

# 1malaysia development berhad scandal



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## 1Malaysia Development Berhad Scandal

1Malaysia Development Berhad is a Malaysian government run strategic development company. In 2014, it was reported that 1Malaysia Development Berhad had accumulated \$11 billion in debt, posing a threat to the Malaysian ringgit. This is when the scandal began to unravel. Since 2015, the Malaysian company has been under investigation for its suspicious money transactions and evidence pointing to money laundering, fraud, and theft.

Investigators have been attempting to trace how money illegally flowed from 1Malaysia Development Berhad into personal accounts. They have committed to cooperate with global counterparts as they attempt to make sense of how these billions of dollars may have been embezzled and laundered through major financial centers in the U. S., Europe and Asia. The findings could potentially identify and help close ambiguity in the global financial system that open the way to corruption.

It has been declared by the U. S. Justice Department that over \$4. 5 billion flowed from the fund to finance spending sprees by corrupt officials and their associates. This had been done through a complex web of opaque transactions and fraudulent shell companies. They claim that a coterie of Malaysians, led by Penang based businessman Jho Low, channeled money from 1Malaysia Development Berhad into personal accounts disguised to look like legitimate businesses.

In 2015, the former Prime Minister of Malaysia, Najib Razak, was accused of channeling \$681 million from 1Malaysia Development Berhad to his personal bank accounts. In 2016, Malaysia's attorney general at the time, backed by

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Saudi authorities, claimed the \$681 million was a donation from the Saudi Arabian royal family, much of which was returned. It has been declared by the U. S. investigators that the money actually came from, and was returned to, an offshore entity purportedly controlled by Jho Low. Jho Low, a bon vivant who said he did consulting work for 1Malaysia Development Berhad, is represented by U. S. prosecutors as the central figure who set up shell companies to collect earnings from the fund and organized the withdrawal of tens of millions of dollars for paying Malaysian government officials and his own lavish spending. Authorities are seeking a quick sale of his yacht, valued at \$250 million. He was initially charged in absentia with eight counts of money laundering, though his whereabouts are not publicly known. Jho Low has announced his innocence on his website.

In May 2018, Najib Razak was removed from power in a general election as the scandal fueled a voter backlash. Najib Razak was charged with multiple counts of corruption, criminal violation of trust and money laundering involving 1Malaysia Development Berhad related money, and his wife was also charged. He has denied any wrongdoing and pleaded not guilty to all charges. Luxury items and cash seized by police from a variety of premises linked to Najib Razak have accumulated a valued of \$239 million. The new Prime Minister of Malaysia, Mahathir Mohamad, says his country is seeking to regain billions of dollars of 1Malaysia Development Berhad funds, including fees from Goldman Sachs.

The U. S. has also charged Tim Leissner, Goldman Sachs' lead banker for 1Malaysia Development Berhad bond issues, when he confessed in a U. S. plea that he bribed officials to get the bond deals, and that he and others

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arranged the fundraising as bond offerings because it would lead to higher fees for the bank. Tim Leissner also admitted that over \$200 million in proceeds from 1Malaysia Development Berhad bonds flowed into accounts controlled by him and a relative. Prosecutors declare that other than Tim Leissner, there were a number of employees at Goldman Sachs who knew about a bribery scheme, but worked to hide it from the firm's compliance and legal departments. For years, Goldman Sachs has said it raised money for 1Malaysia Development Berhad without the awareness that it would be diverted from the development projects.

The U. S. Justice Department discovered \$1.7 billion in assets that were illegally obtained through money diverted from 1Malaysia Development Berhad, including real estate, art, a luxury yacht and proceeds from the film "The Wolf of Wall Street" which reached a \$60 million settlement with its producer. Its first charges against individuals were announced in November. Singapore and Switzerland have forced financial penalties on several banks for lapses in anti-money laundering controls related to funds allegedly from 1Malaysia Development Berhad. According to the Federal Bureau of Investigation, potential witnesses did not want to talk because they feared retaliation.

Using leaked email correspondences, news portal Sarawak Report and British newspaper *The Sunday Times* reported that Jho Low, who has ties with Najib Razak's stepson, drew out \$700 million from a joint venture deal between 1Malaysia Development Berhad and PetroSaudi International through *Good Star Ltd*. It was revealed in an email that Jho Low got the loan approval from Najib Razak for \$1 billion without getting any approval from Bank Negara.

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Sarawak Report briefly showed a meeting at 1Malaysia Development Berhad that the CEO, Arul Kanda, gave out false bank statements relating to its subsidiary's accounts at the Singapore branch of BSI Bank. Arul Kanda denied the allegation that he gave false bank statements to Bank Negara.

There were many financiers and financial companies involved in the 1Malaysia Development Berhad saga, though not all have been accused of doing anything wrong. Riza Aziz, Najib's stepson and a friend of Jho Low, co-founded the movie production company that paid \$60 million to settle U. S. Justice Department claims that it financed the "Wolf of Wall Street" with money taken from 1Malaysia Development Berhad. Switzerland's Office of the Attorney-General said that six people and two Swiss banks are suspected in the involvement of using 1Malaysia Development Berhad intended financing for other purposes, "most particularly for the personal enrichment of the persons involved". The governor of the Central Bank of Malaysia, Muhammad Ibrahim, resigned as questions arose over the role the monetary authority played in its land purchase deal from Najib Razak's government, who in turn used the proceeds to pay the debt of 1Malaysia Development Berhad. Muhammad Ibrahim denied the acquisition was made to "intentionally aid and abet the misappropriation of public funds." A review of the deal has been commissioned by the monetary authority. A 143-year-old Swiss bank, BSI SA, that worked with 1Malaysia Development Berhad lost its license to do business in Singapore, due to the violations of money laundering regulations. UBS Group AG, DBS Group Holdings Ltd., Credit Suisse Group AG, United Overseas Bank Ltd. and Standard Chartered Plc are amid those who have drawn penalties from the Singapore central bank for

anti-money laundering lapses. They said they will strengthen controls in their businesses. Falcon Private Bank Ltd., a Zurich based bank linked to \$3.8 billion of 1Malaysia Development Berhad fund flows, was ordered to end operations in Singapore while Switzerland threatened to remove its license if there were any further violations of money-laundering regulations.

Switzerland's financial regulator will conduct a thorough review of JPMorgan Chase & Co.'s anti-money laundering controls after discovering the bank gravely violated regulations in its business with 1Malaysia Development Berhad. Singapore has prohibited eight financial professionals in connection with 1Malaysia Development Berhad. In 2017, Malaysia's finance ministry and 1Malaysia Development Berhad reached a \$1.2 billion settlement with Abu Dhabi's sovereign wealth fund over a debt dispute and made the payments.

The most logical explanation to why this scandal occurred is greed. Many people, like Jho Low and Najib Razak, took money from 1Malaysia Development Berhad that they simply did not need. They already had good lives and were financially stable. These people are very greedy because they just wanted more money and unnecessarily took millions of dollars. In addition to this, other people involved in this scandal admitted to taking bribes though they knew it was morally wrong. It seems like greed was the main factor in this situation.

The 1Malaysia Development Berhad scandal, as well as many other scandals that have occurred, could have been prevented. Many people were involved in this scandal and all it would have taken was one honest person to come clean and admit everything. As mentioned before, prosecutors declared that <https://assignbuster.com/1malaysia-development-berhad-scandal/>

there were a number of employees at Goldman who knew about a bribery scheme, but worked to hide it from the firm's compliance and legal departments. Had there just been one employee who had good morals, this whole scandal would not have gotten to the point it did.

A GAAP that was not followed in the 1Malaysia Development Berhad scandal is the “ Business Entity Concept”. According to this GAAP, business affairs must be kept separate from personal affairs, but as mentioned earlier, Najib Razak and other people were accused of channeling millions of dollars from 1Malaysia Development Berhad into personal accounts. Therefore, this GAAP was breached. Another GAAP that was not followed in this situation is the “ Principle of Conservatism”. For example, the CEO of 1Malaysia Development Berhad, Arul Kanda, gave out false bank statements. This is a violation of the GAAP because he was not truthful about the affairs of the business.

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