

## The Structure of Offshore: The Role of Intermediaries in Offshore Financial Networks

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October 2018

### Introduction

In 2017, an anonymous source leaked more than 13.4 million documents relating to offshore investments, the second largest leak of its kind in history.<sup>3</sup> As a result of the leak, former Canadian Prime Ministers Jean Chretien, Paul Martin, and Brian Mulroney each found their ties to the offshore world under scrutiny. While the offshore financial system has legitimate uses, the area is best known for its role in facilitating illegal activities such as tax evasion and money laundering (Chaikin and Sharman 2009; Kemme et al 2017; Shaxson 2011) and controversial activities ranging from tax avoidance to circumventing export and exchange controls (Savla 2001). The publication of the Paradise Papers, like the earlier Panama Papers leak, therefore focused global and Canadian national attention on the world of offshore finance,<sup>4</sup> with emphasis on its most visible benefactors, such as this prominent trio of former Canadian Prime Ministers. However, the data also highlight the central role of another, far less visible group of actors: financial intermediaries, the central focus of this research note.

In general, a financial intermediary is any party that is involved in a transaction between two parties, e.g. banks, exchange bureaus, accountancy firms, or legal advisors (Savla, 2001). In this specific case, intermediaries are better understood as professionals and organizations that link the offshore and onshore financial worlds and help their clients to (re-)organize ownership structures (e.g. to save tax or disguise assets). Examples include bankers, accountants, brokers, and lawyers, as well as banks, and financial and insurance providers. In the offshore industry,

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<sup>3</sup> The Panama Papers remains the largest leak on offshore investments.

<sup>4</sup> The Paradise Papers alone were mentioned in 70 Canadian House of Commons debates.

intermediaries are the various middlemen that act as go-betweens for an individual or company seeking an offshore entity and the offshore service providers that will create offshore accounts, trusts, companies, or other structures (ICIJ 2018).

Despite the central role of these “fixers” in offshore financial management, we have little large-scale, systematic knowledge of their role in the offshore world.

In this research note and in the broader research project within which this note is situated, we take a network approach to analysing the over 14,000 intermediaries included in the Panama Papers data and the more than 1,500 intermediaries found in the Paradise Papers data. Network analysis places emphasis on the *structure of the relationships* that link actors, events, or other types of what in network terminology are called “nodes,” rather than on the individual nodes in isolation. Here, we are concerned with understanding: 1) the relationship or between financial intermediaries, our first node type, and the countries associated with offshore “entities,” such as where their subsidiaries are based or registered, our second node type and 2) the relationship between financial intermediaries and the offshore “jurisdictions” where entities are formally incorporated or registered, our third node type. We use longitudinal network analysis to study the two intermediary networks and their interactions, a method specifically developed to study relationships that evolve over time.

Our main statistical findings indicate that relationships between offshore jurisdictions and entities are primarily related to familiarity and the presence of established connections, i.e. “ties” in network terminology. More broadly, this suggests that a large number of offshore entities are not tailor-made, but rather are out-of-the-box solutions sold to clients based on the intermediary’s own experience. Specialist intermediaries may then combine such pre-existing building blocks into custom combinations, based on their clients’ needs, jurisdiction, and the intended use of the offshore arrangement. Consistent with our main results, our descriptive analysis of Canada’s offshore-entity relationships illustrates a strong clustering of ties linking Canadian intermediaries and entities with intermediaries and entities in just a handful of states, including the Cayman Islands, Russia, and Belize. This indicates that Canadian intermediaries also use established pathways that they are familiar with.

To curb tax evasion and money laundering through what are often termed “tax havens”, states have traditionally focussed on convincing or forcing these jurisdictions to change how they regulate their financial industry, often through black-listing and diplomatic pressure (OECD 1998; OECD 2000; Sharman 2006). A typical target in the past were bank secrecy laws, for example in Switzerland, which allowed foreign nationals to hold anonymous accounts. Such an approach is less feasible in the contemporary world of off-shore, where the use of shell companies and multiple jurisdictions is possible and a standard practice.<sup>5</sup> Moreover, history tells us that it is unlikely all states will agree to regulate their offshore financial services sectors to prevent illegitimate uses, a necessary requirement to curb offshore with this traditional approach: without full agreement, assets will simply flow to non-cooperative jurisdictions. Unlike accounts and shell companies, intermediaries today are often located in financial centres like London, Switzerland, or Hong Kong, which are more “regulable” than a large number of the jurisdictions that are used for creating and hosting offshore entities. In addition, we find that a large number of intermediaries are also “onshore” service providers, meaning that they themselves are local, and provide services to the local population. Thus, they fall under the regulatory power of the onshore location.

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<sup>5</sup> For example, information sharing agreements only apply to the specific signatories, meaning that if two countries agree on information sharing, only those two countries will be directly affected. Therefore, only account holders that are subject to these specific jurisdictions’ rules will have their data exchanged. Offshore arrangements may use multiple jurisdictions to exploit rule combinations.

## Background

The use of offshore schemes and the related “commercialisation of state sovereignty” (Palan, 2002) is not a new feature of global politics. In 1919, Panama began registering foreign ships, a service gladly used by large companies such as Standard Oil to avoid its US tax obligations (Shaxson, 2012, p.20); Switzerland enacted its famous banking secrecy law in 1934; and in 1937 Newfoundland—at the time a British Dominion—was singled out by US Treasury Secretary Henry Morgenthau as a haven for US tax evaders. At the time, Morgenthau deemed Newfoundland to be “more fertile territory” for tax evasion than even the Bahamas (Morgenthau, 1937). Today the offshore club has a membership of around 60 actors and draws intermediaries from around the world. Amongst their ranks include notorious tax havens, such as Panama and the Bahamas, but also until recently less publicly-known offshore entities, such as the City of London (see: Shaxson, 2012) and the US states of Nevada and Delaware. Recent estimates suggest that as much as \$32 trillion USD of private financial wealth is invested in these offshore jurisdictions (Henry, 2012).

The intermediaries that design, create, and maintain offshore entities are a non-homogenous grouping of banks, trust companies, law firms,

and other financial actors, such as the big four accounting firms. Intermediaries generally employ advisers including tax experts and accountants to assist with these activities. These advisers may or may not be subject to regulation or self-regulation depending on their profession and the country in which they are based. Whether onshore or offshore, intermediaries tend to rely on offshore service providers such as Mossack Fonseca to incorporate offshore entities. While some of the uses associated with offshore entities are illegal, the provision—as well as some uses—of offshore entities per se remain a legal activity.

Due to the complexity of most offshore financial schemes, skilled intermediaries and their advisers play a crucial role in offshore finance. Assets for example are often not kept in one jurisdiction; instead a process of “laddering” occurs in which assets are sliced up and kept in multiple entities in multiple offshore jurisdictions, creating a dense web of ties (Shaxson 2011: 25-26). For example, ICIJ journalists found that some arrangements included the creation of shell companies for a single object. Jürgen Mossack himself had a shell company for his helicopter and another one for the helicopter’s hangar (Obermayer and Obermaier 2017, ch. 15). Complexity

is also the result of the fact that “tax havens” are not always general havens for everybody but only for individuals from some jurisdictions, where favourable treaty and domestic rule combinations can be exploited. In any case, intermediaries must be aware of relevant domestic, bilateral, and international regulation that may affect how a given offshore scheme works. The (often) high-net worth individuals and companies that exploit the possibilities of offshore arrangements therefore necessarily rely on intermediaries to advise on and guide their schemes whether they are “off the shelf” products, custom entities adapted to the specific client’s needs, or a combination thereof.

Intermediaries facilitate the creation of offshore entities such as bank accounts for their clients for a variety of reasons. For example, clients may use them to accomplish different tasks: to legally minimize their tax burden, to protect their privacy,<sup>6</sup> to make it simpler to send money to relatives overseas, to illegally evade their taxes, or to shelter money laundering profits or crime financing. In more or less all cases, it is not the client or beneficiary but an expert intermediary who designs the

structure of an offshore arrangement, navigating the complexity of national taxation laws and other financial regulations, as well as multiple bilateral and multilateral agreements.

### The Data

With the publication of the Panama and Paradise Papers, researchers—who in the past by necessity crafted their understanding of the offshore system using small numbers of insider interviews and in one case by becoming a wealth manager herself (Harrington 2016)—now have access to millions of records linking offshore entities to onshore individuals and companies. Policymakers have also begun to use this new resource to assess the role of intermediaries. In January 2017, the EU Green Party published a report on intermediaries (Schumann 2017) and by April 2017, the EU Parliament published its own study titled the “Role of Advisors and Intermediaries in the Schemes Revealed in the Panama Papers” (de Groen 2017).

While the Bahamas and Luxembourg leaks provided initial insights into the offshore world, they are far less rich in data than the Panama and Paradise leaks. The Luxembourg leaks only contain 28,000 pages of documents,

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<sup>6</sup> As argued by a spokesperson of actress Emma Watson after her name appeared in the Panama Papers leak (The Spectator 2016).

while the Bahamas leaks contain 1.3 million files. In comparison, the Panama and Paradise leaks used in this study span longer periods of time, and contain over eleven million records each. We therefore focus our analysis on the Panama and Paradise Papers portion of the Offshore Leaks Database, as they allow us to track a larger number of relationships over time. Our sample spans from 2004 to 2014, a range chosen to ensure coverage in both the Panama and Paradise papers data.

The database resulting from these two sources, while unprecedented in scale, comes with clear limitations, as it was not primarily compiled for the purpose of statistical analysis. The challenge for researchers therefore becomes how to glean useful insights despite reliance on an imperfect resource. First, the database contains only sparse information on the beneficiaries associated with offshore entities. This lack of information on beneficiaries highlights the layers of secrecy common in the offshore world, where even the service providers may not know the ultimate benefactors associated with offshore entities. However, the records do contain detailed information on the intermediaries linked to these entities.

This means that for the first time, we are able to provide large-scale insights into the relationship between the intermediaries that facilitate offshore and the entities that they are tied to.

Second, only a limited number of offshore service providers are represented in the Panama and Paradise papers data: the largest being Mossack Fonseca and Applebys.<sup>7</sup> At the time of the Panama Papers leak, one estimate suggested that Mossack Fonseca was the fourth largest offshore service provider in the industry (Harding 2016). Applebys, a member of the “offshore magic circle” of service providers,<sup>8</sup> was one of the main players in offshore service provision when the Paradise Papers were published (Fitzgibbon 2017; Marriage and Thompson 2017). However, it is apparent from the data that both Mossack Fonseca and Applebys did indeed serve clients from all over the world. While these data may not be fully representative of all offshore ties, by using data from both leaks, we aim to ensure the sample we use is as representative as possible given the acknowledged limitations.

Using the Panama and Paradise Papers data, we see that

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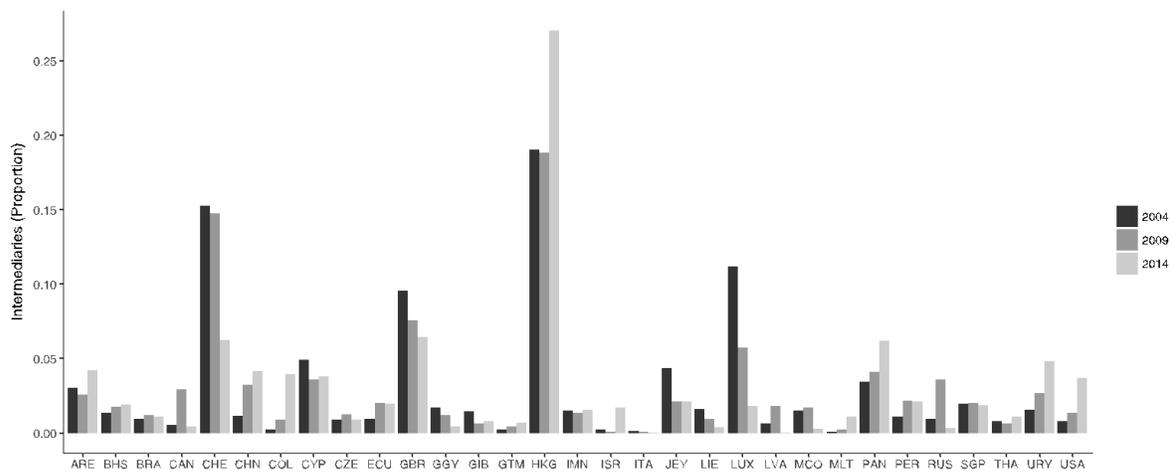
<sup>7</sup> The Paradise Papers Leak also includes records from Asiatici, a trust company, and 19 offshore jurisdictions’ company registries.

<sup>8</sup> Other members of the “magic circle” are: Ogier, Mourant Ozannes, Walkers, and Maples and Calder (Marriage and Thompson 2017).

intermediaries are based in a large variety of offshore and onshore countries. Figure 1 illustrates the proportion of the total number of global intermediaries in the Panama Papers data that are based in each

individual country. Countries that host less than 0.1 percent of all intermediaries are excluded for visibility in both Figures 1 and 2.

Figure 1: Panama Papers intermediaries by country



As Figure 1 highlights, Switzerland (CHE), Great Britain (GBR), Hong Kong (HKG), and Luxembourg (LUX) hosted the greatest number of intermediaries listed in Mossack Fonseca records during our sample years. Over time, Switzerland, Great Britain, and Luxembourg have each lost part of their market share;

whereas, Hong Kong has made sizable gains alongside other states including China (CHN), Panama (PAN), Uruguay (URY), and the United States (USA). A large number of states not conventionally understood as key players in offshore also hosted intermediaries during this time, including Canada and Czechia.

Figure 2: Paradise Papers intermediaries by country

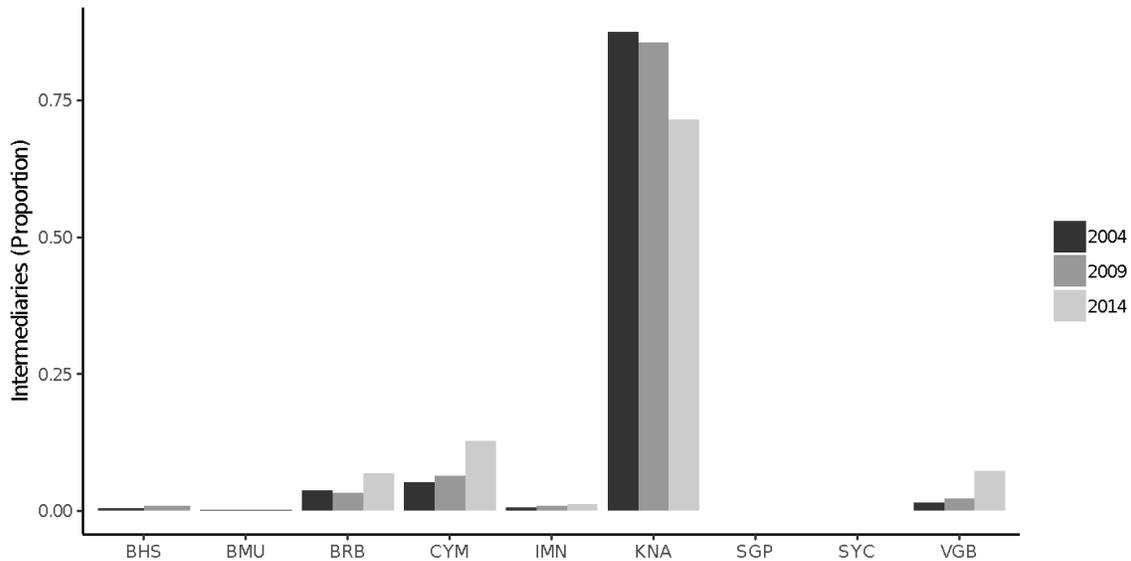


Figure 2 illustrates that the range of intermediaries listed in the Paradise Papers data is more limited. Here, Saint Kitts and Nevis (KNA) is the main host of intermediaries, with more intermediaries than all the other jurisdictions in the figure combined. However, as in Figure 1, the proportion of intermediaries found in a given country changes gradually over time. Barbados (BRB), the Cayman Islands (CYM), and the British Virgin Islands (VGB) all have gained market shares from 2004 to 2014.

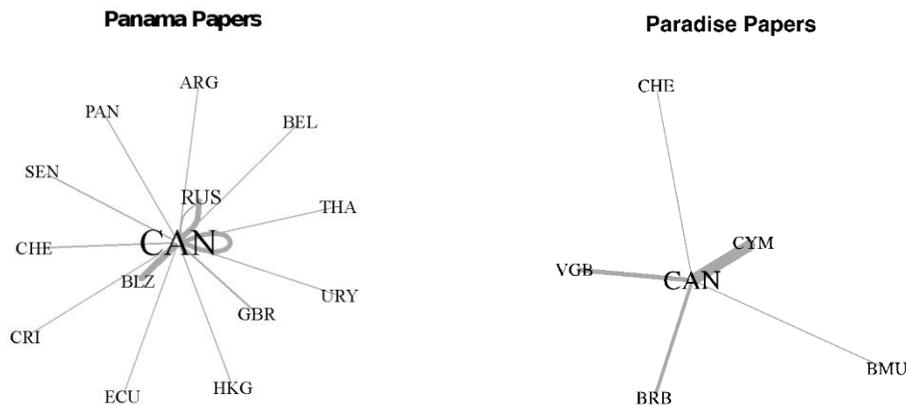
Finally, from the data, we can isolate Canada’s networks of intermediary-entity country relationships.<sup>9</sup>The thickness of each tie in Figure 3 depicts the proportion of Canada’s intermediary entity country relationships that a given pair of states makes up. In other words, thicker ties mean more intermediary-entity relationships between pairs of states. Ties that loop back to Canada are “self-ties” and mean that the intermediary’s country and entity’s country are Canada. While Canada is not traditionally viewed as a major

<sup>9</sup> In the publically available Panama and Paradise Papers data, Canada does not appear as a

“jurisdiction”. For that reason, we limit our analysis of Canada to intermediary-entity ties.

player in offshore, it does host a number of offshore schemes (Seglins et al 2017).

**Figure 3: Canada's intermediary-entity country relationships**



From Figure 3, we see that in the Panama Papers data, Canada had the greatest number of intermediary country-entity country ties with Russia (RUS) and Belize (BLZ); whereas in the Paradise Papers data, the Cayman Islands (CYM) was listed as the preferred location of Canadian intermediaries' offshore schemes. That the records of Mossack Fonseca

and Applebys each show only a handful of countries were tied to Canadian intermediaries suggests that, for Canadian intermediaries, having a few established and well-understood offshore pathways is more important than facilitating bespoke offshore entities hosted in a larger variety of countries.

## Findings

We explore the relationships between intermediaries and the countries associated with offshore entities and intermediaries and offshore a similar manner as the output from logistic regression. In other words, when exponentiated, the coefficients can be interpreted as odds ratios.

For each offshore entity, the data include a country associated with the entity based on the leaked materials, which may be the location where the entity is registered, and the jurisdiction in which the entity was incorporated. Therefore, the associated country and the jurisdiction can—but do not have to be—the same.

Our analysis has two main dependent variables. First, the presence of ties linking the intermediaries in a country to entities in an offshore jurisdiction (Table 1) to track regularities in intermediary-offshore jurisdiction tie formation and maintenance. Second, the presence of ties between the intermediaries in a country and the countries with which entities are associated (Table 2).

The SAOMs used here are most suited to the analysis of binary data,<sup>10</sup> which is why we first convert our

jurisdictions using Stochastic Actor-Oriented Models (SAOMs) (Snijders et al 2010). This is a type of longitudinal network model. The results of our analyses can be read in

dependent variables into a binary format using a cut-off threshold. Relationships that have more ties linking intermediaries with offshore countries or jurisdictions than the 50th percentile are coded as 1, and those that do not, are coded as 0. We vary this threshold to the 25th and 75th percentile as a robustness check and find that our results remain consistent (not reported in this note).

We include a series of covariates in our two models to test various explanations for why ties between intermediaries and jurisdictions were formed and maintained. These include “structural” indicators such as 4-cycles, Ego/Alter Assortativity, and Isolates but also traditional monadic and dyadic indicators. Starting with the structural indicators, we use the 4-cycles effect to assess the presence of closure tendencies in our networks, akin to triadic closure effects in one-level networks. 4-cycles allow us to test whether intermediaries do what other intermediaries do, which could be indicative of similar incentives, or the reuse of proven methods in the

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<sup>10</sup> Non-binary approaches exist but are not well-researched or developed as of yet.

industry. The Ego/Alter Assortativity effect focuses on whether countries with a large number of intermediaries are tied to jurisdictions with a large number of intermediaries—i.e. is there a group of popular countries and jurisdictions for intermediaries that are strongly tied to each other? Here, we use the assortativity effect to study whether such familiar ties are the most common. Isolates are nodes (here countries) without any ties. When a country has no ties its isolate value will be coded as 1, and as 0 otherwise. We use Isolates to account and control for the presence of states that do not participate in either network, having no ties when above-mentioned thresholds are applied.

Our monadic indicators include (with the source in parentheses): the presence of tax treaties with knowledge sharing provisions (IBFD 2017), whether the given country has been on an OECD tax haven list (TJN 2007) or was a former colony (Mayer and Zignago 2006); the levels of rule of law and corruption (Kaufmann, Kraay, and Mastruzzi 2011; World Bank 2018b), the amount of inward FDI the country receives as a percent of its GDP (World Bank 2017), whether the country has signed the

OECD's Convention on Mutual Administrative Assistance in Tax Matters (MAATM) (OECD 2018), and its logged real GDP per capita (Feenstra, Inklaar, and Timmer 2015).

Finally, our dyadic indicators are the following: The Same Country effect is used to assess whether the country where the intermediary is based is the same as the jurisdiction or the country where the entity is based. The effect helps to measure familiarity and the cost of doing business. The "Tie in ..." effect captures whether there is a corresponding tie in the other network we model—i.e. either in the intermediary-entity country network or the intermediary-jurisdiction network. This effect measures if our two networks mimic each other. Finally, we include the effect Business Tax, which measures the total tax rate in a given country as a percent of commercial profits (World Bank 2018a).

In each Table, the node-type of the monadic variables (i.e. either an intermediary country, a jurisdiction, or the country with which an entity is associated) is abbreviated as "intermed.", "jurisdiction", or "entity".

**Table 1: Intermediary-Jurisdiction Models (SAOM)**

	<b>Panama</b>	<b>Paradise</b>
Density (intercept)	-16.73 (2.74) <sup>***</sup>	-16.59 (2.34) <sup>***</sup>
4-cycles	-0.05 (0.02) <sup>**</sup>	-0.05 (0.02) <sup>**</sup>
Isolates	0.09 (0.58)	0.08 (0.53)
Ego/Alter Assortativity	0.86 (0.20) <sup>***</sup>	0.84 (0.17) <sup>***</sup>
Same Country	-0.37 (1.03)	-0.37 (1.02)
Colony	0.05 (0.63)	0.06 (0.59)
Tax Treaty	-1.10 (0.85)	-1.09 (0.90)
Tie in Intermed-Entity Net	0.69 (0.43)	0.69 (0.43)
OECD Tax Haven List	-0.08 (0.16)	-0.08 (0.15)
Corruption (intermed.)	0.08 (0.30)	0.08 (0.32)
Corruption (jurisdiction)	-2.62 (0.51) <sup>***</sup>	-2.62 (0.50) <sup>***</sup>
Rule of Law (intermed.)	-0.19 (0.30)	-0.19 (0.32)
Rule of Law (jurisdiction)	2.99 (0.65) <sup>***</sup>	2.99 (0.63) <sup>***</sup>
Business Tax (jurisdiction)	0.03 (0.01) <sup>***</sup>	0.03 (0.01) <sup>***</sup>
Log Real GDP/Cap (intermed.)	0.03 (0.03)	0.03 (0.03)
Log Real GDP/Cap (jurisdiction)	0.33 (0.05) <sup>***</sup>	0.33 (0.05) <sup>***</sup>
OECD MAATM signatory (jurisdiction)	-1.27 (0.49) <sup>*</sup>	-1.26 (0.45) <sup>**</sup>
Inward FDI (% GDP) (jurisdiction)	-0.07 (0.03) <sup>**</sup>	-0.07 (0.02) <sup>**</sup>
Inward FDI (% GDP) (intermed.)	0.01 (0.01)	0.01 (0.01)
Iterations	4839	4781

<sup>\*\*\*</sup>p < 0.001, <sup>\*\*</sup>p < 0.01, <sup>\*</sup>p < 0.05, ·p < 0.1

The results of our models using the Panama and Paradise Papers data are highly consistent. The negative and statistically significant coefficients for 4-cycles in both columns of Table 1 suggests that states are less likely to make the same connections as their neighbours. This is unsurprising, as offshore schemes are often particular to specific states due to aforementioned factors like the presence of bilateral tax or information sharing treaties. In contrast, the positive and statistically significant coefficient of Ego/Alter Assortativity suggests that popular intermediaries use popular jurisdictions to incorporate offshore entities for their clients. This is an indicator of the presence of path dependence and common set-ups. These findings also appear logical: designing, creating, and maintaining offshore structures requires time and effort. Therefore, it is only rational for intermediaries to save resources by establishing similar types of structures for multiple clients. Finally turning to our other covariates, we find that intermediaries are most likely to use offshore jurisdictions that are less corrupt and that have a greater respect for the rule of law and a higher GDP per capita. Likely, these are sensible choices from the

intermediaries' point of view, given that the regulative environment is suitable: lower corruption and higher respect for the rule of law means that business will be more straightforward and predictable, and also that the funds will be safe from misappropriation. A higher GDP likely indicates better infrastructure and also that transactions are easier to execute and, where necessary, to obfuscate among greater numbers of transactions.. Signatories of the OECD MAATM convention are less likely to be used by intermediaries, which is unsurprising. It is to be expected that signatories of the MAATM convention are less accommodating to offshore schemes than non-signatories. Intermediaries also favour ties with offshore jurisdictions that receive less inward FDI. This may be the result of under-reporting of FDI in small jurisdictions or generally poor data quality. Finally we see that the higher business tax rates in the offshore jurisdiction are associated with a larger number of ties. This is somewhat unexpected, but may be related to difficulties in measuring effective business tax rates as these depend on specific tax rules and their applicability to a given case. It could also be due to the presence of "ring-fencing" where local and foreign residents have different

tax rates, effectively creating a fence between the treatment of local and foreign assets. On an individual level,

this means that the offshore structure appears more legitimate, while still serving its purpose.

**Table 2: Intermediary-Entity Country Models (SAOM)**

	<b>Panama</b>	<b>Paradise</b>
Density (intercept)	-7.13 (1.18)***	-7.11 (1.21)***
4-cycles	-0.00 (0.11)	-0.00 (0.12)
Isolates	-3.04 (1.02)**	-2.94 (1.03)**
Ego/Alter Assortativity	0.66 (0.16)***	0.65 (0.17)***
Same Country	8.46 (0.91)***	8.37 (0.89)***
Colony	-0.72 (1.42)	-0.68 (1.58)
Tax Treaty	-1.84 (1.35)	-1.83 (1.29)
Tie in Intermed-Entity Net	1.08 (0.40)**	1.06 (0.42)*
OECD Tax Haven List	0.19 (0.15)	0.19 (0.16)
Corruption (intermed.)	0.12 (0.43)	0.14 (0.45)
Corruption (entity)	0.44 (0.45)	0.43 (0.47)
Rule of Law (intermed.)	-0.53 (0.46)	-0.54 (0.47)
Rule of Law (entity)	-0.00 (0.52)	-0.00 (0.53)

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Business Tax (entity)	-0.01 (0.01)	-0.01 (0.01)
Log Real GDP/Cap (intermed.)	0.02 (0.04)	0.02 (0.05)
Log Real GDP/Cap (entity)	0.05 (0.05)	0.05 (0.05)
OECD MAATM signatory (entity)	-0.49 (0.42)	-0.48 (0.42)
Inward FDI (% GDP) (entity)	0.00 (0.01)	0.00 (0.01)
Inward FDI (% GDP) (intermed.)	-0.02 (0.02)	-0.02 (0.02)
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Iterations	2633	2599

\*\*\*  $p < 0.001$ , \*\*  $p < 0.01$ , \*  $p < 0.05$ ,  $p < 0.1$

The results presented in Table 2, which focus on the relationships between intermediaries and the countries with which entities are associated according to the leaked records, differ slightly from what our first model (Table 1) has found. The 4-cycles effect is not statistically significant in this network; however, Ego/Alter Assortativity remains

positive and statistically significant. We also find that ties are more likely between Intermediaries and entities that are based in the same country and between intermediaries and entities that also have ties in the intermediary-jurisdiction network. This suggests that intermediaries set up structures in places that they know well.

Overall, our analysis reveals that intermediaries often rely on popular offshore jurisdictions that they are familiar with. Similarly, the entities that they create are likely to operate in the countries in which the intermediary does its business—a country with which the intermediary is highly familiar. As mentioned before, it is rational for the intermediary - as well as their clients - to rely on proven relationships in the complex offshore world. Furthermore, for the intermediary, designing similar structures, and maintaining ties to only a few “high-quality” and familiar jurisdictions reduces workload but also the risk of mistakes, as more effort can be spent on ensuring compliance to relevant laws if only a limited number of relevant jurisdictions have to be considered.

### Discussion

While offshore has sometimes been described as a system built on a small number of tax havens, the contemporary reality is more complex. Although some countries are popular as jurisdictions for offshore accounts or shell companies, what counts as a “tax haven” for citizens of a specific country varies, depends on a variety of factors, e.g. multilateral and bilateral tax treaties, as well as relevant laws in either jurisdiction. Navigating these relationships themselves is beyond

the capability most individuals and organisations that use offshore for the variety of reasons outlined earlier. Instead, designing, creating, and maintaining offshore constructs is left to experts, who either serve a client, or provide specific instruments. For example, Mossack Fonseca was specialised in the provision of shell companies, which they offered to expert intermediaries from all over the world, helping them create offshore structures for their clients (Obermayer and Obermaier 2017, ch.1).

The endurance of offshore finance depends on the ability of the system to provide secrecy to its clients. As information is most readily available on the fixers that facilitate offshore rather than on the beneficiaries of the offshore system, regulatory reform in the area of offshore finance is best placed to succeed at the intermediary level, which is an approach recently discussed by tax authorities from various countries (Fitzgibbon 2017). The greater availability of data on intermediaries in the Offshore Leaks database used in this analysis than on the beneficiaries of offshore entities supports this conclusion. Therefore, rather than focussing on the jurisdictions where offshore accounts are held, or shell companies incorporated, it appears prudent to focus regulatory and policy attention

on intermediaries. As our analysis of the Panama Papers suggests, a large number of intermediaries are located within or at arms-length to developed Western nations, and thus “reachable” by most regulatory and policy instruments, as well as normative pressure.<sup>11</sup>

As we described before, there are two types of intermediaries of interest. First, financial intermediaries in the traditional and legal sense, i.e. organisations through which money flows from sender to recipient to final beneficiary. These include banks, exchange services, etc. In this specific case, another type of intermediary has also been discussed, namely the specialized designers and maintainers of offshore structures and required building blocks such as trust fund service providers. Both types of intermediary engage in offshore finance activities. As alluded to before, offshore finance is a complicated system, where bilateral or multilateral treaties do not immediately “dry up” relevant offshore locations. Rather, they complicate the ways in which offshore arrangements can be organised for citizens of a given state or jurisdiction. For example, in the case of Switzerland,

a treaty with the EU and United States makes it harder for intermediaries using Swiss accounts to use them with European or US clients, while allowing Canadian clients to continue using Swiss accounts.

Instead, we propose to better regulate intermediaries. Both types or roles of intermediaries mentioned above are relevant to this discussion. On the one hand, regulation and policy efforts could focus on the intermediaries like wealth managers, lawyers, tax advisers, accountants, and private bankers that create and maintain offshore constructs. They could be required to comply to more stringent rules of conduct and transparency. For example, users of shell companies could be required to provide actual beneficiary information through their service provider located onshore or in reachable jurisdictions. This would have little effect on schemes that are legitimate, for example those used by celebrities to protect their privacy, as these data would not be accessible publicly, while complicating illegitimate use.

On the other hand, financial intermediaries that act as conduits for transactions often are large international banks or organisations

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<sup>11</sup> For example, Crown Territories and members of the Commonwealth are dominant players in the offshore sphere, being hubs for intermediaries and hosts of offshore entities. The historical

development of the dominance of these jurisdictions, all with historical or current ties to the UK, is a worthy subject of future research.

that can be (and are already) regulated. For example, it is already common for banks and other financial conduits to require certain information on source, beneficiary and use of funds when transferring large sums internationally (e.g. as outlined in the Financial Action Task Force's 2012 recommendations). Such requirements could be expanded by state regulators to require more information, particularly when certain jurisdictions will be receiving funds. By only requiring this for large sums,

most "normal" money flows would remain unaffected, while providing this information for legitimate transactions should prove unproblematic for businesses and affected individuals.

Overall, by ensuring intermediaries must be more transparent in their dealings, and requiring compliance from relevant institutions, the illegitimate use of offshore can be at least partly curbed.<sup>12</sup>

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<sup>12</sup> While only slightly increasing friction for legitimate business deals and arrangements as it

should be unproblematic to provide information on legitimate deals.

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