

In February 2020, the Tax Justice Network published its latest Financial Secrecy Index (FSI), which ranked the Cayman Islands as the leading jurisdiction for financial secrecy. To reach this conclusion, TJN had to downplay the Cayman Islands' strong regulatory regime; stringent procedures to prevent and identify financial crimes; fully verified beneficial ownership registry for corporations; and adherence to international transparency standards that address tax evasion, money laundering and terrorism financing.

The FSI is comprised of two main components: a global scale weight (GSW) and a secrecy score (SS). The GSW is a measure of the extent of a jurisdiction's exports of financial services and the "Secrecy Score" is based on twenty "Key Financial Secrecy Indicators" (KFSI). TJN calculates the FSI score for each jurisdiction by multiplying the cube of the Secrecy Score by the cube root of the Global Scale Weight. **The European Commission Joint Research Centre found this methodology to be very peculiar** and results in an index that may not measure what it is supposed to measure.

Tax Justice Network says its Financial Secrecy Index ("the Index") is intended to help combat "illicit financial flows," yet nowhere does it quantify any such flows by any jurisdiction. Instead, it merely asserts that jurisdictions that rank higher on its index cause more damage. But the **FSI combines incorrect data with biased criteria to generate unreliable results. As such, it does not accurately measure the potential of jurisdictions to facilitate illicit financial flows.**

Without substantial changes to TJN's methodology in future reports, the **FSI cannot be considered a credible assessment of the extent to which jurisdictions facilitate illicit financial flows and should not be used as an independent resource by other organisations.** To make matters worse, TJN appears to have used the wrong measure to assess Cayman's GSW, leading it to **exaggerate Cayman's overall score** by nearly an order of magnitude.

## INCORRECT DATA

**TJN's calculation of a jurisdiction's GSW depends on a measure of exports of financial services. TJN's preferred data for that metric is the IMF Balance of Payments Statistics (BOPS) if it was available by 1 November 2019. Cayman's IMF BOPS data was available at that time but TJN did not use it. Instead, it used a measure that inaccurately represents the scale of Cayman's financial services exports.**

- TJN says Cayman's BOPS data on exports of financial services for 2018 & 2017 was "unknown."
- The Cayman Islands Government Economics and Statistics Office (ESO) had published provisional data on exports of services (including financial services) as part of its Balance of Payments & International Investment Position Report 2017 in February 2019. ESO submitted 2017 report data, including data on exports of financial services, to the IMF in September 2019 and the IMF made the information available on its website the same month.
- Cayman's BOPS data on exports of financial services **was available to TJN well before its deadline and yet TJN choose to substitute estimates that massively exaggerated the scale of Cayman's financial services exports.**
- By using an inaccurate measure of Cayman's export of financial services, **TJN overestimated Cayman's GSW by 860%, which in turn led to Cayman's score on the Index more than doubling.**
  - Had TJN used the available BOPS data, its estimate would have been approximately \$2.5 billion, an order of magnitude less than the figure used by TJN in the FSI, and Cayman's GSW would have fallen from 4.5% to 0.5%, which would have **dropped Cayman to 6th in the ranking.**

## BIASED CRITERIA

The FSI's "Secrecy Score" is based on twenty "Key Financial Secrecy Indicators" (KFSI), which are marred by numerous biases that considerably weaken the report's stated goal of identifying jurisdictions that facilitate "illicit financial flows" and skew jurisdiction rankings.

- Nine KFSIs **do not provide reliable or consistent information** on a jurisdiction's tendency to facilitate illicit financial flows. For example:
  - KFSIs 5 and 6 **discriminate against jurisdictions like Cayman that have verified beneficial ownership registration systems** that make information available upon request to authorities in other jurisdictions.
  - KFSI-12 scores whether a jurisdiction has a consistent personal income tax, which seems based on the assumption that high- and progressive-income taxes equate to lower levels of tax avoidance and evasion – yet **evidence suggests that the opposite is the case.**
- The criteria for two other KFSIs (11 and 14) are **biased against jurisdictions that don't impose individual or corporate taxes**, even though that has **no connection to illicit financial flows.**
  - KFSI-11 scores a jurisdiction's administrative capacity to tax individuals and corporations. Those without such taxes were automatically awarded a score of 100, but since they do not require a tax administration they should logically score 0.
  - KFSI-14 rates the secrecy of tax courts, giving jurisdictions without individual or corporation taxes a score of 100 – but they have no tax courts so should clearly score 0.
- One KFSI (15) inappropriately combines two components that are strongly associated with illicit financial flows with two that aren't, which produces higher secrecy scores **for certain jurisdictions.**

## UNRELIABLE RESULTS

The massive overestimate of Cayman's GSW and the use of KFSIs that are biased against the jurisdiction and have no connection to illicit financial flows produce unreliable results that vastly inflate Cayman's ranking on the FSI.

- Using the correct figure for Cayman's GSW, without altering anything else, **Cayman falls from 1st on the Index to 6th.**
- TJN's methodology for combining the GSW and SS is arbitrary and does not have a sound statistical rationale. **Using a more statistically sound and intuitive method, suggested by the European Commission Joint Research Centre, Cayman falls to 16th on the Index.**
- When the **most biased and skewed indicators are removed** and adjustments made to correct for biases of some remaining indicators, **Cayman drops to between 26th and 34th on the FSI.**

The Cayman Islands Government and financial services industry have shown **real leadership in adopting global standards for transparency and tax information sharing.** Both the EU and OECD have recently reviewed the Cayman Islands tax neutral regime and found it to be **transparent, consistent with good tax governance principles and without the existence of harmful tax regimes.** Those are the kinds of internationally-recognised assessments that should be considered when evaluating the Cayman Islands.