

Global Risk Watch Newsletter

Widening Populism is Becoming an Annoying Imbalance for World Economy, etc.

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Panama Papers: a New Seed of Headache for the Financial Services Industry? (Koichi Iwai, Senior Manager, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

The impact of Panama Papers has finally extended to the financial services industry. Moreover, the impact is expected to expand more and more in the future.

Recently, the impact can be confirmed in two major areas. The first major impact is through the enforcement on financial institutions. Financial supervisors and judicial authorities in the US and several European countries began studies / investigations of the financial institutions involved in financial transactions through tax havens. In the near future, depending on the investigations progress, some cases could become major conduct problems, comparable to the mis-selling of mortgage-backed securities (MBS) in the US and payment protection insurance (PPI) in the UK, and LIBOR scandal. In such cases, financial institutions are likely to face a colossal amount of penalties and fines, and also push forward the heated discussion over Conduct Risk management framework on a global basis.

The second major impact is tax-evasion measures to be imposed by tax authorities in various countries. For example, in the UK, the tax authorities (Her Majesty's Revenue and Customs/ HMRC) published consultative documents to tackle the prevention of corporate offence to the criminal facilitation of tax evasion, which poses greater supervisions on financial institutions and its employees over facilitating tax evasion activities. In addition, the US Department of Treasury, in early April, announced policies to crackdown on tax evasion activities by using foreign corporations, while also urging Congress to take strong measures to prevent tax avoidance. In Europe, the revision work on the fourth anti-money laundering (AML) directive is underway. Meanwhile, Japan and Panama agreed to begin negotiations over the exchange of tax information ahead of schedule. Overall, these measures taken by tax authorities in each country would have direct and indirect impacts on the practices of financial institutions. Furthermore, the G20 Finance Ministers and Central Bank Governors meeting held in mid-April also addressed tax evasion prevention measures as the main agenda and agreed to implement new regulations. Consequently, these movements will accelerate globally going forward.

As indicated above, financial institutions have already faced various effects in relation to the Panama Papers, with several direct impacts soon to surface in the financial businesses. For example, transactions through tax havens were considered common among the securitization business and wealth management business, thus these businesses are expected to face a strong headwind ahead of the road. In addition, regulatory authorities may likely strengthen traceability of financial transactions as one of the measure.

Ultimately, Panama Papers will continue to impact the management of financial institutions for many years to come. Therefore, it is well noted to observe from a number of viewpoints.

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