

# CORPORATE ECONOMIC CRIMES

## Bibliography

Lauren Snider, *Corporate and White Collar Crime*, Sage Publications, 2008

❑ WHY HAS CORPORATE ECONOMIC CRIME BEEN SO RESILIENT, SO RESISTANT TO FORMAL AND INFORMAL CONTROL?

❑ IS THE PROBLEM TOO MUCH OR TOO LITTLE REGULATION?

❑ DOES THE PROBLEM RESIDE IN INADEQUATE LAWS, INSUFFICIENT ETHICS EDUCATION, TOO LITTLE TRANSPARENCY IN CORPORATE HIERARCHIES OR TOO MUCH TEMPTATION?

# THE CRIMINOGENIC EFFECTS OF CORPORATE STRUCTURE ITSELF

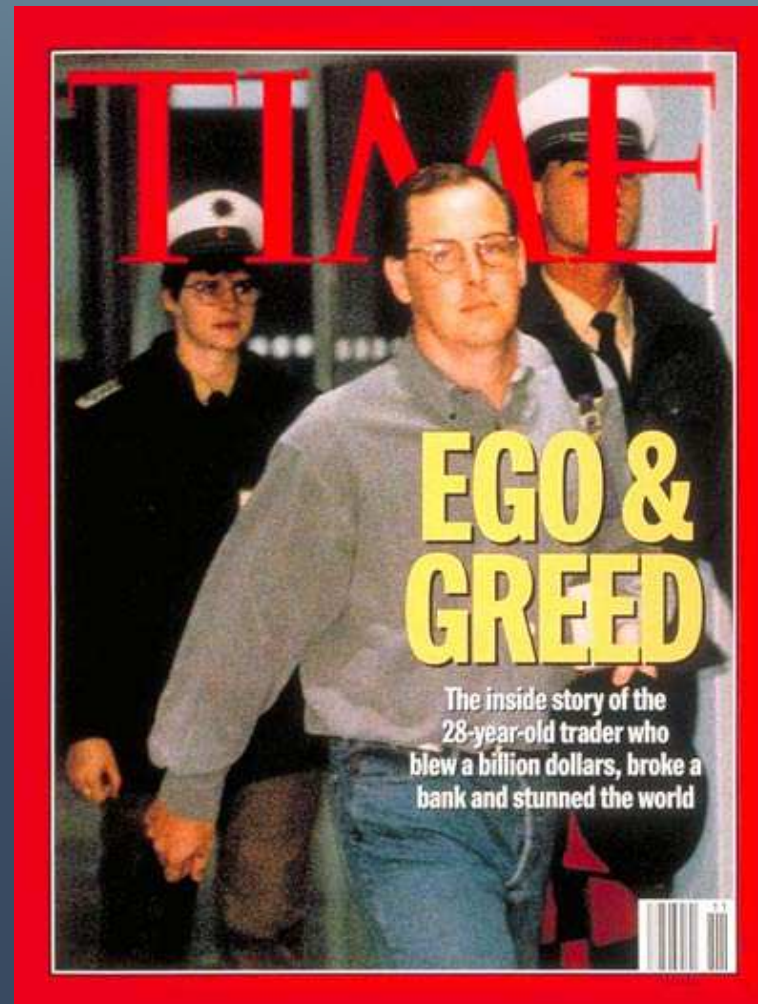
HARRY GLASBEEK:

*WE NEED TO PAY LESS ATTENTION TO THE ROTTEN APPLES IN  
THE BARREL, AND MORE TO THE ROTTENING EFFECTS OF THE  
BARREL*

CASE STUDY

BARINGS - 1995

February of 1995 saw the collapse of Barings, the oldest merchant bank in Britain. At the centre of the scandal was Nicholas Leeson: a 28-year-old trader with Barings



Leeson's fraud involved posting large profits for his employers by falsifying bank statements and confirmation letters while at the same time concealing continued losses in a secret account.

For more than three years:

- the Bank rewarded Leeson with huge bonuses
- The Bank never investigated the details of Leeson's transactions
- The Bank never questioned Leeson's large funding requests for loans to secure client positions (the clients did not exist, the money was used to enrich Leeson's secret accounts)

## BARING'S CORPORATE STRUCTURE FACILITATED POOR SUPERVISION OF TRADING ACTIVITIES

- MANAGEMENT WAS INTERNATIONALLY FRAGMENTED
- REPORTING STRUCTURES WERE WEAK
- TRANSPARENCY WAS NON-EXISTENT
- LEESON WAS RESPONSIBLE FOR BOTH THE DEALING DESK AND THE BACK OFFICE
- ABSENCE OF RISK MANAGEMENT PROTOCOLS FOR MONITORING BARINGS' SINGAPORE BRANCH
- INADEQUATE CONTROL PROCEDURES



# CASE STUDY

THE BANK OF CREDIT AND COMMERCE INTERNATIONAL (BCCI)

BCCI was shut down in 1991 after Bank of England audits revealed that fraud, improper loans and deceptive accounting practices had been discovered

Investigations in both the USA and the UK revealed that BCCI was involved in money laundering, tax evasion, bribery, smuggling, arms trafficking, and the illegal purchases of banks and real estate. It was accused of catering to drug dealers, arms merchants and third world dictators

The fraud required a highly compartmentalized organizational structure, designed to foster deception and avoid centralized regulatory review

BCCI's annual auditing system was designed to be non-transparent, with complexity built in to avoid the detection of illegal accounting practices

# 1993

Syed Ziauddin Ali Akbar, the Head of BCCI's treasury division in London until 1986, was the first to face BCCI-related charges in Britain. Akbar pleaded guilty to false accounting practice involving \$765 million. Authorities estimated that Akbar had personally gained or misused \$61 million. Akbar was sentenced to six years in prison (a light sentence resulting from a plea bargain for his guilty plea)

# 1988

In the United States investigations began when the Bank was implicated in Panamanian dictator General Noriega's drug trafficking and money laundering activities. The investigations revealed BCCI's connections with the Central Intelligence Agency and various members of the American political elite. Indictments on multiple fraud and larceny were drawn up in 1991 against Swaleh Naqvi, the former BCCI chief operating officer.

When proceedings commenced, Naqvi admitted responsibility for \$255 million in losses in the United States, and pled guilty to charges of fraud, racketeering and conspiracy. He was ordered to pay restitution and sentenced to eight years in prison

## 2003 – Parmalat scandal (*Italy's Enron*)

The Italian dairy and foods giant, with more than 35,000 employees in 30 nations, was forced into bankruptcy on 27 December 2003 when 4.9 billion in supposed company assets were revealed to be a complete fiction. For years Parmalat had concealed its true financial conditions from investors and financiers using a combination of falsified revenue statements, offshore holding companies, and even outright forgery (done by posting a note of asset confirmation to a Bank of America letterhead and running the form through a fax machine multiple times)