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Unrecorded deposits and loans were designed to thwart regulators

Secret bank in BCCI disguised large losses

By David Lascelles, Richard Donkin and David Waller

FRAUDULENT activities at the Bank of Credit and Commerce International (BCCI) were based on a secret "bank within a bank" which was used to disguise the huge losses that have been run up by the group.

According to investigators of the $20bn (£12.5bn) bank, which was shut down in a worldwide swoop by regulators last Friday, a group of top BCCI officials resorted to a paperchase of unrecorded deposits and loans to prevent its auditors and regulators from discovering the holes in its balance sheet.

A scheme was also created to assist BCCI clients in tax evasion on " black money" according to one former executive at one of the bank's big London branches.

The executive said the scheme in the UK was intended to enable some traders to avoid paying value added tax in their businesses and composite rate tax on their deposits.

This was done by accepting deposits, but in the name of relatives living abroad.

Thousands of BCCI's clients were Asian or Arab but it is not clear how extensive the tax-avoidance scheme was.

Officials in London also said a number of accounts were labelled as "No correspondence", meaning the depositor did not wish BCCI to send letters or account statements to his home address for fear of alerting the local tax authorities.

The means used by BCCI to conceal its losses appear similar to so-called Ponzi schemes in which fraudsters use new investors' money to pay off the old.

BCCI took in deposits worth millions of dollars which were not entered in the books.

Instead, they were used to plug up holes created by bad loans and losses on treasury and foreign exchange trading.

In order to repay these deposits, BCCI would have had

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BANK SCANDAL

Anxious wait: BCCI account holders worried about their savings queue outside a branch of the bank in Karachi

Abu Dhabi asked to aid depositors

By Alison Smith in London and Victor Mallet in Abu Dhabi

THE British government is asking the government of Abu Dhabi, a substantial shareholder in the Bank of Credit and Commerce International, for help to ensure that depositors get their money back.

The Bank of England said the request was made by Mr Graham Burton, the British ambassador to the United Arab Emirates.

The government is due to report to parliament today. Treasury ministers, who have been kept informed of developments over the weekend, face cross-party pressure to provide a rescue plan for depositors.

Some MPs from both sides of the Commons are privately concerned at the time that elapsed before the Bank of England took action.

Sheikh Zayed bin Sultan al-Nahyan, the president of the United Arab Emirates and ruler of Abu Dhabi has been behind the Pakistani-run bank since it was founded in 1972. He will argue that the Bank of England pounced on the loss-making BCCI – without consulting Abu Dhabi – just as the Abu Dhabi authorities were finalising a rescue plan.

Mr Norman Lamont, the chancellor, is due to meet EC finance ministers in Brussels today, so the task of answering Commons questions could fall to Mr John Maples, economic secretary to the Treasury.

Labour has already called for simplification of the regulatory system in the interests of easing co-operation with other European regulators.

Ministers have emphasised that the government has no formal role in the matter. They are, however, concerned about the wider implications of the operation, not least its effect on confidence in the City.

The Foreign Office was yesterday trying to avoid allowing the BCCI saga to strain the normally cordial relations between London and the al-Nahyan family.

It referred all calls about BCCI to the Bank of England, emphasising that the decision to shut down BCCI banks was taken in concert with regulatory authorities in other countries and was purely a banking matter.

Abu Dhabi has already injected some $1bn (£600m) into BCCI since the disclosure of the group's involvement in drug-money laundering.

Abu Dhabi's plans were said to include moving substantial bad loans off the BCCI balance sheet to two companies which would be supported by promissory notes from the Abu Dhabi government, with the idea of cancelling the losses over seven and a half years.

BCCI, meanwhile, would divest itself of its American and Caribbean interests and focus attention on three regions - Europe (managed from London), the Middle East and South-East Asia (Abu Dhabi) and the Pacific (Hong Kong). BCCI officials suggest that the Bank of England was dissatisfied with this plan because its investigations showed BCCI losses had been concealed for several years, possibly as far back as 1982.

Yugoslav-EC accord aims to halt slide into civil war

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EUROPEAN Community ministers last night reached an agreement with Yugoslav leaders aimed at halting the country's drift to civil war, **writes our Foreign Staff**.

The accord was patched together in hours of tortuous negotiations on the Adriatic island of Brioni, while federal troops imposed a ceasefire in the latest troublespot – the town of Tenje in Croatia.

The talks in Brioni, involving the foreign ministers of Luxembourg, the Netherlands and Portugal, brought agreement on a truce in the breakaway republic of Slovenia and a compromise over control of its external borders. The plan envisages the EC sending civilian and military observers to Slovenia. Under the pact, all federal troops in Slovenia and the opposing Slovene militia are to return to their bases by midnight tonight.

Slovenes are to keep control of border posts with Italy, Austria and Hungary during the next three months, but under the compromise arrangement they will "act in conformity with federal regulations". This means that all customs duties collected will remain part of the federal government's revenue.

The agreement – which provides for the federal army to submit to full control by Yugoslavia's collective federal presidency – aims to ease tension until wide-ranging talks on the country's future start on August 1.

Mr Hans van den Broek, the Dutch foreign minister, said the arrangements were "adopted by consensus".

The EC will send 30-50 civilian and military observers to monitor the ceasefire between Slovene forces and the Yugoslav army as soon as possible. The team would also monitor all other aspects of the agreement, Mr van den Broek said.

An exploratory mission to prepare for the monitoring team would travel to Yugoslavia tomorrow, he added.

The Brioni talks came as Yugoslavia's violence shifted away from Slovenia to neighbouring Croatia, with ethnic clashes flaring up between Serbs and Croats in Tenje.

There were conflicting reports on casualties. A Croatian police officer said dozens were believed dead, but other reports spoke of up to 12 deaths. Federal troops moved in to separate Croatia's forces and nationalist Serbs and imposed a ceasefire. Belgrade radio said a Serb was also killed in the nearby town of Silovci.

Yesterday, Yugoslavia sent a protest to Austria, accusing it of inciting separatism and of sending weapons across the border. Mr Hans-Dietrich Genscher, Germany's foreign minister, warned that the EC would review its non-recognition of Slovenia if the federal army intervened there again.

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