

*United States Senate*  
**PERMANENT SUBCOMMITTEE ON INVESTIGATIONS**  
*Committee on Homeland Security and Governmental Affairs*

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*Carl Levin, Chairman*

*Norm Coleman, Ranking Minority Member*

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**Opening Statement of Senator Carl Levin**  
**U.S. Senate Permanent Subcommittee on Investigations Hearing:**  
***Tax Haven Banks and U.S. Tax Compliance***  
July 25, 2008

Last Thursday, the Subcommittee broke through the wall of secrecy that surrounds tax haven banks to expose how UBS AG of Switzerland and LGT Bank of Liechtenstein, from 2000 to 2007, used an array of secrecy tricks to help U.S. clients hide assets from Uncle Sam. The hearing showed, for example, how UBS opened Swiss accounts for 19,000 U.S. clients with nearly \$18 billion in assets, and did not report any of those accounts to the Internal Revenue Service (“IRS”). The hearing also presented multiple case histories of U.S. clients who used LGT accounts to stash millions of dollars in Liechtenstein. A former LGT employee, now in hiding for disclosing LGT client information, provided videotaped testimony describing a long list of secrecy tricks and deceptive practices used by LGT to hide client funds.

UBS, to its credit, announced at the hearing last week that it would take responsibility for its actions. It apologized for past compliance failures, promised to close all 19,000 Swiss accounts unless the U.S. accountholder agreed to disclose the account to the IRS, and announced it would no longer offer undeclared offshore accounts for U.S. clients. UBS also indicated that it was prepared to cooperate with the John Doe summons served on the bank by the IRS seeking the names of U.S. clients with undeclared accounts, pending negotiations between the U.S. and Swiss governments on how it should comply. I hope our government will accept nothing less than all 19,000 client names.

UBS’ surprise stance at the hearing provides a dramatic example of how Congressional oversight can help stop offshore abuses. UBS is now apparently the subject of criticism in Switzerland for agreeing to cooperate with U.S. tax enforcement efforts and disclose client names. This criticism shows how cynical Swiss secrecy has become – it is used today, not only to protect accountholders’ privacy, but to hide wrongdoing by both accountholders and the banks that help them. The United States is losing \$100 billion in tax revenues each year due to offshore tax abuses. Swiss bankers should be stopped, not only from aiding and abetting such lawlessness, but from profiting from it. If UBS lives up to its promises, it is prepared to trade in bank secrecy for transparency, the rule of law, and tax cooperation. The rest of the banking industry in Switzerland and elsewhere should follow its lead.

In contrast to UBS, three other witnesses invited to appear at last week’s hearing were notably absent. LGT, which is not subject to the Subcommittee’s subpoena power, did not show. Though LGT met privately with Subcommittee investigators, the bank chose not to discuss and

defend its practices at an open hearing, perhaps because those practices aren't defensible. LGT issued a statement before the hearing that its practices have changed from those described in the Subcommittee report. Count me skeptical that LGT has stopped selling secrecy to its clients.

Another scheduled witness, Peter Lowy, was not in the country last week despite being notified of the hearing. Following our notice to him of the Subcommittee's intention to subpoena him, he determined to appear today. The final witness, Steven Greenfield, failed to comply with a Subcommittee subpoena that was served on him requiring his attendance at the hearing last week. The Subcommittee announced at the hearing that it was considering initiating contempt of Congress proceedings with respect to Mr. Greenfield. Prior to doing so, the Subcommittee offered him a final opportunity to appear today.

Our objective today is to take testimony from Mr. Greenfield and Mr. Lowy to complete the Subcommittee's hearing record. Both men were involved with the formation of Liechtenstein foundations with the help of LGT. Their foundations then opened LGT accounts with millions of dollars in assets. In both cases, LGT took measures to hide their ownership interests in those accounts. Both cases are now under scrutiny by the IRS.

The Greenfield and Lowy case histories unfold like spy novels, with secret meetings, hidden funds, shell corporations, captive foundations, and complex offshore transactions spanning the globe from the United States to Liechtenstein, Switzerland, the British Virgin Islands, Australia, and Hong Kong. What they have in common is that LGT bank officials acted as willing partners to move a lot of money into their bank while obscuring the ownership and origin of the funds.

### **Greenfield Case History**

The first case history being examined today involves Harvey and Steven Greenfield, father and son, two New York businessmen who specialize in importing toys. Internal LGT documents show that, in 1992, LGT helped Harvey Greenfield establish a Liechtenstein foundation, for which he is the sole primary beneficiary and for which Steven Greenfield held power of attorney. As shown in this chart, Exhibit 3, the Greenfield foundation used two British Virgin Island corporations they controlled as conduits to transfer funds, which at the end of 2001, had a combined value of about \$2.2 million.

In March 2001, LGT records show that LGT held a five-hour meeting at its Liechtenstein offices attended by the Greenfields, three LGT private bankers, and Prince Philipp, Chairman of the Board of the LGT Group and brother to the reigning sovereign in Liechtenstein. The meeting was primarily a sales pitch to convince the Greenfields to transfer another \$30 million to their LGT foundation from a Bank of Bermuda account in Hong Kong.

An LGT memorandum describing the meeting, Hearing Exhibit 54, states in part the following:

“Bank of Bermuda has indicated to the client that it would like to end the business relationship with him as a U.S. citizen. Due to these circumstances, the client is now on the search for a safe haven for his offshore assets. ... The Bank ... indicate[d] strong interest in receiving the U.S. \$30 million. ... The clients are very careful and eager to dissolve the Trust with the Bank of Bermuda leaving behind as few traces as possible.”

So LGT pitched itself as a “safe haven” for the Greenfield’s offshore assets and offered specific suggestions for how the Greenfields could move their \$30 million from Hong Kong “leaving behind as few traces as possible.” One LGT suggestion was to transfer the \$30 million through the two BVI corporations that the Greenfields controlled to channel assets into their Liechtenstein foundation. The documents we obtained stop in 2001; we don’t know whether the \$30 million transfer actually took place.

### **Lowy Case History**

The Lowy case history illustrates additional LGT secrecy practices. LGT documents disclose that Frank Lowy was an existing client of LGT when he asked, in 1996, about setting up a new foundation to conceal assets from Australian tax authorities.

LGT documents describe three meetings held between LGT and the Lowys, in Sydney, Los Angeles, and London, to discuss the structure, funding, and investment portfolio of a new foundation. According to an LGT memorandum, the Los Angeles meeting took place in January 1997, and was attended by LGT representatives, Frank Lowy, and his sons, David and Peter Lowy.

LGT actually formed Luperla Foundation in April 1997. To hide the Lowys’ ownership interest, LGT employed a number of secrecy tricks.

- First, LGT did not include the Lowy name in any of the official Luperla documents. Although internal LGT documents state that Frank Lowy and his sons were the intended beneficiaries of Luperla, the only name on the foundation documents was that of their attorney, Joshua H. Gelbard.
- Second, funds from other Lowy-related entities were not directly transferred into the Luperla account. Instead, LGT routed the funds through a British Virgin Islands transfer corporation, called Sewell Services Inc., to hide the trail of funds.
- Third, LGT and the Lowys designed a unique mechanism to hide the fact that the Lowys were the beneficiaries of the Luperla Foundation. The key to the plan was a Delaware corporation named Beverly Park Corporation, which the Lowys controlled.

Beverly Park was formed in January 1997, the same month the Lowys met with LGT in Los Angeles. Beverly Park has a complex ownership chain that ultimately ends with the Frank Lowy Family Trust. Beverly Park’s President and Director since its inception is Peter Lowy. The key Luperla provision states that the foundation’s beneficiaries would be named by the last company in which Beverly Park held stock. That meant Luperla had no official beneficiaries at the time it was formed or in the following years. This ingenious set up allowed the Lowys to deny with a straight face that they were foundation beneficiaries, while controlling the Delaware corporation that would eventually be used to name those beneficiaries.

This chart, Exhibit 114, shows how the Luperla Foundation was initially funded, and what happened to those funds four years later. First, the hidden money trail into Luperla. The trail starts with \$54 million in Lowy funds whose origin is unclear. One LGT document states that the \$54 million “originate[d] from a relatively complex transaction, with the goal of bringing shares listed in the stock market back into the [Lowy] family’s possession, which was successfully completed.” Another document reports that the funds “stem[med] from a credit financing of the LGT Bank in Liechtenstein that at the time was carried out through a company Crofton.” In any event, at some point, the \$54 million made its way into an LGT account that had been opened in the name of Crofton, a company which LGT documents indicate was under the control of the Lowys.

In May 1997, the \$54 million was moved from the Crofton account at LGT, to the LGT account opened in the name of Sewell Services, the BVI transfer corporation LGT had established. From there, the \$54 million was immediately transferred to the LGT account for Luperla.

Additional transfers through Sewell Services added to the Luperla account over time and by 2001, four years later, the Luperla account had grown to \$68 million. At that point, the Lowys apparently decided to dissolve Luperla and move its funds to Switzerland. That gets us into the second half of the chart which shows the hidden instructions that led to the transfer of Luperla’s funds to Switzerland.

To transfer the \$68 million and dissolve their foundation, Luperla’s beneficiaries had to be named. As explained earlier, the process for naming those beneficiaries had to start with Beverly Park, the Delaware corporation whose President was Peter Lowy. In the summer of 2001, Beverly Park secretly acquired the stock of a British Virgin Islands shell company called Lonas Ltd. Lonas Ltd. had been formed in July 2001; the Lowy attorney, Joshua Gelbard, was appointed Lonas’ sole Director. This information about Lonas is described in several LGT documents, including Exhibits 48 through 50, even though Beverly Park’s own corporate minutes never mention its acquisition of this BVI company.

On December 13, 2001, Beverly Park gave Mr. Gelbard a letter authorizing him to act on its behalf, even though he was not an officer, director, or employee of the company. A copy of this letter as well as other original documents related to Beverly Park were provided to Peter Lowy on the same day, and then passed on to LGT, as shown in Exhibits 112 and 50. Over the next week, Mr. Gelbard worked with LGT to provide the information needed for Lonas Ltd. to name Luperla’s beneficiaries and obtain the transfer of the funds of the foundation. On December 13, 2001, Mr. Gelbard provided a handwritten certification to LGT that Beverly Park did “not hold shares of any corporation” after Lonas Ltd., which was the signal that Lonas was empowered to name the foundation’s beneficiaries. Mr. Gelbard also, on the same day, provided written instructions to LGT for “the disbursement of all assets of the foundation.” These documents are described in Exhibit 48.

LGT documents show that even after receiving these instructions from Mr. Gelbard to transfer Luperla funds, LGT continued to view the Lowys as the true parties behind the Foundation. For example, Exhibit 50 shows that after receiving instructions from Mr. Gelbard to transfer the \$68 million to two accounts at a Swiss bank, LGT twice telephoned David Lowy to confirm the instructions. LGT even took the precaution of recording one of those telephone calls.

After David Lowy authorized the transfer of the funds, on December 20, 2001, as shown in Exhibit 110, LGT emptied the Luperla account, transferring all \$68 million in two transfers to Bank Jacob Safra in Geneva.

Frank Lowy has said publicly that the funds were “distributed for charitable purposes ... some years ago,” but he has refused the Subcommittee’s request to name the charities involved or identify the dates and amounts of the donations. He has also declined the Subcommittee’s invitation to supply additional information about Luperla Foundation or LGT Bank.

In 2007, the Lowys were contacted by the IRS with inquiries about Beverly Park. In submissions to the IRS, Beverly Park claimed it “did not and does not own any entities,” despite the LGT documents showing it had owned Lonas Ltd.

Today’s hearing provides another opportunity to examine LGT’s actions to help its clients hide assets. We hope that our two witnesses, Steven Greenfield and Peter Lowy, will shed additional light on LGT’s actions.

The United States was not, of course, the only country victimized by LGT. LGT has apparently assisted people from dozens of countries in every corner of the globe to evade taxes. While the IRS is investigating 147 U.S. taxpayers with LGT accounts, British tax authorities recently announced they are on the trail of £300 million in unpaid taxes on £1 billion hidden in Liechtenstein. In Germany, over 500 people have admitted so far to failing to pay taxes on funds in an LGT account, and hundreds more are under investigation. LGT still promotes itself as “the Wealth and Asset Management Group of the Princely House of Liechtenstein.” It is ironic that a princely bank is the source of this international tax scandal.

But we can do more than simply shake our heads at this bank’s conduct. We can take action to stop offshore tax abuses, starting with enactment of S. 681, the Stop Tax Haven Abuse Act. Yesterday, our colleagues on the Senate Finance Committee held a hearing on how over 18,500 companies – as many as half from the United States – claim to have offices at a single building, the Uglan House in the Cayman Islands. It sounds like the Finance Committee is as fed up as we are with tax haven tricks. It is time to join together this year to stop tax haven abuses.

Before I call on our witnesses, I’d like to turn to Senator Coleman, thank him for his ongoing support of this investigation, and invite his opening remarks.

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