

Offshore Alert

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An international business newsletter covering Bermuda, the Bahamas and the Cayman Islands

Issue 1

Collis Accused of Altering Minutes in \$40 m court case

One of Bermuda's most influential businessmen, lawyer Charles Collis, has been accused of doctoring the minutes of a crucial committee meeting to hide evidence that directors of Bermuda Fire & Marine Insurance knew the firm was in financial trouble before they stripped it of \$40 million in assets.

The allegation has been made in documents filed at Bermuda Supreme Court by accountants Ernst & Young, who are suing for the recovery of the assets so they can distribute them to the company's unfortunate policyholders, who are mainly US insurance companies.

Two years after the asset-stripping, Bermuda Fire collapsed with debts now estimated by Ernst & Young to be around \$500 million. Most of the debts were incurred by underwriting high-risk pollution business through the now-defunct HS Weavers underwriting pool in London.

Ernst & Young is suing the perpetrators of the asset-stripping, who include some of Bermuda's most influential business and political leaders, as well as Bermuda Fire's former legal advisors (i.e. Collis' own law firm) and accountants, alleging fraud and negligence.

Being able to prove that Bermuda Fire's directors knew or should have known the company was insolvent before it was stripped of its assets is central to outcome of the court case. Although sources say that BF&M made an offer to settle the lawsuit about 12 months ago - an offer that was rejected as inadequate - the firm has not made a follow-up offer.

(Continued on page 2)

New Cayman Stock Exchange

A couple of years after the Bermuda Stock Exchange began its push for overseas listings, the Cayman Islands Stock Exchange began operations on January 2 with similar aims.

One of the principal aims of the CSX is to persuade new mutual funds forming in the Cayman Islands to list on the local exchange rather than in Dublin, which is where most of them have traditionally listed.

With about 600 mutual funds forming in the CI annually, it could prove a lucrative market.

The CSX has appointed its first listing agents and expects to begin trading on Bloomberg on March 1.

Inside this inaugural edition of Offshore Alert, we take an in-depth look at the new CSX, including an interview with its Acting CEO David Carrad.

There is also an update on the progress being made by the Bermuda Stock Exchange and its CEO, William Woods, gives his views on the CSX.

We also look at plans by the Bahamas to have an international stock exchange of its own within 10 months.

Pindling accused of inciting violence - MP murdered

Bahamian opposition leader Sir Lynden Pindling, who all but destroyed his country's international business sector when he was Prime Minister from 1967 to 1992, has been accused of inciting gang members to murder a member of the government in the run up to a General Election on March 14.

Housing Minister Chuck Virgill was shot to death just one day after Pindling appeared to incite members of drugs gangs who support him to take violent action against the government.

He allegedly told gang members at a rally that the ruling Free National Movement had \$5 million of campaign funds and that they should try to get some of it for themselves.

Virgill was the campaign co-ordinator for the FNM and would have been an obvious person to carry money for his party. He was last seen alive on February 13 as he left a FNM rally clutching a briefcase which his murderers may have thought carried campaign funds, according to sources in the Bahamas.

Three men, aged between 25 and 32, have been arrested for his murder. One of them is on bail for another murder in which he is being legally represented by Pindling's eldest son, Obie.

Until Virgill's murder, Pindling's Progressive Liberal Party had been given a fighting chance of overcoming Hubert Ingraham's Free National Movement party, much to the distress of the country's international business sector.

Many grass roots Bahamians had appeared to be willing to ignore overwhelming evidence of corruption and fiscal incompetence against Pindling and take up his dubious message that foreign businessmen and wealthy Bahamians were profiting at the expense of the working class..

A particular target of his were the wealthy businessmen who lived inside the gated-community of Lyford

(Continued on page 2)

<i>Inside this edition of Offshore Alert</i>			
IRS examines books of Bermuda insurer	Page 3	Bahamas Stock Exchange - still talk	Page 6
Cayman's new anti-money laundering law	Page 4	Bermuda Budget - good for int'l business	Page 7
Cayman and Bermuda Exchanges analyzed	Page 5	Court Round-Up - Bermuda and Cayman	Page 10

(Continued from page 1)

In a court filing, Ernst & Young has accused Collis, who was Bermuda Fire's chairman, of instructing an unnamed person at the company to alter the minutes of a finance committee meeting held on June 24, 1991 - five months before Bermuda Fire sold its profitable domestic business effectively to itself and divided out most of the proceeds to its shareholders, leaving behind a hopelessly bankrupt company.

At the finance meeting, Collis and fellow directors Donald Lines, then chief executive officer of the Bank of Bermuda; Michael Collier, then a senior officer with the Bank of Butterfield; and Gregory Haycock, a partner in accounting firm Butterfield & Steinhoff; discussed how to break up the business to protect the profitable domestic operation from the mounting debts of its international division, according to Ernst & Young.

Part of the discussion was said to have focussed on whether Lines' and Collier's banks, the Bank of Bermuda and the Bank of Butterfield, would be prepared to underwrite a Bermuda Fire share offering that would help finance its break-up.

Lines, who was head of the Bank of Bermuda at the time, apparently took the view that no bank in its right mind would be prepared to put itself at risk of a possible lawsuit from its clients by underwriting an offering of a company whose debts may exceed its assets, according to Ernst & Young.

His alleged comments, however, never appeared in the official minutes recording the events of the meeting.

Ernst & Young claim that, although Bermuda Fire's secretary, John Patterson, "originally prepared and/or signed a minute which recorded the views expressed by Mr. Donald Lines, the version of the minute signed by Charles Collis was wrongly altered, on the instructions of Mr. Collis".

According to Ernst & Young, Mr. Patterson's original minutes of the meeting allegedly included the sentence: "The Committee took cognizance of the view of Donald Lines that the banks were likely to be reluctant to underwrite a share issue...(where there was)...a subsidiary with potential for claims in excess of its capacity to meet the same."

But, in the version of the minutes signed by Collis, the words underlined had miraculously disappeared, according to Ernst & Young.

Ernst & Young's ability to prove that Bermuda Fire's directors had good reason to believe the company was bankrupt before they broke it up is central to their entire lawsuit.

Collis has, in the past, denied that Bermuda Fire's directors have done anything wrong and has claimed they acted in the best interests of all parties, including creditors.

Though quite how directors thought stripping the company of more than \$40 million of assets would help creditors has never been explained.

Apart from allegations of minute doctoring by Collis, there are several other questions which BF&M watchers would like answers to in the impending court case:

1. When selling Bermuda Fire's profitable domestic business effectively to itself, how did directors value this part of the business at \$56 million when, six months earlier, no less an authority than JP Morgan, acting for Bermuda Fire, had valued it at \$78 million?
2. After rightly suspending shareholders' dividends in 1987, how could directors justify, given the parlous state of the company, the reinstatement of dividends the following year?
3. Who were the shareholders who sold bundles of worthless Bermuda Fire stock to unsuspecting suckers on the Bermuda Stock Exchange in the months after the asset-stripping and were they privy to insider information?
4. How can BF&M continue to allow Charles Collis to remain as chairman given his obvious conflict of interest in the lawsuit, whose defendants include him as an individual, his law firm and BF&M? It would take a superhuman moral effort on his part to negotiate BF&M out of the lawsuit if it was detrimental to his law firm and vice-versa?

When these questions and others were faxed to Collis for comment, he replied by fax: "As I am sure you are aware, this matter is presently the subject of litigation by the liquidators and I am advised that, in the circumstances, it would be inadvisable to make any comment on the matters raised by you."

Given the likelihood that a case many consider to be one-sided will be settled before it goes to trial - with the usual confidentiality clause thrown in as part of the settlement, the answers may never be known.

(Continued from page 1)

Cay and the wealthy resident of Eastern Road. Now, some of Pindling's own supporters have turned against him and few people give him much chance of victory in the election

This is welcome news for foreign businessmen who, according to business sources in the Bahamas, will leave in droves if Pindling wins, just like many offshore banks and captive insurers fled in the late 1960s/early 1970s when Pindling was Prime Minister.

During his 25-year reign, he made work permits almost impossible to obtain for foreign workers and made several threats against the international business sector. In an atmosphere of hostility and uncertainty, many offshore banks fled to the Cayman Islands and captive insurers relocated to Bermuda, helping to kick-start what have developed into hugely successful industries in those countries.

The captives fled in 1968/69 after Pindling's government drafted a bill that would tax them annually at one per cent of gross premium income.

Today, Bermuda is one of the world's top insurance markets, the Cayman Islands is the world's fifth largest financial centre and the Bahamas is only just recovering from Pindling's mismanagement.

So crude was Pindling's style that, after the Playboy empire pulled out of the Bahamas, he prevented Playboy boss Hugh Hefner from leaving Nassau where he had gone to close down bank accounts and tie up his affairs.

Hefner and the head of security at Playboy were eventually smuggled out in a US Drug Enforcement Administration plane.

In previous elections, Pindling has been accused rigging elections with votes from prisoners and dead people. He is also credited with introducing violence into Bahamian elections in 1968 when gangs known as "PLP goon squads" set about their political opponents.

While he was still Prime Minister, a Commission of Inquiry uncovered allegations of bribe taking against Pindling.

(Continued on page 3)

(Continued from page 2)

And only last month, another Commission of Inquiry found that Pindling, while he was chairman of the Hotel Corporation of the Bahamas, took a \$750,000 "gift" in 1983 from a hotel development company that had been awarded a Corporation contract. He also admitted depositing funds intended for his political party into his own personal bank accounts.

Under Hubert Ingraham, the Bahamas economy is enjoying a resurgence and foreign investment has started to pour back into the economy, particularly through the massive development of Paradise Island by the hotel/casino group Sun International.

A source in the Bahamas said: "Many foreign businessmen will leave immediately should Pindling regain power. They remember only too well what he was like before. The big question, though, is whether the voters remember, do they really care and how much credit will they give Ingraham for turning the economy around."

MRM books scrutinized by IRS

Bermuda-based Mutual Risk Management, which sells itself to investors as being risk-free and to its ultimate insureds as being a carrier of risk, is currently subject to an examination by the US Internal Revenue Service.

An adverse IRS ruling is likely to affect the profitability of MRM's US policy-issuing subsidiary, Legion Insurance, by making its policies less attractive to American firms looking for ways to reduce their tax burden.

At issue is whether Legion's policies are genuine insurance policies involving a significant transfer of risk, as MRM claims, or whether they are more an elaborate mechanism for enabling their US clients to pay less in taxes, which the IRS appears to suspect.

The IRS inquiry, which is already underway, is expected to concentrate on MRM's Insurance Profit Center, which enables Legion's 'insureds' to get back much of their 'insurance premiums' at the end of their policies.

Sources in the Bermuda insurance industry say that, in effect, Legion's clients 'deposit' money into MRM through Legion with most of the amount returned at a later date with interest. They question whether there is a significant transfer of risk involved and say the facility appears to have as much in common with banking as insurance.

MRM benefits from collecting fees for providing the facility and 'insureds' benefit from claiming tax breaks on their

'premiums', say sources.

In a 10-Q filed with the SEC in November, 1996, MRM confirms that the IRS has begun an examination of the company's calculation of "related party insurance income" for 1993 and 1994.

In its filing, MRM states: "The company calculates RPII on behalf of certain of its clients participating in its Insurance Profit Center Program in order to provide those clients with information used in preparing their US income tax returns. The company believes that its calculation of RPII was materially correct in both years.

"The company believes that, as a part of this examination, the IRS may question whether certain clients of the Insurance Profit Center Program properly deducted all or a portion of the premium paid in connection with their program."

MRM reassures its shareholders by pointing out that "any adjustment by the IRS would affect the company's clients and not the company directly".

It is the second time over the last few years that there have been concerns about the level of real risk in policies issued by the MRM group.

The firm caused a stir in Bermuda in 1995 when it sacked its auditor of 17 years, KPMG Peat Marwick, and replaced them with Ernst & Young.

Rumours were rife that the sacking was prompted by Ernst & Young refusing to sign off on the risk transfer portion of MRM's financials.

Faced with an increasing barrage of lawsuits around the world, accountants are tightening up their practices to protect against future negligence claims.

Both MRM and KPMG have strongly denied there were any differences over accounting principles and MRM filed an SEC document stating it had nothing to do with accounting differences.

It was suggested by one MRM officer in the past that KPMG had been dismissed because they lacked the necessary 'take-over' expertise required by MRM.

MRM, one of the darlings of Wall Street analysts, has expanded rapidly in recent years by buying up smaller firms

Although MRM is publicly-listed in the US, the company has never felt obliged to publicly explain why such a long-standing and important relationship with KPMG was terminated.

Robert Mulderig, MRM's boss, failed to reply to a fax asking him about the IRS inquiry.

Cable & Wireless sue Bermuda Gov't over 'breach' of monopoly

Cable & Wireless is suing the Bermuda government for breaking its monopoly on international calls by granting a licence to newly-formed rival TeleBermuda International.

TeleBermuda plans to begin operating next month and is threatening to cut overseas rates by up to 17 per cent for calls to some countries.

Sources say Cable & Wireless has not ruled out applying for an injunction to prevent TeleBermuda from offering its service until the legal dispute has been determined by Bermuda Supreme Court.

C&W claims the awarding of a second licence breaches legislation that allegedly contains a commitment from government to continue its monopoly on providing international telecommunications in Bermuda.

The legislation was passed in 1985 at a time when Cable & Wireless had invested heavily in fibre optic cabling for the island, giving Bermuda one of the most modern telecommunications systems in the world.

A similar monopoly agreement is said to exist between C&W and the Cayman Islands government, although sources say it has never been officially acknowledged.

A Bermuda source said: "Government decided to have competition in the area of telecommunications and Cable & Wireless maintain that they basically have a licence to be the island's only international carrier.

"Cable & Wireless' licence says they have a monopoly and they are taking action against the Telecommunications Minister. The litigation that was taken out was to determine whether the allegedly exclusive licence prevents the government from issuing a competitive licence or whether there's an escape clause to allow the government to do what it has already done."

Scott Socol, executive vp of TeleBermuda, which is on the Bermuda Stock Exchange, said his firm expected to begin offering its service at the end of March, although there were still some issues with Bermuda Telephone Co. to be ironed out.

He said his company had not finalised international rates but he expected them to be between 15 and 17 per cent cheaper than those currently offered by Cable & Wireless.

Currently in Bermuda, per minute costs are \$1.15 to the US, \$1.15 Canada, \$1.85 to the UK and \$2.25 to Hong Kong.

Cayman introduces money laundering law - But will it satisfy sceptics?

Is the Cayman Islands new 'Proceeds of Criminal Conduct Law' a smoke and mirrors act - as some in rival jurisdictions believe - or is it a genuine attempt at deterring money laundering?

The answer will only be known the first few times that the Cayman authorities receive requests for assistance from law enforcement agencies in the U. S. and the U. K.

Those are the only two countries recognised in the section of the law that codifies a mechanism by which foreign bodies can receive help when following paper trails that allegedly involve criminal activities.

The much-vaunted PCCL is being shown by Cayman as a further commitment to deter money-laundering.

But sceptics in rival jurisdictions believe the island was rail-roaded into passing the law by the U. K. government and question whether Cayman has the will or the desire to enforce the legislation to the extent the British authorities hope it will be enforced.

Grand Cayman professionals believe the island has an unfair reputation for money laundering and point to the fact that many of the world's largest financial institutions would not have set up operations there if there was a serious credibility problem.

"It's one of those areas where it's quite impossible to shift perception, even though it is a wrong perception," said a leading Cayman offshore finance professional. "If it ever was justified, and I don't think it ever was, it's 20 years out of date.

"The Cayman Islands has been a clean jurisdiction in that way. There are never any reports of suspicious transactions in the U. K. which have ever mentioned the Cayman Islands."

Many offshore businessmen believe the biggest centres for money laundering are London and New York and that offshore centres like Bermuda and Cayman are responsible jurisdictions at least on a par with the U. K. and the U. S. A. in terms of policing.

They say it is wrong to lump Bermuda and Cayman in the same bracket as dubious domiciles like the Turks & Caicos Islands (nicknamed the 'Totally Corrupt Islands' in some quarters) or the British Virgin Islands. Companies based in T&C, for example, are assumed to be crooked by many knowledgeable businessmen until proven otherwise.

The Bahamas is seen to be somewhere in between, although it is making significant strides towards credibility under Hubert Ingraham.

"Cayman is more successfully regulated than the Bahamas or even, in certain respects, the U. K.," said a Grand Cayman business source.

"For example, the Cayman Islands will not permit a bank to open unless it is properly regulated in its own jurisdiction. The Bahamas, for example, will allow Russian banks to open but we will not."

Cayman's Proceeds of Criminal Conduct Law is merely the codification of practices that have existed for several years, say local sources.

The main parts of the PCCL are:

1. It gives the authorities certain powers of seizure and access to information
2. It sets out specific money-laundering offences.
3. It extends current powers in relation to domestic money-laundering offences, including allowing for confiscation orders to be obtained.
4. It encourages international co-operation by permitting the

Cayman courts to assist a foreign country in executing confiscation orders. This applies only to the U. S. and the U. K., which have been recognised as designated countries.

On the latter point, co-operation will only be given in instances where there is dual criminality. For instance, since the Cayman Islands does not recognize other jurisdictions for tax purposes, there will be no help given in relation to tax fraud.

The law does not place any onus on bankers or other professionals to report evidence of suspicious activities. But there is a formal mechanism in place to allow those inclined to pass on information to the authorities without fear of breach of confidentiality reprisals from their clients.

A reporting authority has been set up, whose members include the Commissioner of Police, to handle information. The Attorney-General has the powers to restrain the dissemination of this information and has a duty to consider third-party interests when requests for information are made by investigative forces.

The PCCL is modelled on English law with a few modifications to accommodate Cayman's status as an offshore jurisdiction. The setting-up of a reporting authority and the way it operates is one of the major differences between Cayman's law and the various laws in the U. K. that collectively were set up to achieve the same goal of preventing money laundering.

Another difference is that, in the U. K., it is an offence to go through with a suspicious transaction that you have reported it to the police until the police have cleared it. In effect, the police have a veto over the transaction. In Cayman, bankers don't have to wait for police clearance once they have reported suspicious activity.

"The problem that causes in offshore jurisdictions is that we're not allowed to tell our clients why we're not proceeding with the transaction because this will constitute a 'tipping-off' offence," said an industry professional.

"At the same time, if we had adopted the U. K. laws, we could not go ahead with the transaction because the police may not have signed off on it. So we adapted our law to state that, once you've filed a report with the reporting authority, you can go ahead and fill the transaction."

If the authorities were so inclined, they could try to obtain an injunction to prevent the transaction going ahead.

As for being rail-roaded into the legislation by the U. K. authorities, a source said: "The U. K. was anxious to have a model which could then be presented to other dependent territories. It's fair to say a dialogue was entered into between governments. Cayman was concerned at some of the provisions in the English courts and the U. K. government was concerned with its responsibilities to its dependent territories."

The Cayman Islands describes itself as the fifth largest financial centre in the world. Over 400 banks are registered there and, at year-end 1996, there were approximately 1,200 mutual funds with a net asset value of about US\$80 billion.

Bermuda Mutual Fund Figures		
Sep. 30, 1996	745 collective investment schemes	\$15.62 billion net asset value
Sep. 30, 1995	633 schemes	\$13.79 billion

Cayman Stock Exchange challenges Dublin's fund business

One of the primary objectives of the new Cayman Islands Stock Exchange (CSX) is to get listings from the large numbers of mutual funds that use the CI as their place of registration.

In the absence of any closer, bona fide offshore exchange, CI-registered funds seeking a public listing have historically listed on the Dublin Stock Exchange, said David Carrad, Acting CEO for the CSX.

The Dublin Exchange and not the geographically-closer Bermuda Stock Exchange, which began its push for international listings two years ago, is Cayman's main competition, said Carrad.

At the end of December, 1995, 82 - or 17 per cent - of all 479 funds listed on the Dublin Stock Exchange were Cayman-registered, he said.

By comparison, the Bermuda Stock Exchange only has two or three listings of Cayman-registered funds. "If I were a fund manager incorporating a fund in Bermuda, there's really not much reason to come to Cayman for a listing," said Carrad. "And the same is true the other way around."

He does not expect any of the Dublin Stock Exchange funds to move their listing to Grand Cayman because he said there was no logical reason to do so but they may consider a secondary listing in Cayman for an initial listing fee of \$1,000.

The CSX expects most of its listings to come from persuading the new mutual funds being formed in the CI to list locally rather than go to Dublin.

"Our big advantage is we provide one-stop shopping. You can incorporate here, be administered from here and, now, list here." With about 600 mutual funds being formed in the Cayman Islands annually, with an even split between open-ended and closed-end funds, fund listings offer potentially lucrative market.

Although it opened its doors on January 2, the CSX is not expecting to be fully operational until March 1, when trading is expected to begin over the same Bloomberg electronic system that the Bermuda Stock Exchange helped to develop.

In the week beginning February 11, the CSX admitted its first listing agents - ten companies with a physical presence on the island who have each paid the first year fee of US\$20,000 to become listing agents. Yearly renewals cost US\$15,000.

"These listing agents obviously have

quite a few listings in mind to warrant paying the annual fee," said Carrad. "We hope to have a couple of listings in hand by the end of February."

The first Broker Members - who will trade over the exchange - will be invited to join the CSX by the end of the month. At press time, about 23 companies had shown an interest in becoming broker/members, said Carrad. Broker Members must already be established in the broking field and, like listing agents, must have a physical presence in the Cayman Islands. "We're not looking for anyone new to the field," said Carrad.

Bermuda Stock Exchange

The Bermuda Stock Exchange is beginning to take off after months of canvassing for recognition from foreign regulatory bodies and acceptance by the international investment community.

The BSX believes it has overcome important hurdles over the last 12 months and is striving to match the impressive growth of the Dublin Stock Exchange.

Last year, the US SEC recognized the BSX as a Designated Offshore Securities Market, putting it in a group that includes stock exchanges in London, Toronto, Dublin and Luxembourg.

And, last month, the London Stock Exchange approved the BSX as a recognized exchange for the issuance of depository receipt programmes. Now, firms listed on the BSX can issue a Global Depository Receipt and list that on the LSE on the strength of its Bermuda listing.

With an application already in to the Securities and Investment Board in London to be recognized as a designated investment exchange and moves for recognition in Japan, BSX chief executive officer William Woods said most of the teething problems developing the exchange were over and that he was confident of rapid growth.

Sixty-two mutual funds are already listed on the BSX and Woods said he expected that figure to go through the 100 barrier "over the next couple of months".

And he pointed to the fact that Nomura Securities, who became a broker dealer last August, traded over US\$4.5 billion worth of international securities over the BSX in the four months from October to January as evidence that the exchange is now being used for real and

significant trading, rather than being simply a place to list.

The BSX has developed a product that allows Nomura to use the exchange to cross 'basket' - or high-volume - trades without incurring US taxes. The New York Stock Exchange permits for these high-volume trades to be crossed outside exchange hours on an overseas exchange.

The BSX provides Nomura with the necessary paperwork to present to the US authorities to authenticate the trade.

There are other exciting developments: the BSX is developing CATEX, a fully electronic exchange for the trading of insurance-risk products, in conjunction with the Catastrophe Risk Exchange that opened in New York last year and plans within six months to begin trading Asian stocks when the Hong Kong market is closed.

CATEX Bermuda, which is in the process of being incorporated in Bermuda, will have a significant advantage over the Catastrophe Risk Exchange now operating in New York in that it will be free from US regulations that restrict levels of activity and participation, said Woods.

"We will not be restricted to insurance companies taking part - for example, hedge funds and merchant banks will be able to participate - and we can trade different products such as derivatives and options, which you can't do on the New York exchange because regulators won't allow them to mix up products." Products such as 'Act of God' bonds are being lined up.

"We believe CATEX will become a platform to develop securitised insurance products. We're looking to build on Bermuda's status as a prime offshore insurance market and develop the world's first offshore insurance exchange."

Woods predicted rapid growth. "We're going through the transition of becoming a fully-recognized international stock market with the equivalent prestige of Dublin..

"Dublin went through their initial problems and so have we. Before Dublin set up, everyone listed in Luxembourg and people said, particularly those in London, that Dublin was the 'Mickey mouse' market.

"But Dublin cut their fees and they have now taken over from Luxembourg. We're coming up behind them to get that same status."

Just as Dublin aggressively went after Luxembourg's business, so Bermuda is going after Dublin's. In November, the BSX listed the Mauritius-sponsored Invesco Indian

(Continued on page 6)

Bermuda Stock Exchange

Growth Fund, which called off plans to list in Dublin to go to Bermuda. To list in Dublin, the fund would have had to restrict the minimum investment in the fund to \$100,000, said Woods. "We did our due diligence review of Mauritius and their mutual fund regulations and recognized them as a recognized jurisdiction for mutual fund purposes and that allows Mauritius entities to list here without having to list minimum investment figures," he said.

He is unconcerned about the recent formation of a stock exchange in the Cayman Islands and plans for an international exchange in the Bahamas. "They are both starting from ground zero," he said. "It takes years rather than months get the sort of recognitions and rewards that we are now getting."

Although Cayman denies it is copying Bermuda in developing an exchange and will not even admit that is competing with Bermuda, Woods said the law that paved the way for the Cayman exchange was "almost identical to Bermuda's" and he pointed out that most exchanges use the letter 'E' as the last letter of their acronym but Cayman "has chosen an 'X' like us".

Greg Wojciechowski, COO of the BSX, said: "We're watching what goes on in Cayman but they've got a lot of work ahead of them. "Unlike other offshore exchanges, we offer more than listings of convenience. We are being extremely aggressive in developing niche products and the Nomura product is a prime example. Last year was a significant year for us in terms of international firms coming here, which brought our market capitalization to approximately \$25 billion.

"Bermuda makes a lot more sense than Dublin or Luxembourg if the business is focussed on North America."

He said the BSX, which has been around in one form or another for 25 years and drew scorn in the past for using an archaic trading system that involved the drawing of ping pong out of a bag, had taken its knocks and was now "in the serious business of running a stock exchange and administering a serious business".

The BSX has a staff of seven, with an eighth on the way, and has eight member brokers, seven of whom also serve as listing agents. The BSX charges an initial listing fee of \$2,000 for unit trusts and mutual funds and an annual fee of the same amount. The initial fee for a secondary listing is \$1,000.

Bahamas Stock Exchange - still only talk

The Bahamas has set itself an ambitious timetable of having an international stock exchange by the end of the year, even though the legislation that will establish an exchange has not yet been passed.

The dissolution of Parliament prior to the March 14 general election has delayed the passage of the proposed Securities Industry Bill. But sponsors of the bill say it is supported by both political parties and hope it will be passed within a few weeks of Parliament reconvening in April, regardless of who wins the election.

"We hope it will be treated as a priority," said Larry Gibson, chairman of the Securities Market Task Force, an organisation of private industry professionals which is advising government on securities legislation.

He is deliberating whether to release the already-completed draft bill for consultation purposes before the general election is held or to wait until it is over.

The new bill will provide for the establishment of the Bahamas International Stock Exchange (to be known as the BISX) and will list the specific powers of the already-established Securities Board with respect to the issuance of securities and the conduct of those participating in the industry.

The bill will give the Board of Directors of the BISX powers to licence stockbrokers, investigate complaints and resolve disputes among members. The Securities industry Bill will also make it an offence to issue securities to the general public without a prospectus.

There will be a civil liability for misstatements and the directors will be responsible for the contents of a prospectus.

A key section of the bill will deal with the conduct of security business in prohibiting "false markets" and outlawing market-rigging transactions and other malpractice, said Gibson.

Also, every listed company will be required to keep a register of directors' beneficial interests in that company.

Gibson said the aims of the BISX were "not inconsistent" with what the Bermuda Stock Exchange was trying to achieve. However, he considered the law that established the Cayman Islands Stock Exchange to be "quite light", adding that "it doesn't really give you a clear idea of what they are doing".

"Deregulation of financial markets, liberalization of international capital flows and rapid financial innovation have resulted in the creation of global capital markets," said Gibson.

"The more reputable offshore financial centres have a unique opportunity to reap significant benefits if they are able to leverage their favourable tax structures and provide 'first world' standard services to international investors.

"Luxembourg and Dublin have achieved tremendous success in providing specialized capital market activities to the international marketplace. Today, centres such as the Bahamas, Cayman and Bermuda are all engaged in building international stock exchanges.

"Contrary to belief in some sectors, I feel that there is ample opportunity for all three new centers to succeed with their respective exchanges."

He said the emerging international exchanges will gain market share by offering products and services such as the listing of Global Depository Receipts, after-hours trading and crossing of shares with primary listings on the world's major exchanges, the listing of closed-end mutual funds established in the same jurisdiction, listings of convenience and call markets for illiquid securities.

Just like Bermuda, the Bahamas and Cayman compete for banking, trust and insurance business, so they will compete for offshore exchange business, he said. "There is room for more than one offshore exchange," he said.

He said that, since the Free National Movement government gained power four years ago, 14 different pieces of financial services legislation had been passed, covering areas such as mutual funds, securities and money-laundering, among others.

One of the laws established the Securities Board, an independent body set up to regulate capital markets in the Bahamas. The Board comprises eight professionals with backgrounds in international private banking, law, accounting, trust administration, commercial banking, education and government.

The Board has gained membership into the International Organization of Securities Commissions, which, through its membership, regulates capital markets worldwide.

"This represents an important milestone for the Bahamas," said Gibson. "Along with membership comes the opportunity for signifi-

(Continued on page 7)

(Continued from page 6)

cant technical and regulatory assistance.”

The Bahamian authorities are currently developing a clearance, settlement and trading system in conjunction with Jamaica, Trinidad & Tobago, Barbados, the Dominican Republic and NASDAQ, which is the lead manager in a project that is costing US\$2.2 million. They are jointly working towards providing a Central Securities Depository that will automate, clear, settle and guarantee trades on their respective exchanges.

“This project is scheduled to be completed by the fall of 1997,” said Gibson. “This modern infrastructure will enable the Bahamas to establish strategic links to major international depositories such as CEDEL and EUROCLEAR, thus allowing investors to trade globally.”

Apart from an international exchange, the Bahamas also wants to encourage domestic firms to go public. He said: “The successful privatisation of the more significant state-owned enterprises will be critical to the success of the domestic securities exchange by giving it some economies of scale along with nine outstanding local shares with a total capitalisation of some \$550 million.

“Shares of ICD Utilities are currently being sold and CIBC will be coming to market next month, both of which will increase the size of the market significantly. Additionally, the prospects for privatisation appear quite promising.”

Bermuda's Budget - no new IBC taxes

International businesses escaped unscathed from this week's Bermuda Budget, in which several measures were announced to increase the island's competitiveness as an offshore domicile.

In a Budget that was free of major new taxes, government announced it will spend \$206,000 to create three new positions within the Ministry of Finance whose role will be to support the needs of international business.

It will also allocate an extra \$350,000 to the Bermuda International Business Association to support its international marketing efforts.

Finance Minister Grant Gibbons also announced plans to further deregulate Bermuda's telecommunications industry, reduce company fees for captive insurers, increase fees for non-captive insurance and reinsurance companies and non-resident insurance undertakings, introduce regulations for mutual funds and foreign sales corporations and review Bermuda's entire tax structure, although this revision will not include looking at bringing in income tax.

Gibbons also said that work is continuing “to finalise tough new legislation to control money laundering”.

Gibbons gave no further details on by how much insurance company fees will be reduced and increased but firms that will face increases include all of the property catastrophe reinsurers and excess liability insurers, who have a significant presence on the island.

On mutual funds, Gibbons said: “In 1997/98, the Ministry will direct attention to regulations for collective investment schemes as well as initiatives to strengthen our foreign sales corporation business.

In recognition of the rapidly growing financial services sector, it is intended that a bill will be introduced to license and regulate the provision of investment services.”

Government plans legislation to make it easier for foreign companies to incorporate in Bermuda.

Gibbons said: “During the past year, a committee composed of members from the Ministry of Finance and the Bermuda Monetary Authority met representatives of the private sector to identify obstacles to the incorporation of international business. As a result, a list of recommendations has been submitted to Cabinet and it is anticipated that legislative changes will be considered by government and the business community in order to streamline the incorporations process.”

He also said that “a review of Bermuda's laws pertaining to intellectual property and copyright is already under way in order to prepare for the development of a potentially new sector of our economy. The Office of the Registrar General is working with a consultant from the Commonwealth Secretariat on this issue.”

Gibbons emphasised that Bermuda would not be bringing in income tax, despite a review of its tax structure.

He said: “In view of the changes that have already been made in our tax system and the structural changes that are occurring in our country, I feel it is appropriate to initiate an external, high-level review of the components of our entire tax structure.”

The review would take into account “changes to our tourism industry”, which has been in decline for seven years and has not improved greatly under new Tourism Minister David Dodwell.

“Bermuda's tax structure, which has served us so well, can be adjusted and refined, in gradual but meaningful steps, to meet the changing economic conditions in the short term and lay a solid foundation for continued prosperity,” said Gibbons.

“It is important to note, however, that it has been and will continue to be this government's policy that income tax would not be in Bermuda's best interest.”

Gibbons was upbeat about Bermuda's economy and said that Gross Domestic Product was expected to grow by 2.5 to 3 per cent in real terms in 1996/97 and by about 2 per cent in 97/98

Outlining his philosophy in his Budget statement, he said: “As in last year's Budget, government will facilitate the country's efforts to be more competitive by being restrained in raising new tax revenues. The government recognises the importance of not placing additional burdens on the business community and letting the economy grow and naturally generate additional revenues as a by-product of growth.”

Cayman Round-Up

Prison or Paradise?

A Colorado couple on the run from the Internal Revenue Service and a possible prison sentence in the United States have been celebrating a major court victory in the Cayman Islands, whose government has welcomed them with open arms.

The Appeals Court of the Cayman Islands reversed an earlier US\$721,000 judgment made against Thomas and Sandra Quintin by a lower Cayman court in a case brought by energy giant Philips Petroleum of Oklahoma.

Philips, which has now decided to take the case to a final appeal at the Privy Council in London, claims it is owed the money from the Quintins' failed oil business in the Colorado-Nebraska area. The Quintins originally fled to Cayman from Colorado in 1993 after the IRS chased them for more than US\$7 million in

(Continued on page 8)

Cayman Round-Up

(Continued from page 7)

unpaid taxes on gasoline sales. US officials say the Quintins personally guaranteed payment of the taxes, which the couple have never denied.

Since the Cayman Islands does not recognize tax matters from other jurisdictions, the Quintins cannot be extradited to the US to face those charges.

Quintin currently has an arrest warrant out for him in the US in relation to another matter in which he was convicted of tax fraud by a Los Angeles court.

Despite the couple's troubled background, the Quintins have been welcomed with open arms by the Cayman government.

They have granted the Quintins permanent residency in the Cayman Islands, which means they are not required to leave the island every six months and return to their country of origin as they would otherwise have to but can remain indefinitely on the island.

In return for not being forced to return to a possible prison sentence, the couple have invested heavily in the local economy, buying two luxurious canal-front condominiums valued at US\$500,000 each at the exclusive Hyatt Regency Britannia Golf Course, in addition to a US\$1 million waterfront home. The couple also own a waterfront jewellery store called Savoy Jewelers.

Banker Still Missing

Cayman Islands resident Syed Bilal Ahmed, the vice-president of Cayman-based Gulf Union Bank Ltd. and First Cayman Bank Ltd. is still listed as missing in the Bahamas after he disappeared from the Radisson Cable Beach Resort in Nassau on September 5, 1996.

Ahmed was dropped off at his hotel on the afternoon of September 5 to prepare for a bank reception that evening. That was the last time anyone saw him. A search of his hotel room the next day revealed his belongings were missing but he did not check out of the hotel and Bahamas Customs and Immigration have no record of him leaving the country legally.

His family have offered a reward of more than US\$25,000 for information on his whereabouts but, to date, no-one has stepped forward to claim the money.

First Cayman Bank general manager Atlee Ebanks said an internal investigation has not found any missing funds or any other reason related to the bank that might cause Ahmed to disappear. He said no-one has used Ahmed's credit cards or other personal items or made any demand for money or information on Ahmed's whereabouts.

Cruise firm's controversial donation

At a time when the Cayman Islands government is said to be still contemplating bringing charges against Seattle-based Holland America Cruise Lines one year after one of the firm's ships dragged its anchor off Grand Cayman in January, 1996, severely damaging a popular scuba and snorkelling site, the company has donated US\$125,000 to develop and preserve a bird sanctuary on little Cayman.

Following the incident, HACL spent nearly US\$300,000 hiring divers and experts to literally glue the broken pieces of reef back together with underwater epoxy.

If charged and convicted on charges of damaging the environment, HACL and the captain of the offending ship would face maximum fines of US\$625,000 each.

New fund administration firm

Cayman's fast-growing fund administration business, which has taken off over the last four years, has been given a boost through Dresdner Kleinwort Benson, part of the Dresdner Bank Group of Hamburg and London, opening a funds administration office in Grand Cayman.

The new office is primarily aimed at servicing fund sponsors in the US and Latin America and will complement similar ventures in Dublin, Jersey and Guernsey. The Dresdner Group has a strong Cayman Islands presence, operating the Dresdner Bank Latinamerika AG, which provides bank and trust services to Latin American clients.

Hotel news

The upscale Grand Pavilion Hotel, which hosted Queen Elizabeth II and Prince Philip during their official visit in 1983, is up for sale at an asking price of US\$16 million. The 88-room, five-suite property located on Grand Cayman's Seven Mile Beach tourist area was purchased three years ago by local businessman Norberg Thompson and his family.

The Hyatt Regency Grand Cayman has been rated as the Best Hotel Value in the Caribbean and Bermuda by the New York-based Travel & Leisure travel and tourism magazine in their annual World Best Values awards.

Money laundering conference

The inaugural Commercial Crime and Money Laundering Prevention Conference, sponsored by the Cayman Islands Government. Brought together the Cayman Islands financial community with worldwide experts in commercial crime and the laundering of drug money to learn about the new age of high-tech crime and the vast array of methods to detect and deal with those crimes and criminals.

The three objectives of the conference were to educate, train and sensitise delegates to money laundering and its evils. More than 150 delegates attended.

Cayman Financial Secretary George McCarthy ended the conference by telling the Cayman financial industry, which is the fifth largest in the world, to "know whom you're dealing with" and "be a cynic".

The majority of delegates came from Cayman's financial, legal, accounting and real estate industries but there were also delegates and speakers from Canada, the US, the UK, Jamaica, Trinidad & Tobago, the B. V. I., St. Lucia and Dominica. Most foreign banks with active offices in Cayman attended.

CI has more than 560 registered banks and financial institutions with assets on file in excess of US\$480 billion. The next conference will take place in late 1998 or early 1999.

Buttress fund increases assets

The Cayman Buttress International Balanced Mutual Fund, which is administered and registered in the Cayman Islands, has announced a ten per cent jump in assets for the fourth quarter of 1996. According to the Bank of Butterfield International (Cayman) Ltd., the fund's administrators and originators, assets reached US\$11.4 million at the end of December, 1996, a ten per cent gain in the fourth quarter of 1996. The Buttress fund is the only mutual fund administered in the CI that was originated by a Cayman bank. The share offer price on 31 Dec, 1996 was US\$10.75, compared with US\$10.29 at the end of the third quarter, 1996, a gain of 4.5 per cent. The fund was opened in July, 1996.

Record tourism

While tourism continues to slump in over-priced and over-valued Bermuda, visitor ar-

(Continued on page 9)

(Continued from page 8)

rivals to the Cayman Islands reached 1.14 million in 1996, setting new records in all categories for the second consecutive year for total arrivals, cruise ship passengers and non-resident visitors by air. The new total of 1,144,313 just released by the Department of Tourism surpassed the previous record for arrivals set in 1995 by just under 100,000 visitors, representing a 9.6 per cent increase.

Visitors by air for 1996 reached 373,245, a gain of 3.3 per cent, compared with 1995. Cruise ship passengers, who only are on land for about four hours, accounted for 771,066, up by 12.9 per cent or 88,193 on 1995. It is estimated that visitors who arrive by air spend US\$447 million while cruise ship passengers spent an additional US\$46 million.

Code of ethics for company managers

The Cayman Islands Offshore Company Managers Association, which was formed late last year, will adopt a code of ethics for its members to work by. Association president Paul Harris said he believed the code of ethics would be the first of its kind for any offshore financial jurisdiction.

Harris said the code will specifically address matters that relate to problems confronting the offshore company management industry, which is directly related to offshore finance.

Money laundering

Among those problems are money laundering and hiding illegally obtained assets from officials in other jurisdictions. Tax evasion, however, is not a problem in the Cayman Islands as the jurisdiction has no taxes and does not recognize tax problems or disputes from other countries.

The code will also require offshore company managers to maintain their companies in compliance with Cayman law or face penalties from the association.

There are currently about 50,000 offshore companies registered in the Cayman Islands, along with 32 companies that are recognised and licensed by government as offshore company managers. Of those, Harris said 23 were members of the Association.

Round-Up of Bahamas news

Tourism up

The Bahamian Ministry of Tourism announced that 1996 was the best year ever for tourism. Record performances were set in several key areas, including visitor spending of just under \$1.5 billion and stop-over arrivals of 1.6 million.

Barclays Group

The Barclays Bank Group recently opened its \$7 million Regional Processing Centre in Nassau and the Centre's management expects the group to invest at least another \$10 million in its operations this year. The Centre is the processing base for the management of Barclays' computer operations in 14 Caribbean countries.

Sun International

Sun International will this year start its large-scale construction of the \$450 million Phase II expansion of its Atlantis on Paradise Island resort. Upon completion in December, 1998, the mega-resort will include a new 1,200-room hotel, a 50,000 square foot casino, meeting facilities and water theme entertainment and recreational attractions. In another development, Disney expects to complete its private island port-of-call at Gorda Cay in the Abacos islands this fall.

Capital Investment

In a single year between the summers of 1995 and 1996, the Bahamian government approved 70 investment proposals with a capital value of \$76.5 million

Price Gouging

The Carnival, Royal Caribbean, Norwegian, Dolphin and Majesty cruise lines, which call on the Bahamas, and Celebrity, which does not, have agreed to end the practice of advertising one fare, then billing customers significantly more by adding port charges. In some cases, cruise lines were adding charges on top of the government port charges and passing the inflated cost on to the passenger as 'port charges'.

Bermuda Round-Up

ACE project

The final barrier to excess liability insurers Ace and Exel jointly developing the derelict site of the former Bermudiana Hotel in the heart of Bermuda's business district in Hamilton has been cleared.

Bermuda's House of Assembly took just 42 seconds to approve a bill that allows Ace and Exel to bypass the law that prohibits foreign ownership of a local company to 40 per cent and allows them to set up a local company to own the land.

Insurance upbeat

New figures released by the Bermuda market show that 97 new insurance companies were formed in 1996 - second only to the record year of 1986. Bermuda attracted 35 per cent of the 279 new insurers formed in captive insurance domiciles.

Roger Gillett, chairman of the insurance industry's marketing committee, said Bermuda was now home to more than 40 per cent of the world's 3,543 captive insurance companies.

Bermuda Fire

A scheme of arrangement has been selected as a way to liquidate the assets of Bermuda Fire & Marine Insurance Company, which is estimated to have liabilities of \$500 million to \$700 million. Details of the scheme are expected later this year but the process is expected to last at least 20 years.

Creditors and liquidators have chosen a "run-off" over a "cut off" scheme of arrangement, according to a report in The Royal Gazette newspaper..

Unlike a cut-off scheme where creditors establish a final figure at the outset that they believe they are owed, a run-off scheme provides for regular updates on the amount being claimed, reported the newspaper.

If reinsurance recoveries of over \$200 million are successfully pursued, the estimated net liabilities of Bermuda Fire is between \$250 million and \$450 million.

Bermuda Fire ran into problems by writing high-risk pollution on the failed HS Weavers Underwriting Pool in London.

Directors of the company have been accused of stripping it of more than \$40 million of assets two years before it went bust. They are being sued for alleged fraud.

Round-Up of business-related civil court cases

Bermuda

Plaintiff	Defendant	Date Filed 1997	Amount Sought
1. Hans Heinrich Thyssen-Bornemisza 2. LRT Trustees (PVT) Ltd.	1. George Heinrich Thyssen-Bornemisza 2. Favorita Holdings Ltd. (formerly called Tamara Corporation Ltd. 3. Thybo Trustees Ltd. 4. Tomabuoni Ltd.	Jan. 20	
Bermuda Home Ltd., a mortgage company	Julian Ernest Sinclair Hall, one of Bermuda's top criminal lawyers	Jan. 21	\$616,182.55
R. F. & F. Services Limited	Senator Lawrence Gordon Scott	Jan. 24	
Werner Kienberger, former general manager of top business restaurant Fourways Inn	Fourways Inn Limited	Jan. 28	
Cable & Wireless is suing the government for granting a rival company a licence to provide international phone calls in alleged breach of a monopoly agreement		Jan. 30	
Thybo Trustees Ltd.	1. Favorita Holding Limited 2. Torinabuoni Limited 3. George Heinrich Thyssen-Bornemisza	Jan. 31	
Offshore Yachting & Maintenance Ltd.	The owners of the sailing vessel "Tamarogo"	Feb. 4	
Milehouse Investment Management Limited has applied to be restored to the Bermuda register of companies		Feb. 4	
International Fund Administrators Ltd.	1. Broadway Apartments 2. A. F. Smith Trading Company Limited	Feb. 7	
Bank of Bermuda Limited	1. Rex Christopher Darrell 2. Chukwudi Onwusah 3. Bermuda Investment Advisory Services	Feb. 7	
James T. Huang	1. Joseph T. Taussig 2. First International Securities Limited 3. Bitter End Holdings Limited 4. International Investment Technologies Ltd.	Feb. 11	\$72,928.83 plus interest
The Bank of Butterfield Executor & Trustee Co. Ltd.	1. Margie Jean Richardson 2. The Estate of Leon Donald Richardson 3. Rebecca Anne Dundon 4. Timothy Dundon 5. The Attorney-General of Bermuda	Feb. 11	
Hemisphere Management Limited	Concordia Partners L. P. (A Bermudian Limited Partnership)	Feb. 11	
Charles Vaucrosson	Arnold James Todd, a former officer with the Bank of Bermuda	Feb. 11	\$2,094,375.38

Bermuda Court Round-Up

Plaintiff	Defendant	Date Filed
In the Matter of Tristate Holdings and In the Matter of Section 39 of The Companies Act 1981, which deals with using a company's assets to purchase shares or receiving financial assistance to buy shares		Feb. 14
In the Matter of the Companies Act 1981 and In the Matter of Ponds Marketing Services Limited		Feb. 14

Cayman Court Round-Up

Blythe Investments Limited	Registrar of Companies	Feb. 5
Sigma Asset Management	Registrar of Companies	Feb. 11
Bank of Credit & Commerce International	Swaher Nagvi	Feb. 13

Offshore Alert - produced by a new information company specializing in Bermuda, the Bahamas and the Cayman Islands

Offshore Alert is a monthly newsletter published by Offshore Business News & Research, a Miami-based company that specializes in providing information on businesses and businessmen operating in Bermuda, the Bahamas, the Cayman Islands and other Caribbean islands.

Offshore Business News & Research also publishes 'Inside Bermuda', which is a monthly newsletter focussing heavily on Bermuda's insurance and reinsurance sector and also covering other areas of international business conducted on the island, such as banking, trusts, mutual funds and the Bermuda Stock Exchange.

Inside Bermuda is more suitable for risk managers, insurance brokers and other insurance professionals who use the Bermuda market to buy or place insurance and reinsurance and investors and investment professionals who are not interested in the Cayman Islands or the Bahamas.

Although coming out monthly, subscribers to each newsletter will receive immediate faxed bulletins if anything of major significance should happen in the region between publication dates. For example, a bulletin will be sent out as soon as the result of the March 14 Bahamian election is known.

Annual subscriptions to the newsletters are: \$595 (£350) for Offshore Alert and \$295 (£175) for Inside Bermuda.

The newsletters are written by David Marchant, a British journalist who spent 1990-96 in Bermuda, reporting on the island's international business sector for local newspapers, for Lloyd's List insurance newspaper in London and for National Underwriter insurance magazine in the US. He has also written articles for Bloomberg Business News and other publications around the world.

During his spell in Bermuda, his articles alleging fraud against some of Bermuda's most influential businessmen who stripped an insurance company of over \$40 million of assets two years before it went bust were featured in a US Congressional report into the problems of the worldwide insurance industry.

In 1996, the Bermuda government refused him permission to continue living and working in Bermuda and instructed its immigration department to order him to leave.

Another series of investigative articles written by Marchant directly led to a US court freezing the assets of two American businessmen who had lost investors around the world several million dollars in failed companies.

Apart from newsletters, Offshore Business News & Research also offers investigative consulting services in relation to business-related matters in Bermuda, the Bahamas and the Cayman Islands. Background checks on companies and individuals can be provided using electronic databases and a network of contacts in Bermuda and the Caribbean.

The company is also in the process of building up an extensive proprietary database of business-related information in these regions that will be unrivalled in its breadth of scope.

For further information about the company's products and services, please call Offshore Business News & Research at (305)372-6267, fax at (305)372-8724 or e-mail at offshorealert@msn.com. Correspondence should be addressed to Offshore Business News & Research, 123 S. E. 3rd Avenue, #173, Miami, FL 33131.

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