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PRIVATE BANKING

Raul Salinas, Citibank, and Alleged Money Laundering

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Madam Chairman and Members of the Subcommittee:

This statement provides the Subcommittee a synopsis of our 1998 investigation[1] of alleged illegalities involving Raul Salinas de Gotari, brother of the former President of Mexico, Carlos Salinas de Gotari, and a U.S. bank, Citibank. We conducted the investigation at the request of your Subcommittee's then Ranking Minority Member, the Honorable John Glenn. Mr. Salinas had allegedly been involved in laundering money out of Mexico, through Citibank, to accounts in Citibank affiliates in Switzerland and the United Kingdom.

Results in Brief

Mr. Salinas was able to transfer $90 million to $100 million between 1992 and 1994 by using a private banking relationship formed by Citibank New York in 1992. The funds were transferred through Citibank Mexico and Citibank New York to private banking investment accounts in Citibank London and Citibank Switzerland.

Beginning in mid-1992, Citibank actions assisted Mr. Salinas with these transfers and effectively disguised the funds' source and destination, thus breaking the funds' paper trail. Citibank

- set up an offshore private investment company named Trocca, to hold Mr. Salinas's assets, through Cititrust (Cayman)[2] and investment accounts in Citibank London and Citibank Switzerland;
- waived bank references for Mr. Salinas and did not prepare a financial profile on him or request a waiver for the profile, as required by then Citibank know your customer policy;
- facilitated Mrs. Salinas's use of another name to initiate fund transfers in Mexico; and
- had funds wired from Citibank Mexico to a Citibank New York concentration account—a business account that commingles funds from various sources—before forwarding them to Trocca's offshore Citibank investment accounts.

[1] See *Private Banking: Raul Salinas, Citibank, and Alleged Money Laundering* (GAO/OSI-99-1, Oct. 30, 1998).

[2] Cititrust (Cayman) was an affiliate of Citicorp, located in the Cayman Islands. Citicorp is now known as Citigroup, Inc.

No U.S. documentation identified Mr. Salinas as Trocca's beneficial owner[3] or connected Mr. Salinas to the Trocca funds transferred through Citibank Mexico and Citibank New York.

According to Citibank New York's Vice President (VP) for Legal Affairs, whom Citibank designated as its representative to us, Citibank's actions violated only one aspect of the then Citibank know your customer policy: Citibank should have prepared a financial profile (i.e., a financial background check detailing the source of Mr. Salinas's funds) or waived the requirement before accepting Mr. Salinas as a customer. By investigating his financial background, Citibank could have verified the source of Mr. Salinas's wealth and transferred funds.

Limited by the ongoing Department of Justice investigation, we could not determine whether Citibank's actions violated law or regulation. (We determined that the case is still pending in the Southern District of New York.) The Federal Reserve also did not comment on whether Citibank's actions were violations because information available to it at the time we inquired was insufficient for it to make a determination. However, on the basis of the details we presented, the Office of the Comptroller of Currency (OCC) stated that the actions did not violate civil aspects of the Bank Secrecy Act.[4] Further, private banking's know your customer policies were then voluntary and not governed by law or regulation.

A comparison of Citibank actions and Citibank testimony in the 1994 money laundering trial shows that the two were inconsistent concerning due diligence and know your customer practices in private banking. For example, Citibank's testimony implied a stricter adherence to due diligence than actually occurred during the Salinas transactions.

Background

The provision of financial and related services to wealthy clients is broadly described as "private banking." The Federal Reserve System and OCC are two regulators that examine[5] banks and private banking activities. With

[3] An account's "beneficial owner" is the individual or group that controls the account.

[4] The Bank Secrecy Act is codified in 12 U.S.C. sections 1829b and 1951-59 and in 31 U.S.C. sections 5311-30.

[5] See 12 C.F.R. sections 21.21 (OCC) and 208.14 (Federal Reserve) (1997).

regard to possible money laundering, examiners determine whether (1) banks comply with bank secrecy regulations and (2) the banks' compliance programs include appropriate procedural guidelines for recording and reporting large currency transactions and for detecting, preventing,[6] and reporting suspicious transactions related to possible money laundering activities.

Regulators and most banks contacted during a previous GAO review[7] cited "know your customer" policies as one of an institution's most important guidelines for detecting suspicious activity. Such policies enable the institution to understand the kinds of transactions that a particular customer is likely to engage in and to identify unusual or suspicious transactions. In an effort to protect itself from risks associated with money laundering and other unlawful activity, Citibank, as have other financial institutions, has implemented a know your customer policy to ensure that the bank will have a reasonable level of information about a client at the time of acceptance.

Citibank Facilitated Salinas Funds Transfers

Citibank New York accepted Mr. Salinas as a private banking customer and created the shell company Trocca through Cititrust (Cayman) to hold Mr. Salinas's assets. As part of Trocca, Citibank created other shell companies and opened two investment accounts in Citibank London and Citibank Switzerland. However, no official U.S. documentation clearly connected Mr. Salinas to Trocca or the investment accounts. Disguising the origin and destination of the funds, which broke the funds' paper trail, was accomplished by, among other actions, the depositing of the Mexican funds in a Citibank New York concentration account and Mrs. Salinas's use of another name to initiate funds transfers in Mexico. (At the time of her introduction to Citibank Mexico officials to begin the transfers, Mrs. Salinas had not yet married Mr. Salinas. Although they were not married until the year after the transfers had begun, we refer to her throughout this testimony as Mrs. Salinas.) After Mr. Salinas's March 1995 arrest in Mexico, Citibank placed a watch on the Salinas accounts in Citibank New York and Trocca's offshore investment accounts and prepared a financial profile that did not mention Trocca. After

[6] Under 18 U.S.C. 1956, banks have a legal obligation to prevent money laundering.

[7] *Private Banking: Information on Private Banking and Its Vulnerability to Money Laundering* (GAO/GGD-98-19R, Oct. 30, 1997).

Mrs. Salinas's November 1995 arrest in Switzerland, Citibank filed a criminal referral form[8] with the U.S. Department of Justice but again divulged no information about Trocca or the offshore accounts.

Citibank and Trocca

In or about May 1992, Mr. Salinas met with the Vice President, Mexican Division, International Private Bank section of Citibank New York, to arrange a Citibank private banking relationship. At that time, Citibank waived bank references for Mr. Salinas. It relied instead on the referral of an existing client. In addition, Citibank did not follow its policy in that it did not prepare a financial profile, or financial background check, on Mr. Salinas before accepting him.

Citibank, according to its representative, first opened a checking account at Citibank New York in Mr. Salinas's name and then, through Cititrust (Cayman), activated a private investment company named Trocca—a shell company—to hold Mr. Salinas's assets.[9] The company was set up in the Cayman Islands, where all documentation connecting Mr. Salinas to Trocca was held and whose laws protect the documentation's confidentiality.

To further insulate Mr. Salinas's connection to Trocca, Cititrust (Cayman) used three additional shell companies to function as Trocca's board of directors—Madeline Investment SA, Donat Investment SA, and Hitchcock Investment SA. Trocca's officer and principal shareholder was another company formed by Cititrust (Cayman) named Tyler Ltd. Further, Confidas, a Cititrust affiliate located in Switzerland, acted as Trocca's manager and handled all administrative requirements.

As part of Mr. Salinas's private banking relationship, Citibank New York opened two investment bank accounts for Trocca, one in Citibank London and one in Citibank Switzerland. According to Citibank officials, Citibank London had no documentation or knowledge that Mr. Salinas was Trocca's beneficial owner. We were informed that Citibank Switzerland had

[8] The form has since been changed and is now known as the suspicious activity report.

[9] As we noted in a previous report, *Money Laundering: Regulatory Oversight of Offshore Private Banking Activities* (GAO/GGD-98-154, June 29, 1998), banking regulators have expressed some concern that such private investment companies, among other offshore entities, may serve to camouflage money laundering and other illegal acts. This may occur because these accounts are formed, among other reasons, to maintain clients' confidentiality and anonymity.

documentation of a connection between Mr. Salinas and Trocca, which is required by and confidential under Swiss bank secrecy law.

The Funds Transfer

To facilitate the periodic wire transfer of Salinas funds from Mexico to Citibank New York, Citibank New York's Mexican Division VP introduced Mrs. Salinas, Patricia Paulina Rios Castañon de Salinas, to officials of Citibank Mexico under the name Patricia Rios. The Citibank representative initially told us that Mrs. Salinas's true identity and connection to Mr. Salinas was disguised from Citibank Mexico officials reportedly because Mr. Salinas did not want to reveal that he was moving large sums of money out of Mexico. The Citibank representative stated that introducing Mrs. Salinas as Ms. Rios had not violated Citibank policy. Later, the representative and another Citibank official recanted the position concerning Citibank Mexico's lack of knowledge. The officials told us they had no documentation to support their new position.

Throughout the transactions, according to Citibank's representative, Mrs. Salinas withdrew funds from what is believed to be at least five Mexican banks[10] and had the bank checks made payable to Citibank. After obtaining the bank checks and hand carrying them to Citibank Mexico, she—using the name Ms. Rios and although she had no account there—had Citibank Mexico convert the value of the bank checks from Mexican pesos to American dollars before it wired the funds to Citibank New York. Documents supporting the transactions further convoluted the paper trail, disguising the origin and destination of the funds and preventing them from being traced to Mr. Salinas.

Citibank Mexico then wired the converted funds, at the direction of Citibank New York's Mexican Division VP, to Citibank New York. The funds went into a concentration account—a Citibank New York business deposit account that commingles funds of a number of bank branches/affiliates and bank customers.

Citibank next wired the funds from the concentration account to the Trocca accounts in Citibank London and Citibank Switzerland. The two offshore banks then invested the wired funds as directed by Citibank New

[10] Documentation listed the Mexican banks as Bancomer, Somex, Banca Cremi, Banorte, and Banco Mexicano. According to knowledgeable sources, Mr. Salinas's accounts at these banks were under fictitious names.

York and agreed to by Mr. Salinas. On occasion, however, Mr. Salinas had direct contact, concerning his investments, with a private banker at Citibank Switzerland where his confidentiality was ensured under Swiss bank secrecy laws.

According to the Citibank representative, the funds wired through Citibank Mexico and Citibank New York to Citibank London and Citibank Switzerland totaled between $90 million and $100 million. This Citibank official and others acknowledged that the fund transfers could have been wired to the Salinas checking account in Citibank New York or directly to Citibank London or Citibank Switzerland, thus retaining a paper trail.

The 1995 Salinas Arrests and Subsequent Account Actions

In late February 1995, according to Citibank's representative, Mr. Salinas was arrested and jailed in Mexico for murder.[11] At that time, rather than before accepting Mr. Salinas as a customer as was Citibank policy, Citibank prepared a very brief financial profile on Mr. Salinas. The profile cited no Citibank/Trocca accounts and no source of wealth other than a reference to an unidentified construction business.

Upon reportedly learning in early March 1995 that the arrested Mr. Salinas was a Citibank private banking customer, the Citibank representative, as Vice President for Legal Affairs, put a watch on the Salinas Citibank New York accounts and Trocca's Citibank London and Citibank Switzerland accounts. However, according to the Citibank representative, the Mexican Division VP personally contacted Mrs. Salinas in Mexico in the summer of 1995, without the representative's knowledge or consent, and advised her to move all funds associated with Trocca out of Citibank. Mrs. Salinas was arrested in Switzerland in November 1995 for money laundering and drug trafficking while attempting to withdraw funds from a Swiss bank.

After Mrs. Salinas's November 1995 arrest, according to the Citibank representative, Citibank New York filed a criminal referral form with the U.S. Attorney's Office, Southern District of New York, sending copies to the Federal Bureau of Investigation and the Drug Enforcement Administration.

[11] Subsequently, Mexican law enforcement officials also charged Mr. Salinas with money laundering and "illegal enrichment." It has been reported that he was acquitted of one money laundering charge in May 1998 and that the illegal enrichment charge was dropped. However, as of October 1998 when our report was published, he remained in jail pending resolution of the murder charge. It was then unclear whether additional money laundering charges were still pending.

However, the only Salinas accounts listed on the form were those in Citibank New York. The form did not cite the existence of Trocca or the Trocca accounts in Citibank London or Citibank Switzerland, purportedly because no official U.S. documentation existed although Citibank New York had facilitated the accounts' formation.

According to Citibank's representative, Citibank earned about $1.1 million in fees associated with the Salinas/Trocca accounts.

Citibank Violation of One Aspect of Know Your Customer Policy

Most of the actions of Citibank New York's Mexican Division did not violate Citibank policy. However, the one aspect of Citibank's know your customer policy that was violated—preparation of a financial profile—could have assisted in verifying the source of Mr. Salinas's wealth and transferred funds. Citibank policy was revised in 1997.

A Violation of Citibank Know Your Customer Policy

According to the Citibank representative, Citibank New York's Mexican Division believed that all of Mr. Salinas's funds had been obtained legally, with a large portion resulting from the sale of a construction company that he owned. However, Citibank reportedly knew no details about the construction company including its name, who had purchased it, or the amount of money generated by the sale.[12]

In addition, when opening Mr. Salinas's accounts, Citibank waived the requirement for two references for him, including its most common reference source, i.e., bank references, which could have contained such information as length of association with the account holder and size of the Mexican accounts. When asked if bank references were an important part of Citibank New York's know your customer policy, the Citibank representative stated that Citibank private bankers had told him that bank references provided little value or information. We pointed out that if bank references had been obtained and checked, Citibank could have established the value of assets Mr. Salinas possessed in those banks and a

[12] According to the Citibank representative, Citibank New York's Mexican Division, International Private Bank section failed Citibank's internal audits from 1996 to 1997. These failures occurred because of problems and deficiencies in the Private Banking section's due diligence and know your customer practices. The Citibank representative was unable to provide the results of internal audits conducted prior to 1996.

banking history of those assets, both significant points for determining future suspicious account activity including money laundering.

Current Citibank Policy

Citibank's know your customer policy has been revised since the Salinas accounts were opened. As of September 1997, the policy contained more specific minimum standards of information for accepting a new customer. However, at the time of our October 1998 report, any element of the policy could still be waived for a new or existing customer.

Citibank's General Compliance With Laws and Regulations Was Undetermined

We could not determine whether Citibank's actions regarding Mr. Salinas's private banking relationship had violated then applicable laws and regulations. We were denied access to Department of Justice officials involved in the then ongoing investigation of the Salinas/Citibank relationship. We were also denied access to the principal Citibank officials involved with that relationship, although Citibank designated bank officials to provide us with detailed information.

Comparison of Citibank's Actions With a Citibank Official's 1994 Testimony

The requested comparison of Citibank actions regarding Mr. Salinas and a Citibank official's testimony in a 1994 money laundering case[13] illustrated that the two were inconsistent. Citibank New York's actions did not reflect the importance that its Mexican Division VP placed on the bank's due diligence/know your customer practices when testifying.

The head of Citibank New York's Mexican Division, International Private Bank section, who was also involved in the Salinas matter, appeared as an expert witness for the government in the 1994 money laundering trial. In sworn testimony, the division VP explained the importance of due diligence principles and Citibank's know your customer policy in accepting and working with private banking customers.

However, Citibank actions regarding Mr. Salinas contrasted sharply with the VP's sworn testimony with concern to the importance of knowing the customer. For example, the Citibank VP affirmed in sworn testimony that Citibank New York's international relationship managers were to make an extensive effort to know their potential customers, as a way of protecting

[13] *United States v. Giraldi*, No. 93-CR-28-6 & 7 (S.D. Tx. 1994).

the bank, before accepting them. It was “too risky not to … do the due diligence, not to know who you’re dealing with” before accepting a prospective customer’s funds in a private banking relationship. In contrast, Citibank made no attempt to investigate Mr. Salinas’s background before accepting him. Citibank was unable to confirm if the division VP had met Mr. Salinas before accepting him as a Citibank private banking customer. Further, Citibank did not file a financial profile, or a financial background check, as part of due diligence.

Conclusions

At the time of our investigation, the Congress and the Federal Reserve recognized that financial institutions could abuse voluntary policies with regard to potential money laundering. Further, we determined in the Salinas scenario that Citibank’s voluntary controls did not work. Citibank, while violating only one aspect of its then policies, facilitated a money-managing system that disguised the origin, destination, and beneficial owner of the funds involved. We determined that the Department of Justice investigation of the Salinas/Citibank relationship is still pending in the Southern District of New York.

Contacts and Acknowledgement

For further information regarding this testimony, please contact Robert H. Hast or Ron Malfi at (202) 512-6722. John Ryan made a key contribution to this testimony.

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