

# HSBC 'sorry' for aiding Mexican drugs lords, rogue states and terrorists

Executive quits in front of US Senate as bank faces massive fines for 'horrific' lapses that resulted in laundering money for drugs cartels and pariah states

Dominic Rushe in New York  
The Guardian, Tuesday 17 July 2012 13.29 EDT



US senators hear humiliating apologies from executives from HSBC, Europe's biggest bank [Link to video: HSBC admits laundering money for drug cartels, terrorists and rogue states](#)

Executives with Europe's biggest bank, HSBC, were subjected to a humiliating onslaught from US senators on Tuesday over revelations that staff at its global subsidiaries laundered billions of dollars for drug cartels, terrorists and pariah states.

Lawmakers hammered the British-based bank over the scandal, demanding to know how and why its affiliates had exposed it to the proceeds of drug trafficking and terrorist financing in a "pervasively polluted" culture that persisted for years.

A report compiled for the committee detailed how HSBC's subsidiaries transported billions of dollars of cash in armoured vehicles, cleared

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suspicious travellers' cheques worth billions, and allowed Mexican drug lords buy to planes with money laundered through Cayman Islands accounts.

Other subsidiaries moved money from Iran, Syria and other countries on US sanctions lists, and helped a Saudi bank linked to al-Qaida to shift money to the US.

David Bagley, HSBC's head of compliance since 2002, and who had worked with the bank for more than 20 years, resigned before the committee.

"Despite the best efforts and intentions of many dedicated professionals, HSBC has fallen short of our own expectations and the expectations of our regulators," he said.

The bank has been under investigation for nearly a decade, and faces a massive fine from the US justice department for lapses in its safeguards. Senators Carl Levin and Tom Coburn, who conducted the hearing, said the permanent subcommittee of investigations had examined 1.4m documents as part of its review and thanked the bank for its co-operation.

The bank has apologised for its lapses and said reforms had been put in place. Paul Thurston, chief executive of retail banking and wealth management, who was sent in to try and clear up HSBC's Mexican banking business in 2007, said he was "horrified" by what he found.

"I should add that the external environment in [Mexico](#) was as challenging as any I had ever experienced. Bank employees faced very real risks of being targeted for bribery, extortion, and kidnapping – in fact, multiple kidnappings occurred throughout my tenure," he said.

The committee had [released a damning report on Monday](#), which detailed a collapse in HSBC's compliance standards. The report showed executives at the bank has consistently warned of problems. At its Mexican subsidiary, one executive had warned the bank was "rubber-stamping unacceptable risks", according to one email gathered by the committee.

HSBC's Mexican operations moved \$7bn into the bank's US operations, and according to its own staff, much of that money was tied to drug traffickers. Before the bank executives testified, the committee heard from Leigh Winchell, assistant director for investigative programs at US immigration & customs enforcement. He said 47,000 people had lost their lives since 2006 as a result of Mexican drug traffickers.

The senators highlighted testimony from Leopoldo Barroso, a former HSBC anti money-laundering director, who told company officials in an exit interview that he was concerned about "allegations of 60% to 70% of laundered proceeds in Mexico" going through HSBC's affiliate.

"In hindsight," said Bagley, "I think we all sometimes allowed a focus on what was lawful and compliant rather than what should have been best practices."

Levin and Coburn directed particular ire at a Cayman Islands subsidiary set up by the Mexico division of HSBC. That bank handled 50,000 client accounts and \$2.1bn in holdings, but had no staff or offices. Money from the Cayman Islands was used to buy planes for Mexican drug traffickers, said the senators. Bagley said those accounts were all now in the process of being closed.

"Forget hindsight," said Levin. "Is there any way that should have been allowed to happen?"

"No, senator," said Thurston.

Levin repeatedly said that HSBC must have been aware of the problems.

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"This is something that people knew was going on at the bank," he said.

Bagley and Thurston said that HSBC's compliance had been fragmented and that oversight had been poor. They said that had now been changed. The bank has now adopted a global compliance structure and doubled the amount of money it is spending on oversight.

"Criminals operate globally and if we are to combat them and stop them from accessing and abusing the financial system, we must look at issues from a global perspective. Institutions which operate internationally, like HSBC, will be targeted by these criminals, and our experience in Mexico vividly demonstrates that you are no stronger than your weakest link," said Thurston.

While much of the hearing focused on Mexico, the senators also slammed the bank for dealings in Iran, Syria, Cuba, and other countries on US sanctions lists. HSBC executives continued to do business with Al Rajhi Bank in Saudi Arabia, even after it emerged that its owners had links to organizations financing terrorism and that one of the bank's founders was an early financial benefactor of al-Qaida.

While Coburn was unsparing of his criticism of HSBC, he thanked the bank for its co-operation and said there were issues at other institutions including Citigroup, Wachovia and Western Union.

But the report comes at a highly sensitive moment for British banks in the US. Following Barclays fine in the Libor-interest rate scandal and the massive losses at JP Morgan Chase's London offices US politicians have become increasingly critical of the UK's financial services sector.

At a recent hearing into the JP Morgan losses, Carolyn Maloney, a Democratic representative from New York, said: "It seems to be that every big trading disaster happens in London."

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