

CORPORATE COMPLIANCE ALERT

3/4/14

Fraud at Citigroup's Mexican Subsidiary Banamex Leads to SEC Investigation

The U.S. Securities and Exchange Commission (SEC) has undertaken an investigation of Citigroup for possible accounting fraud and violation of the Foreign Corrupt Practices Act (FCPA) following the disclosure by Citigroup of a recently discovered fraud at its Mexico subsidiary Banco Nacional de Mexico (Banamex). In addition, the U.S. Federal Bureau of Investigations indicated that it is monitoring the situation for any indications of criminal activity. As a result of the fraud disclosure, Citigroup is adjusting downward its fourth quarter and full-year 2013 financial results by an estimated \$235 million.

In a press release issued on February 28, 2014, Citigroup stated that it had found nearly \$400 million in bad Banamex loans to a Mexican oil-services company called Oceanografia – a key contractor for the state-owned oil company Pemex. Mexican law enforcement seized Oceanografia's assets as the investigation gathered steam on both sides of the border.

Citigroup's internal investigation began after Pemex suspended Oceanografia from all new contracts pending its own review of billing irregularities. Citigroup's investigation revealed that Oceanografia submitted nearly \$400 million of fraudulent invoices for short-term credit. In addition, Oceanografia had actually posted only \$185 million in collateral and not the \$585 million figure that Banamex had relied on in making the loans.

Citigroup CEO Michael Corbat indicated that the company is taking fast action to deal with the situation, "...[F]irst, we immediately began a 'rapid review' – throughout Banamex and the rest of Citi – of programs similar to the one at issue here...Next we are exploring our legal options and coordinating with law enforcement agencies in Mexico." Corbat also promised to take action against any employees who engaged in criminal behavior or provided lax oversight.

Oceanografia has been viewed as financially risky for some time, and federal authorities are sure to take a hard look at Citigroup's decision to do business with the company. The United States ratings firm Fitch warned investors as far back as 2009 of Oceanografia's high leverage and poor cash flow generation. Fitch withdrew its ratings the next year because the company failed to provide sufficient information.

Given the nature of the fraud allegations and Oceanografia's financial history, Citigroup's compliance program is sure to come under close SEC scrutiny. Citigroup's situation provides further evidence of the need for companies doing business across international borders to establish corporate compliance programs meeting the requirements delineated by the Department of Justice. Roetzel's white-collar litigation and corporate compliance attorneys are available to assist you with any questions regarding the establishment of a corporate compliance program. Please contact the following Roetzel attorneys for further information:

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