

#17 Jack Blum: a bank with no capital

Jack Blum: The joke in London was that the way to identify the Price Waterhouse accountant was he was the guy with the dark glasses and the cane. The white cane.

Naomi Fowler: This is Jack Blum: The Corruption Diaries from the Tax Justice Network. I'm Naomi Fowler.

Jack Blum: I wasn't worried. Killing me just wouldn't solve all of their problems. You know, it would just call more attention to them.

Naomi Fowler: The investigation into BCCI, the Bank of Credit and Commerce International, is hotting up...

Jack Blum: I'm getting more and more information, and I get a phone call. This is before I'm off the committee payroll, but, you know, when I've been told the investigation is over, I get a phone call from a contact who tells me that the general counsel of the bank, who turned out to be the son of the man I met in London, Attock Oil, who was General, now General Counsel of the Bank, wanted to talk and wanted to explain what had gone on inside the bank, really. I agreed to meet him in Miami, and I told people who I had been talking to in Customs and IRS that I really wanted to have this recorded. So two agents, one Customs, one IRS, wired up a hotel room in Miami. They gave me a briefcase that had a hidden recorder and I spent three days debriefing the General Counsel about what the bank was all about.

The room was wired up. The guy who was the general counsel came into the room and he started describing the story of this bank and he said, this bank's a criminal operation from top to bottom. He said, it's a bank with no capital. I said, what do you mean? How could a bank operate with no capital? He said, well, here's what they did. There are actually two incorporated banks. One of them is in Luxembourg, and one of them is in Cayman. To capitalize for paper purposes each bank, the bank in Luxembourg lent, on paper, a group of Middle Eastern executives and senior people money to buy shares in the bank in Cayman. The bank in Cayman did the same thing to have another group of wealthy people in the Middle East buy shares in Luxembourg. The problem is the people who bought the shares didn't know they bought the shares. So now both banks are capitalized, and they're off and running. And once they were set up that way they were then able to use what was called the Big Bang in London to get themselves a branch in London.

Jack Blum: The so-called 'Big Bang' was the deregulation of financial markets, put in place by British Prime Minister Margaret Thatcher in 1986.

We're not going to ask a lot of questions. We're going to open it up to free competition and they were really in the middle of the global banking system and nobody seriously asked any questions about the legitimacy of the bank. That was deregulatory. When they said we're not going to be restrictive about banking licences. So this bank begins operation, took in a lot of deposits from Pakistanis, but then began criminal operations almost on a worldwide basis. In addition to the money laundering, which produced a significant amount of revenue, they were financing illicit transactions of all kinds. They had a very active letter of credit business

for things that normal banks wouldn't give you any credit for. And there was no visible profit center for the bank that made any sense. So the bank would say, look at us, we've got all this cash. But the problem with a bank is that it also has to have loans out. And it has to be making profitable loans to be a real bank. And this bank was simply not doing it. And they kept telling people, well, we make our money off fees, but what they didn't tell people was it was fees for transactions that were essentially criminal.

Later it became obvious to me that what had gone on, among other things, was the bank had financed the Pakistani nuclear program. And that there had been, if you looked at the bank's books, what was called a subvention, which meant that somewhere a whole pile of money had materialized on the bank's books when there was a massive hole in the bank's books. And this all happened right at the time when the Pakistanis were busily acquiring all of this equipment to build a nuclear weapon to enrich uranium and they had a scientist who was assembling the whole nuclear program from around the world and they were buying equipment from all over the world.

So this taping goes on for three days. The poor agents are there with the headsets on and they're listening to the whole thing. At one point they ran out of tape and they had to go running around to find a store to buy more tape so they could continue taping. And finally I said to the man who was the former general counsel or the general counsel of the bank, I said, would you testify in front of a federal grand jury? He said, yeah, I'd do that. So, I then arranged with these agents to fly up to Tampa so we can have a meeting with the U.S. Attorney in Tampa.

That turned into a circus. First of all, we had the airplane flight, so there are two armed agents, I'm with the former General Counsel. He doesn't know that we have this armed escort and were to be met in Tampa and taken to a safe house for the debriefing. The people at the U.S. Attorney's Office were supposed to arrange a place for the debriefing. And the reason they do it outside of the actual U.S. Attorney's Office is so people don't see a witness who wants to remain anonymous coming and going. So what they usually do is book a hotel suite and use that as the place where they're going to conduct this interrogation. Well, in classic Florida fashion they had booked a hotel suite. We have a cavalcade of cars that meet us at the airport. I escort the guy. We go get into this SUV, we've got lead car, follow car, looks like, you know, a parade of notables. We get to the hotel that was supposed to be the site of this debrief, and it turns out that they had given the suite away to somebody else and they weren't honoring the reservation.

So we then begin driving around Tampa looking for a place to have a meeting. Finally, I say, look, you don't need a suite. These hotels have meeting rooms and all we need to do is rent one of the meeting rooms and we'll be perfectly all right. And indeed, we stopped at a hotel, I've forgotten where it is, long ago but we stopped at a hotel and I provided the credit card to rent the hotel room for the time it took to do the debriefing.

So we go into the room and the guy explains what he told me in a much shorter version, obviously, and I say he's agreed to be a government witness and I hope you're going to follow up with this. And they begin to act very strangely, the people in the U.S. Attorney's Office do. They don't seem to be at all interested and they're in fact kind of annoyed. And I was just appalled. I said, you know, what's going on here? And by the way, he's not

supposed to know he was taped, and you're talking about the tapes and what to do, this is just idiocy. And the whole thing ended in a rather calamitous disagreement that I had with the people in the U.S. Attorney's Office. The agents I had been working with were just shocked. They couldn't believe what they were watching, as the U. S. Attorney's Office is just not interested in pursuing the stuff that I've put on the table in front of them. So, I was really pissed, to put it bluntly. And I, after that meeting, went up to New York and met with Robert Morgenthau, who was the District Attorney from New York County. I'd met Morgenthau before, he'd been a witness at our hearings talking about the trouble that money laundering had caused and so on. And, he was pretty receptive. He called in his expert on financial crime, John Moskow, told Moskow to look into it. Initially, they tell people they thought I was a little crazy and then they looked into it and they found out it was a lot worse than they thought.

Now, part of this story that I didn't tell, which explains an awful lot of the pressure, was that these Pakistanis had managed to draw in some very prominent Americans to front for them. The strategy for BCCI had been something which they referred to as Rent A Face. And the face they rented in the United States was Clark Clifford, who was a former Secretary of Defense, who was a well known Washington lawyer who was hired for the most high ends kind of things. He had a very specialized small lobbying firm, made tons of money at it, and he had become the chairman of something called First American Bank. Problem was, First American Bank was owned by BCCI, and that had been kept secret. And that was one of the things that was put on the table in all of the various meetings I had, particularly with his former General Counsel of BCCI. The fact that Clifford was involved now ratcheted the stakes up rather considerably. As did the fact that First American Bank had a branch in New York in the jurisdiction of Robert Morgenthau. And the, all of this had been undisclosed in the application for licenses for the transfer when they bought the bank. So, now there were, was a whole additional layer of illicit activity that had gone on with this bank.

Morgenthau picked it up and now really went at it and brought in regulators from the Bank of England, and started upping the pressure on the Fed. And finally in 1991, they locked the bank up and all sorts of people were arrested and it all started pouring out in public and there were public hearings. I testified, I laid out this whole saga in rather considerable detail. And it was astonishing because this was the fifth largest private bank in the world according to its books. It had two very prominent accounting firms, Pricewaterhouse and Ernst & Young. Each had audited one of the two banks. Both of them never figured out that there was a problem with the capitalization or there was anything fishy going on with the books. Both accounting firms were horribly embarrassed. So this was an explosive set of disclosures, to say the least.

We then found out, because there was now more testimony, that this bank had been used by a variety of intelligence services. And that all came tumbling out. In fact, the head of the CIA disclosed it in a speech to the Boy Scouts in which he mentioned BCCI and said well we sometimes have international banking operations and we, you know, admitted that they had touched BCCI, but, you know, everybody used it. The Arabs used it, the Israelis used it, you know, and on and on and on. And each day there was new, new stuff about this bank for a period of time.

Now, there were massive implications to the things that had happened. First, how did the bank escape regulation globally? London - we're giving up regulation because we're free marketeers. In the United States, the bank operated as an EJAC corporation, which was a special exemption for foreign banks that were not operating as domestic institutions. But because they were so-called EJAC corporations, they were not regulated or supervised. And therefore, when they did these crazy things, were never brought up short. So, now it became clear that the domestic regulators could not have foreign bank operations in the U.S. that weren't subject to the same regulation that U.S. institutions were.

There were all kinds of other issues at stake. There were, around the world, this bank was operating in 70 countries. Suddenly, the bank turns out to have no assets. Now, what happens in the bankruptcy proceeding, globally? Who does what? Who's in charge of what? Some countries did what they call ring fencing, which is to say that they said that all the assets of the branch were for that country and couldn't be used in the global bankruptcy. Meanwhile, the trustees are saying, no, wait a minute, we gotta have that to distribute to all these victims who are in countries other than yours. And so it went.

Then there were individual scandals. Alan Garcia, who was then president of Peru, managed to pay, or managed to give as deposit the entire foreign exchange reserve of Peru to BCCI two months before it was bankrupt. So the question is, why did he do that? And of course, there were Peruvians who were deeply suspicious that he did it because he got a substantial kickback, 'cause otherwise it made no sense whatsoever. And for years after this, I was visited by this woman who chaired a Peruvian congressional committee that was looking for the money that had disappeared in BCCI and what Alan Garcia's role had been.

There were massive changes to the international system in the wake of the explosion. Much more regulation, much more supervision, but still, holes and gaps in the system that need to be fixed, but, you know, a tremendous change in the way a lot of business was being done.

Naomi Fowler: The Corruption Diaries is a production of The Tax Justice Network, made by Naomi Fowler and Jo Barratt. Interviews with Jack Blum were recorded over several days at Jack's home in Maryland by Zoe Sullivan.