

# Miami Herald

## Sovereign Society Fed Clients To Panama Papers Law Firm

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WASHINGTON--The United States is on “the verge of economic collapse” from its massive debt and almost a decade of historically low interest rates at the Federal Reserve, the Sovereign Society frequently warns.

The self-described advocacy group for liberty and low taxes also warns of government overreach and is an unapologetic promoter of tax avoidance. It has recruited dozens of American customers to Mossack Fonseca, the law firm at the center of the Panama Papers leak.

The Panamanian law firm is a global leader in the formation of offshore companies, opening them in faraway tax havens for the likes of everyone from Vladimir Putin’s close friends to Mexican cartel leaders to ordinary Americans looking to retire in Central America.

The leak of 11.5 million documents from Mossack Fonseca shows that the Sovereign Society, based in Delray Beach, Fla., has special ties to the Panamanian firm. Internal records reflect that the law firm’s partners are generally wary of Americans, but the Sovereign Society is an exception. It collects a 10 percent commission for any referral that leads to business.

The referrals cast light on how Mossack Fonseca recruited U.S. customers by using a group that champions tax avoidance. While some Americans sent to Mossack Fonseca by the Sovereign Society say they set up offshore companies to safeguard assets or make it easier to do business abroad, the referrals include an Alaska man later convicted in the state’s largest mortgage-fraud case.

In its half-dozen newsletters and annual conferences, the Sovereign Society plays on fears that personal wealth or investments could evaporate in an instant, and that government is not to be trusted. One recent newsletter penned by Ted Bauman, son of the group’s legal counsel, warned about the move to a “cashless” society where electronic accounts and transactions become the norm. Governments, he cautioned, could seize those electronic assets.

“Would you trust any government with that power? Of course not. That’s why it’s time to start preparing for the inevitable day when you won’t have any other option ... unless you act now,” he wrote in May 23 editions of *The Sovereign Investor*. “You might start by opening an account with my friends at [New Zealand vault](#). It’s the only service I know that allows you to acquire and store nonreportable precious metals outside the U.S. ... without having to leave home.”

For the past 15 years, the society has also sponsored its Total Wealth Symposium, with Mossack Fonseca often manning a sales booth, the documents show. At the society’s symposiums, speakers promote their alternatives to traditional investments in stocks and bonds, and attendees

pay to hear it in the setting of a luxury hotel, often in a tax-haven country. The next one is in Bermuda on Sept. 14-17, with topics such as asset-protection secrets and offshore investment opportunities.

“Our philosophy is not promoted by tax evasion but tax avoidance ... it’s the privacy angle that particularly has gotten more acute since the (USA) Patriot Act,” Robert Bauman, a former Maryland congressman and the Sovereign Society’s co-founder and legal counsel, said in an interview. He was referring to the 2001 act which, in the wake of the Sept. 11 terror attacks, gave government sweeping surveillance powers.

The society, he said, has been targeted by the Internal Revenue Service and sees itself as an ideological middleman.

“We’ve never been more than a publishing company ... we serve as a conduit for people who want certain things offshore,” said Bauman, a Republican congressman from Maryland from 1973 to 1981.

As the Sovereign Society promises on its website, experts from the strongest asset havens, such as Panama, are there to help.

“Their sole objective is to help you secure your wealth and keep it from the plunder of onerous taxation and frivolous lawsuits,” it promises.

At least 69 client profiles in the leaked documents were marked internally at Mossack Fonseca as having come through the Sovereign Society. Separately, numerous referrals appear via emails in which Sovereign Society members tell the law firm they have been sent by Bauman or the society.

Mossack Fonseca did not respond to an interview request about its U.S. clients, and did not make available employees named in this report. It has said little since a first wave of stories about the massive leak were published on April 3.

Under the umbrella of the International Consortium of Investigative Journalists (ICIJ), more than 300 reporters across the globe, including a team from McClatchy as the sole U.S. newspaper partner, secretly analyzed the 2.6-terabyte leak for nearly a year. The documents lift the veil of secrecy surrounding offshore companies – firms incorporated abroad for the anonymity they often provide – and have exposed politicians across the globe with offshore assets they hadn’t publicly declared.

### **Ties that bind**

“I am a member of the Sovereign Society and they recommended your firm,” Vincent B. Whitaker wrote in a May 2008 email to Mossack Fonseca.

Days later, he sought advice for “incorporating in Panama and opening a bank account there as well. I would consider an existing shell corp. as well.”

Reached in Glendale, Ariz., Whitaker said, “I wouldn’t call myself libertarian” but he did express sympathy with libertarian views and a desire for “an extra measure of security and opportunity” that a Panamanian offshore company could provide.

“It still interests me to this day,” he said, adding that he was intrigued by “out-of-the-box scenarios” for investment, but that nothing had been set up and that he has since retired from the mortgage brokerage business.

Dan Kiely, the CEO of NewLeafe Property Fund, an investment fund in West Palm Beach, Fla., shows up in the Panama Papers as a Sovereign Society referral.

“I checked the leaked data after receiving your email. I had forgotten that activity,” he wrote in an email to McClatchy. “The two companies that I set up with them were intended funds for non-Americans to invest in Gold through the Perth, Australia, mint, and in oil and gas in the U.S. We never got those off the ground and the filed companies died shortly after birth.”

Alaskan real estate investor Lance Charles Lockard Jr. came to Mossack Fonseca via the Sovereign Society in late 2006, documents show.

About a year after creating offshore businesses with Mossack Fonseca, Lockard was indicted on Dec. 13, 2007, for bank fraud and conspiracy, crimes that prosecutors said dated to 2003. He pleaded guilty and was sentenced in August 2009 to almost six years in prison, having defrauded 13 mortgage lenders in Alaska and caused them \$2.5 million in losses, prosecutors said.

“What I don’t understand is how this class of person becomes a client in the first place,” said Jurgen Mossack, the law firm’s co-founder, in an angry June 19, 2008, email to staffers. “The due diligence must be done first, not when the client is already in prison.”

It was an admission that the firm faltered on the globally accepted know-your-customer process.

Other emails show the law firm, without solicitation, recommending Lockard visit a bank that doesn’t require an IRS form.

In the boss’s angry email thread, the law firm’s employees are deciding what to do next because “the client’s lawyer has asked that we certify something that is false,” writes Ramses Owens, a Mossack Fonseca attorney, in a June 19, 2008, email.

“Mr. Lockard has requested that we obtain written proof via documentation that no accounts he may have with your firm have opened and/or set up and there is no Multi Credit Inc. account, no set up foundation in Panama and no set up IBC (shell company) in Seychelles,” Robert Herz, Lockard’s defense attorney, wrote in a June 4, 2008, letter found in the documents.

The Panamanian law firm in fact had set up a foundation called Fundacion Estrella Del Norte, which had an ownership connection to the international business company called Jago Equities S.A. in the Seychelles, tiny islands in the Indian Ocean. The leaked emails show a December 2006 financial advisory agreement that made Jago Equities a “consultant” to the foundation.

When Lockard inquired about a bank account to deposit \$500,000, ostensibly to trade foreign currency in Switzerland, the law firm immediately steered him to secrecy.

“Since you are an American citizen, we recommend then Multicredit Bank since this bank does not require you to sign a W-9 form for opening an account,” wrote Maria Gonzalez Siburu from Mossfon Trust Corp. Neither she nor law firm officials returned emailed requests to headquarters for comment. Owens has since left Mossack Fonseca to found his own firm in Panama, and did not return calls requesting comment.

By law, Americans are required to report income from investment or work abroad.

Supervised by Panamanian bank regulators and operating globally, Mossfon Trust Corp. is a division of Mossack Fonseca that offers services to the wealthy that its advertising says range from wealth protection and tax optimization to privacy and estate planning.

Later emails show that after internal discussion about Lockard’s lawyer, the law firm’s response was to provide minimal information.

“The most we can do is decline information sharing for reasons of lawyer-client privilege with respect to the Panama foundation,” wrote Owens, then a lawyer for Mossack Fonseca, adding that any information on Jago Equities was to be shared only upon request from authorities in the Seychelles.

That request never came, according to lawyers involved in the case. And Mossack Fonseca appears to have kept everything quiet for Lockard.

“I was not asking them to lie,” Herz said in an email. “I was asking them to confirm or deny information I had developed from a separate independent source. I wanted to be careful before making factual representations in open court that later might not hold up. Admittedly, it was a compound question so they could have admitted in part and denied in part as well. But my recollection is they did not admit or deny; they did nothing, and provided me no information whatsoever about Mr. Lockard’s accounts, or other activities.”

There is no mention of offshore companies in sentencing proceedings in Alaska in the Lockard case.

Neither Lockard’s defense nor the Justice Department could say with certainty if Lockard shielded his money and avoided making full restitution to investors. He forfeited \$116,000 at sentencing, but was to make restitution of \$2.5 million.

“Representations were made to the Court that Mr. Lockard did not have any money in offshore accounts,” said Kevin Feldis, who prosecuted Lockard for the U.S. Attorney in Anchorage. “In any criminal case, we would want to know whether criminal proceeds are being intentionally hidden.”

Lockard wasn’t the only potential customer who came to Mossack Fonseca through the Sovereign Society and was later convicted for financial crimes. The law firm set up a customer profile in its records for James Webb in May 2006, around the time he moved to South Florida from Raleigh amid a probe by North Carolina regulators. The U.S. Securities and Exchange Commission soon afterward brought a civil action against Webb for what it labeled a real-estate Ponzi scheme.

When Webb and his wife, Sharon, attended the Sovereign Society symposium in 2006, they asked for information, but insisted there be no paper trail when communicating. “PLEASE CALL BEFORE SEND ANY INFORMATION, DON’T JUST FAX IT,” said a July 4, 2011, internal note on the last recorded update on Webb’s client profile. “CONFIDENTIAL (BIG ISSUE).

About a year later, the FBI announced Webb’s arrest in Miami on Sept. 13, 2012. He was convicted and sentenced to 27 years on Jan. 16, 2014. He is in the Butner, N.C., prison that has held convicted Ponzi-schemer Bernard Madoff.

When Webb and his wife filled out an information-request form during the 2006 Sovereign Society symposium, documents show, the handwritten instructions on the form were prophetic.

“Panamanian Trust + Foundation to protect his assets,” said the instructions. “\$ untouchable in case of lawsuit (sic).”

It’s unclear from the Panama Papers whether the couple actually created an offshore business or foundation.

“In 2006, he was definitely on the run,” said Brad Coren, an attorney in Weston, Fla., who won a \$100,000-plus civil judgment against Webb just months later in March 2007.

Coren chased Webb through the courts for years and said he is convinced that some of the stolen money ended up in offshore companies.

“It could be sitting in a locker in Trinidad. I don’t know. My guess is a certain amount of money disappeared,” he said.

### **Covering your assets**

Offshore companies and the asset protection they provide are legal, and there are many legal ways to use them. They provide privacy in mergers and acquisitions, ease of real-estate transfers and estate planning.

But convicted and suspected financial fraudsters are also found in the 2.6 terabytes of leaked data. That’s led to recent calls for tougher rules on declaration of true ownership of offshore entities.

Bauman, the Sovereign Society’s legal counsel, unabashedly promotes tax avoidance, but downplayed his relationship with the Panama Papers law firm.

“I can’t remember dealing with Mossack Fonseca except maybe early in the 2000s,” he said, adding, “the reason we stopped dealing with them is they charge too much and our members complained.”

The Panama Papers suggest a closer relationship. There was the 10 percent commission for new business. Documents also show a steady stream of referrals to the law firm from 2005 to 2010.

When the Sovereign Society sought in 2006 to move headquarters from low-tax Ireland, Bauman worked closely with Mossack Fonseca to explore a relocation to Panama, proposing “to have

MossFon serve as our registered agent and as our main office and contact point for legal matters, using MossFon Managers services.”

Don Davis of Cloverdale, Calif., came to Mossack Fonseca as a referral after attending a Sovereign Society symposium in 2007 and began a relationship with Mossack Fonseca, the documents show.

Davis is the managing partner of Prime Meridian Capital Management and the currency trading firm Novusfx. He created a Panamanian offshore company called Swiss Capital Management Inc., registered on Sept. 17, 2007.

His desire for privacy is almost palpable.

“When checking references, can you please say you are calling from Mossfon Trust, but don't tell them where you are calling from,” he wrote in a Sept. 5, 2007, email, unhappy that a personal reference had said he was contacted by Panama.

Later, Davis was unhappy about a charge on his American Express bill.

“Ana told me it would say MF Treasury LTD BVI. I'm not going to lose any sleep over this, but please, please try to make sure our affairs are confidential,” wrote Davis. “Now there is a paper trail showing that I paid \$3K to a Panamanian law firm. Not the end of the world... but not good either.”

The leaked emails show the law firm opened a bank account at the Panamanian bank Banvivienda for Davis, who expected to do international business. If all goes well it could bring in as much as \$500,000 in 12 months, the emails said. Davis said he planned on “leaving the vast majority in bank/investment accounts in Panama.”

He also made a prophetic request in a September 2007 email: He wanted a Panamanian bank that wasn't exposed to subprime mortgages in the United States.

“It is my opinion that many banks around the world are going to suffer large losses and some will go bankrupt in the next couple of years,” he said, a year before the financial crisis sparked by subprime loans hit its critical stage.

In 2010, Davis traded emails with the law firm noting the sour economy had crimped his offshore business plan. He asked whether a third party can hold his ownership stake. And he wrote that he didn't want to do wire transfers above \$3,000 because that data might stay on a server for 10 years.

“In the small chance any individual, outside entity, or government agency does discover that I have working relationship with a Panamanian entity, then I want to make sure that I am 100% compliant with U.S. tax law,” he wrote.

In late 2011, Davis asked to close the offshore company but said he was interested in shifting ownership of the bank account to a trust if he could avoid being subjected to a due diligence process in which he would have to provide new references and bank statements.

That would be impossible, replied Egbert Wetherborne, an executive in Mossack Fonseca's trust division. But, he offered, the Panamanian bank still had "the same policies of not sharing any information on the beneficial owners of the accounts with any foreign authorities, so there is nothing you should worry about regarding the privacy matter."

In an emailed statement to McClatchy, Davis said, "Like many other Americans, in the past I explored the legal use of an offshore entity for the purposes of estate planning, asset protection and investment diversification. After realizing the complexities and expenses involved, and especially with increasingly negative sentiment in the U.S. towards the use of offshore entities, I came to the conclusion that there were more efficient ways of accomplishing the same goals domestically and without such negative perception. That's when I decided to shut down the entity which never had any income, assets, or activity other than paying legal fees."

Another Mossack Fonseca prospect, Arne Mortensen of Kelso, Wash., exchanged emails with the law firm about establishing a "modest residence" in Panama.

"I was looking to buy a winter place somewhere along a tropical beach," he said in a telephone interview with McClatchy.

A retired oceanographer, Mortensen is also the current chairman of the Republican Party Central Committee in Cowlitz County, Washington. In August 2010, the leaked documents show, he considered Panamanian citizenship.

"Because of your involvement with the Sovereign Society, I assume that you would be able to assist me in this matter," Mortensen wrote, later inquiring whether a private foundation in Panama exempt from taxes could hold dividend-paying stock whose value continued to grow.

Nothing came of it, he said by telephone. Emails show the discussion centered on creating the equivalent of a family trust that could keep matters "totally private."

Privacy is the other side of the coin when it comes to record-keeping for true owners of offshore companies. Some of the strongest views come from the libertarian Cato Institute in Washington, D.C.

"Why should you have your ownership of a company public any more than you should have your teenage daughter's curtains open at night?" Dan Mitchell, a senior economist with Cato, said in an interview.

At a 2009 Sovereign Society conference in Bermuda, Mitchell gave a speech titled: "The Totalitarian Assault Against Tax Havens." He remains unapologetic about it.

"I think there is no question that the entire industrialized world ... have been going after low-tax jurisdictions with the kind of intensity they would go after a terrorist state," Mitchell said, adding that there is no evidence offshore companies are on a percentage basis any more criminally oriented than ones created in the United States.