

**OECD SECRETARY-GENERAL  
REPORT TO G20 FINANCE  
MINISTERS**

**Cairns, Australia  
September 2014**



**G20** 

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# **OECD SECRETARY-GENERAL REPORT TO THE G20 FINANCE MINISTERS AND CENTRAL BANK GOVERNORS**

**CAIRNS, AUSTRALIA**

**SEPTEMBER 2014**

This report consists of two parts. Part I is a report by the OECD Secretary-General regarding (A) the G20/OECD Base Erosion and Profit Shifting (BEPS) Project; (B) the single global common standard on Automatic Exchange of Information; and (C) Tax and Development. Part II is a Progress Report to the G20 by the Global Forum on Transparency and Exchange of Information for Tax Purposes.

# Introduction

In April 2009, the G20 put addressing tax evasion at the top of its agenda, marking a step change in the fight to effectively tackle tax evasion through tools that support enhanced transparency and improved exchange of information between jurisdictions. Since 2009, progress towards transparency has been massive thanks to your political support. With the move towards automatic exchange of information, based on the standard included in this Report, you have made it possible to track unreported income. The era of bank secrecy is really coming to an end and this is a key achievement of the G20.

Alongside these moves, you have rightfully assessed that the deficiencies of the international tax framework were putting the integrity of our tax systems at risk. We need to facilitate cross border investments by the elimination of double taxation and we need to ensure that the rules do not result in double non taxation, as this is unfair to taxpayers, inefficient from an economic perspective and damaging for public finance. After the mandate received from your Leaders to work on base erosion and profit shifting (BEPS) at the Los Cabos Summit in 2012, our Plan to address BEPS was endorsed at the Saint Petersburg Summit in September 2013. I am glad to report to you on the first seven deliverables which will address BEPS and the need to increase certainty for taxpayers.

Working closely with you on both issues, the OECD has responded and is now delivering. Over the past 5 years we have partnered with you, making sure that all G20 countries are on an equal footing, applying innovative approaches to develop real solutions that are already having an important impact on tackling tax evasion, as well as changing the international tax rules to restore integrity to our tax systems.

This report sets out the progress on these areas:

- The **OECD/G20 BEPS Project** delivers the first outputs of the BEPS Action Plan, with measures developed by OECD and G20 members working together, and agreed by consensus;
- A single common global standard on **Automatic Exchange of Information (AEOI)**, the “next generational” tool to address tax evasion, has now been finalised, including all the technical modalities, and is ready for implementation;
- Highlights the **specific challenges faced by low income countries in tackling key international tax issues**, including BEPS, and in fighting illicit financial flows including tax evasion.
- The **Global Forum on Transparency and Exchange of Information for Tax Purposes** has continued to closely review jurisdictions’ commitments to the international standard for exchange of information on request, determining overall country ratings, and also outlining a process to monitor commitments to AEOI and a roadmap for developing countries seeking to implement AEOI effectively.

As identified by the G20, cross-cutting each of these global challenges is the need to ensure global solutions. From the Global Forum, where developing countries represent more than 50% of the membership, to dedicated, in-depth regional consultations on BEPS which have involved more than 80 low and middle-income countries, we are engaging closely in a dialogue with developing countries.

In 5 years, by working together we have transformed the landscape on tax transparency, and taken the first steps to reform the international tax rules. Working hand in hand, we have overcome differences in approaches and we are all benefitting from the fruits of our cooperation.

The strong progress we have made together is clear; however vigilant support for the international tax agenda must be maintained. Re-establishing the integrity of the global tax rules and restoring trust will not only ensure a more resilient and balanced tax system, but also support efforts to combat corruption and money-laundering, and support economies based on a more level playing field for business and governments.

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# PART I

OECD SECRETARY-GENERAL REPORT  
TO THE G20 FINANCE MINISTERS AND CENTRAL BANK GOVERNORS

## Base Erosion and Profit Shifting (BEPS) Automatic Exchange of Information Tax and Development

SEPTEMBER 2014

## A – BASE EROSION AND PROFIT SHIFTING (BEPS)

### *Overview*

**In Saint Petersburg in September 2013, the G20 Leaders endorsed an Action Plan to address base erosion and profit shifting (BEPS).** BEPS refers to tax planning that makes use of gaps in the interaction of different tax systems to artificially reduce taxable income or shift profits to low-tax jurisdictions in which little or no economic activity is performed, resulting in little or no overall corporate tax being paid.

**In response to this call, the OECD/G20 BEPS Project was launched to develop the measures envisaged in the 15-point Action Plan.** The BEPS Project, which has brought together all OECD and G20 members working on an equal footing, targets a reform of the international tax rules by minimising opportunities for double non-taxation through arrangements that shift profits away from where the economic activities and value creation takes place, while reducing double taxation and establishing a level playing field for business without unnecessary compliance costs.

**Just 12 months after the OECD/G20 BEPS Project was launched, we are delivering the first 7 outputs of the BEPS Action Plan, demonstrating strong progress towards the commitment of G20 Leaders to reform the international tax rules.** Some key elements of BEPS are tackled under the 2014 deliverables, upon implementation of the relevant measures by national governments: hybrid mismatches will be neutralised (**Action 2**); treaty shopping and other forms of treaty abuse will be addressed (**Action 6**); abuse of transfer pricing rules in the key area of intangibles will be minimised (**Action 8**); and better transparency for tax administrations and more global consistency for taxpayers ensured through improved transfer pricing documentation and a template for country-by-country reporting (**Action 13**).

In addition, OECD members and BEPS Associates have agreed on the feasibility of implementing BEPS measures through a multilateral instrument (**Action 15**). They have also advanced the work to fight harmful tax practices, particularly in the area of intangible property regimes and tax rulings (**Action 5**). Finally, they have reached a common understanding of the tax challenges raised by the digital economy, which will allow them to deepen their work in this area where BEPS is exacerbated (**Action 1**).

**Time is of the essence:** working with a sense of compromise and adopting a principled approach, we have already taken a significant step forward towards our common goal to reform the international tax system. Committed support must continue in the next phase of the OECD/G20 BEPS Project. This work is fundamental to put in place a sustainable structure based on global consensus which will withstand the challenges of the 21<sup>st</sup> century, and restore the trust of our citizens in the fairness of the tax system.

### *Working together to tackle BEPS issues*

**The BEPS Project has brought together 44 countries working on an equal footing:** all OECD members and the BEPS Associates (the 8 non-OECD G20 countries, *i.e.* Argentina, Brazil, People's Republic of China, India, Indonesia, Russia, Saudi Arabia, and South Africa, as well as Colombia and Latvia).

**Over 80 developing countries and other non-OECD/non-G20 economies** have been consulted through four in-depth regional consultations and five thematic global fora, and their input has been fed directly into the BEPS process. Further, it has informed the development of a dedicated two-part report prepared by the OECD under a mandate from the G20 Development Working Group, addressing the specific challenges and priorities of low-income countries faced with BEPS issues. These in-depth engagement processes will

be institutionalised in the coming months of the BEPS Project (see further the Tax and Development section of this report).

**Business representatives, trade unions, civil society organisations and academics have also been very involved** through opportunities to comment on discussion drafts which have generated more than 3 500 pages of comments, as well as five public consultations and three BEPS webcasts which attracted over 10 000 viewers.

### *2014 Deliverables*

The seven 2014 deliverables, agreed by consensus, go a long way in addressing the BEPS challenges. The reports on the 2014 deliverables, along with the Explanatory Statement by the Committee on Fiscal Affairs which explains the relationship between the 2014 and 2015 deliverables are found in Annex 1 to this Report. The 2014 deliverables include:

**Action 1:** Report on tax challenges raised by the **digital economy** and necessary actions to address them.

**Action 2:** Report on domestic and tax treaty measures to neutralise the effects of **hybrid mismatch arrangements**.

**Action 5:** Interim progress report on review of member country regimes in order to counter **harmful tax practices** more effectively.

**Action 6:** Report on **treaty abuse** containing the principle of a minimum standard against treaty shopping and model treaty provisions to counter such abuses.

**Action 8:** Report on the **transfer pricing aspects of intangibles**, containing a new chapter to be included in the OECD Transfer Pricing Guidelines.

**Action 13:** Report containing revised standards for **transfer pricing documentation and a template for country-by-country reporting** of income, earnings, taxes paid and certain measures of economic activity.

**Action 15:** Report on the feasibility of developing a **multilateral instrument** to implement the measures developed in the course of the work on BEPS.

Viewed together with the 2015 deliverables, these measures to address BEPS will ensure the *coherence* of corporate tax systems in a cross-border environment, introduce *substance* requirements in the area of tax treaties and transfer pricing, and ensure *transparency* while promoting certainty and predictability.

### *Implementation now becomes key*

**Agreement on key policy matters for the 2014 deliverables has been secured and the relevant rules have been drafted, with some technical implementation issues to be further developed in 2015.** As implementing and administering the rules are key to improving certainty for both taxpayers and tax administrations, additional work will be carried out in a number of areas to ensure a consistent and co-ordinated application of the agreed rules. This will reduce compliance costs for both businesses and governments, eliminate potential arbitrage opportunities among rules implemented differently, and minimise the risk of double taxation that could otherwise arise.

Work on the practical guidance for the application of the rules will be carried out and finalised by 2015 in relation to *Hybrid Mismatch Arrangements - Action 2*, developing a Commentary to provide further explanation and examples detailing how the rules will operate in practice; *Treaty Abuse - Action 6*,



ensuring the application and implementation of the minimum standard against treaty abuse adopted by governments; and *Transfer Pricing Documentation and Country-by-Country Reporting - Action 13*, developing an implementation package identifying the most appropriate means of filing and sharing the required information with tax authorities, with due regard to confidentiality protections, timely processes and appropriate use of the information.

### *Next steps*

The delivery of the 2014 BEPS outputs is concrete evidence of how OECD and G20 members working together can bring a consensus approach to important reforms with a worldwide impact. Ongoing work supported by the continued and unfailing commitment of Leaders will be fundamental to achieving the next stage of the BEPS Action Plan.

Work must continue at the same pace to deliver the Action Plan outputs due in September and December 2015. In parallel, the 2014 deliverables will be further refined to ensure that any outstanding technical issues, including interaction with the 2015 deliverables, are addressed, and that implementation and practical guidance is developed with regard to all issues.

The 2015 deliverables include work on the design of effective controlled foreign company (CFC) rules to provide countries with tools to tackle the large amounts of untaxed profits booked offshore (**Action 3**). It will also focus on best practices for rules that prevent base erosion via interest deductions and other financial payments (**Action 4**). Work will continue steadily to prevent harmful tax practices (**Action 5**), with a specific focus on preferential IP regimes. Substance in international standards will be further restored by preventing the artificial avoidance of permanent establishment status (**Action 7**), an issue of particular importance for developing and emerging economies. The review of transfer pricing rules to ensure that the outcomes are in line with value creation will be completed (**Actions 8-10**).

In the area of transparency, recommendations regarding domestic rules to require the disclosure of aggressive tax planning arrangements (**Action 12**) will be developed. To fill the existing data-gap, the OECD/G20 BEPS Project will establish methodologies to collect data and carry out economic analyses on BEPS and its spill-over effects across countries (**Action 11**). Dispute resolution among tax administrations will be made more effective (**Action 14**). Last but not least, a draft mandate for an international conference will be considered by the OECD's Committee on Fiscal Affairs (CFA) in January 2015 for the negotiation of a multilateral convention to streamline the implementation of the BEPS Action Plan (**Action 15**).

In line with the commitment of all OECD members and G20 countries, an overall package taking into account the holistic nature of the OECD/G20 BEPS Project will be delivered by the end of 2015. Achieving this shared goal will require the continued support of the G20 countries, so that together we may ensure a fairer international tax system, which will support sustainable growth for the 21<sup>st</sup> century.

## B – AUTOMATIC EXCHANGE OF INFORMATION (AEOI)

### *Overview*

**Invigorated by the impact of the financial crisis, in April 2009 the G20 Leaders committed to strong measures to promote transparency for tax purposes** – declaring the end of the era of bank secrecy. By the end of 2009, all jurisdictions had committed to exchange information on request and more than 2,500 bilateral arrangements to exchange tax information in line with the standard have been signed since then. By the end of 2009, the Global Forum on Transparency and Exchange of Information on Tax Purposes (the Global Forum) had also been restructured. The Global Forum now has 122 members committed to a peer review process monitoring their implementation of effective exchange of information “on request” (see Part II of this Report).

**Starting in 2012, political interest focused increasingly on the opportunities provided by automatic exchange of information**, propelled by the progress that had been made in the area of information exchange upon request by the OECD, the European Union and the Global Forum, as well as the work undertaken to implement the US FATCA legislation (Foreign Account Tax Compliance Act). At the Los Cabos, Mexico meeting of G20 Finance Ministers in July 2012, the OECD presented an update report on the state of play, challenges and opportunities for automatic exchange. In July 2013, the G20 Finance Ministers and Central Bank Governors fully endorsed the OECD proposal for a truly global model for automatic exchange, which was supported by the Leaders at the September 2013 Saint Petersburg Summit.

The single common global standard on automatic exchange of information (AEOI) was delivered by the OECD in February 2014, at the G20 Finance Ministers meeting in Sydney, Australia. **This report (Annex 2) delivers the consolidated AEOI Standard, including the full technical modalities:** detailed Commentaries and the information technology (IT) modalities, including a standard format and requirements for secure transmission of information. The AEOI Standard provides for the regular, automatic exchange between governments of all relevant financial information (including account balances, interest, dividends, and sales proceeds from financial assets) from accounts held by individuals and entities (including trusts and other arrangements) in foreign financial institutions.

**The AEOI Standard is now ready for implementation.** Over 60 countries and jurisdictions have already publicly committed to its implementation, and over 40 have committed to a specific and ambitious timetable leading to the first automatic information exchanges in 2017.

**The drive to more transparency and better exchange of information is already having a tangible effect on taxpayer behaviour, even before the AEOI Standard has become operational.** In nine countries alone **more than half a million taxpayers have come forward** in response to voluntary disclosure programmes, revealing income and wealth hidden from tax authorities. Twenty-five countries have already identified **additional revenue totalling EUR 37 billion** from these and other initiatives targeted at offshore evasion.

**In just over one year and as a result of the G20’s strong support, the OECD has worked with you to move from conception to design to a fully-fledged and fully-agreed AEOI Standard** with all relevant implementation details, and which a large number of jurisdictions have already committed to implement.

## *The AEOI Standard*

**The AEOI Standard consists of two components:** 1) the CRS (Common Reporting Standard) which contains the reporting and due diligence rules to be imposed by participating jurisdictions on their financial institutions; and 2) the Model CAA (Competent Authority Agreement), which contains the detailed rules on the exchange of the information. This is supplemented by the full technical modalities delivered in this report: a detailed commentary on the AEOI Standard, and the technical specifications on both data format/schema and standards on data transmission. As envisioned, concluding the technical modalities also resulted in a small number of technical corrections to the AEOI Standard itself.

**The Standard was developed by the OECD working with G20 countries and in close co-operation with the EU and other stakeholders.** It incorporates the most recent developments in the area of automatic exchange by drawing extensively on automatic exchange of information in the European Union, anti-money laundering standards and the Model Intergovernmental Agreements (IGA) to improve international tax compliance and implement the US FATCA legislation.

The G8 also gave particular support to this work in their commitment to improved tax transparency. In June 2013, the G8 Leaders warmly welcomed the OECD's report "A step change in tax transparency" which set out the concrete steps that needed to be undertaken to put a global model of automatic exchange into practice; G8 members agreed to work with the OECD and through the G20 to implement the report's recommendations urgently.

**As the single common global AEOI Standard, it breaks new ground:** addressing the tax compliance needs of countries, while avoiding a proliferation of different and inconsistent standards which would lower effectiveness and increase costs for businesses and governments alike.

## *How the AEOI Standard works*

Under the Standard, jurisdictions obtain financial information in accordance with the CRS and automatically exchange that information with other jurisdictions, as appropriate, under a CAA on an annual basis.

Under the CRS, to prevent taxpayers from circumventing the Standard, information is collected by financial institutions on the basis of common reporting and due diligence rules. It covers all relevant:

- **financial information**, including all types of investment income (including interest, dividends, income from certain insurance contracts and other similar types of income) but also account balances and sales proceeds from financial assets;
- **financial institutions**, which are not limited to banks and custodians but also includes other financial institutions such as brokers, and certain collective investment vehicles and insurance companies; and
- **accounts**, including accounts held by individuals and entities (which includes trusts and foundations), with an obligation to look through passive entities to the individuals controlling these entities.

The CAA, which can be developed bilaterally or multilaterally, activates and "operationalises" automatic exchange between the participating countries. It specifies the information to be exchanged and would also deal with practical issues such as the timing and format of the exchange.

## *Implementing AEOI*

**For participating jurisdictions, a legal framework is required to implement the AEOI Standard:** the CRS component will need to be translated into domestic law. The CAA can be executed within existing legal frameworks, including bilateral tax treaties (provided they include a provision equivalent to Article 26 of the OECD Model Tax Convention), or the Multilateral Convention on Mutual Administrative Assistance on Tax Matters (the Multilateral Convention). The Multilateral Convention has already been signed by more than 65 countries, with a further 15 jurisdictions covered by territorial extension.

To ensure AEOI is appropriate, it is essential before entering into a reciprocal agreement that permits automatic exchange, that the receiving country has the legal framework, and administrative capacity and processes in place to ensure the confidentiality of the information received and that such information is only used for the purposes specified in the instrument.

### *Next steps*

**With the single common global AEOI Standard now in place,** focus must turn to ensuring commitments to the Standard, including for all financial centres, with timely implementation. Over 60 countries and jurisdictions have already publicly committed to implementation, and more than 40 have committed to a specific and ambitious timetable leading to the first information exchanges in 2017.

Committed jurisdictions will need to take steps to implement the AEOI standard in domestic law, and ensure they have the appropriate administrative procedures and IT systems are in place, as well as confidentiality and data safeguards. The OECD together with G20 countries will continue to work with stakeholders and produce further guidance materials, to ensure that any issues arising from implementation are addressed consistently to ensure the AEOI Standard remains a single common standard, is effective and avoids unnecessary compliance costs for business.

**The Global Forum has been tasked by the G20 with monitoring and reviewing the implementation of the AEOI Standard,** and is also working with the G20 Development Working Group to develop a roadmap on implementation for developing countries, other than financial centres, which reflects the priorities and capacity challenges they face. More details of the Global Forum's work in this area, including the process to build global commitment to the AEOI Standard, are included in Part II of this report.

## C – TAX AND DEVELOPMENT

### Overview

**Taxation plays a central role in promoting sustainable development, and developing countries face significant challenges in developing their tax capacities and mobilising domestic resources.**

Engagement of developing countries in the international tax agenda, including on BEPS and AEOI, is therefore imperative, as is ensuring they receive appropriate support to address the specific implementation challenges they face. For several years, the G20 has noted the importance of ensuring that developing countries can benefit from efforts to reform the international tax system and from the new era of tax transparency.

Most recently, at the 2013 G20 Summit, Leaders endorsed the St Petersburg Development Outlook<sup>1</sup>, which committed the G20's Development Working Group (DWG) to:

- i. ***“Review relevant work on base erosion and profit shifting (BEPS) during 2014 in order to identify issues relevant to Low Income Countries (LICs) and consider actions to address them”.*** In response to this commitment, the DWG requested the OECD<sup>2</sup>, working with other international and regional organisations to report on the main sources of BEPS for LICs and other low capacity countries (‘developing countries’), how those sources relate to the OECD/G20 BEPS Action Plan, and how the DWG might assist developing countries to meet those challenges.
- ii. Work with the Global Forum on Transparency and Exchange of Tax Information for Tax Purposes (the Global Forum) and other international organisations to: ***“develop a roadmap showing how developing countries can overcome obstacles to participation in the emerging new standard in automatic exchange of information, and to assist them in meeting the standard in accordance with the action envisaged in the St Petersburg Development Outlook.”*** The roadmap, discussed further in Part II of this report, will consider the steps that developing countries can take to implement the automatic exchange of information (AEOI) standard and also explore the potential obstacles to implementation and how these may be overcome.

Priorities in the tax agenda for developing countries also extend beyond BEPS issues and exchange of information. Broader issues, relating for example to illicit financial flows which includes tax evasion, but also implicates other financial crimes such as money-laundering and corruption, have a significant impact on developing countries' aims to improve domestic resource mobilisation and support strong governance. The negative impacts of illicit financial flows are increasingly being recognised, and momentum is building for joint international collaboration to address them.

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<sup>1</sup> [www.oecd.org/g20/topics/development/St-Petersburg-Development-Outlook.pdf](http://www.oecd.org/g20/topics/development/St-Petersburg-Development-Outlook.pdf)

<sup>2</sup> The report is prepared under the responsibility of the Secretariats and Staff of the mandated organisations. It should not necessarily be regarded as the officially-endorsed views of those organisations or their member states.

### *The Impact of BEPS on Low Income Countries*

The OECD's two-part Report to the G20 DWG on the impact of BEPS in low income countries was delivered to the DWG in May (Part 1) and in September (Part 2). The report records findings from **extensive consultations and dialogue with developing countries** held under the auspices of the Task Force on Tax and Development. It makes clear that **developing countries often face specific policy and other conditions that impact on their abilities to address BEPS**. The urgency of domestic resource mobilisation, and the risk posed by BEPS issues, comes into sharp focus when developing country reliance on revenue from corporate income tax is considered. In extreme cases almost 90% of tax revenues are derived from Multi-National Enterprises.

The Report notes that the interests of developing countries have been addressed in some key areas of the BEPS Action Plan, including for example proposals for country-by-country reporting and the multilateral instrument identified under Action 15. Building on these measures, the report recommends that specific guidance tools, designed with developing countries to support their implementation priorities, should be developed.

Developing countries have also highlighted their **key BEPS priorities**. These include addressing excessive payments to foreign affiliated companies in respect of interest, service charges, management and technical fees, and royalties, and the use of techniques to obtain treaty benefits in situations where such benefits were not intended. Wasteful tax incentive regimes, those which do not trigger the intended investment objective, are identified as the top tax base eroding concern for developing countries. Responding to this issue, which relates closely to BEPS, but sits outside the Action Plan, will require a specific effort to respond to this priority issue identified by developing countries.

More broadly, building on the initial program of in-depth regional consultations with developing countries to identify their BEPS priorities, there are now opportunities to put in place **a more structured dialogue process**, with clear avenues for developing countries to work together and directly input on the work under BEPS Action Plan.

### *Tax Inspectors Without Borders*

*Tax Inspectors Without Borders* (TIWB) facilitates a niche area of assistance to developing countries, providing hands-on, real-time tax audit assistance on international tax and general audit issues. Experts are deployed to work with developing country tax administrations on current audit cases involving complex international tax matters, where capacity in developing countries is particularly limited. The G8 and G20 have both recognised TIWB as an example of innovation in collective international support for the domestic resource mobilisation efforts of developing countries. A number of G20 countries, including France, India, Italy, South Africa and the UK are part of the initiative's pilot phase.

We are hopeful to officially launch this initiative in 2015, drawing lessons from the pilots which are currently being conducted.

### *Illicit Financial Flows*

Financial crime is one of the greatest threats to the economic and social well-being of people across the globe. Various forms of illicit financial flows – from tax evasion, corruption and money laundering - cost developing countries alone an estimated USD 1.26 trillion every year. In order to build a more comprehensive international approach to address these issues more effectively, in 2011 the OECD initiated the Oslo Dialogue – a whole of government approach to fighting tax evasion and other financial crimes which was endorsed by the G20 Leaders at the Los Cabos Summit in June 2012.

A key pillar of this initiative is strengthening the capacity of criminal tax investigators in developing countries to tackle illicit financial flows. Building on the success of the Istanbul 3<sup>rd</sup> Forum on Tax and Crime in 2013, the OECD International Academy for Tax Crime Investigation was formally established in June 2014, in Ostia, Italy. More than 50 investigators from developing countries have already been trained in the pilot stage, drawing on experts from G20 Countries as well as the OECD, and other international agencies and organisations such as EUROPOL, INTERPOL, the IMF and the Egmont Group of Financial Intelligence Unit. Developing country demand for support in this area, including requests for “in-country” training, reflects a need to expand capacity building efforts.

The impact of illicit financial flows on the global economy, including the lost revenues to government, calls out for leadership from the world’s largest economies. While ongoing support for the Academy from G20 members in 2015 will be critical to its success, there is concurrently an opportunity to take the next step in the Oslo Dialogue, bringing together high-level engagement to encourage and grow a globally coherent approach to tackling illicit financial flows across the different policy areas which are implicated.

## **PART II**

# **Global Forum on Transparency and Exchange of Information for Tax Purposes**

## **Progress Report to the G20 Finance Ministers and Central Bank Governors: Update on Effectiveness and On-going Monitoring**

**SEPTEMBER 2014**



## GLOBAL FORUM ON TRANSPARENCY AND EXCHANGE OF INFORMATION FOR TAX PURPOSES

### *Overview*

At their Saint Petersburg meeting in September 2013, the G20 Leaders asked the Global Forum on Transparency and Exchange of Information for Tax Purposes (the Global Forum) to establish a mechanism to monitor and review the implementation of the new Automatic Exchange of Information (AEOI) Standard. In this context they asked the Global Forum to work with other international organisations and, in particular, with the G20's Development Working Group (DWG) to enable developing country participation in the international standard on AEOI. The G20 Leaders also invited the Global Forum to draw on the work of the Financial Action Task Force (FATF) in connection with beneficial ownership. In addition, the G20 Leaders encouraged the Global Forum to complete the allocation of comprehensive country ratings regarding the effective implementation of information exchange upon request and encouraged the Global Forum to ensure that the implementation of the standard on exchange of information on request is monitored on a continuous basis.

This report provides a short update of the developments occurring in the Global Forum since the last report in February 2014. It highlights further substantial progress in the peer review process with ratings having been assigned to a further 14 jurisdictions. Work on incorporating beneficial ownership into the Global Forum's standards has also advanced greatly, and preparations are well underway for monitoring the implementation of the new standard on automatic exchange of information.

A more detailed report will be provided to the G20 Leaders in November 2014 after the Global Forum meeting in October when a number of relevant decisions will be taken.

### *Progress on Peer Review Ratings*

Since its February 2014 report to the G20, the Global Forum has finalised ratings for 14 additional jurisdictions, resulting in a total of 64 rated jurisdictions. The overall ratings show that 20 jurisdictions are rated "Compliant", 32 jurisdictions "Largely Compliant", 8 jurisdictions "Partially Compliant" and 4 jurisdictions "Non-Compliant". Table 1 below shows the allocation of overall ratings for jurisdictions for which Phase 2 reviews have been completed. The detailed list of overall ratings as well as the ratings for each individual element are [available on the Global Forum website](#).

The Global Forum remains on track to complete its remaining peer reviews and has also adopted a revised Schedule of Reviews that sets dates for the Phase 1 reviews of all new members, including a number of developing countries, and Phase 2 reviews for a number of recent members of the Global Forum.

**Table 1. Overall ratings for jurisdictions for which Phase 2 reviews have been completed**

Jurisdictions	Overall Ratings
Andorra	Partially Compliant
Anguilla	Partially Compliant
Antigua & Barbuda	Partially Compliant
Argentina	Largely Compliant
Australia	Compliant
Austria	Partially Compliant
The Bahamas	Largely Compliant
Bahrain	Largely Compliant
Barbados	Partially Compliant
Belgium	Compliant

Bermuda	Largely Compliant
Brazil	Largely Compliant
Canada	Compliant
Cayman Islands	Largely Compliant
Chile	Largely Compliant
China	Compliant
Cyprus	Non-Compliant
Denmark	Compliant
Estonia	Largely Compliant
Finland	Compliant
France	Compliant
Former Yugoslav Republic of Macedonia	Largely Compliant
Germany	Largely Compliant
Greece	Largely Compliant
Guernsey	Largely Compliant
Hong Kong, China	Largely Compliant
Iceland	Compliant
India	Compliant
Ireland	Compliant
Indonesia	Partially Compliant
Isle of Man	Compliant
Italy	Largely Compliant
Jamaica	Largely Compliant
Japan	Compliant
Jersey	Largely Compliant
Korea	Compliant
Luxembourg	Non-Compliant
Macao, China	Largely Compliant
Malaysia	Largely Compliant
Malta	Largely Compliant
Mauritius	Largely Compliant
Mexico	Compliant
Monaco	Largely Compliant
Montserrat	Largely Compliant
Netherlands	Largely Compliant
New Zealand	Compliant
Norway	Compliant
Philippines	Largely Compliant
Qatar	Largely Compliant
St Kitts & Nevis	Largely Compliant
Saint Lucia	Partially Compliant
San Marino	Largely Compliant
Seychelles	Non-Compliant
Singapore	Largely Compliant
Slovakia	Largely Compliant
Slovenia	Compliant
South Africa	Compliant
Spain	Compliant
Sweden	Compliant
Turkey	Partially Compliant
Turks and Caicos Islands	Largely Compliant
United Kingdom	Largely Compliant
United States	Largely Compliant
Virgin Islands (British)	Non-Compliant

### *Jurisdictions unable to move to Phase 2*

Some jurisdictions (see Table 2 below “Jurisdictions unable to move to Phase 2”) could not receive ratings because their Phase 2 reviews could not take place. The February 2014 report to the G20 stated that the Phase 1 reviews of 14 jurisdictions determined that the legal and regulatory framework for exchange of information (EOI) of these jurisdictions presented serious deficiencies that prevented them from moving to Phase 2 until they act on the recommendations made. Since the last report, Botswana, Niue and UAE have successfully completed their supplementary review and have been able to move to Phase 2. The Phase 1 review of one jurisdiction (the Federated States of Micronesia) concluded that this jurisdiction cannot move to Phase 2. This jurisdiction is not yet a member of the Global Forum. The supplementary report of Panama, while recognising significant progress, concluded that it still cannot move to Phase 2. This means that there are currently 12 jurisdictions blocked from moving to their Phase 2 reviews. Of these, all jurisdictions except Nauru and Vanuatu have submitted follow-up reports<sup>3</sup> on the progress they have made in implementing changes to address the recommendations made in their reports. Finally, the Global Forum’s Peer Review Group recently determined that Switzerland is now eligible for a Phase 1 supplementary report, which was launched in July 2014.

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3. Follow-up reports are detailed written reports by a jurisdiction to the PRG of the steps it has taken or has planned to take to implement recommendations made in a peer review report. Unlike supplementary reports, they are not peer-reviewed.

**Table 2: Jurisdictions that cannot move to Phase 2 review until they act on the recommendations to improve their legal and regulatory framework**

Brunei	Marshall Islands
Dominica	Nauru
Federated States of Micronesia	Panama
Guatemala	Switzerland*
Lebanon	Trinidad and Tobago
Liberia	Vanuatu

\*The Phase 2 review of Switzerland is subject to conditions, and it will now undergo a Supplementary Phase 1 report to determine if those conditions are met.

### *A New Round of Reviews -Progress on the Revision of the Terms of Reference*

In recognition of the need to ensure continuous monitoring, the Global Forum agreed at its annual meeting in Jakarta that a new round of reviews (Phase 3) would be initiated in 2016 following the completion of the existing Schedule of Reviews. Prior to commencing this new phase of reviews, the Global Forum mandated its Peer Review Group to examine the *Terms of Reference* to ensure that they keep pace with developments in the transparency world, including as regards beneficial ownership, for which it will draw on the work of the Financial Action Task Force. The work on revision of the Terms of Reference is progressing very quickly. Substantive proposals have now been developed and will be presented to the Global Forum in October 2014 for discussion and adoption in preparation for the new round of reviews. These will be further refined during 2015 in readiness for the new round of reviews.

### *Progress on the New Pillar of Transparency: Automatic Exchange of Information*

As reported in February 2014, the Global Forum has established a new voluntary AEOI Group chaired by Italy, assisted by four Vice-Chairs, with a mandate to put in place a mechanism to monitor and review the implementation of automatic exchange of information. It comprises 56 member jurisdictions that have come together to work towards a common goal of engaging in AEOI and has 3 observers. The Group will report back to the Global Forum plenary on its activities on a regular basis and all decisions will continue to be made by the Global Forum.

The AEOI Group met in March and June 2014 and is currently drafting a dedicated terms of reference and methodology to monitor the implementation of the new standard on AEOI (AEOI Standard). It is expected that the first reviews of jurisdictions' legal framework for AEOI will begin in 2016. The AEOI Group has also agreed on the development of a commitment process which will allow jurisdictions to indicate their willingness to swiftly implement the AEOI Standard on a reciprocal basis (subject to appropriate safeguards) within a specific timeline. A more detailed report on the status of commitments will be made to the G20 Leaders in November.

The AEOI Group is working in close co-operation with the OECD, the World Bank Group and the G20 Development Working Group (DWG) to address the challenges faced by developing countries in implementing the AEOI Standard. A draft roadmap for developing country participation in AEOI was provided to the G20 DWG in May, and the final roadmap is to be presented in September. Recognising that at present, developing countries lack the capacity to implement AEOI, the roadmap recommends that these countries should be provided support and assistance to participate in AEOI, but they should not be expected to engage in AEOI in the near term.

### *Next Steps*

Since February 2014, the Global Forum has made substantial progress in its peer review process. A total of 25 more peer reviews have been adopted and ratings have been assigned to a further 14 jurisdictions. The work on peer reviews assessing jurisdictions' performance in respect of EOI on request will continue and result in more than 70% of Global Forum members being rated by the end of 2015.

In 2015, the revision of the *Terms of Reference* will also be completed in preparation for the next round of reviews regarding EOI on request which will commence in 2016. This will include incorporating the FATF definition of beneficial ownership into the Global Forum's standards.

Regarding AEOI, a detailed report on the status of commitments to implement the AEOI Standard will be delivered to the G20 Leaders in November. Subsequently, in 2015 the Global Forum will finalise the terms of reference and methodology for monitoring the implementation of the AEOI Standard through a review process which is expected to commence in 2016, complementing the peer review process on EOI on request.