INTERNATIONAL MONETARY FUND

OFFSHORE FINANCIAL CENTERS

The Assessment Program—An Update

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

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Appendix Tables

Acronyms and Abbreviations

AML	anti-money laundering
BCP	Basel Core Principles
CFT	combating the financing of terrorism
CY	calendar year
FATF	Financial Action Task Force
FSAP	Financial Sector Assessment Program
FSSA	Financial System Stability Assessment
IAIS	International Association of Insurance Supervisors
ICP	IAIS Insurance Core Principles
IOSCO	International Organization of Securities Commissions
OFC	offshore financial center
PPP	purchasing power parity
ROSC	Report on the Observance of Standards and Codes
SCP	IOSCO Objectives and Principles of Securities Regulation
TA	technical assistance

EXECUTIVE SUMMARY

The offshore financial center (OFC) assessment program was initiated in June 2000. In November 2003, the Board agreed that the program would become a standard part of the Fund's work.

The first phase of the program is now almost complete. Forty one of the 44 jurisdictions contacted at the start of the program have been assessed or are in the process of being assessed. Of the remaining three, assessment of one is being planned under the FSAP, and two are scheduled to receive technical assistance instead of assessments.

A large majority of the jurisdictions have opted to publish their reports. Of the 28 completed assessments, 26 have been published or are expected to publish, while two jurisdictions have opted not to publish their reports. Staff expects that of the remaining 13 reports under preparation, a majority will opt to publish.

The assessments have found that the shortcomings in the supervisory systems of the offshore financial centers result in the main from inadequate skills and numbers in their supervisory agencies, reflecting the lack of adequate resources. Wealthier OFCs have a much higher rate of compliance with the assessed standards in banking, insurance, securities, and AML/CFT, compared with jurisdictions with lower levels of income. This reflects in part, steps taken by them to strengthen their supervisory system ahead of or as a result of the assessment and their concern to protect the reputation of their financial industry. Lower income jurisdictions face a significant challenge to raise their supervisory and regulatory systems to the acceptable international standards. Enhancing arrangements for the sharing of information among sectors and across borders is also a priority given the cross-border nature of activities undertaken in OFCs.

In line with the November 2003 Board discussion, staff have begun implementing the next phase of the assessment program, focusing on the following four broad elements.

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

I. INTRODUCTION

1. The offshore financial center assessment program was initiated in June 2000 and reviewed by the Executive Board in November 2003. Directors welcomed the opportunity to review the program given the experience gained since its initiation (Buff/03/196). They commended the significant progress made by the program, and agreed that the program would become a standard part of the Fund's financial sector work. As requested by the Directors, this paper provides an update on the assessment program since the last report.

2. The paper is organized as follows. Section II summarizes the status of the assessments and report publication under the first phase of the program. Section III provides a brief description of the findings of the assessments. Section IV describes the initiatives staff is taking to implement the program approved by the Board in November. Appendix I lists the status of assessments with comments on jurisdictions based on their published assessments. Appendix II provides tables summarizing assessment findings.

II. STATUS OF ASSESSMENTS

3. **The first phase of the OFC assessment program is now almost complete.** Forty-one of the 44 contacted jurisdictions at the start of the program have been assessed or are in the process of being assessed either through a Module 2 assessment or under the Financial Sector Assessment Program (FSAP) (Table 1). A large majority of the participating jurisdictions have opted for a Module 2 assessment.[1] Of the remaining three jurisdictions, one is to be assessed under the FSAP in 2004/05 and the other two are scheduled to receive technical assistance instead of assessments in 2004.[2]

4. **While publication of assessments is voluntary, a large majority have opted to publish their reports.** Of the 41 assessments undertaken, 28 have been completed and the remaining 13 reports are in various stages of preparation. Of the 28 completed reports, 21 have been published and four jurisdictions have recently confirmed their intention to publish. Of the remaining three completed reports staff expects one jurisdiction to publish and two have opted not to publish. Of the 13 reports in preparation, staff expects 10 jurisdictions to opt to publish and one not to publish; the publication intentions of the remaining two jurisdictions is unknown (Appendix I, Tables 2 and 3).

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[1] A Module 2 assessment generally involves assessing the compliance of supervisory and regulatory systems with international standards in the banking sector, and, if significant, in the insurance and securities sectors. It also evaluates the effectiveness of the anti-money laundering and combating the financing of terrorism regime. Assessments under the FSAP, in addition to assessments of observance of relevant financial sector standards and codes, includes an assessment of risks to macroeconomic stability stemming from the financial sector and the capacity of the sector to absorb macroeconomic shocks.

[2] Assessment will be proposed if warranted by results of the technical assistance.

Table 1. Summary Status of Contacted Jurisdictions

	Total	FSAP	Module 2
Published or to be published [1/]	26	8	18
Ongoing or under review [2/]	13	6	7
Unpublished [3/]	2	0	2
Planned in CY 2004–05	1	1	0
Total jurisdictions assessed	**42**	**15**	**27**
TA scheduled in lieu of assessments in CY 2004	2	n.a.	n.a.
Total jurisdictions contacted	**44**		

[1/] 21 reports have been published, 4 jurisdictions have confirmed their intention to publish, and one is expected to publish.
[2/] 11 reports are under review and 2 assessments are ongoing.
[3/] 2 jurisdictions declined to publish.

5. **The assessments examine compliance with international standards in the financial sector.** Banking supervision and effectiveness of anti-money laundering and combating the financing of terrorism (AML/CFT) arrangements are examined in all jurisdictions, while assessments of securities regulation and insurance supervision are undertaken in those jurisdictions in which they are significant. Banking supervision is assessed relative to the Basel Core Principles for Effective Banking Supervision (BCP), insurance supervision is assessed relative to the Insurance Core Principles (ICP) issued by the International Association of Insurance Supervisors (IAIS), and securities regulation is assessed relative to the Objectives and Principles of Securities Regulation (SCP) issued by the International Organization of Securities Commissions (IOSCO). Compliance with BCP was assessed in 33 jurisdictions, with ICP in 21 jurisdictions, and with SCP in 17 jurisdictions.

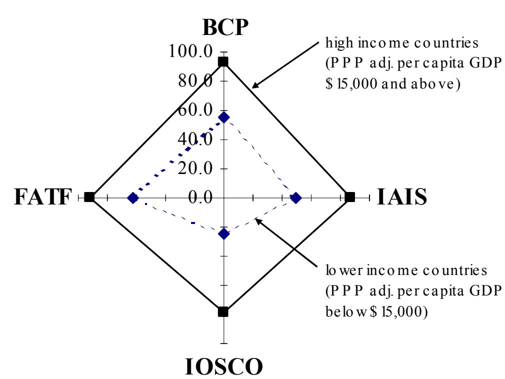
6. **The scope of the AML/CFT regime assessment has evolved since the start of the OFC program.** Since October 2002, the assessments have used the methodology endorsed by the Board, and therefore the AML/CFT regime has been assessed relative to the Forty Recommendations and the Eight Special Recommendations approved by the Financial Action Task Force (FATF). Prior to that, either the draft methodology available at the time of the assessment was used, or the anti-money laundering regime was assessed using the guidance provided by the standard setters in each sector. The results reported in this paper reflect assessments of the 17 OFC jurisdictions that were assessed using the October 2002 methodology.

III. Summary of Findings

7. **Compliance levels for OFCs are, on average, more favorable than those for other jurisdictions assessed by the Fund in its financial sector work** (Appendix II, Tables 4–7)**.** The higher financial standard compliance rates of OFCs reflect in part the higher income levels of the OFCs and their concerns to protect their reputation. For instance, in the comparison of compliance with the BCP, the average GDP per capita of the 33 OFCs is approximately twice the average of the 55 other jurisdictions with which it is compared.

8. **Nevertheless, shortcomings remain in the supervisory systems of many of the OFCs.**[3] These arise mainly from inadequate resources and expertise in the supervisory agencies located in OFCs with lower per capita income. Such shortages are reflected in lower conformity with principles concerned with the effectiveness of onsite supervision, and shortcomings in technical areas such as risk management, and guidance for financial institutions. The key findings do not differ materially from those presented in the last Board paper.[4]

Figure 1. International and Offshore Financial Centers: Level of Compliance with Basel, IAIS, IOSCO, and FATF Principles by Income Level



Average percentage of the number of principles found to be applicable and assessed as compliant or largely compliant. The further from the origin (0.0) the higher the level of compliance.

9. **Compliance with the standards tends to increase with the income of the jurisdiction assessed** (Figures 1, 2, and 3)**.** The higher level of compliance in the wealthier jurisdictions reflects, in many cases, measures they have taken to strengthen their supervisory and regulatory systems ahead, or as a result, of the assessments. The financial sector makes an important contribution to the economies of many of the higher income jurisdictions, and the jurisdictions have, therefore, taken steps to protect the financial industry from prudential and market integrity risks.

10. **While compliance rates were generally high in the areas relevant for their business, the assessments identified the following main areas of weakness.**

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[3] Several of the reports for which ratings are included, have not yet completed the review process, and results are therefore provisional.

[4] See *Offshore Financial Centers—The Assessment Program—A Progress Report and the Future of the Program*, August 2003 (SM/03/269).

- **Banking**. About 40 percent of the jurisdictions need to strengthen two key areas—supervisors' independence and resources, and onsite and offsite examinations, the backbone of supervision. The other principles for which OFCs' rate of compliance was low were related to oversight of banks' credit and market risk, which assessors judged less material (Table 4).

- **Insurance.** Onsite inspection was a key deficiency—with only about 50 percent of the assessed jurisdictions being rated observant or highly observant with the standard (Table 5).[5]

- **Securities.** About 60 percent of jurisdictions need to improve implementation of the standard in two areas: increasing powers provided to the supervisor, including more resources; and developing plans to deal with the failure of firms selling, or providing advice on, securities (market intermediaries) (Table 6).

- **AML/CFT.** About 40 percent of the assessed jurisdictions had deficiencies in AML rules and procedures applied to branches and subsidiaries located abroad, and 35 percent did not pay sufficient attention to transactions with higher risk countries and needed to strengthen measures to ensure that adequate AML programs were implemented in all supervised financial institutions. With respect to compliance with the standards for combating the financing of terrorism, 50 percent of the jurisdictions assessed need to strengthen measures to impose AML requirements on alternative remittance systems, and to assist other countries' financing of terrorism investigations (Table 7).

IV. Next Steps

11. **In line with the Board's November 2003 discussion (Buff/03/196), staff have begun to implement the next stage of the OFC program.** Directors emphasized that the OFC assessment program should continue to be guided by the Fund's mandate and expertise and agreed that the program should proceed based on the four broad elements highlighted below.

(i) Regular monitoring of OFCs' activities and compliance with supervisory standards. Staff has begun work with the jurisdictions to arrive at an information set to be furnished to the Fund on a regular basis for monitoring developments, and to help identify the need for follow up "risk focused" assessments. Updated assessments are also being scheduled, and staff expects to undertake eight such assessments in FY 2005.

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[5] In October, 2003, the IAIS introduced new Core Principles for insurance supervision. The assessments reported on here took place before the introduction of these new standards.

(ii) Improved transparency of OFC supervisory systems and activities. Staff is working with the jurisdictions to develop dissemination guidelines that can be used by the jurisdictions themselves to publish data on their activities, and their laws and regulations. Proposals would be presented later in the year at a follow up roundtable discussion involving onshore and offshore supervisors and standard setters. The issuance of Module 2 main reports as staff reports to the Board will commence with the next round of assessments.[6] Previously, the Module 2 reports were distributed to the Board only if the jurisdiction requested publication of the report. This will bring the treatment of Module 2 main reports in line with the treatment of FSSAs. Publication of Module 2 reports would remain voluntary, as are FSSA reports and ROSCs.

(iii) Technical assistance in collaboration with bilateral and multilateral donors. Technical assistance is being provided or is planned in 13 of the assessed lower income jurisdictions that have the resources and commitment to benefit from it (in some cases the TA is being provided on a regional basis). Many of these jurisdictions have expressed particular interest for technical assistance on AML/CFT. The lower income jurisdictions face the biggest challenge to build their supervisory capacity. Some of these jurisdictions with limited resources may first have to decide whether the benefits of developing a financial center will outweigh the cost of achieving internationally acceptable minimum supervisory standards. Staff is examining possible approaches for strengthening supervision in low income jurisdictions consistent with their resources, including the scope for possible outsourcing of supervisory functions with assistance from bilateral donors.

(iv) Collaboration with standards-setters and the onshore and offshore supervisors to strengthen standards and exchange of information. Enhancing arrangements for cooperation is a priority. Adequate cooperation and information sharing is crucial to controlling both prudential and financial integrity risk given the cross-border nature of activities undertaken in OFCs. While guidance on information exchange is available from standard setters, outstanding issues include sharing information among supervisors of different sectors (e.g., between banking and securities regulators) and sharing information for regulatory, compliance, and law enforcement purposes. A conference involving onshore and offshore supervisors and standard setters on cooperation and information-sharing is being planned for later in the year. Its objective would be to examine: (i) the limitations on cooperation and information sharing within each sector (e.g., banking, insurance and securities) and across sectors; (ii) review the different cooperative arrangements that have proved effective; and (iii) develop proposals and a work program to improve cooperation and information exchange across the range of jurisdictions. The results of this conference will also be presented at the follow up offshore roundtable discussion.

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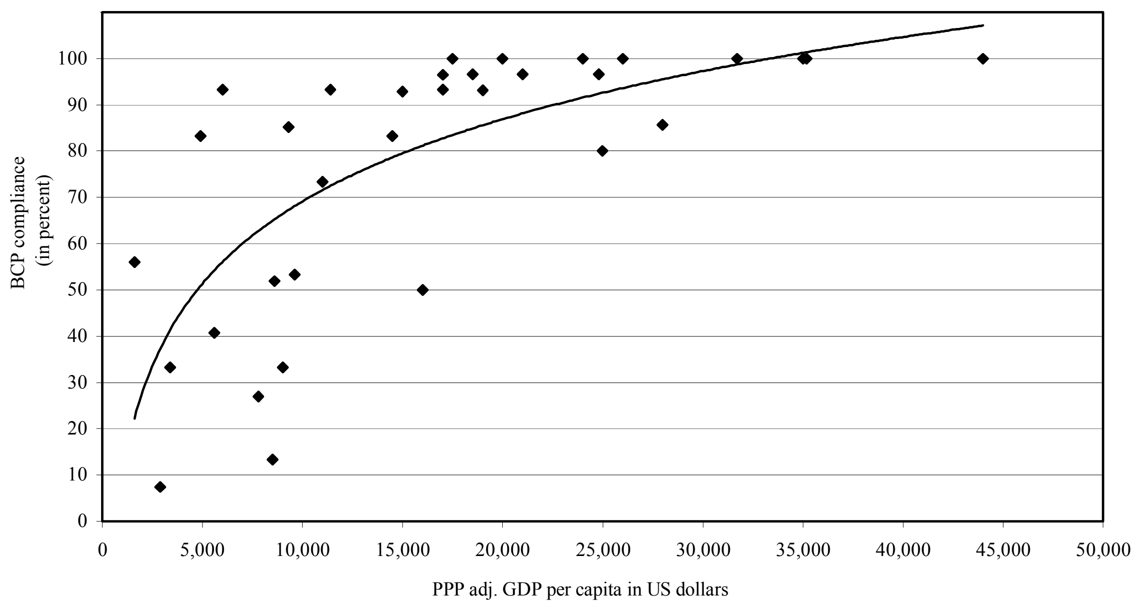
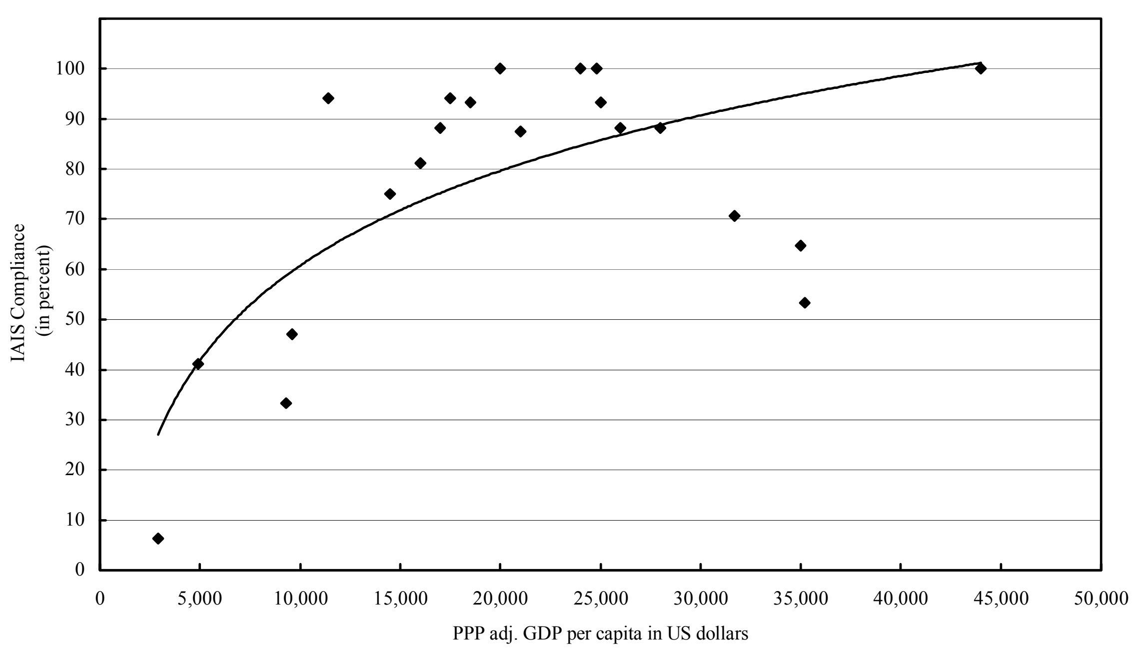
[6] Module 2 main reports would contain a description of financial center activities and of the supervisory system, ROSCs, and prioritized recommendations for correcting any deficiencies identified in ROSCs.

Figure 2. International and Offshore Financial Centers: Level of Compliance [1/] with Basel and IAIS Principles by Income Level

Level of Compliance with Basel Core Principles



Level of Compliance with IAIS Principles

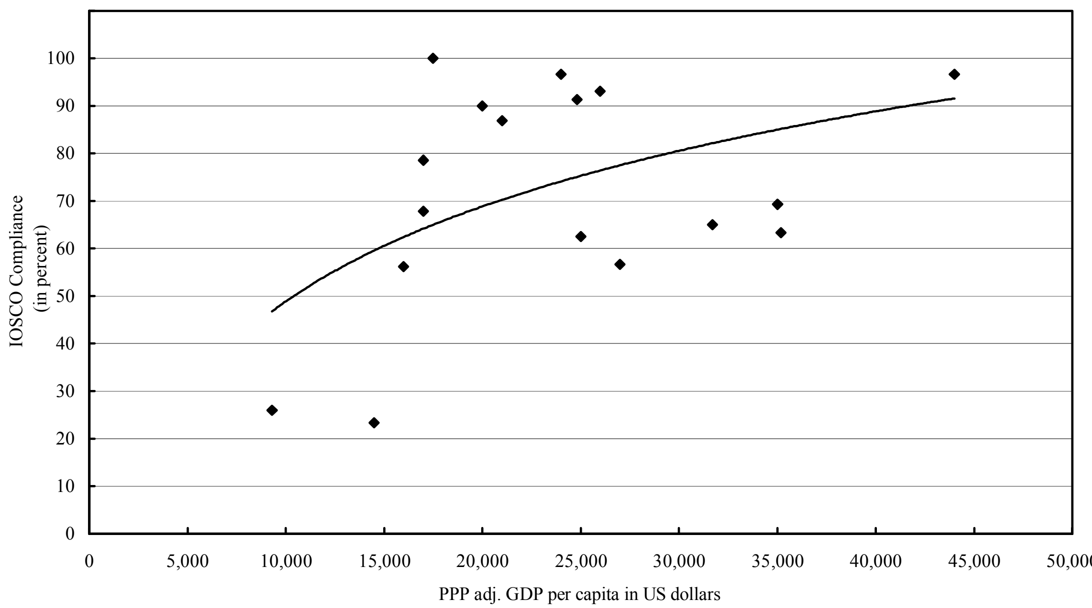


Source: Assessment reports for jurisdictions listed in Tables 4 and 5.

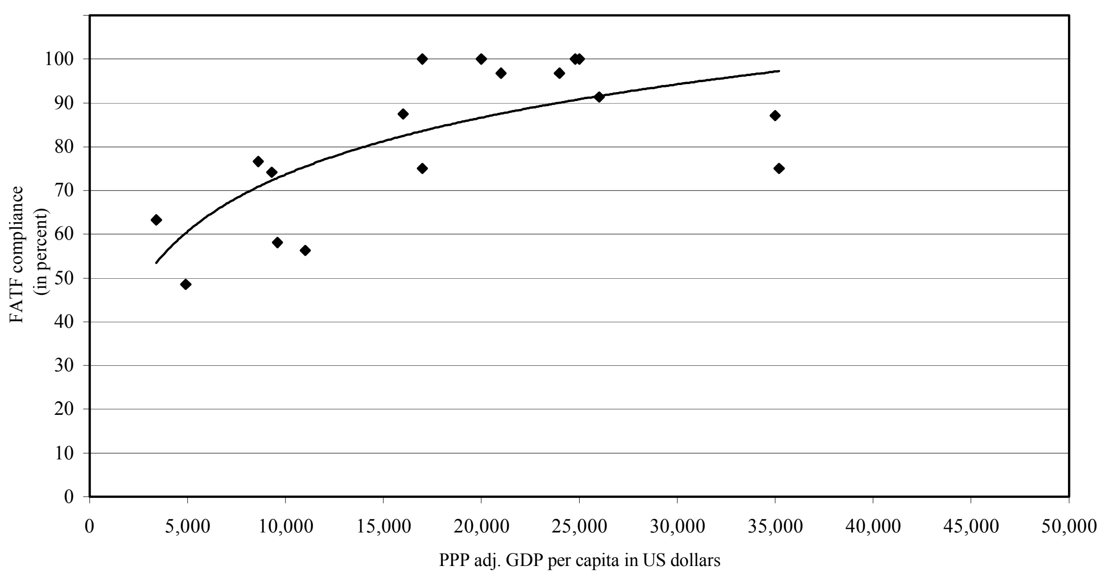
[1/] In percentage of the number of Basel/IAIS principles found to be applicable and assessed as compliant or largely compliant.

Figure 3. International and Offshore Financial Centers: Level of Compliance [1/] with IOSCO Principles and FATF Recommendations by Income Level

Level of Compliance with IOSCO Principles



Level of Compliance with FATF Recommendations



Source: Assessment reports for jurisdictions listed in Tables 6 and 7.

[1/] In percentage of the number of IOSCO principles/FATF recommendations found to be applicable and assessed as compliant or largely compliant.

ASSESSMENT STATUS

Table 2. International and Offshore Financial Centers Contacted—Module 2 Assessments

Jurisdiction	Year of Assessment [1/]	Assessment status [2/]	Publication status [3/]	Comments [4/]
Africa				
Seychelles	2002	completed	declined to publish	Standards assessed: BCP, FATF [5/].
Asia and the Pacific				
Cook Islands	2004	ongoing	to be published	Standards to be assessed: BCP, FATF [6/].
Macao SAR	2001	completed	published	Standards assessed: BCP, ICP. The results of the assessments indicate that supervision is generally effective and thorough. It meets most of the international standards with respect to banking and insurance. There is some scarcity of resources, resulting in insufficient onsite supervision in the insurance sector. Current anti- money laundering measures as they relate to the BCP, and the ICP Principles need strengthening.
Malaysia (Labuan)	2002	review	not expected to publish	Standards assessed: BCP, ICP, SCP, FATF [6/].
Marshall Islands	2002	completed	declined to publish	Standards assessed: BCP, FATF [5/]. Follow-up mission undertaken.
Nauru	2004	scheduled	n.a.	TA in lieu of assessment.
Niue	2004	scheduled	n.a.	TA in lieu of assessment.
Palau	2002	completed	to be published	Standards assessed: BCP, FATF [5/]. Follow-up mission undertaken.
Samoa	2002	completed	to be published	Standards assessed: BCP, FATF [5/].
Vanuatu	2002	completed	published	Standards assessed: BCP, ICP, FATF [5/]. The legal and regulatory framework for the offshore sector falls far short of international standards. With respect to the measures to combat money laundering and the financing of terrorism, Vanuatu has made important progress, but still has some way to go in making the system robust.

Table 2. International and Offshore Financial Centers Contacted—Module 2 Assessments				
Jurisdiction	Year of Assessment [1/]	Assessment status [2/]	Publication status [3/]	Comments [4/]
Europe				
Andorra	2002	completed	published	Standards assessed: BCP, FATF[5/]. The results of the assessment indicate that financial sector supervision is generally sound with respect to material activities of the financial system. This view largely reflects considerations of the supervision of banking activities, which represent in excess of 95 percent of all financial sector activities. There is a generally high compliance with international standards for anti-money laundering. The mission observed that the current framework for funding the supervisory agency is strained, with little capacity for increasing its level of activity, and that there is a cumbersome process to assure its independence.
Cyprus	2001	completed	published	Standards assessed: BCP. The mission undertook a BCP assessment of the supervision of the offshore banking sector. The results indicated that supervision was generally effective and thorough. There was some scarcity of resources, and this has meant that the amount of onsite supervision has been somewhat less than would be desirable.
Gibraltar	2001	completed	published	Standards assessed: BCP, ICP, SCP. The results of the assessments indicated that supervision is generally effective and thorough and that Gibraltar ranks as a well-developed supervisor. There is a high level of compliance with the BCP. Insurance is also supervised to a good standard. There is some scarcity of resources, and this has meant that the amount of onsite supervision has been somewhat less than desirable.

Table 2. International and Offshore Financial Centers Contacted—Module 2 Assessments				
Jurisdiction	Year of Assessment [1/]	Assessment status [2/]	Publication status [3/]	Comments [4/]
Guernsey	2002	completed	published	Standards assessed: BCP, ICP, SCP, FATF[6/]. The jurisdiction has been assessed to have a high level of compliance with the four standards. The authorities were encouraged to enhance the independence of the regulator, include safety, soundness, and integrity of the financial system as its objectives, address the resource deficit in the Banking Division; enhance certain powers and procedures, and enhance the legal framework on AML/CFT, broaden the coverage of the guidance notes in certain areas, and reinforce the communication of certain AML/CFT policies.
Isle of Man	2002	completed	published	Standards assessed: BCP, ICP, SCP, FATF[6/]. The jurisdiction has been assessed to have a high level of compliance with the four key standards. The authorities were encouraged to adopt legislation to provide for appropriate independence and accountability of the financial regulators; upgrade the onsite supervisory process; amend the legal framework on AML/CFT and broaden the coverage of the guidance notes in certain areas; and enact the Fiduciary Services Bill quickly.
Jersey	2002	completed	published	Standards assessed: BCP, ICP, SCP, FATF[6/]. The financial regulatory and supervisory system complies well with international standards. The authorities were encouraged to enhance the independence of the supervisory commission; increase its resources and improve its processes with respect to onsite banking supervision; issue instructions on onsite examination work in banking on matters related to prudential risks; introduce capital requirements for market risk; increase the staff of the insurance division and institute more frequent onsite inspections; and amend AML/CFT-related laws as recommended.

Table 2. International and Offshore Financial Centers Contacted—Module 2 Assessments				
Jurisdiction	Year of Assessment [1/]	Assessment status [2/]	Publication status [3/]	Comments [4/]
Liechtenstein	2002	completed	published	Standards assessed: BCP, ICP, SCP, FATF[6/]. With regard to BCP and SCP, the mission noted a high level of dedication in the supervisory authority and a good foundation of modern laws and regulations, but noted material weaknesses in the staff resources. For the ICP, the issue of resources was less pronounced but remained a concern. The mission observed a high level of compliance with the FATF standard.
Monaco	2002	completed	published	Standards assessed: BCP (partial), SCP, FATF[5/]. The banking sector is subject to French regulations and supervision. However, AML arrangements are a Monegasque responsibility, so the AML-related BCPs were assessed. The assessments found that, while the supervisory structure is relatively complex, current AML/CFT arrangements are sound and generally effective; and securities regulation as currently structured is effective within the Monegasque context of careful government planning of commercial activity. The mission found that the system would be enhanced by additional formal agreements for information exchange and cooperation, additions to the AML/CFT regime, and some fine-tuning of supervisory arrangements.
Western Hemisphere				
Anguilla	2002	completed	published	Standards assessed: BCP, FATF[6/]. Anguilla is in process of strengthening its legal and supervisory framework, which includes the creation of an operationally independent regulatory body. In the areas of AML/CFT, there has been progress in the legislative and regulatory framework but more intensified efforts are required to implement the legislation. Although Anguilla has recently licensed two offshore banks, it has still to put in place the necessary mechanisms for compliance with many of the BCP.

Table 2. International and Offshore Financial Centers Contacted—Module 2 Assessments				
Jurisdiction	Year of Assessment [1/]	Assessment status [2/]	Publication status [3/]	Comments [4/]
Aruba	2001	completed	published	Standards assessed: BCP, ICP. The authorities have successfully engaged in a process of rapid development and improvement of the system of rules and regulation, and in increasing its supervisory capacity. The mission recommended that the supervisor focus on more in-depth scrutiny of some of the key risks areas in banks. The law on regulation and supervision of the insurance sector had only been in force since July 1, 2001, and many implementation methods still need to be put in place.
Bahamas, The	2002	review	unknown	Standards assessed: BCP, SCP, FATF[6/].
Belize	2003	review	expected	Standards assessed: BCP, ICP, FATF[6/].
Bermuda	2003	review	unknown	Standards assessed: BCP, ICP, SCP, FATF[6/].
British Virgin Islands	2002	completed	to be published	Standards assessed: BCP, ICP, FATF[6/].
Cayman Islands	2003	review	expected	Standards assessed: BCP, ICP, SCP, FATF[6/].
Montserrat	2002	completed	published	Standards assessed: BCP, FATF[6/]. The volcanic eruptions effectively suspended financial sector supervision in the offshore sector between 1996 and 1999. The whole supervisory process resumed almost from scratch after 1999 Montserrat is materially non-compliant or non-compliant with most of the BCPs, particularly those relating to prudential requirements and supervision. However, the legal framework relating to autonomy and supervisory powers was found to be relatively sound particularly with regards to BCPs on licensing and information sharing. Where progress has been achieved in developing a comprehensive AML/CFT legislative and regulatory framework, significant gaps remain in its implementation, particularly in the offshore banking sector.
Netherlands Antilles	2002	completed	expected	Standards assessed: BCP, ICP, FATF[5/].

Table 2. International and Offshore Financial Centers Contacted—Module 2 Assessments

Jurisdiction	Year of Assessment [1/]	Assessment status [2/]	Publication status [3/]	Comments [4/]
Panama	2001	completed	published	Standard assessed: BCP. Module 2 assessment validates that Panama has achieved substantial progress towards putting in place a supervisory and regulatory framework for the banking system that meets most international standards. While Panama was compliant or largely compliant with 23 of the 25 BCPs, the remaining two, offsite monitoring and investment activities, showed shortcomings in analysis of financial factors. Follow-up assessment planned.
Turks and Caicos Islands	2003	review	to be published	Standards assessed: BCP, FATF[6/].

Notes:
[1/] Refers to calendar year of mission.
[2/] The categories in the table have the following meanings:
completed = assessment mission and review have been completed;
ongoing = missions are underway, or reports are being prepared for review;
review = assessment undergoing IMF's internal review, receiving comments from authorities, or report being finalized;
scheduled = a date for the assessment has been agreed with the authorities.
[3/] The categories in the table have the following meanings:
declined to publish = jurisdiction opted not to publish the completed report;
unknown = the jurisdiction's publication intention is not known;
published = the assessment report (s) has been published. See http://www.imf.org/external/np/ofca/ofca.asp;
not expected to publish = jurisdiction has indicated that they don't expect to publish when the report is completed;
n.a. = not applicable;
expected = jurisdiction is expected to publish the assessment (staff estimate);
to be published = jurisdiction has indicated its intention to publish.
[4/] Indicates areas of formal assessment and provides brief summaries of findings for reports that are published. These summaries relate only to the situation encountered at the time of the assessment, and do not reflect any subsequent changes. BCP = Basel Core Principles, ICP = IAIS Core Principles, SCP = IOSCO Objectives and Principles, FATF = FATF Forty Recommendations against Money Laundering and Eight Special Recommendations on Terrorist Financing.
[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.

Table 3. International and Offshore Financial Centers Contacted—Assessments under the FSAP

Jurisdiction	Year of Assessment [1/]	Assessment status [2/]	Publication status [3/]	Comments [4/]
Africa				
Mauritius	2002	completed	published	Standards assessed: BCP, FATF[5/]. The assessment of standards and codes found that the authorities have made substantial progress and are upgrading key financial sector legislation and regulations. The supervisory and regulatory framework would be further strengthened by implementation of recommendations regarding consolidated supervision, monitoring of group exposure, supervisory focus on operational risk, and further strengthening the legal and institutional framework for AML/CFT.
Asia and the Pacific				
Hong Kong SAR	2002	completed	published	Standards assessed: BCP, ICP, SCP, FATF[5/]. The financial sector regulatory system is well developed by international standards. In the banking sector the main supervisory challenges relate to enhancing measures for credit risk and risks associated with banks' activities in the insurance and securities' markets. The securities regulatory regime is undergoing modernization and reform. The insurance sector is posing new supervisory challenges with high supervisory reliance on the actuarial system in the absence of proper standards for the approval of an appointed actuary. The regulatory and supervisory framework for AML/CFT is largely in place though the assessment found a weakness in the oversight of remittance agents and money changers.
Singapore	2002	completed	to be published	Standards assessed: BCP, ICP, SCP, FATF[5/].
Middle East				
Bahrain	2004-05	planned	n.a.	n.a.

Table 3. International and Offshore Financial Centers Contacted—Assessments under the FSAP				
Jurisdiction	Year of Assessment [1/]	Assessment status[2/]	Publication status [3/]	Comments [4/]
Europe				
Luxembourg	2001	completed	published	Standards assessed: BCP, ICP, SCP, FATF[6/]. The mission found strong conformance with supervisory and regulatory principles with reliance on the work of external auditors in the banking and securities industries. The mission recommended improving the capacity of the insurance supervisor. The authorities have undertaken a comprehensive Action Plan in order to further strengthen and reinforce their AML policies.
Malta	2002	completed	published	Standards assessed: BCP, ICP, SCP, FATF[5/]. The Maltese authorities have a comprehensive legal framework and strongly adhere to most international standards and codes. Nevertheless, the overall supervisory framework could be improved by establishing effective cooperation between the single financial regulator and the central bank, by clearly delineating their respective roles in capital markets supervision, and by improving the supervision of insurance company internal controls and investment policies. The authorities should ensure that the financing of terrorism is fully criminalized, and that the newly introduced elements of the comprehensive methodology should be swiftly implemented.
Switzerland	2001	completed	published	Standards assessed: BCP, ICP, SCP, FATF[6/]. The supervisory system is effective and has been strengthened in recent years in terms of quality and quantity, with a focus on large institutions and a more risk-based approach. External auditors and self-regulatory bodies play a key role in the supervisory process, and staff notes that this approach would benefit from a more formalized quality assurance program for supervising external auditors. Staff favored rapid adoption of the new law on insurance, and notes that the supervisors would benefit from clearer enforcement powers. Staff recommended that all asset managers be brought within the overall prudential regulatory framework. The Swiss AML regime in the financial supervisory area is broadly in line with international best practice.

Table 3. International and Offshore Financial Centers Contacted—Assessments under the FSAP

Jurisdiction	Year of Assessment [1/]	Assessment status[2/]	Publication status [3/]	Comments [4/]
Western Hemisphere				
Antigua and Barbuda	2004	ongoing	expected	BCP, FATF[5/].
Barbados	2002	completed	published	Standards assessed: BCP, ICP, SCP, FATF[6/]. Compliance with international supervisory standards is high both in the onshore and the offshore banking sectors. There are serious weaknesses in the regulatory and supervisory framework for insurance arising in the organization and resources of the supervisor, implementation of prudential rules, and onsite inspections. There is a low level of capital market activity, nevertheless implementation of the SCP in line with international standards require effective inspections and prudential and regulatory requirements. The authorities have worked hard to develop an effective framework for AML/CFT - the degree of effectiveness is commensurate with the broader supervision in each sector.
Costa Rica	2001	completed	published	Standards assessed: BCP. As of end-2001, a substantial part of the financial system (particularly offshore banking) was not subject to regulation and supervision. However, since then, in response to concerns raised by the FSAP, important reforms were undertaken. These included efforts to enable consolidated cross-border supervision, a new regulatory framework for financial groups, training in risk management for supervisors, accounting standards, and new know-your-customer guidelines.

Table 3. International and Offshore Financial Centers Contacted—Assessments under the FSAP

Jurisdiction	Year of Assessment [1/]	Assessment status[2/]	Publication status [3/]	Comments [4/]
Dominica	2003	review	expected	Standards assessed: BCP, FATF[5/].
Grenada	2003	review	expected	Standards assessed: BCP, FATF[5/].
St. Kitts and Nevis	2003	review	expected	Standards assessed: BCP, FATF[5/].
St. Lucia	2003	review	expected	Standards assessed: BCP, FATF[5/].
St. Vincent and the Grenadines	2003	review	expected	Standards assessed: BCP, FATF[5/].

Notes:
[1/] Calendar year of first mission.
[2/] The categories in the table have the following meanings:
completed = assessment mission and review have been completed;
review = assessment undergoing IMF and/or World Bank internal review, receiving comments from authorities, or report being finalized;
planned = the scheduling of an FSAP is under discussion with the authorities;
ongoing = missions are underway, or reports are being prepared for review.
[3/] The categories in the table have the following meanings:
published = the Financial System Stability Assessment (FSSA) has been published. See http://www.imf.org/ at the relevant country pages;
unknown = the jurisdiction's publication intention is not known;
n.a. = not applicable;
expected = jurisdiction is expected to publish the assessment (staff estimate).
[4/] Indicates areas of formal assessment and provides brief summaries of findings for reports that are published. These summaries relate only to the situation encountered at the time of the assessment, and do not reflect any subsequent changes. BCP = Basel Core Principles, ICP = IAIS Core Principles, SCP = IOSCO Objectives and Principles, FATF = FATF Forty Recommendations against Money Laundering and Eight Special Recommendations on Terrorist Financing.
[5/] The AML/CFT standard was assessed relative to the October 2002 methodology endorsed by FATF and the Fund.
[6/] The AML/CFT standard was assessed using draft versions of the methodology available at the time of the assessment.

Table 4. Profile of Overall Compliance with Basel Core Principles

	Jurisdictions found compliant with BCP [1/] (in percent)	
Basel Core Principles	Assessed jurisdictions [2/]	International and offshore financial centers [3/]
1. Preconditions for Effective Banking Supervision		
1.1 Clear supervisory responsibility	95	85
1.2 Independence and resources	60	67
1.3 Legal framework	93	85
1.4 Supervisory powers	76	88
1.5 Legal protection	67	97
1.6 Information sharing	65	82
Licensing and Structure		
2. Permissible activities	91	97
3. Licensing	82	88
4. Transfer of ownership	73	91
5. Investment criteria	76	70
Prudential Regulations and Requirements		
6. Capital adequacy	62	70
7. Credit policies	62	64
8. Loan evaluation	67	67
9. Large exposures	71	70
10. Connected lending	53	67
11. Country risk	37	63
12. Market risks	45	56
13. Other risks	47	61
14. Internal controls	62	76
15. Money laundering	45	76
Methods of Ongoing Banking Supervision		
16. Onsite and offsite supervision	78	61
17. Understanding banks' operations	84	85
18. Offsite supervision	69	82
19. Independent validation	76	73
20. Consolidated supervision	33	79
Information Requirements		
21. Accounting and disclosure	69	76
Formal Powers of Supervisors		
22. Corrective action	55	82
Cross-Border Banking		
23. Global consolidated supervision	59	83
24. Host country supervision	69	88
25. Foreign banks' establishments	72	87

Sources: Assessment reports.

[1/] In percentage of the number of jurisdictions in which the BCP was found to be applicable and was assessed as compliant or largely compliant.

[2/] Results of 55 assessments excluding offshore centers.

[3/] The BCP assessments for the following jurisdictions are reflected here: Andorra, Anguilla, Aruba, Bahamas, The, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Costa Rica, Cyprus, Gibraltar, Guernsey, Hong Kong SAR, Isle of Man, Jersey, Labuan (Malaysia), Liechtenstein, Luxembourg, Macao SAR, Malta, Marshall Islands, Mauritius, Montserrat, Netherlands Antilles, Palau, Panama, Samoa, Seychelles, Singapore, Switzerland, Turks and Caicos, and Vanuatu.

Table 5. Profile of Overall Observance of IAIS Core Principles

IAIS Core Principles	Jurisdictions in which ICP observed [1/] (in percent) Assessed jurisdictions [2/]	International and offshore financial centers [3/]
Organization of an Insurance Supervisor		
1. Organization of an Insurance Supervisor	64	67
Licensing and Changes in Control		
2. Licensing	89	90
3. Changes in control	72	86
Corporate Governance		
4. Corporate governance	28	56
Internal Controls		
5. Internal controls	39	62
Prudential Rules		
6. Assets	58	70
7. Liabilities	86	76
8. Capital adequacy and solvency	83	81
9. Derivatives and "off-balance sheet" items	52	72
10. Reinsurance	71	76
Market Conduct		
11. Market conduct	48	67
Monitoring		
12. Financial reporting	92	76
13. Onsite inspections	81	48
Sanction		
14. Sanctions	86	95
Cross-Border Business Operations		
15. Cross-border business operations	85	90
Coordination, Cooperation, Confidentiality		
16. Coordination and cooperation	74	81
17. Confidentiality	97	100

Sources: Assessment reports.

[1/] In percentage of the number of jurisdictions in which the ICP was found to be applicable and was assessed as observed or largely observed.
[2/] Results of 36 assessments excluding offshore centers.
[3/] The ICP assessments of the following jurisdictions are reflected here: Aruba, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Gibraltar, Guernsey, Hong Kong SAR, Isle of Man, Jersey, Labuan (Malaysia), Liechtenstein, Luxembourg, Macao SAR, Malta, Netherlands Antilles, Singapore, Switzerland, Turks and Caicos Islands, and Vanuatu.

Table 6. Profile of Overall Implementation of IOSCO Objectives and Principles

IOSCO Objectives and Principles	Jurisdictions in which SCP implemented [1/] (in percent) Assessed jurisdictions [2/]	International and offshore financial centers [3/]
Principles relating to the Regulator		
1. Clear regulatory objectives	85	82
2. Independence and accountability	38	53
3. Supervisory powers	44	41
4. Consistent regulatory processes	76	88
5. Professional regulatory staff	79	94
Principles for Self-Regulation		
6. Use of self-regulatory Organizations (SROs)	74	100
7. Oversight of SROs	55	50
Principles for the Enforcement of Securities Regulation		
8. Regulatory powers	58	65
9. Enforcement powers	53	76
10. Effective compliance program	32	71
Principles for Cooperation in Regulation		
11. Information sharing	50	65
12. Information sharing mechanisms	47	69
13. Cooperation with foreign regulators	55	76
Principles for Issuers		
14. Disclosure of issuers	52	67
15. Equal property rights	48	64
16. Accounting and auditing standards	50	88
Principles for Collective Investment Schemes		
17. Collective investment schemes	59	71
18. Legal framework	76	76
19. Disclosure for investors	70	76
20. Asset valuation of a collective investment schemes	58	71
Principles for Market Intermediaries		
21. Market intermediaries: minimum entry standards	81	75
22. Market intermediaries: prudential requirements	47	81
23. Market intermediaries: management	54	69
24. Market intermediaries: failure	46	44
Principles for the Secondary Market		
25. Trading systems	79	80
26. Integrity of markets	70	80
27. Transparency	74	91
28. Control of manipulation trading practices	34	79
29. Management of large exposures	63	56
30. Clearing and settlement system	64	63

Sources: Assessment reports.

[1/] In percentage of the number of jurisdictions in which the principle was found to be applicable and was assessed as implemented or largely implemented.
[2/] Results of 36 assessments excluding offshore centers.
[3/] The IOSCO assessments of the following jurisdictions are reflected here: Bahamas, The, Barbados, Bermuda, British Virgin Islands, Cayman Islands, Gibraltar, Guernsey, Hong Kong SAR, Isle of Man, Jersey, Labuan (Malaysia), Liechtenstein, Luxembourg, Malta, Monaco, Singapore, and Switzerland.

Table 7. Profile of Overall Compliance with FATF Recommendations

FATF Recommendations	Jurisdictions in which FATF implemented 1/ (in percent)	
	Assessed jurisdictions 2/	International and offshore financial centers 3/
The Forty Recommendations		
1 – Ratification and implementation of the Vienna Convention	86	94
2 – Secrecy laws consistent with the 40 Recommendations	78	76
3 – Multilateral cooperation and mutual legal assistance in combating ML	61	94
4 – ML a criminal offense (Vienna Convention) based on drug ML and other serious offenses	83	100
5 – Knowing ML activity a criminal offense (Vienna Convention)	83	94
7 – Legal and administrative conditions for provisional measures, such as freezing, seizing, and confiscation (Vienna Convention)	78	94
8 – FATF Recommendations 10 to 29 applied to non-bank financial institutions (e.g. foreign exchange houses)	33	100
10 – Prohibition of anonymous accounts and implementation of customer identification policies	70	76
11 – Obligation to take reasonable measures to obtain information about customer identity	58	71
12 – Comprehensive record keeping for five years of transactions, accounts, correspondence, and customer identification documents	70	82
14 – Detection and analysis of unusual large or otherwise suspicious transactions	43	71
15 – If financial institutions suspect that funds stem from a criminal activity, they should be required to report promptly their suspicions to the FIU	58	82
16 – Legal protection for financial institutions, their directors and staff if they report their suspicions in good faith to the FIU	78	100
17 – Directors, officers and employees, should not warn customers when information relating to them is reported to the FIU	78	94
18 – Compliance with instructions for suspicious transactions reporting	61	94
19 – Internal policies, procedures, controls, audit, and training programs	52	82
20 – AML rules and procedures applied to branches and subsidiaries located abroad	58	62
21 – Special attention given to transactions with higher risk countries	46	65
26 – Adequate AML programs in supervised banks, financial institutions or intermediaries; authority to cooperate with judicial and law enforcement	52	65
28 – Guidelines for suspicious transactions' detection	38	94
29 – Preventing control of, or significant participation in financial institutions by criminals	61	94
32 – International exchange of information relating to suspicious transactions, and to persons or corporations involved	54	88
33 – Bilateral or multilateral agreement on information exchange when legal standards are different should not affect willingness to provide mutual assistance	77	93
34 – Bilateral and multilateral agreements and arrangements for widest possible range of mutual assistance	74	76
37 – Existence of procedures for mutual assistance in criminal matters for production of records, search of persons and premises, seizure and obtaining of evidence for ML investigations and prosecution	63	71
38 – Authority to take expeditious actions in response to foreign countries' requests to identify, freeze, seize and confiscate proceeds or other property	70	88
40 – ML an extraditable offense	71	82
Eight Special Recommendations on Terrorist Financing		
SR I – Take steps to ratify and implement relevant United Nations instruments	62	71
SR II – Criminalize the FT and terrorist organizations	39	82
SR III – Freeze and confiscate terrorist assets	52	76
SR IV – Report suspicious transactions linked to terrorism	43	80
SR V – Provide assistance to other countries' FT investigations	52	50
SR VI – Impose AML requirements on alternative remittance systems	33	50
SR VII – Strengthen customer identification measures for wire transfers 4/	32	45
SR VIII – Ensure that entities, in particular nonprofit organizations, cannot be misused to finance terrorism 5/	33	n.a.

Sources: Assessment reports.

1/ In percentage of the number of jurisdictions in which the recommendation was found to be applicable and was assessed as compliant or largely compliant.
2/ Results of 24 assessments excluding offshore centers.
3/ The assessments of the following jurisdictions are reflected here: Anguilla, Bahamas, The, Belize, Bermuda, British Virgin Islands, Cayman Islands, Guernsey, Hong Kong SAR, Isle of Man, Jersey, Labuan (Malaysia), Liechtenstein, Malta, Mauritius, Montserrat, Singapore, and Turks and Caicos Islands.
4/ Sixty percent of jurisdictions have been rated noncompliant with SRVII. However, assessors treated this recommendation differently. The FATF has allowed two years for compliance. As a result, several assessors provided no rating, others rated noncompliant. Given these differences, we have the result in this summary.
5/ SR VIII was assessed in only 3 jurisdictions, none of which were international and offshore centers.