

# Transparency is a Global Imperative

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The Task Force on Financial Integrity and Economic Development (Task Force) has developed a **Five-Point Plan** to increase transparency within the global financial system. The plan is a product of research and analysis conducted by Task Force member organizations: Tax Justice Network, Global Witness, Transparency International, and Global Financial Integrity and tackles key elements of a worldwide shadow financial system comprised of secrecy jurisdictions, disguised corporations, anonymous trust accounts, and fake foundations, which annually moves trillions of dollars in illicit money across borders.

Lack of transparency in the global financial system affects rich and poor countries alike:

- Lack of transparency lies at the heart of the current worldwide economic crisis by preventing accurate appraisal of the global problem with subprime mortgages and other collateralized debt obligations, credit default swaps, and derivatives contracts, while also deterring lending by impeding the ability of banks to assess the quality of assets.
- **Lack of transparency also facilitates the outflow of between \$800 billion-\$1.06 trillion from developing countries in what constitutes the most damaging condition affecting the poor today.** Illicit capital flight—a combination of commercial dirty money (assets shifted about by multinational corporations to reduce or eliminate their tax liabilities) and the proceeds of corruption, and crime—totaling hundreds of billions of dollars, quietly exit developing countries every year. This annual loss of money outpaces in-coming Official Development Assistance 10-to-1 and significantly undermines economic development and poverty alleviation efforts.

The Task Force plan calls for greatly improved reporting and information-sharing, more rigorous trade documentation standards, and harmonization of anti-money-laundering laws amongst all Financial Action Task Force cooperating countries. Overall, the plan would curtail the movement of illicit financial flows by exposing the key points at which corporate tax evaders, criminals, and kleptocrats disguise, transfer, and hide illicit assets.

When the UN General Assembly convenes in New York to discuss the global financial crisis and aid to developing countries, addressing the annual loss of hundreds of billions of dollars is essential. Discussions of actions to offset the impact of the global economic crisis on the developing world have centered on **quantities** of aid money to be expended. Yet as long as the shadow financial system exists, these countries will lack the ability to absorb incoming funds no matter what the quantity.

The Task Force plan would:

- curtail **trade mispricing** (a widely utilized tax avoidance technique of international businesses);
- require **country-by-country reporting** of sales, profits and taxes paid by multinational corporations;
- require confirmation of **beneficial ownership** in all banking and securities accounts;
- require **automatic cross-border exchange** of tax information on personal and business accounts; and
- **Harmonize predicate offenses** under anti-money laundering laws across all Financial Action Task Force cooperating countries.

The Task Force plan is both strategic and comprehensive and aims to increase information available in the public record, create multiple oversight mechanisms to review financial structures, and curtail tax evading activities.

Of the estimated \$1 trillion dollars of illicit funds currently moving annually out of developing countries, through the shadow financial system, at least 60 to 65 percent are the proceeds of corporate tax evasion. Multinational corporations have a well-documented tendency to shift assets between subsidiaries and misprice invoices for imports and exports to minimize tax liability. In recognition of the large role multinationals play in driving illicit financial flows, the Task Force plan's first three recommendations concern multinational business practices, while the latter two target secrecy jurisdictions and gaps in western finance laws.

The plan's five recommendations are as follow:

#### **TRADE MISPRICING**

**Action Item:** Require that the parties conducting a sale of goods or services in a cross-border transaction sign a statement in the commercial invoice certifying that no trade mispricing, or attempt to avoid duties or taxes, has taken place and that the transaction is priced using the OECD arms-length principle.

#### **COUNTRY-BY-COUNTRY REPORTING**

**Action Item:** Require that all multi-national corporations report sales, profits, and taxes paid in all jurisdictions in their audited annual reports and tax returns.

#### **BENEFICIAL OWNERSHIP**

**Action Item:** Require that the beneficial ownership, control and accounts of companies, trusts and foundations be readily available on public record to facilitate effective due diligence.

#### **AUTOMATIC EXCHANGE OF TAX INFORMATION**

**Action Item:** Require governments to collect from financial institutions data on income, gains, and property paid to non-resident individuals, corporations, and trusts and mandate the governments to automatically provide that information to the governments where the non-resident entity is located.

#### **ANTI-MONEY LAUNDERING**

**Action Item:** Require that predicate offenses for money laundering charges are harmonized at the most restrictive level and codified.

Enactment of policy which incorporates these recommendations would substantially curtail illicit financial outflows from developing countries and accelerate economic development efforts.

The Task Force is a unique global coalition of Governments and civil society groups focused on achieving greater transparency in the global financial system for the benefit of developing countries. Its membership includes participants from the Governments of Norway, Germany, The Netherlands, France, Spain, Chile, and Denmark, and international civil society groups including Tax Justice Network, Global Witness, Transparency International, Christian Aid, and Global Financial Integrity and more than 50 participating countries in the Leading Group on Solidarity Levies for Development.