

STATEMENT OF SENATOR CARL LEVIN
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
Hearing On
PRIVATE BANKING AND MONEY LAUNDERING:
A CASE STUDY OF OPPORTUNITIES AND VULNERABILITIES
November 10, 1999

Yesterday we looked at a case study of Citibank private banking and saw the largest American bank with the greatest resources at its disposal and pretty good policies in theory find itself the bankers' rogues' gallery of clients.

Citibank had Raul Salinas of Mexico, about whom the bank had absolutely no written documentation or verification on the source of his wealth despite Citibank policies to the contrary and for whom the bank concocted an elaborate ritual of secrecy; Citibank had Asif Ali Zardari of Pakistan as a client even though John Reed the CEO had been advised by his own Citibank staff to stay far away from him because of allegations of corruption; Citibank had Omar Bongo of Gabon as a client with a private banker who said he never once asked Mr. Bongo about the source of his wealth despite policies requiring he do so; and Citibank had the sons of Sani Abacha from Nigeria for whom the bank – after the country of Nigeria began a corruption investigation into Mr. Abacha – lent \$39 million so the sons could remove into a more secret place, \$39 million from a certificate of deposit without penalty. Those are the stories we heard yesterday.

Citibank argues that was then and this is now and that the operation of the private bank has changed considerably in the last few years. But the actions with respect to Mr. Bongo and the Abacha sons occurred in 1998, and it was just last year when the Federal Reserve told Citibank board members that the private bank had "significant weaknesses in internal controls that expose Citibank to excessive legal and reputational risk." It also conveyed concern about the "length of time" the private bank was taking to correct deficiencies and the "relative slowness of progress". Because it was only 6 months ago that the Federal Reserve lifted the requirement that the Board's Audit Committee review private bank issues on a quarterly basis.

The best I could say to Citibank is that not only is the jury still out, it just went out, on the changes that have occurred in Citibank with respect to private banking. I hope the changes take hold and become a model for all banks, worldwide. But given its track record -- strong policies in 1991 and 1992 which didn't take hold and no action taken to enforce those policies with resources and determination until 1997 -- and given the sad state of affairs in case after case we have reviewed in this investigation, it will take a large and steady dose of due diligence with respect to enforcing their own policies in all corners of the private bank – to change the actual conduct of Citibank's private bank.

Our investigation has taught us that through the private banking system, U.S. banks are too often conduits for dirty money. That's because:

- Due diligence has not been effective, and I believe that’s in part because there is no specific requirement for due diligence in law.
- Predicate crimes for money laundering are insufficient, because they don’t explicitly include foreign corruption or bribes.
- Private banks have secrecy tools made available to the wealthy and operate secret accounts and secret corporations in secrecy jurisdictions.

I will be introducing legislation that addresses these and other issues raised during the course of this investigation. Among some of the provisions of the bill are:

- Prohibiting the opening or maintenance of an account by U.S. banks for a foreign entity unless the owner of the account is identified on a form or record maintained in the United States. This will make sure that there will be documentation in the United States of the beneficial owner of any account managed in the United States, just as there is now for U.S. companies and entities;
- Prohibition on the use of concentration accounts for individual accounts without earmarking the funds to the client;
- A statutory requirement for banks to conduct due diligence; and
- Adding crimes of bribery, kickbacks fraud and corruption in foreign countries as crimes for which money laundering applies. I was pleased yesterday to hear Mr. Reed support a legislative change to make foreign corruption and bribes criminal offenses for which U.S. money laundering laws would apply

Today we will be hearing from Anthony Giraldi, a former private banker to American Express, Bankers Trust and Citibank. Mr Giraldi was the subject of a landmark case in the private banking industry in which he was convicted of money laundering for engaging in similar practices we talked about yesterday with respect to Citibank. Giraldi’s private bank client, however, turned out to be a drug trafficker and a jury found him guilty of willful blindness with respect to that fact. He is now serving ten years in federal prison for this crime.

We will also hear from Raymond Baker, an Economics Scholar at Brookings who has traveled the globe talking to bankers, business people, financiers, learning about how dirty money moves around the globe.

And finally we have representatives from the Federal Reserve and the Office of the Comptroller of the Currency, the regulators of the private banks which are the subject of this investigation.