

# Accused: HSBC In The Dock

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Helping sanctions-busting by Iran. Turning a blind eye to massive cash transfers out of a Mexican border area infested with drugs gangs. Refusing to cut off a Saudi bank suspected of having links to al-Qa'ida. Funnelling hundreds of millions of dollars in suspicious travellers cheques from Russian "used-car salesmen" through Japan to the US. Ignoring its own employees who warned that the bank was awash with dirty money.

Stephen Foley / The Independent / The Interview People

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A US Senate committee has just published a list of HSBC's failures to catch suspicious transactions and clamp down on money laundering, and it is a very long list indeed. A laundry list, if you like.

It took Senator Carl Levin, the man in charge of the Homeland Security sub-committee, half an hour to recite even the main charges when HSBC executives were hauled in for a Congressional hearing. It took the executives even longer to recite their list of apologies and promises that HSBC is cleaning up its act.

And for the largest London-listed bank, the humiliation of the Senate hearing might not even be the half of it. The Department of Justice believes it has more than enough evidence of compliance failures across the bank to slap enormous fines on the company. Analysts are bracing themselves to hear about a legal settlement that could cost HSBC up to \$1bn, perhaps within the next few weeks. For Stuart Gulliver, the settlement and hearing amount to public atonement for a decade of wrongs, but when it comes to fixing the failures, executives warned that would take more time - and money - yet.

In 340 damning pages, Mr Levin's permanent sub-committee on investigations sets out how HSBC repeatedly put the pursuit of profit ahead of rooting out money laundering. The

report stretches back to 2001 and covers a full decade, alleging that repeated attempts by employees to point out compliance failings were ignored by higher-up managers.

When HSBC managers advised Iran's largest bank on ways to avoid having its transactions held up by US filters, introduced as part of sanctions on the regime, one executive wrote an email saying: "I wish to be on the record as not comfortable with this piece of business." Executives, including the former HSBC chief executive Stephen Green, now Britain's Trade Minister, discussed how to continue doing business with Iran and stay in compliance with US law; the sub-committee alleges that by stripping transactions of details about their country of origin, HSBC facilitated 25,000 questionable payments involving Iran in the six years to 2007.

In another case, HSBC resumed business with a Saudi Arabian lender, Rajhi Bank, over the objections of some executives, despite US insistence that Rajhi's founder had been a backer of al-Qa'ida. And the sub-committee found that HSBC cleared \$290m in "obviously suspicious" US travellers cheques for a Japanese bank, benefiting Russians who claimed to be in the used-car business.

Some of the worst failures were at HSBC's Mexican bank, Bital, which it acquired in 2002. Even while other global banks were pulling back on their dealings with casas de cambio – local money-changing operations used to send cash abroad, HSBC carried on with Bital's fast-paced growth and failed to implement many of the anti-money laundering checks required of banks with US operations.

Paul Thurston, who now runs HSBC's retail banking and wealth-management operations, but who was "for 14 stressful months" in 2007 and 2008 the head of the Mexico bank, told Congress: "Some of the things I found, frankly, took my breath away."

The sub-committee report found that HSBC Mexico's top anti-money laundering official warned head office before leaving the company in 2008 that there was "a culture of pursuing profits and targets at all costs [and it was] only a matter of time before the bank faced criminal sanctions".

**HSBC Should Have Been Threatened With The Removal Of Its Banking Licence In**

## **The US, But Regulators Gave The Bank Only Minor Sanctions And Warnings Until The Criminal Investigation Began In Earnest Towards The End Of The Last Decade.**

“Accountability for past conduct is essential,” Senator Levin told the hearing yesterday. “That’s what’s been missing here.”

He said HSBC should have been threatened with the removal of its banking licence in the US, but regulators gave the bank only minor sanctions and warnings until the criminal investigation began in earnest towards the end of the last decade.

In all, six current and former HSBC executives testified before Congress yesterday, in what was billed as a “case study” into how the US banking system can be contaminated by drugs money and terrorist financing, and into how HSBC helped Mexico’s vicious drug gangs grow in strength by laundering the proceeds of their trade on America’s streets. Irene Dorner, who was appointed last year to head HSBC’s North American operations, admitted that the bank’s compliance practices had been simply “unacceptable”. She said: “I fully appreciate why we are here.”

HSBC’s net income last year was \$16.8bn. It operates in about 80 countries and its US division is among the top 10 banks operating in the US, with assets of \$210bn. Executives admitted HSBC had underfunded its anti-money laundering effort for years, and said it had raised the budget ninefold since 2010. But while they set out their own list of ways in which it had cleaned up its act since regulators and prosecutors moved in, including imposing new standards directly from London, they also warned that all the steps required by watchdogs had not yet been met.

David Bagley, who had been HSBC’s head of group compliance since 2002, stepped down immediately after the committee published its findings.

Mr Bagley, who had a 20-year career with HSBC and was based in London, said: “Despite the best efforts and intentions of many dedicated professionals, HSBC has fallen short of our own expectations and the expectations of our regulators.”

Ms Dorner said: “We need to respond not only to regulatory changes but also to advances in technology to the risks posed by the ingenuity of drug traffickers, money launderers, tax evaders and others seeking to use our financial system for illicit purposes. We want our doors to be closed to these bad actors. This is my goal.”