

BRIBE, SWINDLE OR STEAL



1MDB – Bradley Hope

[00:00:06] Welcome back to Bribe, Swindle or Steal. I'm Alexandra Wrage, and today we're going to explore the 1MDB scandal out of Malaysia. Apparently, every country gets to have its own Watergate these days. We recently discussed the Anglo-Leasing scandal as Kenya's Watergate, and 1MDB has been described as Malaysia's Watergate. We're speaking today with a reporter who has done the best work on this story. He's a financial reporter for The Wall Street Journal. He was a correspondent in New York when he began reporting on 1MDB but is now based in London. He has reported previously from Abu Dhabi, Cairo and Beirut, and it was a great pleasure to have him join us at Cambridge last year for The Greed Project. Bradley Hope, welcome to the podcast.

[00:00:47] Thank you very much.

[00:00:48] Thank you for joining me and taking the time to do this. You've written a great deal on 1MDB, but you wrote one piece early on, "Malaysia's 1MDB Decoded," so perhaps we can start there.

[00:01:00] Well, actually, I would like to say at the outset that this is a big Wall Street Journal team effort, so it's not just me by myself. Especially my colleague in Hong Kong, Tom Wright, and I have been working on this a lot for two years now. Another thing to mention is that everything in this case is still alleged. There is no criminal charges, and there's no indication there is criminal charges. There's only an announcement that they're conducting a criminal investigation. "1MDB Decoded": Basically, this is a Malaysian sovereign wealth fund that was created back in 2009, and one thing about it is that it accumulated an enormous amount of debt. It had almost zero assets contributed by the government, and it just borrowed lots of money. What's now coming out over time is that many billions of dollars, as many as US\$4-US\$6 billion, were siphoned away from this fund in a variety of schemes involving primarily relationships with other sovereign nations, in particular Saudi Arabia, the UAE and, even to some small extent, the U.S. This kind of epic tale has been really following this money: how it came to 1MDB and how it left. It has a kind of amazing set of characters involving Goldman Sachs and Leonardo DiCaprio and yachts that are two of the world's biggest yachts. It's quite a tale.

[00:02:26] Stories of this financial scope always end up involving yachts, for whatever reason. A lot of money went missing, as you've said, and Prime Minister Najib Razak is right at the center of things. Can you describe a little bit his alleged role in this and some of the allegations against him?

[00:02:43] Coincidentally, Prime Minister Najib Razak visited Donald Trump in the White House for an official state meeting recently. At the center of the whole alleged scheme is this Malaysian financier called Jho Low, and he was very close with the family of the prime minister of Malaysia. What basically happened, it now appears, is that as the money was siphoned away from the fund, it made this incredible circuitous journey in the offshore world before being partially transferred back into the prime minister's bank accounts in Malaysia. The total that was transferred in is more than US\$1 billion. There is one particular transfer of US\$681 million that's really gotten the most attention, but there was there was almost US\$300 million before that as well. He used that money to fund his political campaign that he won. We've reviewed, I think, as many as 500 checks that he wrote to different Malaysian political figures, nonprofit groups, groups that distributed free rice and things like that that were political in

nature. That's one way. The other way he's connected is through his stepson, who is the one behind this film company called Red Granite Pictures in Los Angeles. The Department of Justice has described how he received an excess of US\$240 million, which he says he believes were gifts from Abu Dhabi. That money was used to fund "The Wolf of Wall Street," other films, to buy luxurious properties in London and New York and Los Angeles. The third way is the wife of the prime minister of Malaysia is said, in the most recent filings, to have received many millions of dollars" worth of jewelry that was paid for by the same funds that were siphoned away from 1MDB.

[00:04:50] I know you've been very careful to talk about allegations, and there have been no criminal charges of any kind, but a large amount of this money has been acknowledged. There's no dispute that the money was received. It's just that the argument is, "It was a gift that he was entitled to keep."

[00:05:09] That's probably not quite right because the prime minister of Malaysia has never acknowledged, one, that any money was missing from 1MDB, or that the money he received in his accounts had anything to do with that money that he didn't acknowledge was from 1MDB.

[00:05:27] OK.

[00:05:28] In Malaysia, this is a very disputed case because the government, including the attorney general, which he had put in place after the previous attorney general was trying to bring criminal charges against him — he replaced that attorney general — and the new attorney general has found "no evidence of any crime," he said, and he closed the case. They keep one case going, a police investigation, but there's been no announcement or any details about it. It is pretty disputed, but not with counterfactuals, just a broad denial.

[00:06:07] How did you go about researching this story? I don't want you to give away any trade secrets, but this seems like an incredibly difficult story to get to and really document-intensive across a number of countries.

[00:06:18] My colleague, Tom Wright, and some other colleagues were initially covering 1MDB as an ailing, debt-laden sovereign wealth fund. It wasn't clear from the outset that there was any crimes that occurred, but more sort of an irresponsible racking up of the debt. In their pursuit of that story, they started finding other stories. One of the first stories was that 1MDB had overpaid for some assets, and some of that money that they overpaid was kicked back into a charity that they ran that was believed to be a thinly veiled political group. That was kind of the first scandal, and it seemed like a big deal at the time, but now looking back, that's kind of the smallest of the scandals. Then I became involved soon after that. It came down to a very old-fashioned, Wall Street Journal-style approach to stories like this. We just got all the financial statements we could find, any documents, bond prospectuses, and we just found a few little things that stood out. Especially, the Malaysian financial statements said that they had placed all this money with this Abu Dhabi sovereign wealth fund called Aabar, and they described it as a refundable deposit that they had placed with Aabar. Then we looked at the parent company of Aabar's financial statements, and they made no reference to having received any refundable deposit. We just kept pushing on that one little topic. Eventually, we were able to determine that Abu Dhabi was disputing having ever received the money, and Malaysia was saying they sent it. At that point, there was about US\$2.4 billion that we were looking at. Over time, we realized that was just Chapter 2 of maybe four chapters of the fraud. We just kept pushing it from there, building it piece by piece.

[00:08:21] It's an incredible body of work over a long period of time, over really two years now that there have been new revelations coming out. The role of Goldman Sachs — can you describe that a little bit more, in more detail? Presumably, that's the point at which the FBI got involved.

[00:08:37] The FBI actually was involved a little bit earlier than that. Maybe you could say that it was part of the case from the beginning, but basically, Goldman Sachs — this was their most profitable relationship, perhaps in the world, at that time. 1MDB needed to raise a lot of money, and they also had some strange requests. They wanted to raise it quietly, they wanted to raise it very quickly and they didn't seem to particularly mind how much they paid. That was an interesting combination of ingredients. Goldman Sachs managed to get the exclusive relationship for these bond offerings that 1MDB did. They made somewhere more than half a billion dollars in fees on US\$6.5 billion of bonds. Typically, in a bond arrangement like that, the bank would have earned far, far less than that. It would have been closer to a percent or 2 percent of the total. In this case, it was much higher. The reason that that happened was that Goldman Sachs didn't just arrange the offering. They actually took the entire bond onto their own balance sheet, and they sold it on to other investors. They made the argument, which was accepted, that they were taking the risk of the overall bond going off successfully. Exactly what happened with how Goldman Sachs pursued that case, that bond offering, who they had relationships with — that's all part of the investigation. There's one guy in particular called Timothy Leissner who resigned from the bank, and he's sort of at the center of the Goldman Sachs relationship.

[00:10:28] What has Goldman Sachs said publicly or said to you on the record about their role in this? That it was just a well paid gig, and they're entitled to pursue business like that?

[00:10:38] They deny anything was wrong. The argument, which I explained about how they took on the risk, is how they would explain why they were paid so much.

[00:10:49] OK, so just a perfectly sensible business arrangement in this case.

[00:10:53] Yeah, that's the impression they're giving.

[00:10:55] Back to the role of the FBI because when we talk to people internationally about financial crime, there's always a lot of curiosity about how the FBI gets involved in these international scandals. Now, obviously, there are U.S. players in this case, but 1MDB — 1 Malaysia Development BHD or Limited — that's a sovereign wealth fund, as you say. It sounds more like a Malaysian problem.

[00:11:20] The U.S., in this case, had jurisdiction, or they say they have jurisdiction, because so much of the money was transferred in dollars, so the corresponding banking relationship meant that most of these billions of dollars were transferred through the U.S. multiple times through our banks. On top of that, a lot of the assets that were purchased with the alleged fraud were in the U.S. as well, whether it's "The Wolf of Wall Street" film, helping fund that, or these ultra high-end properties in Los Angeles and New York, or spending at casinos, every kind of spending you can imagine. A lot of it was done in the U.S., so that's how they were able to get jurisdiction. How they started the case, that's not publicly known but by the time they did get started, before we first reported about it, it had become a big thing in the media — missing money and problems at this company. We may never know exactly how they got started, but there was definitely red flags.

[00:12:33] "The Wolf of Wall Street" — we've had Jordan Belfort's lawyer, Ike Sorokin, on the podcast, so it seems like the international financial crime community is smaller than I imagined when we started this podcast. The allegations there, of course, are just with respect to the funding of the movie. I know that

Leonardo DiCaprio's name has been caught up in 1MDB headlines a couple of times, but the link there is pretty tenuous.

[00:12:58] The link is that this guy — the Malaysian financier, Jho Low — soon after the creation of 1MDB and these alleged frauds, he became a major player in the nightclub and Hollywood scene. They even called him "the whale" in the New York City nightclubs because he was supposedly spending US\$500,000, maybe US\$1 million sometimes, in a single night. During that time, he became close with many celebrities. One of them was Leonardo DiCaprio, and from there, it developed further that this film production company by the stepson of the prime minister of Malaysia, one of their first projects was to hook up with Leonardo DiCaprio and Martin Scorsese to fund "The Wolf of Wall Street." The studios didn't want to fund "The Wall to Wall Street" because it was considered, in the form it was written, to be too risqué, and it didn't really have an arc. It kind of had an up and then a down, and it just didn't have the usual kind of ingredients that some of the studios were looking for. Enter Jho Low and Red Granite Pictures, and they were willing to front US\$100 million plus, and they had very few requests. So that's how they got involved. On top of that, Jho Low, it seems from the most recent filings, donated a significant amount of artwork and other sculpture to the charity of Leonardo DiCaprio that's supposed to benefit the environment, and he's returned much of that. There's one other funny little detail, which was they gave Leonardo DiCaprio a gift, which was the the Oscar statuette that had been given to Marlon Brando. It was like this old, beat-up Oscar statuette because supposedly Marlon Brando didn't really care much for Oscar statuettes. He used it as a doorstop. Over the years, it found its way to a private owner who privately sold it to these guys, and they gave it to Leonardo DiCaprio.

[00:15:03] It's always the strangest items. It's like Teodoro Obiang of Equatorial Guinea and his collection of Michael Jackson paraphernalia. When assets were seized, the Michael Jackson glove from "Thriller" was central to the story. There's no shortage of colorful detail in these stories. Was The Wall Street Journal team harassed at all during this research? Are you still welcome in Malaysia?

[00:15:29] We don't travel to Malaysia anymore, Tom and I especially. There's been a lot of allegations about us, that we broke state secrecy rules and things, so we haven't we haven't traveled there. One time, when Tom was there in the early days, I received a tip that they were considering arresting him, and they knew where he was staying. I called Tom, and he actually left out the back door, and then he traveled out of Malaysia via Singapore rather than through the airport. So we haven't been back since.

[00:16:04] It sounds like a good decision not to return, but have you been formally PNG'd or denied a visa? Or you've just made the decision that it would be prudent not to return?

[00:16:13] Yeah, we just haven't gone there. We don't want to risk it at this moment. Also, we don't really want to risk any of our sources and methods. In general, we're very careful.

[00:16:26] It's interesting because Malaysia is considered a good, strong ally of the United States, but when stories like this start to break, things get risky pretty quickly. The financial side of this, of course, is very interesting and key to a Wall Street Journal story. But could you describe a little bit the political instability that surrounded this, when we have an opposition leader who was imprisoned around the same time?

[00:16:50] You could argue that this entire case is inextricably bound with politics in Malaysia because not only is he the prime minister, but he seems like he funded his campaign using funds that originated with 1MDB. In a way, that's why it's such a contested issue in Malaysia despite the fact that, I would say,

we have demonstrated and publicly disclosed documents and money trails. There's no doubt the money originated with 1MDB. Yet, in Malaysia, it's still a big debate. "Is it true? Is it even possible that this happened?" I think that's because it's so politicized. The ruling party has really put a lot of effort into denying any of it from being true. In Malaysia, people are struggling, and the press there isn't as free as it is elsewhere in the world. There's not a lot of detailed descriptions. Also, people are a little bit susceptible to this idea that The Wall Street Journal and others are biased or they have some secret agenda, which we don't. But I think if you have to read about your country from afar, it is kind of a disorienting experience. So you're thinking, "Do I trust these people? I don't know them. I don't know The Wall Street Journal in my day-to-day life." That's something we struggle with. As a result, any time someone writes me an email and asks me something, I still respond and give them all the details I can. I direct them to the filings and to the documents to tell them, "We're basing this on actual stuff. Facts."

[00:18:32] People are reaching out to you from within Malaysia with questions?

[00:18:35] Yeah, all the time. Maybe they even send a quite provocative message. But I try to respond to each of them because it doesn't feel good to me that they think that there's some sort of an agenda. There definitely isn't.

[00:18:50] Gosh, no. But that could become a full-time job all on its own. I think it's really laudable that you're doing it, but it's an enormous amount of work. The story spans a number of countries, and the details don't always sync up. In your "1MDB Decoded" article, you say in one of the timelines that Malaysia's attorney general claims that the US\$681 million that went into Mr. Najib's account was a legal donation from Saudi Arabia's royal family, but the Saudi position on that seems to be slightly different.

[00:19:22] Every big case like this has its own distinct signature, and this is one of the signatures of the 1MDB case. All of the money and all of the mystery of it disappears into these relationships between countries. For example, the Saudi part is interesting. There was a Saudi prince that was involved in a joint venture with 1MDB, where money is said to be siphoned away. So there are these connections. That's a real thing. On the other hand, there appears to have been a real donation from Saudi Arabia to the prime minister of Malaysia some years back, although for a very negligible amount. All this other money that we've tracked as having come from 1MDB at its origin didn't come from Saudi Arabia, but it's kind of confusing for somebody who is reading about, "Yeah, there was a donation. It was kind of small. All this other stuff isn't real." I think that really goes to the heart of it. In all of these cases, there's a kernel of truth, and then all of this other money is tacked onto that. In Saudi Arabia, it's hard to know exactly what the calculus is there in the government. It could be to avoid embarrassment or it could be a kind of opaque government, the way that they operate their government there. But they've never said definitively one thing or another. All they have said was the foreign minister of Saudi Arabia said that they know about a donation, and they don't think that the Prime Minister of Malaysia did anything wrong. That's all they said, but these things are also completely misconstrued. In Malaysia, after that happened, it was portrayed as a complete exoneration, but if you read the words, and if you know the background of that statement, it's clear they're not really saying much. They're saying very little and allowing for it to be. We've asked them many, many times, "Can you just clarify: Did you donate a US\$1 billion? Or US\$681 [million] or any amount?" They just won't speak about it. You find that throughout this case, and that's basically the model. It's these relationships between two countries.

[00:21:47] It's so difficult — the partial truths — because they're very complicated to refute. It's proving the negative. "What did you mean by a donation?" and that sort of thing, and they give just enough information for everybody to hang their own version of the facts on.

[00:22:00] Exactly.

[00:22:01] I come out of the world of international bribery and anti-bribery efforts, where there is an enormous amount of cooperation between certain governments — not all governments, although it's trending in that direction. Do you have the impression of a high level of cooperation amongst the investigative bodies, the enforcement agencies of the different countries?

[00:22:22] There seems to be an incredible amount of cooperation between at least three countries: Singapore, where a lot of things happen, Switzerland and the U.S. Those three seem to be closely cooperating on the whole case. There actually have been some other unexpected cooperations. For example, one of the big surprises that came out of the initial asset forfeiture announcements, which was 2016 in the summer, was that the FBI went out of their way to thank the Malaysian Anti-Corruption Commission, which was a surprise to everyone because the feeling at the time was that there was no cooperation from Malaysia, but it turns out that this one org in Malaysia had put their neck on the line to assist the FBI in their case. There's been no details that have come since then, but a lot of those senior Malaysian Anti-Corruption Commission people have all retired. Some of them are now based in the U.S. It's hard to know exactly what's going on there, but it was an interesting detail.

[00:23:30] It's interesting to me that, when I attend anti-corruption conferences in Asia or when I did over the last couple of years, the Malaysian Anti-Corruption Agency was well represented and sometimes had multiple people at an event. It is clear that, at least for a period of time, they were working hard to gain expertise and reach out to their counterparts in other countries. There was one conference in particular in Singapore, and I think there were four or five representatives from the Malaysian Anti-Corruption Agency. What you say resonates with what I saw out in the field. Now, more recently, they've been quite quiet.

[00:24:08] It's easy to underestimate the impact of something like this. In Malaysia, if you read some of the few, independent newspapers, 1MDB is a topic every single day. The Malaysian Opposition talk about 1MDB every single day. It's had a lot of impacts on the country in the way that people deal with them, the way that businesses approach Malaysia, the way that nations consider dealing with them. There's a lot of concern from the U.S. right now that Malaysia is getting closer to China because China may be willing to help them out with some of these problems. It's quite a deep-rooted issue for them, this whole case.

[00:24:50] In the work that you do in the financial world, do you think most countries — and you have worked in a number of them in quite varied jurisdictions — that most places are trending towards more transparency? Or can we no longer say that with confidence?

[00:25:06] Honestly, I'm probably more skeptical in general, but the countries that I know, in especially the Middle East, you can never know how deep the commitment is versus how much it is a kind of public marketing effort. I tend to believe, from my maybe slightly jaundiced view, that we're not really reducing much corruption. On the other hand, this kind of ambitious jurisdiction — everything about the 1MDB case has been kind of impressive. For example, Switzerland, which is usually fairly cautious and careful about their wording when they say things, they've gone way out on a limb with the 1MDB case. I

remember sitting one day in the newsroom, and our correspondent in Switzerland said that the Malaysian attorney general just said he's investigating possibly US\$4 billion stolen from 1MDB. They were the first ones to say anything like that. They weren't bringing a case. They were just announcing the details of their investigation, which was really rare, and I think that really shook people up because they had never seen Switzerland do something like that. Singapore, in the same way, has really gained a reputation for going pretty hard on this case. A lot of people thought since it's physically right next to Malaysia that it would be more careful, but they've been out on a limb. And in the U.S. case, this is their biggest-ever attempt to seize assets in a kleptocracy case, and they seem to be really making a big scene out of it as a signal to the world. I think those kind of things probably give people more pause, but I'm not sure if it's going to stop much of it. You can hope.

[00:26:59] Sure. We don't always have to focus on stopping it so much just making it more difficult. If somebody ends up going to jail or the assets are seized through the Asset Recovery Initiative, then they're risking more and keeping less. That changes the calculation, and that's a big step forward. I share your jaundiced view to the extent that we're not going to get rid of fraud and corruption in any permanent way, but we can certainly make it more difficult. When a story like this is in the headlines on a regular basis, that starts to shift norms as well. When people can publicly express outrage about this, that's a good thing. 20 years ago, it was just expected from powerful leaders.

[00:27:42] I think sometimes people don't realize that you don't even need an arrest to make a big impact. Just by simply disclosing an account of an event that is very carefully constructed by them to hide what they're doing — if you can penetrate that and disclose it, it's actually pretty powerful because the people who are involved can't use the global financial system anymore. They're frozen out of the main parts of the financial system. Just for example, after all this stuff happened to Jho Low — he initially was using a private Swiss bank called BSI. They, it appears, tried to get rid of him as a client near the end in 2015, and then he fled to some other offshore banks, and he was trying to buy his own bank, and even that didn't work either. He ended up opening an account, according to the DOJ filings, in this obscure Lebanese bank in the island of Comoros, and he tried to transfer some money, and it just got frozen by the Moroccan Foreign Trade Bank on compliance concerns. It is quite impactful.

[00:28:54] That's exactly right. You and your colleagues have done an amazing job with this story. Will you continue to work on it? Do you have another project we should be watching out for?

[00:29:04] This isn't over by any means. We could even be in the third quarter of it at this point. The DOJ has said they're doing a criminal investigation. We haven't even seen the disclosure from all of the discovery and the actual asset forfeiture case, so there's a lot more to learn in this case alone. And my colleague, Tom, and I are writing a book too, so hopefully lots more details there.

[00:29:28] That's exciting. When should we look for that?

[00:29:30] I would say next year sometime.

[00:29:31] It's a lot of work, I'm sure, with an enormous amount of detail, and you'll be writing it at the same time that new developments are unfolding, which is especially challenging. We will let you get back to work. We've been able to hear the gentle rumblings of the Wall Street Journal office in the background, so clearly you are in the office, and we'll let you get back to that. Thank you so much for your time today, Bradley.

[00:29:53] Thank you.