

Where 4 art thou?

A geographic study of the Big 4 firms of accountants

Summary

This paper considers the role of the Big 4 firms of accountants - PricewaterhouseCoopers (PWC), Deloitte, Ernst & Young (E&Y) and KPMG – in the creation of the offshore secrecy space.

Part 1 of the paper shows that secrecy jurisdictions deliberately create opacity with regard to financial data and that multinational corporations appear to exploit this opportunity to create opacity in their financial reporting. As a consequence it is clear that there are far too many companies incorporated in these places than local need or normal commercial opportunities could possibly justify. The conclusion drawn is that these places do, as the definition of them used in this paper (page 3) suggests likely, exist to provide services to persons who are not resident within them and who do not actually undertake trade there, but who wish to avail themselves of the veil of secrecy these locations facilitate for those making use of their services.

In the second part of the paper the concept of the 'secrecy space' which combines the opacity of secrecy jurisdictions with the opacity found inside group consolidated accounts of multinational corporations is developed. It is suggesting that this secrecy space might facilitate transfer mispricing.

In the third part of the paper the role of the Big 4 firms of accountants in this process is questioned. It is shown that they act as auditors and advisers to almost all multinational corporations. It is shown that they have prevalence in secrecy jurisdictions that cannot be explained by local commercial need. It is shown that those places in which they are present have much higher incomes per head of population than is to be found in those where they are not present. It is suggested that this is not the result of local characteristics of the places in which they are located but is the result of income being transferred into these locations for accounting purposes, a process which their presence would assist whether directly or indirectly.

So what might be concluded from this? Causal links cannot, of course, be proven by mere association. Nothing noted here alters that fact. However, the associations noted in this paper are so abundantly clear it is suggested that they are not mere chance. Nor does it matter which caused what first: over many years the association between opacity, secrecy jurisdictions, transfer mispricing and other commercial tax abuse by multinational corporations and the existence of the Big 4 as auditors of those corporations and suppliers of services to them in secrecy jurisdictions in which those Big 4 firms are also major economic participants and without whose presence many of

those secrecy jurisdiction could not supply such services, have become a tangled and connect web which imposes on the world those costs noted in the introduction to this paper.

And as that introduction notes, until such time as this situation changes we have the right to ask the reasonable question – wherefore art thou? (and any reasonable variation on the theme) until such time as we secure the transparency society needs so ensure that effective markets can operate, economic resources are allocated efficiently and tax compliance exists – where tax compliance is defined as seeking to pay the right amount of tax (but no more) in the right place at the right time where right means that the economic substance of the transactions undertaken coincides with the place and form in which they are reported for taxation purposes.

Introduction

This paper seeks to assess the impact of the behaviour of a number of players in the international financial arena in the creation of opacity.

It does so because it is suggested that opacity imposes a significant cost on all in society and on those living in the developing world perhaps most of all. This is first of all because greater transparency in developing countries will be of benefit in those places. Without data markets cannot operate effectively. If you do not know with whom you are dealing; if you do not know how they are using resources; if you cannot be sure entities can meet the claims made against them; if you cannot even be sure how you can register that claim, then quite clearly there is a significant risk premium within those markets that increases the cost of capital in those places. There is also substantial risk of the misallocation of resources, reducing the rate of return on capital, which has the same effective consequence. That means the cost of doing business in developing countries is significantly increased without full and open disclosure of what all entities other than natural persons are undertaking in these places. This paper shows that data on the trading of multinational corporations in many developing countries and secrecy jurisdictions is almost impossible to secure.

Second, the maintenance of effective systems of regulation to prevent bribery and corruption, crime and the abuse of tax systems through transfer mispricing is not and cannot be claimed to be an internal matter which developing countries alone can tackle. When there are states around the world – the 60 or more secrecy jurisdictions that we know exist – offer facilities that are deliberately designed to undermine the effectiveness of the law enforcement agencies in these places then quite clearly they face an almost insurmountable issue in tackling the problems they face internally with the scarce resources that they have available to them. This means solving the problem of illicit financial flows cannot and never will be a matter for the developing countries of the world to tackle in isolation, and individually. This paper shows that the Big 4 firms of accountants the subsidiaries of many multinational corporations are present in these places, and even if they are wholly unconnected to nefarious practices (and no suggestion is made that they are doing anything improper in this paper) their presence does lend credibility to many jurisdictions whose overall actions cause considerable harm to developing countries.

Third, this problem of secrecy jurisdictions is not a problem the developing countries of the world created. It is one we in the developed world created, and from which they suffer, along with us. We created the limited liability corporation. It has been useful, and nothing will now make it go away. But we also allowed it to be debased, to become opaque to the point we know little or nothing about most of the world's corporations - even to the extent of not knowing where some of them are incorporated, or if they even exist on registers anywhere. We allowed that to happen. We provided the space for that to happen. We do at present continue to tolerate that happening. This is a problem we must tackle or law enforcement in developing countries (and our own) will be continually undermined. This paper shows that the big 4 have contributed to this opacity, both themselves and through their support for the accounting standards setting process that allows it to continue.

Fourth, we have allowed the secrecy space that the combination of multinational corporation group accounts and secrecy jurisdictions in combination provide and which between them enable the whole process of transfer mispricing to occur – to far too great a degree undetected. This transfer mispricing abuse might cost developing nations \$160 bn a year (Christian Aid 2008). This paper explores the creation of this secrecy space.

In doing so no attempt is made to deny that there is a problem of law enforcement in some developing countries. It would be entirely wrong to deny it. But to say that this is their problem to solve alone and that we have no duty to reform the requirements of the international financial system to improve its efficiency as a mechanism for allocating resources, for enforcing property rights, for preventing bribery and corruption , for preventing crime and for preventing tax abuse is just wrong.

This paper demonstrates that this is not a peripheral issue. Well known places, well known companies and well known big firms of accountants are all participants in the creation of the opacity that allows abuse to take place – whether they are involved directly in it or not. As such it is argued that those places have a duty to create transparency to assist developing and other countries by ensuring there is sufficient data for effective markets to operate; that companies operating in these places have a duty to say so and explain why and what they are doing and large firms of accountants have a duty to promote transparency in the public interest, as do the regulatory authorities they support.

In the meantime we have the right to ask the reasonable question – wherefore art thou? (and any reasonable variation on the theme) until such time as we secure the transparency society needs.

Part 1 – the role of secrecy jurisdictions

In any study of illicit financial flows the role of what are called the Big 4 firms of accountants is a persistent theme.

For this purpose it is important to note in order of size¹ are PricewaterhouseCoopers (PWC), Deloitte, Ernst & Young (E&Y) and KPMG.

The term illicit is appropriately used in this paper. The Oxford English Dictionary defines illegal as contrary to or forbidden by law but illicit as forbidden by law, rules, or custom. The distinction is important in the context discussed here. Transfer mispricing is illicit: it is contrary to known rules or customs but in many of the transactions of concern it is not illegal since in many cases the local legislation or Double Tax Agreements that would make transfer mispricing illegal are not in place in the locations from which capital flows and as such those flows are illicit, but not necessarily illegal. It is suggested that this is a distinction of which a great many accountants are aware.

It has been argued by a number of authors (Baker, 2005 and Kar, D and Cartwright-Smith, D, 2008 for example) that more than sixty per cent of illicit financial flows comprise transfer mispricing, that is sales made intra-group by companies under common ownership where the price chosen for the trade is not that which arm's length parties would have chosen but is instead selected to reallocate profit between jurisdictions with the intention of lowering the overall charge to taxation within the group of entities that are under common control when treated as a whole.

It is argued for the purposes of this paper that transfer mispricing is not tax compliant. For this purpose tax compliance as seeking to pay the right amount of tax (but no more) in the right place at the right time where right means that the economic substance of the transactions undertaken coincides with the place and form in which they are reported for taxation purposes (Murphy, 2009b).

The literature that alleges substantial transfer mispricing abuse by multinational corporations² also suggests that tax havens play a significant role in that process. The term tax haven is, however, so widely misunderstood that this paper does not use it, preferring instead to use the term 'secrecy jurisdiction'.

Secrecy jurisdictions have been defined (Murphy, 2008b) as places that intentionally create regulation for the primary benefit and use of those not resident in their geographical domain. That regulation is designed to undermine the legislation or regulation of another jurisdiction. To facilitate its use secrecy jurisdictions also create a deliberate, legally backed veil of secrecy that ensures that those from outside the jurisdiction making use of its regulation cannot be identified to be doing so.

A list of those places currently considered to be significant secrecy jurisdictions by the Tax Justice Network is attached as Appendix 2.

The term secrecy jurisdiction is considered more appropriate for the purposes of the current analysis because although the process of transfer mispricing to which this paper refers seeks to secure a tax advantage (by way of reduced tax payment) for those who pursue the activity that advantage is not, it is suggested, available unless the abuse giving rise to it can be hidden from view behind a veil of

¹ See Appendix 1

² For a listing of some of that literature see the references and bibliography attached to this paper.

secrecy that is used to induce artificial relocation of activities to a secrecy jurisdiction. Amongst the activities that contribute to that veil of secrecy are:

1. The availability of banking secrecy;
2. Accounts not being required on public record;
3. Ownership information not being on public records;
4. Ownership information not being available to statutory authorities;
5. Trust data not being on public record;
6. Failure to comply with Financial Action Task Force requirements;
7. Not participating in automatic information exchange;
8. Having insufficient Double Tax Agreements;
9. Not having access to data for information exchange;
10. Making cell companies available;
11. Permitting redomiciliation of companies;
12. Failing to respond to reasonable requests for information.

Using these criteria for assessment of opacity the Tax Justice Network has ranked the opacity of the sixty significant secrecy jurisdictions they have identified as follows (Tax Justice Network, 2009a):

Secrecy Jurisdiction	<i>OPACITY SCORE</i>
Switzerland	100
Malaysia (Labuan)	100
Barbados	100
Bahamas	100
Vanuatu	100
Belize	100
Brunei	100
Dominica	100
Samoa	100
Seychelles	100
St Lucia	100
St Vincent & Grenadines	100
Turks & Caicos Islands	100
Mauritius	96
USA (Delaware)	92
Cayman Islands	92
Bermuda	92
Bahrain	92

British Virgin Islands	92
Portugal (Madeira)	92
Panama	92
United Arab Emirates (Dubai)	92
Costa Rica	92
Antigua & Barbuda	92
Cook Islands	92
Gibraltar	92
Grenada	92
Marshall Islands	92
Nauru	92
St Kitts & Nevis	92
US Virgin Islands	92
Austria	91
Lebanon	91
Israel	90
Liberia	90
Luxembourg	87
Jersey	87
Macao	87
Uruguay	87
Liechtenstein	87
Anguilla	87
Malta	83
Isle of Man	83
Philippines	83
Aruba	83
Andorra	83
Maldives	80
Singapore	79
Guernsey	79
Montserrat	79
Cyprus	75
Hungary	75
Latvia	75
Netherlands Antilles	75
Belgium	73
Monaco	67
Ireland	62
Hong Kong	62
Netherlands	58
United Kingdom (City of London)	42

As is apparent, opacity is widely available. It is often, of course, linked to low tax rates, as Murphy (2010, forthcoming) has shown.

The combination has obvious attractions to those seeking to transfer mispricing, but to demonstrate whether or not multinational corporations actually use secrecy jurisdictions, and which ones if they do the Tax Justice Network coordinated, under the direction of the author of this paper, a survey of where multinational corporations locate their subsidiaries, paying particular attention to the secrecy jurisdictions TJN had identified. The results of the US Government Accountability Office study of January 2009 (GAO 2009) entitled 'Large U.S. Corporations and Federal Contractors with Subsidiaries in Jurisdictions Listed as Tax Havens or Financial Privacy Jurisdictions' were used as part of the survey. Because that US survey excluded data on the US (unsurprisingly), the UK and the Netherlands these locations were also excluded from the TJN survey, as was Madeira because of difficulties in isolating data independently from Portugal, as were Belgium and Austria, although the latter for practical rather than methodological reasons.

The total sample of multinational corporations surveyed was as follows:

Country	Number of MNCs sampled
France	39
Netherlands	23
UK	33
USA	100
Germany	28
Switzerland	20
Total	243

It should however be noted that the data selection was pragmatic: the UK data should have been the entire FTSE 100 i.e. the 100 largest companies in the UK, designed to match the US sample. In practice although all UK quoted companies are required to publish the names, places of incorporation and percentage of holding for all their subsidiary companies annually, either in their audited accounts / financial statements or as an appendix to their annual declaration made to the UK's Registrar of Companies just 33 of the FTSE 100 companies did so. Enquiry suggested that no company had ever been prosecuted for failing to file this information. It is a curious example of the UK's own opacity.

It should also be noted that substantial problems were encountered with all other samples. The French data undoubtedly under-reports the number of subsidiaries since it only relates to principal subsidiaries, not all subsidiaries; German companies do not always make clear the distinction between subsidiaries and associates, the Dutch and Swiss data relied on databases and not original documentation which suggest some inconsistencies in approach and in particular about whether dormant subsidiaries are counted, or not, and so on. All such issues do, however, reveal one consistent theme, which is that it is immensely difficult to determine the composition of a multinational corporation.

Detailed analysis of the regulatory requirements of the sixty secrecy jurisdictions surveyed by the Tax Justice Network highlights the issues (Tax Justice Network 2009b). Of the sixty jurisdictions

surveyed accounts of companies were available on easily accessible public record in just six of them, the findings being summarised as follows:

Company Accounts – Available on easily accessible public record?					
ID	Jurisdiction		ID	Jurisdiction	
1	Andorra	No	31	Liechtenstein	No
2	Anguilla	No	32	Luxembourg	Yes
3	Antigua & Barbuda	No	33	Macao	No
4	Aruba	No	34	Malaysia (Labuan)	No
5	Austria	No	35	Maldives	No
6	Bahamas	No	36	Malta	No
7	Bahrain	No	37	Marshall Islands	No
8	Barbados	No	38	Mauritius	No
9	Belgium	No	39	Monaco	No
10	Belize	No	40	Montserrat	No
11	Bermuda	No	41	Nauru	No
12	British Virgin Islands	No	42	Netherlands	Yes
13	Brunei	No	43	Netherlands Antilles	No
14	Cayman Islands	No	44	Panama	No
15	Cook Islands	No	45	Philippines	Yes
16	Costa Rica	No	46	Portugal (Madeira)	No
17	Cyprus	No	47	Samoa	No
18	Dominica	No	48	Seychelles	No
19	Gibraltar	No	49	Singapore	No
20	Grenada	No	50	St Kitts & Nevis	No
21	Guernsey	No	51	St Lucia	No
22	Hong Kong	Yes	52	St Vincent & Grenadines	No
23	Hungary	No	53	Switzerland	No
24	Ireland	Yes	54	Turks & Caicos Islands	No
25	Isle of Man	No	55	United Arab Emirates (Dubai)	No
26	Israel	No	56	United Kingdom (City of London)	Yes
27	Jersey	No	57	Uruguay	No
28	Latvia	No	58	US Virgin Islands	No
29	Lebanon	No	59	USA (Delaware)	No
30	Liberia	No	60	Vanuatu	No

Company accounts are required to be on public record in just six of these jurisdictions.

The situation was worse when it came to beneficial (as opposed to nominal) ownership information being available on public record: just Monaco requires that this data be available. In all other cases nominee ownership may be recorded, or there is simply no requirement to record data on public record at all.

It is readily apparent as a consequence that unless data is required from multinational corporations on what companies do, or do not, make up their group and what each does, as shown by its audited accounts, then the current legal requirements for data registration within secrecy jurisdictions ensures that the information required to assist appraisal of multinational corporations activities, including those relating to transfer mispricing, will simply be unavailable if that is the multinational corporation's wish, as it will be if it is seeking to hide transfer mispricing activity.

This would not be an issue if multinational corporations did not use secrecy jurisdictions. The reality is that they do use them extensively. 84% of the US sample and 97.2% of the European sample had secrecy jurisdiction subsidiaries as defined by the Tax Justice Network (see appendix 2).

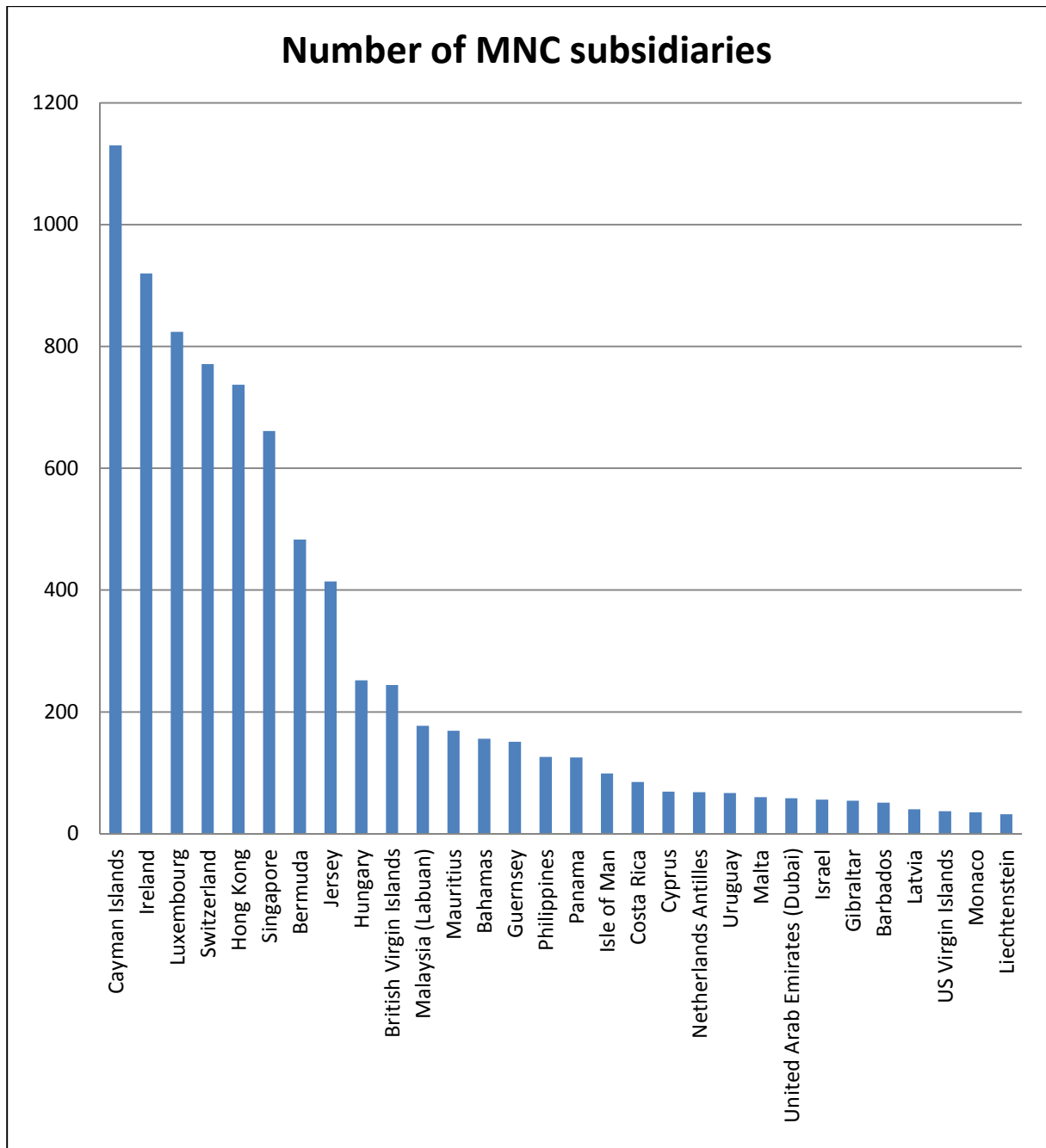
The Tax Justice Network survey of multinational corporation subsidiaries showed the following number by jurisdiction:

Ranking	Secrecy jurisdiction	Number of MNC subsidiaries
1	Cayman Islands	1130
2	Ireland	920
3	Luxembourg	824
4	Switzerland	771
5	Hong Kong	737
6	Singapore	661
7	Bermuda	483
8	Jersey	414
9	Hungary	252
10	British Virgin Islands	244
11	Malaysia (Labuan)	177
12	Mauritius	169
13	Bahamas	156
14	Guernsey	151
15	Philippines	126
16	Panama	125
17	Isle of Man	99
18	Costa Rica	85
19	Cyprus	69
20	Netherlands Antilles	68
21	Uruguay	67
22	Malta	60
23	United Arab Emirates (Dubai)	58
24	Israel	56
25	Gibraltar	54
26	Barbados	51
27	Latvia	40

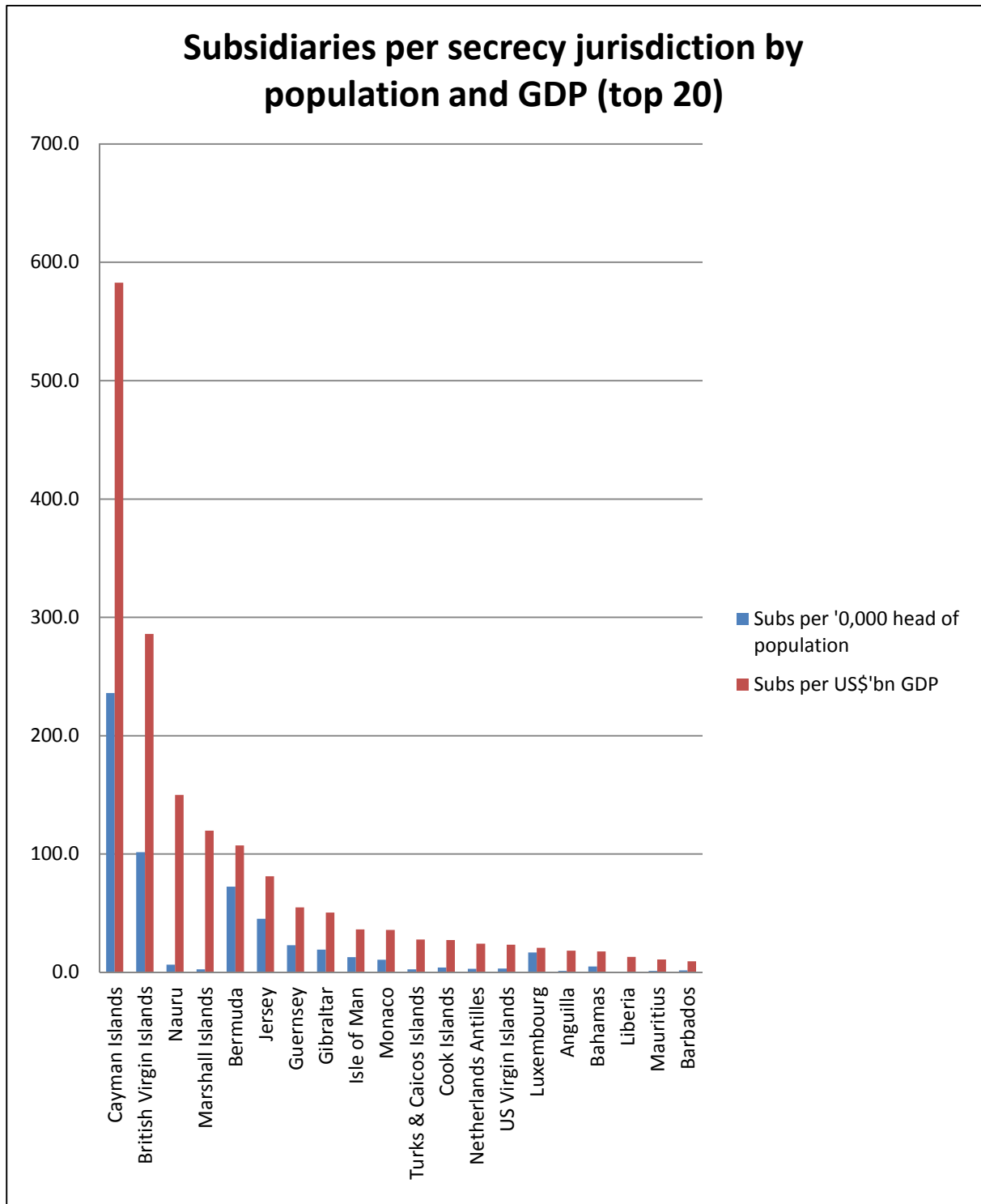
28	US Virgin Islands	37
29	Monaco	35
30	Liechtenstein	32

Data for the remaining 24 jurisdictions has been ignored; they are considered immaterial for the purposes of this paper.

Graphed this data is as follows:



It is readily apparent that some, unsurprising locations stand out, but the data makes a lot more sense when plotted against two control variables, being population and GDP (data sources for each being the CIA Fact Book in August 2009). When this is done the following graph is plotted:



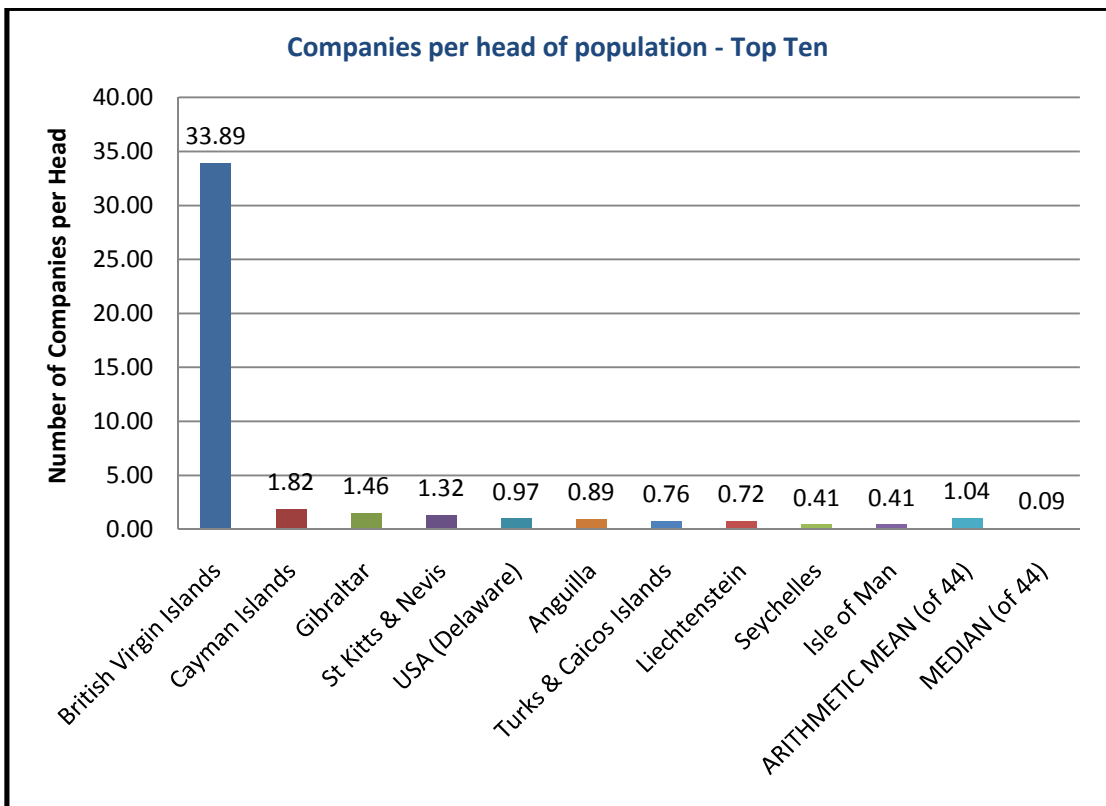
The data in this graph is ranked by subsidiaries by GDP in US\$bn. In most cases the correlation with a ranking by subsidiaries per head of population is very clear.

Both rankings are summarised as follows:

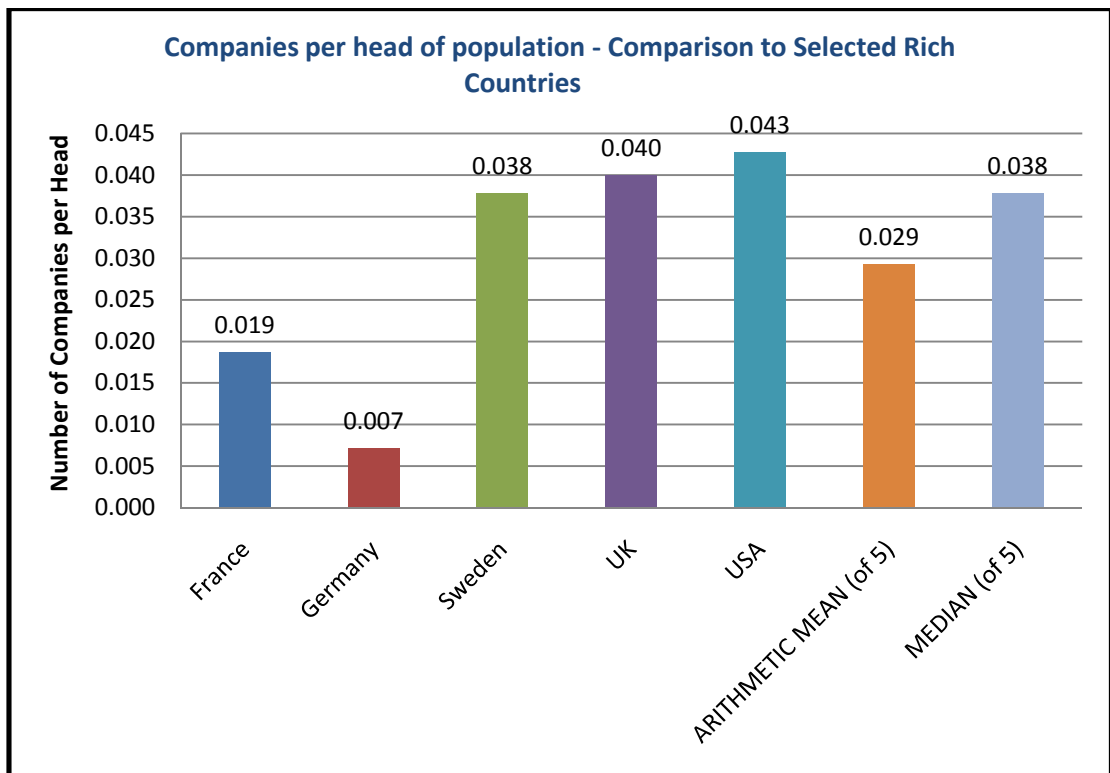
Rank	Secrecy jurisdiction	Subs per '0,000 head of population	Rank	Secrecy jurisdiction	Subs per US\$'bn GDP
1	Cayman Islands	236.1	1	Cayman Islands	582.8
2	British Virgin Islands	101.6	2	British Virgin Islands	285.9
3	Bermuda	72.6	3	Nauru	150.0
4	Jersey	45.2	4	Marshall Islands	119.9
5	Guernsey	23.0	5	Bermuda	107.3
6	Gibraltar	19.3	6	Jersey	81.2
7	Luxembourg	17.0	7	Guernsey	55.1
8	Isle of Man	13.0	8	Gibraltar	50.7
9	Monaco	10.7	9	Isle of Man	36.4
10	Liechtenstein	9.3	10	Monaco	35.8
11	Nauru	6.5	11	Turks & Caicos Islands	27.8
12	Bahamas	5.1	12	Cook Islands	27.3
13	Cook Islands	4.1	13	Netherlands Antilles	24.3
14	US Virgin Islands	3.4	14	US Virgin Islands	23.5
15	Netherlands Antilles	3.0	15	Luxembourg	20.9
16	Turks & Caicos Islands	2.7	16	Anguilla	18.4
17	Marshall Islands	2.5	17	Bahamas	17.8
18	Ireland	2.2	18	Liberia	13.1
19	Barbados	1.8	19	Mauritius	11.0
20	Malta	1.5	20	Barbados	9.3
21	Singapore	1.4	21	Liechtenstein	7.7
22	Anguilla	1.4	22	Malta	6.1
23	Andorra	1.4	23	St Lucia	5.6
24	Mauritius	1.3	24	St Kitts & Nevis	5.1
25	Hong Kong	1.1	25	Ireland	4.8
26	Switzerland	1.0	26	Seychelles	4.1
27	St Kitts & Nevis	1.0	27	Vanuatu	4.1
28	Aruba	0.9	28	Aruba	4.0
29	Cyprus	0.9	29	Panama	3.2
30	Seychelles	0.7	30	Cyprus	3.0

This weighted data gives a much better view of relative importance of these places. It is apparent that some have extraordinary amounts of activity related to their size.

This is also apparent in other measures. If number of companies (not just subsidiaries of MNCs) are considered per head of population then the following data is revealed:



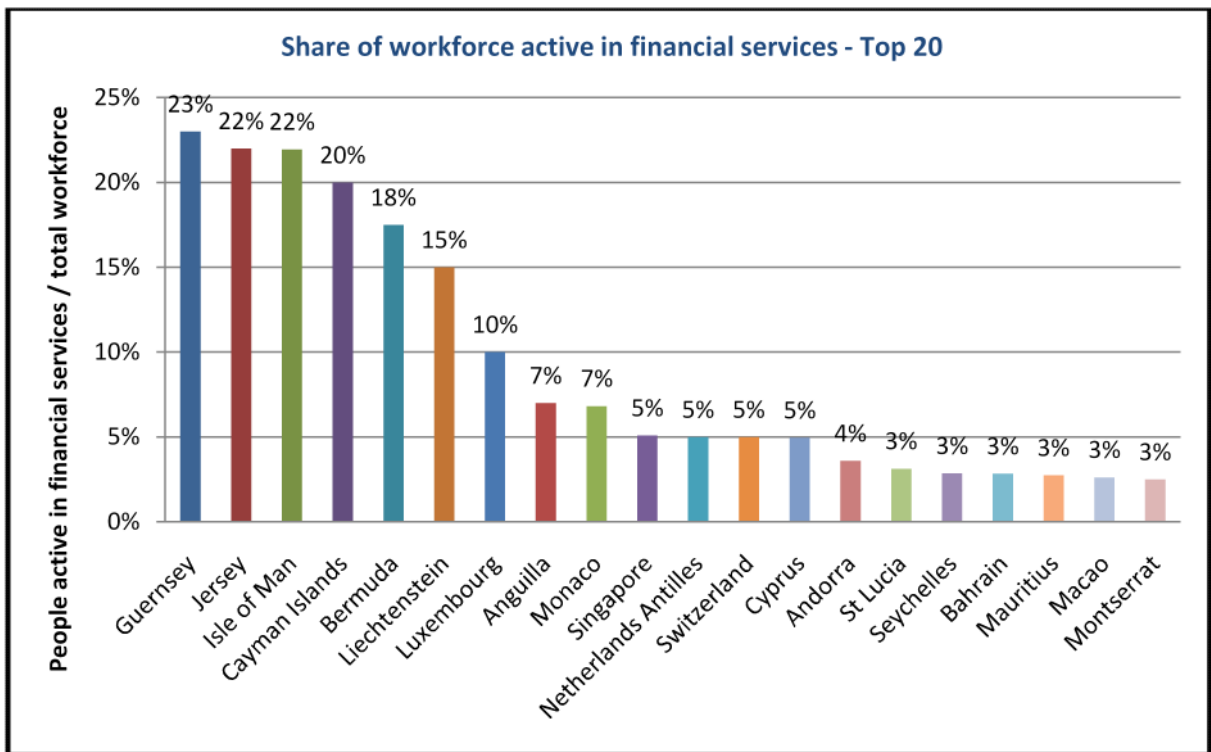
This data has to be compared with data from other jurisdictions where it is likely that the majority of companies will be used by the local population to understand its significance:



It is hard to imagine anyone forming a Swedish company for any reason bar trading in Sweden. Sweden does however have a high earning, entrepreneurial economy. Despite this it has just one company for every 26 people. Ignoring the extraordinary ratio of the British Virgin Islands, this is a frequency ten times smaller than the rate found in any of the top ten secrecy jurisdictions and 47 times smaller than the ratio for the Cayman Islands.

It is very obvious in consequence those secrecy jurisdictions are not creating entities for use by the local population, but as the definition of them used in this paper suggests likely (see page 3), they are doing so for the use of people resident elsewhere. Those companies do little or nothing in the secrecy jurisdictions in which they are incorporated. Indeed, they may well be barred from undertaking activity in that place to secure advantage of being incorporated there (Murphy, 2005).

The predominance of the provision of financial services supply, rather than real trade, is apparent from the ratio of those working in financial services as a proportion of the total working populations in secrecy jurisdictions (Tax Justice Network, 2009c):



The top 10 locations ranked by number of multinational corporation subsidiaries per head of population are shown in order in the following table with their ranking by proportion of their populations working in the financial services industry being shown in the right hand column:

Rank by number of MNC subsidiaries per head of population	Secrecy jurisdiction	Rank by proportion of working population engaged in financial services

1	Cayman Islands	4
2	British Virgin Islands	n/a
3	Bermuda	5
4	Jersey	2
5	Guernsey	1
6	Gibraltar	n/a
7	Luxembourg	7
8	Isle of Man	3
9	Monaco	9
10	Liechtenstein	6

n/a = not available

The association is obvious and the implication is clear: these locations do not create value from trade. They act as locations whose *raison d'être* is the provision of corporate and financial services structures that are used as either conduits for trade, or financial flows.

This then leads to the obvious question: if this is the case why are these subsidiaries of multinational corporations in these jurisdictions? 12.2% of their subsidiaries are in fifty four secrecy jurisdictions that between them have 4% of world GDP. More significantly, 9.5% of subsidiaries are in places with 1.9% of GDP. This choice of location cannot be based on local market needs; other factors have to explain it.

Given the characteristics of the locations low taxation and opacity within their regulation have to be significant factors. Most of these places also offer significant ring fences that can attract international business e.g. foreign source income is not taxed locally or there is no tax at all. In addition most offer, as noted, considerable secrecy. The combination is perfect for the use of those places for transfer mispricing if that is what a multinational corporation intends to do.

Part 2 – the secrecy space within multinational corporation's financial statements

That said, however, a multinational corporation could not use such locations unless the infrastructure that might let it do so exists, and does so despite the secrecy that these places offer. This is possible, this paper argues for two reasons. The first is that the opacity that secrecy jurisdictions provide compounds the secrecy that is already available with regard to intra-group transactions provided by International Financial Reporting Standards and their equivalents. The second is that the Big 4 firms of accountants are located in these places to facilitate these transactions which could otherwise not take place there. These two issues are addressed in turn.

As has already been noted, it is difficult to establish the membership of a multinational corporation, and even if that can be done it is then usually impossible from within its own accounts / financial statements to establish what the trade between particular related entities within the group of companies that constitute that multinational corporation might be. As a consequence there is in

practical terms almost no prospect of using existing accounting data to establish the extent of total potential transfer mispricing within multinational corporations, even if one were the most diligent of tax authorities.

That prospect of identifying potential transfer mispricing from publicly accessible sources at the level of the individual corporation is completely eliminated when some of the subsidiaries of the multinational corporation are located in tax havens / secrecy jurisdictions where, as noted already, near total opacity is normal. As noted already, just 10% of secrecy jurisdictions require accounts to be placed on public record, and just one requires that beneficial ownership of companies be recorded on public record. As such data on a significant number of multinational corporation subsidiaries will simply not be available to those seeking to secure the accounts / financial statements of all MNC subsidiaries. The accounts of the subsidiaries located in tax havens / secrecy jurisdictions are likely to be the most important for the purpose of assessing transfer mispricing risk. This is because transfer mispricing is most likely to occur when tax rate differentials are highest, and this will almost invariably occur when some transactions are routed through locations where there is no corporate income tax – as is true for at least eight of the top ten secrecy jurisdiction locations used for locating multinational corporation subsidiaries, the other two offering nominal rates instead. These accounts / financial statements are also the ones most likely to not be available on record, anywhere.

This combination of accounting secrecy and the opacity that secrecy jurisdictions supply combine to create what might be called a ‘secrecy space’³. This secrecy space is, in effect, a void in which we have no data and from which there is no real prospect of data being extracted until change occurs in either the accounting regulation relating to the accounts / financial statements of multinational corporations⁴ or change in the regulation of all the secrecy jurisdictions surveyed by the Tax Justice Network.

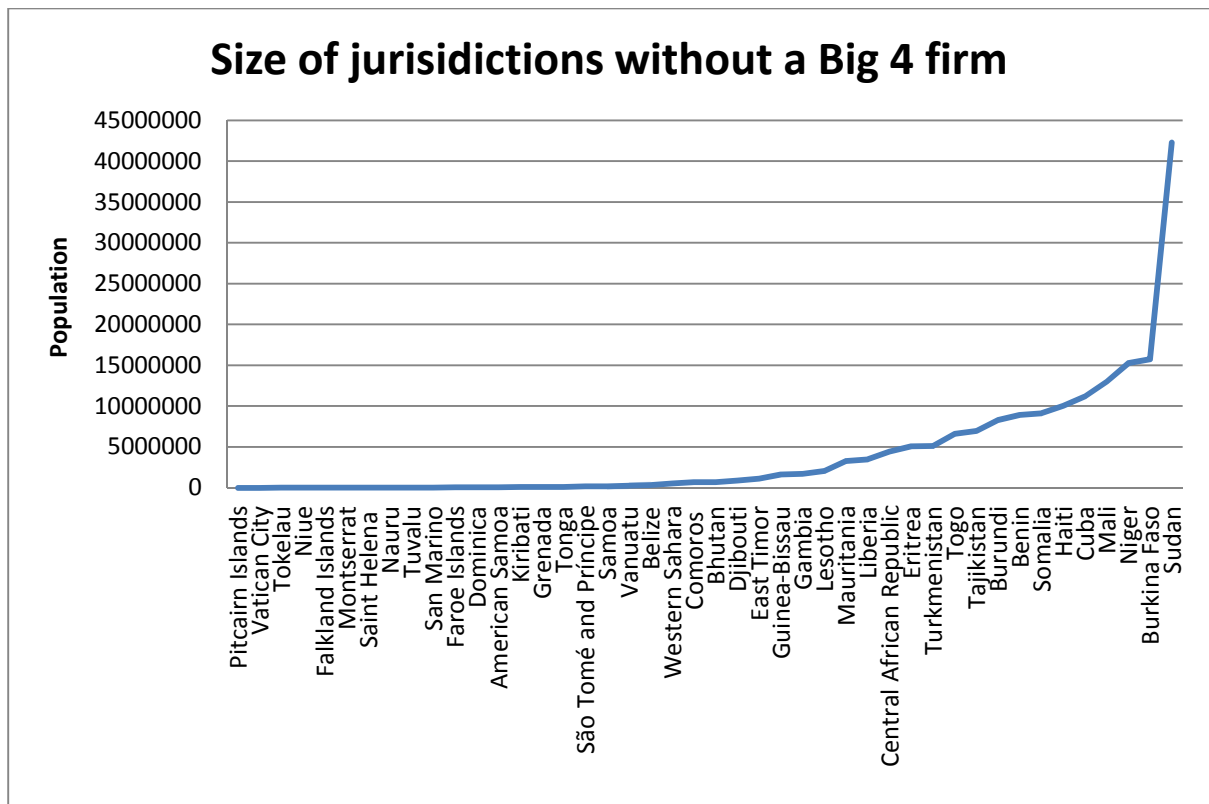
Part 3 - The role of the Big 4

It is curious to note that in this secrecy space data void there is just one small group of organisations who probably have a unique insight into what is really happening. They are the Big 4 firms of accountants that dominate the world’s auditing, tax and accounting markets. A survey of the geographic location of these firms undertaken in August 2009 shows that Big 4 firms are to be found in 179 of the 223 jurisdictions identified for research purposes.

It is important to note for this purpose the jurisdictions in which they did not have a presence. These places, ranked by population, were as follows:

³ For a much fuller description of ‘secrecy spaces’ and their implications see Murphy, 2008b

⁴ For a full description of the changes to accounting standards required to supply this data see Murphy, 2009a

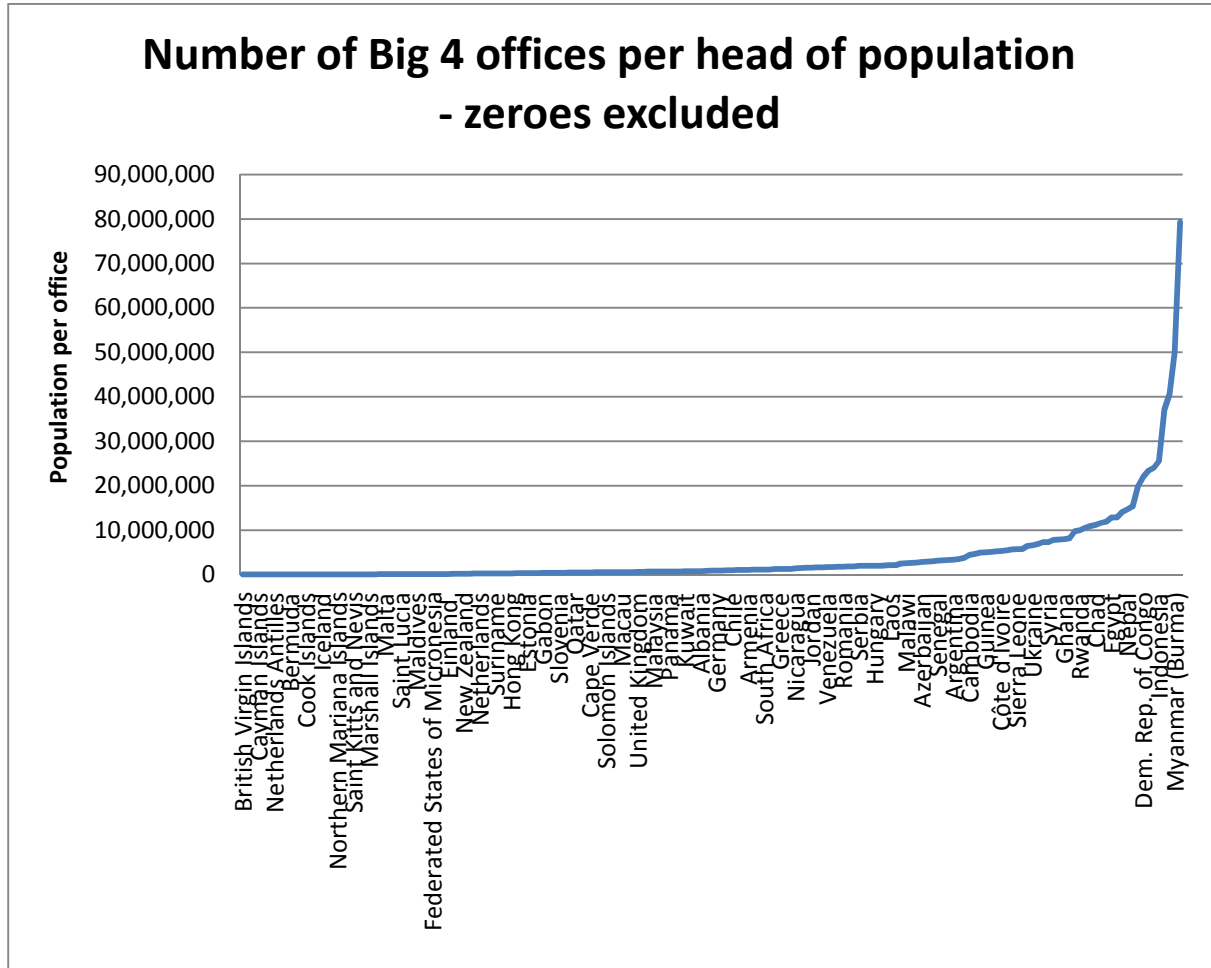


The list is characterised in two ways: first those jurisdictions that so small that there is almost no economic activity or note are found on the left hand side, whilst those so poor that the Big 4 see no reason to be there on the right hand side.

This being noted, attention needs to be turned to those locations where the Big 4 are to be found. To understand this data better information was not just collected on those jurisdictions in which Big 4 firms are located, but also on how many offices they have in each such location. It should be noted that the firms were asked to provide this data for the purposes of this survey, either by email or by telephone request to a principle office (usually London). No firm supplied the necessary data, each saying that this was commercially confidential information and as such alternative methods were used to secure the required information.

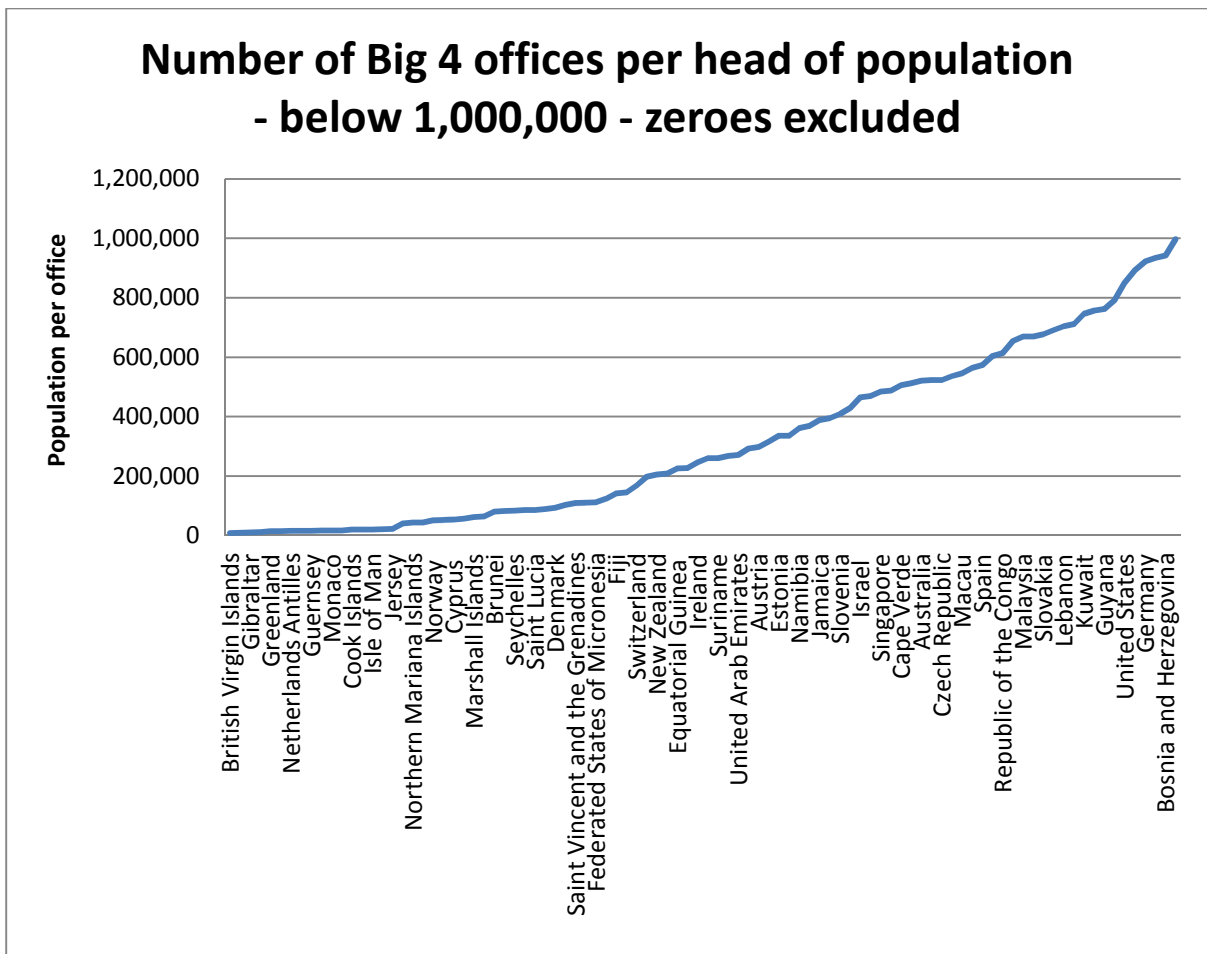
In every case problems arose in undertaking this research: the Big 4 seem, like the multinational corporations that represent much of their client base, to have some difficulty in identifying just where they operate. As a result claims made in their annual reports as to the jurisdictions in which they have offices do not in any case tie up with certainty to data on their web sites about the location of individual offices, Deloitte seeming to have the greatest problem in this regard and KPMG least so. To overcome this difficulty it has been assumed that there is a single office in every location listed in their annual reports even if none is listed on their web site and it was also assumed that their web site correctly records their presence in a jurisdiction even when their annual report does not confirm that fact. The resulting data on the presence of the Big 4 in secrecy jurisdictions is recorded in Appendix 3 to this paper.

The distribution of offices of the Big 4 by head of population per jurisdiction across the world (locations without an office having been excluded) was as follows:



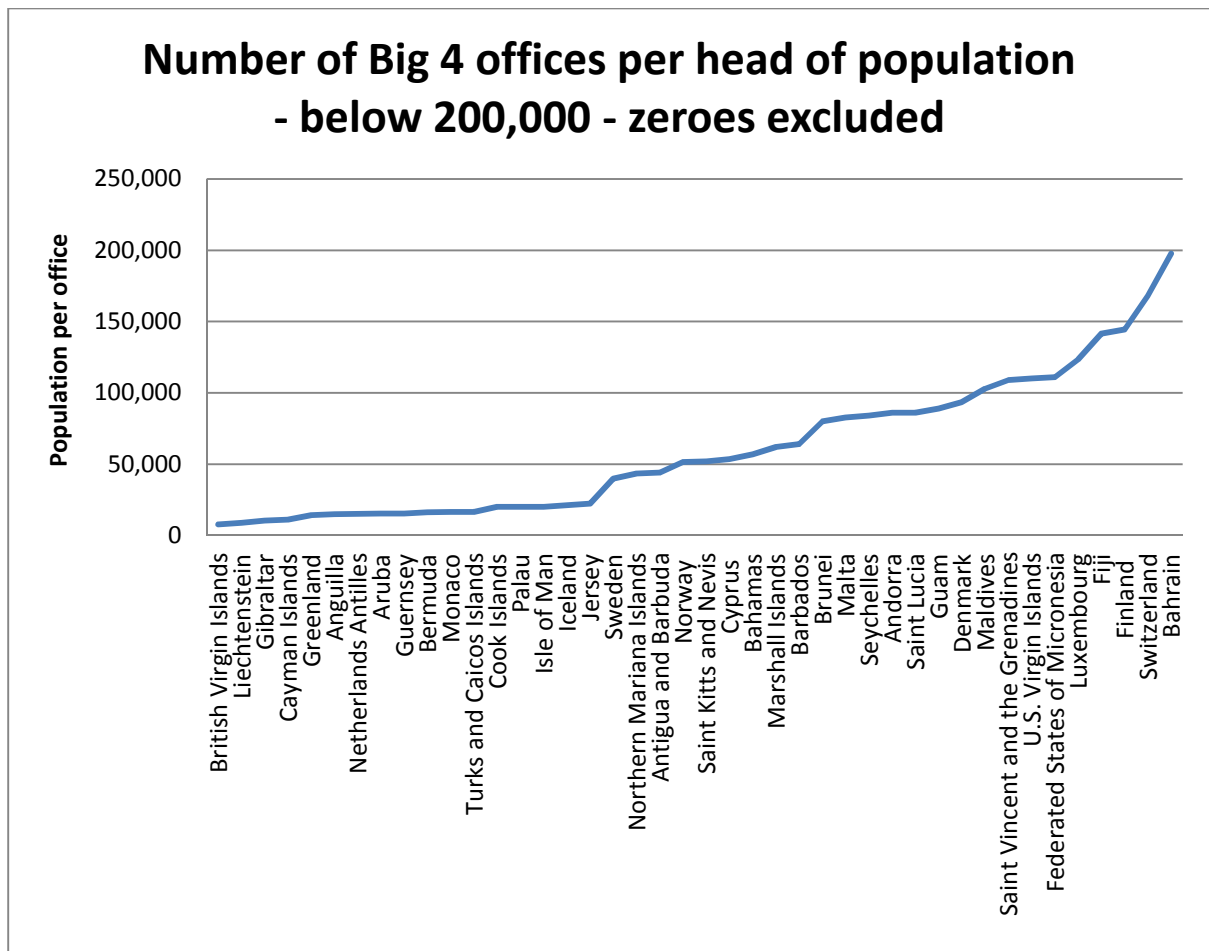
Note: only one in three jurisdictions is shown on the X axis to assist legibility.

When this graph is redrawn to exclude all locations with less than one Big 4 office per 1 million head of population the following graph results:



Note: one in two locations is shown on the X axis to assist legibility.

What becomes very clear is that, a few exceptions apart, the Big 4 are heavily over-represented on a per office per head of population basis in secrecy jurisdictions, most of which are to be found at the left hand end of the X axis in his graph. This becomes even clearer when the filter for inclusion is reduced to a population of 200,000, in this case with the X axis shown in full:



It is now very clear that the presence of a Big 4 firm when local population does not appear to necessitate it is a very strong indicator of the presence of a secrecy jurisdiction. Of the forty two jurisdictions referred to in this graph thirty one (74%) are secrecy jurisdictions according to the Tax Justice Network. Amongst the places with populations of 200,000 or less overall with no Big 4 presence (18 locations) just six (33%) are secrecy jurisdictions. The differing ratio is notable.

Looking at data on the basis of absolute levels of population, there is clear indication that the distribution of Big 4 firms in jurisdictions with less than 1 million population (sixty eight jurisdictions in all) suggests a very strong association with these places being secrecy jurisdictions.

The Big 4 are present in forty four of these sixty eight locations. Thirty one of those places where they are present are secrecy jurisdictions. Only thirteen are not.

81% of small secrecy jurisdictions (less than 1 million population) have a Big 4 office.

Only 44% of the non-secrecy jurisdiction locations have a Big 4 firm.

If absolute population measures are taken into account the 31 locations with a Big 4 firm have just 45 per cent of the sample total population but 71 per cent of these firms' offices. Those secrecy jurisdiction locations do however have an average GDP per head on a purchasing power parity basis

of US\$30,942. The remaining non secrecy jurisdiction locations in which the Big 4 are present have an average GDP per head of just US\$7,407.

What does seem likely from the evidence found is that the GDP in small secrecy jurisdictions is high for reasons entirely independent of their size of population. The potential explanation for this is readily apparent in that case: the high level of GDP would appear to be the result of the relocation of recorded wealth to these locations and the presence of the Big 4 in these locations as agents for this process would help explain that transfer. This would also suggest that the Big 4 are not present to service the local population in these places but to serve a clientele actually located elsewhere – as the definition of a secrecy jurisdiction used in this paper also suggests likely.

But in that case if these same locations are being used for transfer mispricing, as has been widely suggested, then the presence of the Big 4 would assist that process, whether wittingly or unwittingly. It would also mean that as the local auditors of the multinational corporation subsidiaries in these places the Big 4 might be the only organisations in the world with true insight into the scale of this issue since they alone might have access, at present, to the data needed to assess the scale of the problem. They do not, of course, make this data available.

This, of course, is an unsurprising suggestion if placed in broader context. The Big 4 firms provide tax services to the vast majority of multinational companies, a service often, but not always, provided in association with that of auditing their accounts / financial statements. In March 2009 KPMG audited twenty four of the UK's FTSE 100 companies, Deloitte twenty three, PWC audited thirty seven and E & Y fourteen. Just one other firm, BDO, had a FTSE 100 audit⁵. The situation is little different amongst the next tier of companies. In 2006 it was reported that BDO were the only firm outside the Big 4 to audit any company in the UK FTSE 350, representing the largest quoted companies in the UK. They did, however, at that time have only seven of those audits, all the rest being with the Big 4⁶. The pattern is broadly repeated in other jurisdictions.

This contribution of the Big 4 to the opacity that facilitates the operation of the secrecy space created through the combination of secrecy jurisdiction accounting and the rules of international financial reporting is not, however, their only part in this process. The link between the Big 4 firms and the International Accounting Standards Board that creates the currently opaque standards for international financial reporting is also very strong. Of its sixteen current members⁷ ten mention a link to an accounting firm. Four are former KPMG staff, two mention Deloitte, two Arthur Andersen (now part of Deloitte, in the main), one PricewaterhouseCoopers and one another firm not linked to the Big 4. Explicitly more than half are linked to the Big 4 firms, only Ernst & Young not being mentioned. Of course, the association may be stronger: some of the other members may not have mentioned where they trained, and there was no obligation on them to do so.

⁵ <http://www.accountancyage.com/accountancyage/news/2238668/kpmg-biggest-winner-ftse-100> accessed 27-8-09

⁶ <http://www.accountancyage.com/accountancyage/news/2165226/bdo-becomes-sole-mid-tier-ftse> accessed 27-8-09

⁷ <http://www.iasb.org/About+Us/About+the+IASB/IASB+members.htm> accessed 27-8-09

Conclusions

Part 1 of this paper shows that secrecy jurisdictions deliberately create opacity with regard to financial data and that multinational corporations appear to exploit this opportunity to create opacity in their financial reporting. As a consequence it is clear that there are far too many companies incorporated in these places than local need or normal commercial opportunities could possibly justify. The conclusion drawn is that these places do, as the definition of them used in this paper (page 3) suggests likely, exist to provide services to persons who are not resident within them and who do not actually undertake trade there, but who wish to avail themselves of the veil of secrecy these locations facilitate for those making use of their services.

In the second part of the paper the concept of the 'secrecy space' which combines the opacity of secrecy jurisdictions with the opacity found inside group consolidated accounts of multinational corporations is developed. It is suggesting that this secrecy space might facilitate transfer mispricing.

In the third part of the paper the role of the Big 4 firms of accountants in this process is questioned. It is shown that they act as auditors and advisers to almost all multinational corporations. It is shown that they have prevalence in secrecy jurisdictions that cannot be explained by local commercial need. It is shown that those places in which they are present have much higher incomes per head of population than is to be found in those where they are not present. It is suggested that this is not the result of local characteristics of the places in which they are located but is the result of income being transferred into these locations for accounting purposes, a process which their presence would assist whether directly or indirectly.

What might be concluded from this? Causal links cannot, of course, be proven by mere association. Nothing noted here alters that fact. However, the associations noted in this paper are so abundantly clear it is suggested that they are not mere chance. Nor does it matter which caused what first: over many years the association between opacity, secrecy jurisdictions, transfer mispricing and other commercial tax abuse by multinational corporations and the existence of the Big 4 as auditors of those corporations and suppliers of services to them in secrecy jurisdictions in which those Big 4 firms are also major economic participants and without whose presence many of those secrecy jurisdiction could not supply such services, have become a tangled and connect web which imposes on the world those costs noted in the introduction to this paper.

And as that introduction notes, until such time as this situation changes we have the right to ask the reasonable question – wherefore art thou? (and any reasonable variation on the theme) until such time as we secure the transparency society needs.

Appendix 1

The reported annual revenues of the Big 4 firms of accountants in 2009 were:

	\$ billions
PricewaterhouseCoopers (PWC)	26.2
Deloitte	26.1
Ernst & Young (E&Y)	21.4
KPMG	20.1
Total	93.8

Source: http://en.wikipedia.org/wiki/Big_Four_auditors based on referenced annual reports of the firms in question

Appendix 2

Secrecy jurisdictions identified by the Tax Justice Network, 2009

Rank	Location	Int'l Bureau Fiscal Docs 1977	Irish 1982	Hines Rice 1994	OECD 2000	IMF 2000	FSF 2000	FATF 2000 /02	TJN 2005	IMF 2007	STHA A/ Levin 2007	Low-TaxNet 2008	Total
1	Bahamas	1	1	1	1	1	1	1	1	1	1	1	11
2	Bermuda	1	1	1	1	1	1	1	1	1	1	1	11
3	Cayman Islands	1	1	1	1	1	1	1	1	1	1	1	11
4	Guernsey	1	1	1	1	1	1	1	1	1	1	1	11
5	Jersey	1	1	1	1	1	1	1	1	1	1	1	11
6	Malta	1	1	1	1	1	1	1	1	1	1	1	11
7	Panama	1	1	1	1	1	1	1	1	1	1	1	11
8	Barbados	1	1	1	1	1	1		1	1	1	1	10
9	British Virgin Islands	1	1	1	1	1	1	1	1		1	1	10
10	Cyprus	1		1	1	1	1	1	1	1	1	1	10
11	Isle of Man	1		1	1	1	1	1	1	1	1	1	10
12	Liechtenstein	1	1	1	1	1	1	1	1		1	1	10
13	Netherlands Antilles	1	1	1	1	1	1		1	1	1	1	10
14	Vanuatu	1	1	1	1	1	1		1	1	1	1	10
15	Gibraltar	1		1	1	1	1	1	1		1	1	9
16	Hong Kong	1	1	1		1	1		1	1	1	1	9
17	Singapore	1	1	1		1	1		1	1	1	1	9
18	St Vincent & Grenadines	1		1	1	1	1	1	1		1	1	9
19	Switzerland	1	1	1		1	1		1	1	1	1	9
20	Turks & Caicos Islands	1	1	1	1	1	1		1		1	1	9
21	Antigua & Barbuda	1		1	1	1	1	1	1		1		8
22	Belize			1	1	1	1	1	1		1	1	8
23	Cook Islands			1	1	1	1	1	1		1	1	8
24	Grenada	1		1	1	1		1	1		1	1	8
25	Ireland	1	1	1		1	1		1	1		1	8
26	Luxembourg	1		1		1	1		1	1	1	1	8
27	Monaco	1		1	1	1	1	1	1			1	8
28	Nauru	1	1		1	1	1	1	1		1		8
29	St Kitts & Nevis			1	1	1	1	1	1		1	1	8
30	Andorra	1		1	1	1	1		1			1	7
31	Anguilla			1	1	1	1		1		1	1	7
32	Bahrain		1	1	1	1	1		1	1			7
33	Costa Rica	1	1			1	1		1		1	1	7
34	Marshall Islands			1	1	1	1	1	1			1	7
35	Mauritius				1	1	1	1	1	1		1	7
36	St Lucia			1	1	1	1	1	1		1		7
37	Aruba				1	1	1		1		1	1	6
38	Dominica			1	1	1		1	1		1		6
39	Liberia	1	1	1	1				1			1	6

40	Samoa				1	1	1	1	1		1		6
41	Seychelles	1			1	1	1		1			1	6
42	Lebanon			1		1	1	1	1				5
43	Niue				1	1	1	1	1				5
44	Macau			1		1	1		1				4
45	Malaysia (Labuan)					1	1		1			1	4
46	Montserrat			1	1	1			1				4
47	Maldives			1	1				1				3
48	United Kingdom		1						1	1			3
49	Brunei	1										1	2
50	Dubai								1			1	2
51	Hungary							1	1				2
52	Israel							1	1				2
53	Latvia									1	1		2
54	Madeira								1			1	2
55	Netherlands	1							1				2
56	Philippines		1					1					2
57	South Africa		1						1				2
58	Tonga				1				1				2
59	Uruguay								1	1			2
60	US Virgin Islands				1				1				2
61	USA		1						1				2

Note:

1. Niue was eliminated from the survey as the IMF had indicated in 2008 that it was no longer providing any significant secrecy jurisdiction services;
2. Christensen and Hampton, who prepared the Tax Justice Network listing suggested that both Tonga and South Africa could be removed from their list for the same reason, downgrading them to having one listing each;
3. The US state of Delaware was identified as the main cause of concern in that jurisdiction;
4. The EU states of Austria (no listings) and Belgium (one listing) were added because of their refusal to cooperate with the European Union Savings Tax Directive, indicating serious secrecy jurisdiction activity.

The current Tax Justice Network list of secrecy jurisdictions is therefore as above plus Austria and Belgium less Niue, Tonga and South Africa.

Appendix 3

Big 4 firms of accountants presence in secrecy jurisdiction

Ranking	Secrecy Jurisdiction	Firm present = 1					Number of offices if present				
		Deloitte	Ernst & Young	KPMG	PWC	Total	Deloitte	Ernst & Young	KPMG	PWC	Total
1	Andorra			1		1			1		1
2	Anguilla			1		1			1		1
3	Antigua and Barbuda			1	1	2			1	1	2
4	Aruba	1	1	1	1	4	1	1	4	1	7
5	Austria	1	1	1	1	4	7	4	9	8	28
6	Bahamas	1	1	1	1	4	1	1	2	2	6
7	Bahrain	1	1	1	1	4	1	1	1	1	4
8	Barbados	1	1	1	1	4	1	1	1	1	4
9	Belgium	1	1	1	1	4	12	12	6	4	34
10	Belize					0					0
11	Bermuda	1	1	1	1	4	1	1	1	1	4
12	British Virgin Islands	1		1	1	3	1		1	1	3
13	Brunei	1	1	1	1	4	1	2	1	1	5
14	Cayman Islands	1	1	1	1	4	2	1	1	1	5
15	Cook Islands			1		1			1		1
16	Costa Rica	1	1	1	1	4	4	1	1	1	7
17	Cyprus [19]	1	1	1	1	4	3	2	6	4	15
18	Dominica					0					0
19	Gibraltar	1		1	1	3	1		1	1	3
20	Grenada					0					0
21	Guernsey	1	1	1	1	4	1	1	1	1	4
22	Hong Kong		1	1	1	3		3	2	19	24
23	Hungary	1	1	1	1	4	1	1	1	2	5

24	Ireland	1	1	1	1	4	3	4	4	7	18
25	Isle of Man	1	1	1	1	4	1	1	1	1	4
26	Israel [13]	1	1	1	1	4	4	4	4	4	16
27	Jersey	1	1	1	1	4	1	1	1	1	4
28	Latvia	1	1	1	1	4	1	1	1	1	4
29	Lebanon	1	1	1	1	4	3	1	1	1	6
30	Liberia					0					0
31	Liechtenstein		1	1	1	3		1	2	1	4
32	Luxembourg	1	1	1	1	4	1	1	1	1	4
33	Macau				1	1				1	1
34	Malaysia	1	1	1	1	4	8	13	10	10	41
35	Maldives		1	1	1	3		1	1	1	3
36	Malta	1	1	1	1	4	1	1	1	2	5
37	Marshall Islands	1				1	1				1
38	Mauritius [18]		1	1	1	3		1	1	1	3
39	Monaco			1	1	2			1	1	2
40	Montserrat					0					0
41	Nauru					0					0
42	Netherlands	1	1	1	1	4	20	18	19	16	73
43	Netherlands Antilles	1	1	1	1	4	1	1	8	3	13
44	Panama	1	1	1	1	4	1	1	1	2	5
45	Philippines	1	1	1	1	4	2	8	5	2	17
46	Portugal	1	1	1	1	4	2	2	3	3	10
47	Saint Kitts and Nevis				1	1				1	1
48	Saint Lucia			1	1	2			1	1	2
49	Saint Vincent and the Grenadines			1		1			1		1
50	Samoa					0					0
51	Seychelles		1			1		1			1
52	Singapore	1	1	1	1	4	1	1	1	7	10
53	Switzerland	1	1	1	1	4	5	13	13	15	46
54	Turks and Caicos Islands			1	1	2			1	1	2

55	U.S. Virgin Islands				1	1				1	1
56	United Arab Emirates	1	1	1	1	4	5	2	5	5	17
57	United Kingdom	1	1	1	1	4	18	21	23	40	102
58	United States	1	1	1	1	4	102	89	87	83	361
59	Uruguay	1	1	1	1	4	2	1	1	6	6
60	Vanuatu					0					0
	Total	36	38	47	46	167	221	220	241	269	953

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