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OFFSHORE PILOT QUARTERLY

Commentary on Matters Offshore

September, 2006.

Volume 9

Number 3

Crêpes and Crooks

I have now found a restaurant in Panama that almost equals the quality of the finest crêpes Suzette I have ever tasted. That was in Alderney, one of the Channel Islands which are near to both France and the United Kingdom and where I lived between leaving the Cayman Islands and taking up my British government post in the Turks & Caicos Islands. My introduction to these seductive crêpes was at the Victoria Hotel's Rendezvous Room which was on the top floor of the hotel and which had a commanding view of Bulawayo, the second city of Rhodesia. Since then both the hotel and the country have changed their names and I feel sure that Charles, the Victoria Hotel's suave, continental maitre d'hôtel, must have served his last Suzette many years ago.

Even Bob Dylan in one of his songs (115th Dream) asks for his Suzettes to be crêpe but like so many things in life, some of its pleasures have a flaw and crêpes Suzette are no exception, having a strong association with a particular charlatan. In the case of the delicious dessert which is traditionally prepared in a copper chafing dish in front of diners and combines crêpes, orange juice, butter and sugar, which is topped off with Grand Marnier and then flambéed, we need look no further than Henri Carpentier.

A showman and a chef, he left France for the United States at the beginning of the last century. Carpentier claimed (although the facts do not support his story) that he was preparing pancakes for both the Prince of Wales and his companion named Suzette at the Grand Hotel in Monte Carlo when he accidentally set them on fire. The crêpes,

that is. After emigrating, this Gaul with an abundance of gall owned a successful restaurant in Brooklyn until prohibition came and he was shut down in 1930. In 1960 he published his autobiography, *Life à la Henri*, in which, predictably, the myth was featured and doubtless he is mainly responsible for its perpetuation as well as for the many cooking books that connect the Prince of Wales with these classic crêpes. So don't believe everything you read – whether the subject is food or financial.

In fact, the Chez Andre Hotel in Alderney, where I enjoyed those crêpes Suzette so much, was purchased by a conman some years after I had left. Certainly, his presentation, like the edible Suzette, was flamboyant. He arrived in his helicopter on the three-and-a-half square mile island and proceeded to waive his wallet around. Alderney is the third largest of the Channel Islands with a strong sense of history and 12 grey-and-pink granite forts encircling its coast which were built in the 1840s as part of the defences to protect the Channel Islands against the French (it was occupied by the Germans in the second world war) but not, unfortunately, from fraudsters. In this case, however, the Australian chancer was subsequently arrested on drug-related charges and Alderney today seems to be better known for craps rather than its crêpes, having developed an offshore internet gambling industry.

Confucius told us that we can learn wisdom by three methods: "First, by reflection, which is noblest; Second, by imitation, which is easiest; and Third by experience, which is the bitterest". Just remember that although the deal may taste sweet at



first and the presentation is impressive, the benefits, like crêpes Suzette, may not be lasting.

Handguns and Tequila

It was 1st April when I moved to Alderney, a date which, on the English calendar, is known as April Fool's Day. Those who use offshore financial services centres should bear in mind what Mark Twain had to say about that particular date: it is "the day we remember what we are the other 364 days of the year". Hermes from the World of Homer, poet of the Iliad and the Odyssey, was the herald of the Olympian gods and was said to be full of tricks and a bringer of dreams is emulated by the connen who count on a steady flow of fools all year round.

In the 14th century, magicians had their own bible called Secretum Philosophorum which included an explanation of how to turn water into wine by soaking pieces of bread in dark wine and then drying them in the sun. Subsequently the bread could be dropped, unseen, into a jug after which the "miracle" could take place. The spinners of tales today can be equally absorbing, but in a different context; they have been able to become more adept at their black art because of the greater resources and corresponding degree of sophistication at their disposal.

It is wrong, however, to assume that just because people are brilliant they can't be bamboozled. Far from it. This often arises, with or without duplicity, when a person doesn't understand fully what he is getting into. Those venturing offshore for the first time be warned. Space does not permit me to address the subject of ridiculous beliefs drummed into people about offshore structures where selected or doctored pieces of information, rather than bread, are used. I know, however, from the steady stream of walking wounded who have entered through my office door over the years that when misinformation and malevolent manipulation are combined, the results can be toxic.

Enron remains a shining example of ignorance and chicanery that sucked so many into its vortex, including lobbyists and consultants, who didn't fully understand and failed to do the proper research. Jeffrey Skilling, Enron's chief executive, was known as a dismissive boss; he publicly

berated investment analysts who questioned his complex accounting methods. Enron, in fact, made any meaningful research into the depths of the company's operations so daunting that a large number of analysts did not attempt the journey. It was not that they were below-average in intelligence, it was simply because they were insufficiently qualified to understand the accounting; it would also be fair to say that others were either just not aggressive enough, failing to obtain adequate information, or were prepared to place their professional reputation on the line for generous fees. Those of us who are grey beards in business understand that no remuneration can replace loss of reputation.

Even absent bad faith, not understanding and relying on others can be costly. Long-Term Capital Management is a classic case of this. The hedge fund had \$80 billion of assets and enjoyed a spectacular 4 years of success until the economic collapse of Russia. The fund's success, in broad terms, had been the result of complex mathematics applied to discrepancies in value between different bonds and derivatives. Eventually, however, after paying out billions of US dollars in collateral on loss-making positions, its capital was wiped out.

The firm had been led by John Meriwether, a legendary Wall Street figure, who recruited not only stellar traders but distinguished academics to deal with the mathematical analysis. Some of his partners had studied at the Massachusetts Institute of Technology and Harvard Business School and two of them, Robert Merton and Myron Scholes, had won the 1997 Nobel Prize for economics for their pioneering work on option pricing.

But investors were only given sketchy details of the investment strategy and the specifics were not forthcoming. Part of the investment strategy called for the use of computer models and as the journalist, Mitch Radcliffe, has argued, a computer lets you make more mistakes faster than any other invention in human history, with the possible exception of handguns and tequila.

The fact is that many of the private individuals and financial institutions who poured money into LTCM were mesmerized by its assembled body of talent and skill. In fairness, in its first 31 months of operation the fund achieved an annualised 48.3



per cent return to investors, according to Institutional Investor magazine. But, crucially, the sources of this achievement were not understood by so many investors and blind faith, rather than business sense, prevailed. In the end the Federal Reserve had to step in, concerned that the collapse could trigger a wider calamity because the banks and investment houses on Wall Street would be affected by the fund's liquidation.

Finally an agreement was reached among 15 financial institutions to bail out the fund. The consortium gained management control of LTCM as well as 90 per cent of its portfolio. Afterwards, Mr. Meriwether, despite having encountered such heavy weather, expressed faith in the fund's future. One banker's response: "Has this guy got any shame? He brings us all to the brink with his black box nonsense..." and added: "That guy is toast." And so were the hopes and dreams of many investors.

Black with No Sugar, Please

This newsletter has also consistently warned of the dangers of going offshore and being unprepared. Your sources of information will often dictate the degree of risk you will expose yourself to and so reliable recommendations can be invaluable. If you use a middleman, be sure that you choose wisely. The Pythia was the priestess at Apollo's oracle in Delphi and she was the means by which Apollo's will was conveyed to those on earth. A question would be put to a male priest who would then present it to the Pythia. It would be the priest, however, who would interpret the Pythia's reply whereas I still advocate walking up the slopes of Parnassus yourself and addressing the Pythia directly. "Kicking the tires", is one way of describing it in 2006. Making direct contact is a test of credibility (what was called *ethos* by the ancient rhetoricians) which can only be achieved when you are in the same room as the speaker. One person, I recall, I liked from his written presentations but in the flesh he turned out to be a snake-oil salesman.

Importantly, will the answers to your questions be clear to you? Or will you be confronted by what was earlier referred to as "black box nonsense?" In my experience, although complexity in certain

instances cannot be avoided, for most people seeking offshore financial remedies the solution is fairly simple. The shortest distance between two points is a straight line, but you wouldn't think so from some structure charts which I have been asked to review. If Pablo Picasso had signed them they would surely be of great value.

The thing is, we have moved away from simplicity in much of our business dealings and nowhere is this more obvious than in the offshore financial services industry where new products are continually being offered (many have just been recycled) by jurisdictions vying with one another. One only needs to look at the different types of trusts devised in recent years. Aided by legislation, some offshore centres have even given their trusts fanciful names and I am reminded of the law professor who said that it was marketing demands that were pushing the trust concept beyond its fundamentals to the point where its very essence is being eroded. A point already raised in a previous OPQ. Not content with trusts, some common law jurisdictions are now importing the concept of foundations that are rooted in civil law. Trusts seem to be going the way of coffee, although the chairman and main global strategist for the Starbucks coffee chain, Howard Schultz, prefers a Sumatra roast with neither milk nor sugar – even though the coffee chain, with about 10,500 worldwide locations, offers over 55,000 different drinks. When coffee, like trusts, was only plain and simple it lubricated the commercial discourse between businessmen as well as writers, politicians and scientists who gathered in the coffee houses of London in the 17th century (especially around the Royal Exchange). I have often found my own shared cups of coffee (black with no sugar) including those with Ben (occasionally mentioned in previous OPQs) to have been useful.

Sharing ideas in those 17th century London coffee houses has been described by one writer as the internet of the Enlightenment era and the exchange of views would today receive strong endorsement from James Surowiecki, author of *The Wisdom of Crowds*, who firmly believes that organisations of every stripe benefit from listening to differing opinions. In "Every Man his own Broker, or, a Guide to Exchange Alley", Thomas Mortimer



wrote about the atmosphere in those coffee houses and reminds us how some things never change: “it consists of a medley of news, quarrels, prices of different funds, calling of names, adjusting of accounts, etc. etc. continually circulating in an intermixed chaos of confusion”. That may have been, but I strongly recommend that you make the journey offshore and have a cup of coffee (tea or water will be equally effective) with the people you think you might want to do offshore business with. And if they offer you mochaccino or frappuccino, start getting concerned.

As an afterword I would add that simple language, like simple offshore structures, is also under siege and I would have to say that the capital of convolution, as far as language (and by extension, legal documentation) goes, has to be the United

States. Take, for example, a county ordinance in Pennsylvania which stipulates that strippers must cover one-third of their buttocks when they are dancing. The ordinance defines a posterior as being the “rear of the human body” and “between two imaginary lines, one on each side of the body (the 'outside lines'), which outside lines are perpendicular to the ground and to the horizontal lines described above and which perpendicular outside lines pass through the outermost point(s) at which each nate meets the outer side of each leg.” No wonder the Plain Language Association International held its fifth conference in Washington DC last year. Those needing a definition of a bare trustee can contact me. The answer won't be titillating, but it will be clear.

Offshore Pilot Quarterly has been published since 1997 by Trust Services, S. A. which is a British-managed trust company licensed under the fiduciary laws of Panama. It is written by Derek Sambrook, our Managing Director, who is a former member of the Latin America and Caribbean Banking Commission as well as a former offshore banking, trust company and insurance regulator. He has over 40 years private and public sector experience in the financial services industry. Our website provides a broad range of related essays, including our other newsletter, Letter from Panama, which focuses on Latin America and is also written by Derek Sambrook

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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