London's Cayman Islands: Empire of the Hedge Funds

by Richard Freeman

On Feb. 27, the world's hedge funds, through their manipulation and miscalculation of the yen carry-trade, led to a violent unwinding of that carry-trade, which triggered disintegration of the world financial structure. Stock exchanges fell, from the Dow Jones exchange in the United States, to China's Shanghai composite index, to Brazil's Bovespa index, shedding more than $1.5 trillion in paper losses. Secondary incidents contributed to setting off the downturn. But hedge funds had already bled the major international commercial banks and corporations into absolute bankruptcy, and had leveraged borrowed funds and derivatives into the biggest financial tumor ever. That, combined with their yen carry-trade role, amplified the effect of the secondary incidents, and is now driving the financial system further into systemic breakdown.

And where are those hedge funds? Though they may have offices in locations like Greenwich, Connecticut, or New York City, 8,282 out of the total of 9,800 hedge funds operating at the end of the third quarter 2006 worldwide, were registered in the Cayman Islands, a British Overseas Territory, run like a dictatorship by a Royal Governor appointed by Queen Elizabeth II, with a total population of 57,000 people.

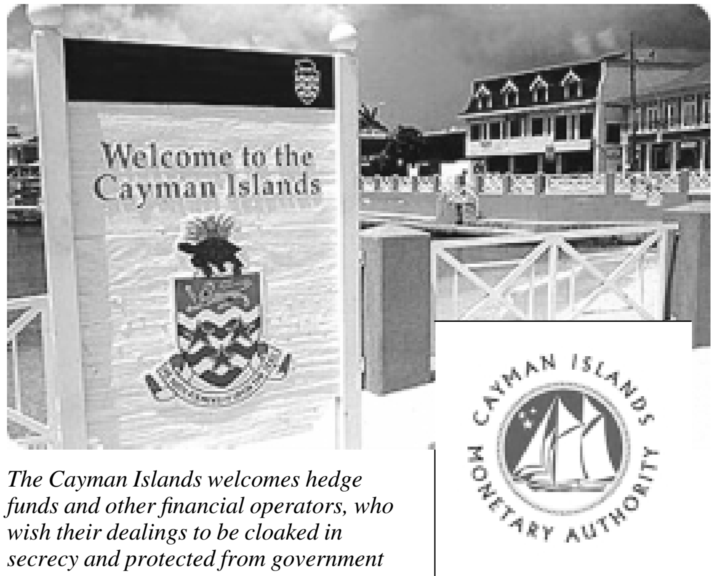
There is good reason for this. The Cayman Islands Monetary Authority (CIMA) is supposed to "regulate" the hedge funds, but instead runs a protection racket for their derivatives trading and tax sheltering. The CIMA gives each hedge fund, at registration, a 100-year exemption from any taxes; shelters the fund's activity behind a wall of official secrecy; allows the fund to self-regulate; and prevents other nations from regulating the funds by insisting on first and final authority in this area.

And the remainder of the world's hedge funds, not registered in the Cayman Islands? Most are registered in other British Overseas Territories and satrapies, such as the Bahamas, Bermuda, the British Virgin Islands, and the Isle of Man.

Global Financial Oligarchy's Instrument

Since mid-January, forces internationally—ranging from the Danish government, to German Vice Chancellor Franz Müntefering (who has famously labeled hedge funds "locusts"), to U.S. Sen. Carl Levin (D-Mich.)—have directed initiatives geared to regulating, and potentially bringing under control the predatory activities of the world's hedge funds. For his efforts, Müntefering was outrageously attacked on Feb. 14 by the German edition of the *Financial Times,* the London financier oligarchy's mouthpiece, as an "anti-Semite."

The Müntefering, Levin, and other initiatives, though reflecting a well-intentioned impulse, don't recognize the real nature of the beast; accordingly, they will not solve the problem. For the Anglo-Dutch oligarchy, closely intertwined banks and hedge funds are its foremost instruments of power, to control the financial system, and loot and devastate companies and nations. Recognizing that this financial system is fracturing, the oligarchy will go to general nuclear war against Iran, Russia, and China, rather than lose its instruments of power. Therefore, it is impossible to think of hedge-fund reform in the United States, or in Germany, because the real source of power of hedge funds in these countries, lies outside in the Cayman Islands, ensconced in a fortified shell. Leaders such as Müntefering or Levin, must be prepared to break the power of the Cayman Islands—which means the death grip of the Anglo-Dutch oligarchy, if they are to achieve anything of value at all.



The Cayman Islands welcomes hedge funds and other financial operators, who wish their dealings to be cloaked in secrecy and protected from government regulation. Fully 8,282 out of the total of 9,800 hedge funds operating at the end of the third quarter 2006 worldwide, were registered in the Cayman Islands.

This oligarchy made changes in the Cayman Islands so that the hedge-fund "slime-mold" would find hospitable grounds for growth. The hedge funds' growth in the Caymans, in turn, fueled their growth internationally.

The three island specks in the Caribbean Sea, 480 miles south from Florida's southern tip—which came to be known as the Caymans, after the native word for crocodile (*caymana*)—had for centuries been a basing area for pirates who attacked trading vessels.

Though under British rule for centuries, the Caymans officially became a British Crown Colony in 1971, though later the term was changed to the euphemistic moniker British Overseas Territory; then as now, Queen Elizabeth II rules firmly, appointing the Islands' Governor, etc.

In 1993, the decision was made to turn this tourist trap into a major financial power, through the adoption of a Mutual Funds Law, to enable the easy incorporation and/or registration of hedge funds in a deregulated system. (Technically, a hedge fund is a type of mutual fund, but not your grandfather's type.*) According to a firm that incorporates hedge funds, "The Mutual Fund Law was established . . . to position the Cayman Islands as a hub in the financial industry."

According to representatives of Charles Adams, Ritchie & Duckworth, a Cayman Islands law firm that is involved in the hedge-fund business, the Cayman Islands offer prospective hedge funds:

- "*No* regulatory restriction on investment policies or strategies, commercial terms . . . , or choice of service providers. . . .
- "Tax-neutral environment with *no* direct corporation, capital gains, income, profits or withholding taxes applicable to funds" (emphasis added).

The ease of setting up a hedge fund was brought home in a telephone discussion with a member of the Cayman Islands Monetary Authority, which is charged with "regulating" them. From the day of application, it takes but two to five days for a hedge fund to be approved, and costs $3,600 in total fees, a mere drop in the bucket. To invest in a hedge fund, an investor must put up at least $100,000. From then onward, the hedge fund must produce an annual account, audited by a Caymans local accountant. If one recalls how Arthur Andersen LLP and other accountants carried out audits in recent years, it is apparent that this does not have to be a high hurdle.

The only information that the CIMA will release about a hedge fund, is that it is registered, and where its registered office is. The names of investors and other minimal information are kept strictly secret. Since the Cayman Islands have no tax laws, the CIMA shares little or no information with other nations' authorities on tax matters. On other matters, it is up to the CIMA whether it will "share or divulge information."

On the whole, neither the United States' Securities and Exchange Commission, nor other countries' regulatory bodies, have any regulatory authority over hedge funds. Moreover, neither the SEC, nor other bodies, have pierced the CIMA's armor.

The 1993 Mutual Fund Law had its effect: with direction from the City of London, the number of hedge funds operating in the Cayman Islands exploded: from 1,685 hedge funds in 1997, to 8,282 at the end of the third quarter 2006, a fivefold increase. Cayman Island hedge funds are four-fifths of the world total. Globally, hedge funds hold $1.44 trillion in assets under management, but through using leverage of anywhere from 5 to 20 times, they command up to $30 trillion of deployable funds.

But the Anglo-Dutch oligarchy built an entire financial superstructure on the Cayman Islands. Aside from the Caymans' huge holdings of hedge-fund assets, the Islands' *banking system* possesses assets of $1.41 trillion (though this includes some overlap with the hedge fund assets). The offshore, unregulated Cayman Islands has the fourth-largest banking system in the world—after those of the United Stats, Japan, and Britain. Compare: The United States has 300 million people, the Cayman Islands has 57,000.

The Cayman Islands also is the world's number-two jurisdiction for captive insurance companies (a type of limited-

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* *EIR*'s "Glossary of the Global Financial Casino," published May 27, 2005, defines a hedge fund as "a form of mutual fund used by wealthy individuals and institutions to engage in aggressive speculative activities prohibited to ordinary mutual funds. Hedge funds are restricted by law to no more than 100 investors per fund, and these investors are presumed to be sufficiently knowledgeable to understand the risks. Most hedge funds have extremely high minimum investment amounts ranging from $250,000 to well over $1 million."

purpose, and increasingly speculative insurance company). Cayman licensees hold $29.6 trillion in assets.

The Queen's Men

To have the Caymans function as an epicenter for globalization and financial warfare, the Anglo-Dutch oligarchy hand-selected the top Cayman officials.

- Since late 2005, the Governor of the Islands, approved by the office of the Queen, is Stuart Duncan Jack, a career officer of the British Foreign Office. For his service, Jack was knighted Commander of the Royal Victorian Order, a chivalric order founded by Queen Victoria, which ranks above that of the Order of the British Empire.
- Timothy Ridley, the chairman of the vital Cayman Islands Monetary Authority, is a lawyer who was knighted as a member of the Order of the British Empire for his role in building up the hedge funds and their infrastructure during the 1990s.

Two Americans on the board of the CIMA, further indicate the nasty character of that institution.

- Warren Coats, who served for 26 years with the International Monetary Fund, was called in by the United States to be an advisor to Iraq and Afghanistan on "rebuilding money and banking systems"—which has resulted in disaster.
- Richard Rahn, a member of the Mont Pelerin Society, the oligarchy's coordinating center for deregulation and elimination of the nation-state, is also the head of the Center for Economic Growth. This Center is an offshoot of the rightist FreedomWorks Foundation, run by C. Boyden Gray, heir of the Reynolds Tobacco fortune; and by former House Majority Leader Dick Armey (R-Tex). Rahn's buddy and intelligence operative Gray helped arrange the European Union Savings Directive, which permitted the Cayman Islands government to exempt the hedge funds there from reporting to European countries their "cross-border income."

In addition to the Caymans, the offshore British Virgin Islands has over 2,000 hedge funds registered, and Bermuda has over 500. (The total number of hedge funds officially registered in British outposts, combined, exceeds the world total.)

With the power accumulated from these unregulated offshore British outposts led by the Cayman Islands, the Anglo-Dutch financial oligarchy has assembled an incredible strike force, above and against the interest of nation-states.

- Hedge funds are the dominant force in the Japanese yen and to an extent, the Swiss franc carry-trade. The carry-trade has provided an enormous source of liquidity for some of the most risky derivatives and leveraged financial games in the world. The unwinding of this trade, represented by the 3.6% appreciation of the yen from Feb. 26 to March 2, by itself can bring down the world financial system.
- According to reports, during 2005, the hedge funds were responsible for up to 50% of the transactions on the London and New York stock exchanges.
- Senators Carl Levin and Norm Coleman (R-Minn.)—chairman and ranking member of the Senate Permanent Investigations Subcommittee of the Homeland Security Committee—have shown that the hedge funds are a center for circulating hundreds of billions of dollars in hot-money flows and tax shelters. They document a case of the brothers Sam and Charles Wyly of Texas, who used two Cayman Island hedge funds to store and shelter $300 million from taxes in the United States.
- The hedge funds are among the biggest speculators in some of the most precarious derivatives instruments, like credit derivatives, and collateralized debt obligations (CDOs), which are adding instability to the shaking world financial system.
- The hedge funds are leading a frenzied wave of mergers and acquisitions, which reached nearly $4 trillion last year, and they are buying up and stripping down companies from auto parts producer Delphi and Texas power utility TXU, to Office Equities Properties, to hundreds of thousands of apartments in Berlin and Dresden, Germany. This has led to hundreds of thousands of workers being laid off.

They are assisted by their Wall Street allies. Taken altogether, the hedge funds, with money borrowed from the world's biggest commercial and investment banks, have pushed the world's derivatives bubble well past $600 trillion in nominal value, and put the world on the path of the biggest financial disintegration in modern history.

At the same time, in this Anglo-Dutch mix are the big banks, like the British Crown's Dope, Inc. bank, the Hong Kong and Shanghai Bank, Europe's biggest; and the Dutch ABN-Amro, which owns the old-line British Empire investment bank Barings. With this integrated force, using the Cayman Islands as a basing operation, the Anglo-Dutch Liberals have leverage over the world financial system.

The hedge funds' wild forays cannot be controlled by neat resolutions on open reporting. The hedge-fund issue involves the Anglo-Dutch oligarchy, which believes it is in an end-game war, and will do anything to preserve its power. This is the level of the fight by any force serious about tackling the hedge-fund question.