

8 October 2015

G20 Finance Ministers and Central Bank Governors Meeting, Lima

Your Excellency,

The Financial Transparency Coalition (FTC) brings together nine non-governmental organizations¹ across five continents, 150 civil society allies, 14 governments and dozens of the world's foremost experts to curtail illicit financial flows through the promotion of a transparent, accountable and sustainable financial system that works for everyone.

In line with the commitment of G20 Finance Ministers to review the final BEPS Action Plan at the meeting in Lima, including the implementation of exchange of information, and implementation of the G20 High-Level Principles on Beneficial Ownership Transparency, we would like to make the following recommendations to address gaps that still exist in these areas of reform:

Beneficial Ownership Transparency

Corruption, crime and tax evasion are facilitated by people's ability to hide their identity through secretive shell companies and other legal structures. Beneficial ownership information should be publicly available, so that governments, especially low capacity developing countries, could more easily follow the money trails of tax evasion, drug trade, bribery, human trafficking, etc. that is originating in their country.

A report by The B Team- a global group of business leaders- made a strong business case for beneficial ownership transparency. They noted that beneficial ownership transparency benefits business by increasing competitiveness, reducing risk by knowing who you are doing business with, managing financial exposure and increasing stability.

Individual country-level action plans on implementing Beneficial Ownership principles adopted last year, provides an opportunity for G20 Finance Ministers to make beneficial ownership information publicly available in open data format.

Additionally, the High Level Principles on Procurement that will be adopted at the Summit this year provides an immediate opportunity to address the issue.

We urge the G20 Finance Ministers to collect, verify and publish in open data format, information on the beneficial owners for any entity, including the primary contractor and its subcontractors, upon registration for the right to bid for and/or receive government funds. This would shed light on potential conflicts of interest, corruption and collusion and increase accountability for the expenditure of public funds.

Automatic Exchange of Information

Despite the progress made by G20 governments on automatic exchange of information, the current system requires all participating countries to ensure they can provide comprehensive information on foreign owned accounts under their jurisdiction. This requirement is much harder for developing countries to comply with than OECD/G20 countries, and also much less necessary; there is no suspicion that significant undeclared assets are hidden in developing countries financial institutions. An estimated 33% of all assets of the Middle East and Africa held offshore and about 25% for Latin America; globally, it is 6%².

Analysing data from Swiss Leaks i.e potential revenue from just one bank in one secrecy jurisdiction, has shown that, as a percent of GDP, the impact of money held offshore is much more devastating for developing countries. Proportionally, Senegal has nearly three times as much in HSBC Switzerland as France, and more than 10 times more

¹ Centre for Budget and Governance Accountability, Christian Aid, Eurodad, Global Financial Integrity, Global Witness, Latin American Network on Debt, Development and Rights, Tax Justice Network, Tax Justice Network-Africa, and Transparency International

² Global Forum on Transparency and Exchange of Information for Tax Purposes, Automatic Exchange of Information: A Roadmap for Developing Country Participation, August 2014

than Germany. Similarly outsized proportions run true for many developing countries across the globe. We shouldn't be ignoring this, and neither should the G20³.

G20 Finance Ministers should commit to providing a temporary period where developing countries do not have to reciprocate in exchange of information to enable low capacity countries to benefit from receiving information before bearing the costs of compliance.

G20 should also ensure that all financial centres collect and publish annually, statistical data on the aggregate sums coming into and leaving their financial system, broken down by country of residence of the account holder and of controlling persons. This will help developing countries to identify the potential of AEoI, focus their attention on the highest risk jurisdictions as they integrate into information exchange as well as help focus the pilot programme projects.

Public Country-by-Country Reporting

A recent report by IMF noted that the loss of revenue from Base Erosion and Profit Shifting (BEPS) is nearly three times as high in GDP terms as that of OECD countries⁴. Unfortunately, one of the key measures adopted by the OECD and G20 in order to combat profit shifting, the reporting of financial information by companies on a country-by-country basis, may not be shared quickly or easily with developing countries. As per the current OECD standard, this crucial information will only be available to developing countries after specific, formal request and review of data privacy standards, etc.

In addition, unless the public, legislators, academics, civil society, and journalists can see the effects of profit shifting, practices that are depriving countries of critically needed revenue will not be made illegal.

We urge the G20 Finance Ministers to address these gaps by committing to making country by country reporting information publicly available.

International Institutional Architecture

International standards and regimes currently being created and reformed are through processes where developing countries do not have a vote but result in effectively creating 'global' standards that everyone has to follow. An inclusive intergovernmental UN body needs to have a broad mandate and appropriate financing and staff to ensure it leads in collaboration with the OECD, the IMF, the WB, regional bodies and other relevant institutions, to effective global cooperation in tax matters.

G20 Finance Ministers should support the establishment of a universal intergovernmental body under the auspices of the UN and be provided with additional resources through core UN funds to establish a truly global forum for international tax matters.

We are available to discuss any of these issues further. Please direct any follow up to our Policy Coordinator Pooja Rangaprasad at pooja@financialtransparency.org.

Sincerely,



Porter McConnell
Director, Financial Transparency Coalition

³ Detailed analysis can be accessed here: <http://www.swissleaksreviewed.org/>

⁴ <http://www.imf.org/external/pubs/cat/longres.aspx?sk=42973.0>