

JURISDICTION UPDATE

Long-established as one of the foremost international financial centers and a key operational base for many of world's most recognized and respected banking and financial organizations, The Bahamas has retained from its OECD discussions and FATF examinations both its crucial tax neutrality and its commitment to client confidentiality.

The Bahamas response to the multinational initiatives has been based on the principle of constructive cooperation, with robust defense of legitimate national interests. Insisting on a process that is fair and transparent, The Bahamas believes there should be a common standard adopted by all onshore centers, including those located in OECD countries, as well as all cooperating offshore centers.

Adherence to this principle is designed to ensure that cooperation with any initiative preserves The Bahamas' competitive position in the international market for financial services. Accordingly, while cooperation with these initiatives resulted in important changes in the local legislative environment, The Bahamas is resolute in its commitment to maintain its leading role in the global market for financial services.

International financial services account for such a substantial portion of the Bahamian economy that we will take whatever steps necessary to ensure its integrity and recognize any-balanced, non-discriminatory initiative with our primary objective being the sustainability of a reputable financial services sector" the Bahamian Government has stated repeatedly.

INSISTENCE ON A LEVEL PLAYING FIELD

The Bahamas has emerged from its OECD discussions on international financial services with a unilateral commitment premised on the establishment of a level playing field for all centers conducting international financial services activities. The Bahamas has agreed to keep pace with developments adopted by OECD and non-OECD centres, ensuring preservation of the competitive

status of The Bahamas. No changes are proposed to the longstanding tax-free environment for international business, including no income tax, no corporation tax, no capital taxes, no estate taxes and no withholding taxes.

As one of the world's leading centres for international financial services, The Bahamas recognizes the value of a robust and constructive relationship with the US and other OECD member countries. The agreement outlines the measures The Bahamas is prepared to take in step with OECD member and other competitor countries to achieve transparency and exchange of information.

The Bahamas' position throughout its OECD discussions is that it would adhere to standards and timelines which are applied evenly and without exception and would not be bound by obligations which are more onerous or burdensome than corresponding obligations assumed by all other competitor jurisdictions, including OECD-member countries.

The Bahamas has agreed to work with the OECD in shaping and implementing rules to achieve information exchange and transparency. The Agreement provides for a level playing field to be established amongst all members of the OECD and other countries with which The Bahamas competes materially in the provision of cross border financial services. Competitors, including countries such as Switzerland, Hong Kong, Singapore, Luxembourg and various states within the U.S., including Delaware, must agree to meet similar standards and timelines before The Bahamas proceeds with changes that affect its institutions and their clients.

The traditional confidentiality extended to those engaged in legitimate business will not be affected. The Bahamas retains a legislative and administrative system that respects both the privacy of its clients and preserves the banking confidentiality in our financial services sector.

TIEA WITH U.S.

The recently-signed TIEA between the governments of The Bahamas and the United States represents a recognition by both countries that self-interests can be satisfied in an even-handed fashion. The Bahamas wished to continue offering our institutions and their clients unrestricted, confidential and seamless access to the United States market; consequently The Bahamas negotiated terms that provide the United States the greatest confidence in the self-regulation of our financial services sector.

Under the agreement, The Bahamas has made a commitment to provide as of 2005 (i.e. for taxable years which begin in January 1, 2004) only specific information that may be available in The Bahamas that is relevant to a particular case, where the United States Government has exhausted all measures within the United States, and the Ministry of Finance in The Bahamas is of the opinion that sufficient evidence exists to support criminal tax evasion of United States federal tax. It is noteworthy that any information obtained through this agreement cannot be shared with other countries. Further, in addition to the burden to prove wrongdoing, strong anti-fishing provisions are an integral part of the agreement.

Similar arrangements are slated to begin in 2007 with respect to civil tax offense of United States Federal tax laws. However, The Bahamas has continued to seek a level playing field through the introduction of a most favored nation clause to ensure that the sector remains competitive.

PLAYING ITS ROLE IN THE FIGHT AGAINST MONEY LAUNDERING AND TERRORIST FINANCING

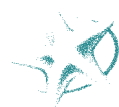
The Financial Action Task Force (FATF) an international working group of the OECD, has recognized the role The Bahamas plays in the fight against Money Laundering¹. In a determined effort to come into compliance with international standards for the conduct

of financial transactions and at the same time, to remove itself from the blacklist, a series of legislative and institutional reforms were undertaken. In a matter of a few months, The Bahamas passed new laws or amended existing legislation (mostly relating to financial services) so that at the end of the exercise, some observers contend that its financial services legislative regime is equal to or surpasses those of the OECD countries.

Legislative, institutional and administrative upgrades in The Bahamas included giving the Central Bank new authority to carry out on-site examinations of bank and trust companies and requiring institutions to keep a record of the identity of all clients (both domestic and foreign). A Financial Intelligence Unit (FIU) was established. The Financial and Corporate Service Providers Act 2000, sought to have all financial services providers (attorneys, accountants, management companies, brokers, insurance companies) adhere to know-your-customer rules in a manner similar to the Banks and Trust companies. Above all, every participant in the financial services industry in The Bahamas has undergone some type of training to become familiar with the new requirements of the legislation and to meet the rigorous expectations of the Regulators.

The Bahamas was one of the first countries to react to the new threat of terrorism financing. In September 2001, The Bahamas passed an anti-terrorism bill, which among other measures, prohibits any persons dealing with any property, and any financial institution in The Bahamas from transacting business with suspected terrorists or suspected terrorists organizations involved in the tragic events of September 11.

¹The Bahamas was subjected to an extensive independent and transparent review of its anti-money laundering systems by FATF. On June 22, 2001, the FATF confirmed that the Bahamas had met all 40 recommendations and as co-operative in the fight against money laundering.



WELL REGULATED, WORLD CLASS CENTRE

The Bahamas will stay at the forefront of the increasingly competitive global environment for the conduct of international financial services' business by keeping pace with evolving trends for appropriate transparency and co-operation with onshore centers. This is consistent with its historic views and legislative actions with respect to criminal activities and counter money laundering and its determination to be recognized for its professionalism and attraction of blue chip business.

The upshot of all of this is that The Bahamas now has one of the most well regulated financial systems in the modern world, capable of successfully meeting international standards for supervision and oversight that is expected of a first class financial services sector. Indeed, The Bahamas should now be able to accede, with considerable ease, into WTO and the FTAA processes and by so doing, take its rightful seat on the globalization train to improved living standards, expanded trade opportunities and sustainable economic growth and development.

TIEA HIGHLIGHTS

- Relates only to US Federal income taxes
- Not retroactive. Applies to information regarding criminal tax offences for taxable years beginning January 1, 2004 and for information regarding civil tax offences for taxable years beginning January 1, 2006.
- No fishing expeditions or automatic exchange of information
- Clearly defined restrictions for requests
- Requests will require the Greatest degree of specificity
- Only seek information from The Bahamas as a last resort
- Ability to review treaty after January 2004 if other more favorable US TIEAs or OECD model
- Qualified Jurisdiction status afforded – allows Bahamian institutions to keep client details confidential
- US Convention Tax Exemption – 2006
- Prohibits sharing of information with other countries
- Attorney – Client privileges recognised

OECD HIGHLIGHTS

The Agreement reflects a conditional policy position by The Bahamas subject to the achievement of several conditions:

- Standards and timelines for the exchange of information and transparency are established and agreed to by all OECD member countries and the principle competitors of The Bahamas (Hong Kong, Singapore and traditional OFCs)
- Sanctions are imposed on OECD and non-OECD members who fail to make equivalent commitments by April 30, 2003
- The Bahamas will not be blacklisted or subject to adverse consequences
- The Bahamas Parliament must approve any action to be taken under the commitment
- The Bahamas participates on an equal basis in the establishment of internationally accepted standards.

The conditional policy statement commits to establish by December 2005:

- Negotiation of tax treaties with OECD member countries
- Adequate transparency in The Bahamas regarding beneficial ownership of structures²
- Maintenance of financial accounts. Where audits are completed, the audit must be prepared in accordance with standards accepted internationally.
- Information regarding beneficial ownership and accounting information be made available where tax agreements are negotiated.

² Noteworthy, is that the Bahamian financial institutions meet the requirements anticipated by the OECD. All person providing financial services from The Bahamas must know their customer. This informations is maintained in a confidential manner in the offices of the regulated financial services provider.

**FOR MORE INFORMATION ON BFSB AND THE FINANCIAL
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