup>th</sup> group
1.	Effective systems:				
	• transparency, surveillance responsibility	87,0	80,8	60	26
	• independence and resources	60,0	61,5	60	26
	• legal framework	90,0	80,8	60	26
	• surveillance force	80,0	84,6	60	26
	• legal protection	60,2	96,2	59	26
	• information access	68,0	79,1	60	26
2.	Permitted activities	93,0	96,2	60	26
3.	License	85,0	80,8	60	26
4.	Property transfer	73,0	88,5	60	26
5.	Investment criterion	73,0	61,5	60	26
6.	Capitals justice	65,0	61,5	60	26
7.	Credit policy	60,0	50,0	60	26
8.	Loan assessment	71,0	53,8	60	26
9.	Risk exposure	75,0	65,4	60	26
10.	Associated loans	58,0	61,5	60	26
11.	Country risk	42,3	56,0	47	25
12.	Market risk	52,0	48,0	60	25
13.	Other risks	55,0	57,7	60	26
14.	Internal control	68,0	73,1	60	26
15.	Money laundry	50,0	80,8	60	26
16.	On-sit and off-sit surveillance	80,0	50,0	60	26
17.	Banking operations power of understanding	87,0	76,9	60	26
18.	Off-sit surveillance	70,0	76,9	60	26
19.	Independent assessment	80,0	69,2	60	26
20.	Consolidated surveillance	39,8	82,4	57	17
21.	Accountancy and trust	77,0	65,4	60	26
22.	Collective action	58,0	80,8	60	26
23.	Worldwide consolidated surveillance	58,3	82,4	43	17
24.	Host counties surveillance	67,5	88,2	48	17
25.	Foreign banks setting	71,4	87,5	59	24

<sup>6)</sup> Offshore Financial Center Program a Progress Report. Prepared by the Monetary and Exchange Affairs and Statistics Departments. March 14, 2009. IMF [www.imf.org/external/np/mae/oshore/2009/eng/031403.htm](http://www.imf.org/external/np/mae/oshore/2009/eng/031403.htm).

<sup>7)</sup> Core principles for effective banking supervision. Basel committee on Banking Supervision, Basel, September 1997.

Source: Report of OFC, Module 2 and FSAP Assessment: Offshore Financial Centers The assessment program: An Information Note. <http://www.imf.org/external/np/mae/offshore/2009/eng/082902.htm>

The chart list contains 25 principles. The results regard banking surveillance in 27 offshore centers<sup>8</sup>) which were compared with the assessment results from 60 countries (9 developed countries, 15 transition countries, 36 developing countries). The obtained results show the compatibility degree level with the principles, in 60 international financial centers and 27 offshore centers, which is relatively high. In certain cases, it is higher in the offshore centers just as in the cases of those 60 countries assessed within the program.

If we consider the compatibility level with the basic principles, two groups of countries distinguish in the offshore centers: countries with high compatibility level and countries with reduced compatibility.

About 35% from the countries show a reduced compatibility level with the Basel Committee Principles. These are countries with 1% offshore total assets. In average, these are not offshore banks and the assessment results show that the national banks surveillance principle is followed.

The great offshore centers, with an important activity, won't lose their good reputation and focus on the surveillance of the sectors which are connected to their cross-border activity and their business. Most of the centers are according to the surveillance principle exercised through the receiving countries (principle 24), and also with the consolidated surveillance principle (principle 20) and global consolidated surveillance (principle 23). Such a correspondence takes place in the case of the principle regarding the fight against capital laundry (principle 15).

When the activity of the offshore banks as lenders is reduced, the principles regarding the credit policy and loans classification are not met (principles 7 and 8).

The smaller centers are the ones who ignore the national banks surveillance principles (principle 16) and the market risk (principle 12).

In the same time, the centers are encouraged to increase their internal and external surveillance funds. On their side, the financial institutions wish to increase the services range which is a need of a greater correspondence to the principles limited to the market and credit risks.

The often cities lack in Basic Principles implementation for an effective banking control, concern the following fields:

- caution regulations and adequate capital (principles 6-14);
- control implementation methods (principles 16-19);
- place for the control authorities in the structure (principle 1).

Reductively, in about half of the organizations, the need for intensive activities in the field of bank risk management control was noticed. The banking customers' experience in the field of loans is reduced.

The control representatives have much knowledge on banking activities and banks, enhancing their use and complementary expertise use regarding, for example, the risks.

### **Fight against capital laundry and terrorism financing**

After 2002, IMF and the World Bank intensified the assessments regarding the fight against capital laundry and terrorism financing. The assessments for the offshore centers involve from now on a shield committed to the fight against money laundry and terrorism financing. The mission of offshore financial centers assessment allowed to raise certain points in drawing the national

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<sup>8</sup> Which are: Andorra, Anquilla, Aruba, Barbade, Belize, Iles Vierges britanniques, Costa Rica, Chypre, Gibraltar, Guernsey, Ile de Man, Jersey, Labuan (Malaesic), Lichtenstein, Macao, SAR, Luxemburg, Iles Marshall, Monserrat, Antilles neerlandaises, Polau, Panama, Sarura, Seychelles, Swiss, Bahamas, Vanuatu.

authorities intentions, of objective recommendations. Among the elements highlighted by the assessment, there are: the failure of the juridical frame and lack of efficiency against money laundry.

The most important lack of compatibility with the principles FATF HO + 8 standards is the surveillance weakness. The field whose demand is a control restatement belongs to the cooperative inter-agencies (home and cross-border) and the terrorism financing crime. The countries have the duty to take measures to reform the devices for fight against capital laundry and terrorism financing. The IMF action plan resorts to paying more attention to this fight, by consulting art. IV. But the quality and the effectiveness of the fight against terrorism financing were questioned.

IMF supports the jurisdictions by technical expertise and regulations and law forming drawing and enforcement.

The great countries can agree on taking some discriminating measures against the centers which don't follow the norms, for instance in the fiscal or financial field (market access, norms for inherent funds and special waivers).

The launched CFO assessment program was drawn to carry out two stages of achievement. The IMF managers decided that a second stage contains 4 elements:

- permanent surveillance of the CFO activities and standards conformity;
- surveillance system and CFO activities transparency;
- technical expertise development;
- increased collaboration among the organisms fixed by the norms and national and extraterritorial control bodies.

The existent weak points are still in more fields, such as:

- fight against capital laundry and terrorism financing;
- cross-border cooperation;
- exchange of information between jurisdictions.

The detection of the weak points supports the priority definition for future assessments.

### **Conclusions**

All of the above underline the idea that the offshore financial centers can cause risks for the stability of the entire international financial system. The international financial system destabilization risk, caused by the CFO, increases together with the increase of the financial markets and their activities in CFO. The assembly study confirms the thesis according to which the CFO surveillance and control are needed in order to diminish the risks.

The international norms implementation is an important factor in risk reduction. The implementation process of the international norms in CFO is advanced, but applying those norms is not identical in all the centers.

The assessment program of the offshore centers allowed obtaining needed information to identify risks. It is essential for the assessment results to be made public. The information transparency over the CFO activities and the international norms enforcement influences risk reduction connected to the centers and comes to replace CFO surveillance and control. The great CFO's are more advanced in the implementation of norms for their function which creates a better opinion over the international markets.

The offshore financial centers analyzes allow us to draw certain detailed conclusions:

It can be underlined that before the launching of the assessment programs of the offshore financial centers, there wasn't much information on the CFO activities and risks.

The assessment program identifies the risk and the weak points in CFO, but, in general, all the weak points are still hidden.

Assessment at the level of international norm conformation shows that norm obedience is increasing, but differentiated according to the activity forms and country. There are fields in which there is control reinforcement.

The strict execution of the new surveillance and control principles eliminate the risks, but the CFO costs increase.

In the future, the tax and exchange restrictions reduction in the international financial systems influence over the loss of the advantages connected to CFO creation and term equalization for the function of the financial markets.

The CFO role in the international financial system and the risk to set the international system is diminished with the progress achieved in uniting the terms, services effectiveness on the international markets and reduction of the differences in the financial centers.

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### Appendix 1:

#### The financial structure of the assessed jurisdictions

Jurisdictions/ countries	Number of banks		Number of insured companies		International Business companies	Number of investment funds	Stock exchange
	Total	From which offshore	Total	From which offshore			
<b><u>AFRICA</u></b> - Seychelles	7	1	4	2	...	0	No
<b><u>ASIA and PACIFIC</u></b>	49	49	...	6	...	17	Yes
- Labuan-	23	1	24	0	12	350	No
Malaysia	3	0	5	0	5200	0	No
- Macao SAR	12	0	...	...	0	...	No
- Iles Marshall	11	8	5	1	7553	0	...
- Palau	38	34	45	15	4478	0	...
- Samoa							
- Vanuatu							
<b><u>EUROPE</u></b>							
- Andorra	8	...	36	...	...	...	No
- Cyprus	43	31	69	17	20000	...	Yes
- Gibraltar	19	11	8	6	8800	44	...
- Guernsey	69	...	26	...	...	525	Yes
- Ile de Man	59	...	16	...	35514	128	No
- Jersey	62	...	179	...	21120	368	No
- Lichtenstein	17	...	16	...	...	81	Yes

– Luxembourg	189	...	94	...	...	1908	Yes
– Monaco	51	...	0	...	...	60	...
– Swiss	375	...	138	...	...	2700	Yes
<b><u>OCCIDENTAL</u></b>							
<b><u>EMISPHERE</u></b>	7	3	20	0	3041	...	Yes
– Anguilla	7	2	29	6	4950	...	No
– Aruba	212	203	...	...	47100	706	Yes
– Bahamas	63	56	199	180	3065	10	Yes
– Barbados	9	4	18	...	15000	...	No
– Belize	11	4	30	...	350000	2606	No
– Iles Vierges britanniques	13	11	2	0	50	...	Yes
– Montserrat	45	45	27	0	20000	600	No
– Antilles neerlandaises	80	26	24	...	...	...	Yes
– Panama							