



# Citigroup: a culture and history of tax evasion

*by Lucy Komisar*

## **Contents**

<i>Introduction</i>	2
<i>How Citigroup is structured</i>	2
<i>The Offshore System</i>	3
<i>The beginnings: the 1960s</i>	5
<i>The Nassau Parking Scandal of 1975-1980: laundering profits</i>	6
<i>Laundering Money for Pinochet</i>	18
<i>Australia: tax evasion scheme of late 1980s</i>	20
<i>Private Banking, the key to the system: Laundering money for Salinas, Bongo, the Abachas</i>	21
<i>Argentine offshore bank scam of the 1990s, plus a secret videotape wherein a Citibanker offers to launder a "businessman's" profits</i>	29
<i>Moving Russian money offshore in the 1990s</i>	38
<i>Japan: helping clients evade taxes</i>	39
<i>The Clearstream accounts: another secret system for moving money</i>	40
<i>Today: Private Bank chief for Latin America and Europe America lauds secrecy</i>	41
<i>Citigroup's offshore subsidiaries</i>	42
<i>The curious Jersey network</i>	46
<i>Unanswered questions</i>	48
<i>Watch what they do, not what they say</i>	49
<i>Sources &amp; documentation</i>	53

## Introduction

This report describes and details a history of tax evasion by the world's largest financial conglomerate, Citigroup. Going back decades, it is a story of repeated, aggressive tax evasion for itself and clients, depriving governments and therefore citizens of huge amounts of funds and carried out with relative impunity.

The Tax Justice Network nominates Citigroup for the Public Eye on Davos Award for *excelling in socially irresponsible behavior by engaging in tax evasion and facilitating tax evasion by its clients*. By its actions, Citigroup has violated both international money-laundering rules and the highest standards of corporate social responsibility and ethics.

Tax evasion by corporations and the very rich impoverishes people of all countries, increases the gaping divide between the rich and the poor, and shifts the tax bill to the middle class and small businesses who don't and can't avail themselves of mechanisms created for hiding and laundering income and profits. The capital flight that is a function of tax evasion beggars the economies of developing countries, transferring the wealth of the poor to the industrial world.

## How Citigroup is structured

Citigroup operates in 100 countries, with \$1.2 trillion in known assets (largely loans) and over \$100 billion in client assets in private bank accounts. It reported net income in 2004 of about \$17 billion.

Citigroup is organized into three major business groups - Global Consumer (client banking, loan and credit card services), Corporate and Investment Banking, Global Wealth Management (including the Citigroup Private Bank and the investment firm, Smith Barney) and two businesses, Citigroup Asset Management and Citigroup Alternative Investments. The company was called Citicorp until 1998 when it merged with Travelers Group. It later sold Travelers. The Private Bank was previously called Citibank Private Bank. The term Citigroup is generally used in this report, even when referring to actions when it was Citicorp.

The Private Bank accepts only very wealthy clients - with \$5 million minimum and generally more than \$10 million in deposits. It has about 25,000 of such "special clients," also known as high-net-worth individuals, or HNWIs, and it gives them hand-holding treatment, even finding them maids and baby-sitters. The Private Bank does investment guidance, estate planning, assistance to minimize taxes, and also sets up off-shore accounts, and complicated schemes

designed to secure the confidentiality of financial transactions, among them transactions aimed at evading taxes.

Banks make a higher than normal return on the funds deposited in private banks, 20-25 percent a year. Monies deposited with the Citigroup Private Bank are either invested into a specific product (like a CD or stock) or held as available cash balances which are put in interest-bearing accounts. The interest is recouped through the fees and/or commissions that are assessed on the invested funds as well as fees for establishing and maintaining trust accounts, a characteristic of virtually all private bank clients. Individuals often set up limited liability companies or investment partnerships domiciled offshore, and the trusts become part of the offshore network of bank accounts and shell companies used to hide their money from taxes.

Citigroup, of course, is not the only financial organization that is complicit in offshore tax evasion. It is unfortunately standard procedure for global institutions. But Citigroup was perhaps the first to use the system, it is the biggest financial services conglomerate in the world, it has repeatedly broken promises to stop its errant ways, and as will be shown in the cases that follow, it appears immune to punishment for its acts.

This report starts in the 1960s and takes the story to the present, with a look at Citigroup's subsidiaries in the tax haven of Jersey, in the Channel Islands. That offshore network raises questions about Citigroup's practices today.

### **The Offshore system**

The bank and corporate secrecy system in some 70 jurisdictions around the world is central to big-money tax evasion. Laws in those jurisdictions make it difficult if not impossible for other governments to regulate the subsidiaries of their home banks. IMF analysts have written, for example, that the Asia crisis of 1997 was provoked by the failure of Japanese financial institutions that moved losses offshore and hid them from Japanese regulators. (See IMF website). Coincidentally, Nikko Salomon Smith Barney, a Citigroup subsidiary, was ordered by Japan's Financial Services Agency in 2001 to close its alternative investment strategies division (hedge-funds, structured credit and other investments), because it illegally helped big customers conceal losses.

Citigroup officials have acknowledged that they use the offshore system to help clients avoid taxes. The use of "avoid" rather than "evade" is a legal nicety which occurs when the wealthy and powerful use their power to legalize nonpayment of taxes and hobble enforcement agencies to prevent justified investigation and prosecution. However, the cases here show that what

Citigroup officials like to call “avoidance” is more likely “evasion” that hasn't been prosecuted.

In a letter to the U.S. Senate Permanent Investigations Subcommittee looking into an offshore operation run by an Argentine citizen, Citibank's counsel Jane Sherburne, of the law firm Wilmer, Cutler & Pickering and a former legal advisor to President Bill Clinton, wrote in September 2000: "We have been reflecting on the concerns stated by you and your staff about establishing relationships with offshore banks that have no physical presence in the offshore jurisdiction. We remain uncertain about whether attaching significance to physical presence is meaningful when one considers the nature of offshore banks." (This and other hearings excerpts are in the full reports, linked at the end.)

She explained, "Offshore affiliates typically service the existing customers of the parent institution; they do not do business with residents of the offshore jurisdiction or transact business in the local offshore currency, or seek to establish an independent customer base. Their function is to serve as registries or booking vehicles for transactions arranged and managed from onshore jurisdictions."

Responding to the Senate staff view that a test of legitimacy of the offshore bank might be whether it could print and mail statements, she said: "The need to print and mail statements will depend on the customer base of the off-shore and the nature of the business, and may defeat the purposes of offshore banking-- confidentiality and tax planning." She said, "Mailing statements for activity in the private bank account of a customer, for example, risks breaches in the confidentiality as well as triggering a taxable event. Private bank customers often do not receive regular statements but rather rely on the personal relationship with the private banker for information about the status of their account."

*The printing of an account statement will trigger a taxable event?*

U.S. Senator Carl Levin declared at a Senate hearing: "Now, I am really surprised by that sentence, that mailing a statement would trigger a taxable event." He asked Jorge A. Bermudez, Executive Vice President and Head of e-Business for Citibank: "How does the presence or absence of a bank statement trigger a taxable event? Don't you owe the tax even though you conceal it?"

Bermudez replied: "I think that would depend on where the source of the revenue, the income was coming from for that particular investment and the tax laws of a given country."

Senator Levin: "So that you might not owe the tax, and having a statement about an account might subject you to a tax you don't owe?" He said, "It is the opposite of what your counsel says. Your counsel writes this Subcommittee that the statement may trigger a taxable event."

*What Sherburne meant, of course, was that Citigroup's clients don't want to take the chance of documents falling into the hands of tax authorities and revealing that they are cheating on taxes.*

### **The beginnings in the 1960s**

In 1961, Citibank became the first important user of the Eurodollar negotiable certificate of deposit. Their use would evade U.S. taxes, reserve requirements and other regulations on bank lending established by the U.S. government. In 1969 Citibank opened a Channel Islands branch to take advantage of the low maximum tax rate. "... Citibank 'made enormous amounts of money' in the Channel Islands, [former Citibanker Gerard] Finneran said, by exploiting its status as a tax haven, and the branch became a mecca for European entertainment and sports personalities seeking relief from the heavy tax burdens in their own home countries." ("Wriston" by Phillip Zweig, p263)

In other words, Citibank helped rich Europeans evade taxes.

In the decades that followed, Citigroup's tax evasion system expanded, as noted in these observations:

"Citibank was always regarded as extraordinarily imaginative in avoiding taxes. Said one former Morgan banker, 'Morgan used to wait for [Citibank's] annual report to come out to figure out how they did it this time. They [the Morgan bankers] were convinced that Citibank never paid any taxes.' One Morgan bean counter, the banker said, referred to Citibank's annual report as 'fascinating reading - the most creative accounting.'" (Zweig, p609.)

"Citibank's aggressive use of tax havens and minimal tax liabilities are well known in the banking community. Public filings with the Securities and Exchange Commission suggest that Citicorp, the bank holding company, paid no Federal income taxes in 1980; its provision for Federal taxes that year was negative." ("S.E.C. Overruled Staff on Finding that Citicorp Hid Foreign Profits," Jeff Gerth, New York Times, Feb. 18, 1982.)

"Citibank has more [foreign] tax credits than it can use, i.e., our tax payments exceed our U.S. tax liability. We want therefore to shift as much expense abroad as we can." Citibank Internal Auditor, Jan 1975. (SEC report)

“The bank was quite blasé about this. Hans Angermueller, an attorney with the bank's law firm Shearman & Sterling, and then a vice-chairman of Citicorp, considered the world a series of rooms with varying tax rates. And if “this room charges a tax rate of 70 percent and that room charges a 10 percent rate, you'll try to see how close you can get to getting the benefit of the 10 percent rate rather than the penalty of the 70 percent rate.” (Zweig, p 609)

New York City - in the midst of its mid-1970s financial crisis -accused Citibank of using tax havens to evade more than \$30 million in taxes.

### **The Nassau Parking Scandal of 1975-1980: laundering profits**

Between 1973 and 1980 Citibank shifted about \$58 million in profits from high-tax to low or no-tax jurisdictions mostly through phony foreign exchange trades. Citibank was the largest foreign exchange (forex) dealer in the world, with as much as 11 percent of the market, according to “Euromoney.” In 1980, its profits from currency trading produced 35 percent of the bank's total net income that year.

The transferring of profits out of higher-tax jurisdictions in Europe to no-tax jurisdictions had started even earlier. In 1967-8, Citibank Milan transferred trades to the Bahamas to “adjust positions to conform to debits and credits that were reported to the authorities.”

The operation was known as "parking" foreign currency transactions. An office in one jurisdiction would put a currency “position” (buy or sell) onto the books of an office in another jurisdiction, so that the statements of account of the initiating jurisdiction would appear to comply with the law - in the case of currency positions that it not violate local exchange control laws, or so that it would show a lower profit for the initiating office. Parking often accomplished both goals at the same time.

Exchange law controls aimed at preventing excessive "shorting" of currencies. To short a stock or a currency is to sell it when you don't have it. If you think the Swiss franc, for example, is going down you will sell it. You don't have to have it to sell it. You can keep a short position for years and years. “Long” means you buy it if you think the price is going up, and then you possess it.

The Swiss government (and others) believed that people who shorted the franc (or other currencies) would drive down its price. Therefore, Switzerland (and other countries such as Germany and France) established limits. The Swiss law said, “A bank in our country may not have a short position in Swiss francs over a limit related to the bank's capital.” Citibank could not have an overnight short position of, hypothetically, 2 million Swiss francs.

If a Zurich Citibank foreign exchange trader believed the Swiss franc was going down, he would sell as much as he could. But once he got over the exchange control limit of, theoretically, 2 million Swiss francs, his books would show he was short 4 million Swiss francs. If an inspector came in, he would say, "You're over the limit." To avoid that, he "sold" the francs to Nassau. In fact, he controlled the "position," since there was nobody handling foreign exchange in Nassau. He just put it on Nassau's books.

"Parking" implies that he is in control. He "parks," but still owns, the car/currency in a different jurisdiction.

At some point if the franc did go down, he might "buy it back" from Nassau, or put both sides of the trade on the books as if there was someone in Nassau making a deal with him. That was the use of parking to violate exchange control laws.

The other use was to launder profits in a tax haven. On any particular day, if there was a range of prices, a Zurich Citibank trader would do two offsetting trades where in Zurich he lost money and the Nassau branch made a profit.

Or Citibank in Frankfurt would sell marks at an off-market rate to Nassau, then buy them back at a higher rate, creating phony losses in Frankfurt and phony profits in Nassau.

The paperwork made it seem as if Citibank subsidiaries in the U.S. and Europe were losing money. No-tax Bahamas was making all the profits.

Citibank management knew it was breaking the law, laundering its profits. A Citibank internal auditor later testified to the SEC: "It is very simple to do real transactions just for the purpose of transferring profits...They can be done at realistic rates by selecting quotes at different times during the day, making them almost impossible for an outsider to discover."

The story is told in the investigation report written by then U.S. Securities and Exchange Commission (SEC) attorney Thomson von Stein.

### **David Edwards, a whistleblower**

In February 1978, a young Citibank Paris foreign exchange trader, David Edwards, wrote to Citibank's Policy and Audit Committee and outside auditors that European Citibank branches were illegally transferring profits to Nassau through foreign exchange transactions. He had made similar allegations to Citibank's Comptroller's Division a year earlier and was told there was no

evidence. Edwards sent the Policy and Audit Committee and other responsible officers a 106-page report he compiled of the illegal dealing. In March he went to the SEC. Thomas Theobald, who had just become head of Citibank's International Banking Group, soon fired him, informing him that his allegations were "not in the best interest of the institution."

The SEC initially agreed to let Citigroup's lawyers conduct an internal inquiry. That was done and a report was prepared and filed with the SEC by the New York-based international law firm, Shearman & Sterling. The report said that "no institutional pattern of transferring tax liability from one country to another in violation of local tax laws was present."

Stanley Sporkin, the SEC enforcement chief, wanted his own people to investigate. His staff did so and concluded that the S&S report was "an elaborate, expensive, sophisticated whitewash." The SEC investigators found that the S&S report was a vague, misleading carefully crafted mis-description of a practice that, if detected, could have serious consequences for Citibank's income and perhaps even its continued license to do business in some European countries. The SEC report said that S&S never mentioned "that Citibank had excess foreign tax credits and a policy to transfer profits to tax havens." It never mentioned how Citigroup senior management directed that false documents be used to deceive authorities. The SEC report noted S&S's "gratuitous swipe at Edwards, the only person in Citibank who acted with honor in this matter."

Walter Wriston, Citibank chairman and chief executive officer, was also the author of a "gratuitous swipe," the SEC said. He told the Washington Post that Edward's "famous accusations didn't arrive until after he was dismissed." That was a lie. The SEC says, "Citibank's own records indicated Edwards brought the allegations to their attention in 3-77, 10 months before he was fired."

Von Stein spent more than a year on the SEC investigation and wrote a 138-page staff report. References to the SEC that follow generally refer to that report.

The SEC report said that from at least 1973 to 1980, Citibank branches in Europe and Asia engaged in sham transactions through the Nassau Desk, booking foreign exchange and money market activities which were recorded for legal, i.e., tax purposes, on the Bahamas branch books, allowing initiating branches to evade local taxes, as well as local exchange control laws and reserve requirements.

It said that thousands of transactions were structured as arms length foreign exchange purchases or sales or as loans. Many were effected at artificial, i.e.,



off-market, prices. Often the real prices were not listed in the books. Trades were hidden in numerous small transactions, code works, or phone orders with no records.

SEC investigators found that sometimes Citibankers used transfer pricing at predetermined rates, known in Citibank as “massaging” the rates. Or they did reciprocal borrowing and lending at different rates between branches, with the tax haven getting the higher rate of interest. For example, Citibank London would “lend” \$1 billion to Nassau at the call rate and would “borrow” \$1 billion from Nassau at the higher six-month rate. The difference was simply a transfer of profits to Nassau. (A call rate is a daily rate; rates differ, with generally a certain ratio between the call, 3-month, and 6-month rates.)

Von Stein asked Edwin Pomeroy, Citibank’s internal auditor, “Is there anything to prevent [Citibank London] from putting a billion in Nassau at [the] call [rate] and getting a billion dollars back at the six-month rate?” Pomeroy replied, “The principal restraint would be the MCO [maximum cumulative outflow] limit.” In other words, the size of the back-to-back loans was determined by how much in profits Citibank wished to transfer from Citibank London to Citibank in no-tax Nassau.

Later, to minimize mention of Citibank Bahamas on the books of Citibank branches in Europe, the trades were made with New York, where they were inputted in a computer which automatically wrote the entries on a computer in the Bahamas.

Profits did not appear on the legal books prepared for the branches in the initiating countries, such as Germany or Switzerland. The branches were, however, secretly credited with the profits they had put on Nassau’s books.

### **The scam was approved at the very top**

“The practices and procedures of such parking were done pursuant to policies laid down by senior management in New York,” said the SEC. “The facts show clearly that all levels of management (except the outside Board members) knew of the questionable conduct...and senior management approved it.” It cited an official’s note that, “Citibank has more tax credits from foreign countries than it can use, i.e., our tax payments to foreign countries exceed our U.S. tax liability. We want therefore to shift as much expense abroad as we can.” And, “HO [home office] thinks that losses should never be taken in a tax haven.” It noted that “the Citibank Comptroller’s oversight was directed principally at disguising parking transactions, not stopping them.”

In 1975, two years before the Edwards discovery, Arthur Natvig and Edwin Pomeroy, internal auditors in the Comptroller's Division, prepared a "Survey of European Treasuries" at the direction of the chairman of Citicorp. Von Stein, the SEC investigator, said, "Natvig was the internal auditor. He took his portable typewriter and lived out of hotels, visiting Citibank branches. He simply described what European branches were doing, including parking."

The Natvig-Pomeroy report said that Citigroup branches arranged confidential deals to reduce taxes for the bank and customers and to gain other advantages. It noted that, "Strictly confidential treatment is necessary. In general, European management does not foresee serious reprisals if discovered; but disclosure could mean instructions to discontinue and might involve tax claims and penalties."

Natvig in notes for a 1975 conference of Citibank European Treasury Heads to discuss parking, wrote that, "No problem yet with local authorities, but there is always this risk. This risk has increased because all bank regulators worldwide have been alerted to ways of hiding exchange dealings by Franklin National, Sindona [the Italian bank fraudster] and other recent well publicized affairs. Bank's own staff knows, or will know, despite management efforts to restrict information to as few people as possible." (The Treasury Division dealt with foreign exchange)

He said that operations were carried out to accommodate to "the letter" of the law, "if not the spirit." He said changes were being proposed "to minimize the problems of explaining and rationalizing when these entries are inevitably discovered."

He said that he had informed senior management at the head office "to minimize surprises in the event there are any incidents." He figured that if they were discovered, "there will be no serious reprisals other than a possible reprimand and a cease & desist order." The advantages of the transactions included to "save taxes."

The document was given to Citibank's chairman Wriston, the vice-chairman, president, and the chairman of the executive committee. Receiving the report, the top officials ordered no changes in the organization's tax evasion practices except to adopt the suggestions to make it harder to detect. Natvig wrote that "the parking telexes are quite frank about what they are. As a protection, these telexes are extracted from the main chronological file and put into a confidential file." The auditor had suggested using false telexes and other bogus documents to hide parking. This was done. Audits were falsified to ensure the appearance of legality.

Branches would book deals in the name of New York headquarters rather than Nassau “which raises suspicion of evasion of regulations and taxes.” Parking would be centralized under the new “Capital Hedging Unit” in New York. Paolo Cugnasca, appointed in 1975 to organize the new office, described in a memo how overseas branches used the Nassau branch to book foreign exchange transactions “either to comply with local regulatory requirements or to transfer (taxable) profits generated abroad to tax-haven areas.”

Ironically, Von Stein discovered, “The way Dave Edwards first found the proof of what he had suspected was that after he was complaining in Paris, his superiors brought him back to New York and put him in the office of Cugnasca, who had recently been fired. Cugnasca had just finished the assignment of preparing the Citibank manual for how to book the transfer of profits. Edwards started to look through the desk in the empty office he’d been assigned and found the handbook, which became the basis for his subsequent complaints to Citibank and later to the SEC.”

The scam was profitable, and Citigroup expanded its illegal tax evasion. The bank used money market borrowing and lending to transfer profits also to the Channel Islands, Monaco, and Bahrain. The SEC said: “For example, today a bank officer in a European country will solicit, arrange, administer, control and service a loan to a customer in the European country, but it will be booked in the name of Citibank Monaco, payments will be sent to Monaco, and the income from that loan will be realized on Monaco’s books, rather than Germany, the UK, Italy, etc. Western hemisphere loans are now booked on Nassau’s books.”

Reviewing the situation, Pomeroy of the Comptroller’s Division wrote in 1977, “If the profits are left offshore, the ethics of the situation are further compounded because of the question of tax evasion. In any event, the main thrust of our recommendations was that where such parking was to be allowed, it should be done in such a way that we could scrupulously maintain that the branch in question was acting on behalf of Head Office or Nassau in building up and transferring (a rather nicer term than parking) the position.”

He added that the decision was that “in future, any parking will be done with NY trades rather than with Nassau. Use of Nassau always made the deals sound rather phony, and the use of NY will make the deals have a more genuine ring to them.”

### **Cooking the books**

Citibank maintained two sets of books. Von Stein explained, “The second set was called the MIS, the Management Information System. As a foreign exchange

trader was compensated in part by his profits, if he put all his profits in Nassau, how is he able to tell his bosses that he made \$1 million profit for Citibank, but it's on Nassau's books? So, Citibank simply had a second set of books which credited all the profits booked in Nassau to the European trader who was actually responsible for them." Year-end bonuses to European Citibank traders were based on those real profits, instead of the lower phony ones in the locally filed financial statements.

The SEC noted that after the investigation began, "Citibank retroactively changed its Citibank London books so as to include \$17.3 million in interest differential earnings also realized on Nassau's 'legal' books." The SEC report said it was "an admission by Citibank" that the income belonged on the London books, not the tax haven.

There was concern that countries might find out about the double bookkeeping. One official said at a 1977 meeting that "while tax shields are desirable from an institutional point of view, they should not be established if the risks involved [were] unreasonable from both a legal and fiscal point of view." The solution was to keep the real books in New York, to be seen by local management on visits to New York or by selective mailing. And, he didn't have to add, where they couldn't be discovered by the foreign tax authorities. That was done at least for Citibank Milan after the Milan branch indicated concern about scrutiny by Italian inspectors.

The SEC, based on Citigroup's documents, said: "As of 7-27-77, the parking branches were Amsterdam, Brussels, Frankfurt, London, Mexico, Milan, Paris, Toronto and Zurich. The currencies parked were those of these branches plus the Austrian Shilling, the Yen and the Peseta." And that "certain documents indicate Citibank Mexico parks foreign exchange positions in Panama as well as NY/Nassau. We have not inquired into this." In 1979, an internal Citigroup report said it had found transfer of profits by branches in Japan, Hong Kong, the Philippines, Singapore, Malaysia, Indonesia, India, Saudi Arabia and Mexico.

Pomeroy wrote in his notes, "Difficult to see why Indonesia tax authorities don't question Jakarta's failure to get interest." But the U.S. investigation focused on Europe, and so that is where the evidence is.

## UK

The operation in London, described under the SEC report title "Money Market position parked with Nassau for tax reasons," said that it had the effect that "the risk and the expected profits are booked in tax-haven Nassau." Natvig wrote in his survey, "For institutional considerations, HO [head office] prefers that London off-book (in Nassau) a part of its large gap position in dollars....it

helps achieve the institutional objective of reducing Citicorp's foreign tax credit by taking [i.e., showing] profits in tax-haven Nassau rather than in high-tax UK." Natvig explained that "the risk (and therefore the major profit) is taken on the recorded books of the tax-haven branch."

The scam involved combinations of borrowing short term (at higher interest) and placing at longer maturity (with lower interest) so that profits are shifted to the tax-haven. The SEC said that from 1975-77, Citibank London deliberately lost at least \$33.7 million to Citibank Nassau by placing up to \$1.5 billion in Nassau at call rates and taking back deposits at the higher six-month rates.

Robert Logan, a senior vice president for the International Banking Group, ordered a memo drafted in 1977 that noted: "London has conducted money marketing transactions with Nassau whereby Nassau has been borrowing "short" and lending "long." These transactions have resulted in a considerable drop in London's booked profits and the point of issue is whether this activity could be sustained if challenged by the U.K. tax authorities." The memo noted that when the operation began "only a handful of people were aware of the arrangement" and "the procedures were such that the transactions would be almost impossible to identify."

The memo said that "this method of reducing Citibank London's UK tax liability was too good to abandon, so that as contracts matured they were renewed and the volume increased. At the same time more and more people became aware of this activity. The wider the group knowing about it, the more vulnerable we became. Reports made to the Bank of England and the documentation provided to the Inland Revenue could cause the authorities to ask questions which could expose this issue."

"While some allowance could be made in defense of this operation, there is no doubt in anybody's mind that if all the fact were to emerge, we could not have a case." The Corporate Tax Department didn't want such comments in writing and told Logan not to send the memo.

## France

The SEC report noted that, "In 1976 and 1977, Paris did a series of deals with Nassau 'for tax reasons,' i.e., to transfer profits out of Paris. It was done by selling currencies to Nassau at one price and buying them back at a higher price."

Citigroup's records note: "Swaps to transfer earnings from exchange earnings to interest earnings to reduce taxes." Specifically, Natvig described Paris's practice of changing foreign exchange earnings into interest earnings to avoid a

French tax on foreign exchange earnings. “Branch takes a deposit in a low-interest currency, swaps it into a high-interest currency, which it then places. Interest earnings are increased, and the exchange earnings are decreased. Since exchange earnings are subject to a special tax of 17.6%, there is a tax benefit to the bank. This particular transaction, once identified, is admittedly transparent and would be easy to attack as a tax dodge. However, there has never been a tax inspection of this area of the bank, and the branch is always scrupulous to leave a good remainder in exchange earnings subject to tax (to avoid asking for problems).”

Peat Marwick, the international auditors, in 1977 advised Citibank Paris: “Obviously, if it could be prove that the funds provided by Nassau are actually of French source, the profit would also be attributable to the French branch.”

French tax authorities concluded that Citibank Paris underreported some \$550,000 for transactions in which Citibank Paris trades with Nassau simultaneously bought and sold non-French currencies at different rates, resulting in a loss on each transaction for Paris.

## **Germany**

Natvig wrote that Frankfurt parking had a “tax benefit.” Fritz Menzel, the Frankfurt Citigroup Treasury official, noted at the 1975 London conference that the Nassau parking was desirable “inasmuch as profits which would usually appear in Germany are generated on Nassau’s books, thus giving us a tax advantage for such profits.” However, the German head trader was concerned: “It could become very apparent, in case of an inspection, that we are hiding a German position in Nassau, as any moderately intelligent central bank inspector would know that the amount of exchange business conducted in Nassau does not justify such amounts.” Citibank Frankfurt later estimated that 10 percent of its 1973-77 dollar volume was parked.

Citigroup officials knew the activity would be taxable if authorities found out. Its auditors Peat Marwick in 1976 wrote to an International Bank Group official that “we would like to stress that the present [offshore loan booking] system is structured as an integrated lending activity of the German branches and the Nassau unit in Frankfurt which hardly differs in substance from the lending activities for domestic loans and only slightly differs in form from these domestic activities. Therefore, the present procedures will result in an attribution of the Nassau operation to the German branches for tax purposes should all the facts and circumstances become known to the German tax authorities.”

## **Italy**

SEC: “Off-booking of exchange contracts with resident banks to avoid payment of Italian stamp taxes. To avoid this tax, Milan closes a future contract with another Citibank branch in Europe, and instructs the latter to close an offsetting contract with the other Italian bank.” Natvig explained: “Milan occasionally sells Brussels a foreign currency (usually \$) and tells Brussels to sell same to a bank in Italy, with matching amounts, conditions, etc....These transactions avoid (for Italy) payment of stamp tax required on FX contracts between two resident banks.” He said that “future contracts with other Italian banks are subject to high stamp taxes. To avoid this tax, the Bank (like all banks in Italy) closes a future contract with another Citibank branch and [it] closes with the Italian counterparty.”

Milan took a substantial loss in its off-booked position in Nassau in December 1974. Citibank officials decided to repatriate the loss to Italy’s books where it would reduce taxes, rather than leave it on the books of tax-haven Nassau. “The transfer was effected by doing a large number of small transactions spread over the month, many of them obscured by routing either the buy or the sell side through other branches. The transactions were handled discreetly and as confidentially as possible.”

## **Belgium**

Natvig noted: “Customers of Belsa Antwerp [a Citibank subsidiary] seeking to avoid the Belgian withholding tax on interest open Time Deposit accounts in Geneva on the recommendation of Belsa. Geneva treats these as fiduciary accounts to avoid payment of the large Swiss withholding tax on interest and sends the deposits to Belsa Antwerp as fiduciary placements. This is a [Personal Banking Group] operation and has nothing to do with the treasury, being a pure tax gimmick.”

## **Switzerland**

Natvig worried that “detection could conceivably also involve restrictions on the bank’s overall Swiss activities, and possibly also some sanctions or reprisals against its senior officers.” The SEC cites a 1976 meeting in Zurich where Citibank personnel discussed whether it was “possible to structure this proposed type of business in Switzerland in such a way as to avoid recognition of income arising to the Swiss branches” and the risks of a tax audit in general and a discovery of the Frankfurt/Nassau desk [by the taxing authorities]. One Citigroup official labeled this “transfer pricing through swap transactions with offshore booking centers.”

Later, in 1978, Pomeroy noted that exchange procedures in Switzerland involved “pricing contracts with Head Office and other branches so that the profits from these positions are recorded outside Switzerland.” He wrote about the “local limitations on Zurich’s position” and said “they have to be careful about how much profit they show. Accordingly, there may be some massaging of rates [of exchange] done on contracts with New York/Nassau in order to get the profits offshore.” The SEC says that, “For the year 1978, Switzerland was credited for \$16,693,000 of foreign exchange profits not reported to Swiss authorities.”

From 1974 to 1978, Citibank Switzerland made more than \$83 million in profits from trading various currencies, \$51.5 million of which was posted in Switzerland and reported to the Swiss authorities. But \$31.5 million was not reported, according to the commission's staff report.

### **Paying Back Taxes**

After the “parking” scam was exposed, several European countries demanded back taxes. Citibank in 1979 paid Switzerland \$5.2 million in back taxes for the \$7.5 million profit transferred to Nassau in 1974, plus \$365,000 in administrative fees. French tax authorities concluded Citibank Paris underreported over half a million and would have to pay a quarter of a million more tax. Citibank and German authorities compromised on the \$7.5 million income declared by Citibank Germany for foreign exchange activities from 1974 to 1978 and added a tax bill of \$4.5 million.

Switzerland, even as it was being cheated by Citibank, refused to supply relevant documents which the SEC requested. The U.S. agency asked the Swiss National Bank for materials Citibank had furnished it, but the bank refused. SEC: “The SNB suggested we get it from Citibank. Citibank refused, citing Swiss law.” S.E.C. attorneys were concerned that several European governments were not provided crucial documents that might have significantly increased the bank's liabilities. None of the governments had access to Citibank's internal financial reports, which reflected the real profits, “or other documents which show senior management directions to conceal parking.” It said that, “Such knowledge could potentially have changed the additional tax assessments into more serious charges,” because a crucial factor in proving criminal tax evasion is showing intent.

### **SEC conclusion**

The staff said that “the transactions engaged in by Citibank have all the attributes of evasion of the law, not avoidance.” It noted that “elaborate efforts were made to disguise” the transactions, and the books didn’t reflect



the nature of the transactions. The SEC report concluded that “it is clear that Citibank systematically and knowingly violated exchange control, tax or other laws of virtually all of the countries involved.”

It said, “The fundamental question for tax law purposes is, ‘Are the foreign exchange profits or losses caused by some other branch but ‘realized’ on the accommodation branch’s, Nassau’s, books” secretly attributed by the Management Information System to the earnings of the initiating branch? The answer, the SEC found, was “yes.”

The SEC enforcement staff attorneys on the case recommended a public proceeding against Citicorp to determine the truth of the matters alleged, to see if SEC should issue an order requiring Citicorp to comply with the law, and to discuss settlement.

### **Reagan administration support for corporate lawlessness**

But 1981 was the era of Ronald Reagan, who took the side of lawless corporations. Citibank’s CEO Walter Wriston was a Reagan insider. The new Reagan director of enforcement, John M. Fedders, had been a corporate lawyer. He read his staff’s report and wrote, “Assuming that Citicorp’s conduct was illegal, this fact alone is not sufficient to have required disclosure or to justify the initiation of an enforcement proceeding....I do not subscribe to the theory that a company that violates tax and exchange control regulations is a bad corporation...”! Besides, he said, disclosure of Citicorp’s conduct “does not appear to have resulted in material economic harm to the corporation.” He added, “We cannot demonstrate that the conduct, if illegal, reflects on the integrity of Citicorp’s management.” He acknowledged that there were false documents, but said the auditors would have traced the relevant transactions. (Citibank auditors, Pete Marwick, later formed part of KPMG, which last year got the Public Eye on Davos award for its world-class contributions to international tax evasion. KPMG New York is still Citigroup’s auditor.)

The SEC Office of the General Counsel and the Division of Corporation Finance wrote that Citicorp’s “management made a reasonable and standard business judgment” by taking the “most profitable course,” despite the knowledge that it was probably unlawful and risked sanctions.

The SEC commissioners determined that the violations were insignificant and harmless, and in 1982, they decided not to bring any action. Besides, they noted that since Citicorp had never represented to stockholders or investors that its senior management had “honesty and integrity,” it had no legal duty to disclose breaches of these norms. Citibank’s duty to pay taxes wasn’t mentioned. The Comptroller of the Currency also failed to take action.

Several months later, after the SEC decision became public, a U.S. House of Representatives subcommittee held hearings, but nothing came of them. The U.S. government took no action against the politically well-connected Citibank.

### **Laundering Money for Pinochet**

In October 2004, Chile's tax authorities filed a lawsuit for tax evasion against former Chilean military dictator Augusto Pinochet. One of his tax-evasion money-laundering banks was Citibank. For 15 years, Citigroup hid and laundered at least \$5 million and perhaps millions more, according to the U.S. Senate Permanent Subcommittee on Investigations. In November 2005, Pinochet was placed under house arrest and charged with tax evasion and other crimes, including passport fraud and using forged government documents. He is accused of hiding \$27 million in secret overseas bank accounts under false names and of evading \$2.4 million in taxes between 1980 and 2004. Continuing investigations suggest the figures could go much higher.

From 1988, when he lost a plebiscite on continued rule, until March 2000, General Augusto Pinochet was the subject of numerous civil and criminal proceedings in Spain, the UK, and Chile, including a 1998 arrest in Spain on human rights charges and a Spanish court order directing financial institutions to freeze his assets on a worldwide basis. These proceedings and issuance of the freeze order were repeatedly described in international, Chilean, and U.S. news media. But Citigroup failed to alert any court or law enforcement agency to the accounts it held for Pinochet or his children.

Citigroup ran accounts for Pinochet from 1981, when he was still military dictator of Chile after the 1973 U.S.-supported coup, until 1996. It ran accounts for his family and offshore accounts connected to the Pinochets until 2005. The total reached at least 63 U.S. accounts and CDs for Pinochet and his family. The U.S. Senate report said, "Pinochet used the Citigroup accounts to move funds within the United States and across international lines, transact business, and construct an international web of secret accounts."

Citigroup cooperated in keeping the existence of the Pinochet accounts secret. None of the fifteen personal accounts opened for him in New York or Miami over a 14-year period carried his given name. Instead, they used "J. Ramon Ugarte" or "Jose Ramon Ugarte," "Jose Ugarte" or "Jose Pinochet Ugarte," later shortened to "Jose P. Ugarte."

For Marco Pinochet, the general's son, Cititrust Bahamas, a Citigroup offshore subsidiary, set up Meritor Investments Ltd. and, to own it, Trust FT-5994N, a numbered trust which did not contain the beneficiary's name. Cititrust and its

affiliates administered the corporation and the trust which had no registration documents linking them to Pinochet.

Meritor was a shell company. Shell companies have no function of their own but are set up in jurisdictions that allow ownership to be secret. They exist to muddy their origins and destinations of financial transactions to. Citigroup's offshore banks, such as Cititrust, had inventories of dormant private investment companies bankers could take from the shelf, dust off and assign to clients who may be individuals and corporations, corrupt government leaders and officials, and criminals.

Citigroup helped Marco Pinochet launder funds he was moving into Riggs Bank in Washington D.C. He sent a \$403,000 wire transfer from the Meritor account at Citibank New York to a Cititrust clearing account in the Bahamas. From there it went to Riggs. The Senate subcommittee said: "It is not clear why the funds from the New York account went to the Cititrust clearing account in the Bahamas instead of the normal Citibank Private Bank clearing account in New York; it is possible that this routing was done to remove the name of Meritor Investments, the true originator of the funds, from the wire transfer documentation." Secrecy was important to Marco. A 1998 Citigroup profile under the name "Marco P. Hiriart" indicated that he was "very concerned about confidentiality," and another document that should have sent alarm bells ringing said that he "does not want contact from Chilean Citibank employees."

Citigroup also set up an offshore trust and corporation for the general's daughter, Inés Lucía Pinochet. Citigroup arranged for her to acquire control of Redwing Holdings Inc., a bearer-share corporation in the British Virgin Islands. Bearer-share corporations are supremely secret: they are owned by whomever physically holds the share documents, and no names are ever registered. Inés Lucía also benefited from Trust MT-4964N, a numbered trust set up by Cititrust in 1991. Cititrust and its affiliates administered the corporation and the trust.

The U.S. Senate report said: "Some account documentation seems to indicate that the numbered trust was the true owner of the funds in the Meritor accounts and loaned these funds to the corporation for its use. The purpose of such an arrangement is unclear, but may have been a tax motivated device to enable Meritor to claim it had no funds subject to taxation - only loans." It cited a Citigroup document that describes "a fiduciary product we used to sell to clients which is a structure in which a Trust owns a [Private Investment Company]. ... [I]t allows various tax benefits and administrative benefits to the client ...."

Citigroup opened 29 accounts or CDs for the Pinochets in the name of offshore corporations or trusts: five in the name of Meritor Investments; seven in the name of Trust MT4964N; and 17 in the name of Redwing Holdings.

Citing bank secrecy laws, Citigroup gave the U.S. Senate Investigations Subcommittee very limited information about Pinochet accounts and transactions involving its foreign affiliates in offshore venues such as the Bahamas or Switzerland and even Chile, Argentina and the UK.

In June 2002, the U.S. Office of Comptroller of the Currency (OCC), one of the country's bank regulators, asked Citigroup whether Citibank Private Bank had any accounts for Pinochet or his wife, including accounts opened under a list of disguised variants of their names. A day later, the head of Citigroup's global anti-money laundering group responded that an earlier global search had not turned up any Pinochet accounts at the bank. Of course, there were dozens.

It was not until July 2004, after a U.S. Senate Investigations Subcommittee hearing on Pinochet's Riggs accounts noted "suspicious wire transfers" at some Citibank accounts, that Citigroup contacted the OCC and Federal Reserve with information about its relationship with the Pinochet family.

#### **Australia: tax evasion scheme in late 1980s**

In 1988, the Australian Taxation Office (ATO) charged that Citibank had promoted a tax-evasion strategy which involved companies buying redeemable preference shares in offshore-based, tax-exempt subsidiaries. These are shares which the issuing company reserves the right to redeem at a specific or unspecified date.

According to the court record, ATO taxation auditor Douglas Franklin Booth had been investigating the scheme since 1987. The work involved audits on four Australian public companies which indicated unpaid income tax of more than \$10 million and possibly as high as \$100 million for 1984-1986.

Booth believed that there were books and records at Citibank's offices relating to the tax affairs of Citibank clients who were participants in the offshore shares plan and similar tactics. On a number of occasions he visited Citibank's premises and had discussions with its senior officers. He reached the view that his access to relevant documents was being frustrated and decided that Citibank's premises should be searched. The ATO raided Citibank's Sydney offices and seized records. Some related to the redeemable preference share arrangement but most concerned other taxation matters, including what appeared to investigators to be tax avoidance or tax minimization systems.

In court, Robert Whiddon, Citibank's retail bank executive manager, admitted he had been working on a proposal that used an offshore Jersey fund and that details were sketched on a diagram on a whiteboard which investigators noticed during the raid.

Citibank acknowledged that its financial transactions had tax consequences but denied they were designed for tax avoidance. Citibank structural finance senior officer Murray Sime said redeemable preference share financing was common in the Australian banking community.

Citibank filed a legal challenge over the ATO's right to conduct the raid. It argued that it violated the privileged relationship between clients and legal advisers. The Federal Court agreed that the tax office had no right to look at documents that might not have been relevant to the inquiry and to fail to give bank employees adequate opportunity to challenge seizure of particular documents. The case went no further on the tax evasion charges, as the evidence gathered would not have been admissible.

**Private Banking, the key to the system: Laundering money for Salinas,  
Bongo, the Abachas**

Citibank operates one of the world's largest private banks. It has over \$100 billion in client assets in private bank offices in over 30 countries, the largest global presence of any U.S. private bank. The private bank operates in tandem with four affiliated trust companies in offshore locations: "Cititrust" in the Bahamas, Cayman Islands, and the Isle of Jersey; and "Confidas," registered in Panama but with offices in Switzerland. These trust companies help establish and administer trusts and shell corporations for Citibank private bank clients. Citigroup advertises that: "Client confidentiality is the cornerstone of The Citigroup Private Bank's business."

Citigroup says it has the accounts of 25,000 "of the world's most successful and influential families." A U.S. Federal Reserve examiner wrote in 1997 about the private bank's Swiss headquarters that the Swiss office "thinks they do not need to comply with the control policies, because they only deal with the very rich and their clients are above reproach."

One satisfied client of Citigroup's Private Bank is Sanford Weill, CEO till 2003 and now chairman of the board. In 2003, he took home \$330 million, \$110,000 per day, \$44.7 million in salary and \$262.4 million from exercising stock options or selling accumulated stock back to Citigroup. That same year he was pressed to retire as CEO in the midst of the many scandals entangling Citigroup. Though Weill's office is in New York, his private banker is in the bank secrecy center, Geneva.

U.S. Senator Levin said in 1999 hearings on Citibank money-laundering cases that, "Private bankers specialize in secrecy. Even if a client doesn't ask for secrecy, a private banker often encourages it. In the brochure for Citibank's Private Bank on their international trust services, in the table of contents, it lists the attractiveness of secrecy jurisdictions this way: "The Bahamas, the Cayman Islands, Jersey, and Switzerland, the best of all worlds."

This brochure also advertises the advantages of using a PIC, a private investment company. One is that "PIC assets are registered in the name of the PIC, and your ownership of the PIC need not appear in any public registry."

American banks aren't allowed to maintain secret accounts in the United States that are not subject to legal process, so U.S. private bankers establish secret accounts and secret corporations in countries that do allow them. Then they manage the money in those accounts and the assets in those corporations from their offices in the United States. In short, American banks help wealthy customers do abroad what the customer and the bank can't do in the United States under U.S. law. The geography, of course, is "virtual."

Levin said that the Private Bank of Citibank has had "a rogue's gallery of private bank clients." He mentioned "Raúl Salinas, brother of the former President of Mexico, now in prison in Mexico for murder and under investigation in Mexico for illicit enrichment; Asif Ali Zardari, husband of the former Prime Minister of Pakistan, now in prison in Pakistan for kickbacks and under indictment in Switzerland for money laundering; Omar Bongo, President of Gabon, and subject of a French criminal investigation into bribery; sons of General Sani Abacha, former military leader of Nigeria, one of whom is now in prison in Nigeria on charges of murder and under investigation in Switzerland and Nigeria for money laundering; and Jaime Lusinchi, the former President of Venezuela, charged with misappropriation of government funds; two daughters of Radon Suharto, former President of Indonesia who has been alleged to have looted billions of dollars from Indonesia; and, it appears, General Albert Stroessner, former President of Paraguay and notorious for decades for a dictatorship based on terror and profiteering."

He added, "And these are just the clients we know."

The same system Citibank used for these clients -- offshore shell companies and secret accounts - is the system it uses for the thousands of other Private Bank clients who have something to hide.

So it is illustrative to take advantage of the investigations in the Salinas and other cases to show just how Citibank uses offshore shell corporations and

secret bank accounts to move and hide its Private Bank clients' funds and assets.

The system is standard Citigroup Private Bank practice, according to Amelia Grovas Elliott, a Cuban-American who had been with the bank for 25 years and since 1983 had headed the ten person-team that handled accounts for millionaire Mexicans. She told the U.S. Senate subcommittee how she set up a personal investment company, or PIC, to hold Salinas's investments, with the shares of that corporation owned by a trust. "This was a very standard account structure in the international private banking industry, including Citibank. Such an account structure provides for confidentiality and also allows for efficient tax and estate planning. As large as the amounts seem to us in personal terms, they were not unusual in the context of the wealthy Mexican businesspeople who are clients of the Private Bank. She said that Salinas's desire to transfer money out of Mexico was "exactly what many other wealthy Mexicans, including my clients, were doing at the time. This is, sadly, a tradition in Mexico." And it is Citibank's tradition to help them. Tax-planning, of course, was a euphemism for tax evasion.

Senator Susan Collins, then the chair of the U.S. Senate subcommittee, asked, "Is there some tax reason that the PIC would be located in a country that has very strict secrecy laws?" Is the primary purpose of using a private investment corporation to further insulate the beneficial or true owner from disclosure, even within the bank and to banking regulators, locating the PIC in a secrecy jurisdiction? Elliott declined to say.

She said, "Mr. Salinas had requested a structure that I would say--I am not certain, but I would say that at least 70 percent of our Mexican clients and most of our Latin American clients use. It was a standard structure within the International Private Bank, and he wanted the exact structure that Carlos Hank had, and Carlos Hank had a trust that held the shares of a corporation that was managed by Confidas which is our fiduciary subsidiary in Switzerland, and that is what I gave Mr. Salinas."

Carlos Hank Rhon, one of the richest men in Mexico, ran the family's holding company Grupo Hermes, a consortium of investment, telecommunications and manufacturing firms that had for at least ten years been a private banking customer of the International Private Bank section of Citibank New York, which fed his money into a network of offshore companies and accounts in the Caribbean and Switzerland.

So, Raúl Salinas, brother of the Mexican president and a friend of Carlos Hank since they were at university, was sure he was in good hands when in January 1992, Carlos called his private banker, Amy Elliott, and asked for a meeting.

Raúl Salinas, who was trained as a civil engineer, had never reported earnings of more than \$192,000 a year. Where was he getting the \$5 million minimum needed for a Citibank Private Bank account? Why did he need to keep the account secret?

Salinas asked that his accounts be structured in the same manner as Hank's; he wanted to put his wealth outside the country in a way that couldn't be traced. Elliott didn't consider the request unusual; it was what most clients required.

Elliott's task was to move Salinas's money from Mexico, through New York to offshore private banking investment accounts where it could be hidden from Mexican authorities. She used some of the classical money-laundering techniques: secret shell companies and accounts, a trust known only by a number, layering, and concentration (correspondent) accounts. She told Salinas that Citibank could set up an offshore investment company that would cover up his ownership of investment. The shares of the PIC would be owned by a trust, adding another layer of secrecy. It was a standard account structure.

Citibank helped Salinas move some \$100 million from Mexico to Switzerland and London through shell companies and multiple accounts. Elliott opened five accounts for Salinas and members of his family. A checking account at Citibank New York in Salinas's name began with a \$100,000 deposit. She created a trust that was known only by a number and activated a private investment company named Trocca--a shell company-- through Cititrust, Grand Cayman, to be the owner of record for his assets.

As Trocca was registered in the Cayman Islands, all the documentation that might have provided a paper trail was there, not in the U.S. or Mexico, and was protected by confidentiality laws. Salinas's name was omitted from the Trocca incorporation papers. Instead, Citibank trotted out six shell companies which it controlled and which it regularly used to hide the ownership of companies of its private bank clients. Madeline Investment SA, Donat Investment SA, and Hitchcock Investment SA, all registered in Panama, were Trocca's board of directors. Brennan Ltd, Buchanan Ltd. and Tyler Ltd., registered in the Cayman Islands, were Trocca's officers and principal shareholders. A year later, Citibank set up a trust, known as PT-5242, to be the "owner" of Trocca. All those "corporate persons" were protected by offshore secrecy that prevented the disclosure of identifying documents.

Even inside the bank, extreme care was taken that nobody know of Salinas's connection to the accounts. Internal bank communications referred to him by code names, "Confidential Client Number 2" or "CC-2." (CC-1 was Carlos Hank Rhon.) The private bank's Swiss office opened a special account for him under



the name "Bonaparte." On the phone, Amy Elliott handled this and other private accounts with cloak and dagger language. Instead of asking if a deposit had been made, she would inquire, "Have the volumes been delivered to the library?"

All management and administrative tasks, including the tracking and reporting of profits and losses, were handled by Confidas. On its board sat Hubertus Rukavina, Citibank Executive Vice President for Worldwide Private Banking, who was based in Switzerland and was the chief officer of Citibank Zurich and the international bank's highest executive there. The name, Confidas, suggested the confidentiality that was its selling point.

A Confidas employee wrote in June 1992 that, "This relationship will be operated along the lines as Amy's 'other' relationship; ie she will only be aware of the 'Confidential accounts' and not even be aware of the names of the underlying companies. ... [P]lease note for the record that the client is extremely sensitive about the use of his name and does not want it circulated within the bank. I believe Amy's 'other' client has a similar arrangement." The other client was Hank.

Elliott worked out a textbook example of layering. No outsider would be able to figure out who owned the account. The president was company x, the secretary was company y, and the treasurer was company z. Not only would no one be able to connect Salinas to Trocca's investments, but Mexico would not learn about profits that could be taxed. In case anything happened to him, his family would get the assets without the bother of obeying Mexican inheritance laws.

Citibank New York opened two investment bank accounts for Trocca, one in Citibank London and one in Citibank Switzerland. In time, Elliott and Salinas would set up other accounts in Switzerland in Banque Pictet & Cie, a large private bank, and in Citibank-Zurich, Julius Baer Bank and Banque Edmond de Rothschild under the fictitious names "Juan Guillermo Gómez Gutiérrez" and "Juan José González Cadena," as well as those of a company called "Novatone" and the Dozart trust. They also used the name of Salinas's accountant, Juan Manuel Gómez Gutiérrez, and his former girlfriend, Margarita Nava, who lived in Hamburg. Elliott activated another shell company, Birchwood Heights, Ltd. as the owner of U.S. real estate Salinas had bought through a Bahamas shell.

Salinas's fiancée and later wife, Paulina Castañón, who used the name Patricia Ríos, participated in the operation. During the several years the scheme operated, she got bank cashiers checks from at least five Mexican banks made payable to Citibank. She hand-carried the money to Citibank Mexico, and though neither she nor Salinas had an account there, Citibank Mexico converted

the cashiers checks from Mexican pesos to American dollars and wired the funds to a Citibank correspondent account in New York, marked to Amy Elliott's attention. The officer at the bank in Mexico was not told who the real client was. The checks named Citibank as payer and payee, not Salinas or Ríos /Castañón. Transfers were in sums as large as \$25.3 million, totaling \$49.5 million during May-June 1993. The cashier's checks continued till by October 1994, some \$67 million had been transmitted through the New York correspondent account to Trocca accounts in London and Switzerland.

In January 1995, Citibank transferred \$5 million of Salinas' funds to an account at Julius Baer Bank in Switzerland. But, it didn't do it directly. To disguise the origin of the funds, it moved it through its New York correspondent account and the Julius Baer correspondent account at Chase Manhattan Bank in New York.

A Citibank representative later told U.S. investigators that the movement of the funds was "expedited" by depositing them first to the Citibank correspondent account, rather than sending them directly to the Trocca accounts in Citibank London and Citibank Switzerland, which invested them according to the instructions Salinas had given Citibank New York. The representative could not say how this was "expeditious." In fact, anyone who had no reason to hide the origin and destination of the money could have wired it from banks in Mexico directly to the banks in London or Switzerland. He also would have established all the accounts in his own name. But then there would be a paper trail.

In one case, an internal Citibank Mexico transfer-confirmation document sent to Confidas was signed with the initials "PS" for Paulina Salinas, even though bank officials knew her as Patricia Ríos and during her early signatures she was not yet married to Salinas. In another case, Citibank Mexico listed the maker of a currency conversion as Tyler Ltd., Trocca's officer and principal shareholder.

There was no official documentation in the U.S. connecting Salinas or the wire transfers from Citibank Mexico to the Trocca accounts. The Citibank London account also held no recognizable tie to Salinas, and the Citibank Swiss account information was held under Swiss secrecy law. It was a typical private bank dirty-money hiding, tax-evading operation.

Salinas was a prize customer. Amy Elliott emailed a Swiss colleague, "This account is turning into an exciting profitable one for us all. Many thanks for making me look good." Citibank would earn over \$2 million in fees from the accounts between 1992 and 1996.

In February 1995, Raúl Salinas was arrested on suspicion of being behind a high profile political murder. The day after the arrest, Citibank officials in New York, London and Switzerland conferred about the suggestion of Private Bank head Rukavina to move the money in Salinas's London accounts to Switzerland where they would enjoy more secrecy. "Now, the thing is whether that, whether those, whether those accounts shouldn't be brought to Switzerland," Rukavina mused. Officials dropped the plan when they realized that London and U.S. bank records would show the money had been routed to Switzerland.

Not until six months after the arrest did Citibank New York finally file a criminal referral form with the U.S. Attorney's Office and send copies to the FBI and the Drug Enforcement Administration. The form is supposed to notify law enforcement officials about suspicious financial activities. However, though the form mentioned Salinas accounts in Citibank New York which had less than \$200,000, it said not a word about Trocca or the Trocca accounts in Citibank London or Citibank Switzerland which it had helped set up and which had nearly \$50 million. A new draft of Salinas's financial profile talked about his construction company, his family wealth and Ms. Salinas's divorce settlement, but didn't mention Trocca, either.

Salinas told the Swiss officials he didn't know how many account names there were, or the names that were used, because the applications had been made by Citibank in New York through its subsidiary, Confidas. "The accounts appearing in London and the U.S. are a part of the group of account structures organized and managed by Citibank," he explained. He said that Amy Elliott had devised the entire strategy, opening accounts under names she chose. He told the investigators, "I didn't open them directly. Even today I couldn't tell you what names the officers used to open the accounts, because I don't have all the files."

In the end, Citibank moved half of some \$200 million that Raúl Salinas skimmed off Mexican government food programs, corrupt procurements and drug payoffs during his brother's tenure as president. Salinas used euphemisms: he said that he had used fictitious names because "in exchange for my consultancy and promotion, I might obtain resources that could cause me tax problems." In other words, he wanted to hide his millions in bribes and payoffs from the eyes of law enforcement and tax collectors. He realized later that the beauty of the Swiss secrecy system was that he could have used his own name. He told the investigators, "If I had been familiar with Citibank's Confidas system, I never would have resorted to fictitious names."

Top bank executives knew his name quite well. Elliott told a colleague, "Everybody was on board on this." She explained that on "the very, very top of

the corporation this was known, Okay? On the very top." She told the subcommittee that the "top" was bank vice chairman William Rhodes.

### **Bongo of Gabon**

Citibank helped El Hadj Omar Bongo, dictator of Gabon since 1967, move and hide money via a network of accounts and shell companies, including Tendin Investments, Ltd., a Bahamian corporation which from 1985 to 1999 held more than \$130 million. The U.S. Senate subcommittee report said that many loans "were issued under a complex arrangement, in which the private bank allowed President Bongo's accounts at Citibank Gabon to incur multi-million dollar overdrafts, which were immediately covered by transfers from Bongo accounts in Paris, which were in turn covered by transfers from offshore accounts belonging to Tendin. This three-step process may have been designed to avoid direct transfers from the Tendin offshore accounts into the President's accounts in Gabon, and minimize the chance that Gabon bank personnel would learn the name of President Bongo's PIC."

Citibank officials knew they had something to hide. In one instance, a document recommending a loan to Bongo in 1986 called for special secrecy. It said: "The only risk really associated with this credit is the so-called 'political' one, i.e. the supposedly negative consequences which may result from a public knowledge of the credit transactions. ... A stigma is more likely to be attached to the large deposits the client has with us overseas if this were to be known. A credit relationship does not have the same impact. ... [T]he U.S. press would give political disturbances very limited coverage."

Citibank earned more than \$1 million a year for managing Bongo's accounts.

### **Abachas of Nigeria**

Mohammed, Ibrahim, and Abba Sani Abacha, the sons of dictator Sani Abacha, who ruled Nigeria from 1993 until his death in 1998, had three Citibank special name accounts, Navarrio, Gelsobella, and Chiquinto as well as accounts in the name of an offshore shell corporation, Morgan Procurement. Two sets of codes were used to refer to fund transfers. The London accounts held as much as \$60 million at one time. The London profile for the account states: "Do not telephone Client in Nigeria."

*"And these are just the clients we know," said Senator Levin.*

In 1996, the U.S. attorney general began investigating the alleged involvement of Citicorp/Citibank in the money laundering activities of Raúl Salinas. At a 1997 shareholder's meeting, Citicorp CEO and Chairman Reed acknowledged

that there was a very real potential for the corporation to face criminal prosecution for its role in the money laundering activities of Raúl Salinas.

But the investigation went nowhere. Citibank still had important friends in Washington. In 1996, Clinton Administration Secretary of the Treasury was Robert Rubin, who would serve until 1999, then four months later become chairman of the executive committee of Citigroup.

New York District Attorney Morgenthau said, "The fact the U.S. government didn't take action is disgraceful." He told the author, "We were going to try to work out something in the Drug Enforcement Administration and bring a case. The head of the DEA was told by Justice not to cooperate with the Manhattan DA's office."

Morgenthau had longtime experience with Citigroup's use of offshore. He told the author: "Years ago, when I was tracing black-market money coming out of Vietnam through Hong Kong to Manufacturers Hanover in New York and then the Union Bank in Switzerland, I subpoenaed the records of an account code-named Shotgun. The next thing I knew, the account had been changed to an account in Dubai. I wrote a letter to Dubai asking for the records. They wrote back, they're sorry, the laws of Dubai prohibited that. I looked up to see who owned the bank [in Dubai]; it was Citicorp."

Citigroup officials told the U.S. Senate subcommittee that failures in the company's policies had been repaired and that the company was confident it could guard against being used by foreigners to launder funds.

### **The Argentine offshore bank scam of the 1990s, plus a secret videotape wherein a Citibanker offers to launder a "businessman's" profits**

Argentina, with 36 million people and in the mid-range of world development, suffered a catastrophic crash in 1999 that threw millions of middle class people into poverty and further ground down the poor. Its per capita income dropped from \$8,909 to \$2,500. In 1970, 8 percent of Argentines were poor; a few years after the crash, 55 percent were poor.

In 2001, Argentina defaulted on its national bonds. The country hovered on economic collapse, with bank accounts frozen and mass demonstrations by citizens denouncing their government. Critics of the government said its inability to support the economy, to help those thrown out of work and to pay its debts resulted from massive evasion of taxes. Tax cheating along with government and corporate corruption and flight of capital via the offshore secrecy system had totaled billions of dollars over the decade. Argentine judge Mariano Bergés, investigating the role of banks, estimated that the amount

transferred abroad was \$100 billion. The Investigative Commission on Capital Flight set up by the House of Deputies said in 2002 that Argentine assets abroad had reached \$127 billion, a figure that approached the foreign debt.

In just one instance, a Swiss magistrate responding to a request by Argentine law enforcement investigating illegal arms sales by Carlos Menem, the country's corrupt president of the 1990s, provided a list of 200 Argentines with accounts in Swiss banks.

The year of the default, a client of Citibank in Buenos Aires secretly video-recorded a meeting with a Citibank official in which the banker offered to help him illegally evade Argentine taxes.

The client told the Citibanker, a Mr. Mariano, that he was a businessman who had just sold a company and didn't want to report all the profits. Mr. Mariano detailed how he could help him evade taxes - and assured him that he did the same for many other clients. The video was shot before the nationally infuriating and destructive "corralito" in which citizens' bank accounts were frozen and they were permitted to withdraw only small sums each month. The video was shown on the TV program, "Behind the News" in 2002 at the height of the debilitating economic crisis that years of massive capital flight and tax evasion had caused.

The dialogue, recorded in "Citibank vs. Argentina," by Marcelo Zlotogwiazda and Luis Balaguer:

The "businessman": My wife has a factory that makes plastic springs for chairs, of the kind that go up and down. She is selling it. It is being bought by people from Brazil. The real selling price is \$770,000, but these people propose that we write an official contract for \$450,000, and thus we can avoid taxes. Well, it seemed to us...

Citibanker: Logical.

"Businessman": Logical; it seems so to us too. We avoid paying taxes. But we want to know what we can do with the money that is left, some \$300,000 or more.

Citibanker: Perfect, we will go step by step. Tomorrow you sell the company. About this money, what part goes to us and what leaves? Or is all of it for here? I ask about the black and white, about the two things.

“Businessman”: Of the \$450,000 of the written contract, we think we’ll buy some businesses. I figure we will spend some \$300,000 or more, and we think we’ll take a trip....

Citibanker: I think that’s a marvelous idea.

“Businessman”: I figure that we will be left with \$100,000 of this money, and we will not touch any of the rest. And we want to know what to do to keep it.

Citibanker: So, altogether we are speaking of something like \$400,000.

“Businessman”: Yes, yes.

Citibanker: Altogether.

“Businessman”: In reality, we think that we shall pay taxes on \$400,000 of the contract.

Citibanker: Fine, fine. I am getting the idea. The proposition is this. You will contract for \$450,000, of which afterwards you will reinvest-- because you will buy -- and I would assume it’s about, I suppose, \$400,000.

“Businessman”: Adding up the black money.

Citibanker: Fine. Whatever it is...

“Businessman”: Black, white, it’s the same to you.

Citibanker: Of course, because I....because...we send it any place. We send it abroad.

“Businessman”: So that no one imagines here that I have \$400,000 abroad.

Citibanker: No. We send it to the United States. We send \$300,000, the black part, and the other \$100,000 we use here. With which we have the \$400,000 that you want to keep. In reality I have a problem, but it is inside the bank. It’s not from outside. It is not with the Central Bank, nothing like that. It is about money laundering. They come to me to ask me internally in the bank: the man has \$400,000. I say yes, here is the sale of the company for \$450,000. OK. They don’t know if you spent \$300,000 of the \$770,000. I have here that you have \$450,000 from the sale of the company, and that with me you have \$400,000. Perfect. OK. I keep silent about that. Do you understand? I justify myself.

“Businessman”: But isn’t the Central Bank going to know that we have an account of \$400,000?

Citibanker: No, No. At the Central Bank the only thing they are going to see, if they come tomorrow and ask, the only thing they are going to see is what you have in the bank: \$100,000. Because we send the rest to the United States to an account for you and your wife in New York. If the Central Bank comes and asks me if the gentleman has \$300,000 or \$400,000, I tell him, no, excuse me, this man has \$100,000 in a certain place, or in a savings bank. He has \$100,000. Nothing more. If they tell me or ask me if the gentleman has an account in Miami or New York, I will respond that they should speak with so-and-so of the bank in Miami or with someone else in the bank in New York. I will not give him information about something that is not mine.

What I do is give you a reference to the United States. I am your reference. I say the gentleman has an account with us, because he sold a company and he is getting \$450,000. And of this \$450,000, we are sending \$300,000 there. Then I make the reference. I write a letter to present you. But those that move your account there are the people of the bank up there. It’s them. Therefore, I do not keep any documentation.

“Businessman”: How can the Central Bank know that I have money abroad?

Citibanker: Only through a judicial request.

“Businessman”: Only that way?

Citibanker: Only that way.

“Businessman”: Mariano, on this money that I send abroad, do we have to pay taxes?

Citibanker: Nothing. No....wait. You don’t have to pay, because, in reality....I am not telling you that you pay or don’t pay. I am responding to your question. I am saying, we take the money and we send it to an account that is called IPB, International Personal Banking, which is for nonresident foreigners. From which, as you are nonresident foreigners and have money there, they don’t take taxes. Why? Because theoretically you are paying taxes here. That is up to you. If you want to declare the money or don’t want to declare it. In this case, you don’t want to declare it, and you are not going to pay taxes.

“Businessman”: And those in the United States, they don’t ask anything?



Citibanker: No. In the United States they are not going to charge you taxes, because theoretically you are paying here. So, forget about it. You are not going to have problems with taxes.

Then he outlined the accounts the “businessman” could have in the United States, including a Citibank checking account and a Citicorp Financial Services Corporation brokerage account.

“Businessman”: Isn’t all this dangerous?

Citibanker: No. Look, I will draw you a graph. Eighty-five percent of my clients do this operation. Eight-five percent of clients of the private bank have an offshore portfolio. They manage all the money abroad. Why? Because they are fed up with paying [taxes]. Because they are big [tax] contributors and they pay \$4,000 a month of their profits and are tired; and they say: “This is what I have declared; I will go on paying [on it], and that’s it. But the rest I will send abroad.

They continued to discuss the details of moving the money out of the country.

Citibanker: It is best that the wire not be in your name. We can arrange for them to wire the money to a transit account. It is a transit account of Citibank Argentina in Citibank New York. Once the wire is credited, we move the money to your account. That way we will avoid the money going directly to an account in your name. What you have to say to the Brazilians is: “OK, I accepted the conditions of the contract for \$450,000. I need you to wire me the rest to such-and-such account.” Then the wire will leave in their name.

“Businessman”: And if they say no?

Citibanker: Another option is an exchange house. The problem is that you are going to spend 48 hours with a piece of paper that doesn’t say anything. It’s a black operation. Let me clarify that we have never had a single problem.

“Businessman”: It’s a question of confidence.

Citibanker: Exactly. You will not have a document.

“Businessman”: Which exchange house could it be?

Citibanker: Theoretically, I can’t recommend one to you. But our clients generally work with Giovinazzo. We have never had problems.

Not long after the video was aired, Citibank decided to transfer its Argentine private banking operation to Chile.

The year of the default, the minority (Democratic) staff of the U.S. Senate Permanent Subcommittee on Investigations published a report stating that some of the millions of dollars sucked out of Argentina were laundered by two shell banks, M.A. Bank licensed in the Cayman Islands and Federal Bank licensed in the Bahamas -- banks which for ten years had had correspondent bank accounts in Citibank New York. Correspondent banking is the means by which one bank, the correspondent bank, opens an account for a bank in another location to enable it to provide these services to its customers. Funds that arrived in the correspondent account were commingled, with clients' names and account numbers removed from the transactions, thereby clouding the audit trail.

One of the Citibank clients, the Federal Bank, a Bahamas shell bank, was secretly owned by Raúl Moneta. Citibank officials knew that Federal Bank was an offshore bank for customers of Moneta's Banco República. Citibank was very familiar with Moneta's operations, because he was a close Citibank business associate.

Citibank and Moneta were partners in an Argentine holding company called Citicorp Equity Investments, later called just CEI. It was created in the early 1990's to hold equity in Argentine telecommunications, cable TV and media companies acquired through the government's debt-for-equity swap program. The debt-for-equity program was forced on Argentina because corrupt Argentine leaders, beginning with the U.S.-supported military dictators in 1976-83, borrowed billions from complicit western banks, looted the cash, even "nationalized" private commercial loans, and then traded the country's patrimony to pay the debt. Moneta had an inside connection to those plums, because he was closely connected to Menem. So was Citibank. It used its important radio and TV stations to promote Menem's re-election.

Citibank knew Moneta and his operation intimately. A Citibank documents said: "This association (CEI) means, both for Grupo Moneta and Citibank, a long-term strategic alliance which requires, because of the amount of the investment and the relative weight of Grupo Moneta therein, a very strong interrelationship between both and a commitment by both to maintain that relationship."

Other Citibank documents said: "There is a close relationship between our Senior Management and R. Moneta. This, added to the association that exists between this group and CEI, means that Citibank has profound knowledge of the corporate structure, details of its organization, and the operation of Grupo Moneta and Banco República." And that Raúl Moneta "has easy access to our

Senior Management (John Reed, Bill Rhodes, Paul Collins, etc.)." Reed was the bank's chairman; William Rhodes and Collins were vice chairmen. A Moneta credit report stated: "We have excellent contacts at the Senior level. This close relationship gives us access to confidential internal Bank information."

The other bank with a Citigroup correspondent account was MA Bank, registered in the Cayman Islands. It was part of a finance, investment and currency exchange group -- primarily an asset management company -- called the Mercado Abierto Group owned and run by three well-known economic officials of the past military governments: Miguel Iribarne, former Undersecretary for the Economy; Aldo Luis Ducler, former Secretary of Finance and Hector Scasserra, former director of the National Development Bank and Minister of the Interior.

The two banks had no physical presence in any country. They were not licensed to do business in Argentina. They kept all of their money in correspondent accounts in other banks. The banks had never been examined by an independent bank examiner, yet they were able to open U.S. dollar accounts at Citibank New York and get Citibank automated computer systems for making international U.S. dollar wire transfers. Beginning in 1992, for ten years, \$4.5 billion moved through Federal Bank's correspondent account at Citibank. From September 1994 through March 2000, \$1.8 billion moved through M.A. Bank's correspondent account at Citibank.

### **What were the offshore banks doing?**

Martin Lopez, a Buenos Aires Citibank official from 1985 to 2000, described Federal Bank as an offshore vehicle "to help private banking customers" of Banco República. By private banking customers, he meant wealthy individual seeking wealth management services from the bank. He said in a memo that the system would "channel the private banking customers of Banco República to which they provide back-to-backs and a vehicle outside Argentina where they can channel their savings, which are then replaced in Banco República by Federal Bank." In effect, the depositors in Banco República sent their money to Federal Bank and then Federal Bank deposited that money back in Banco República. The depositors then "borrowed" their own money, using the foreign cash as collateral.

U.S. Senator Levin was curious. He said at the Senate hearing, "I am trying to figure out what legitimate business purpose there would be for Banco República to take its deposits, send them to Federal Bank and then have them immediately come right back to Banco República." He asked, "Can you give me a legitimate business purpose for that strategy?"

Lopez replied, "The explanation is that some customers of Banco República want to have their deposits outside Argentina."

But Levin pointed out that the money "goes outside and then comes back in almost instantaneously. Can you give us the legitimate business purpose for that?"

Lopez couldn't, because the answer was that this was a laundering mechanism to hide profits from taxes and pretend that the cash accessed in Argentina was a loan. Since this was "borrowed," rather than "earned" money, the account holder didn't pay taxes on it.

Zlotogwiazda and Luis Balaguer, in their book "Citibank vs. Argentina," wrote that the Federal Bank customers included Ricardo Handley, head of Citibank Argentina; Luis María de Bustamente Vega, president of Telefónica de Argentina; Gastón Figueroa Alcorta, one of the officials who shared \$1 million in bribes IBM paid to get a government computer contract; Enrique Petracchi, judge of the Supreme Court; Jorge Herrera Vegas, Argentine ambassador to Brazil; Emilio Cárdenas, ex-ambassador to the UN; and Isabel Santos, widow of the Colombian drug trafficker Pablo Escobar. Among the companies using Federal Bank were several CEI firms in which Citigroup owned shares. (p. 360) One of them, pulp and paper giant Celulosa, was accused by the government in 1995 of using false invoices to underpay income and value-added taxes. Celulosa denied it.

Among the MA Bank clients were Brigadier General Basilio Lami Dozo, chief of the Air Force in the Malvinas/Falklands War; Jorge Milton Capitanich, senator and ex-chief of the cabinet of President Eduardo Duhalde; and Daniel Lalín, ex-president of the Racing Club.

The Central Bank was suspicious of transfers going to Federal Bank, so it asked Citibank for "all information that the Branch may have about Federal Bank Limited, especially the identity of its shareholders. Likewise, we also request your intercession with the office in New York, so your headquarters will provide the requested information."

Citibank documents named Grupo Moneta as the owner of Federal Bank. And of course, Moneta was a Citibank partner. But the President of Citibank Argentina, Carlos Fedrigotti, lied and said bank records had no information about the bank's shareholders.

Senator Levin told him, "Your bank wrote a letter which is false....I don't buy it."

Citibank was apparently making use of Federal Bank for insider loans to CEI. Lopez wrote in a memo that \$30 million of Federal Bank's assets are "deposits of the Banco República members themselves, which are lent to target-name customers of Banco República and to businesses linked to CEI whose loans cannot [under law] be processed through Banco República."

The money-transfer operation involved four offshore companies -- Ludgate Investments Ltd., South Wark Asset Management Ltd., Lolland Stocks Ltd., and Scott & Chandler Ltd. -- created in the Bahamas on the same date, March 18, 1997. They had the same representative and the same address in Uruguay as Federal Bank. The Banco República monthly statements from the Citibank New York correspondent account show the movement of millions of dollars each month between the accounts of these shell companies at Federal Bank and the accounts at Banco República.

MAB routinely sent money to correspondent accounts without providing true names of the senders. The bank owners told U.S. Customs investigators that when the wire transfer contained incorrect or no beneficiary information, "they believed that the clients were doing this to avoid taxes." Miguel Iribarne said that "most of the customers have overseas accounts so they do not have to report income."

Citibank official Lopez told the Senate subcommittee, "M.A. Bank provides sophisticated Argentine investors with access to international financial markets."

In fact, U.S. Customs investigators found that M.A. Bank had laundered millions of dollars for Mexican drug traffickers. But even after U.S. authorities in 1998 seized drug money from M.A. Bank correspondent accounts at Citibank New York, Citibank Argentina didn't close the M.A. Bank accounts until nearly 21 months later, allowing the bank to move another \$304 million through its correspondent account. Mercado Abierto today manages an investment portfolio worth \$400 million, and at the time the Senate subcommittee published its report in 2001, it ranked seventh among brokers in the Buenos Aires stock exchange. Moving money for drug traffickers and tax evaders pays.

Citibank's Bermudez indicated at the hearing that Citibank officials thought the M.A. Bank's clients were just tax evaders.

According to the Senate report, the bank's clients were *both* drug-money launderers and tax evaders. It said, "The practices implemented by MAB--with the full knowledge of the owners of the bank--appear to have violated Argentine banking law, violated anti-money laundering principles and created an environment that facilitated money laundering and tax evasion."

It said: "These shell offshore banks achieved exactly what they set out to do-- avoid independent regulatory oversight, and the structure they used to do so should have set off alarm bells at Citibank." Unless, of course, Citibank knew exactly what was happening and saw nothing wrong with it.

Citibank seemed ready to provide correspondent accounts to just about anybody. Look at this ad cited by the Senate subcommittee:

"If you're looking to open a FULLY LICENSED BANK which is authorized to carry on all banking business worldwide, the MOST ATTRACTIVE JURISDICTION is currently the REPUBLIC OF MONTENEGRO. . . . JUST USD\$9,999 for a full functioning bank (plus USD\$4,000 annual fees). . . . No large capital requirements--just USD\$10,000 capital gets your Banking License (and which you get IMMEDIATELY BACK after the Bank is . . . set-up)[.] . . . [N]o intrusive background checks! . . . The basic package includes opening a CORRESPONDENT BANK [ACCOUNT] at the Bank of Montenegro. This allows the new bank to use their existing correspondent network which includes Citibank, Commerzbank, Union Bank of Switzerland etc[.] for sending and receiving payments. For additional fee we can arrange direct CORRESPONDENT ACCOUNTS with banks in other countries." [Capitalization in original text.]

-----  
*See [global-money.com/offshore/europe-montenegro-bank.html](http://global-money.com/offshore/europe-montenegro-bank.html).  
See also [web.offshore.by.net/unitrust/enmontenegro-bank.html](http://web.offshore.by.net/unitrust/enmontenegro-bank.html)  
and  
[www.permanenttourist.com/offshore-montenegro-bank.html](http://www.permanenttourist.com/offshore-montenegro-bank.html).*

### **Moving Russian money offshore in the 1990s**

"Russia is a large opportunity for the group," said Deryck Maughan, Citigroup vice chairman and CEO of Citigroup International, at a news conference in 2003. "The financial services market here is in its infancy. We want to offer latest banking technologies and products." Citibank would run clients' portfolios. He said that Russians willing to deposit more than \$25,000 could open offshore bank accounts with Citibank to invest in foreign securities.

Russians knew how useful Citibank could be for tax evaders. A few years earlier, in 2000, the U.S. General Accounting Office (GAO) issued a report that Citigroup from 1991 through January 2000 had allowed more than \$800 million in suspicious Russian funds to flow through 136 U.S. accounts tied to shell

companies registered in Delaware. The corporations had been set up by a Russian immigrant named Irakly Kaveladze who used his Euro-American Corporate Services, Inc., a Delaware company incorporation agent, and International Business Creations (IBC), to register more than 2,000 corporations for Russian brokers who were operating in Eastern Europe on behalf of Russian companies. (Delaware is America's offshore center, registering companies without requiring information about the principals, the place of business, or the business activity of the corporation.) Kaveladze then opened Citibank accounts for them. Over 70 percent of the Citibank deposits for these accounts was quickly wire-transferred abroad, mostly to tax havens. The deposits were believed by investigators to be money fleeing taxes or the profits of criminal activities.

An employee of Euro-American told investigators that the Russian brokers generally ordered the formation of about ten corporations at a time. Sometimes the brokers furnished names for the requested companies; sometimes Euro-American simply made them up. Kaveladze also referred more than a hundred Russians and Russian businesses to Citibank, the bank admitted. The accounts used Kaveladze's address as their own.

A Citibank official told investigators that the bank closed some of the accounts of IBC clients because the clients had failed to appear personally at Citibank offices within thirty days after the accounts were opened. That was false. The GAO said, "Our review of records obtained from Citibank indicates that no accounts of IBC/Euro-American referred customers were closed within four months of being opened."

Citigroup in this case violated U.S. law that requires adherence to "know your customer" policies: a bank must know a customer's identity and the source of his money, to make sure the funds are not ill-gotten.

Citigroup made about \$300,000 in fees from the accounts.

Citigroup said after the Russian revelations that it had closed the accounts in question and promised it had tightened policies to prevent the problem from recurring. "Given enhancements to our systems and procedures, we are confident that we would detect questionable activity and take action more promptly should a similar situation arise today," Citigroup wrote.

The results of the Kaveladze report were given to the U.S. Attorney's office for its own investigation, which predictably led to no action against Citigroup.

### **Japan: helping clients evade taxes**

In mid-2004, the Japanese Financial Services Agency found irregularities at Citigroup's private banking unit. In particular, the authorities found that the bank failed to prevent money laundering and offered loans to clients engaged in nefarious activities ranging from tax evasion to stock market manipulation. It said Citibank officials tried to obstruct their investigation.

The regulatory authorities ordered Japanese Citibank NA to close its private banking operations, which meant shutting down four offices that served 5,000 very wealthy individuals. Citigroup complied, apologized to Japan, and fired Deryck Maughan.

### **The Clearstream accounts: another secret system for moving money**

Banks can do international bank-to-bank transfers of cash, but when clients want to move financial paper - stocks and bonds - they need to use one of the world's two clearing houses, Clearstream in Luxembourg or Euroclear in Brussels. One might expect secrecy to be compromised by the clearinghouse records which list buyer and seller. Clearstream (known as Cedel till 1999), figured a way around this. At the discretion of Clearstream, clients can open non-published accounts that do not figure in any printed documents or records of international financial transactions.

Cedel in its literature to clients said, "As a general rule, the principal account of each client is published: the existence of the account, as well as its name and number, are published in the Code List of Cedel Bank, in the reports and in the printed documents. On demand, and at the discretion of Cedel Bank, the client can open a non-published account. The non-published accounts don't figure in any printed document, and their name is not mentioned in any report."

When law enforcers ask to see these records, they don't exist. Half of Clearstream's 15,000 accounts are unpublished. Clearstream processed 1.8 million transactions in October 2005 and has \$10 trillion in assets under custody.

Citibank is a major user of Clearstream's secret accounts, with 271, more of them than any other bank. The runner up is Barclays with 200. At one time, former Citibank president Hans Angermuller was president of Clearstream.

Ernest Backes -- a banker who helped design and install the clearinghouse's computerized accounting system in the 1970s - exposed the secret system in a book, "R  v  lation\$," which he wrote with investigative reporter Denis Robert and published in Paris in 2001.



A 1995 list of secret accounts obtained by Backes and Robert from Clearstream insiders showed that Citibank in Venezuela had eight published accounts and 20 non-published accounts. Clearstream unpublished accounts based in tax havens offer a double layer of secrecy. Among them, the 2000 list showed Citibank with 31 non-published accounts in Curaçao, 29 in Luxembourg, 10 in Aruba, 9 in Nassau, 6 in Zurich, and 5 in Jersey.

Every few months, members of Clearstream receive a list of its 2000 members and their codes. For a transfer, they just program the code and send it to Clearstream, which handles the transfers with no further inquiries. Unlike a bank, Clearstream has no effective outside surveillance. It is audited by KPMG, Citigroup's auditor.

After the Backes-Robert exposé, six prominent European judges involved in money laundering investigations called Clearstream one of "the black boxes of financial globalization." The director of Clearstream was fired, and half-owner Deutsche Börse (the German stock exchange), bought out the 50 percent of shares owned by 93 international banks. But it didn't change the secrecy system.

Why does Citibank need secret accounts to handle its customers' trades in stocks and bonds?

### **And today?**

Secret offshore subsidiaries are still an essential part of Citigroup's operation. Frances Sevilla-Sacasa, in charge of Citigroup Private Bank for Latin America and Europe, was interviewed by Alexandre Bruggmann of the Geneva daily, "Le Temps," in 2003. He told him, "In certain areas of the world, we manage part of the goods of more than 50 percent of the billionaires that Forbes classifies among richest of the world."

Bruggmann asked, "Your principal European centers of activity are London and Switzerland. Will it remain thus?"

He replied: "Absolutely. I do not need to stress the importance of London as an international financial capital! As for Switzerland, it plays an absolutely determining role in offshore banking, and that obviously particularly interests us. We attach a paramount importance to the rules of confidentiality that Switzerland knows how to maintain to the highest degree, and which truly corresponds to the needs of a large clientele. Geneva, Zurich and Lugano will thus continue to play a central role in our operations." (June 7, 2003.)

### **Citigroup's Offshore Subsidiaries**

Here is a list of offshore subsidiaries listed in Citigroup's annual SEC filing. The corporation's past behavior raises questions about its continued use of the offshore secrecy system which was central to the cases described in this report.

Greenwich Street Capital Offshore Fund, Ltd.      British Virgin Is.  
CitiLife Financial Limited      Ireland  
Travelers International Investments Ltd.      Cayman Is.  
Tribeca Citigroup Investments Ltd.      Cayman Is.  
CitiSolutions Financial Limited      Ireland  
Primerica Financial Services Insurance Marketing of the Virgin Islands, Inc. U.S. Virgin Is.  
SL&H Reinsurance, Ltd.      St. Kitts & Nevis  
Estithmaar IRE (GP) Limited      Cayman Is.  
Azabu Credit Management Company Ltd.      Cayman Is.  
Citigroup Employee Fund of Funds (Cayman) I, LP      Cayman Is.  
Citigroup Commercial Mortgage Asia Limited      Cayman Is.  
Citigroup Global Markets (International) Finance AG      Switzerland  
CitiEquity Pan Europe Smaller Companies      Luxembourg  
Citigroup Global Markets Holdings GmbH      Switzerland  
Salomon Brothers Asia Growth Fund Limited      Cayman Is.  
Citigroup Global Markets Hong Kong Holdings Limited      Hong Kong  
Citigroup Global Markets Asia Limited      Hong Kong  
Citigroup Global Markets Hong Kong Futures and Securities Limited      Hong Kong  
Citigroup Global Markets Hong Kong Nominee Limited      Hong Kong  
Salomon Brothers Asset Management Asia Pacific Limited      Hong Kong  
Umbrella Asset Services Hong Kong Limited      Hong Kong  
Salomon Brothers Overseas Inc      Cayman Is.  
Citigroup Global Markets Asia Capital Corporation Limited      Ireland  
Citigroup Global Markets China Limited      Hong Kong  
Cheapside Holdings (Jersey) Limited      Jersey, Channel Is.  
Citigroup Global Markets (Guernsey) Limited      Guernsey, Channel Is.  
Citigroup Global Markets Mauritius Private Limited      Mauritius  
Asia Mortgage Finance      Cayman Is.  
Nippon Real Estate Investment      Cayman Is.  
Citigroup Global Markets Singapore Holdings Pte. Ltd.      Singapore  
Citigroup Global Markets Singapore Pte. Ltd.      Singapore  
Citigroup Global Markets Singapore Securities Pte. Ltd.      Singapore  
Citigroup Principal Investments Japan Ltd.      Cayman Is.  
Citigroup Credit Management Company Ltd.      Cayman Is.  
Huizhou One Limited      Mauritius  
Salomon Brothers Asset Management (Ireland) Ltd      Ireland

Salomon Brothers International Operations (Jersey) Limited Jersey, Channel Is.  
 Salomon Brothers International Operations (Overseas) Limited Jersey, Channel Is.  
 Salomon Smith Barney Securities Asia Limited Hong Kong  
 SSB Capital Partners (Cayman) I, LP Cayman Is.  
 Umbrella Finance Company Limited Cayman Is.  
 Umbrella Hong Kong Finance Limited Hong Kong  
 Citigroup International Finance Cayman Is.  
 Phibro GmbH Switzerland  
 Phibro (Asia) Pte Ltd Singapore  
 Turavent Oil AG Switzerland  
 Smith Barney Private Trust Company (Cayman) Limited Cayman Is.  
 Greenwich (Cayman) I Limited Cayman Is.  
 Greenwich (Cayman) II Limited Cayman Is.  
 Greenwich (Cayman) III Limited Cayman Is.  
 Smith Barney Credit Services (Cayman) Ltd. Cayman Is.  
 Smith Barney (Ireland) Limited Ireland  
 Smith Barney Cayman Islands, Ltd. Cayman Is.  
 Salomon Global Horizons Global Equity Fund Cayman Is.  
 Smith Barney Management Company (Ireland) Limited Ireland  
 Smith Barney Private Trust GmbH Switzerland  
 Citi (Nominees) Limited Hong Kong  
 Citi Argentina (ABF) Trust Bahamas  
 Citibank Consumers Nominee Pte. Ltd. Singapore  
 Citibank Nominees (Ireland) Limited Ireland  
 Citibank Nominees Singapore Pte. Ltd. Singapore  
 Citi financial (Guernsey) Limited Guernsey, Channel Is.  
 Citi Financial (Jersey) Limited Jersey, Channel Is.  
 Associates Financial Services (Mauritius) LLC Mauritius  
 Associates Capital (Bahamas) Limited Bahamas  
 Citibank (Channel Islands) Limited Jersey, Channel Is.  
 CCIL (Nominees) Limited Jersey, Channel Is.  
 CCIL Pension Scheme Trustees Limited Jersey, Channel Is.  
 Citigroup (Jersey) Limited Jersey, Channel Is.  
 Cititrust (Bahamas) Limited Bahamas  
 Albacore Investments, Ltd. Bahamas  
 Antares Associates Limited Bahamas  
 Astaire Associates Limited Bahamas  
 Beaconsfield Holdings Limited Bahamas  
 Cititrust Services Limited Bahamas  
 Donat Investments S.A. Bahamas  
 First National Nominees, Ltd. Bahamas  
 Hitchcock Investments S.A. Bahamas

Madeleine Investments S.A. Bahamas  
 Providence Associates, Ltd. Bahamas  
 Cititrust (Cayman) Limited Cayman Is.  
 Brennan Limited Cayman Is.  
 Buchanan Limited Cayman Is.  
 Tyler Limited Cayman Is.  
 Cititrust (Jersey) Limited Jersey, Channel Is.  
 Secundus Nominees (Jersey) Limited Jersey, Channel Is.  
 Tertius Nominees (Jersey) Limited Jersey, Channel Is.  
 Cititrust (Switzerland) Limited Switzerland  
 Handlowy Investments II S.a.r.l. Luxembourg  
 Handlowy Investments S.A. Luxembourg  
 Citi Overseas Investments Bahamas Inc. Bahamas  
 Diners Club Switzerland Ltd. Switzerland  
 Citibank Capital Corporation Cayman Is.  
 Citi-Colombia (Nassau) Limited Bahamas  
 Citibank Finance Limited Singapore  
 Citibank Holdings Ireland Limited Ireland  
 Citibank Ireland Financial Services plc Ireland  
 Citibank Pensions Trustees Ireland Ltd. Ireland  
 Citicorp Capital Asia Limited Bahamas  
 Citicorp China Investment Management (BVI) Limited British Virgin Is.  
 Citicorp China Investment Management Limited Hong Kong  
 CVC Asia Pacific Limited Hong Kong  
 CVC Asia Pacific (Australia) Limited Hong Kong  
 CVC Asia Pacific (Japan) Limited Hong Kong  
 Healthcote Limited Hong Kong  
 Citicorp Finance International Ltd. Bermuda  
 Citicorp Financial Services Limited Hong Kong  
 Citicorp FSC I Ltd. Bermuda  
 Citicorp Pension Management Ltd. Bahamas  
 Citicorp Securities (Japan) Limited Cayman Is.  
 Citicorp Trustee (Singapore) Limited Singapore  
 Citigroup Holding (Singapore) Private Limited Singapore  
 Citibank (Hong Kong) Limited Hong Kong  
 BPQ (Hong Kong) Partnership Hong Kong  
 Citibank Singapore Limited Singapore  
 Citicorp Commercial Finance (H.K.) Limited Hong Kong  
 Citicorp International Limited Hong Kong  
 Citicorp Investment Bank (Singapore) Limited Singapore  
 Citinvest Chile Limited Bahamas  
 CitiProperties (BVI) Limited British Virgin Is.  
 CitiRealty China (BVI) Limited British Virgin Is.  
 Cititrust (Mauritius) Limited Mauritius

Cititrust (Singapore) Limited Singapore  
 Citivalores, S.A. Panama  
 Asesores Corporativos de Costa Rica, S.A. Costa Rica  
 Citibank (Costa Rica) Sociedad Anonima Costa Rica  
 Citivalores Puesto de Bolsa, S.A. Costa Rica  
 Crescent Services Pte. Ltd. Singapore  
 Diners Club International (Hong Kong) Limited Hong Kong  
 Diners Club Uruguay S.A. Uruguay  
 FOFIP S.A. Uruguay  
 Forum Fund Services (BVI), Ltd. British Virgin Is.  
 Forum Holdings, Ltd. Bermuda  
 Forum Fund Services (Cayman), Ltd. Cayman Is.  
 Forum Fund Services, Ltd. Bermuda  
 Forum Securities Services, Ltd. Bermuda  
 Inarco International Bank N.V. Aruba  
 Provencred 1 Cayman Is.  
 Provencred 2 Cayman Is.  
 Scottish Provident (Irish Holdings) Limited Ireland  
 Latin American Investment Bank Bahamas Limited Bahamas  
 CM FSC II Limited Bermuda  
 CM FSC III Limited Bermuda  
 CM FSC IV, Ltd. Bermuda  
 Cititrust Limited Hong Kong  
 Banamex Accival Asset Management, Ltd. Ireland  
 EuroAmerican Capital Corporation Limited Cayman Is.  
 Alternative Investments MGR, Ltd. Cayman Is.  
 Atlantic General Insurance Limited Bermuda  
 Atlantic Reinsurance Limited Bermuda  
 Financial Reassurance Company, Ltd. Bermuda  
 Estithmaar Islamic Real Estate Fund Limited Partnership Cayman Is.  
 TGI Citigroup I Ltd. Cayman Islands  
 Tribeca Global Investments Ltd. Cayman Islands  
 TGI Citigroup II Ltd. Cayman Islands  
 Citi FCP S.A. Luxembourg  
 Citi Islamic Investment Bank E.C. Bahrain  
 Citi Islamic Portfolios S.A. Luxembourg  
 Citibank (Switzerland) Switzerland  
 Legion Portfolios (Luxembourg) Luxembourg  
 Citicorp (Jersey) Limited Jersey, Channel Is.  
 Brazil Holdings Inc. Limited Bahamas  
 Co-Investment Limited II (M-Tel) Cayman Islands  
 Co-Investment II Luxco S.a.r.l. Luxembourg  
 Co-Investment Limited Partnership I Cayman Islands  
 Co-Investment Limited Partnership V (SOL) Cayman Is.

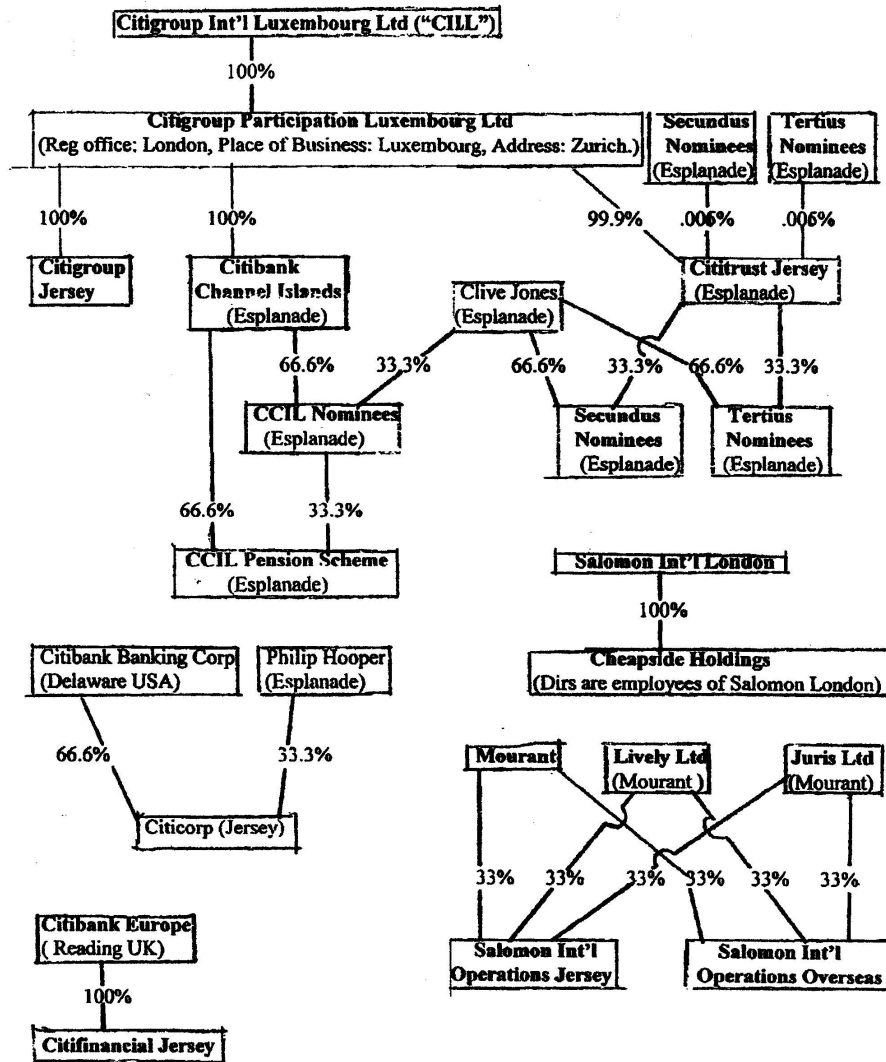
Citicorp International Life Insurance Company, Ltd.     Bermuda  
 Citicorp Investment Management (Luxembourg) S.A.     Luxembourg  
 Citicorp Securities Asia Pacific Limited     Hong Kong  
 Citibank Global Asset Management (Asia) Limited     Hong Kong  
 Citigroup Global Investments Offshore Investment Holdings Ltd.     Cayman Is.  
 The Citigroup Private Bank Employee Co-Investment Program (Feeder), Ltd.  
 Cayman Is.  
 Citigroup Services (Japan) Ltd.     Cayman Is.  
 CitiMoney S.A.     Luxembourg  
 Copelco Reinsurance Company, Ltd.     Bermuda  
 Citicorp Venture Capital (Cayman) Ltd.     Cayman Is.  
 Citicorp Venture Capital Investors Limited     Cayman Is.  
 Flender Holding Company S.A.     Luxembourg  
 DN Capital Management, L.P.     Channel Is.  
 EM Special Opportunities Citigroup Ltd.     Cayman Is.  
 Citicorp FSC II Ltd.     Bermuda  
 CM FSC I LTD.     Bermuda  
 Citi Fubon Life Insurance Company Hong Kong Limited     Hong Kong  
 Custom Capital Partners (International), LLC     Cayman Is.

### **The Jersey subsidiaries**

Examining offshore operations today, we chose to look at the Jersey network.

Cheapside Holdings (Jersey) Limited.  
 Salomon Brothers International Operations (Jersey) Limited.  
 Citi Financial (Jersey) Limited  
 Citibank (Channel Islands) Limited  
 CCIL (Nominees) Limited  
 CCIL Pension Scheme Trustees Limited.  
 Citigroup (Jersey) Limited  
 Cititrust (Jersey) Ltd  
 Secundus Nominees (Jersey) Limited  
 Tertius Nominees (Jersey) Limited  
 Citicorp (Jersey) Limited

The existence of these companies is not “hidden” or “secret,” but the ownership structure, as indicated in the attached chart, is curious.



The address for Citigroup in Jersey is 38 Esplanade, St. Heller, where there is an office and employees. The owner, at the top of the chart, Citigroup International Luxembourg Ltd, was, according to the official corporate records of Luxembourg, incorporated and registered in London but has its principal place of business at 58, boulevard Grande-Duchesse Charlotte, Luxembourg.

Citigroup Participation Luxembourg Ltd. is similarly registered in London with its principal place of business at the above address in Luxembourg.

The chart shows that:

Citigroup International Financial Luxembourg owns Citigroup Participation which owns Citigroup Jersey. It owns Citibank Channel Islands which owns part of CCIL Nominees and CCIL Pension Scheme.

According to the document filed with the Luxembourg authorities, in 2003 Citigroup Participation decided to raise its authorized share capital from \$55,000 to \$575 million and CILL contributed its Zurich branch value, worth \$1.167 billion.

Connected to Citigroup Participation Luxembourg Ltd. is Cititrust Jersey, which is owned in part by Secundus and Teretus Nominees and which in turn owns part of them.

Mourant and two Mourant entities are nominal owners of two Salomon Brothers entities. Mourant, du Feu & Jeune is a law firm which sets up offshore companies in the Channel Islands. It is famous for creating the Jersey shell company, Mahonia, that enabled JP Morgan Chase to disguise billions of dollars in loans to Enron as trades.

With no direct links to the structure above is Citifinancial Jersey, shown as the subsidiary of Citibank Europe in Reading, UK.

### **Unanswered Questions**

TJN asked Citigroup:

- What do these subsidiaries do?
- What kinds of deals are they doing with each other? What kind of deals do they do with entities in the United States or England or Germany or France, the other financial centers?
- Which are making money, which are not making money?
- Can we see financial statements?
- What is the policy today regarding parking or back-to-back transactions?
- Is transfer pricing used to reduce taxes?

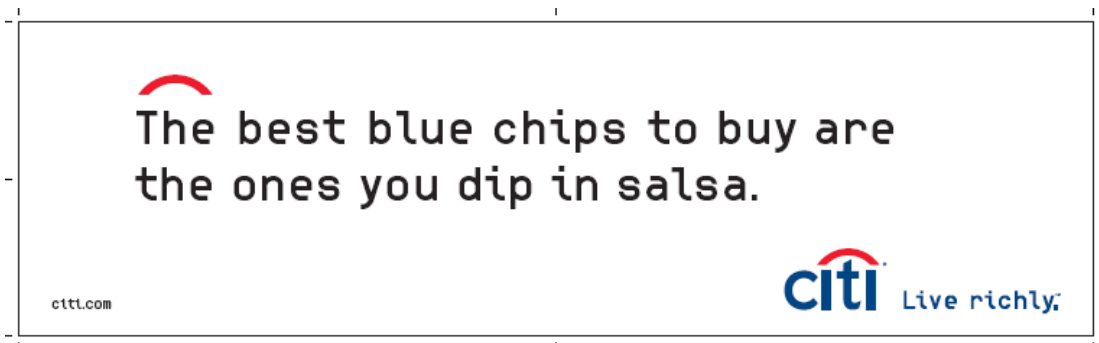
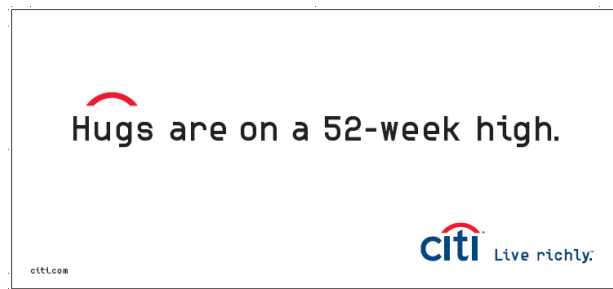
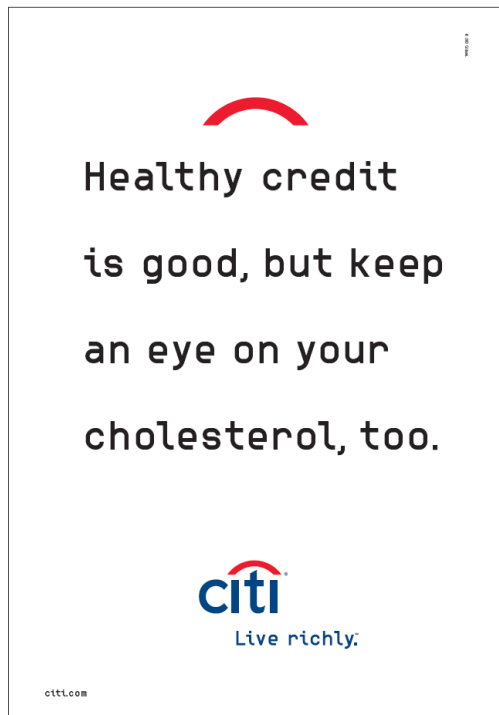



- Do you have a double bookkeeping system, an MIS, to allocate profits to Citigroup subsidiaries and employees that are different than the profits declared in each country?

We sent our questions and the chart to Pam Flaherty, Citigroup's Senior Vice President for Global Community Relations, asked for answers and a meeting with Citigroup officials to discuss this report before publication, but she declined to respond.


### Watch what they do, not what they say

Citigroup's advertising slogan is "*live richly.*" The play on words means that people should pay less attention to making money than to family and personal relationships.







No one has ever romantically split a piece of pie chart.




Live richly.




You are not silver, gold, or platinum. You are you.




Live richly.




Si escriben un libro sobre tu vida, que no sea de economía.




Live richly.




For a guaranteed return on investments, try buying flowers.




Live richly.




Some of the most exciting growth charts are on the pantry door.




Live richly.




Penny candy is a nickel. Water costs a dollar. Laughter's still a bargain.




Live richly.




There's no preset spending limit when it comes to time with your family.




Live richly.




Trade smiles.




Live richly.




Contrary to popular belief, you are not what you drive.




Live richly.




¿Qué les vas a contar a tus nietos? ¿Dinero?



Live richly.



Cuando te preguntan cómo estás, no quieren saber el balance de tu cuenta.



Live richly.

Citigroup's top managers do not apply their ironic slogan to themselves. With some of the ill-gotten profits they have collected from the corporation's tax evading operations, they take home millions of dollars a year. Their slogan might be "*live greedily.*"

These figures for annual salary for 2004 listed in the SEC filing 2005 are only part of their compensation:

- Charles Prince, CEO, earned \$18,602,456.
- Robert Willumstad, president, \$18,559,230
- Sanford Weill, chairman of the board, \$16,835,094
- Robert Rubin, chairman of the executive committee, \$16,628,106
- Robert Druskin, subsidiary CEO, \$9,275,774

While Citigroup's top five executives "*live richly*" with combined salaries of nearly \$80 million, not counting multi-millions in stock options, the corporation they run has helped dishonest individuals and corporations impoverish citizens in both the West and the developing world.

In April 1999, when Robert Rubin, now chairman of the Citigroup Executive Committee, was U.S. Treasury Secretary, he gave a speech at a university in Washington D.C. He said, "As we strengthen risk management in the major financial centers, we also need to do more to make sure that these efforts are not undercut by lax practices in offshore financial centers. A variety of incentives could be used to press offshore centers to improve their standards, including a higher risk weighting on bank lending to counterparties operating out of an offshore jurisdiction that does not adhere to the regulatory standards of major market centers or provide adequate supervision." *A very good idea!*

A few days later, at a press conference after the April 1999 G-7 finance ministers meeting in Washington, Rubin was asked about a communiqué that spoke about identifying tax havens. He replied, "I did not realize that was in here, frankly." But he added that, "It can be adverse to the purposes that are being sought to be achieved if there are trading centers that offer, in effect, relief from the general architecture that exists in the major market centers. And so, one of our focal points and one of our foci, if you will, has been to determine ways that the international community can create pressure so that offshore centers don't become havens for lax regulation. That is number one."

"And, number two, I think exactly the same thing applies with respect to taxes and tax evasion. And it seems to me that it is very much in the interest of all concerns that these offshore -- well, it may not be all concerned -- but it is very much in the interest of sound international tax policy that there not be offshore havens that people can use to evade taxes." *Also a good idea.*

But as Treasury Secretary, Rubin did not act against the abuses of the offshore system or tax-evading banks. Nobel laureate Joseph Stiglitz, chairman of the Clinton administration's Council of Economic Advisors during the same period, told the author that Rubin didn't want to do anything to stop the free flow of the dollar.

As a top Citigroup official, he had another chance to deal with "lax practices in offshore financial centers." After 9/11, some limited reform legislation was proposed in the U.S. to ban banks from doing business with "brass plate" banks with no physical presence unless they were connected to legitimate, regulated banks. It would also make it easier for authorities to seize the money of criminals from foreign banks' correspondent accounts in U.S. banks.

Rubin's Citigroup led American banks in fighting the bill. Citibank was the only major bank in the U.S. that admitted to having shell banks as clients, and it didn't want to give them up. It was the most active bank opposing "know your customer" measures against money laundering and trying to gut the ban on shell banks. (Citigroup lost.)

### **Can Citigroup change?**

Every time there has been a tax or money-laundering scandal, bank officials have promised to institute strong new policies to comply with the law. And then a few years later, they are caught again. In 1998, after the Federal Reserve Bank of New York found serious anti-money laundering deficiencies at Citibank Private Bank, Citigroup announced a new strategy to move Citibank Private Bank away from providing clients with "secrecy" and toward providing them with good investment returns. The Salinas, Argentina, Japan and other revelations followed.

The new Citigroup CEO Charles P. Prince told the Wall Street Journal that he intends to make "values" a key focus. He said, "The world's largest financial-services firm needs to 'internalize' a strong code of ethics around the globe."

Rejecting profit laundering and tax evasion for itself and its clients would be a good place to start. A first step would be a refusal to operate subsidiaries in offshore tax havens that practice bank and corporate secrecy.

*Lucy Komisar is a New York investigative journalist who is writing a book about the global impact of the offshore system. She is a member of the Steering Committee of the Tax Justice Network.*

## Sources and Documentation

Thanks to Pat Lucas and Chris Steel of Jersey for their help. Readers are invited to send further information about tax evasion connected to Citigroup/Citibank or other financial institutions to [LKomisar \(at\) msn.com](mailto:LKomisar@msn.com). This report and related documents are available on <http://www.taxjustice.net>.

*The following sources document this case:*

Zlotogwiazda, Marcelo and Balaguer, Luis, "Citibank vs. Argentina, Historia de un país en bancarota," Editorial Sudamericana (Buenos Aires: 2003). Critical account of Citigroup's 100-year history in Argentina, including its role in creating the country's massive debt, its political influence, and its laundering of money for offshore shell banks. Excerpts with Citibank Buenos Aires "sting" dialogue at <http://www.taxjustice.net>.

Hutchison, Robert A., "Off The Books: Citibank and the World's Biggest Money Game," William Morrow (New York: 1986). About the Nassau foreign exchange parking scandal.

Rowan, Roy, "The Maverick Who Yelled Foul at Citibank," *Fortune*, Jan. 10, 1983. About the Nassau foreign exchange parking scandal.

Excerpts of the SEC report from the original typescript prepared by Thomson von Stein. <http://www.taxjustice.net>.

Hearing by House Energy and Commerce Subcommittee on Oversight and Investigations, House 97-193, September 13 and 17, 1982. About the Nassau foreign exchange parking scandal.

Lissakers, Karin, "Banks, Borrowers and the Establishment, a Revisionist Account of the International Debt Crisis," Basic Books (New York: 1991). About the sham claims of withholding tax on loan interest.

Backes, Ernest and Robert, Denis, "Révélation\$," Les Arènes (Paris: 2001). In French and German. About Clearstream. Excerpts showing Citibank accounts at <http://www.taxjustice.net>.

Zweig, Phillip L., "Wriston: Walter Wriston, Citibank, and the Rise and Fall of American Financial Supremacy," Crown Publishers, Inc. (New York: 1995). About the Citibank CEO.

Citigroup private banks, <http://www.citibank.com/privatebank/contact.htm>. (But not in Argentina!)

*Hearings and Reports by the U.S. Senate Permanent Subcommittee on Investigations:*

"Private Banking and Money Laundering: A Case Study of Opportunities and Vulnerabilities" (Nov. 9 & 10, 1999) S. Hrg. 106-428. Includes staff report. <http://www.gpo.gov/congress/senate/senate12sh106.html>. (Laundering the money of Salinas, Bongo, the Abachas, etc.)

"Correspondent Banking: A Gateway for Money Laundering" (Feb. 5, 2001). Role of U.S. Correspondent Banking in International Money Laundering (March 1, 2, & 6, 2001) S. Hrg. 107-84. [http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=107\\_senate\\_hearings&docid=f:71166.wais](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=107_senate_hearings&docid=f:71166.wais). For volumes of evidence: <http://www.gpo.gov/congress/senate/senate12sh107.html>. (The Argentina case)

"Supplemental Staff Report on U.S. Accounts Used by Augusto Pinochet" (March 16, 2005) S. Prt. 109-25. <http://hsgac.senate.gov/files/PINOCHETREPORTFINALwcharts0.pdf>

Citigroup 2005 SEC 10-K filing of basic financial information: <http://www.sec.gov/Archives/edgar/data/831001/000104746905004988/a2152655z10-k.htm>

Citigroup 2005 SEC filing listing subsidiaries: [http://www.sec.gov/Archives/edgar/data/831001/000104746905004988/a2152655zex-21\\_01.htm](http://www.sec.gov/Archives/edgar/data/831001/000104746905004988/a2152655zex-21_01.htm)

--New York, January 2006