



**Isle of Man  
Government**

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# Isle of Man Government

**Commitment to Combating Money Laundering  
and the Financing of Terrorism & Proliferation**

Council of Ministers  
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# **Isle of Man Government Commitment to Combating Money Laundering and the Financing of Terrorism and Proliferation**

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# Introduction by the Chief Minister

For some years the Isle of Man has been at the forefront of small countries upholding international regulatory standards in the fight against financial crime. A number of external authorities, including the International Monetary Fund, have confirmed the Island's high level of compliance with global measures against money laundering and terrorist financing, and that it co-operates fully with its international partners.

The Isle of Man has also been one of the leading jurisdictions supporting the development of worldwide standards in respect of transparency and exchange of information relating to tax matters.

The Isle of Man Government's commitment to combating money laundering and the financing of terrorism reflects the Island's position as a reputable centre for international financial services. As a jurisdiction dedicated to attracting quality, legitimate business the Isle of Man has an economic as well as an ethical interest in preventing its finance sector and reputation from being undermined by criminals.

The Isle of Man is proud of the part it has played in helping the international community to protect global financial systems from those who would wish to abuse them to launder money or finance terrorist activities.

However, it must be recognised that international standards have moved forward since the Island's compliance with them was last assessed, and they will continue to evolve and change. If the Isle of Man Government is to promote economic growth in the future it cannot afford for the Island's reputation to be damaged by falling behind the developing standards. The Island must be proactive in assessing and responding to these issues.

The Isle of Man Government is therefore committed to continuing to further strengthen its compliance with the international standards against financial crime, including the standards set out in the Recommendations of the Financial Action Task Force (FATF).

Hon A R Bell MHK, Chief Minister

# The Isle of Man

The Isle of Man is a self-governing dependency of the British Crown with a resident population of 84,497 (2011 census) and a GNP of GBP 3.42 billion (2009/10). It is not part of the United Kingdom but the UK Government, on behalf of the Crown, retains ultimate responsibility for its international relations. Her Majesty the Queen, who is 'Lord of Mann', is the Head of State and is personally represented on the Island by His Excellency the Lieutenant Governor.

The Island has a special limited relationship with the European Union under an agreement which allows free trade in agricultural and manufactured products between the Isle of Man and EU Member States.

The Isle of Man has a well defined institutional and legal framework. Its parliament, Tynwald, was established more than one thousand years ago and is believed to be the world's oldest parliamentary assembly in continuous existence.

Although UK law does not extend to the Isle of Man without the consent of Tynwald, the Manx legal system is based on the principles of English common law. Manx criminal law was codified in the 19th century and is closely based on English law. In relation to contract, tort, family law and social security, Manx law is very similar to English law. In other respects Manx law has been developed to meet the Island's special circumstances, particularly with regard to direct taxation, company law and financial supervision.

The financial services sector, consisting mainly of deposit-taking institutions, fund service providers and insurance companies, together with professional and scientific services, makes a significant contribution to the Island's GDP.

Other sectors of the economy include manufacturing and engineering, e-gaming and e-commerce, international shipping, aircraft registration, space and satellite business, construction, retail, the film industry, farming, fishing and tourism.

Business is attracted to the Island by a high standard of service and specialist professional expertise, supportive government, world-class telecoms infrastructure, competitive tax regime, sound financial regulation and an excellent quality of life for families and individuals.

As a country with significant interests in global financial markets and with close links to the capital markets of the UK and other international jurisdictions, the Isle of Man attaches great importance to the maintenance of high standards of financial regulation and supervision. It is in this spirit that the Isle of Man Government, together with the Island's regulatory authorities, seeks to work with international bodies to maintain and further strengthen the Island's reputation as a well regulated and internationally responsible jurisdiction.

The Isle of Man has a wide-reaching regulatory framework that governs its financial services industry. These businesses must generally be authorised and supervised by a governmental authority, which also provides anti-money laundering and countering terrorist financing oversight with respect to that business.

Deposit takers, as well as those in the investment business (such as stock brokers, asset managers and financial advisers), are required to be licensed under the *Financial Services Act 2008*, and are supervised by the Financial Supervision Commission (the FSC). A majority of banks are part of United Kingdom groups and there are also banks from groups based in Ireland, Spain, France, Switzerland and South Africa. Company and trust service providers are also licensed by the FSC.

Life insurers, non-life insurers, insurance managers and general insurance intermediaries are authorised or registered under the *Insurance Act 2008*, and are supervised by the Insurance and Pensions Authority (the IPA). The insurance sector is represented by two principle segments, being the life sector and the general and captive insurers. The IPA also has responsibility for the authorisation and regulation of retirement benefits schemes under the *Retirement Benefits Schemes Act 2000*.

# International Evaluations

As a reputable international financial centre with full access to global markets, it is essential that the Isle of Man retains the confidence of its counterparties through the adoption and implementation of high regulatory standards. The Island therefore attaches great importance to ensuring that its policies and procedures conform to internationally accepted best practice.

The Island is a member of the Group of International Financial Centre Supervisors, the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors (IAIS), the Offshore Group of Insurance Supervisors, the International Organisation of Securities Commissions (IOSCO) and the International Organisation of Pension Supervisors (IOPS). These are the main bodies responsible for the setting of international standards in the banking, insurance, securities and pension sectors respectively.

A number of international organisations have devoted much time to the assessment of offshore centres generally. This has been mainly to assess their practices against global standards to ensure that they do not present a weak link in the financial system internationally. The Island welcomes this scrutiny, and indeed has benefited from the subsequent findings.

In 2008/2009 the IMF conducted a Financial Sector Assessment Programme ("FSAP") evaluation on the Isle of Man covering the Island's compliance with international standards for anti-money laundering and countering the financing of terrorism, the Basel Core Principles for Effective Banking Supervision and the Insurance Core Principles. The FSAP also covered stress testing in respect of both the banking and insurance sectors.

The report concluded that *"...the Isle of Man is broadly compliant with most aspects of the FATF recommendations..."*, having continued to upgrade its requirements significantly. In addition, the report found that the Island had a general high standard of financial sector regulation and supervision, and a *"very high standard of compliance"* with the Basel Core Principles for Effective Banking Supervision, and in relation to insurance business the Island was *"commended for its proactive stance in establishing and enforcing high standards for supervision, which have contributed to the maintenance of the IOM's good reputation as an*

*international financial centre*". The report also noted that *"the Isle of Man authorities take their responsibilities in the area of international co-operation seriously"*, citing supervisory co-operation, mutual legal assistance and tax information exchange agreements. The Island has in place Memoranda of Understanding with a number of jurisdictions to underpin this, and wider issues of, co-operation.

Meanwhile the Financial Stability Forum also considered the effect that offshore centres generally can have on global financial stability and in April 2000 it issued its Report of the Working Group on Offshore Centres. It canvassed opinion among major countries on the strength of regulatory practice in the different centres, and the Isle of Man was placed in the top group of centres reviewed. This type of independent confirmation of how the Island's regulatory system is perceived to be working in practice is an important test of effectiveness and compliance.

The Island has also worked closely with the United Nations Office for Drug Control and Crime Prevention, particularly in support of its Offshore Initiative.

The Island has received confirmation that it has been moved to a list of countries approved by the US Internal Revenue Service under its Withholding Tax legislation. Broadly, the legislation requires local financial institutions to apply for Qualified Intermediary Status if they wish to invest in US securities and claim exemption from US Withholding Tax for their clients.

The Island has also been included on the Organisation for Economic Cooperation and Development (OECD) list of countries complying with the global standard for tax co-operation and exchange of information. The list, produced following the G20 summit in London, placed the Isle of Man in the top tier of jurisdictions – along with nations such as the UK, USA, Germany, France, Sweden and Ireland – that have 'substantially implemented the internationally agreed tax standard.'

The OECD published its Peer Review Report evaluation under the Global Forum on Transparency and Exchange of Information for Tax Purposes in June 2011. It found that: *"The general regulatory environment in the Isle of Man is comprehensive and, particularly for anti-money laundering purposes, all major financial sector industries are subject to active oversight designed to ensure that processes for customer due diligence and the maintenance of appropriate transactional information are followed."*

The OECD Peer Review Report described the Island's sharing of tax information as "effective and expeditious" and remarked: *"The feedback provided by the Isle of Man's information exchange partners is very positive. The information requested is provided quickly and exchange of information partners are appreciative of the open and transparent relationship they have with the Isle of Man competent authority."*

The Isle of Man has moved to automatic exchange of information within the EU in its application of the European Union Savings Directive ("EUSD"), putting it at the forefront of international tax co-operation and transparency allowing for free exchange of information between countries. This new tax policy took effect from 1 July 2011 and it means that the withholding tax option previously available to customers having accounts with Isle of Man banks by virtue of transitional arrangements in the EUSD was withdrawn.



# **Isle of Man Government Commitment to Combating Money Laundering and the Financing of Terrorism and Proliferation**

The Isle of Man has a reputation as a sound and well-regulated jurisdiction. This was confirmed by the most recent IMF evaluation report published in September 2009. It is essential for the Island to maintain this reputation in order to continue attracting legitimate investors with funds and assets that are untainted by criminality.

The Isle of Man Government recognises that it is imperative to be a responsible jurisdiction playing a full role in the international arena. In order to do this it must ensure suitable measures are in place to prevent and deter criminals from benefiting from the proceeds of their crimes and financing of terrorism and weapons proliferation through the use of the Island's financial system and other relevant sectors of the economy. This includes having the full range of laws, policies and procedures to provide cooperation to other jurisdictions when called upon for international assistance.

Economic considerations are also important in the Isle of Man's adoption of robust measures in this area and its commitment to ensuring that it keeps pace with international standards.

The Isle of Man Government recognises that persons in the Island who launder the proceeds of crime, whether knowingly, unintentionally or without regard to what they may be facilitating through the provision of products or services, will damage the reputation of the Isle of Man as a whole. The perception of the Isle of Man as a responsible and well regulated financial centre in which to do business and invest funds depends not only on the Island's reputation for honesty and integrity, but also the legal and regulatory framework in place and the effectiveness and impartiality of the justice system.

The Isle of Man regulatory and enforcement authorities are committed to reducing the risk of money launderers, those financing terrorism and proliferation, and other criminals using the Isle of Man or its financial institutions for their activities.

The Isle of Man Government endorses international standards against money laundering, the financing of terrorism and proliferation, tax evasion, corruption and related criminal

activities. In particular, the Isle of Man Government supports compliance with the Financial Action Task Force's revised Recommendations which were adopted in February 2012.

The Island's legislative framework for preventing money laundering and countering the financing of terrorism, which has been in place and effective for more than two decades, is regularly reviewed and updated to deal with new threats that emerge and revisions to the international standards.

The Isle of Man Government is committed to maintaining domestic legislation, policies and procedures which ensure effective compliance with the international standards and, where necessary, progressing further measures in the future to implement evolving international standards and best practice.







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