



Julius Bär

Structural Risk Analysis Case Study

Illicit Architecture: The Rise and Risk of Anonymous Financial Structures

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Prepared under professional mentorship for educational purposes; this document reflects personal analysis and does not represent the views of any institution.

Research Abstract

This paper outlines the use of anonymous corporate structures such as bearer shares, shell companies, offshore trusts, and their role in facilitating illicit financial activity.

While private banking was originally built on the foundation of client confidentiality, these systems have been exploited to conceal ownership, evade taxes, and move stolen public funds. By the end of 2023, the global private banking market size surpassed \$477 billion, showing the sector's growing economic influence.

During my second year at Bank Julius Bär (JB) Monaco, I conducted a compliance review of over 400 client-owned businesses under the mentorship of Ulf Dägele - head of Client Documentation Services (CDS). That said, I took part in developing an Excel-based Ownership Registry Tool which assesses a company's risk level based on things like jurisdiction, share type, and ownership transparency. This tool classifies the status of an account using coded Excel formulas and was implemented within my compliance team to quickly identify and determine potential risks in current or prospective client accounts. My findings have led to the identification of corporate entities linked to bearer share structures, prompting coherent reviews to align with JB's strict and efficient compliance standards.

Through international case studies like the Panama Papers and the Sani Abacha investigation, this project is meant to support the shift against bearer shares and spread awareness about how these anonymous structures affect financial institutions, countries, and societies.

Author's Note

As a second-year summer analyst at Bank Julius Bär Monaco, this project shows my growing knowledge to the behind-the-scenes of global finance. Last year, during my first internship, I was introduced to the client-facing side of private banking, speaking with relationship managers and exploring the Environmental, Social, Governance (ESG) department. There, I developed a strong interest in the gap of how some firms present themselves as “sustainable” as a front to manipulate ESG frameworks and appear more environmentally responsible than they really are. With guidance from the head of the ESG department, I produced a case study on these practices, which is now featured on the official website of the Sustainability Sector of my nonprofit FinancED Miami (financedmiami.org), as a resource for students learning to navigate ethical investing.

This year, I was re-hired at Julius Baer to gain a back-office view in the Client Documentation Services (CDS) department, focusing on legal and compliance operations. Under the mentorship of Ulf Dägele, head of CDS, I conducted a compliance risk review of over 400 international corporate ownership structures. My work included flagging potential undisclosed European tax liabilities involving bearer shares holdings and supporting anti-money laundering improvements.

These experiences have strengthened my interests for finance, leading me to pursue a Business-related degree at the University of Michigan Ann-Abor and to further spread awareness through my nonprofit, which provides tools and resources to teach financial literacy to the youth.



This paper combines real-world experiences with a drive to spread awareness, protect, and educate the next generation of investors.

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Understanding Structural Risk

By the end of 2023, the global private banking market size surpassed a value of USD 477.3 billion. **The growing desire for a more individualized form of wealth management for clients gives the private banking sector an unparalleled opportunity for growth** in comparison to the less flexible division of wealth management found within the public banking sector. Specifically speaking, the ability for private banks to offer investment strategies tailored to personal situations like tax planning and estate management puts them as important partners for high-net-worth clients.

Unlike public banking, private banks require account holders to have at least around USD 2 million + of investable assets, often attracting celebrities, athletes, and executives as clients. **That being said, most accounts are built around concepts of secrecy and discretion.** Within this world of private banking, **structural risks** start to form from how some client structures (such as **shell companies, trusts, or bearer share structures**) are made, especially when those structures hide the identity of true ownership or exploit jurisdictional policies.

Uses of Anonymous Financial Structures:

1. Tax Evasion:

Wealth hidden through anonymous entities leads to large tax losses for governments. This forces tax burdens on average citizens while still underfunding public services like education and healthcare.

2. Theft of Public Funds:

Anonymous structures let individuals embezzle and hide stolen money from public funds, especially in developing countries.

3. Distort Financial Markets:

Anonymous shell companies can be used to launder money through luxury real estate. This can inflate housing prices in major cities and can make homes unaffordable for residents.

1. Tax Evasion Using Bearer Shares – *Panama Papers*

In 2016, a leak of over 11 million documents from a Panamanian law firm called *Mossack Fonseca* revealed how thousands of wealthy individuals hid their money in secret offshore companies. This leak became known as the *Panama Papers*.

How Bearer Shares were involved:

Many of these companies used **bearer shares**, which are physical paper **certificates that don't have an owner's name on them**. Whoever holds the legal certificate owns the company. This makes it nearly impossible to trace who's behind the money and was often used to avoid paying taxes in the owner's home country.

2. Theft of Public Funds Using Hidden Trusts

A **trust** is a legal structure where **a person (the "trustee") holds assets for someone else (the "beneficiary")**. In offshore secrecy countries, these trusts are often anonymous and untraceable, meaning nobody knows who really controls the money.

Sani Abacha:

Former Nigerian dictator Sani Abacha (years in office 1993-1998) and his associates looted an estimated USD 5 billion in public funds during the 1990s and hid the money in offshore trusts and fake companies across Europe and the Caribbean. In 2020, over USD 300 million was recovered from a bank in Switzerland.

3. Market Distortion Using Shell Companies

In major cities like London, thousands of high-end flats and mansions are owned by shell-companies - often registered in offshore tax countries like the British Virgin Islands (BVI). **A shell company is a business that exists only on paper. Shell companies don't have any employees or operations.** People use shell companies to buy luxury real estate anonymously. These purchases are also usually made with cash to prevent any sort of tracing.

London's Housing Crisis:

A report by *Transparency International* found that over GBP 4 billion **(around USD 5 billion) worth of UK property is owned by offshore shell companies with hidden owners.**

These anonymous purchases drive up housing prices and leave many homes empty, while everyday families struggle to afford housing.



London City, March 24, 2020

Historical Context: Era of Secrecy

In 1934, Switzerland passed its famous **Banking Secrecy Law** marking it **illegal for banks to disclose client information**. This means, Swiss banks couldn't reveal the identity of an account holder, even if the person was under investigation for tax evasion in another country. **Swiss banks shielded client information from authorities such as law enforcement, tax authorities, and even other foreign governments.** A U.S. citizen could essentially hide millions in a Swiss account, and the IRS couldn't touch it, or even prove it was real. This law made it very difficult for foreign gov'ts to recover stolen public funds or unpaid taxes.

From the mid-20th century and onward, countries like Panama, Monaco, Liechtenstein, BVI, and the Cayman Islands continued to establish their financial operations around secrecy. This attracted many clients craving privacy and zero tax responsibilities. **At the same time, bearer shares allowed the ownership of companies to be transferred without any record** (It was as simple as handing over a physical certificate).

When combined, **these two features made it almost impossible to track assets**, accounts, or even the movement of funds to different accounts. This structure wasn't just very attractive to clients, but it also helped play a large role in the overall concealment of illicit wealth.

Beginning of the End: (FATF)

The Financial Action Task Force is an international gov't organization created in 1989 by the G7 countries (Canada, France, Germany, Japan, UK, Italy, and U.S.) to combat money laundering. It sets "Recommendations" and through those recommendations, sets international standards for governments and banks to comply with. FATF conducts its evaluations three times a year. **FATF is also known for maintaining the notorious "black-lists" and "gray-lists"** for institutions that don't comply with its recommendations.

FATF Gray-list

When a country is gray-listed, it means that FATF found inconsistencies in that country's laws or regulations like its anti-money laundering (AML) systems, but the **country has committed to fixing them.**

Consequences:

- Increased scrutiny from media and global banks (Harming reputation)
- Longer transaction delays for cross-border payments (Decreased importance in everyday functions)
- Higher borrowing costs (from international bank lenders like IMF or World Bank)

FATF Gray-listed Countries 2025:

There are exactly 24 gray-listed countries in the world. 8 in Africa, 6 in Asia, 2 in Europe, and 7 in the Americas.

Notable countries include Monaco and the U.S. Virgin Islands.

FATF Black-list

This is the most serious designation... **Black-listed countries are considered non-cooperative to the FATF recommendations.**

Consequences:

- Financial isolation (Low amounts of prospective clients and greatly degraded reputation)
- Global banks may cut ties
- IMF and World Bank usually set extreme lending limits or deny any funding whatsoever

Official FATF List of Black-listed Countries 2025:

1. North Korea
2. Iran
3. Myanmar



Beginning of the End: (Reforms)

Through public scrutiny like global scandals (including but not limited to: *Panama Papers*) and FATF regulations, many countries and financial institutions have been prompted to drastically change their financial frameworks. However, what placed the most pressure to spark change was the mere fact that **major banks and institutions in Europe and North America began to simply reject bank account openings or any other forms of business with the citizens** of these countries that were facing money laundering allegations. Today, only 2 countries in the world allow bearer shares (with restrictions). The most common **restriction** includes detailing the **Beneficial Owner (BO)** of bearer shares. This allows compliance officers (regulatory and legal dept. of banks designed to protect banks from potential money laundering) to trace the owner that benefits from the shares and holds over 50% of a company's bearer shares reducing anonymity and enhancing transparency. The second restriction is the direct involvement of a **licensed custodian** - A neutral third-party bank, company, or lawyer that does not benefit from the shares within the company that is also required to keep records of things like who the BO is and even discloses certain information to authorities if it is needed.

Who still allows Bearer Shares?

1. Marshall Islands
 - **Restrictions:** Custodial involvement, BO must be recorded.
2. Panama
 - **Restrictions:** Custodial involvement.

Why some Countries Allow Bearers Shares despite Pressures:

Countries like the Marshall Islands and Panama depend on revenue from offshore businesses. Bearer shares attract high-net-worth clients; hence, these countries try to balance that appeal without fully losing business. Other jurisdictions also still technically allow bearer shares but only if the BO is disclosed to authorities and if they're connected to a licensed custodian. This allows for a legal middle ground for countries to say that "We've reformed" while still offering flexibility. Unfortunately, with **sophisticated structuring**, some businesses are still able to obscure the BO under weak custodial oversight.

Notable Countries that Abolished Bearer Shares:

1. Switzerland
 - **Status:** Abolished in 2020 (except for listed companies or tokenized shares)
 - **Trigger:** FATF threat of gray-listing
2. Monaco
 - **Status:** Abolished in 2011
 - **Trigger:** Pressure from FATF
3. U.K.
 - **Status:** Abolished in 2014
 - **Trigger:** *European Union Anti – Secrecy Push*
4. U.S. & British Virgin Islands
 - **Status:** Abolished 2019
 - **Trigger:** FATF Pressure, Panama Papers Fallout

As noted on the list, the abolishment of bearers shares in certain countries has been a long process with marginal areas of progress. Whether it was originally noticed as a structured risk or not, developments have been “unseen” for vast amounts of time highlighting the true and inherent value of bearer shares to clients and large corporations.

Bearer shares continue to pose serious compliance risks by allowing ownership to stay hidden even with the global efforts to improve financial transparency. Through the development of this project, we can spread awareness and improve our understanding of high-risk structures.

How a company is structured matters just as much as how it performs.



Zurich, June 15, 2021

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