



## Panama Papers

Over 11.5 million confidential financial and legal records detailing information on thousands offshore companies. Those financial and legal records were given a name 'Panama Papers' and the documents compiled by the Panamanian law firm reveal the size of assets that are hidden from public scrutiny.

More than 14,000 banks, law firms and companies worked with Mossack Fonseca to set up the shell companies and offshore bank accounts in Panama and other known tax havens. Although the establishment of shell companies and the use of offshore bank accounts are not against the law, several reports alleged that some of these entities are setup for illegal purposes such as tax evasion, corruption and money laundering.

## Affected Entities

Approximately 500 banks including major banks and their subsidiaries had requested the creation of more than 15,000 shell companies through the law firm. Prominent public officials, athletes, celebrities and current or former heads of states are caught up in the scandal. Some regulators have ordered scrutiny of bank records although the banks have not been directly accused of any wrongdoing.



## Impact on Financial Institutions (FIs)

Financial Institutions around the world will be required to setup their customer due diligence and strict compliance with anti-money laundering (AML) and "Know Your Customer" (KYC) regulations, in addition to proper due diligence into the related risks.

- *Enhanced regulatory oversight. Increased scrutiny of offshore funds and entities engaged in these activities.*
- *Efforts to create greater banking transparency and reduced confidentiality.*
- *Enhanced Regulations: Customer due diligence (CDD) may require FIs to reveal the identities of individuals who have incorporated shell companies.*
- *Increased regulatory examination, monitoring and disclosure of offshore funding arrangements.*

## AML and KYC Due Diligence

- In the changed environment, banks and other FIs must undertake thorough due diligence measures for customer onboarding and into shell companies and offshore bank activity.
- Due diligence should ensure regulatory compliance with both AML and KYC initiatives in many countries.
- The due diligence would possibly involve a search of public records held by different regulatory agencies to identify potential past abuses of counterparties.
- On-going measures to assess risk to the KYS and AML compliance objectives as newer disclosures emerge.

Panama papers may increase cost of compliance, but the cost of non-compliance will also increase.

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