

# NARRATIVE REPORT ON TURKEY



## PART 1: NARRATIVE REPORT

Turkey is ranked 55<sup>th</sup> on the 2020 Financial Secrecy Index, based on a secrecy score of 60 combined with a small scale weighting due to the fact that Turkey accounts for 0.12 per cent of the global market in offshore financial services.

### Vulnerable geopolitics to terrorist activities, smuggling, human trafficking and war

Turkey lies between Europe and Asia and has borders with Balkan countries (Bulgaria and Greece), Caucasian countries (Azerbaijan, Georgia, Armenia) and the Middle East (Iran, Iraq, Syria). This geopolitical position makes Turkey vulnerable to terrorist activities, smuggling, human trafficking and war.

Turkey joined the Financial Action Task Force (FATF) in 1991 and membership has contributed extensively to improvements in the legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats in the country – although progress has been slow. In 2012 Turkey almost saw its membership of the group suspended, and it was only [removed from the list of high risk jurisdictions in 2014](#).<sup>1</sup>

### Fast Cash and money laundering

In 2015 the Turkish government had its commitment to countering financial crime brought into question when the Ministry of Customs and Trade introduced a new customs code. [The code](#)<sup>2</sup> allowed for unlimited transfers of cash into and out of the country, and was [heavily criticized](#) by the public and members of parliament because of the potential for the new rules to facilitate illicit financial flows.<sup>3</sup> The [previous code](#), issued in 2013,<sup>4</sup> was compliant with international anti-money laundering standards. Under pressure, [the Ministry reversed](#) and introduced a new regulation similar to the previous 2013 regulation on May 18, 2016.<sup>5</sup>

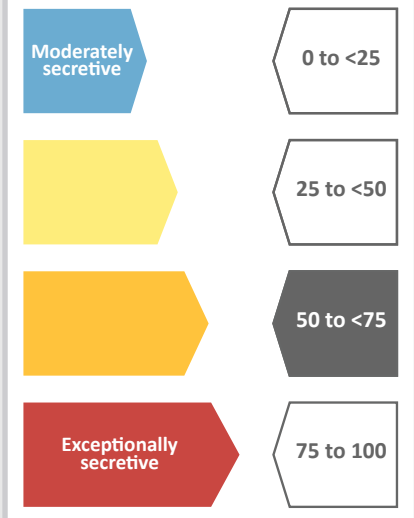
The high profile case of the [US vs Reza Zarrab](#) also raises questions regarding the role of Turkish banks in administering anti-money laundering rules. Reza Zarrab is an Iranian- Turkish businessman who was accused by the US authorities of laundering Iranian oil money through his network of companies. Zarrab elucidated the business traffic he followed to evade the embargo<sup>6</sup> and pleaded guilty under a cooperating agreement.<sup>7</sup> US authorities accused the state-run Turkish Bank, Turkiye Halk Bankasi AS of assisting in this scheme<sup>8</sup> and sentenced a senior bank official to 32 months in prison.<sup>9</sup>

### All the President's men

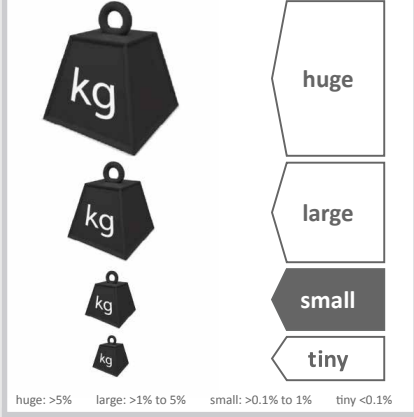
On November 28, 2017, the leader of main opposition party Kemal Kılıçdaroğlu [claimed](#) that people close to the President of Turkey, Recep Tayyip Erdoğan, had sent millions of dollars to an off-shore company in the tax haven Isle of Man in December 2011 and January 2012.<sup>10</sup> Kılıçdaroğlu based his claims on SWIFT documents of these transactions. On November 29, the President replied to those claims. He began with denying the alleged transactions and declared the documents to be fake. He also said that rather than exporting money to the Isle of Man,

**Rank: 55 of 133**

**How Secretive?** **60**



**How big?** **0.12%**



Turkey accounts for 0.12 per cent of the global market for offshore financial services. This makes it a small player compared to other secrecy jurisdictions.

The ranking is based on a combination of its secrecy score and scale weighting.  
 Full data is available here: <http://www.financialsecrecyindex.com/database>.  
 To find out more about the Financial Secrecy Index, please visit <http://www.financialsecrecyindex.com>.  
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money was coming back to Turkey because the individuals named had recently sold companies in the Isle of Man. This [prompted further questions from the opposition](#) about how the individuals came to own these companies in the first place.<sup>11</sup> In 2018, a Turkish court ordered opposition party leader Kemal Kılıçdaroğlu to pay fine in damages to members of President's family because of the Isle of Man allegation. He had to sell one of his houses in order to pay compensation.<sup>12</sup>

This is not the first time that the President's family and friends have ended up in a tax controversy. In 2017 the [#maltafiles revealed](#) how the President's son in law created a complex tax avoidance scheme via Dubai, Malta and Sweden in an attempt to repatriate his company's profits to Turkey tax free. In the end, the scheme was scrapped, and the company waited for Turkey to establish a tax amnesty, put in place by the very same individual.<sup>13</sup>

## Turkey's Treaty Network

As of January 2, 2019, Turkey has [85 double tax agreements](#) (DTAs)<sup>14</sup> and [5 tax information exchange agreements](#) (TIEAs) in force with Gibraltar, Guernsey, Jersey, Bermuda and the Isle of Man.<sup>15</sup> Another five TIEAs negotiations were underway at the time of writing. Partner jurisdictions are Cayman Islands,<sup>16</sup> Barbados,<sup>17</sup> Bahamas,<sup>18</sup> Panama,<sup>19</sup> and British Virgin Islands.<sup>20</sup> None of the signed TIEAs provides for automatic exchange of information. Turkey follows the wording of the OECD Model TIEA of 2002 which only deals with exchange of information on request.

Turkey has signed the Multilateral Convention on Mutual Administrative Assistance in Tax Matters amended by the 2010 Protocol on 3 November 2011 that specifically provides for the optional use of automatic exchange in its Article 6. However, the necessary procedure at the national level took 6 years to complete, finally coming in to force on November 26, 2017.<sup>21</sup> Also, Turkey signed a FATCA IGA agreement with the US based on Model 1 on July 29, 2015 and completed domestic ratification process on October 5, 2016.<sup>22</sup>

According to the [OECD database](#), Turkey has completed the necessary procedure for the Multilateral Convention at the international level and brought the convention into force on July, 1 2018.<sup>23</sup> [However](#), the FATCA IGA agreement has not come into force at the international level yet.<sup>24</sup> Moreover, Turkey signed the Multilateral Competent Authority Agreement on Automatic Exchange of Information only on April 21, 2017. This agreement sets details of the information to be exchanged, how

and when<sup>25</sup> but as of 31 December 2019, Turkey had completed the domestic ratification procedure<sup>26</sup>. On the other hand, Turkey has somehow signed bilateral competent authority agreements with Latvia and Norway,<sup>27</sup> although there are no strong economic and commercial ties between them.

Consequently, Turkey has clearly not taken necessary international steps expeditiously to implement the new standard of automatic exchange of information. This is also evident in the process to transpose of the OECD's Common Reporting Standard into domestic law. The same happened in relation to the US FATCA standard, which requires implementing the reporting and due diligence rules for automatic exchange of financial account information. The government has included some related provisions into the Tax Procedure Code.<sup>28</sup>

Despite having committed to implement the CRS by 2018, Turkey only expanded the number of activated relationships to more than 70 in February 2020<sup>29</sup> (after the data collection for the 2020 Financial Secrecy Index had taken place).

## Endnotes

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## PART 2: SECRECY SCORE

### OWNERSHIP REGISTRATION

- 57 1. Banking Secrecy
- 75 2. Trust and Foundations Register
- 100 3. Recorded Company Ownership
- 50 4. Other Wealth Ownership
- 100 5. Limited Partnership Transparency

### LEGAL ENTITY TRANSPARENCY

- 100 6. Public Company Ownership
- 100 7. Public Company Accounts
- 100 8. Country-by-Country Reporting
- 88 9. Corporate Tax Disclosure
- 100 10. Legal Entity Identifier

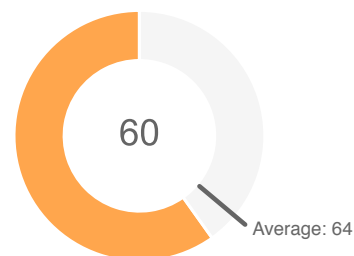
### INTEGRITY OF TAX AND FINANCIAL REGULATION

- 63 11. Tax Administration Capacity
- 0 12. Consistent Personal Income Tax
- 30 13. Avoids Promoting Tax Evasion
- 50 14. Tax Court Secrecy
- 50 15. Harmful Structures
- 30 16. Public Statistics

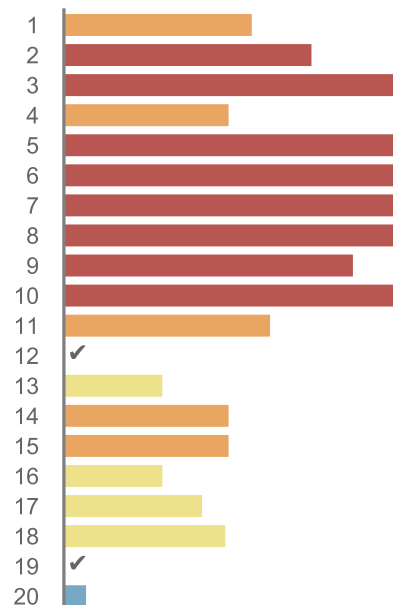
### INTERNATIONAL STANDARDS AND COOPERATION

- 42 17. Anti-Money Laundering
- 49 18. Automatic Information Exchange
- 0 19. Bilateral Treaties
- 7 20. International Legal Cooperation

## Secrecy Score



## Key Financial Secrecy Indicators



## Notes and Sources

The FSI ranking is based on a combination of a country's secrecy score and global scale weighting (click [here](#) to see our full methodology).

The secrecy score is calculated as an arithmetic average of the 20 Key Financial Secrecy Indicators (KFSI), listed on the right. Each indicator is explained in more detail in the links accessible by clicking on the name of the KFSI.

A grey tick in the chart above indicates full compliance with the relevant indicator, meaning least secrecy; red indicates non-compliance (most secrecy); colours in between partial compliance.

This report draws on data sources that include regulatory reports, legislation, regulation and news available as of 30 September 2019 (or later in some cases).

Full data is available here: <http://www.financialsecrityindex.com/database>.

To find out more about the Financial Secrecy Index, please visit <http://www.financialsecrityindex.com>.