

STATEMENT OF FORMER LGT TRUEHAND EMPLOYEE,  
FORMERLY KNOWN AS HENRICH KIEBER, PROVIDED BY US  
SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

Permanent Subcommittee on Investigations

**EXHIBIT #5a**

UNITED STATES SENATE  
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS  
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

STATEMENT OF FORMER LGT TREUHAND EMPLOYEE:

Washington, D.C.

APPEARANCES:

On behalf of the Committee on Governmental Affairs:

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United States Senate

Permanent, Subcommittee on Investigations

Committee on Homeland Security and

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Washington, D.C. 20510

MR. ROACH: Good morning, sir. My name is Bob Roach. I am counsel for the Democratic staff of The Permanent Subcommittee on Investigations. With me is my colleague, Mike Flowers, who is counsel for the Republican staff of the Subcommittee.

MR. FLOWERS: Good morning, sir.

CONFIDENTIAL INFORMANT: Good morning.

MR ROACH: Thank you for joining us. I understand you have a statement to make after which we will ask you a few questions about the banking and trust operations of the LGT Group. Please proceed.

CONFIDENTIAL INFORMANT: Good morning.

I swear that the testimony I am about to give will be the truth, the whole truth, and nothing but the truth so help me God.

In 2000, the LGT Trust was evaluating the so-called "paperless office". A project to scan every document of each client's legal entity and index them electronically, encoding an internal "back track" code [text missing] The project requires to hire over 20 new staff members. Based on education and skills, I, then named Heinrich Kieber, worked, started to work at the LGT Trust in Vaduz in October 2000, and I worked there for more than 2 years until the date 2002. The LGT Group in Liechtenstein is a provider of a vast range of financial services. The key business of the LGT Group consists of the LGT Bank and the LGT Trust services. Both are independent, commercial

companies and both use autonomous computer data storage systems. The core trade of the LGT Trust, with head office in Vaduz and several branches in Switzerland is selling and managing Liechtenstein legal entities such as foundations or establishments. They cater for clients from many different countries including the USA. Generally, the client transfers his/her bank assets, such as securities and cash accounts and often also the nonbank assets, such as real estate, expensive paintings, patents, rights, etcetera, into the ownership of a selected one or more legal entity.

The client becomes then the beneficial owner of the legal entity. Every single legal entity from Liechtenstein has to pay on average a worldwide matchless flat tax rate of only \$1-000 Swiss francs per year, regardless of the millions of different type of assets they own and income they gain.

The LGT Trust, back in the year 2002, had over 3,500 active legal entities under management, with the combined [text missing] bank assets of around 7.2 billion Swiss francs of which about 6 were invested at the LGT Bank and the rest in other Liechtenstein banks or Swiss banks. Back then, the LGT Bank had around 50 to 60 billion Swiss francs in their books. Today they hold over 100 billion Swiss francs. The real value of the nonbank assets are never recorded in the books.

The first couple of months I was in charge of the correct handling of all clients, legal entities' files to make sure that they are scanned properly and that not one of the very sensitive documents where all the data concerning the beneficial owners are recorded is lost in the process. Because of the nature of my job, I had access to all documents of all legal entities, active ones and the inactive ones.

The biggest task of the second stage was the proper indexing of all scanned documents. To be able to index the documents, we had to read every single one on our screens. It was then when I began to realize the very questionable business the LGT was often involved in and the dubious clients they were serving, the kind of business that goes beyond just facilitating massive tax evasion. Going through thousands of documents, I got very, I got the very clear picture of the highly sophisticated and sometimes surprisingly simple tricks and methods used to help any clients to bring his or her bank assets to Liechtenstein and nonbank assets under the control of the one or more selective legal entity; (b) help any clients to keep his or her assets out of the reach of the taxman and people who may have a legal [missing text] in it; (c) get around the laws of Liechtenstein and other countries; and to avoid the attention of international law enforcement agencies and the international media.

Liechtenstein has implemented real-tough new compliance laws in January 2001. In addition, in July 2002, they signed a mutual assistance treaty with the United States of America. This treaty was designed to protect the international financial markets against terror, organized and economic crimes. However, the business practices of LGT undermines those reforms that Liechtenstein enacted. The LGT deliberately ignores the basic principles of the know-your-customer rules. For sure, I can frankly declare that in the vast majority of all legal entities, LGT does not, have a clue about the real sources of their clients' huge wealth they manages [text missing] has been

verified in the files I delivered to the U.S. Government.

The final part of my job was to conduct training programs for-all of the 85 staff members of the LGT Trust, including CEO, members of the company's board, and members of the company's board. When I was teaching the CEO or a member of the board or a trust client advisor' I confronted them about the LGT's questionable practices that I have seen in many files. Sometimes I always raised this topic with foundations' bank account managers from the LGT Bank. All these discussions were about, files with strong indication to corruption, links to dictators, or business deals to avoid a U.S. embargo, for example. The answer was always the same: None of your business - just, stick to your designated job.

I obtained copies of the data of every legal entity and, furthermore, copied of vast internal documents before I left the company. All documents provided are authentic, original copies and have not been in any way changed or manipulated.

MR. ROACH: Thank you, sir.

CONFIDENTIAL INFORMANT: That's my statement.

MR. ROACH: Thank you, sir. I'd now like to ask you a few questions. First of all, in your statement you referred to tricks that LGT used to help clients bring their assets into the bank, would you mind commenting on that, including the use of shell- companies to move funds internationally.

CONFIDENTIAL INFORMANT: Yes. There are several methods in use, depending on the type of assets the client. wants to transfer into his or her legal entity in Liechtenstein. For bank assets, the LGT Group establishes, indirectly manages, and ultimately owns a number of legal entities, So called "special purpose vehicles" SPV - for the purpose of high-grade camouflage, there are two types of SPVs. Type A: big bank accounts around the world; and Type B: which do not have any bank accounts but own and control Type A. To protect the LGT Group, those types used are never from Liechtenstein. The LGT uses only SPV... [text missing] in Panama, in the British Virgin Islands, or sometimes even in Nigeria.

In practical terms, for a U.S. client, the LGT will transfer the bank's assets out of the United States through a chain of several Type A SPVs. Firstly, always into a country, for example, Canada, which from the IRS point of view is not suspicious. Next, through a series of other countries and therefore different jurisdictions. Preferably countries with very weak or, better, non-existing compliance laws' Before reaching Liechtenstein, it will run through a Swiss bank, for example the Banca del Gottardo in Lugano. This bank, in turn, has reciprocal rights to use the LGT Bank for its own customers.

For an additional layer of concealment, either the Swiss bank or the LGT Bank often perform a fake cash-out transaction to make it look like the monies have been paid out in cash over the counter where in fact they have been transferred into the concentration account of the LGT Bank and, at the same time, the equal amount has been credited into the client's legal entity's bank account. After one or two years in use, the SPVs are put into liquidation, then deleted, and new ones established.

The only purpose of all this is to make it extremely complicated for law enforcement agencies to follow the trail, each step serves as a filter to hide the track of the client's money. For any bank or trust company in Liechtenstein, the matter of SPVs is commercially very sensitive material... The better the system put in place, actually the less it will be detected. There's a lot of effort put into getting research and checks of any possible legal implications, so that the LGT Group can always be many steps ahead of the tax authorities.

All of the clients, trust advisors and bank account managers of the LGT Group get regular in-house training in relation to the latest tricks and methods used so they can keep their knowledge up to date and can offer it to any existing or future customers.

MR. FLOWERS: Thank you, sir.

Sir, you mentioned during your statement that LGT helped clients to keep their assets out of reach of tax agencies or persons with legal [text missing] on those assets. Could you please explain how that was accomplished?

CONFIDENTIAL WITNESS: Yes. What happens, the LGT strongly recommends to all clients to follow instructions such as, firstly, not to tell anybody concerning the legal entity to their lawyers, to other family members or relatives who are not part of the pool of beneficial [text missing] friends or business partners. The reason is, any human relationship can go wrong and the client may end up in a situation where blackmailing is possible. Secondly, not to call the LGT Group from home, not from home, not from work. Use public phones instead. As Liechtenstein has an own country code number, the IRS may use the same plan as the Italian [text missing] They ordered the state-run phone company to record over a certain period the callers id, the time, and number dialled from a big city in Italy to Liechtenstein, to a Liechtenstein number. When the number called did not match a phone number – sorry - did match a phone number registered to a bank, trust company, or a lawyer, the tax police of Italy conducted a special [text missing] of the Italian callers. Thirdly, a third recommendation, only make calls in emergency to the nominated cell phone numbers of the clients' trust advisors. The LGT Trust only uses cell phone numbers from Switzerland or Austria. Again, because of the existence of a Liechtenstein-own country code number' When calling, the clients should always use the code words agreed and never state their own names or name of the legal entities. In addition' the LGT Group itself does not send any mail to their customers out of, from Liechtenstein. If at all, mail gets sent out via Swiss or Austrian post office to avoid the attention of any tax enforcement agency around the world looking for mail coming from Liechtenstein. In addition, any documents sent out are specially prepared in the way that the name of the bank, the client's name, or the legal entities' name is not revealed. The LGT Group does not call the clients at home or at work or on her or his phone cell phones and does not communicate with their clients via email. The fact that all the LGT Trust's clients do not need their assets hidden in legal entities for their daily living helps very much to avoid detection and to keep the personal contact between the parties to a minimum, on average once per year.

MR. ROACH: Thank you. You said. That, LGT used methods to allow it to get around compliance with the laws of Liechtenstein and other countries. How did LGT do that?

CONFIDENTIAL WITNESS: Yes, They're very sophisticated in that way. The know-your-customer rules necessitate a lot of up to-date documentation concerning the client's identity and the true source of assets. In addition, a profile of every client has to be created, and any movement outside the set profile has to be reported to a preferably independent government entity, for example, to the financial intelligence unit. The [text missing] only fails to keep the basic documentation up to date, often there is no clear indication of the beneficial owner or the source of the monies at all. Furthermore [text missing] LGT Trust, predetermines the threshold of a client's profile in such an unrealistic way that it would that it will not trigger the compulsive report even so when according to compliance law, the transaction is regarded as more than suspicious.

MR. FLOWERS: Thank You, sir.

Sir, based on your experiences while working at LGT, did LGT ever assist US. persons in repatriating their assets back to the United States in a manner that would. have reduced the attentions of the United States Government?

CONFIDENTIAL WITNESS: Yes, there are several tricks in use, and I recall one. Then, at times, actually the LGT Trust would adjust the legal entities' documents to designate a new beneficial - owner who will cause or result in the lowest tax obligation or, if possible, a zero tax obligation. Often this means creating a new trust documents and changing the name of the real beneficial owner into the name of a person or relative who has recently died or, in some cases, is unfortunately in the process of dying. When the assets are transferred, back to the United States, the real beneficial owners explain to the IRS that they have just inherited a large amount which was only discovered in recent times.

MR. ROACH: Now, in your statement, you also said that LGT sought to avoid the attention of international law enforcement and the media' How did LGT do that?

CONFIDENTIAL WITNESS: After some major scandals in the past 15 years, in an effort to avoid bad and further damage to their reputation, many powerful financial key players in Liechtenstein established smaller banks or trust companies whose names nobody recognizes. They have transferred their risky group of clients into those new banks or trust companies. In that [text missing], if the risky clients are exposed in a scandal overseas, The larger well-known banks or trust companies are out of trouble and the media spotlight. The LGT Trust, but not so much the LGT Bank, did not accept new clients from Russia, for example, but would refer them to such smaller trust companies.

MR. FLOWERS: Sir, you made references in your statement to LGT's role in assisting in corruptive--or corruption, [text missing] of corruption including breaking embargoes, for example. Could you please elaborate

on that?

CONFIDENTIAL WITNESS: Yeah. The words I say here is that one set of documents indicate its pride in government officials in another country - in other countries including the United States. The LGT Bank introduced the client to the LGT Trust. The LGT Trust did accept the client but refused to nominate staff onto a new Panama company where such payments should be done in the future. At the end, in this file the payment continued to be facilitated through the LGT Bank' And there is another file which has a very strong indication of, of corruption in a third. world country. A head of a social government' department [text missing] over \$5 million U.S. dollars with no explanation in the files whatever in regard to the source of the vast amount.

MR. ROACH: In an answer to a previous question, you identified some problems with LGT's know-your-customer program. What about LGT's compliance with the qualified intermediary program?

CONFIDENTIAL WTTNESS: Yeah, I strongly believe that they are violating this one too. The IRS implemented the qualified intermediary stages QI to be able to collect the withholding tax on interest and dividends on US securities through foreign intermediaries. The LGT Group realized quickly that without the QI stages, the banking secrecy for their US clients cannot be sustained, because only as a QI the LGT Group can avoid having to report the underlying beneficial owners to the IRS. The IRS approved the QI stages to Liechtenstein as a country and to- the LGT Group as a foreign intermediary in early 2001 [text missing] both were able to persuade the IRS that Liechtenstein's know-your-customer rules were top standard' All U.S. clients from the LGT [text missing] with U.S. securities in the bank portfolios have been informed about the QI regulations. These client's had two options: Get out of the U.S. security – sell them or keep them. The clients wanting to keep the U.S. securities had great fears [text missing] eventually find out who the ultimate beneficial owners are, for instance, through the external auditors' working paper the IRS can request to examine [text missing]

To reduce the panic, the LGT came transfer all U.S. securities held by a person into a newly established Panama layer of secrecy between the foundation and that Panama corporation, another offshore company will own the Panama corporation. The LGT's argument for the Panama corporation solution was that the IRS regards it as a per se corporation; (b) having added enough offshore companies in between the U. S. client as a beneficial owner and the entity holding the U.S. securities, the LGT Trust declares the whole structure as being a non-U.S. status. This should keep the client out of trouble and taxes.

MR. ROACH: Thank you very much, sir. [text missing] This concludes our session

MR. FLOWERS: Thank you, sir.

CONFIDENTIAL WITNESS: Thank you very much.