Citi faces retail sales ban in Japan

Michiyo Nakamoto and Francesco Guerrera

Citigroup suffered a fresh setback when Japan's financial regulator banned it from selling retail financial products for a month after finding the US group had failed to take sufficient measures to prevent suspicious transactions, including money laundering.

The Financial Services Agency told Citi to revamp its governance, internal controls and management structure, and has barred it from advertising retail banking products or soliciting retail business in Japan during the ban, which begins on July 15.

The penalty is a major embarrassment for the group, which was forced to shut its Japanese private banking business in 2004 after it was accused of breaking rules and having lax controls.

The FSA's action comes just days after Ajay Banga, the head of Citi's Asia-Pacific arm, announced he was moving to MasterCard, leaving Citi without a leader in the region.

Citi is shrinking its presence in Japan, which it once regarded as a major market, by selling businesses to bolster its battered balance sheet and repay billions of dollars in US government aid.

The FSA said Citi had failed to implement an improvement plan it had submitted to the FSA five years ago, when it was instructed to adopt stronger internal controls. The FSA said the lack of compliance showed Citi executives ". . . lack an understanding of the rules applied in Japan, such as laws and regulations, and an awareness of improvement".

The breach of Japanese rules came to light after Citi reported a suspicious bank account, which it believed might be connected to laundering. The group investigated with the regulator and uncovered more accounts – said to be fewer than 500 – that were suspected of being linked to criminal entities.

The FSA said Citi had failed to develop adequate control systems for the detection, monitoring and follow-up of suspicious deals. Citi's system relied on a database of extremely limited input that had not been updated since 2004, the FSA said.

Citi said it took the FSA action "very seriously". It said it was "committed to focus all necessary resource to implement every necessary measure to prevent further occurrence".

Financial Times, New York, 26 jun. 2009, Companies, online.