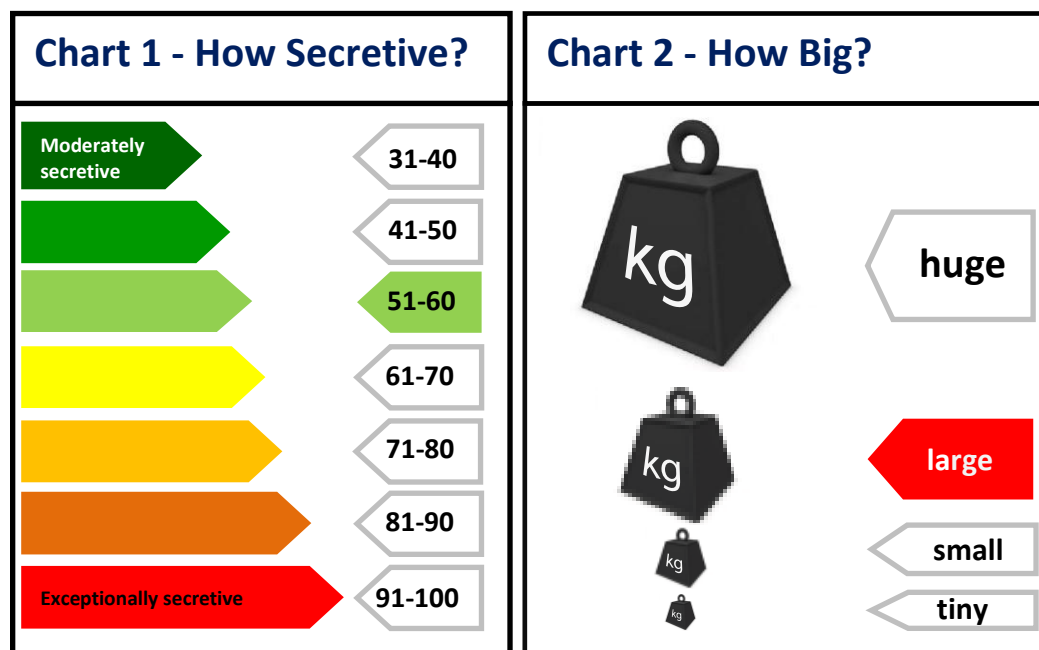


## Report on Germany

Germany is ranked at ninth position on the 2011 Financial Secrecy Index. This ranking is based on a combination of its secrecy score and a scale weighting based on its share of the global market for offshore financial services.

Germany has been assessed with 57 secrecy points out of a potential 100, which places it in the in the lower mid range of the secrecy scale (see chart 1 below).

Germany accounts for slightly under 5 per cent of the global market for offshore financial services, making it a large player compared with other secrecy jurisdictions (see chart 2 below), though not on the same scale as huge players such as Luxembourg, UK and the USA.



### Part 1: Telling the story

#### Germany's offshore financial centre: history and overview

##### Overview

Although many people will be surprised to see Germany on a list of secrecy jurisdictions, our research reveals a combination of secrecy facilities and tax exemptions for non-residents, with a very large offshore financial centre.

With a secrecy score of 57, comparable to the United States, Germany lies towards the 'cleaner' end of our secrecy spectrum - though it nevertheless requires major improvements. Its high ranking in our index stems largely from the fact that it has such a large financial

centre: Frankfurt is the largest financial centre in continental Europe.

Research by Washington-based Global Financial Integrity has identified Germany ([p1](#)) as the world's fifth largest holder of private, non-resident deposits – a key marker of offshore activity. Like other OECD countries, Germany does not exchange tax-related information, automatically or otherwise, with a multitude of other jurisdictions. Many foreign-owned German assets are held secretly through the use of elaborate structures spanning secrecy jurisdictions such as Luxembourg and Switzerland.

This combination of medium-level secrecy and a huge financial centre makes Germany an important player in the secrecy world. It is without doubt the home for large volumes of tax-evading and other illicit flows and assets from around the globe.

## History

Surviving records from the 13th Century show that Frankfurt, Germany's modern financial powerhouse, was the most economically powerful city in the German Empire. Its pre-eminence waxed and waned over ensuing centuries but received a major boost in the late 16th Century when Spanish soldiers plundered Antwerp, prompting many merchants to flee to Frankfurt, and launching its first real financial boom from 1585 ([p308](#)). Further inflows of French Huguenots a century later helped cement the city's financial role for the future.

Frankfurt suffered in the first half of the 20th Century, and even in the early 1950s it was probably eclipsed by Düsseldorf, which was closer to Germany's industrial core, the Ruhr. It only regained prominence from 1957, when Germany's central bank was set up with its headquarters in Frankfurt. The same year Dresdner Bank and Deutsche Bank also elected to set up their headquarters there, marking the financial centre's rebirth.

However, faced with quite strong domestic regulations German banks shifted substantial operations overseas in the 1960s and 1970s, particularly to the offshore 'Euromarkets' dominated by the City of London. From their London offices they were heavily involved in the recycling of Petrodollars, and they built themselves up into global financial powerhouses, growing to spread their activities worldwide and, eventually, return home to lobby powerfully for financial liberalisation.

By the mid 1980s, amid financial liberalisation, 40 of the world's top 50 banks had a presence in Frankfurt and 80 percent of the foreign banks in Germany had chosen Frankfurt as their base ([p178](#)).

According to the [latest report](#) by the Financial Action Task Force (FATF) in 2010, Germany hosted over US\$1.8 trillion in deposits by non-residents, boasting 3,400 financial institutions of various kinds, mainly commercial banks, savings banks and co-operative banks.

Germany provides several tax exemptions for non-residents, notably on bank deposit

interest, on German government bonds paid via foreign financial intermediaries. These factors – combined with the fact that there are large numbers of countries that Germany has not signed effective tax information-exchange agreements with, have attracted large (and often illicit) financial inflows, particularly from developing countries.

Highlighting its somewhat cynical approach, Germany [allowed](#) bribe payments to be tax-deductible, becoming one of the world's last major economies to outlaw this practice in 1999. Evidence has frequently emerged – such as [the discovery](#) of large-scale and probably illicit Turkmen funds, or news that Germany had frozen [€6 billion](#) in Libyan assets during the Libyan civil war, highlights its major role (alongside other major financial centres such as London and the United States) in hosting questionable assets.

Although Germany does not practice banking secrecy like neighbouring Switzerland, criticism [by the](#) Financial Action Task Force (FATF) highlights serious concern about the use of entities such as trusts, foundations and Treuhand (a German speciality that can provide strong secrecy.) Information about beneficial ownership of such structures, the FATF notes, is extremely patchy, and constitutes a major loophole for the preservation of secrecy. The FATF also notes particular concerns with Germany's relatively low level of reporting of suspicious transactions:

“For an economy the size of Germany's, with a highly-developed financial services sector which provides near-universal access to such services for its resident population, the level of suspicious transaction reporting appears to be unusually low.”

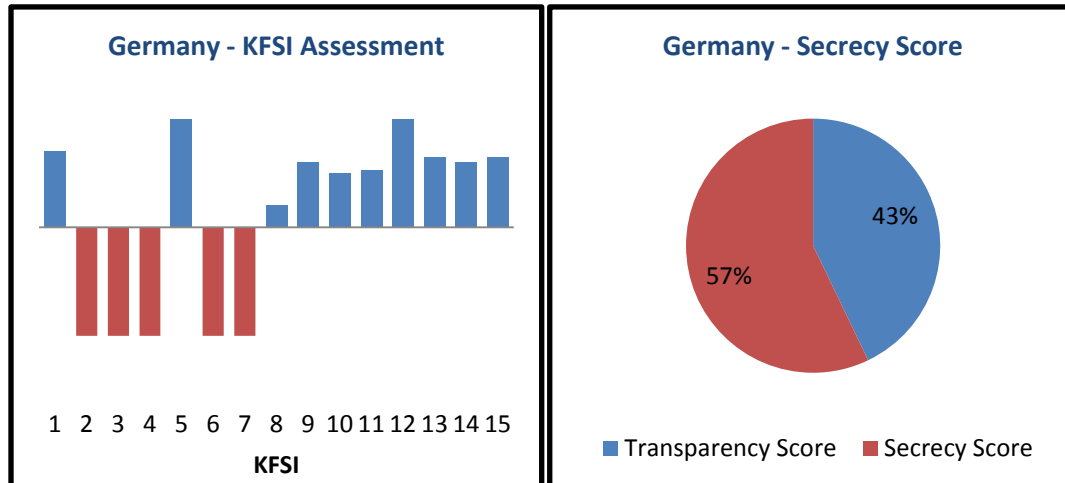
The German tax authorities have also been [criticised](#) for their fragmented, low-tech and under-resourced approach to collecting tax, especially from wealthy people.

### Next steps for Germany

Germany's 57 per cent secrecy score shows that it must still make major progress in offering satisfactory financial transparency<sup>1</sup>. If it wishes to play a full part in the modern financial community and to impede and deter illicit financial flows, including flows originating from tax evasion, aggressive tax avoidance practices, corrupt practices and criminal activities, it should take action on the points noted where it falls short of acceptable international standards. See part 2 below for details of Germany's shortcomings on transparency. See this link <http://www.secrecyjurisdictions.com/kfsi> for an overview of how each of these shortcomings can be fixed.

## Part 2: Secrecy Scores

The secrecy score of 57 per cent for Germany has been computed by assessing the jurisdiction's performance on the 15 Key Financial Secrecy Indicators, listed below.



The numbers on the horizontal axis of the bar chart on the left refer to the Key Financial Secrecy Indicators (KFSI). The presence of a **blue** bar indicates a positive answer, as does **blue** text in the KFSI list below. The presence of a **red** bar indicates a negative answer as does **red** text in the KFSI list. Where the jurisdiction's performance partly, but not fully complies with a Key Financial Secrecy Indicator, the text is coloured **violet** in the list below (combination of red and blue).

This paper draws on key data collected on Germany. Our data sources include regulatory reports, legislation, regulation and news available at 31.12.2010<sup>2</sup>. The full data set is available [here](#)<sup>3</sup>. Our assessment is based on the 15 Key Financial Secrecy Indicators (KFSIs, below), reflecting the legal and financial arrangements of Germany. Details of these indicators are noted in the following table and all background data can be found on the [Mapping Financial Secrecy web site](#)<sup>4</sup>. This data is the basis on which the [Financial Secrecy Index](#)<sup>5</sup> is compiled.

#### The Key Financial Secrecy Indicators and the performance of Germany are:

TRANSPARENCY OF BENEFICIAL OWNERSHIP – <b>Germany</b>	
1.	Banking secrecy: Does the jurisdiction have banking secrecy? <b>Germany does not adequately curtail banking secrecy</b>
2.	Trust and Foundations Register: Is there a public register of Trusts and Foundations? <b>Germany does not put details of trusts on public record</b>
3.	Recorded Company Ownership: Does the relevant authority obtain and keep updated details of the beneficial ownership of companies?

	<b>Germany does not maintain company ownership details in official records</b>
<b>KEY ASPECTS OF CORPORATE TRANSPARENCY REGULATION – Germany</b>	
4.	Public Company Ownership: Does the relevant authority make details of ownership of companies available on public record online for less than US\$10?  <b>Germany does not require that ownership of companies is put on public record</b>
5.	Public Company Accounts: Does the relevant authority require that company accounts are made available for inspection by anyone for a fee of less than US\$10?  <b>Germany requires that company accounts be available on public record</b>
6.	Country-by-Country Reporting: Are companies listed on a national stock exchange required to comply with country-by-country financial reporting?  <b>Germany does not require country-by-country financial reporting by companies</b>
<b>EFFICIENCY OF TAX AND FINANCIAL REGULATION – Germany</b>	
7.	Fit for Information Exchange: Are resident paying agents required to report to the domestic tax administration information on payments to non-residents?  <b>Germany does not require resident paying agents to tell the domestic tax authorities about payments to non-residents</b>
8.	Efficiency of Tax Administration: Does the tax administration use taxpayer identifiers for analysing information effectively, and is there a large taxpayer unit?  <b>Germany partly uses appropriate tools for effectively analysing tax related information</b>
9.	Avoids Promoting Tax Evasion: Does the jurisdiction grant unilateral tax credits for foreign tax payments?  <b>Germany partly avoids promoting tax evasion via a tax credit system</b>
10.	Harmful Legal Vehicles: Does the jurisdiction allow cell companies and trusts with flee clauses?  <b>Germany partly allows harmful legal vehicles</b>
<b>INTERNATIONAL STANDARDS AND COOPERATION – Germany</b>	
11.	Anti-Money Laundering: Does the jurisdiction comply with the FATF recommendations?

	<b>Germany partly complies with international anti-money laundering standards</b>
12.	Automatic Information Exchange: Does the jurisdiction participate fully in Automatic Information Exchange such as the European Savings Tax Directive?  <b>Germany participates fully in Automatic Information Exchange</b>
13.	Bilateral Treaties: Does the jurisdiction have at least 60 bilateral treaties providing for broad information exchange, covering all tax matters, or is it part of the European Council/OECD convention?  <b>As of June 30, 2010, Germany had few tax information sharing agreements complying with basic OECD requirements</b>
14.	International Transparency Commitments: Has the jurisdiction ratified the five most relevant international treaties relating to financial transparency?  <b>Germany has partly ratified relevant international treaties relating to financial transparency</b>
15.	International Judicial Cooperation: Does the jurisdiction cooperate with other states on money laundering and other criminal issues?  <b>Germany partly cooperates with other states on money laundering and other criminal issues</b>

<sup>1</sup> Our definition of financial transparency can be found here:

<http://www.secrecyjurisdictions.com/PDF/FinancialTransparency.pdf>.

<sup>2</sup> With the exception of KFSI 13 for which the cut-off date is 30.6.2010. For more details, look at the endnote number 2 in the corresponding KFSI-paper here:

<http://www.secrecyjurisdictions.com/PDF/13-Bilateral-Treaties.pdf>.

<sup>3</sup> That data is available here: [http://www.secrecyjurisdictions.com/sj\\_database/menu.xml](http://www.secrecyjurisdictions.com/sj_database/menu.xml).

<sup>4</sup> <http://www.secrecyjurisdictions.com>.

<sup>5</sup> <http://www.financialsecrecyindex.com/>.