Cayman Compass

Panama Papers: Leak puts pressure on offshore centers

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References to the Cayman Islands in the "Panama Papers" were conspicuous by their absence but pressure on all offshore financial centers is likely to increase after the anonymous leak of more than 11 million documents belonging to a Panamanian law firm continued its fallout on Monday.

More than 109 media organizations in 76 countries, which analyzed the data, reported the firm Mossack Fonseca had helped clients launder money, dodge sanctions and evade taxes.

The papers allegedly show that 140 politicians from more than 50 countries, including 72 current and former heads of state, members of FIFA and professional athletes had links to the law firm.

The documents contain information on offshore companies, created by Mossack Fonseca, with links to the families of Egypt's former president Hosni Mubarak, former Libyan leader Muammar Gaddafi and Syria's president Bashar al-Assad. Active political leaders named in the leak include Argentinian President Mauricio Macri, Iceland's Prime Minister Sigmundur Davíð Gunnlaugsson and Ukrainian President Petro Poroshenko. All denied any wrongdoing.

Tim Ridley, the former chairman of the Cayman Islands Monetary Authority, said as a result of the leaked documents, "pressure will increase for greater transparency generally, and not just in offshore financial centers."

Anthony Travers, senior partner at law firm Travers Thorp Alberga, said the "left wing press" in the United Kingdom and "certain left leaning politicians" have predictably seized on the disclosures to call for further action against all offshore financial centers, including the Cayman Islands, even though Cayman has not been named in the documents.

The facade of the Arango Orillac Building, home of the Mossack Fonseca law firm in Panama City, Panama, which is the source of a vast trove of documents detailing the offshore financial dealings of the rich and famous. – Photo: AP

An anonymous source initially handed the papers to German newspaper Süddeutsche Zeitung, which then shared them with the International Consortium of Investigative Journalists and other media organizations around the world.

Süddeutsche Zeitung reported that the documents show a close associate of Russian President Vladimir Putin, Sergei Rodulgin, is allegedly at the center of a network of offshore companies involved in a suspected billion-dollar money laundering ring. On paper, Mr. Rodulgin, a concert cellist and long-time friend of Mr. Putin, personally made hundreds of millions in profits from two offshore companies he officially owned. But, according to the German newspaper, a leaked document notes the company is a corporate screen established principally to protect the identity and confidentiality of its ultimate beneficial owner. A spokesman for the Kremlin dismissed the reports as insinuation and speculation seeking to destabilize Mr. Putin.

Mossack Fonseca called the data leak “a crime” and said it had operated “beyond reproach” for 40 years and had never been charged with criminal wrong-doing.

The law firm said it provides company incorporation and related administrative services that are widely available, commonly used worldwide and subject to strict due diligence.

“It is legal and common for companies to establish commercial entities in different jurisdictions for a variety of legitimate reasons, including conducting cross-border mergers and acquisitions, bankruptcies, estate planning, personal safety, restructuring and pooling of investment capital from different jurisdictions in neutral legal and tax regimes that does not benefit or disadvantage any one investor.”

The law firm added that “allegations that we provide structures supposedly designed to hide the identity of the real owners, are completely unsupported and false.

“We do not provide beneficiary services to deceive banks. It is difficult, not to say impossible, not to provide banks with the identity of final beneficiaries and the origin of funds.”

Dan Mitchell, a senior fellow at the CATO Institute and a member of the Pinnacle Media’s Cayman Financial Review editorial board, said firms like Mossack Fonseca are merely the latest stand-ins and proxies for a wider campaign against offshore centers.

Media reports about the data leak are based on a “willful misunderstanding of what firms like Mossack Fonseca do – and don’t do – for their clients,” he said.

Like banks, offshore law firms conduct extensive due diligence on their clients, but, unlike banks, law firms do not take possession of their clients’ money, Mr. Mitchell said. “So the notion that they are involved in ‘money laundering’ is laughable.”

In the U.K., where six peers, three members of parliament and numerous political party donors were reportedly named in the Panama Papers, even the business interests of Prime Minister David Cameron’s late father were put under the spotlight by the leak. Ian Cameron was a director of investment fund Blairmore Holdings Inc. in the Bahamas. Blairmore is now based in Ireland after it transferred all its assets in 2012.

Mr. Cameron has been a vocal advocate of corporate transparency initiatives, and his government brought in new legislation which, from June this year, forces British companies to disclose their owners and who benefits from their activities.

The British prime minister has demanded that the U.K.’s crown dependencies and overseas territories establish similar registers of beneficial ownership and encouraged other countries to follow suit.

Now Mr. Cameron “is under pressure over his failure to fully remove the cloak of secrecy from Britain’s offshore financial centers and his own father’s role in promoting tax avoidance,” The Financial Times wrote on Monday.

Downing Street said it was a “private matter” whether the Cameron family still had funds in offshore investments but the prime minister’s official spokesman said, “We want to see the overseas territories and crown dependencies play their part and that is why we will continue to push them to do so and […] the Prime Minister has made clear that should they fail to do so, he rules absolutely nothing out.”

Mr. Ridley said the unauthorized release of the Panama Papers inevitably re-energizes the broad brush of criticism of all offshore financial centers.

“Cayman’s hard-earned good reputation for its high quality regulatory regime and offshore business puts it in a different category, light-years away from Panama. We must stress this at every opportunity,” he said.

Mr. Travers said the Cayman Islands financial services industry now pays the price for the failure of its public relations campaigns. “The Cayman Islands simply has not distinguished legitimate offshore financial centers with their transparency regimes from those jurisdictions which have maintained bank secrecy and continue to practice covert activity,” he said.

The offshore leaks are now used to support arguments in favor of a public register of beneficial owners, he added.

“But these arguments,” he said, “have no credibility in relation to the Cayman Islands financial services industry which already provides complete transparency to tax authorities and law enforcement and the more so given the introduction now of FATCA and the Common Reporting Standard.

“It is regrettably predicable that unless and until our public relations initiatives establish in the eyes of the world press that the Cayman Islands operates as a transparent offshore financial center and not as a covert tax haven based on bank secrecy, that ill-informed perceptions and very possibly, ill-advised initiatives based upon them will prevail,” Mr. Travers said.

Paul Byles, president of First Regents Bank in Cayman, said, “Ironically, this incident will be used by the proponents of central registries [of beneficial ownership], but it also demonstrates the danger and ease of exposing us to fishing expeditions with such a system.”

While jurisdictions like Cayman continue to cooperate on cross-border information exchange initiatives, he said, “we should take ultra-care to maintain full control over any systems to ensure that legitimate financial privacy is not breached while assisting in the fight against tax evasion.”

Mr. Ridley expressed similar concerns about the ability to protect privacy, especially when the information is centralized. “Panama and other disclosures underscore the very real risk that any electronic central register of beneficial ownership, whether maintained by the government or the service providers, will get hacked. There is a strong argument for going back to paper and pen,” he said.

The Cayman Compass contacted Cayman Finance and the Ministry of Financial Services for comment but did not receive a response by press time.