

AIIB Directive on Tax Transparency

June 8, 2023

1. Overriding Objective and Purpose

- 1.1 This Directive outlines a tax transparency framework (Framework) aimed at promoting tax transparency, tax good governance and tax compliance on the part of counterparties of non-sovereign-backed financings (NSBF Financings) made by the Asian Infrastructure Investment Bank (AIIB or the Bank), including entities established in a jurisdiction other than that in which the project is located which are deemed as not yet committed, non-compliant or partially compliant jurisdictions under international tax standards and included in listings established by recognized standards setting international bodies. The international tax standard setting bodies are the Organisation for Economic Co-operation and Development (OECD), Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum), and OECD Inclusive Framework on Base Erosion and Profit Shifting (BEPS-IF). AIIB also takes into account the Anti-Money Laundering and Combating the Financing of Terrorism standards and listings of the Financial Action Task Force (FATF) (collectively, these bodies are referred to as Recognized Bodies).
- 1.2 The Directive aims to support revenue mobilization and the efficiency of tax collection capabilities by host jurisdictions of AIIB NSBF Financings, which are essential to the funding, building, operation, and maintenance of sustainable infrastructure.
- 1.3 The Directive is a component of the financial crimes countermeasures and complements the AIIB's Directive on Anti-Money Laundering and Combatting the Financing of Terrorism (AML/CFT Directive). Unless otherwise provided in this Directive, the capitalized terms used in this Directive have the meanings set forth in the Operational Policy on Financing.

2. General Principles

- 2.1 Host Jurisdiction Taxation: One of the key objectives of this Framework is for AIIB's counterparties involved in AIIB NSBF Financings to pay their fair share of tax in the jurisdictions where they operate, consistent with BEPS Actions 5 and 6, which aim to counter harmful tax practices and prevent the abuse of tax treaties.
- 2.2 Minimizing Profit Shifting: This Framework also aims to minimize the practice of profit shifting, which involves companies artificially moving profits from high-tax jurisdictions to low-tax jurisdictions. This practice can erode the tax base of jurisdictions where economic activities are taking place, leading to a loss of revenue for these jurisdictions. This Framework consequently seeks to contribute to deterring the Bank's counterparties involved in its NSBF Financings from organizing their corporate structures in ways to evade tax or to aggressively plan in order to minimize their tax liabilities. This principle provides that companies should be

taxed taking into account where their economic activities take place, rather than solely where their legal headquarters are located.

2.3 Jurisdictionally Tax Challenged Entities Posing Material Tax Abuse Risk: This Framework also aims to avoid AIIB Financing for projects controlled or substantially owned through entities established in jurisdictions other than that in which the project is located (i.e., a jurisdiction which is neither the jurisdiction where the project is located nor the domicile of a Sponsor with material ownership of the project) which are deemed as not yet committed, non-compliant, or partially compliant jurisdictions under international tax standards and listings established by the Recognized Bodies (the “Jurisdictionally Tax Challenged Entities” and each, a “Jurisdictionally Tax Challenged Entity”). AIIB will only finance such project if it is satisfied that: (a) there are no material risks of tax abuse for the host jurisdiction; or (b) there is a valid legal or economic justification for using that entity and material risks of tax abuse for the host jurisdiction can be mitigated. AIIB requires appropriate documentation and clarification of the applicable tax regime, tax compliance, mitigants, and justification for using the entity in the third jurisdiction.

2.4 Non-Compliant Activities: This Framework aims to avoid AIIB financing projects involving counterparties that engage in non-compliant activities in connection with the project. Non-compliant activities are those that are subject, by local authorities, to criminal penalties.

AIIB will not knowingly finance a project that violates applicable tax laws or regulations. .

3. Applicability and Scope

3.1 This Directive applies to AIIB NSBF Financings. It does not apply to Sovereign-backed Financings.

4. Governance and Oversight

4.1 The governance and oversight of this Directive are set out in the AML/CFT Directive.

5. The Tax Transparency Framework

5.1. The Framework contains the following measures designed to enable AIIB to obtain a reasonable level of assurance during its due diligence assessment of projects governed by this Directive, that a Sponsor formed in a jurisdiction, which is not the jurisdiction where the project is located, is not set up or used for illicit purposes:

- (a) Tax Due Diligence: AIIB will conduct specific risk-based tax due diligence of counterparties involved in projects proposed for AIIB Financing during its counterparty due diligence (CDD) – Know Your Counterparty (KYC).
- (b) Transparency: These counterparties will be required to disclose to AIIB: (a) any material tax risks, uncertainties, or contingencies related to the project; and (b) the project’s Beneficial Owner(s) (BO) as defined in the AML/CFT Directive.

- (c) Information requirements: These counterparties will be required to provide information to the Bank regarding their tax positions and compliance status, including their tax liabilities and any disputes with tax authorities.
- (d) Relocation for Jurisdictionally Tax Challenged Entities Posing Material Tax Abuse Risk: If the project involves a Jurisdictionally Tax Challenged Entity posing material tax abuse risk, the counterparty may be required as a condition of the NSBF Financings either to terminate legal ownership or control through the entity or to transfer the legal establishment of the entity to another jurisdiction acceptable to AIIB.

6. Implementation

- 6.1 The Chief Risk Officer (CRO) shall be responsible for overseeing the implementation of this Directive and developing any related Administrative Guidance.

7. Authority

- 7.1 The CRO shall make all final decisions regarding the application of this Directive.

8. Information Disclosure by the Bank

- 8.1 AIIB's Policy on Public Information and its related Directive governs the disclosure of all information in the Bank's possession with respect to this Directive.