

Citigroup Head Concedes Laundering Controls Were Poor

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The co-chairman of Citigroup testified before a Senate subcommittee today that his bank had been slow to correct years of weak controls over wealthy private accounts, and he lent support to a proposal that would prohibit American banks from accepting corrupt deposits from abroad.

But the official, John S. Reed, who is also a co-chief executive of Citigroup, the parent of Citibank, said the bank had made wholesale changes in its policies and culture since 1997, to learn more about its wealthiest customers and to prevent them from laundering money through the bank.

"There is a not pattern of us being a dirty bank," he told the Senate Permanent Subcommittee on Investigations, which opened hearings on the vulnerability of private banking to laundering.

The subcommittee, after having obtained Citibank records, showed how hundreds of millions of dollars in questionable deposits had moved through secret Citibank accounts held by foreign leaders and their families.

The panel's ranking Democrat, Senator Carl Levin of Michigan, who initiated the inquiry, said Citibank's inability to police itself required legislative action. "There were a lot of self-adopted rules at the bank that were ignored," Mr. Levin said. Mr. Reed seemed to agree with one of his proposals, to stop American banks from accepting the proceeds of corrupt acts abroad like looting a country's treasury. Presently, American laundering laws bar financial institutions from handling the proceeds from a narrow group of crimes like drug trafficking, kidnapping and bank fraud, but not corruption.

In questioning Mr. Reed, Mr. Levin asked: "Do you think we should treat bribes and looting government treasuries the same way we treat drug money?" Mr. Reed said, "I sure would."

The recent disclosures about the extensive flow of money out of Russia through the Bank of New York have spurred some in Congress to broaden the definition of laundering to include corruptly obtained money.

The Clinton administration has proposed legislation that would expand the definition of laundering to include the taking of corrupt money from foreign customers. Deputy Treasury Secretary Stuart E. Eizenstat said today that the proposals would give the United States the ability to prosecute foreign officials who tried to deposit illicit money here.

Senator Susan Collins, the Maine Republican who is chairwoman of the subcommittee, read from critical internal Citibank audits from 1995 to 1997. She said a "systematic pattern of deficiencies" made the bank vulnerable to laundering. Mr. Reed acknowledged that "there was not an acceptable level of standards in place" for a "three- or four-year period of time."

"Obviously," he added, "I wish we had been more aggressive" and taken corrective action "a year earlier."

In private banking, wealthy and powerful customers receive special discretion and care. Private banks within banks manage more than \$15 trillion in assets, the committee staff found. Citibank Private Bank has 40,000 customers, with 350 of them officials or their families.

Mr. Levin said that what disturbed him was a "rogues' gallery" of Citibank Private Bank clients. He said they included Raul Salinas de Gortari, a brother of the former president of Mexico who is in prison for masterminding a murder; Asif Ali Zardari, husband of a former prime minister of Pakistan who is in jail for corruption; President Omar Bongo of Gabon, subject of a French corruption inquiry; the sons of a former military leader of Nigeria, Gen. Sani Abacha, one of whom has been charged with murder; Jaime Lusinchi, a former president of Venezuela, and two daughters of former President Suharto of Indonesia.

The Salinas case, in which Citibank moved \$80 million to \$100 million around through secret accounts, is what galvanized much of the initial interest in Citibank Private Bank. The hearing included the first public testimony by Amy Elliott, the vice president who handled the account.

She acknowledged failing to complete a business profile of Mr. Salinas, as bank policy required, until after his arrest in 1995. The senators asked about talks that she and other executives had the day after the arrest. In those conversations she spoke about having to talk to "God," but she told the senators that she was not referring to a specific person.