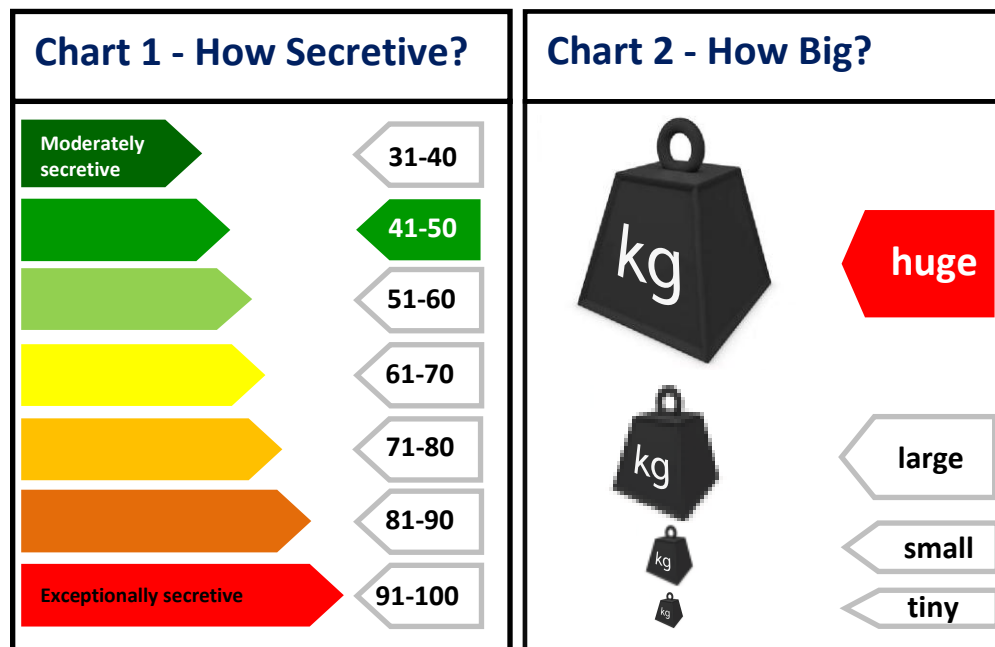


## Report on United Kingdom

United Kingdom is ranked at 13th position on the 2011 Financial Secrecy Index. This ranking is based on a combination of its secrecy score and a scale weighting derived from its share of the global market for offshore financial services.

United Kingdom has been assessed with 45 secrecy points out of a potential 100, which places it in the lower mid range of the secrecy scale (see chart 1 below).

United Kingdom accounts for slightly over 20 per cent of the global market for offshore financial services, making it a huge player compared with other secrecy jurisdictions (see chart 2 below).



### Part 1: Telling the story

#### The City of London: history and overview

##### Overview

The United Kingdom is the world's sixth largest economy<sup>1</sup> following the United States, China, Japan, Germany and France. Its financial centre, known as the City of London or the City<sup>2</sup>, is on some measures the world's largest international financial centre.

Many aspects of the City and of the UK more generally and its international relationships which have deep historical roots, give the United Kingdom the characteristics of a major secrecy jurisdiction. One could argue that the UK – notably because of its role at the centre

of a large global network of secrecy jurisdictions which feed business to the City – is the world’s most important secrecy jurisdiction.

Of the 73 jurisdictions in the Financial Secrecy Index, nearly half are connected to Britain. These include the three Crown Dependencies; 7 of its 14 Overseas Territories, and 25 Commonwealth countries. Others, such as Hong Kong, enjoy enduring financial links with the City of London based on centuries of shared history.

Anguilla 	Dominica 	Nauru 
Antigua & Barbuda 	Ghana 	Seychelles 
Bahamas 	Gibraltar 	Singapore 
Barbados 	Grenada 	St Kitts & Nevis 
Belize 	Guernsey 	St Lucia 
Bermuda 	India 	St Vincent 
Botswana 	Isle of Man 	Turks & Caicos 
British Virgin Islands 	Jersey 	UK 
Brunei 	Malaysia 	Vanuatu 
Canada 	Maldives 	
Cayman Islands 	Malta 	
Cook Islands 	Mauritius 	
Cyprus 	Montserrat 	



This is the flag of the Commonwealth Countries.

## History

London’s pre-eminence in global finance has very old roots, which can be traced in two principal areas: the [City of London Corporation](#), and the British Empire.

The **first**, very oldest roots date back ten centuries to the history of the City of London Corporation, the world's oldest continuous municipal democracy. The City Corporation, as it is known, is today the municipal authority for the City of London, a roughly 1.2 square mile slab of prime London real estate located at the geographical heart of London. The City of London Corporation predates the British parliament and has enjoyed special privileges, rights and 'freedoms' – carved in some ways outside of normal UK civic governance – since the Norman Conquest in 1066. This in itself gives the City Corporation something of an 'offshore' flavour.<sup>3</sup> Over the centuries the City Corporation has fiercely defended the 'freedoms' of its citizens against encroachment by sovereigns and despots. These 'freedoms' from interference help explain why important parts of the British institutional apparatus such as the Old Bailey (central criminal court) and Fleet Street (traditionally, the home of newspapers) are located in, and thrived in, the City.

One of the most important freedoms that the City Corporation sought to protect was, of course, the freedom to trade relatively unhindered from demands and pressures from various sovereigns – and this sometimes meant various forms of freedom from taxation. In the 20<sup>th</sup> Century, and particularly in its second half, the City Corporation has become increasingly focused on defending the freedoms of finance. Britain's disastrous history of 'light-touch' regulation leading up to the global financial crisis from 2007/8 has deep historical roots in the City Corporation's activities, lobbying, and even ideological prosletysing in defence of freedom for finance. The Lord Mayor of the City of London Corporation – not to be confused with the Mayor of London, who runs the vastly larger London metropolis – is explicitly tasked with promoting the financial services industry and lobbying for financial liberalisation around the globe. This is a very unusual role indeed for the head of a local authority.

The **second** big historical strand to London's pre-eminence as a global financial centre stems from Britain's imperial, trading and naval history, which dates back five centuries or so, notably to the opening of the Royal Exchange by Queen Elizabeth 1 in 1571, and the subsequent expansion of trading into Asia and elsewhere.<sup>4</sup> As the historians P.J. Cain and A.G. Hopkins famously noted<sup>5</sup>, London, as the financial turntable for private projects around the globe, became the "governor of the imperial engine" and this guaranteed its pre-eminence as a financial centre. The international dimension also gave London a decisively outward-looking character – a historical legacy which is highly conducive to offshore finance and which remains a feature today.

Imperial finance was substantially not about offshore finance, however, for the Empire ensured vast amounts of business would inevitably gravitate towards London, without it feeling that it had to 'compete' on such things as light financial regulation or tax minimisation. However, one particular development in British Common Law during that period is worth noting. From the late 19<sup>th</sup> Century British courts began to distinguish (for tax purposes) between a company's place of *registration* and the place from where it is *controlled*, an issue that was of course of great interest for firms investing across borders. A landmark 1876 case<sup>6</sup> ruled that a company should be taxed in the country where control is

exercised<sup>7</sup>. Later, in 1929, a court ruled that the *Egyptian Delta Land and Investment Co. Ltd.*, which was registered in the UK but which had moved its board of directors to Egypt, would not be taxed in the UK. Some have attributed Britain's status as a tax haven to this ruling: from then on, foreigners could register companies in the UK and avoid tax on them.<sup>8</sup> This principle of residence without taxation paved the way for the International Business Corporation (IBC), a staple of the offshore world. The principle applied to the British Empire as a whole and was soon rolled out to its various territories, including some of the world's most important tax havens today.

Another legal development emerging from British common law is the concept of trusts, whereby *ownership* of an asset can be separated out from *control* of that same asset. Trust mechanisms and subterfuges can be used to create almost impenetrable secrecy barriers, and this secrecy is reinforced by the fact that they are almost never registered or on public record; there is usually no requirement to disclose financial statements; in many offshore jurisdictions there are no requirements for trustees or other trust agents to collect tax or even inform authorities of disbursements, and so on.

Secrecy jurisdictions have embraced the trust concept with open arms, generating innovative and hybrid forms of trust which create forms of secrecy at least as impenetrable as the plain old banking secrecy of the Swiss variety – and possibly more so: one former practitioner describes them as 'the ultimate weapon' in secrecy. Trusts have proliferated in Britain and among its dependencies, and a simple secrecy structure will typically see the trust located in one jurisdiction, while the trustees are to be found in other ones; its assets will often be held by an offshore company in another jurisdiction, which has its bank account in yet another jurisdiction.

When the British Empire collapsed from the mid-1950s, accelerated by Britain's humiliation in the Suez debacle, two main things happened. The first was the appearance – at first only in very small ways – of an effectively unregulated financial space hosted in the City of London with the Bank of England's blessing: a space that became known as the Euromarkets. This marked the beginning of a new business model for London: no longer reliant on an imperial network to sustain its position, it set out on a path of seeking 'competitive' advantage in financial regulation in particular: offering escape routes and bolt-holes for financial interests elsewhere. This was particularly attractive to Wall Street Banks which were constrained by the Glass-Steagall Act and various other restrictions at home, and the banks found they could escape these restrictions in London. The Euromarkets – essentially a stateless, sparsely regulated financial market – grew spectacularly (and spread quickly to other financial centres) and was soon the cornerstone for the growth of London as a financial centre.

At around the same time, when the British Empire collapsed, a few territories - mostly small islands in the Caribbean - remained partially under British control. The 14 British Overseas Territories today contain seven recognised tax havens: Anguilla, Bermuda, British Virgin Islands, Cayman, Gibraltar, Montserrat and the Turks & Caicos. It also retained very significant sovereignty over the three Crown Dependencies of Jersey, Guernsey and the Isle

of Man. Some of these island territories had long histories as pirate bolt-holes, and already hosted limited offshore finance industries during the later years of empire.

What the City of London discovered – and it is unclear whether this was the intention at the outset – was that this network of secrecy jurisdictions littered around the globe brought increasing volumes of capital – and the business of handling that capital – to London. Caribbean havens, handling mostly North and South American business (licit and illicit) were bringing a rising tide of business to London. The Crown Dependencies of Jersey, Guernsey and the Isle of Man focused more on European, north African and other business. Other tax havens such as Hong Kong, now fully independent from Britain, nevertheless contain a legacy of British businesses which continue to channel capital flows to the City of London. Newer havens continue to emerge, such as Mauritius which focuses on African and Asian business, as well as in Botswana, Ghana and Kenya, each with the active help of City of London interests. Secrecy has been a prime offering in each case.

The network of British havens around the world increasingly became part of the City of London's business model, giving it unrivalled market power in the field of financial services allowing City businesses to, among other things, charge quasi-monopolistic prices, or rents<sup>9</sup>, for their services, further boosting City profits and the 'financialisation' of business.

For the City's 'satellite' havens, more than for the UK itself (which was a large, complex democracy, where such legal provisions are harder to engineer,) secrecy has always been the main, or a key, selling point.

Although the UK is only ranked at number 13 in our index, that is because it is only considered as a jurisdiction in isolation. If the entire British network of secrecy jurisdictions were considered, it would easily be ranked number 1.

### **The UK as a secrecy jurisdiction today**

The UK's secrecy jurisdiction / tax haven status stems from various different strands, many of which are characterised by a general *laissez-faire* attitude and lax regulation explicitly to attract business from outside. Disasters on Wall Street in the latest financial crisis can be traced to London. For example, AIG's Financial Products unit, the key player in the organisation's downfall, was located in London. U.S. financial institutions achieved "rehypothecation" – that is, pledging the same collateral for several different trades – by going to London to engage in a practice they could not pursue at home<sup>10</sup>. Other examples abound. Amid this broad environment of laxity, the specifics of the UK's tax haven status are as follows:

- The network of partly British 'satellite' tax havens, as described above.
- Laxity in financial regulation. Britain's 'light-touch' regulation, described in 2011 as 'tragic' by U.S. Treasury Official Tim Geithner in June 2011<sup>11</sup>, and a clear factor in the latest global financial crisis, is too multi-faceted to go into in great detail here. Nevertheless, the importance of the Eurocurrency and Eurobond markets needs highlighting.

- The “domicile” rule for wealthy individuals. The UK has an unusual concept of “domicile,” distinct from the concept of residence. It was originally set up during the years of Empire to allow those expatriate British resident in the colonies to claim they were still “domiciled” in the UK (and that foreigners resident elsewhere remained ‘domiciled’ elsewhere, so they could never become fully British.) This was applied to the tax field and is now used to allow those resident in the UK but “domiciled” overseas to claim special tax status. These ‘non-doms,’ which include wealthy Greek ship-owners and Russian oligarchs, are only taxed on their income which originates in the UK: income which arises abroad goes untaxed. (Ordinary residents are taxed on their worldwide income.) Non-doms simply shift their sources of income overseas to avoid tax.
- The City of London corporation itself serves as something of an offshore island within the UK nation state in several respects, having a particular constitutional status.<sup>12</sup> As illustration, when the Queen enters the City of London on a state visit she must wait for the Lord Mayor to accompany her before proceeding. The Lord Mayor of the City of London speaks up for financial liberalisation and tax havens on international visits.
- The UK actively lobbies behind the scenes to protect tax havens, such as through lobbying for loopholes in the European Savings Tax Directive, or
- The new UK coalition government is introducing legislation which makes it far more attractive for large multinationals to set up headquarters in the UK, by allowing them to exempt foreign branch earnings from tax: a concession to big businesses that only Switzerland mirrors. One observer has described this as a “corporate coup d’état<sup>13</sup>” and another called it “the most fundamental shift in the corporate tax base since . . . 1914.<sup>14</sup>” It has been matching this by slashing funding for those parts of the revenue authorities that focus on corporate tax avoidance and evasion, while beefing up surveillance of smaller businesses.<sup>15</sup>

For more detailed work on the specific aspects of secrecy provided by the UK, see the details provided in the rest of this report.

It seems likely that the general population of the United Kingdom, and particularly those living in regions outside of London, have been harmed by the UK’s large and rising focus on tax haven activity. In a phenomenon that seems similar to the “Resource Curse” which afflicts mineral-rich countries, the UK suffers from various afflictions related to finance:

- An overvalued real exchange rate which makes it harder for other sectors of the economy producing tradable goods and services to compete with imports
- A leaching of the best-educated parts of the workforce out of other sectors and into finance
- The ‘capture’ of large parts of the UK policy-making apparatus, and even parts of the media, by the financial sector, to the detriment of other sectors.
- High levels of inequality between those in the financial sector and associated sectors, on the one hand, and other sectors, on the other, making Britain among the most unequal countries in the OECD. It scores significantly worse than most of its peers on human development indicators.

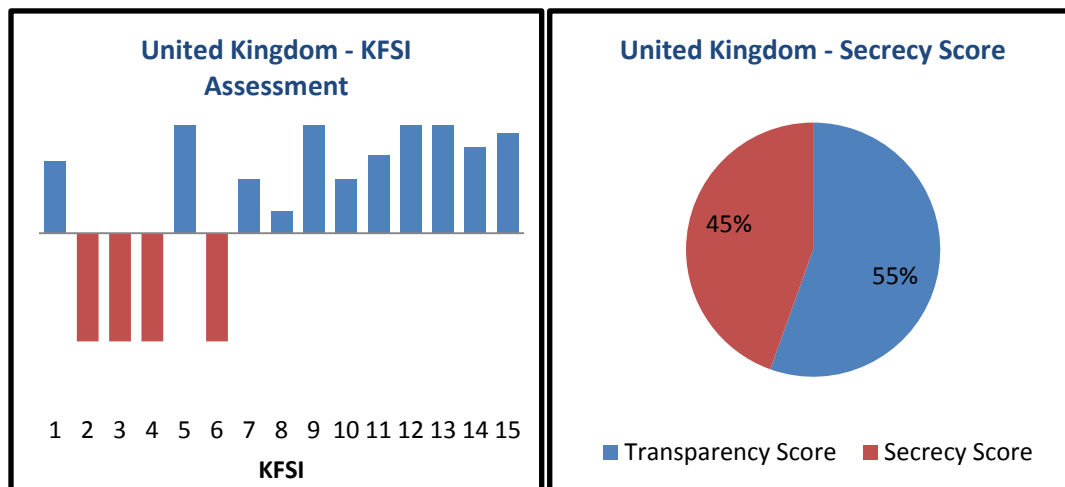
In September 2011 China and the UK [agreed](#) to start developing the City of London, via its age-old Hong Kong links, as an offshore Renminbi trading centre. Given how central the offshore Eurodollar markets were to the rebirth of the City of London from the 1960s onwards, it is quite possible that an offshore Renminbi market [could create](#) a whole new lease of life for the City of London.

### Next steps for United Kingdom

United Kingdom's 45 per cent secrecy score shows that it must still make major progress in offering satisfactory financial transparency<sup>16</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 the United Kingdom'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 45 per cent for the United Kingdom 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 the United Kingdom. Our data sources include regulatory reports, legislation, regulation and news available at 31.12.2010<sup>17</sup>. The full data set is available [here](#)<sup>18</sup>. Our assessment is based on the 15 Key Financial Secrecy Indicators (KFSIs, below), reflecting the legal and financial arrangements of the United Kingdom. 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>19</sup>. This data is the basis on which the [Financial Secrecy Index](#)<sup>20</sup> is compiled.

The Key Financial Secrecy Indicators and the performance of the United Kingdom are:

<b>TRANSPARENCY OF BENEFICIAL OWNERSHIP – United Kingdom</b>	
1.	Banking secrecy: Does the jurisdiction have banking secrecy?  <b>United Kingdom does not adequately curtail banking secrecy</b>
2.	Trust and Foundations Register: Is there a public register of Trusts and Foundations?  <b>United Kingdom 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>United Kingdom does not maintain company ownership details in official records</b>
<b>KEY ASPECTS OF CORPORATE TRANSPARENCY REGULATION – United Kingdom</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>United Kingdom 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>United Kingdom 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>United Kingdom does not require country-by-country financial reporting by companies</b>
<b>EFFICIENCY OF TAX AND FINANCIAL REGULATION – United Kingdom</b>	
7.	Fit for Information Exchange: Are resident paying agents required to report to the

	<p>domestic tax administration information on payments to non-residents?</p> <p><b>United Kingdom partly requires resident paying agents to tell the domestic tax authorities about payments to non-residents</b></p>
8.	<p>Efficiency of Tax Administration: Does the tax administration use taxpayer identifiers for analysing information effectively, and is there a large taxpayer unit?</p> <p><b>United Kingdom partly uses appropriate tools for effectively analysing tax related information</b></p>
9.	<p>Avoids Promoting Tax Evasion: Does the jurisdiction grant unilateral tax credits for foreign tax payments?</p> <p><b>United Kingdom avoids promoting tax evasion via a tax credit system</b></p>
10.	<p>Harmful Legal Vehicles: Does the jurisdiction allow cell companies and trusts with flee clauses?</p> <p><b>United Kingdom partly allows harmful legal vehicles</b></p>
<b>INTERNATIONAL STANDARDS AND COOPERATION – United Kingdom</b>	
11.	<p>Anti-Money Laundering: Does the jurisdiction comply with the FATF recommendations?</p> <p><b>United Kingdom partly complies with international anti-money laundering standards</b></p>
12.	<p>Automatic Information Exchange: Does the jurisdiction participate fully in Automatic Information Exchange such as the European Savings Tax Directive?</p> <p><b>United Kingdom participates fully in Automatic Information Exchange</b></p>
13.	<p>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?</p> <p><b>As of June 30, 2010, United Kingdom had at least 60 bilateral tax information sharing agreements complying with basic OECD requirements</b></p>
14.	<p>International Transparency Commitments: Has the jurisdiction ratified the five most relevant international treaties relating to financial transparency?</p> <p><b>United Kingdom has partly ratified relevant international treaties relating to financial transparency</b></p>
15.	<p>International Judicial Cooperation: Does the jurisdiction cooperate with other states on money laundering and other criminal issues?</p>

<b>United Kingdom partly cooperates with other states on money laundering and other criminal issues</b>
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<sup>1</sup> Ranked by GDP, see IMF data: <http://bit.ly/fcv318>; 23.9.2011.

<sup>2</sup> The term “City of London” has different distinct meanings. In popular discourse, it is often used to refer generally to UK financial services. More specifically, it means the so-called Square Mile, a 1.2 square mile slab of prime central London real estate whose municipal authority, the City of London Corporation, is the world’s oldest municipal authority. For more details, see “Griffin,” the final chapter of [Treasure Islands: Tax Havens and the Men Who Stole the World, Nicholas Shaxson, 2011.](#)

<sup>3</sup> Several UK politicians and academics over the years have made this explicit comparison - See Treasure Islands, also Karel Williams, footnote to be filled in <http://treasureislands.org/report-city-of-london-is-like-a-medieval-italian-city-state/>

<sup>4</sup> See The City: A Guide to London’s Global Financial Services, Richard Roberts, The Economist, Second Edition, chapter “from the Royal Exchange to Canary Wharf.”

<sup>5</sup> British Imperialism, quoted in Shaxson 2011, p261, UK edition: <http://treasureislands.org/>.

<sup>6</sup> Calcutta Jute Mills and Cesena Sulphur mines; see Picciotto, Sol 1992: International Business Taxation, Weidenfeld and Nicolson.

<sup>7</sup> This was obviously helpful to the UK: a number of overseas-registered companies were effectively controlled in London; this meant that the UK government got to tax them.

<sup>8</sup> According to Picciotto, cited in Palan, Chavagneux, Murphy p113, “The decision in Egyptian Delta Land created a loophole which in a sense made Britain a tax haven”

<sup>9</sup> See <http://treasureislands.org/adair-turner-answer-to-financial-failure-tax-banks/> for more details on the City’s ability to extract rents.

<sup>10</sup> FT Alphaville cites the ‘collateral crunch’ in the shadow banking system as the basis for the crisis, singling out rehypothecation as a central factor. <http://ftalphaville.ft.com/blog/2011/06/13/592161/the-collateral-crunch/>

<sup>11</sup> <http://treasureislands.org/has-tim-geithner-read-treasure-islands/>

<sup>12</sup> For full details on this, see Treasure Islands, as well as the CRESC report <http://treasureislands.org/report-city-of-london-is-like-a-medieval-italian-city-state/>

<sup>13</sup> <http://www.guardian.co.uk/commentisfree/2011/feb/07/tax-city-heist-of-century?INTCMP=SRCH>

<sup>14</sup> <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmtreasy/memo/taxpolicy/m46.htm>

<sup>15</sup> <http://arctheunion.wordpress.com/2011/06/16/hmrc-lets-big-business-‘off-the-hook’-says-union-2/>

<sup>16</sup> Our definition of financial transparency can be found here:

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

<sup>17</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>18</sup> That data is available here: [http://www.secrecyjurisdictions.com/sj\\_database/menu.xml](http://www.secrecyjurisdictions.com/sj_database/menu.xml).

<sup>19</sup> <http://www.secrecyjurisdictions.com>.

<sup>20</sup> <http://www.financialsecrecyindex.com/>.