

In Plea Deal, a Banker Outlines Money Laundering in Caymans

By Ronald Smothers
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A routine investigation into cable television piracy has evolved into an exploration of the secret world of offshore money laundering, giving investigators what one agent called an unprecedented insight into banking in the Cayman Islands.

In a court appearance today, Federal prosecutors said records they obtained from a defunct Cayman Islands bank had resulted in investigations of 1,500 people that could eventually net more than \$300 million in unpaid taxes and penalties.

Federal prosecutors, Internal Revenue Service officials and Federal Bureau of Investigation agents said today that the case has already helped them penetrate the veil of secrecy that one prosecutor said has been 'one of the greatest allies of individuals committing crimes in this country.'

The revelations came at the sentencing of John Mathewson, an American who once offered his Cayman Island bank as a one-stop money launderer. He was charged with money laundering in the cable television case and gave prosecutors records from his bank as part of a plea bargain. Already, \$50 million in back taxes and penalties has been recovered as a result of Mr. Mathewson's help to prosecutors in seven Federal judicial districts, said John J. Carney, an assistant United States attorney who prosecuted the cable box case.

In court, Mr. Carney had dozens of letters from prosecutors detailing some of the criminal cases that Mr. Mathewson's bank records have exposed: Dr. Jeffrey E. LaVigne, the New York proctologist who once advertised his practice on subway posters (1-800-MD-TUSCH), has been charged with using the bank to evade taxes on \$187,667 in income; Mark Vicini, a New Jersey millionaire who owned Micro Rentals and Sales, who admitted putting \$9 million in Mr. Mathewson's bank to avoid \$2 million in taxes; the members of the Abboud family in Omaha, who were indicted in May on tax and other fraud charges for funneling \$27 million into the bank from cable piracy schemes.

'His is the most important cooperation for the Government in the history of tax haven prosecution,' said Mr. Carney, who is in the New Jersey Federal prosecutor's Fraud and Public Protection division. 'That is in terms of the complexity of the scheme, the number of dollars involved and the number of people.'

Judge Alfred J. Lechner Jr. of the United States District Court apparently agreed. Mr. Mathewson, who faced a possible five-year

prison term, was sentenced to five years' probation, 500 hours community service and a \$30,000 fine. Judge Lechner said the number of requests for leniency he received from prosecutors was 'extraordinary and had not been equaled by any other case.' And, the judge noted as he peered down at Mr. Mathewson from the bench, if it had not been for his cooperation, 'I would have put you in prison for the maximum sentence.'

Mr. Carney and Robert J. Jordan, the assistant special agent in charge of the Newark office of the F.B.I., both said the case had seriously damaged the banking secrecy that had helped the Cayman Islands, a British crown colony, to become the fifth-largest banking center in the world.

The Cayman government had unsuccessfully gone into American courts to try to retrieve copies of computerized tapes of bank transactions that Mr. Mathewson had kept and to block disclosure of other information. The government had also refused to assist F.B.I. officials in decoding computer records. Without the Cayman government's part of the code, it took 18 months to be able to read the files.

In court papers filed two years ago, the Cayman government's official liquidator of Guardian Bank and Trust noted in a letter to the Royal Cayman Islands Police that the information that Mr. Mathewson had turned over to the F.B.I. 'will sooner or later be passed on to the Internal Revenue Service for purpose of investigating and, where appropriate, prosecuting any bank clients subject to U.S. taxation.'

Today, a spokesman for the Cayman Islands said the government wanted to 'set the record straight' regarding the Guardian Bank and Trust Company case, and would be releasing a statement on it and its impact on the Cayman banking business on Tuesday.

Mr. Jordan said that, to his knowledge, this was the first time that a Federal law enforcement agency had got such detailed information about the operation of a Cayman bank. 'The Caymans is no longer the safe haven that they were,' he said, 'because we have gotten our nose in the tent and seen how it works.'

At his sentencing today, Mr. Mathewson, who offered his cooperation immediately on the night F.B.I. investigators arrested him for helping the cable pirates launder and hide profits, delivered a long autobiographical statement to Judge Lechner detailing his role in the crimes. He finished by repeating a personal refrain: 'Yes, sir. No, sir. No excuses, sir.'

'I have no excuse for what I did in aiding U.S. citizens to evade taxes, and the fact that every other bank in the Caymans was doing it is no excuse,' he said. 'But I have cooperated and if Guardian Bank and Trust had been a sting operation and I an F.B.I. agent, it could not have been more effective.'

Mr. Mathewson's cooperation began in mid-1996, after he had left Guardian Bank and Trust and moved with his Caymanian wife and three children to San Antonio. Newark F.B.I. agents came upon his name through wiretaps in connection with a two-year-old undercover operation aimed at the traffic in illegally outfitted cable television decoder boxes, estimated by the National Cable Television Association to cost up to \$7 billion a year.

What was already a tantalizing prosecution that featured high-technology industrial espionage, a bribe of a \$40,000 Porsche and hints of swaggering South Florida wise guys, said to be part of the Lucchese crime family, from F.B.I. wiretap references, became a high-stakes international dispute over computer records. Once Mr. Mathewson had been caught laundering money for the cable piracy ringleaders, he volunteered to give the agents the computer tapes. He also offered them his own 'electronic Rolodex,' which told him people were connected with the hundreds of 'shelf corporations' he had set up for the bank's customers.

While the four-year cable piracy investigation netted 25 indictments and closed down operations in Florida, New Jersey and California, the mother lode from Mr. Mathewson's records keeps on producing.

Mr. Mathewson, 71, was once a wealthy construction company owner and executive in the Chicago area. He moved to the Caymans in 1982 and, along with some local business people, set up the Guardian Bank and Trust Company in 1986. He said in court today that he was told that Europeans would be the bulk of the depositors, but he came to learn, he said, that 90 percent of the depositors in Cayman banks were American citizens.

When the European investors did not materialize, Mr. Mathewson got directly involved in the bank's operations to protect his investment, he said today in court. He said this included using 'Yankee ingenuity' to promote the bank with advertisements at the Caymans' main airport, and videotape presentations starring himself, with his chiseled features, shock of white hair and banker's self-assurance. He explained the benefits and confidentiality of the Cayman bank's services at special sales sessions in local hotels. He touted the nearly 700 shelf companies that the bank had set up on the Caymans as conduits for funds.

He said that the bank eventually acquired deposits totaling \$350 million. But in early 1995, he said, he was approached by a Caymanian government banking regulator who asked for a \$250,000 bribe. He refused, and some months later his bank was investigated for unspecified irregularities. It was eventually taken over by the Cayman government and liquidated within the last two years.

Meanwhile, Mr. Mathewson, intending to open a bank in the Bahamas, left the Caymans and temporarily moved to San Antonio, where he had friends and sought investors. Federal agents arrested him in June 1996 as they were closing in on others in the cable piracy scheme.

The tapes that Mr. Mathewson offered to investigators were encrypted using a specialized software used only on the Cayman Islands, and when American authorities sought the help of the Royal Cayman Police, the islands' government learned of the software's existence and demanded their return.

With the help of Mr. Mathewson, who called European sources to get the software applications, the entire computer file was decoded in 18 months. Most of the tax evasion and money laundering cases resulting from the tapes are still being investigated.

Judge Lechner, assigned to hear the cable piracy cases, heard the Cayman argument that the tapes were the property of the Cayman Islands Monetary Authority and should be returned and not used in any prosecutions. He rejected those arguments. In a 1997 opinion, he said that, by its own admission, the Cayman Islands sought to prevent the possible prosecution of the bank's customers and damage to their reputation for confidentiality that is ''vital to the banking industry.''

''The interest of the Cayman Islands in maintaining confidentiality of records protected by the Cayman Confidential Relationship Law, while vital, does not overcome the interests of the United States Government in investigating violations of its criminal laws,'' wrote the judge.

But meanwhile, said Eric D. Bernstein, an assistant United States attorney with the Eastern District in New York, the information that Mr. Mathewson provided from his own files has assisted in numerous prosecutions.

''No financial crime is without a trail even though the banks are in the Caymans,'' said Mr. Carney, the assistant prosecutor. ''The bottom line is that if you look you can find the money.

''It is the Government's expectation that when the entirety of the defendant's cooperation is utilized, the benefits to both the criminal and civil law enforcement authorities of the United States will be immeasurable.''