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Claims That HSBC Cost Latin America Billions in Lost Tax Revenue

by Andrés Gaudín

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Argentina, Brazil, Venezuela, Paraguay, and Mexico are among the principal victims in Latin America of a complex money-sheltering scheme uncovered by a former computer engineer with the British financial giant HSBC (Hong Kong and Shanghai Bank Corporation). The whistleblower, who worked for a Geneva, Switzerland-based affiliate of the bank, claims his former employer helped clients throughout the world evade taxes and launder money from an array of illegal activities and from mafia groups engaged in drugs, arms, and even human trafficking.

The scale of the fraud is so great that in Argentina alone the tax evasion is believed to have cost the state an amount roughly equivalent to its combined annual spending on education and health care. Those US$3 billion-US$4 billion are more than twice what Argentina spends on all of its social programs combined and 118 times what it invests annually for unemployment insurance.

The governments in Argentina and neighboring Brazil are investigating the illegal operations. Legislative committees set up in both countries are taking actions that have put HSBC on the ropes and placed the activities of the entire global private banking system under scrutiny.

The revelations that ex-HSBC employee Hervé Falciani shared with French authorities date back to 2006, when the computer engineer noticed the fraud and starting backing up files to document it. Years later, he let the world know that the bank had set up a platform involving a network of agents, attorneys, accountants, and economists tasked with supervising and guaranteeing illegal operations by HSBC clients from around the world. Falciani’s allegations involve the "Big Four"—KPMG, Ernst and Young, Deloitte, and PricewaterhouseCoopers—the world’s top networks for fiscal, auditing, and financial and business advisory services.

As part of the inquiry being carried out by the Argentine Congress, Hernán Arbizu, a former manager with JP Morgan Securities in New York, declared under oath that his ex–employer and other banks "also have platforms set up to channel money from peripheral countries to tax havens." The other banks he named are Credit Suisse, Santander, Banco Bilbao Vizcaya Argentaria (BBVA), Goldman Sachs, Citibank, and UBS.

Ricardo Echegaray, director of the Administración Federal de Ingresos Públicos (AFIP), Argentina’s federal tax regulator, has launched legal actions against HSBC. Speaking before the congressional investigative committee, he explained the methods the British bank likely used and said its activities in Argentina serve "to understand the fraud carried out in other countries in the region." The tax evasion, he explained, involved the use of fiscal havens and was done by carefully concealing transactions and hiding names of account holders. "The illegal platform," Echegaray added, "involved three affiliates with three different identification keys: HSBC Bank Argentina, the Swiss branch [of HSBC], and the US affiliate."

The Argentine official said the tax-evasion scheme also involved a network of offshore societies—companies set up in financial centers with low tax rates and used to hide assets, launder money, and
conceal the real names of the owners of the capital. Among the tax shelters used by HSBC and its Latin American clients are the Cayman Islands, Jersey, and Guernsey (all British dependencies), as well as Spain, Panama, the Virgin Islands, Switzerland, The Bahamas, and Uruguay.

"Briefcase societies"

In Argentina, the information leaked by Falciani and then shared, via French tax authorities, with all the affected countries involves 4,040 accounts representing between US$3 billion and US$4 billion. In their official affidavits, large taxpayers only declared 125 HSBC accounts. In Venezuela, the number of accounts in question is estimated at more than 1,100 worth nearly US$15 billion. The leaked information points to more than 8,500 such accounts in Brazil and nearly 2,000 in Mexico, worth approximately US$7 billion and US$2.2 billion, respectively. The information that began arriving in Latin America last November matches up with previous findings by the International Consortium of Investigative Journalists (ICIJ) and the Tax Justice Network (TJN), a British advocacy group.

Paraguay and Venezuela have their own particularities when it comes to the HSBC scandal. In the former, no estimates have been released regarding the scale of the tax evasion, and the government, led by President Horacio Cartes, has made no effort to pursue the matter. The reason, according to ABC Color, Paraguay's leading daily, is that Cartes may have had HSBC accounts in Geneva that he has since closed.

In Venezuela, the tax-evasion allegations seriously compromise the political opposition, which systematically accuses the government of covering up corruption even though it, as it turns out, may be the one engaged in irregularities.

The information from France could end up proving claims made in 2013 by then head of the Banco Central Edmée Betancourt, who said that the institution gave nearly US$20 billion the previous year to companies that later turned out to be what Venezuelans call "briefcase societies," an expression used to describe fictitious companies that only exist on paper. The money in question was supposed to fund the importation of goods and products that are unavailable in Venezuela. Instead the funds may have ended up in Switzerland, thus contributing to the shortages that are such a point of contention for the government’s enemies (NotiSur, May 22, 2015). Among those with HSBC accounts in Geneva, furthermore, are ranking members of the traditional opposition parties COPEI and Acción Democrática (AD).

Paying the price

Accusations about the flight of capital from peripheral countries to tax havens are nothing new. In a 2012 report titled "The Price of Offshore Revisited," the Tax Justice Network (TJN) estimated that tax dens contain at least US$21 trillion from large companies and wealthy individuals looking to evade tax payments, legitimize illicit funds, or hide foreign cash deposits. The TJN Financial Secrecy Index for 2013 said, "Switzerland is the grandfather of the world's tax havens, one of the world's biggest financial centers, and one of the world's biggest secrecy jurisdictions or tax havens. In 2012 approximately US$2.8 trillion in assets were under management in Switzerland, or about a quarter of the world's total, according to the Swiss Bankers' Association." The roots of its opacity and secrecy go back five centuries, the TJN said.

In March 2013, the Washington-based ICIJ released a report estimating the total amount of money stashed away in tax havens at US$32 trillion—almost twice the US GDP. Gabriel Zucman, a French
economist from the London School of Economics and Political Science, put the numbers in another perspective and said the offshore money is equivalent to twice the value of the German economy (the world’s fourth largest), three times the French or British economy (ranked fifth and sixth, respectively), 8% of the entire planet’s financial assets, or more than 10% of the world’s GDP. In Latin America, he estimated, some US$21 billion are siphoned out of the region every fiscal year.

The concealment and laundering of money has provided immeasurable earnings for HSBC. As a result of Falciani’s accusations, however, the bank is now paying a high cost—and not just in image. The Brazilian daily Valor Econômico, based on information from the Financial Times of London, reported that HSBC was fined US$1.9 billion in the US for helping launder money from Mexican drug cartels. In Paris, French legal authorities are pursuing local managers of the British bank for "complicity in money laundering, fiscal fraud, and the illegal marketing of products."

The defendants were ordered to pay US$1.1 billion up front as a guarantee on an even larger fine they will have to pay if they are convicted. The amount represents half the US$2.2 billion they are believed to have laundered, according to the judges.

The bank may take an even bigger hit in Brazil, where it is considering selling off assets that have "depreciated" because of the money-laundering, bribery, tax-evasion, and drug-trafficking scandal, Valor Econômico reported April 20. "The HSBC is accelerating its global withdrawal by pulling out of Brazil and Turkey, an option it has been forced into because of the scandals," the financial daily reported. "Closing down all its branches [in Brazil] would mean an even faster and deeper pullout than the bank’s executive director Stuart Gulliver anticipated." To provide an idea of just how important the giant South American nation is for the British bank, it should be noted there are more HSBC branches (853) in Brazil than McDonald’s restaurants.

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