

## Key Financial Secrecy Indicators

### 12: Protected Cell Companies

#### What is measured?

This indicator shows whether the jurisdiction allows the creation of “protected cell companies” (PCC) in its territory. This type of company is also known as an “incorporated cell company” or “segregated account company”.

The main sources for this indicator were internet websites such as Lowtax.net, Ocra.com and Offshoresimple.com. These sources display the availability of protected cell companies either in a tabular or textual format. The other sources used were the local regulators’ websites.

Protected Cell Companies are a little known type of corporate entity, found almost exclusively in secrecy jurisdictions. Essentially a PCC is a corporate entity that contains within itself, but not legally distinct from it, a number of cells which behave as if they are companies in their own right, but are not. Every cell has its own share capital, assets and liabilities and the income and costs of each cell are kept separate. Moreover, each cell is assigned its own share of the overall company share capital so that each owner can be the single owner of one cell but owns only a percentage of the overall PCC.

If a jurisdiction does not allow the creation of PCCs in its legislation, we credit it here.

#### Why is it important?

We are aware that PCCs originated in Guernsey in 1997 with the intention of providing a cost-saving mechanism for the reinsurance sector where many deals look much like one another, and where assets and liabilities need to be ring fenced to prevent inappropriate exposure to claims. We question whether the presence of reinsurance business in secrecy jurisdictions is now acceptable given the current political climate and the lower levels of regulation within a key financial sector that must inevitably result and given the implicit tax subsidy that this provides to the insurance sector, but this apart we are also aware that PCCs are now readily available in locations such as the Seychelles and that they may now be used for other, illicit, purposes rather than that for which they were originally created. We think it likely that the level of asset protection that a PCC provides might allow illicit financial flows to escape the attention of law enforcement authorities. We therefore question whether any cost saving these structures might allow to the reinsurance sector justify the other risks they impose on society at large.

The structure of PCCs has been compared to a house with a lock at the entrance and many rooms inside, each room locked separately with its own door, but also with an escape tunnel only accessible from inside the room. If an investigator seeks to find out what is going on in

one room inside the house, she first needs to unlock the main outer door. But imagine that by opening that first door everybody inside the building is alerted to the fact that someone has entered the house. Anybody seeking to flee the investigator will be given enough time to do so thanks to the second lock at the individual room door. While the investigator tries to unlock the second door (by filing a second costly information request), the perpetrator has enough time to erase all traces of guilt and escape through the secret tunnel. This colourful metaphor neatly illustrates how a PCC might work in practice.

We have been advised that procedures to make international enquiries about PCC structures have not yet been developed by law enforcement agencies and there remain serious doubts about the effectiveness of current mutual legal assistance agreements when applied to them, meaning there is significant restriction in scope for law enforcement in this area. This is, of course, in part a function of the considerable opacity they provide in hiding potentially illicit activity behind a single corporate front.

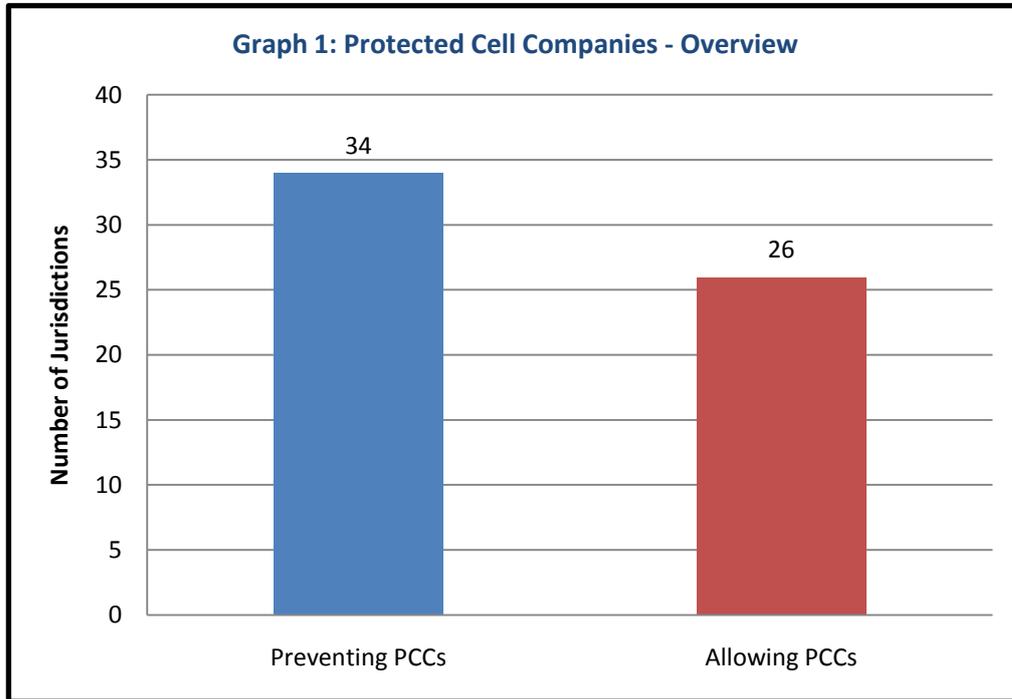
PCCs can be used to conceal identities and obscure ownership of assets because what appears to be a minority ownership from the outside may in fact be an artificial shell deliberately created to conceal fully-fledged ownership of a cell within the “wrapper” that in reality functions in the same way as a company.

#### **What are the crimes that might hide behind the availability of protected cell companies?**

By enhancing “asset protection” through a double locked structure, protected cell companies can be used to shelter illicit assets from view and might therefore facilitate fraud, infringement of competition rules, tax evasion, aggressive tax avoidance, transfer pricing manipulation, non-payment of alimonies, hiding the proceeds of corruption, organised crime (especially drug trafficking), the illegal arms trade, trafficking in human beings, money laundering, the covering of illicit intelligence activity and more besides.

#### **Results Overview**

Number of Jurisdictions preventing PCCs:	34
Number of Jurisdictions allowing PCCs:	26



Results Detail

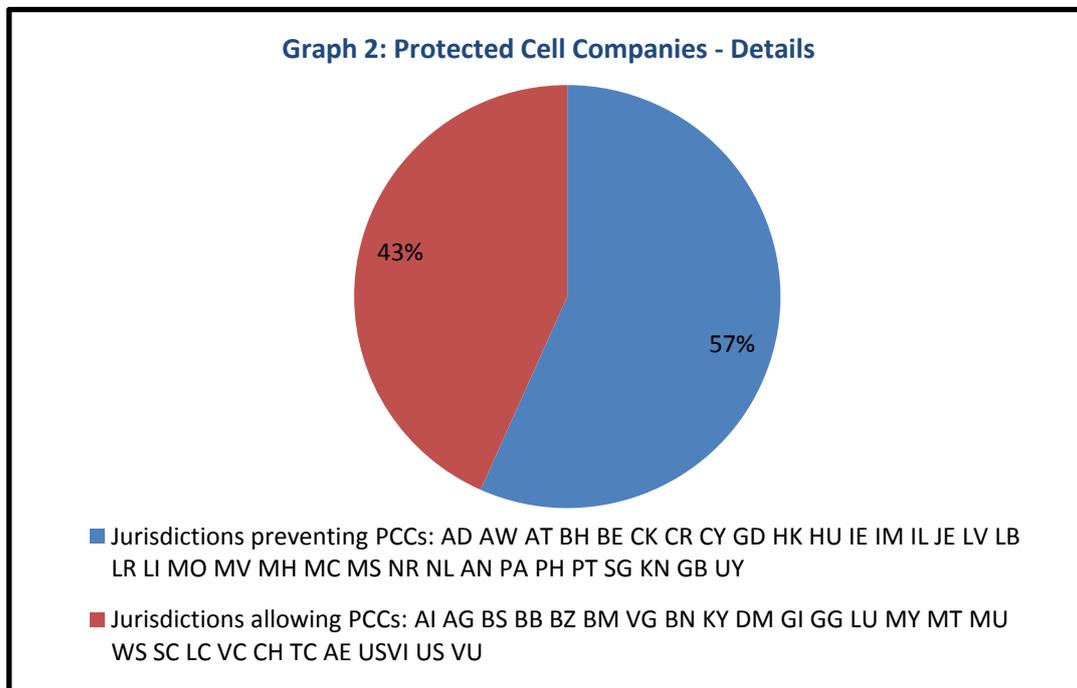


Table 2: Protected Cell Companies – Details: Prevention of PCCs

ID	Jurisdiction	ISO		ID	Jurisdiction	ISO	
1	Andorra	AD	Yes	31	Liechtenstein	LI	Yes
2	Anguilla	AI	No	32	Luxembourg	LU	No
3	Antigua & Barbuda	AG	No	33	Macao	MO	Yes
4	Aruba	AW	Yes	34	Malaysia (Labuan)	MY	No
5	Austria	AT	Yes	35	Maldives	MV	Yes
6	Bahamas	BS	No	36	Malta	MT	No
7	Bahrain	BH	Yes	37	Marshall Islands	MH	Yes
8	Barbados	BB	No	38	Mauritius	MU	No
9	Belgium	BE	Yes	39	Monaco	MC	Yes
10	Belize	BZ	No	40	Montserrat	MS	Yes
11	Bermuda	BM	No	41	Nauru	NR	Yes
12	British Virgin Islands	VG	No	42	Netherlands	NL	Yes
13	Brunei	BN	No	43	Netherlands Antilles	AN	Yes
14	Cayman Islands	KY	No	44	Panama	PA	Yes
15	Cook Islands	CK	Yes	45	Philippines	PH	Yes
16	Costa Rica	CR	Yes	46	Portugal (Madeira)	PT	Yes
17	Cyprus	CY	Yes	47	Samoa	WS	No
18	Dominica	DM	No	48	Seychelles	SC	No
19	Gibraltar	GI	No	49	Singapore	SG	Yes
20	Grenada	GD	Yes	50	St Kitts & Nevis	KN	Yes
21	Guernsey	GG	No	51	St Lucia	LC	No
22	Hong Kong	HK	Yes	52	St Vincent & Grenadines	VC	No
23	Hungary	HU	Yes	53	Switzerland	CH	No
24	Ireland	IE	Yes	54	Turks & Caicos Islands	TC	No
25	Isle of Man	IM	Yes	55	United Arab Emirates (Dubai)	AE	No
26	Israel	IL	Yes	56	United Kingdom (City of London)	GB	Yes
27	Jersey	JE	Yes	57	Uruguay	UY	Yes
28	Latvia	LV	Yes	58	US Virgin Islands	USVI	No
29	Lebanon	LB	Yes	59	USA (Delaware)	US	No
30	Liberia	LR	Yes	60	Vanuatu	VU	No