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Recovery of Greek Debt

In January 2011, Moody's and Standard's and Poor downgraded Greece's debt to junk status. Though there are several key variables which play into this shortfall, one major component is Greece's rampant tax evasion. According to Athens-based EFT Eurobank, Greece has one of the poorest rates of tax collection in Europe; more than 33 percent of workers list themselves "self-employed" and remit just 4 percent of revenue. There are anecdotes of Greeks paying "tips" to tax officials in exchange for a reduction in their owed taxes. And a recent estimate by Elena Panaritis, an economics expert for Prime Minister George Papandreou, shows that more than 30% of income taxes in Greece go uncollected. In fact, Greece's revenue from taxes is 32.6 percent of GDP one of the lowest in the EU (Hollingshead 2011).

But Greece recognizes this problem, even at the upper levels of government. Finance Minister George Papaconstantinou has repeatedly asserted the Greek government plans to tackle tax evasion as part of its deficit reducing approach. As a part of this effort, the Greek government has seized 555 yachts and raised \$4.7 billion in fines for tax evasion. This might seem like a big number, and to some extent it is, but it's still just a fraction of the \$56 billion Greece officials estimate are owed in uncollected taxes, going back decades (Hollingshead 2011).

Reference

Hollingshead, A. (2011). Easing Greeks' debt, one yacht at a time. *Task Force: Financial Integrity and Economic Development*. 8 Nov 2011. <http://www.financialtaskforce.org/2011/10/28/easing-greeks-debt-one-yacht-at-a-time/>

Arab Spring - Tackling Loot

Today 140 governments acknowledged systemic failures in the controls that should stop banks taking dictators' money, in a move welcomed by anti-corruption campaigners Global Witness and Sherpa. The resolution, initiated by Egypt and passed at a UN anti-corruption conference which focused heavily on the Arab Spring, also agreed more action was needed to help claw back stolen funds (Boden 2011).

"Corruption on the scale that causes revolutions cannot happen without a bank to take the money. The very fact that some states are trying to get stolen money returned makes it clear that something has gone very wrong; these funds, which belong to the people of Egypt and Tunisia, should not be in foreign bank accounts in the first place," said George Boden, a campaigner at Global Witness (Boden 2011).

The resolution calls on governments to force banks to know which of their customers are senior politicians and to make sure that they are not handling looted state funds. Existing laws require

this, but are not being enforced. The UN meeting recognised that robust regulatory action was needed.

“Banks need to do proper checks because once government coffers have been raided it is incredibly difficult to get the money back. Many governments that have emerged from the revolutions across North Africa have had real difficulty in getting their state assets returned to them,” said Maud Perdriel-Vaissière, Managing Director at Sherpa (Boden 2011).

Countries where overthrown corrupt dictators have hidden their loot in bank accounts, real estate and luxury goods are urged by the resolution to be quicker at responding to requests for assistance from victim countries and to be more proactive in providing information (Boden 2011).

Reference

Boden G. (2011). 140 governments pledge to tackle dictators’ loot in wake of Arab Spring. *Global Witness*. 8 Nov 2011. <http://www.globalwitness.org/library/140-governments-pledge-tackle-dictators%E2%80%99-loot-wake-arab-spring>

Is Switzerland a Tax Free Haven?

Switzerland finds itself at a crossroads. Despite its history of neutrality, the country is now confronted with a choice between cooperating with U.S. authorities in handing over the names of bank accounts belonging to U.S. citizens or protecting its sovereignty and preserving its 77 year-old banking secrecy laws, suffering accusations of improperly shielding tax evaders in the process (Giokaris 2011).

A recent *Bloomberg* report speculated that Swiss banks will finally spill the beans and share the names of U.S. account holders, in order to settle sweeping U.S. criminal probes of offshore tax evasion, according to five anonymous sources with knowledge of the situation. The Justice Department and IRS have been seeking both data on Americans who have dodged U.S. taxes and a pledge from Swiss banks to stop helping such clients (Giokaris 2011).

Switzerland is reluctantly cooperating with the investigative probes to ultimately maintain its access to American and European markets under threats from international authorities of being locked out. But the question is how much damage will be done to tarnish their reputation of banking privacy (Giokaris 2011)?

It’s not against U.S. law to have an account in a private Swiss bank, but it is illegal to do so without declaring it on your taxes. Swiss bank accounts also cannot be opened without the holder signing a legal document asserting that they have no outstanding financial obligations to the IRS (Giokaris 2011).

Switzerland has promised its clients complete privacy since 1934, when banking secrecy became law mainly to protect Europeans who were scrambling to hide their money from invading Nazis. The country now handles one third of the world's internationally invested private wealth, estimated to be \$2 trillion according to the Swiss Bankers' Association. The vast majority of its 330 banks are private ones that manage people's personal fortunes, requiring large deposits from each customer and charging relatively high fees to administer the money (Giokaris 2011).

In the wake of the global recession, when governments around the world are running up record deficits and short on cash, U.S. and European governments have ramped up their efforts to crack down on tax cheats. "Until two years ago, Switzerland guaranteed banking secrecy for everybody," says Hans Geiger, professor emeritus at the University of Zurich's Swiss Banking Institute, and a former executive at Credit Suisse. "Today, there is uncertainty about what is secret and what is not. That is not what Switzerland promised its clients" (Giokaris 2011).

Up until recently, the Swiss were able to relieve international pressure by paying fines while retaining their clients' secrecy, and had reached similar agreements earlier this year with British and German authorities. But U.S. authorities aren't settling this time until they get the names of the account holders they're after (Giokaris 2011).

For example, UBS, Switzerland's largest bank, paid a \$780 million fine to U.S. authorities in 2009 in exchange for deferred prosecution when U.S. officials threatened to move against UBS's large American operation and its 22,000 employees, unless it cooperated. The IRS claimed that UBS was hiding \$20 billion worth of untaxed American money among 19,000 U.S. customer accounts (Giokaris 2011).

Much more controversial was a change in Swiss law that permitted UBS to give U.S. officials details of 4,450 American-held accounts - its biggest step yet toward ending 77 years of cherished secrecy. Many Swiss voters were outraged, feeling there should have at least been a referendum on it, and the deal passed a parliamentary vote only after months of intense political battles. Swiss lawmakers claimed the U.S. had bullied their small country into violating its secrecy laws, which was "breathtaking moral duplicity," wrote Konrad Hummler, chairman of the Swiss Private Banking Association, in a commentary for bankers and investors (Giokaris 2011).

Swiss bankers say they believe the U.S. and the EU (of which Switzerland is not a member) are deliberately attacking them in order to boost their own domestic banks, going so far as to call the moves "an economic war."

Even if Switzerland loses its image as an overseas tax haven, the competition certainly isn't going away. In fact, other international tax havens such as Singapore, the Bahamas, and Panama have been using Switzerland's negative publicity to attract foreign wealth,

including Americans, scrambling to pull their money *out of* Swiss banks. Switzerland, meanwhile, is left to re-examine the future of its offshore banking industry (Giokaris 2011).

Reference

Giokaris, J. (2011). Is Switzerland losing its status as an international tax haven? *Policymic*. 8 Nov 2011. <http://www.policymic.com/articles/2241/is-switzerland-losing-its-status-as-an-international-tax-haven>

Accounting Scandal at Olympus

In the latest of damning admissions, company officials acknowledged Tuesday that they hid massive losses over more than two decades by covering them in a series of acquisitions, reversing earlier denials of any wrongdoing. Experts say the case may be the biggest accounting fraud in Japanese history, bringing the worst damage to the nation's corporate image (Glionna 2011).

The scandal first broke last month when news surfaced that the company, which also makes medical equipment, made a \$687 million payment for financial advice and expensive acquisitions of companies with little or no business relevance. The revelation has since brought a skein of resignations to placate angry shareholders, a list that included company chairman Tsuyoshi Kikukawa. But the company had always denied making any such payments (Glionna 2011).

That changed Tuesday when Olympus a statement detailing the findings of an independent panel that uncovered evidence that payment and acquisitions were used to cover up losses on investments dating back nearly 20 years. Then more heads rolled, when the firm dismissed Executive Vice President Hisashi Mori, who was allegedly involved in the cover-up along with a company auditor who Olympus said has resigned (Glionna 2011).

The company statement stressed that officials "will continue to cooperate fully with the panel and do our best to get to the bottom of this." Still, the mea culpa could not stop Olympus shares from falling by nearly 30% Tuesday in Tokyo. The controversy was brought on by revelations made by a whistleblower – former Olympus CEO Michael Woodford – who has given evidence to investigators in Britain and the U.S. (Glionna 2011).

The British national claims that he was fired by Olympus when he questioned the \$687 million fee as well as the prices Olympus paid for buying three small bankrupt Japanese companies between 2006 and 2008. Experts say the illegal payments are the result of weak corporate oversight in Japan, with too few independent directors on company boards (Glionna 2011).

Reference

Glionna, J. M. (2011). Japan's Olympus admits wrongdoing in accounting scandal. *Los Angeles Times*. 8 Nov 2011. http://latimesblogs.latimes.com/world_now/2011/11/olympus-camera-scandal-illegal-payments-japan-corporate-disgrace.html

Universities to Close

Two universities in Korea will be closed for corruption after failing to follow government demands to reform, the Education Ministry said. Myungshin University and Sungwha College will shut down in December because they broke the higher education law by committing "serious corruption and irregularities" such as embezzlement and creating fake documents (Korea Herald cited in Asiaone, 2011).

Myungshin University broke the law by botching up students' grades and classes and also failing to recover the embezzled money. Sungwha College was blacklisted due to embezzlement by its creator and other bad behaviour, including giving recognition to students who hadn't completed required class hours. As the two schools are ordered to close next month, the ministry will aid students currently attending the schools in relocating to nearby schools. The schools will not be allowed to accept new students next year (Korea Herald cited in Asiaone, 2011).

"College restructuring is the government's priority to deal with the decreasing number of school-age children and to strengthen the quality of universities in the long term," alleged Lee. Two universities, Gwangju Art School and Asia University, were closed in 2000 and 2008, respectively, before the latest college restructuring effort. They were found to have conducted illegal acts such as providing bogus documents when listing as an educational establishment (Korea Herald cited in Asiaone, 2011).

The college reform board has chosen 46 universities with poor performances in September that will face cuts to government subsidies or restriction in student loans. The panel is expected to finalize a list of schools with bad management at the end of the year... The schools blacklisted for two successive years for their poor routine have a higher chance of getting axed (Korea Herald cited in Asiaone, 2011).

Reference

Two Korean universities ordered to close. *Asiaone News*. 8 Nov 2011. <http://www.asiaone.com/News/Latest%2BNews/Asia/Story/A1Story20111108-309206.html>