The **Bank of Credit and Commerce International** (**BCCI**) was a major international bank founded in 1972 by Agha Hasan Abedi, a Pakistani financier.[1] The Bank was registered in Luxembourg with head offices in Karachi and London. Within a decade BCCI touched its peak. It operated in 78 countries, had over 400 branches, and had assets in excess of US$20 billion, making it the 7th largest private bank in the world by assets.[2][3]

BCCI came under the scrutiny of numerous financial regulators and intelligence agencies in the 1980s due to concerns that it was poorly regulated. Subsequent investigations revealed that it was involved in massive money laundering and other financial crimes, and illegally gained controlling interest in a major American bank. BCCI became the focus of a massive regulatory battle in 1991 and on 5 July of that year customs and bank regulators in seven countries raided and locked down records of its branch offices.[4]

Investigators in the US and the UK revealed that BCCI had been "set up deliberately to avoid centralized regulatory review, and operated extensively in bank secrecy jurisdictions. Its affairs were extraordinarily complex. Its officers were sophisticated international bankers whose apparent objective was to keep their affairs secret, to commit fraud on a massive scale, and to avoid detection."[*citation needed*]

The liquidators, Deloitte & Touche, filed a lawsuit against Price Waterhouse and Ernst & Young – the bank's auditors – which was settled for $175 million in 1998. A further lawsuit against UAE President Zayed II, a major shareholder, was launched in 1999 for approximately $400 million. BCCI creditors also instituted a $1 billion suit against the Bank of England as a regulatory body. After a nine-year struggle, due to the Bank's statutory immunity, the case went to trial in January 2004. However, in November 2005, Deloitte persuaded creditor Abu Dhabi to drop its claims against the Bank of England, except for a claim for return of its deposits, in that Abu Dhabi owned 77% of the bank shares at closing, and was therefore also facing a major lawsuit. To date liquidators have recovered about 75% of the creditors' lost money. A decade after its liquidation, its activities were still not completely understood.[4]

History

BCCI's founder, Agha Hasan Abedi, started the bank in 1972. Abedi, a prolific banker, had previously set up the United Bank of Pakistan in 1959. Preceding the nationalization of United Bank in 1974 he sought to create a new supranational banking entity. Abedi was succeeded by Swaleh Naqvi as the bank's chief who, in the aftermath following controversy over BCCI, was replaced by Zafar Iqbal Chaudhry in the late 1990s. BCCI was created with capital from Sheikh Zayed bin Sultan Al Nahyan, the ruler of Abu Dhabi in the United Arab Emirates and Bank of America (25%).

BCCI expanded rapidly in the 1970s, pursuing long-term asset growth over profits, seeking high net-worth individuals and regular large deposits. The company itself divided into BCCI Holdings with the bank under that splitting into BCCI SA (Luxembourg) and BCCI Overseas (Grand Cayman). BCCI also acquired parallel banks through acquisitions: buying the Banque de Commerce et Placements (BCP) of Geneva in 1976, and creating KIFCO (Kuwait International

Finance Company), Credit & Finance Corporation Ltd, and a series of Cayman-based companies held together as ICIC (International Credit and Investment Company Overseas, International Credit and Commerce [Overseas], etc.). Overall, BCCI expanded from 19 branches in five countries in 1973 to 27 branches in 1974, to 108 branches in 1976, with assets growing from $200 million to $1.6 billion. This growth caused extensive underlying capital problems. The Guardian alleged that BCCI was using cash from deposits to fund operating expenses, rather than making investments. Investigative journalist and author Joseph J. Trento has argued that the bank's transformation was guided by the head of Saudi intelligence with a view to enabling it to finance covert intelligence operations at a time, in the aftermath of Watergate, when the American intelligence agencies were defending themselves from investigations by domestic authorities.[5]

BCCI entered the African markets in 1979, and Asia in the early 1980s. BCCI was among the first foreign banks awarded a license to operate in the Chinese Special Economic Zone of Shenzhen which bore testament to Agha Hasan Abedi's public relations skills, a feat that had yet to be achieved by the likes of Citicorp and JP Morgan. Some of China's largest state banks were depositors in BCCI's Shenzhen branch.

There was rigid compartmentalization; the 248 managers and general managers reported directly to Abedi and the CEO Swaleh Naqvi. It was structured in such a way that no single country had overall regulatory supervision over it so as not to hinder potential growth and expansion opportunities. Its two holding companies were based in Luxembourg and the Cayman Islands—two jurisdictions where banking regulation was notoriously weak. It was also not regulated by a country that had a central bank. On several occasions, the Office of the Comptroller of the Currency told the Federal Reserve in no uncertain terms that BCCI must not be allowed to buy any American bank because it was poorly regulated.

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By 1980, BCCI was reported to have assets of over $4 billion with over 150 branches in 46 countries. Bank of America was "bewildered"[6] by BCCI and reduced its holding in 1980, and the company came to be held by a number of groups, with ICIC owning 70%. By 1989, ICIC's shareholding was reduced to 11% with Abu Dhabi groups holding almost 40%. However, large numbers of shares were held by BCCI nominees. It was very common for Middle Eastern elites to use nominees to hold their stock, as they did not want the public to know the details of their holdings.[citation needed]

In 1982, 15 Middle Eastern investors bought Financial General Bankshares, a large bank holding company headquartered in Washington, D.C. All the investors were BCCI clients, but the Fed received assurances that BCCI would be in no way involved in the management of the company, which was renamed First American Bankshares. To alleviate regulators' concerns, Clark Clifford, an adviser to five presidents, was named First American's chairman. Clifford headed a board composed of himself and several other distinguished American citizens, including former United States Senator Stuart Symington. In truth, BCCI had been involved in the purchase of FGB/First American from the beginning. Abedi had been approached about buying it as early as 1977, but by this time BCCI's reputation in the United States was so poor that it could not hope to buy an American bank on its own (as mentioned above, the OCC was adamantly opposed to BCCI being allowed to buy its way into the American banking industry). Rather, it used the First American investors as nominees. Moreover, Clifford's law firm was retained as general counsel, and also handled most of BCCI's American legal work. BCCI was also heavily involved in First American personnel matters. The relationship between the two was so close that rumors spread BCCI was the real owner of First American.

F. Lee Bailey and Florida state prosecutor Richard Gerstein were the directors of CenTrust Federal Savings Bank, a failed satellite of BCCI; this would eventually lead to Bailey's disbarment.

BCCI had an unusual annual auditing system: Price Waterhouse were the accountants for BCCI Overseas, while Ernst & Young audited BCCI and BCCI Holdings (London and Luxembourg). Other companies such as KIFCO and ICIC were audited by neither. In October 1985, the Bank of England and the Institut Monétaire Luxembourgeois (Luxembourg's bank regulator) ordered BCCI to change to a single accountant, alarmed at reported BCCI losses on the commodities and financial markets. Price Waterhouse became the sole accountants in 1987.

In 1990, a Price Waterhouse audit of BCCI revealed an unaccountable loss of hundreds of millions of dollars. The bank approached Sheikh Zayed bin Sultan Al Nahyan, who made good the loss in exchange for an increased shareholding of 78%. Much of BCCI's documentation was also then transferred to Abu Dhabi. The audit also revealed numerous irregularities. Most seriously, BCCI had made a staggering $1.48 billion worth of loans to its own shareholders, who used BCCI stock as collateral.

The audit also confirmed what many Americans who watched BCCI long suspected—that BCCI secretly (and illegally) owned First American. When the Fed cleared the group of Arab investors to buy First American, it did so on condition that they supplement their personal funds with money borrowed from banks with no connection to BCCI. Contrary to that agreement, several stockholders had borrowed heavily from BCCI. Even more seriously, they pledged their First American stock as collateral. When they didn't make interest payments, BCCI took control of the shares. It was later estimated that in this manner, BCCI had ended up with 60 percent or more of First American's stock.

Despite these problems, Price Waterhouse signed BCCI's 1989 annual report, largely due to Zayed's firm commitment to propping up the bank.

Lending practices

BCCI's rapid growth alarmed the financial community, as well as regulators. When a bank grows rapidly, it is lending more and more money each year. BCCI contended that its growth was fueled by the increasingly large number of deposits by oil-rich states who owned stock in the bank as well as by sovereign developing nations. However, this claim failed to mollify the regulators. For example, the Bank of England ordered BCCI to cap its branch network in the United Kingdom at 45 branches.[7]

There was particular concern over BCCI's loan portfolio because of its roots in areas where modern banking was still an alien concept. For instance, a large number of its customers were devout Muslims who believed charging interest on loans—a major pillar of modern banking—was riba, or usury. In many Third World countries, a person's financial standing didn't matter as much as his relationship with his banker. One particularly notable example is the Gokal family, a prominent family of shipping magnates. They had a relationship with Abedi dating back to his days at United Bank. Abedi personally handled their loans, with little regard for details such as loan documents or creditworthiness. At one point, BCCI's loans to the Gokal companies were equivalent to US$1.5 billion, three times the bank's capital. Longstanding banking practice dictates that a bank not lend more than 10 percent of its capital to a single customer.[8]

Funding to criminals and dictators

BCCI was not squeamish about dealing with disreputable clients. It frequently handled money for dictators such as Saddam Hussein, Manuel Noriega, Hussain Mohammad Ershad and Samuel Doe.[7] Other account holders included the Medellin Cartel and mercenary terrorist Abu Nidal.[8]

CIA funding to the Afghan Mujahideen and the Contras

The U.S. Central Intelligence Agency held numerous accounts at BCCI, according to William von Raab, former U.S. Commissioner of Customs. Oliver North also used and held multiple accounts at BCCI. These bank accounts were used for a variety of illegal covert operations, including transfers of money and weapons related to the Iran-Contra scandal, according to Time Magazine.[9] The CIA also worked with BCCI in arming and financing the Afghan mujahideen during the Afghan War against the Soviet Union, using BCCI to launder proceeds from trafficking heroin grown in the Pakistan-Afghanistan borderlands, boosting the flow of narcotics to European and U.S. markets.[10]

After the decline of Soviet Union

BCCI’s demise began in 1986, when a US Customs undercover operation led by Special Agent Robert Mazur infiltrated the bank’s private client division and uncovered their active role soliciting deposits from drug traffickers and money launderers. The so-called C-Chase investigation began when it was apparent the Soviet Union was weakening and Washington lost interest in funding the mujahideen. This two-year undercover operation concluded in 1988 with a fake wedding that was attended by BCCI officers and drug dealers from around the world who had established a personal friendship and working relationship with undercover agent Mazur. At the same time he was dealing undercover with BCCI executives, Mazur used his undercover operation to establish a relationship with the hierarchy of the Medellin Cartel as one of their sources for laundering drug proceeds.

In 1988, the bank was implicated for being the center of a major money-laundering scheme. After a six-month trial, BCCI, under immense pressure from US authorities, pleaded guilty in 1990, but only on the grounds of respondeat superior. While federal regulators took no action, Florida regulators forced BCCI to pull out of the state.[7]

Philanthropic contributions

The bank established the Third World Foundation in London, which published the widely circulated Third World Quarterly and paid special attention to the promotion of the Urdu language and literature through the Urdu Markaz located in London. BCCI also established the Infaq Foundation in Pakistan, which was instrumental in funding the establishment of some of the top universities of the region, such as BCCI FAST (Institute of Computer Sciences) and GIKI (Ghulam Ishaq Khan Institute of Science, Engineering & Technology), in addition to regular support for many other educational institutions.

BCCI also established the Cromwell Hospital (now owned by Bupa) in London.

In addition to the above, BCCI helped revive hundreds of historical buildings and monuments throughout the developing world and contributed significantly to the arts, culture, sports, health, and education in many poor, Third World countries. A significant percentage of employee's salaries were regularly contributed through their consent to global charitable causes.

The Sandstorm report

In March 1991, the Bank of England asked Price Waterhouse to carry out an inquiry. On 24 June 1991, using the code name "Sandstorm" for BCCI, Price Waterhouse submitted the Sandstorm report showing that BCCI had engaged in "widespread fraud and manipulation" that made it difficult, if not impossible, to reconstruct BCCI's financial history.

The Sandstorm report, parts of which were leaked to The Sunday Times, included details of how the Abu Nidal terrorist group had manipulated details and through using fake identities had opened accounts at BCCI's Sloane Street branch, near Harrods in London. Britain's internal security service, MI5, had signed up two sources inside the branch to hand over copies of all documents relating to Abu Nidal's accounts. One source was the Syrian-born branch manager, Ghassan Qassem, the second a young British employee.

The Abu Nidal link man for the BCCI accounts was a man based in Iraq named Samir Najmeddin or Najmedeen. Throughout the 80s, BCCI had set up millions of dollars worth of letters of credit for Najmeddin, largely for arms deals with Iraq. Qassem later swore in an affidavit that Najmeddin was often accompanied by an American, whom Qassem subsequently identified as the financier Marc Rich. Rich was later indicted in the U.S. for tax evasion and racketeering in an apparently unrelated case and fled the country.

Qassem also told reporters that he had once escorted Abu Nidal, who was allegedly using the name Shakir Farhan, around town to buy a tie, without realizing who he was. This revelation led in 1991 to one of the London Evening Standard's best-known front-page headlines: "I Took Abu Nidal Shopping."

The forced closure of BCCI

BCCI was awaiting final approval for a restructuring plan in which it would have re-emerged as the "Oasis Bank". However, after the Sandstorm report, regulators concluded BCCI was so fraught with problems that it had to be seized. It had already been ordered to shut down its American operations in March for its illegal control of First American.

On 5 July 1991, regulators persuaded a court in Luxembourg to order BCCI liquidated on the grounds that it was hopelessly insolvent. According to the court order, BCCI had lost more than its entire capital and reserves the year before. At 1 pm London time that day (8 am in New York City), regulators in five countries marched into BCCI's offices and shut them down. Around a million depositors were immediately affected by this action.

On 7 July 1991, Hong Kong Office of the Commissioner of Banking (forerunner of the Hong Kong Monetary Authority) ordered BCCI to shut down its business in Hong Kong on the grounds that BCCI had problem loans and the Sheikh of Abu Dhabi, the major shareholder of BCCI, refused to provide funds to the Hong Kong BCCI. Hong Kong BCCI was liquidated on 17 July 1991.

In 2002, Denis Robert and Ernest Backes, former number three of financial clearing house Clearstream, discovered that BCCI had continued to maintain its activities after its official closure, with microfiches of Clearstream's illegal unpublished accounts.

A few weeks after the seizure, on 29 July, Manhattan District Attorney Robert Morgenthau announced that a Manhattan grand jury had indicted BCCI, Abedi and Naqvi on twelve counts of fraud, money laundering and larceny. Morgenthau, who had been investigating BCCI for over two years, claimed jurisdiction because millions of dollars laundered by the bank flowed through Manhattan. Also, Morgenthau cited BCCI's secret ownership of First American, which operated a subsidiary in New York City. Morgenthau said that all of BCCI's deposits had been fraudulently collected because the bank misled depositors about its ownership structure and financial condition. He described BCCI as "the largest bank fraud in world financial history."

On 15 November, BCCI, Abedi and Naqvi were indicted on federal charges that it had illegally bought control of another American bank, Independence Bank of Los Angeles, using Saudi businessman Ghaith Pharaon as the puppet owner.

Just a month later, BCCI's liquidators (Deloitte, PWC) pleaded guilty to all criminal charges pending against the bank in the United States (both those lodged by the federal government and by Morgenthau), clearing the way for BCCI's formal liquidation that fall. BCCI paid $10 million in fines and forfeited all $550 million of its American assets—at the time, the largest single criminal forfeiture ever obtained by federal prosecutors. The money was used to repay losses to First American and Independence and to make restitution to BCCI's depositors. None of this was enough to rescue both banks, however; Independence was seized later in 1992, while First American was forced into a merger with First Union in 1993.

However, many of the major players in the scandal have never been brought to trial in American or UK courts. Abedi, for example, died in 1995. He was under indictment in the United States and UK for crimes related to BCCI, but Pakistani officials refused to give him up for extradition because they felt the charges were politically motivated. Even without this to consider, he'd been in poor health since suffering a stroke in the 1980s. Pharaon is still a fugitive as of 2011; at last report he was believed to be in Syria.

In 1992, United States Senators John Kerry and Hank Brown became the co-authors of a report on BCCI, which was delivered to the Committee on Foreign Relations. The BCCI scandal was one of a number of disasters that influenced thinking leading to the Public Interest Disclosure Act (PIDA) of 1998. The report found that Clifford and his legal/business partner Robert A. Altman had been closely involved with the bank from 1978, when they were introduced to BCCI by Bert Lance, the former director of the Office of Management and Budget, to 1991. Earlier, Pharaon was revealed to have been the puppet owner of National Bank of Georgia, a bank formerly owned by Lance before being sold back to First American (it had previously been an FGB subsidiary before Lance bought it). Clifford and Altman testified that they had never observed any suspicious activity, and had themselves been deceived about BCCI's control of First American. However, the federal government and Morgenthau contended that the two men knew, or should have known, that BCCI controlled First American.

Morgenthau and the federal government brought indictments against Clifford and Altman, but did not pursue Clifford due to his age and deteriorating health (he died in 1998). Altman was indicted and tried in New York, though he was ultimately acquitted following a jury finding of not guilty. Altman later accepted a de facto lifetime ban from any role in the banking industry to settle a civil suit by the Fed.

The British government also set up an independent inquiry, chaired by Lord Justice Bingham, in 1992. Its House of Commons Paper, Inquiry into the Supervision of the Bank of Credit and Commerce International, was published in October of that year. Following the report, the bank's liquidators launched the Three Rivers DC v Bank of England case, on behalf of

thousands of BCCI creditors who are suing the Bank of England for its failure to properly oversee the bank. The BCCI creditors sought £850m in damages, claiming that the Bank of England was guilty of misfeasance in public office. The case collapsed in November 2005, with the Bank of England seeking to re-claim legal bills. The cost of the case to the creditors could be as high as £100m.[11]

International business attorney Maître Laurent Ries challenged the validity of the judgment (July 2013 from the Luxembourg commercial court) setting a final point to the liquidation procedure running since 1992 through a class action upon the request from a series of former creditors.[12] [13] [14]

This reaches far into the halls of Washington, D.C. also so I am going to let you do some of your own research and you can start here [15]

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