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# The Fallout from 1MDB

## *Continues to unfold*

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Anyone thinking that 1Malaysia Development Berhad (1MDB) scandal was done and dusted, think again.

1MDB incurred crippling debts of up to RM51 billion. US prosecutors have alleged over US\$4.5 billion was siphoned from its accounts and laundered across the globe.

The Department of Justice (DOJ) in the US continues its investigation and here in Asia, the former Prime Minister (PM) in Malaysia is facing trial, currently delayed until August. In Sept 2018, ex-PM Najib was charged with 25 corruption charges involving RM2.28 billion allegedly from 1MDB. His first four charges were under the Malaysian Anti-Corruption Commission, while the other 21 charges were under the Anti-Money Laundering and Anti-Terrorism Financing Act 2001. He was accused of using his position as prime minister, finance minister and chairman of the 1MDB advisory board, to receive bribes on four occasions. Amongst other charges, he professes innocence and the trial is highly anticipated across the globe

One of the reasons on the delayed trial involves the currently ongoing case on Najib's alleged corruption involving SRC International (SRC). The Malaysia's civil services pension fund, Kumpulan Wang Persaraan (KWAP) allegedly paid a total of RM4 billion into the bank account of SRC between 2011 and 2012. Najib is charged by Kuala Lumpur High Court with abuse of power for accepting a RM42 million bribery by making the decision to provide government guarantees for a RM4 billion loan. Interestingly he recently tried to attend parliament but was refused which was not surprising. This was expected to test the Malaysian judiciary system on its independence and fairness and being watched by the world to see what other details come out and whom that might implicate.

In HK Goldman Sachs, ex-officer Tim Leissner, being banned for life by HK regulator on his 1MDB crimes. If you remember, some of the funds were used to film the highly acclaimed movie, "the Wolf of Wall Street" which highlighted, rather ironically, the unethical and unprofessional behavior fueled by greed evident in the last century in Investment Banking.

The whole saga had a significant impact in many countries. Falcon Bank shut down for its involvement, BSI Bank had a number of officers prosecuted and disappeared from the financial industry; EFG bought the traditional Swiss PB and absorbing its business and staff.



The Malaysia's criminal case against Leissner's former employers, U.S. investment bank Goldman Sachs, involving \$6.5 billion, 1MDB bonds will be postponed to September 3. Malaysian prosecutors had previously issued summonses to Goldman Sachs units in the United Kingdom, Hong Kong and Singapore, demanding their responses to criminal charges filed against them on bond issues that the bank had arranged for state fund 1MDB. The U.S. DOJ estimates \$4.5 billion was misappropriated from 1MDB between 2009 and 2014, including some of the funds that Goldman Sachs helped raise. Goldman Sachs has consistently denied wrongdoing. The trial is also eagerly awaited and seems feted to run almost parallel to that of Najib. In HK, when handing down the ban for Leissner, the SFC considered that Leissner's conduct demonstrated a serious lack of honesty and integrity and called into question his fitness and properness to be a licensed person.

It is clear is that many of those involved in the saga, both individuals and institutions, exhibited serious flaws in ethical, moral behavior and judgement. This drive for ethical and moral behavioral training to develop a cultural environment in banks that would help protect the industry from reputationally damaging behavior in the future and aid in rebuilding clients trust in the banking industry after a couple of decades of repeated hits.

As much as you can blame the few bad eggs involved individually for such behavior, a healthy high moral and ethical environment for financial service professionals to work in is in need to be promoted and exhibited from the top down. Not only should management exhibit high ethical standards but they should be proactive in promoting them throughout daily business activity and in their staff.

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