

Funding the Future

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I mentioned last week that [my discussant](#) at the World Bank did not much [like my paper](#), and made comments for which I received fulsome apologies from the organisers. Even he though said that my definition of secrecy jurisdictions is a major contribution to thinking in this area. I define them as follows:

Secrecy jurisdictions are 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.

It is notable that the term 'tax haven' is hardly used in serious debate of this issue now: even the OECD were using the term secrecy jurisdiction last week. I think this a major step forward.

It's easy to see the use of this language. Take this [from the FT today](#):

Nearly half of the UK's hedge funds are likely to move abroad if new EU regulations are passed, according to a comprehensive new study of the alternative asset management industry due to be released on Monday.

The findings — based on a survey of 121 managers, looking after \$384bn (£236bn, â261bn) of client assets, the bulk of the European industry — come as UK and American politicians [step up their efforts](#) to modify the EU's controversial draft alternative investment fund manager directive.

The EU directive proposes greater transparency, restrictions on leverage and higher capital requirements for hedge funds, but has come under fire for being unworkable and heavy-handed.

According to the survey by the think tank Open Europe, just over 42 per cent of UK managers said the rules would be likely to force them abroad if the draft directive was passed in its current form.

So what are these people going to do? They're going to use secrecy jurisdictions to

undermine EU regulation.

As Stephen Timms said this morning:

People also deeply resent the small minority, who use their resources to move money offshore without paying the tax due. Those who enjoy all the rights of living here, but don't want the responsibilities. Here too we are on the case.

We need to be. The definition of a secrecy jurisdiction shows what these people are doing. And as Timms said:

[E]ffective government has to factor in the international scene.

¬? Regulatory reform won't succeed if businesses can play countries off against each other.

¬? Effective action on tax havens requires a shared resolve.

Good government requires an international perspective, not an isolationist one.

True. Beating hedge funds on this issue is a test of this resolve. Using the definition I have proposed of a secrecy jurisdiction underpins it. The term tax haven has to go.

Changing the rules on tax residence for companies will stop this abuse.

Now let's see action on both issues.