

## EXTRACT OF SOCIETE GENERALE CSR WEB-SITE

### 3.3.3 Offshore financial centers and tax havens

According to IMF<sup>1</sup>, based on the list issued by the Financial Stability Forum, estimates that there are currently 42<sup>2</sup> offshore financial centers around the world. These centers are characterized by financial activity with non-residents that is disproportionate to the size of their economies, and they generally boast low fiscal obligations and budgetary requirements. Moreover, a number of them have a reputation for their laxism and notable absence of regulations governing the execution and control of financial flows. It is their harmful effects on the world's financial systems that the OECD (for the tax aspects) and FATF<sup>3</sup> (for the prevention of money laundering and the financing of terrorist activities) continually strive to prevent.

In 1998, the OECD reviewed each of the offshore financial centers designated by the IMF in order to detect any fiscal practices liable to have a negative effect on the balance of the world's financial systems. The review resulted in the organization drawing up a list of 34 jurisdictions with shortfalls in their fiscal requirements.

The OECD uses four main factors in establishing whether or not a given country qualifies as a tax haven. These four factors are not cumulative nor do they constitute a universal definition of a tax haven:

- that the jurisdiction imposes no or only nominal taxes, whilst nonetheless recognizing that every jurisdiction has the right to determine its own tax rate;
- the lack of transparency in the application of the law under similar circumstances;
- the lack of any local, substantial activity;
- whether there are laws that prevent the effective exchange of information for tax purposes with other governments.

In 1999, the FATF assessed the different policies applied around the world in the prevention of money laundering, drawing up a black list of fifteen countries whose regulations in the matter were deemed to be insufficient.

Under the pressure of these two organizations and the financial community writ large, these countries completed or enhanced their legislation and controls meaning that, today, there are only three countries<sup>4</sup> that are classed as non-cooperative tax havens by the OECD and no longer any countries that are black listed by the FATF.

The notion of tax havens does, nonetheless, cover a far wider scope than that retained by the OECD in categorizing unacceptable tax practices. In France, for example, it can apply to any country whose tax system is not as strict as that applied in France (see "What is a tax haven?").

Société Générale has defined strict rules to avoid setting up in those countries considered to be tax havens by the OECD or in any country that could be on the FATF black-list.

However, the Group does not rule out working in these countries providing they already have an effective financial and banking sector that meets the economic needs of a local or international customer base, as is the case in Monaco for example.

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<sup>1</sup> IMF: International Monetary Fund

<sup>2</sup> Financial Stability Forum press release March 11, 2005

<sup>3</sup> FATF: Financial Action Task Force set up in 1989 by the G7 Summit in Paris to combat money laundering.

<sup>4</sup> Andorra, Lichtenstein and Monaco.

### **Encadré 1 What is a "tax haven"?**

The French notion of those countries that offer major tax advantages is based primarily on the first criteria of the OECD and is defined in article 238A of the French Tax Code. It is particularly broad in that it considers any country in which a legal entity or individual is not taxable or in which their income tax amounts to less than half of that which would apply were said entity or individual to be domiciled for tax purposes in France.

This definition encompasses a multitude of tax regimes that advocate rebates or exemptions and that are to be found in numerous countries even within the European Union. Within the other EU countries, this definition only applies in the event of an artificial set-up created to sidestep French legislation.

Other western countries have comparable systems, albeit rarely as broad. In any event, the number of tax havens to which this definition applies is naturally greater than the list drawn up by the OECD of those countries whose tax systems are liable to have a negative effect.

### **Encadré 2 A selective and rigorous policy**

Where necessary, the Group upholds the specific provisions of the French Tax Code governing countries offering major tax advantages and which is far broader than that applied by the OECD, and systematically submits a tax return in France for revenues generated by entities located in these countries where the latter fall within the scope of article 238 A of the French Tax Code.

As regards the regulations governing the prevention of money laundering, Société Générale Group has developed rules that it applies throughout the world, even where they are more stringent than local laws and legislation.