



The Panama Papers

**A KPMG Survey of Initial Responses
by Financial Institutions**



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As widely reported by global news services, on May 9, 2016, the International Consortium of Investigative Journalists (“ICIJ”) released a database containing information pertaining to approximately 214,000 offshore companies (the “ICIJ database”) based on more than 11.5 million documents that had been leaked to the ICIJ from the files of the Panamanian law firm Mossack Fonseca. The leaked documents – dubbed the Panama Papers – are reported to date back more than four decades and allegedly reflect Mossack Fonseca’s involvement in assisting in the creation of secret shell companies and offshore accounts, often for prominent persons, including in connection with alleged illegal activities.

In the immediate aftermath of the release of the Panama Papers, there was a flurry of news stories by media organizations in many different countries reporting on the use of offshore companies by politicians and their families, entertainers and athletes, as well as persons who are alleged to be involved in criminal activities, including corruption, and the evasion of economic sanctions restrictions, among other things. While the numbers of stories arising from the leak has diminished somewhat from the time of the initial release, journalists continue to “mine” the Panama Papers for more stories of alleged corruption and criminal activity, identifying new issues – most recently involving allegations of corruption involving natural resources in certain countries in Africa. It has also been reported that regulatory and law enforcement agencies in different countries have launched investigations into persons and entities associated with the Panama Papers. In a further sign that the Panama Papers will have a long media shelf-life, a Panama Papers film is reported to be in the works from Netflix.

As such, the Panama Papers will continue to present challenges for companies who have had direct or indirect dealings with the offshore companies and their owners identified in the Panama Papers. In particular, financial institutions have become all too well aware of the financial, reputational and regulatory risks connected with being associated with alleged or actual misconduct. In reply to the ICIJ release, many financial institutions – particularly those that offer products and services that are likely to have been used by clients operating through offshore companies – launched immediate responses in order to assess their risk exposure to the release of the Panama Papers.

In order to better understand how these financial institutions have responded to the release of the Panama Papers to date, KPMG recently conducted a global survey of financial institutions. Their responses are summarized below.

Survey highlights

Most responding financial institutions reported to KPMG that they were actively reacting to the release of the Panama Papers in order to gauge their risk exposure. The majority of institutions reported that either their Anti-Money Laundering (“AML”)/Financial Intelligence Unit (“FIU”) or Compliance Departments were leading the response with active input from the institution’s senior management and/or Board of Directors. Further, respondents reported that they were mostly conducting their response with existing internal resources. Beyond that, however, the manner in which financial institutions described their responses differed significantly in many respects. While some financial institutions reported performing full searches of their customer base against all of the names in the ICIJ database, other institutions reported employing targeted risk-based approaches and only searching against portions of the ICIJ database. Other institutions reported searching against specific portions of their customer base – targeting only active clients, high risk clients, or clients from higher risk jurisdictions. Finally, in the months since the release of the Panama Papers, respondents reported that the release has impacted them with about 1/4 of respondents reporting that they have filed suspicious transaction or activity reports and over half of all respondents indicating that they have been contacted by regulatory/law enforcement authorities regarding their response to the Panama Papers leak.



How are financial institutions responding to the release?

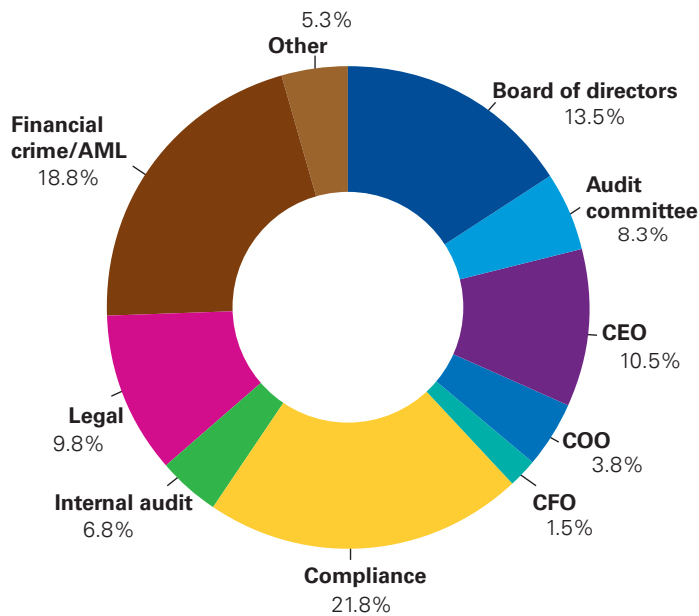
When asked whether about their response to the release of the Panama Papers and whether they were conducting a review in order to assess whether they maintain (or have maintained) a customer and/or other relationship with persons or entities listed in the ICIJ database, 82% of all respondents to the KPMG survey confirmed that they were conducting such a review.

Financial institutions which reported that they were conducting a review indicated that varying departments within their organization had primary responsibility for leading the response to the release of the Panama Papers. Approximately 65% of respondents reported that their AML/FIU departments were leading the response, while 29% of respondents indicated that their Compliance Department had taken the lead role in the response.

Broadening the question to include which groups within the institutions have an oversight role and/or an active interest in the organization's actions and response to the Panama Papers, reflects that there is wide interest within many financial institutions – particularly at senior levels – in directing as well as understanding the organization's response approach. As reflected in the chart (on page 4), after the financial institutions' AML/FIU and Compliance departments, the organizations' Board of Directors, Chief Executive Officer, and Legal in that order were the next most commonly cited groups within financial institutions as having an oversight role and active interest in the institution's response to the Panama Papers.

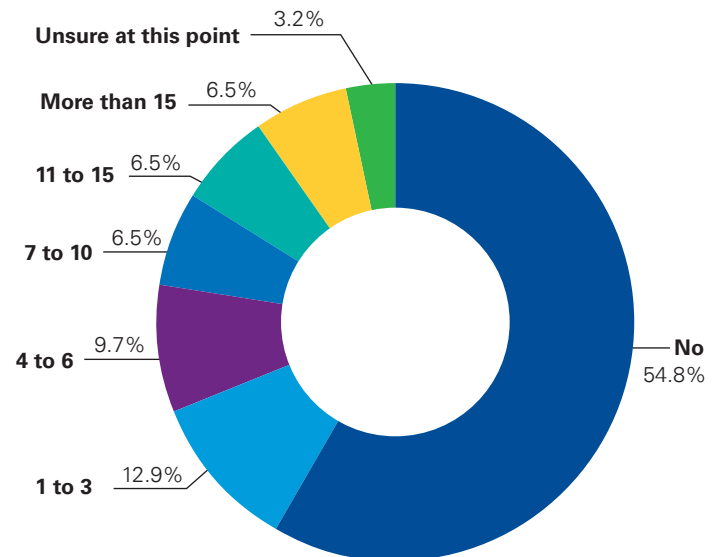


What are the groups within your organization with oversight and active interest in your organization's actions and response to the Panama Papers? (Choose all applicable responses)



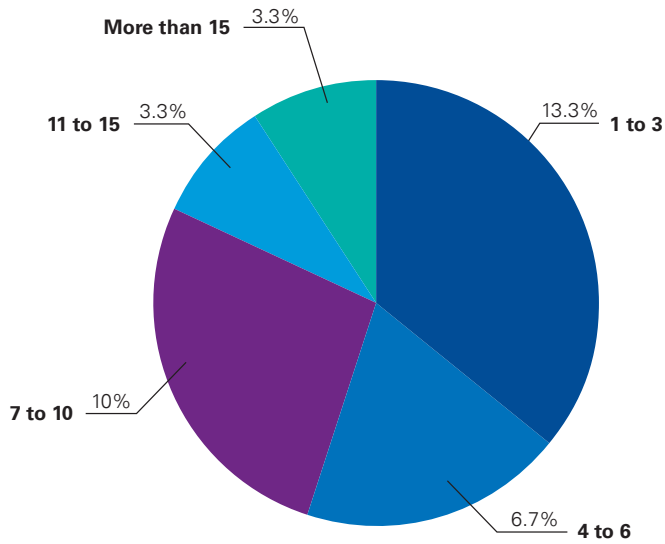
The KPMG survey also inquired into how financial institutions were allocating and deploying resources in order to conduct the requisite searches and investigations to assess their potential exposure to the names in the ICIJ database. Notably, almost half of all respondents stated that their Panama Papers response would not be conducted by a special task force but would instead be performed by existing groups within the financial institution – apparently in addition to their pre-existing responsibilities. As reflected in the chart below, the remaining respondents reported forming focused task forces of varying size ranging from a single resource to more than 15 people – focused on assessing their institution's potential exposure to the release of names.

Has your organization formed a special task force/project team to address potential issues rising from the Panama Papers? Please provide the number of full-time equivalent resources dedicated to the special task force/project team.



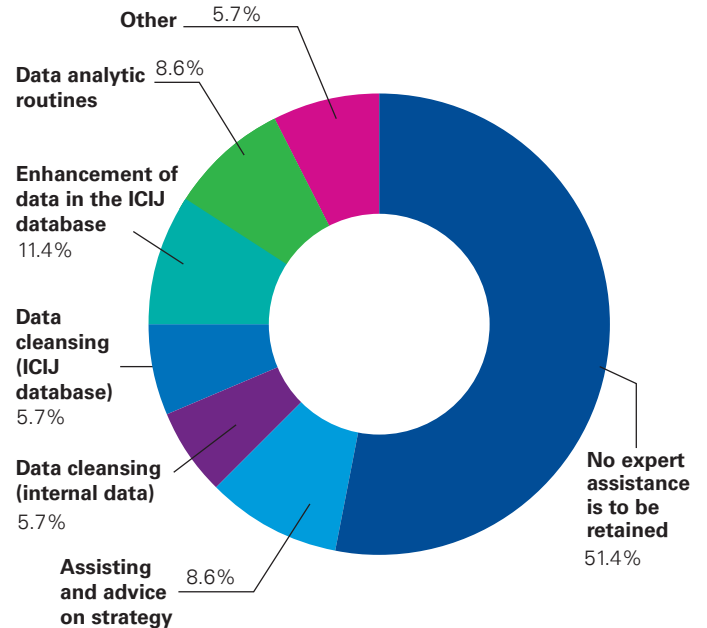
When queried about whether they planned upon bringing in additional resources to supplement their special task force/response team, two-thirds of all respondents stated that they were unsure about whether they would do so. As reflected in the table below, a small number of institutions indicated that they would need to add resources to supplement their existing task force/response team in order to perform the work needed to respond to the release of the Panama Papers.

In addition to any special task force/ project team identified above, please provide the number of additional resources you estimate will be required to complete this project?



Finally, two-thirds of all respondents noted that they do not anticipate retaining external assistance, such as from law firms or consultants, in order to assist them in their response to the release of the Panama Papers. Of those respondents who indicated that they had, or intended to, seek external assistance, most indicated that they would seek assistance with data enhancement and/or cleansing; response strategy, and data analytics. Notably only one respondent indicated that they were seeking assistance in investigating potential matches of names in the ICIJ release against internal bank databases. Perhaps more surprisingly, no respondents indicated that they would be seeking external assistance with information protection or cybersecurity in order to mitigate the risk that their institution would be subject to a leak similar to the one experienced by Mossack Fonseca. This result, however, may be more of a reflection of the fact that the surveys were generally provided to and completed by AML/FIU Officers or Compliance officials, as opposed to Privacy or Data Security Officers.

If your financial institution is planning to retain or has already retained external assistance related to the Panama papers, what are the types of external assistance? (Choose all applicable responses)



Varying Panama Papers response methodologies and actions

The financial institutions that participated in the KPMG Panama Papers survey are of varying size, geographic reach, customer bases, and offer a variety of different products and services to their customers. As such, KPMG was interested in understanding whether respondents employed similar Panama Papers response methodologies and/or techniques in order to assess their organization's exposure to the release of names in the Panama Papers.

A fundamental question presented in the KPMG survey required respondents to identify the actions taken by their institutions to date in response to the release of the Panama Papers. The results are varied and reflect that there is no one standard approach to addressing the risk presented by this massive leak of information, but rather that institutions have taken an array of approaches in how they have tailored their responses. For example, 40% of the survey respondents reported searching their entire customer base against the full ICIJ database while other respondents reported employing more focused risk-based searches. Specifically, 35% of respondents reported searching their customer base only against names included in media reports relating to the Panama Papers while 16% of respondents reported only searching their customer base against some portion of the ICIJ database. Surprisingly, the findings from actions in response to the Panama Papers have been sparingly reported: 21% of respondents have reported findings to internal stakeholders and 19% have reported findings to external parties.

In the following table, we have set forth the most common response actions identified by participants in the survey, recognizing that the responding financial institutions have applied multiple approaches and actions in their response to the Panama Papers.

Panama Papers Search Approach (Choose all applicable responses)	% of Respondents
Investigation of potential matches from press release searches to assess actual matches versus false positive matches	42%
Search of your customer database against all of the ICIJ database	40%
Search of your customer database to identify individuals or organizations reported in the media stories	35%
Develop a strategy to address issues and risks related to the Panama Papers	33%
Initial risk assessment	30%
Download, examine and format the ICIJ database to facilitate searches	23%
Investigation of potential matches from ICIJ database searches to assess actual matches versus false positive matches	23%
Summarize and report findings to internal stakeholders	21%
Summarize and report findings to external parties (e.g., regulators)	19%
Search of your customer database against some portion of the ICIJ database	16%

KPMG further queried institutions regarding whether their Panama Papers response methodology included searching for potential matches at an enterprise-wide level for all customers, related parties, employees, vendors and other counterparties, or if the institutions were taking a more limited approach. The results were varied with most respondents searching against customer lists and then smaller numbers of respondents screening the ICIJ database against names of directors, employees, joint venture partners, agents, vendors, and potential acquisition targets.

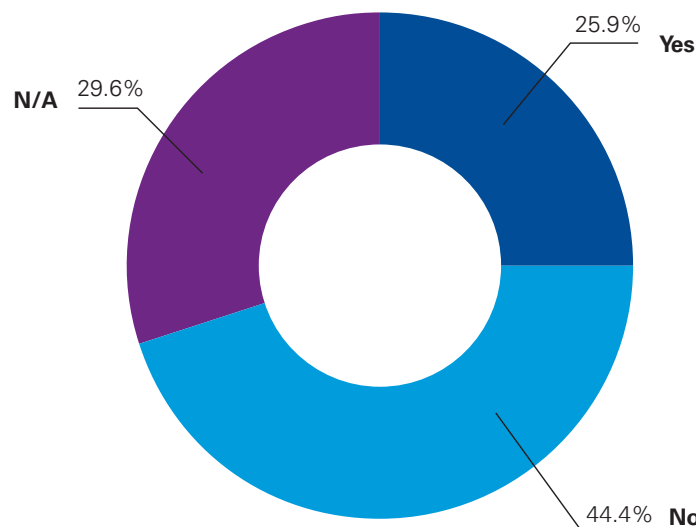
Many of the names that are contained in the ICIJ database will not present reputational or regulatory risk to financial institutions. However, given the importance of identifying exposure to offshore companies and related parties that do present such risks before such a relationship is discovered by an external party, the KPMG survey posed a number of questions focused on the breadth of the searches conducted by respondents against their customer database, including whether the institution was conducting searches on an enterprise-wide level or if the institution was applying more of a risk-based approach and only targeting specific groups of customers, business lines and/or other counterparties. The results were varied and are detailed in the chart below. At a high level, 53% of respondents stated that they were not applying a risk-based search approach in assessing their exposure. Conversely, some respondents reported that they were applying risk-based search techniques, including only screening against individuals and/or entities indicated as active in the ICIJ database. In this regard, KPMG’s analysis of the ICIJ database reflects that only about 26% of the approximate 214,000 offshore companies listed in the ICIJ database are listed as active or in good standing. Similarly, 27% of respondents reported that they were only screening the ICIJ database against the financial institution’s current customers.

Panama Papers Response Action (Choose all applicable responses)	% of Respondents
Not using a risk-based approach to address the screening of customers against the names in the ICIJ database	53%
Screening our customer database against only active individuals and/or entities as indicated in the ICIJ database	43%
Screening against only our current customers	27%
Screening high risk customers as indicated in our customer database against the ICIJ database	13%
Screening customers from specific geographic regions (e.g., higher risk regions) as indicated in our customer database against the ICIJ database	10%

What are the initial results of the release of the Panama Papers?

In that several months have passed since the publication of the ICIJ database, KPMG asked financial institutions about the impact of their Panama Papers response efforts to date. In particular, KPMG queried respondents regarding whether, based on their initial customer screening against the ICIJ database, such screening and follow-on investigations had resulted in the filing of Suspicious Transaction Reports, Suspicious Activity Reports or any other reports required by regulation. As reflected in the following pie chart, almost 1/4 of respondents reported making such regulatory filings in response to the release of the Panama Papers.

For initial customer screening against the ICIJ database completed to date, has such screening and follow-on investigations resulted in the filing of Suspicious Transaction Reports, Suspicious Activity Reports or any other reports required by regulation?



Finally, KPMG asked about the level of regulatory and/or law enforcement interest in their financial institution's level of exposure to the names contained in the ICIJ database. In this regard, 58% of respondents indicated that they had received inquiries from their regulators concerning their organization's response to the release of the Panama Papers. In reviewing the individual survey responses, regulatory authorities who were noted in multiple survey responses included the New York Department of Financial Services, the United Kingdom's Financial Conduct Authority, the Hong Kong Monetary Authority, the Monetary Authority of Singapore, the South African Reserve Bank, and the Bank of Greece.



Parting observations

While the response to the release of the Panama Papers by financial institutions is still ongoing and will likely evolve to the extent that additional stories are identified or there is heightened regulatory and/or law enforcement interest, the KPMG survey identified a number of interesting practices. First, most institutions that participated in the survey reported that they were actively responding in order to identify their risk exposure to the Panama Papers. However, the survey results reflected divergent approaches in terms of how organizations responded with some institutions engaging in comprehensive searches of the names in the ICIJ database against their full customer base. Other institutions reported taking a more focused and risk-based approach by targeting either portions of the ICIJ database and/or certain segments of their customer base. In the absence of specific regulatory guidance regarding how to address the risk presented by the Panama Papers leak, it is understandable that differing institutions – with different risk profiles and risk tolerances – would adopt varying approaches.

In any event, given the increasing frequency with which sensitive customer data is hacked and shared with organizations such as the ICIJ, the response “playbook” that financial institutions have developed in responding to the release of the Panama Papers will likely serve as a useful model for responding to future similar leaks so that financial institutions are even more prepared to launch a quick and effective response. In this regard, KPMG believes that this survey will further help financial institutions in such responses.

Survey methodology

In an effort to help shed light on how financial institutions are responding to assess their risk exposure to the release of the names of offshore companies and related parties in the Panama Papers, KPMG conducted a focused electronic survey of a targeted group of compliance and risk professionals from mostly large international financial institutions based in a variety of jurisdictions. The electronic survey was conducted between June 25, 2016 and July 15, 2016. The results presented are based on input from 39 respondents located in North America, Europe, the Middle East, Africa and Asia. As noted herein, certain of the survey questions permitted respondents to choose multiple responses, as appropriate.



Contacts

Petrus Marais

Global Head of Forensic

T: +27 79 515 9469

E: petrus.marais@kpmg.co.za

Terry Pesce

Global Head of AML

T: +1 212 872 6272

E: tpesce@kpmg.com



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