

# Panama Papers: Spotlight on major banks

BLOOMBERG

**U**BS Group AG and HSBC Holdings Plc -- two of the banks hardest hit amid a US crackdown on customers' illicit funds in recent years -- are now starring in a torrent of leaked documents detailing how they once helped clients set up thousands of offshore shell companies.

A report late Monday by the International Consortium of Investigative Journalists, drawing on 11.5 million records extracted from Panama-based law firm Mossack Fonseca, describes the contortions UBS and other banks went through as they struggled to distance themselves from clients' offshore companies amid mounting US scrutiny. It also shows how European banks in particular had once helped customers create those entities: HSBC and its subsidiaries accounted for more than 2,300 of the shells registered through Mossack Fonseca, while UBS and Credit Suisse Group AG were behind more than 1,100 apiece, according to the ICIJ report.

While the use of offshore companies can be perfectly legal, the documents have ignited a global debate since they came to light on Sunday, exposing the extent to which politicians, business leaders and celebrities make use of a secretive financial ecosystem. The scandal is a fresh headache for banks, some of which have paid billions of dollars in fines in recent years, promised to fix controls and dismantled once-lucrative businesses as they try to put to rest accusations they harbored money for tax dodgers or criminals.

"Banks and professional organizations including accountants and lawyers need to up their game in relation to knowing who their ultimate clients are," said Alan Sheeley, head of the civil fraud and asset recovery team at Pinsent Masons law firm in London. It also raises pressure on governments, he said.

In 2010, as UBS was trying to deal with a US Department of Justice investigation into illegal tax shelters, the Zurich-based bank sought to pull back from the shell companies, according to the ICIJ report. In a meeting that year with Mossack Fonseca, the bank's representatives asserted the law firm should be responsible for identifying the shells' owners, while the law firm insisted it didn't know who some of them were because the bank had withheld the information, according to the report.

## THE 10 BANKS THAT REQUESTED THE MOST OFFSHORE COMPANIES FOR CLIENTS



### SPECIAL TREATMENT

The two sides eventually figured out a way forward: Mossack Fonseca would take over the administration of the shell companies established by UBS clients and accord them "special treatment," ICIJ said. Under the new system, Mossack Fonseca agreed to accept lighter due diligence from UBS on those clients, requiring less documentation on the owners and why they used shell companies, ICIJ reported.

Following the leak, regulators across Europe announced probes into the offshore activities of the banks they supervise. Swedish regulators have summoned Nordea Bank AB, Scandinavia's biggest lender, to answer questions on assistance it allegedly provided to wealthy clients to help them evade taxes. Austria's Finanzmarktaufsicht watchdog will probe the procedures Raiffeisen Bank International AG and Hypo Vorarlberg use to prevent money laundering after they were implicated in the scandal. Switzerland's Finma will "clarify" the extent to which its banks dealt with Mossack Fonseca and whether they violated banking supervisory rules.

A Mossack Fonseca spokesman told the journalist consortium that it conducts "thorough due diligence on all new and prospective clients that often exceeds in stringency the existing rules and standards to which we and others are bound." Many of its clients come

through reputable financial institutions, which are bound by so-called know-your-customer laws, the group quoted her as saying.

Asked about details of the ICIJ story, UBS spokeswoman Marsha Askins said the bank decided to end the relationship with the law firm years ago.

"Your question refers to services concerning the set-up and administration of offshore companies using third-party providers which UBS proactively decided to discontinue in 2010," she said in a written statement. "This process happened in stages and has been completed."

Credit Suisse Chief Executive Officer Tidjane Thiam said the bank conducted business in full compliance with applicable law and regulations.

"We only accept offshore structures, vehicles if they serve legitimate purposes. Clearly, tax avoidance is not one of those," Thiam said in an interview Tuesday in Hong Kong with Bloomberg Television. "We insist on knowing who is the beneficial owner. If it's not revealed, we will not engage in business with that entity."

He declined to comment specifically on the leaked documents or on his bank's interactions with regulators. HSBC, in a statement, said it works closely with authorities to fight financial crime and implement sanctions. Its shares were down 2.7 percent to 419 pence at 11:18 a.m. in London, the lowest level in seven years.

"Our policy is clear that offshore accounts can only remain open either where clients have been thoroughly vetted (including due diligence, 'know your customer' source of wealth, and tax transparency checks), where authorities ask us to maintain an account for the purposes of monitoring activity, or where an account has been frozen based on sanctions obligations," the bank said.

Journalists working with the consortium pored through millions of pages of documents leaked from the law firm to piece together what they alleged was a global web of shell companies that helped hide wealth of world leaders and criminals, among others. The records outlined the creation of more than 200,000 offshore companies in all, according to the ICIJ. Almost 15,600 shells were registered by more than 500 banks in recent decades, according to its analysis.

While companies that shield owners' identities can be used legally, they can also be tools for hiding assets, laundering funds or evading taxes. The US, among other countries, require banks doing business in the country to perform certain levels of due diligence on their clients to understand who the beneficial owners of such structures may be.

### COMPLICATING RELATIONS

Still, the revelations may complicate relations between banks in developed nations and those in still developing countries, said Peter

Hahn, a professor at London's Institute of Financial Services.

"Leading bank chairs and CEOs will have a tough night's sleep worrying and wondering about whether their organization have touched these deals regardless of whether their activities were legal or not or how long ago they happened," Hahn said.

As of now, regulators haven't accused the banks of any wrongdoing related to their business with the Panamanian law firm. Still, the disclosures could be problematic for HSBC, which entered into a deferred-prosecution agreement with the US Justice Department in 2012, paid \$1.9 billion and admitted to conduct that violated US sanctions laws and anti-money laundering statutes.

UBS and Credit Suisse are in a similar spot. Last year, a UBS unit pleaded guilty to one count of wire fraud related to the manipulation of benchmark interest rates. Credit Suisse pleaded guilty in 2014 to helping US citizens dodge tax payments. As part of their settlements with the Justice Department, the banks pledged full cooperation with any investigation into other possible misconduct.

In 2009, UBS paid \$780 million to avoid prosecution in the US for helping Americans hide money in Swiss bank accounts. It paid about 300 million euros (\$341 million) in 2014 to settle a similar probe in the German state of North Rhine-Westphalia.

### PROACTIVE POLICY

Societe Generale SA accounted for 979 offshore companies set up through Mossack Fonseca, according to the ICIJ. The bank said in a statement Monday that it has "a proactive policy with regard to the fight against fraud and tax avoidance."

Two other banks listed in the report -- Experta Corporate & Trust Services SA and Coutts & Co. Trustees -- also denied any wrongdoing. Experta said it's investigating the basis for the allegations and that when it helped clients set up offshore structures for wealth-planning purposes, it was "within the existing national and legal frameworks."

Coutts said it is committed to the highest standards of regulatory compliance, including tax laws, anti-money laundering regulations and international sanctions. "We require all clients to be tax compliant as a condition of receiving our products and services," it said.



The Nokia headquarters is seen in Espoo, Finland. The mobile company is planning to cut about 1,300 jobs in its native Finland following its acquisition of France's Alcatel-Lucent, the telecom network equipment maker said in a statement. Nokia started its global job cutting programme on Wednesday as it targets 900 million euros of operating cost synergies from the Alcatel deal by 2018. Nokia currently employs about 6,850 people in Finland and around 104,000 globally.

## Pfizer scraps \$160b merger with Allergan

AFP, New York

**U**S pharmaceutical giant Pfizer said Wednesday it was abandoning plans for a \$160 billion merger with Allergan, citing new US rules cracking down on the ties aimed at saving on taxes.

The deal with the Irish-based firm would have created the world's largest pharmaceutical company.

Pfizer said in a statement the two companies "terminated by mutual agreement" plans to merge. "Pfizer approached this transaction from a position of strength and viewed the potential combination as an accelerator of existing strategies," said company chairman and CEO Ian Read.

Pfizer also agreed to pay Allergan \$150 million to reimburse its expenses linked to the planned merger.

The decision to call off the merger came after the US Treasury Department announced new rules to discourage mergers between US and foreign businesses designed to sharply lower the US company's tax bill. The New York-based pharmaceutical said it remains on track to report its 2016 first quarter earnings on May 3.

For all of 2015, Pfizer reported earnings of \$7.7 billion, down 15.2 percent from 2014. Revenues dipped 1.5 percent to \$48.9 billion. Allergan CEO Brent Saunders said in a separate statement that while he is "disap-

pointed" that the merger will not proceed, his company is nevertheless "poised to deliver strong, sustainable growth built on a set of powerful attributes."

US President Barack Obama did not comment directly on the issue, but on Tuesday he said wealthy corporations and individuals are "gaming the system" by using tax code loopholes that average taxpayers cannot access.

Obama spoke a day after the US Treasury tightened rules against tax "inversion" deals, in which US companies merge with foreign firms to move their official address offshore -- but not their US operations -- to avoid paying US taxes.

His comments also came days after documents leaked from a Panama law firm showed tens of thousands of anonymous companies could have been used to hide income for wealthy individuals from around the world.

"I am very pleased that the Treasury Department has taken new action to prevent more corporations from taking advantage of one of the most insidious tax loopholes out there, and fleeing the country just to get out of paying their taxes," Obama said.

"When companies exploit loopholes like this, it makes it harder to invest in the things that are going to keep America's economy going strong for future generations."

# Bollywood studios eye profits at last as India goes smartphone mad

REUTERS, Mumbai

**I**NDIA'S all-singing, all-dancing movie hits capture the attention of hundreds of millions of fans - but they generate precious little in box office profits for the world's largest cinema industry.

Now, with smartphone sales booming and India preparing for nationwide 4G Internet access, India's film and TV industry hopes the ease of tapping your phone for the latest release will generate profits at last, overcoming the problems of woefully few cinemas and rampant piracy.

India has about 10,000 cinema screens across a country of 1.3 billion - 8 for every million people, compared with 120 in the United States and 30 in China, according to digital film distribution network UFO Moviez.

That low density means that for most Indians, pirated content is the only way to see movies, costing the industry some 30 percent of potential annual gross collections.

"Even if we can manage to get a small fraction of the people to pay on their phones, you are looking at a market that can potentially become bigger than the box office," said Girish Johar, head of revenue at Essel Vision Production, part of Zee Entertainment Enterprises, one of India's largest media groups.

The profit boost for studios will in large part be driven by the rush for local-language content from platforms like Netflix Inc, which launched in India this year and is aggressively adding to its Hindi-language catalogue.

Homegrown rivals, though keen to forge partnerships with online streaming companies, are introducing their own platforms, a new revenue stream for production firms that earn little from either cinemas or DVD sales.

And the numbers add up. Seven out of 10 Indians watch at least one online video a month, and in the next three years nearly 90 percent of all Internet data in India is expected to be used towards streaming movies and



Indian actors Anil Kapoor, Hrithik Roshan and Sonakshi Sinha pose with dancers in Spain during the official presentation of the International Indian Film Academy Awards on March 14.

television.

Key to the boom is cheap, fast, mobile broadband nationwide, which this year promises to bring millions online, even outside big cities.

That means better viewing - and easier payment.

India's cash-rich Reliance Industries is expected to roll out one of the world's largest 4G networks this year when it launches its Jio mobile network.

To keep up, incumbent players Bharti Airtel, Vodafone India and Idea Cellular are cutting Internet charges and building out their own high-speed data networks.

The results are good already for providers like YouTube, which says Indian usage has soared, outpacing global peers, thanks to mobile traffic which more than doubled last year.

"Traditional film and TV content still continues to drive massive watch time ... while studio-made songs, movies and clips

continue to be some of the most popular content nationwide," said Gautam Anand, YouTube's Asia Pacific director of operations.

The hope is that cheap, convenient content, perhaps 25 rupees (37 US cents) for a movie streamed to your phone, will make piracy redundant.

Of course, getting cash out of the consumer remains a challenge, and subscription is an untested model.

"In the US, everybody has been paying for content but in India people don't pay as easily," said Gaurav Gandhi, chief operating officer of Viacom18, a venture between US group Viacom and Reliance. Indians feel they pay for data, so the content should be free, he says.

But the growing use of phones as credit cards, to pay for small purchases, will help.

So too, say industry insiders, will unique content.

"We have to come up with our own model and a large part of

that would rest in creating unique content for online," said Radhika Kapoor, head of content Fox Star studios India that runs the Hotstar streaming platform.

Others argue the secret will be ad-driven content, that can be provided free. Indeed, getting users to stay loyal to one platform to leverage subscription revenue might be challenging, but getting advertisers interested is not.

Global advertising spends on digital media is likely to grow to 36 percent by 2020 compared with 21 percent in 2010, and consultancy Deloitte's Hemant Joshi says India will lead the trend with digital ad spending likely to grow more than 400 percent to 354 billion rupees (\$5.3 billion) in the next five years.

"We have seen that advertisers get better reach through mobiles in India simply because there are more phones than TV screens," Joshi says. "That will only multiply."