



BAHAMAS FINANCIAL SERVICES BOARD
Industry Development Series:
“Tax Compliance as a Pillar of National Development”

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Attorney General and Minister of Legal Affairs**

18 February 2026

Good afternoon,

I would like to thank the Bahamas Financial Services Board for hosting this BFSB Industry Development Series. This Industry Development Series on Financial Crime: Tax Enforcement seminar under the theme: "Strengthening International Financial Centers in a Changing Global Order" is in its fifth year. The conference is once again hosted in conjunction with the law firm, Kostelanetz LP (<https://www.kostelanetz.com/>) and global consulting firm AlixPartners (<https://www.alixpartners.com/>). We thank them for their continued cooperation and partnership.

I have been asked to speak on the theme "Tax Compliance as a Pillar of National Development". When we think about tax compliance, especially in The Bahamas and in other international financial centers, we don't only think about

domestic tax compliance, that is businesses and individuals operating in a tax compliant framework. Most of our focus, at least in this industry, has been on the tax compliance of the jurisdiction with international regulatory standards. Both are relevant to national development, both areas of tax compliance are vital for a functioning society, country and in our case, economy.

A Quarter Century of International Tax Compliance

We have experienced a quarter century of workstreams to ensure compliance with international tax standards and regulatory initiatives. Think about that – more than 25 years of a battle for international tax compliance. As many would know, but the younger professionals in the room might not appreciate, The Bahamas international financial centre, in part, was developed around the concept of financial privacy, bank secrecy and some would say, in the early years, a clientele who

leveraged these features to intentionally avoid their home country taxes.

In 2000, The Bahamas was blacklisted by the Financial Action Task Force (FATF) as a non-cooperative country in the global fight against money laundering. At the same time The OECD also targeted the Bahamas for being a "tax haven" with non-transparent regimes. At the time these initiatives created significant disruption in the marketplace, having an adverse effect on our national development.

Penalties and new costs from blacklisting divert funds away from essential areas, totaling \$35,000,000 in 2000 when The Bahamas was first blacklisted (\$61,931,300.81 in 2023 factoring in inflation of the USD), affecting crucial development initiatives. This doesn't account for the years since 2000.

This assault on our national development continued. Over the last fifteen years The Bahamas has been in a ‘Fight for our Lives” mode. We have endured at least three black or Grey Listings aimed at our financial services sector - The EU non-cooperative countries on Tax Matters, The Financial Action Task Force (FATF) Grey Listing and the EU Anti-money laundering (AML) Blacklisting. These initiatives compounded the adverse financial impact on our country, economy, stagnating again our national development.

We as a jurisdiction reformed, passed many compendiums of new laws, created new institutions such as the Financial Intelligence Unit, the Compliance Commission, the Compliance section of the Office of the Attorney General and the Competent Authority in the Ministry of Finance. The Government of The Bahamas expended tens of millions of

dollars to build the necessary regimes to be tax compliant. Our industry likely had to spend multiples of this to alter their ways of doing business to ensure tax compliance. Today we have achieved international tax compliance as a jurisdiction, we do not find ourselves on any adverse listings. As a general principle I think it important to state that The Bahamas posture will always be to follow international tax standards.

Some say that it is in vain, that we are a shadow of what we were, and the quarter century journey to tax compliance only delays the inevitable, the complete destruction of our financial services industry. Well, those with that opinion do not believe we can compete in this new world order, I take a different approach, I argue that our quarter century journey has prepared us and reorganized the industry to be highly competitive and significantly contribute to our national development.

Industry Diversification

The evolution of the industry as a result of becoming tax compliant resulted in the diversification of our financial services industry, creating a broader client base and a broadened level of expertise of our Bahamian professionals. These both are positive contributors to our national development.

Twenty five years ago the financial services industry was largely made up of offshore banks and trust and fiduciary services. As the international marketplace changed, we saw the industry concentration with banks change as well. The financial services industry was forced to be more diversified, offer more services. We saw an increase in asset management, fund administration, fiduciary services, broker dealer activity and the expansion of independent firms, as opposed to those of an international group. The Bahamas in its drive to further

diversify the financial services industry launched into the digital assets in a significant way, being a global leader in the development and implementation of a regulatory framework for digital assets and related services. A diversified industry has contributed greatly to our national development.

Practitioner Expertise

Consistent with our industry offering a more diversified composition of financial services companies, and the provision of different and expanded services, the need for the development of new specialties was evident. Over the last 25 years, and certainly the last 15 years we have seen a significant diversification of the expertise of talent in the industry, and much of it is Bahamian talent. This started in the fund administration business, then we saw Bahamians in asset management. This expanded in FX trading, digital assets and other areas of fintech. Bahamian expertise has developed with

the industry diversification making the Bahamas financial services industry more complete, competitive and capable of thriving in a changing marketplace. Diversified practitioner expertise has contributed greatly to our national development.

Product Innovation

The reshaping of the financial services industry as a result of our 25 year journey to tax compliance has also resulted in The Bahamas having to lean on what has come to be one of its best assets as an international financial centre, the ability to be nimble and innovative when it comes to product development and unique offerings for clients. Through the years of change we have had to differentiate ourselves and stay relevant to our clients in an era of transparency and disclosure.

We focused on key markets and legislated in anticipation of attracting new and diversified business. We saw the rapid

development of the fund industry, the flexible approach of the Bahamas SmartFund, the creation of bespoke SmartFunds for market demand such as the SmartFund 007 for the Brazilian market. We differentiated ourselves by marrying civil law planning concepts with a common law jurisdiction in the legislating of the foundation, the investment condominium, and today we tabled the Bahamas Usufurct Interest Bill. We continue to innovate, be nimble in our policy and legislative approach and differentiate ourselves to our clients.

A diversified product offering has contributed greatly to our national development.

I argue that the aggressive approach by the multilateral interests against international financial centers like The Bahamas required drastic and fundamental changes to how we did business and forced us to redefine what the differentiating

characteristic of The Bahamas' financial services industry was. Yes, it was difficult, expensive, and cost us some of the more significant institutions doing business in The Bahamas. But I argue that the composition of today's financial services industry is much more relevant and ready to compete. We are a more diversified, full service offering with the Bahamian talent that is trained, experienced and has a wide knowledge base. I put to you that in the context of the evolution of the financial services industry Tax Compliance has been a Pillar of National Development.

Tax Compliance the New World Order

One thing is clear over the last 25 years, the era of tax compliance and transparency is the new world order for financial services, at least as far as the multilateral organizations such as the EU, OECD and FATF are concerned. In fact, we as a jurisdiction now use the fact that we have

implemented the required regulatory requirements and have through our journey removed The Bahamas from the unilateral and punitive lists as a marketing tool, one that differentiates us from our competitors. We now live in the new world order of tax compliance and transparency and have figured out how to succeed.

Yes, we have been forced to comply, adjust and figure out a way to thrive in this new world order, but that does not mean that you don't have a responsibility as a jurisdiction to point out the flaws and inequities in the new world order and advocate to make it better. This has also been a differentiating component of The Bahamas. We believe in equity, fair play and a level playing field and in the international arena we advocate for a predictable and equitable playing field. This is also part of the realization that Tax Compliance is a Pillar of National Development.

For example, we made the point that the FATF is the recognized body internationally that sets the standards for every country to comply with. That their requirements are robust, the obligations on countries are significant and we like other countries do what we need to do to comply at the fullest levels. We articulated the challenge when other institutions, organizations or multilateral bodies try to represent themselves as international standard setting bodies, prescribing standards that are different from those of the recognized bodies. Fairness dictates that institutions such as the FATF, reaffirm themselves as the only standard setting body and do not let other, in certain instances, rogue organizations supplant their standards. At that time we knew that the EU was organizing its own AML body to regulate these matters.

Such advocacy and component of our national development in the international forum makes a difference. The Financial Action Task Force (FATF) and the European Union have worked collaboratively to better align their respective processes. This effort seeks to address longstanding inconsistencies, particularly situations where jurisdictions removed from the FATF grey or blacklist remained on the EU AML blacklist. This alignment is both timely and important, as it promises greater objectivity, transparency, and consistency in assessments, without political considerations influencing the process.

We have also voiced our opinions rather strongly about the inequities in the OECD system. We have made the point in the international arena that international tax administration and cooperation has harmed the small states of the Caribbean, where sovereignty has been infringed, tax competition is

threatened, economic growth and development have been hindered. We have advocated that our participation and that of the forty-one (41) small jurisdictions, almost all Caribbean and Pacific states in the Harmful Tax Initiative, has always been predicated on “a level playing field for OECD members and non-OECD members”.

It is safe to conclude, however, that the level playing field has never been achieved at the OECD. The concepts underpinning the current international tax system prefer the interests of the Global North, that is, OECD members and developed countries, where it originated. The predominant suggestions do not take the Global South's perspectives into account and are not likely to meet the demands of developing nations. Non-OECD members have not been equally represented in developing OECD policy, and the Inclusive Framework's "inclusivity" is mostly symbolic. More steps must be taken to

bridge the geopolitical divide and give a greater voice to the nations of the Global South and the challenges that we face.

Unfortunately, things have gotten even more complicated given the current state of geopolitics and greater imbalance in treatment when it comes to international tax compliance and administration. The OECD has had a history of double standards, evidenced by the global exercise of the Common Reporting Standard and automatic exchange of information on a common accepted rules-based framework. That is all except for the United States which had its own regime, FATCA, which allowed the US to participate in regulatory arbitrage when it came to transparency.

This has not changed, immediately after coming to office, President Trump withdrew from the OECD Pillar 2 initiative to establish a global corporate income tax. An initiative that again

was supposed to be a standard approach the world over, now there will again be an uneven playing field – a playing field that will be more difficult for small international financial centres like The Bahamas to play on, presenting a further risk to our national development. In January 2026 the OECD agreed a "Side-by-Side" (SbS) package which allows the U.S. tax system to co-exist with the 15% global minimum tax (Pillar Two). It exempts U.S.-parented multinationals (MNEs) from key Pillar Two penalties—the Income Inclusion Rule (IIR) and Undertaxed Profits Rule (UTPR). Again the OECD demonstrates that it is not an organization that advances equality in tax compliance but promotes a double standard and with a straight face tells us it is acceptable.

For tax compliance to be considered a pillar of our national development, and to be used to develop our industry as I have spoken about, it is imperative that financial centres like The

Bahamas be strong advocates for equal treatment, transparent and inclusive negotiations, and a meaningful participant in rule making.

In September 2023 The Bahamas, through a letter from the Prime Minister to the United Nations Secretary-General, highlighted the inequities that exist in the current governance of the OECD when it comes to global tax matters. The Prime Minister further made the argument that inequality is embedded in the multilateral tax architecture that exists today. In the letter to the UN Secretary General, the Prime Minister expressed his and The Bahamas' support of General Assembly resolution 78/230, entitled "Promotion of inclusive and effective international tax cooperation at the United Nations" which was eventually voted in favor by a majority of the UN members. Of note, not a single OECD member country voted in favor of the resolution. In the resolution, the General Assembly established

a Member State-led, open-ended ad hoc intergovernmental committee mandated to develop draft terms of reference for a United Nations framework convention on international tax cooperation.

I won't pre-empt the next session which speaks to the UN Convention except to say that we are of the firm belief that strong advocacy for tax equity, transparency and inclusiveness is fundamental to tax compliance initiatives and their bearing on our national development. We are active participants in the negotiation of the Convention and speak assertively for our national interest, and the equity expected in tax compliance from the Global South.

The United Nations is the appropriate body to design and build a truly equitable and inclusive international tax administration architecture, with equal-footed representation. The OECD

cannot declare legitimacy for developing "universal outputs" while decision-making and membership remain exclusive. We need a clean and balanced slate. The United Nations must now direct international tax policymaking as it has customarily been a more inclusive body for developing countries concerning international taxation.

Conclusion

Global tax enforcement and complying with international tax regulatory standards are important for any country to comply with to be a meaningful participant in the international financial arena. The Bahamas is committed to this. We believe that over the last 25 years our tax compliance journey has helped shape our industry, to provide the focus necessary to be competitive, and to ensure we have the scope of offerings to be a jurisdiction of choice. Tax compliance has acted as a pillar of our national development, especially in the financial services industry. The

road has not ended, however, global advocacy for a fair and equal framework and rules of engagement are necessary. This advocacy and participation is the next frontier of national development because of global tax compliance. I want to thank you for your attendance, participation and attention to how I see the state of our industry today and where we have come from. As my tenure as attorney general comes to a close this year, I want to thank you, BFSB and all members of this great industry for their cooperation, commitment and contribution to national development.