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Study Says British Regulators Bungled Supervision of BCCI

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LONDON, Oct. 22—The disastrous impact of the collapse of the Bank of Credit and Commerce International (BCCI)—the largest banking fraud in history—could have been lessened if the Bank of England had paid more attention to early warning signs of serious irregularities, according to an independent report released today.

"The Bank [of England] did not pursue the truth about BCCI with the rigor which BCCI's market reputation justified," said the report, prepared by Lord Justice Thomas Bingham as a comprehensive study of the way banking regulators here handled the renegade bank.

The report describes years of hit-and-miss supervision that failed to uncover the full truth about BCCI until it was far too late. British officials, it says, spent years trying to avoid taking full responsibility for overseeing the bank even though it was clear that BCCI was being run largely from its London offices.

In addition to criticizing the Bank of England, the Bingham report faults the rulers of the Persian Gulf sheikdom of Abu Dhabi, where BCCI established a headquarters, for not telling regulators in London and elsewhere all that they knew about the bank's heavy losses and improper loans.

The Abu Dhabi authorities have said they were duped by BCCI officials. But Bingham said in the report that the rulers of Abu Dhabi "are not . . . untutored innocents in the world of international finance, and I cannot think they were as greatly deceived as they suggest."

The bank, with operations around the globe, was shut down in July 1991 and is implicated in fraud totaling billions of dollars. The bank was used by drug traffickers, arms dealers and others who wanted to conceal shady transactions, including former Panamanian ruler Manuel Noriega.

In another development today, a court in Luxembourg—where BCCI was chartered—approved a plan to provide partial repayment for creditors, who worldwide lost more than $9 billion in the bank's collapse. Abu Dhabi is putting up $1.7 billion to fund the repayment plan. Those covered by the plan will receive between 30 and 40 cents on the dollar. BCCI had no banking operations in the United States.

Bingham's report comes on the heels of another study released by Sen. John Kerry's (D-Mass.) subcommittee on terrorism, narcotics and international operations, which in stronger terms blasted the Bank of England's oversight performance as "wholly inadequate." Kerry also faulted U.S. regulators, who failed for years to find out that BCCI illegally owned three U.S. banks.

Bingham, an Appeal Court judge, began investigating BCCI just two weeks after the collapse.

The report says that BCCI's auditors, Price Waterhouse, were right to tell Bank of England regulators of concerns they had about the bank, but should have raised the alarm more persistently and with greater urgency.

BCCI's shutdown came a month after Price Waterhouse delivered a report that detailed extensive fraud. But the report says that nearly two years earlier, in October 1989, an informant inside the bank was telling Price Waterhouse officials about improper practices.

"This history was . . . a tragedy of errors, misunderstandings and failures of communication," Bingham concluded. But the final responsibility for oversight rested with the Bank of England, he said, and "the Bank's supervisory approach to BCCI was in my opinion deficient."

BCCI was founded in 1972 by a Pakistani banker, Agha Hassan Abedi. It grew quickly into a hydra-headed operation with headquarters in Luxembourg, London and the Cayman Islands—a regulator's nightmare.

As early as 1974, according to the report, there were concerns about how fast BCCI was growing. In 1976, rumors began circulating "about BCCI's business integrity," but regulators were given nothing specific to go on.

By 1980, the report says, BCCI was running most of its burgeoning operations out of London. But for nearly a decade, the Bank of England resisted taking full responsibility for regulating BCCI, insisting instead that this was a job for the banking authorities in Luxembourg. The Luxembourg authorities, meanwhile, were insisting that they did not have the resources to keep track of something as big and complicated as BCCI was becoming.

An anonymous letter to the Bank of England in 1985 alleging that up to 20 percent of BCCI's portfolio consisted of bad loans was never investigated, Bingham found. Reports that BCCI was gambling heavily and unwisely on the financial and commodity markets were forwarded to Luxembourg by the Bank of England without further inquiry.

When Price Waterhouse conducted an audit in 1985 and found huge losses totaling hundreds of millions of dollars, both the auditors and the Bank of England chalked it up to incompetence and inexperience on the part of BCCI officials—despite the earlier rumors and hints of improprieties.

In 1988, the City of London Fraud Squad reported that BCCI appeared to have helped a customer avoid paying a judgment by deceiving authorities. The customer was later convicted of perjury, according to the report, but no action was taken against the bank.

The same year, reports reached the Bank of England through diplomatic channels that an accountant who had worked for BCCI in the Persian Gulf was alleging "fraud and manipulation . . . on a substantial scale." Again, the Bank of England took no action to pursue the matter.

In 1988, when seven BCCI officials were arrested in Tampa on charges of money laundering and drug trafficking, the Bank of England was concerned enough to ask questions. But regulators accepted the word of BCCI official Swaleh Naqvi that senior management was not involved.

In February and March of 1990, Price Waterhouse auditors, by then deeply suspicious of BCCI, called twice on the Bank of England's chief regulator, Roger Barnes, to lay out their concerns, the report said. But Barnes did not pass along the information or take action, concluding that he was dealing with mere suspicions, it said.

Weeks later, Price Waterhouse issued the first official report giving strong indications of fraudulent practices. But Bank of England officials apparently did not grasp the report's implications, instead seeing it as another in a string of reports about heavy losses—not about serious improprieties.

Around the same time, Naqvi persuaded Sheik Zayed bin Sultan and his ruling coterie in Abu Dhabi to begin pouring billions of dollars into the bank. The report notes skeptically that this occurred right after Naqvi supposedly confessed to already having misappropriated and lost $2.2 billion of the sheik's money.

Naqvi is being held in Abu Dhabi, as are many of the bank's documents. Authorities say they are cataloguing the files, which investigators around the world are eager to see for any light they might shed on BCCI's worldwide activities. New York and U.S. Justice Department officials have been trying for 1½ years to get access to the records and witnesses. They have been denied access unless they guarantee they will not prosecute anyone in Abu Dhabi, according to sources.

In February 1991, Price Waterhouse issued a report saying up to $5.6 billion in new capital would be needed if the bank was to be saved. In June, the auditors drafted another report that finally laid out the whole story, in language that anyone could understand: fraudulent use of funds, disguised lending, falsified records, collusion with favored customers, collusion with other banks.

A shaken Bank of England finally swung into action. A month later, BCCI's many doors were shut.