

Regulator in Puerto Rico suspends operations of Euro Pacific Bank.

An international group of tax authorities had moved two years ago to stop the boutique online bank from serving as a vehicle for suspected tax evasion and money laundering.



By Matthew Goldstein

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A bank regulator in Puerto Rico says it has suspended the operations of a boutique online bank that has been the focus of an international tax-evasion investigation and is owned by Peter Schiff, the outspoken libertarian economist and money manager.

The regulator, the Office of the Commissioner of Financial Institutions of Puerto Rico, issued the cease-and-desist order on Thursday against Euro Pacific Bank, which is based in San Juan, for having inadequate capital levels and compliance controls. Two years earlier, an international group of tax authorities known as the J5 opened an investigation into activities that allowed the bank to serve as a vehicle for suspected tax evasion and money laundering.

“Euro Pacific has a long history of noncompliance,” the office’s commissioner, Natalia Zequeira Díaz, said in a statement. She added that the bank regulator would “not allow or tolerate any financial entity with a license issued by the government of Puerto Rico to operate outside the law or ignore the clear mandates of applicable laws and regulations.”

The investigation by the J5 into Euro Pacific and some of its offshore customers was first reported in fall 2020 by The New York Times and two Australian media organizations. At the time, Mr. Schiff acknowledged that Internal Revenue Service agents had interviewed him, but he said neither he nor the bank was the subject of the inquiry.

In an emailed comment on Thursday, Mr. Schiff, who said he was now the full owner of the privately held bank, expressed surprise at the decision by the bank regulator and said there was “no advance warning.” He added that it “makes no sense” because “the bank has done nothing wrong.” When asked whether the bank would challenge the suspension order, Mr. Schiff said: “Doing what I can. I have no idea what’s driving this.”

He said later that the order referred to “insufficient capital” and that there was nothing about money laundering or tax evasion.

The J5, or the Joint Chiefs of Global Tax Enforcement, was formed in 2018 by tax authorities from the United States, Australia, Britain, Canada and the Netherlands. The group came together in response to some of the disclosures in the so-called Panama Papers, the leaked documents of a Panamanian law firm that detailed the shell companies and tax gimmicks the rich use to hide their wealth.

The J5 investigation into Euro Pacific — known as Operation Atlantis — was one of the first big inquiries by the multijurisdiction task force, which has been led by tax authorities from Australia and the United States.

Euro Pacific had about 8,000 depositors from around the world and held \$140 million in deposits before the investigation was reported by The Times; The Age, an Australian newspaper; and the Australian version of “60 Minutes.” The reports noted that a former employee had said Euro Pacific did not do much vetting of its customers’ backgrounds.

Mr. Schiff has said that the reports about the investigation have caused the bank to lose business and that many of its customers closed accounts.

Euro Pacific's owner, Peter Schiff, said on Thursday that "the bank has done nothing wrong." Joe Buglewicz/Bloomberg

Mr. Schiff is well known for his deep-seated animosity to paying taxes, and he earned the name Dr. Doom after correctly predicting the 2008 financial crisis. More recently, he was a major critic of Bitcoin. Mr. Schiff founded Euro Pacific in 2011 in the lush Caribbean outpost of St. Vincent and the Grenadines before moving the bank to Puerto Rico in 2017. He had promoted Euro Pacific as an alternative to the established banking system.

The J5 issued a statement applauding the action by the banking regulator for Puerto Rico and said it sent a strong message to financial institutions that provide a safe haven for tax cheats.

"There is no doubt that O.C.I.F.'s work sends a strong message to others that the Puerto Rican financial industry will not be a haven for tax evaders or illegal conduct," said Jim Lee, chief of the I.R.S.'s criminal investigation division.

Mr. Lee said the action taken by the bank regulator was separate from the J5 investigation. He said J5 was continuing to work on more than a hundred inquiries related to entities and individuals associated with Euro Pacific.

The Puerto Rican action is notable because the bank regulator has had a reputation for imposing light oversight of financial institutions on the island. In fall 2020, the regulator had yet to conduct an official examination of Euro Pacific even though the bank had been operating in Puerto Rico for three years.

Matthew Goldstein covers Wall Street and white-collar crime and housing issues.

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