

GAO

Report to the Ranking Minority Member,
Permanent Subcommittee on
Investigations, Committee on
Governmental Affairs, U.S. Senate

October 1998

PRIVATE BANKING

Raul Salinas, Citibank, and Alleged Money Laundering





**United States
General Accounting Office
Washington, D.C. 20548**

Office of Special Investigations

B-281327

October 30, 1998

The Honorable John Glenn
Ranking Minority Member
Permanent Subcommittee on Investigations
Committee on Governmental Affairs
United States Senate

Dear Senator Glenn:

On February 28, 1998, you expressed concern about reports that Raul Salinas de Gotari, brother of the former President of Mexico, Carlos Salinas de Gotari, had allegedly been involved in laundering money out of Mexico through a U.S. bank, Citibank, to accounts in Citibank affiliates in Switzerland and the United Kingdom. At that time, you requested that we determine

- how Raul Salinas was able to transfer between \$90 million and \$100 million from Mexico into foreign accounts through Citibank and its affiliates;
- what functions and assistance Citibank performed for Mr. Salinas; and
- if Citibank's actions complied with applicable federal laws and regulations.

In later discussions with your office, we were also requested to provide a comparison of Citibank's practices during the Salinas transactions with its testimony in a 1994 money laundering trial.¹ A summary of the resultant 1996 appeal,² which was also requested, appears in appendix I.

Currently, the U.S. Department of Justice, through the Office of the U.S. Attorney, Southern District of New York, is conducting a criminal investigation of the Salinas/Citibank transactions.³ Because of the ongoing investigation, the Department of Justice declined our request for an interview. Citibank made available knowledgeable officials who provided details about 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 the Office

¹United States v. Giraldi, No. 93-CR-28-6 & 7 (S.D. Tx. 1994).

²United States v. Giraldi, 86 F. 3d 1368 (5th Cir. 1996).

³Mexico and Switzerland are also conducting criminal investigations of Mr. and Mrs. Salinas, which include the Citibank transactions.

of the Comptroller of the Currency (OCC) are two regulators that examine⁴ banks and private banking activities. With 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, and reporting suspicious transactions related to possible money laundering activities.

Regulators and most banks contacted during a previous GAO review⁵ 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. Although such policies are currently not required by regulation or statute, banks do have a legal obligation to prevent money laundering.⁶ Bank regulators have developed examination procedures to determine whether institutions have implemented sound know your customer policies and procedures.

The Federal Reserve, which is drafting regulations regarding know your customer issues,⁷ has increased its interest in the private banking area for a number of reasons: As the private banking market grows, (1) banks increasingly rely on it as a source of income, (2) competition for wealthy customers increases, and (3) relationship managers⁸ experience heightened pressure to expand their institutions' private banking business. This growth is also likely to increase interest in using private banking for money laundering schemes.

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. The policies are intended to enable institutions to

⁴See 12 C.F.R. sections 21.21 (OCC) and 208.14 (Federal Reserve) (1997).

⁵Private Banking: Information on Private Banking and Its Vulnerability to Money Laundering (GAO/GGD-98-19R, Oct. 30, 1997).

⁶18 U.S.C. 1956.

⁷In October 1998, the Federal Reserve proposed that banks develop a profile of their customers' typical transactions and monitor them for deviations. Further, OCC expects to issue companion proposals soon.

⁸Relationship managers, also referred to as private bankers, are assigned to private banking customers and are responsible for coordinating the institution's services to benefit the customer.

(1) understand the types of transactions a customer is likely to engage in and (2) identify unusual or suspicious transactions that could indicate money laundering. Due diligence standards for private banking lay the groundwork for these policies because the standards generally commit a financial institution to verifying the customer's identity, determining the customer's source of wealth, reviewing the customer's credit and character, and understanding the type of transactions the customer would typically conduct. Under circumstances that Citibank deems appropriate, these policies may be waived.

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)⁹ 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.

No U.S. documentation identified Mr. Salinas as Trocca's beneficial owner¹⁰ or connected Mr. Salinas to the Trocca funds transferred through Citibank Mexico and Citibank New York.

⁹Cititrust (Cayman) was an affiliate of Citicorp, located in the Cayman Islands. Citicorp is now known as Citigroup, Inc.

¹⁰An account's "beneficial owner" is the individual or group that controls the account.

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. 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, OCC stated that the actions did not violate civil aspects of the Bank Secrecy Act.¹¹ Further, private banking's know your customer policies are 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.

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 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 report as Mrs. Salinas.) After Mr. Salinas's March 1995 arrest in Mexico, Citibank placed a watch on the Salinas accounts in

¹¹The Bank Secrecy Act is codified in 12 U.S.C. sections 1829b and 1951-59 and in 31 U.S.C. sections 5311-30.

Citibank New York and Trocca's offshore investment accounts and prepared a financial profile that did not mention Trocca. After Mrs. Salinas's November 1995 arrest in Switzerland, Citibank filed a criminal referral form¹² with the U.S. Department of Justice.

Citibank and Trocca

According to the Citibank representative, in or about May 1992 Mr. Salinas met with the Vice President, Mexican Division, International Private Bank section of Citibank New York, who also served as a senior relationship manager. Mr. Salinas was introduced to the Citibank New York VP by another of the VP's private banking customers who was Agriculture Minister in the Mexican government under Mr. Salinas's brother, the then President of Mexico. The purpose of the meeting was to arrange the same type of Citibank private banking relationship for Mr. Salinas. Citibank waived bank references for Mr. Salinas, relying instead on the referral of the 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. That acceptance, according to bank signature cards, occurred in late May 1992.

Citibank, according to its representative, first opened a checking account at Citibank New York in Mr. Salinas's name. Using one of several Citibank templates, Citibank New York then activated a private investment company named Trocca—a shell company—to hold Mr. Salinas's assets.¹³ Citibank activated Trocca through Cititrust (Cayman), which has an inventory of dormant private investment companies ready to be assigned to clients. 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. Trocca was set up primarily for secrecy, tax advantages, and facilitating the distribution of assets to Mr. Salinas's family in case of his death, according to the Citibank representative.

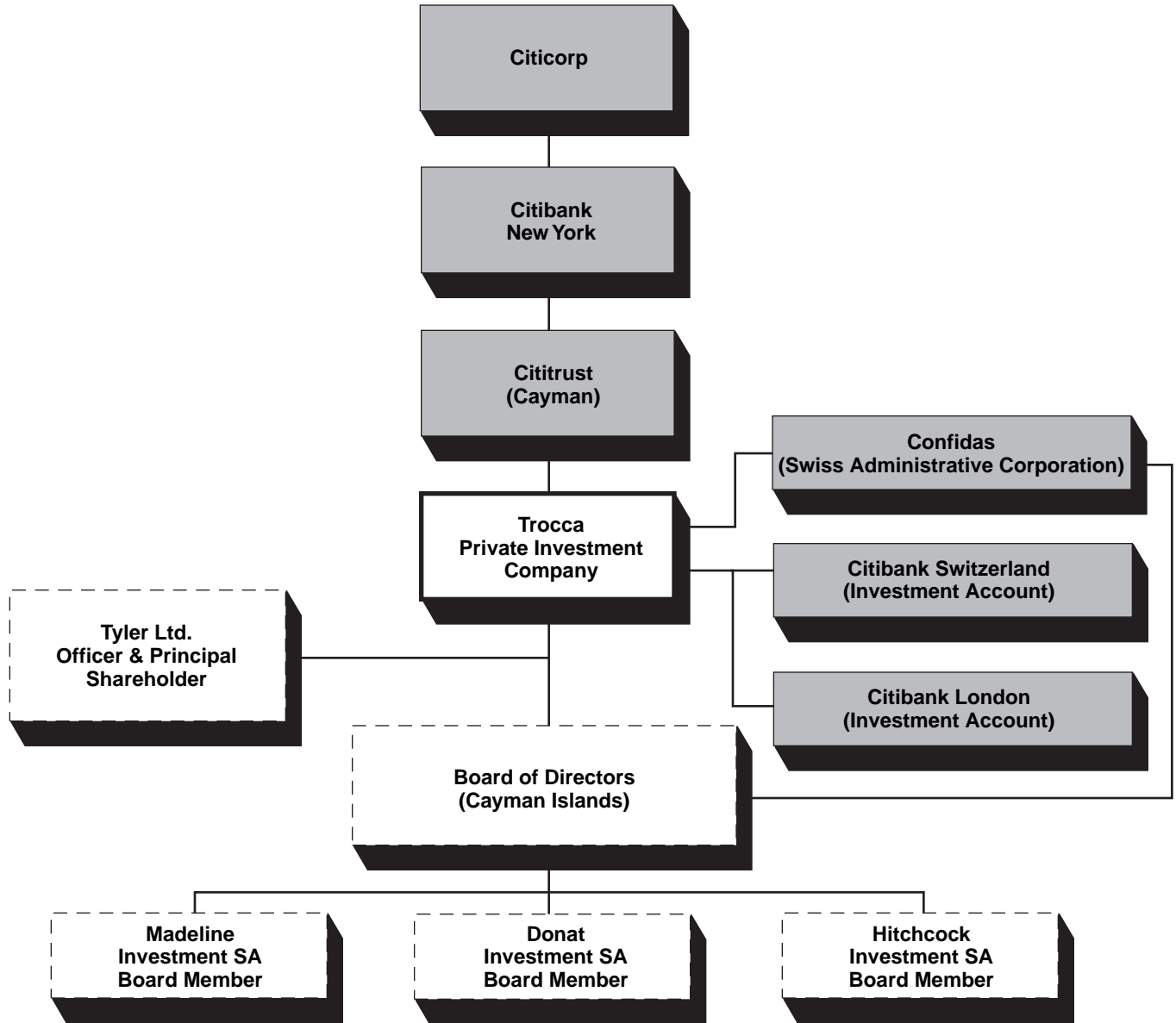
To further insulate Mr. Salinas's connection to Trocca, Cititrust (Cayman) used three additional shell companies to function as Trocca's board of directors—Madeline Investment SA, Donat Investment SA, and Hitchcock Investment SA. Trocca's officer and principal shareholder was another



¹²The form has since been changed and is now known as the suspicious activity report.

¹³As 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.

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. See figure 1.

Figure 1: Trocca and Related Entities



 Formed to support Trocca
 Citicorp and its affiliates

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 the Citibank representative and other Citibank officials, Citibank London had no documentation or knowledge that Mr. Salinas was Trocca's beneficial owner. However, these officials subsequently contradicted themselves by stating that an assistant to Citibank London's Private Banking Officer did have information concerning Mr. Salinas.¹⁴ The documentation, which they provided to support this assertion, illustrated a paper trail that could not be understood unless explained by someone involved in the transactions. We were informed that Citibank Switzerland had documentation of a connection between Mr. Salinas and Trocca, which is required by and confidential under Swiss bank secrecy law.

The Citibank representative explained that the VP of Citibank New York's Mexican Division had discussed broad strategies with Mr. Salinas concerning how to invest his money through Trocca. Citibank New York relayed Mr. Salinas's decisions to Citibank London and Citibank Switzerland, which upon receipt of the Trocca funds invested them using the specifics of the investment strategy.¹⁵ Confidas was then responsible for tracking and reporting the profits/losses of the Trocca investments, as well as for other administrative functions.

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. He added that Mr. Salinas believed such knowledge could be harmful politically to his brother, the then president of Mexico. The Citibank representative stated that introducing Mrs. Salinas as Ms. Rios had not violated Citibank policy. Later, the

¹⁴During lengthy discussions with us in April-May 1998, the Citibank representative provided information regarding key points discussed in this report and frequently provided documentation to support his statements. In subsequent discussions, officials of Citibank New York recanted a few points but provided no or convoluted supporting documentation. We will note these points where appropriate.

¹⁵The Inspector in charge of Switzerland's ongoing investigation of Mr. and Mrs. Salinas for money laundering and drug trafficking has confirmed the accuracy of our investigative findings concerning the flow of funds.

representative and another Citibank official recanted the position concerning Citibank Mexico's lack of knowledge, saying that someone in the Mexican bank knew both that the so-called Ms. Rios was connected to Mr. Salinas and that the funds belonged to Mr. Salinas. The officials told us they had no supporting documentation.

Throughout the transactions, according to Citibank's representative, Mrs. Salinas withdrew funds from what is believed to be at least five Mexican banks¹⁶ and had the bank checks made payable to Citibank. The representative acknowledged that it was possible that the bank checks had been obtained by using cash and not funds withdrawn from Mexican bank accounts. 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. According to one internal document provided by Citibank New York, Citibank Mexico documented one conversion as being made by Tyler Ltd. (see fig. 1). Another document—an internal Citibank Mexico transfer-confirmation document to Confidas—was signed with the initials “PS” (Paulina Salinas). The initials were used and accepted as a signature even though (1) bank officials knew the signer as Patricia Rios and (2) for some of the signatures, she was not yet married 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 first two wire transfers occurred on October 13, 1992. One transfer, which was derived from a bank check drawn on Bancomer and which carried Mr. Salinas's signature, was deposited in the Salinas Citibank New York checking account.¹⁷ The other transfer 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. Subsequent wire transfers¹⁸ on behalf of Mr. Salinas went to the

¹⁶Documentation 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.

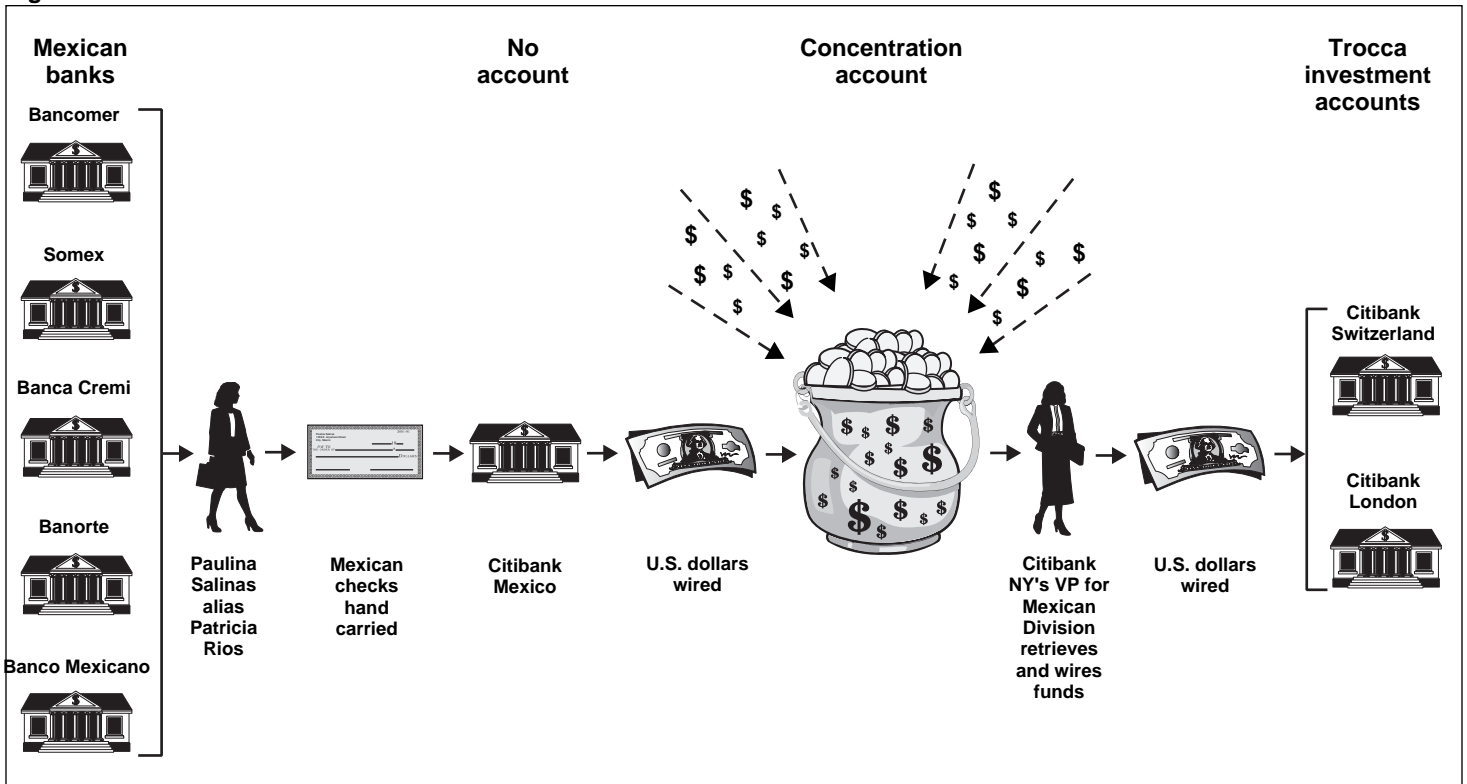
¹⁷These funds were not transferred to offshore Trocca accounts.

¹⁸The last check copy we viewed was dated in October 1994.

concentration account.¹⁹ The use of (1) Tyler Ltd. as the “person” requesting the Mexican funds conversion, (2) the name Patricia Rios, (3) “PS” (Paulina Salinas) as the signature of Ms. Rios, and (4) the concentration account deposits all served to break the paper trail of the Mexican funds by disguising the origin and destination of the funds.

Citibank then wired the funds from the concentration account to the Trocca accounts in Citibank London and Citibank Switzerland. See figure 2. The two offshore banks then invested the wired funds as directed by Citibank New 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.

Figure 2: Flow of the Salinas Funds



¹⁹According to the Citibank representative, one additional wire transfer, amounting to \$20 million, was made to a Trocca account. The transfer originated from a Cayman Island bank account of Carlos Peralta, an associate of Mr. Salinas. This wire transfer also went first to the Citibank New York concentration account before being forwarded to a Trocca account.

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 representative stated, however, that Citibank had believed that the movement of the funds could be expedited by having them deposited first to the Citibank concentration account. When asked, the Citibank representative could not explain how the transfers were thus expedited.

The 1995 Salinas Arrests and Subsequent Account Actions

In early February 1995, according to Citibank's representative, the VP of Citibank New York's Mexican Division questioned Mr. Salinas concerning media accounts about his possible involvement in a murder of a government official that had taken place in Mexico. Mr. Salinas reportedly denied any involvement. But later that month, Mr. Salinas was arrested and jailed in Mexico for murder.²⁰ 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. Under the watch, he would have been notified by bank officials if Mr. Salinas attempted to move funds in those accounts and had the discretion to stop Mr. Salinas from doing so. 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.

²⁰Subsequently, 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, he remained in jail pending resolution of the murder charge. It is unclear whether additional money laundering charges are still pending.

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. One purpose of a criminal referral form was to notify law enforcement officials concerning suspicious financial activities. 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. At this time, Citibank updated Mr. Salinas's financial profile; but it still did not contain pertinent information.

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

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

The Citibank representative stated that the Division VP's failure to complete a financial profile verifying Mr. Salinas's financial history and the source of his wealth or to request a waiver of this requirement violated Citibank know your customer policy. These profiles would have included information to help verify Mr. Salinas's financial history and his source of wealth. Citibank did not investigate Mr. Salinas's background and did not file a financial profile until after Mr. Salinas was arrested in February 1995.

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.²¹ The representative also stated that Citibank had waived the holding period on funds derived from the bank checks brought to Citibank Mexico and wired to Citibank New York. Although this procedure held an element of risk for Citibank, it had not violated Citibank policy.

In addition, when opening Mr. Salinas's accounts, Citibank waived the requirement for two references for him. If Citibank had used its most common reference source, i.e., bank references, it could have obtained such information as length of association with the account holder and size of the Mexican accounts. According to Citibank officials, the reference waiver did not violate internal bank policy. Then bank policy also stated that the reasons for waiving references should be documented and placed in the account file. Citibank's private banking application document, dated May 28, 1992, cited "Known client & referred by a very valuable client of long standing" as the reasons for waiving bank references.

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 banking history of those assets, both significant points for determining future suspicious account activity including money laundering. Such checks would have revealed if the accounts were under fictitious names. In answer, Citibank officials reiterated their position that bank references had little value.

Current Citibank Policy

Citibank's know your customer policy has been revised since the Salinas accounts were opened. As of September 1997, the policy contains more specific minimum standards of information for accepting a new customer. However, any element of the policy can still be waived for a new or existing customer if (1) approved by both the Market Region Head (e.g., Western Hemisphere Head) and the Regional Compliance and Control Head representing the prospect's or client's country, (2) documented in writing, and (3) placed in the account documentation file. Waiver approval

²¹According 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.

by the compliance/control head was not required when Citibank accepted Mr. Salinas.

Citibank Compliance With Laws/Regulations Generally Undetermined; Recent Federal Reserve Guidance Regarding Voluntary Policies

Although neither we nor the Federal Reserve could make a determination concerning Citibank compliance with law or regulation, OCC stated that Citibank's actions did not result in civil violation of the Bank Secrecy Act. However, recent Federal Reserve guidance pertains to voluntary know your customer policies; and Federal Reserve representatives have indicated that regulations are needed in the areas of those policies.

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 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.

We asked the Federal Reserve to comment on whether Mr. Salinas's private banking relationship with Citibank New York and Citibank's movement of Mr. Salinas's funds had complied with then applicable laws and regulations. According to Federal Reserve representatives, the facts of the Salinas/Citibank matter, as known to the Federal Reserve when we inquired, did not provide sufficient information for it to make a determination about whether any law or regulation had been violated. However, the Federal Reserve is continuing to monitor the Department of Justice's investigation.

We also briefed OCC officials, including OCC's Director, Enforcement and Compliance Division, on the Salinas/Citibank actions. At that time, we requested that OCC provide us an opinion concerning whether these actions had violated any banking law or regulation. OCC later stated, on the basis of our description of the actions, that no civil violations of the Bank Secrecy Act had occurred.

Recent Federal Reserve Guidance

Although the Federal Reserve has been developing regulations concerning know your customer policies, no regulation or law currently exists to stipulate what know your customer policies should consist of or that they must be followed.²² Further, any financial institution can deposit an individual's funds in the institution's concentration account because no law or regulation precludes it.

In 1996 and 1997, the Federal Reserve Bank of New York (FRBNY) undertook an initiative on behalf of the Federal Reserve, focusing on private banking at about 40 domestic and foreign banking institutions in the FRBNY's district,²³ including Citibank New York. Deficiencies noted by FRBNY centered primarily on poor internal controls and procedural weaknesses involving such problems as insufficient documentation and inadequate due diligence standards.

Recognizing that banks have a legal obligation to prevent money laundering, FRBNY set out guidance in July 1997 as a result of its review. That guidance focused primarily on the significance of sound voluntary know your customer policies and procedures in managing risks inherent in private banking activities. The guidance stated that sound know your customer policies should require, among other elements, that a client's source of wealth and funds be corroborated and that, as an element of due diligence, institutions obtain preferably detailed client references from reliable, independent sources. It also stated that senior bank management should expect compliance with these policies as a matter of course, that waivers should be the exception, and that reasons for such exceptions should be documented.

In addition, according to the guidance, sound practice for private banking dictates that all client transactions go through the client's own accounts and not through the banking institution's concentration or suspense accounts. According to the guidance, going through concentration or suspense accounts "effectively prevents association of the clients' names and account numbers with specific account activity, could easily mask unusual transactions . . . , and could easily be abused."

²²The House of Representatives passed H.R. 4005, which required the Secretary of the Treasury to promulgate know your customer regulations for financial institutions. The Senate was unable to complete consideration of this bill during the 105th Congress. The bill's overall purpose was to deter money laundering.

²³GAO/GGD-98-19R, Oct. 30, 1997.

Further, representatives of the Federal Reserve have told us that a need exists for regulation regarding know your customer practices and that self-policing by some banking entities with regard to these practices is not working.

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 case²⁴ 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. The trial involved two private banking relationship managers employed by American Express Bank International who were convicted. The Mexican Division VP was a government witness, based on her position at Citibank New York, concerning (1) the bank's position on know your customer issues and (2) her previous supervision of one of the defendants.²⁵

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. The VP cited the principles and policy as part of Citibank's "culture" and "the way you do things." The VP said, in essence, that not knowing a customer's background could lead to a bank's damaged reputation and penalties against the bank and the individual relationship manager.

However, Citibank actions regarding Mr. Salinas contrasted sharply with the VP's sworn testimony with concern to the importance of knowing the customer.

²⁴United States v. Giraldi, No. 93-CR-28-6 & 7 (S.D. Tx. 1994).

²⁵One defendant, Antonio Giraldi, had previously worked at Citibank New York as a relationship manager for the Mexican Division VP and had a drug-money launderer from Mexico as a client while at American Express Bank. The conviction of the two defendants was based largely on know your customer matters. The case also resulted in the largest monetary penalty ever imposed on a bank because of money laundering—\$35 million in forfeitures, fines, and penalties.

•Testimony—The Citibank VP affirmed that Citibank New York’s international relationship managers were to make an extensive effort to know their potential customers, as a way of protecting 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.

Citibank’s Action—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.

•Testimony—The Citibank VP considered the know your customer policy as ongoing and not just for the initial customer-acceptance phase. As such, according to the testimony, the VP and other Citibank relationship managers visited customers’ homes and businesses frequently—“10 to 12 times a year in their country”—to “know what’s going on.” They discussed prospective customers—including who referred them and what they did for a living—with supervisors throughout the acceptance process, which could take between 3 to 9 months.

Citibank’s Action—According to the Citibank representative, the Citibank VP never visited Mr. Salinas’s place of business but may have visited his home only after he had been accepted as a private banking customer. Further, the division VP believed that the majority of Mr. Salinas’s wealth had resulted from the sale of a construction company yet knew no specifics about the sale, including the name of the company or the price paid for it.

•Testimony—Citibank’s VP acknowledged during the testimony that no reporting requirements were needed regarding the amounts or source of funds transferred by wire (as were needed for cash transfers of \$10,000 or more) because most identifying information—source bank, source account, amount transferred, target account, and target bank—was automatically recorded. Only ownership of the accounts was not included.

Citibank’s Action—However, the automatic recorded information provided with the transferred Salinas funds did not contain identifying information as to the source of the funds. Further, Citibank actions regarding these wire transfers defeated one main purpose of know your customer policy—to help financial institutions identify unusual or suspicious transactions. This purpose included knowing a transaction’s origin and destination. Indeed, Citibank’s action obscured almost all of that automatic information:

-
- the Salinas funds did not originate at Citibank Mexico from where they were wired;
 - the Salinases did not have an account at Citibank Mexico;
 - all funds that went into Trocca accounts were first wired to a concentration account, not to an individual account, at Citibank New York;
 - the documentation in the United States that purportedly connects the Trocca accounts or Mr. Salinas to the wire transfers from Citibank Mexico requires an individual who is knowledgeable about the transactions to explain the connection, since no official documentation regarding the connections exists in the United States; and
 - the Citibank London receiving account held no recognizable tie to Mr. Salinas and the Citibank Swiss account information is held under Swiss secrecy law.

Status of Salinas Case

Citibank

Although the Salinas/Trocca accounts have been frozen, they remain in Citibank New York's control. Citibank, with the cognizance of the Department of Justice, continues to pay certain expenses of the Salinas family, such as mortgage payments, from the family's Citibank accounts. In addition, Mr. Salinas continues to be a Citibank private banking customer, according to the Citibank representative.

Department of Justice

After the arrest in November 1995 of Mrs. Salinas, Citibank prepared and delivered a criminal referral form to the U.S. Attorney for the Southern District of New York. An investigation by the U.S. Attorney is ongoing.

Conclusions

The Congress and the Federal Reserve have recognized that financial institutions could abuse voluntary policies with regard to potential money laundering. This is evident in HR 4005 and the Federal Reserve's current effort to promulgate regulations that establish minimum standards and uniform requirements for know your customer policies. 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.

Methodology

Our investigation took place between February and September 1998. We were denied access to Citibank principals and Department of Justice investigative officials. However, we interviewed representatives of the OCC and the Federal Reserve System and designated representatives of Citibank. We also interviewed representatives of the Swiss Federal Police, including the Inspector in charge of the ongoing Swiss investigation of the money laundering and drug trafficking charges against Mr. and Mrs. Salinas. We reviewed Citibank policies regarding private banking in general. We also reviewed Citibank documents pertaining directly to the Salinas private banking transactions. During discussions with us, Citibank New York's VP for Legal Affairs provided (1) information regarding key points discussed in this report and (2) documentation to support certain statements. In subsequent discussions, Citibank New York officials recanted a few of those points but provided no or convoluted supporting documentation. In addition, we obtained and reviewed federal court transcripts and documents regarding a money laundering prosecution pertinent to our investigation.

As agreed with your office, unless you announce its contents earlier, we plan no further distribution of this report until 7 days after the date of this letter. At that time, we will send copies of this report to interested congressional committees, the Federal Reserve, and OCC. We will also make copies available to others upon request. If you have questions about our investigation, please contact Assistant Director Ronald Malfi at (202) 512-6722. Major contributors to this report are listed in appendix II.

Sincerely yours,



Eljay B. Bowron
Assistant Comptroller General
for Special Investigations

Appellate Decision Regarding 1994 Money Laundering Trial

One defendant in the 1994 money laundering trial,²⁶ Antonio Giraldi, appealed his conviction. In the appellate decision,²⁷ the court based its decision to uphold the conviction, in part, on Mr. Giraldi's responsibility as a relationship manager "for screening potential clients to determine if their wealth was legitimate," which Mr. Giraldi had not done. The appellate court concluded that the jury in Mr. Giraldi's initial trial could have reasonably determined that Mr. Giraldi had known or had been willfully blind²⁸ to the source of his customer's funds, proceeds from a Mexican drug lord. The court stated that Mr. Giraldi (1) had been specifically charged with investigating and knowing his client, (2) had not followed prescribed procedures before taking the initial deposit, and (3) had extensive background and experience with international banking.

In denying Mr. Giraldi's appeal of his guilty verdict, the court stated, "A rational jury could have found it incredible that carelessness and honest mistakes could account for the complexity of financial gerrymandering required to give [the Mexican drug-money launderer's] transactions the appearance of legitimacy." The court held that had know your customer practices been used, the wealth of Mr. Giraldi's client would have been exposed as illegitimate.

²⁶United States v. Giraldi, No. 93-CR-28-6 & 7 (S.D. Tx. 1994).

²⁷United States v. Giraldi, 86 F. 3d 1368 (5th Cir. 1996).

²⁸U.S. money laundering law requires that (1) a person "know" that a financial transaction represents proceeds of an unlawful activity or (2) proof be provided of the person's "willful blindness"—the conscious avoidance of knowledge of facts—to an illicit origin. (18 U.S.C. 1956) Courts have held that circumstantial evidence is sufficient to prove such knowledge and have equated willful blindness with actual knowledge in a money laundering prosecution.

Major Contributors to This Report

Office of Special
Investigations,
Washington, D.C.

Ronald D. Malfi, Assistant Director for Financial and General Investigations
John J. Ryan, Senior Special Agent
M. Jane Hunt, Senior Communications Analyst

Office of the General
Counsel, Washington,
D.C.

Barbara C. Coles, Senior Attorney

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