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Emperors, Dentists and Ducks

The Roman calendar had 45 public festivals (even more, would you believe, than the Republic of Panama) as well as the ides of each month which were sacred to Jupiter. The Ides of March, however, are the ones most remembered by us today in the West due to William Shakespeare. His play, Julius Caesar, centres on Caesar's assassination in the Roman senate on 15th March, 44 BC, and follows a warning from a soothsayer to "Beware the Ides of March". The emperor of Rome had asked what the future might hold and then dismissed the advice which, as we know, proved, literally, fatal.

On 15th March, 2008 AD, advice, doubtless, will be sought. This time a lot of the advice will concern profits rather than politics with the repercussions of the subprime mortgage disaster (see last December's Offshore Pilot Quarterly) being centre stage during the current economic turmoil. Many people looking for answers amidst the financial malaise already feel that they have been stabbed in the back, like Caesar, but this time by the bankers and the financial regulators.

In 1453 it took 40 days for the pope to hear of the fall of Constantinople to the Turks. The fall this year in the world's stock market values, which have throttled the financial world, reached the Vatican and the world's financial centres a lot quicker due to the advances in communication technology. Bad news has always travelled fast but never as quickly as it

does now, often in a matter of seconds, thanks to computers.

Caesar's Rome is, in fact, no stranger to such crises because it is where the first financial crash in the Western World happened after the Holy Roman Empire in 1622 debased its coins; this started the modern day equivalent of a banking panic. 15 years later in Holland we had a financial collapse which stemmed (if you will pardon the pun) from the oft-quoted tulip bulb bubble (giving, in retrospect, a new meaning to the hippy term, flower power). This was to be followed in the next century by the famous 1720 South Sea bubble in England and there were 8 more crashes during that century, ending in the Hamburg commodities bubble of 1799. The 19th century, however, was not to be outdone with a further 18 financial fiascos in Europe.

A relatively new member of the catastrophe club at the time suffered banking crises in 1819, 1837, 1847, 1857, 1873, 1884, 1890 and 1896. No, this was not a wobbly South American state, it was the United States of America where some investments, literally, had gone off the rails because much of the speculation had taken place in the railroad sector; commodities, it must be added, played their part as well.

It was the 20th century, however, that (so far) takes the prize, especially with the stock market massacres of 1929 and 1987. The main difference at the beginning of the 21st century, however, is the degree to which the capital markets have been affected as opposed to,

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traditionally, the banking sector. This time the credit risk contagion has spread to a much larger number of investors.

John Maynard Keynes was of the opinion that economics was a science rather than an art, suggesting a technical ability which he famously compared with the field of dentistry, hoping for the day when “economists could manage to get themselves thought of as humble, competent people on a level with dentists”. Perhaps they can but, like the rest of us, they remain emotional animals and their judgement will be affected accordingly. It explains those mass, irrational reactions we have seen when grim news has been disseminated so rapidly in this post-Constantinople age. It is nature asserting itself and for which we have no defence because it is part of our make-up and we are doing what just comes naturally. Mark Twain, in his inimitable style, put it another way: “If you should rear a duck in the heart of the Sahara, no doubt it would swim if you brought it to the Nile”.

Ralph Waldo Emerson said that the years teach much which the days never know. It seems, however, that many lessons are never learned and the days run into each other whilst history, which can often serve as a guide, is ignored. Competent commentators, with a healthy respect for history, will doubtless, like the soothsayer in 44 BC, go unheeded by those with little appreciation of the lessons of the past. This time, however, the blood has moved from the senate floor to the trading floor and there’s much more of it. The Roman emperor has been replaced by the naked emperor, and no one’s being fooled anymore.

Fully Primed

The US subprime débâcle has occurred in tandem with the country’s residential property slump – although the existing financial mess, which began several months ago, has been attributed to much more than that. There is a banking and liquidity crisis to deal with – with a crisis of collateral serving as the sting in the tail.

Much has changed in banking since Walter Bagehot, the British author and banker, advised the Bank of England in his 1873 book, “Lombard Street: A description of the Money Market”, to lend willingly to illiquid but solvent banks against good collateral, but at a penal rate. Prominent business writers have pointed to the failings of central bankers who have not met, in their view, the fundamental criteria of the job description: firstly, to ensure the smooth flow of the world’s financial system by maintaining sufficient liquidity in the banking system and, secondly, to set interest rates to counter too much inflation but at the same time avoid doing so in a way that will cause the global economy to move in fits and starts.

Bank supervision has also played its part in the scheme of things because it hasn’t kept pace with important changes in the banking business itself. America’s mortgage market, for example, dealt with shaky loans which were recycled and transmuted into complex debt instruments, many of which were bought by foreign (thus the internationalisation of the crisis) banks. These instruments – with echoes of Enron – were placed in off-balance sheet entities which, importantly, were unsupervised.

The bankers in the US have repeated on the residential front what the Japanese, on the commercial front, had done when that country’s property bubble burst in the 1980s following a period of loose credit and experimentation with new financial products.

In fact, a Japanese name has even been adopted in the US where certain borrowers have been described as “ninjas” because the loans were made to many people who had no income, no job and no assets.

Whatever the folly, Mark Twain can be relied upon for that fitting comment: “An Englishman is a person who does things because they have been done before. An American is a person who does things because they haven’t been done before”. When it comes to mistakes, clearly, this is not always the case.



Bertoldo and Co.

Good advice and uncertainty are factors that have equal application in offshore estate planning and the key, when plotting your strategy, is to keep these two factors in the forefront of your mind; particularly the former. Offshore estate planning has become a very lucrative business for bankers, accountants, lawyers and related professionals. All of these service providers have varying degrees of ability and there has always been an ample supply of eager ears ready to listen to advice from those who, unfortunately, may not be qualified to render it, but who have, nonetheless, what you might describe as, a good delivery.

The Elizabethan playwright, Ben Jonson, believed that language “most shows a man: Speak, that I may see thee. It springs out of the most retired and inmost parts of us, and is the image of the parents of it, the mind. No glass so mirrors a man’s form or likeness so true as his speech”. Unless, of course, we’re talking about smoke and mirrors, in which case the scripted, convincing patter can prove lethal for the naïve and, at the same time, mask the man who is giving the advice.

In “The Cunning Wiles of Bertoldo”, a comic romance by the Bolognese poet, Giulio Cesare Croce, the main character is of peasant stock but is still able to end up at court where, according to the writer, Beppe Severgnini, he was able to disguise himself by becoming “a champion of experience over education and of improvisation over preparation... who survives on his wits, the triumph of unpunished impudence”. He would have been at home in the offshore financial services world and where today he has many imitators.

There were many Bertoldos in the Bahamas in the 1960s, for example, as offshore financial services there began to become big business and they survive today in other offshore centres (particularly those still in the developing stage) in the same way as their domestic, duplicitous counterparts have for centuries in the developed world’s banking centres; some of them would

certainly have been found knee-deep in those Dutch tulip bulbs and American railroad stocks. Those exercising poor judgement can become hostages to the hoaxers but salvation could be in their own hands; perhaps by just placing them together. After all, it was the poet, Lord Tennyson, who said that “more things are wrought by prayer than this world dreams of.” If divine intervention is the key then its getting a lot of support today in the US. Corporate chaplains are on the increase and some estimates have put their number at 4,000, working for small as well as large businesses. Some of the larger companies have in-house chaplains complementing their in-house lawyers. (White collar crime could take on a new meaning should a priest be caught with his hand in the corporate till.)

And just to reinforce the fact that this is the US that I am writing about, there are also some rent-a-chaplain companies which are doing very well. This mixing of finance and faith is on the increase and US churches are, in some instances, creating financial support groups with the aim of showing you how to manage your money. I have not verified this, but a prodigal US businessman by the name of Howard Dayton (whose radio show has the capacity of reaching 2 million listeners every week) claims that there are 2,350 verses in the Bible connected with money and possessions. Whilst I accept that religion can serve as a moral compass, I am not so sure if it can set the right course for finances.

I would certainly not like to see it venture into international financial planning, which brings to mind the pope again. Pope Benedict XVI, the head of the Catholic Church, whilst not discouraging prayer, has some strong views about the use of tax havens and offshore bank accounts by the wealthy in relation to evasion or avoidance of taxes. No one, wealthy or not, should evade taxes whereas those who can lawfully mitigate their tax burden should do so by whatever means available and without being bothered by their conscience or the need to seek absolution from a priest in the confessional.



This comment, I do appreciate, can become a slippery slope and it is one which I will avoid negotiating because the subject of taxation is not a topic for this quarter's OPQ.

Let's, finally, not forget that laziness has something to do with the large number of casualties that the offshore business attracts. Those who don't get professional assistance in their planning are often the same people who are likely not to have done any research at all and then complain bitterly when their plans collapse like a house of cards. Even when someone is given proper advice they can sometimes refuse to take it if it is not what they want to hear and I have watched frowns appear on faces as genuine concerns are raised about the intended course of action.

Unless there are special circumstances, an American, for example, setting up a company, trust or foundation offshore should do so understanding clearly that the activity will most likely be tax neutral. The actual benefits will spring from such things as insulating assets, providing for heirs and maintaining privacy in

the conduct of one's affairs. It is not what some people will want to hear but it's what they should be told and it is only a Bertoldo who will wax on about the false tax-free benefits to be enjoyed whilst he busies himself preparing fee invoices.

Those who suffer a shock to the system from this revelation may ask why, then, would one want to go offshore? Besides the 3 points already made in the last paragraph, it is also important to realise that there is a high degree of specialised skill offshore, particularly in the case of international investment opportunities, and which is not always easily available onshore. It is often for this reason alone that a large number of people have flocked (and continue to) to the offshore centres in search of this expertise.

But whatever finds you offshore for business reasons, just be careful not to dismiss advice and in seeking it remember Cicero's words: "It has seemed to be more necessary to have regard to the weight of words rather than to their number". Caesar, who ignored the soothsayer's few words, would agree with that.

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Engaging an offshore representative is an important decision and we advise all persons to seek appropriate legal and tax advice from professionals licensed to render such advice before making offshore commitments.

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