

Inside the Crédit Lyonnais scandal

Here is the extraordinary story of how one tenacious U.S. prosecutor brought the bank--and its government sponsors--to justice.

Paul Crowney - November 11, 2003

On January 16, as France prepared to publicly denounce American policy toward Iraq, a senior French government official arrived at the U.S. Justice Department in Washington, D.C., to beg, in secret, for mercy.

It was afternoon, and the emissary, Jean-David Levitte, France's dapper ambassador to the U.S. and a close confidant of President Jacques Chirac, was shown to a small, plain conference room on the second floor of the Justice Department's imposing limestone-and-granite headquarters, which occupy an entire block formed by Pennsylvania and Constitution Avenues and 9th and 10th Streets. He was accompanied by several aides and a pair of prominent, high-priced American lawyers. Across a long, narrow table they faced a phalanx of senior U.S. officials.

"Please understand the importance of Crédit Lyonnais to the French government," Levitte pleaded, as snow fell steadily in the tall windows that looked out on 10th Street. "It would be devastating if it were indicted."

The ambassador was not exaggerating. A cornerstone of the French financial system, coddled as a national banking champion even as it tumbled toward bankruptcy, Crédit Lyonnais had been under scrutiny for years by the U.S. for its role in an alleged scheme to defraud hundreds of thousands of policyholders of defunct California insurer Executive Life Insurance Co. and before that shareholders of the fabled motion picture studio Metro-Goldwyn-Mayer. A federal grand jury in Los Angeles had been hearing evidence on Executive Life since September 2002. Now, in an extremely rare move, the U.S. was threatening to bring grave criminal charges against the bank and, in effect, a foreign government. And an increasingly agitated France, which still owned 10 percent of the bank after its 1999 privatization, was desperate to avoid an indictment that could lead to the loss of the bank's U.S. license and cost it hundreds of millions of dollars in fines and incalculable humiliation.

For more than a decade, Crédit Lyonnais and French government officials had maneuvered to fend off a series of inquiries by the Justice Department, the Federal Reserve Board and the Securities and Exchange Commission. They had thrown up roadblocks, offered misleading statements, withheld vital information and denied access to witnesses, making what the U.S. government would conclude were "affirmative" efforts to conceal serious crimes. They had assembled a team of renowned U.S. lawyers, including Benjamin Civiletti, the U.S. attorney general under Jimmy Carter, and George Terwilliger III, a former deputy U.S. attorney general who had been at George W. Bush's side through the 2000 election recount in Florida. Both men now sat alongside Levitte as, speaking in English from detailed notes, with occasional asides in

French to his aides, he tried to dissuade the Americans from proceeding with the prosecution: The bank, he said, had cleansed itself of past sins; an investigation by French authorities was ongoing; the American probe was redundant.

Across the table from the French representatives sat Michael Chertoff, the U.S. assistant attorney general in charge of criminal prosecutions, and Debra Yang, the U.S. attorney for Los Angeles, in whose jurisdiction the alleged crimes had been committed. Chertoff, a gaunt man with a gray beard and sunken eyes, guided the ambassador, a nonpracticing lawyer, through the case, explaining that Crédit Lyonnais had engaged in a number of misrepresentations and lied to the Federal Reserve, its primary U.S. regulator.

"This must translate into a criminal prosecution," he said.

Yang, a rising star inside Justice, added: "The case has gotten stronger the longer we have investigated. The bank must plead guilty to at least one felony."

"I am disappointed," Levitte replied. "I will communicate this decision to the highest levels of my government. They will be dismayed."

Unfortunately for the French side, the high government officials whom Levitte was so worried about dismaying were mounting a noisy campaign to undermine U.S. Iraq policy. The French had hoped over the years that a frustrated U.S. might give up its probe of Crédit Lyonnais or that the statute of limitations might expire on the bank's alleged crimes. But the strategy backfired. Because of Crédit Lyonnais's delaying tactics, the investigation culminated at the worst possible moment: as anti-French sentiment over Iraq rose and as the Bush administration, reacting to intense public outcry over revelations of fraud and misconduct at companies like Enron Corp. and WorldCom, embarked on a crackdown on corporate crime.

The two Americans representing the French, Civiletti and Terwilliger, said little -- even though Terwilliger, a volatile man, had been known to storm out of legal wrangles. But as the conference ended, Yang, a former judge and law professor known for her searing intellect and droll wit, could not resist ribbing Terwilliger privately. "This is the first time I've ever seen you so quiet," she said.

Terwilliger and his colleagues had reason to be subdued. The January meeting marked the turning point in a multifaceted investigation that had lasted a dozen years and sprawled over a dozen countries. For the first time, the U.S. government had made absolutely clear its intention to move the probe to indictment and, if necessary, to trial.

Reaching this position had not been easy for the American side. Though Chertoff and Yang backed each other at the meeting, the pair of high-powered litigators were at odds over just how far to push the prosecution. Chertoff, who had been relentlessly lobbied by fellow Republican Terwilliger, had adopted the position that the case against Crédit Lyonnais was not terribly strong. He questioned how much money American investors had really lost in the

Executive Life case. In fact, he had allowed a proposal for prosecution from the U.S. Attorney's Office in Los Angeles to gather dust for well over a year.

Yang had a different take. Since she was nominated by President Bush and confirmed by the Senate in the spring of 2002, she had been thoroughly briefed on the case by the man who assembled it, Assistant U.S. Attorney Jeffrey Isaacs, a veteran federal prosecutor who himself had been doggedly investigating the French bank for eight years and had drafted the proposal for prosecution. After meticulously documented briefings by Isaacs, Yang put her weight behind the prosecution, wresting control of the case from Chertoff. Normally, the Justice Department's criminal chief defers to U.S. attorneys in major jurisdictions such as Los Angeles and New York. Chertoff, however, liked to micromanage, sparking frequent conflicts. But Yang had the advantage, because she had won the confidence of Chertoff's boss, Deputy Attorney General Larry Thompson, and the attorney general himself, John Ashcroft.

When the meeting with the French representatives ended, Yang and Chertoff returned to his nearby office suite to hammer out their differences. Chertoff wanted to charge Crédit Lyonnais with as little as possible; Yang made it clear that she wanted to throw the book at the bank. Chertoff was a savvy bureaucrat, but Yang, who had just been appointed to Bush's Corporate Fraud Task Force, had gained the upper hand. If a disagreement between them were appealed to a higher authority, Yang would likely win.

Before she flew back to Los Angeles, she had her chief aide telephone Isaacs with a simple message: Prepare to prosecute.

That is just what the U.S. did, despite intensified efforts by top French government officials to lobby their counterparts in Washington, culminating in a formal telephone call on July 29 from the French minister of Justice to Ashcroft, who politely turned aside the overture.

The next day the federal grand jury in Los Angeles, to whom Isaacs had been presenting evidence, returned a 55-count, 195-page indictment charging Crédit Lyonnais; subsidiaries of the French government entity Consortium de Realisation; Jean-Yves Haberer, the bank's chairman from 1988 to 1993; Jean Peyrelevade, its chairman from 1993 to 2003; and several other individuals with a myriad of felonies including conspiracy, fraud, money laundering and lying to the Federal Reserve. Among other things, the indictment sought \$3.1 billion in forfeiture of ill-gotten gains from the bank and the French government. The indictment was promptly sealed, and negotiations toward plea bargains continued into October. At press time the French were trying to negotiate a settlement with the U.S. that has been reported at more than \$600 million -- which would include a record criminal fine.

In addition to criminal charges, the French faced a lawsuit brought by the insurance commissioner of California seeking restitution of \$2.5 billion plus ten years of interest, as well as sanctions by the Fed that could include expulsion of the bank from the U.S.

BREAKING THE BANK

Until it was privatized in 1999, Crédit Lyonnais functioned as a virtual arm of the French government, its owner. Founded in 1863 and nationalized in 1945, it was for decades one of the world's biggest banks, with \$243 billion in assets in 1990. In its heyday the bank earned one third of its profits in the U.S., where it has operated since 1971. Under president François Mitterrand, who lavished it with state funds, Crédit Lyonnais was a gem of France's dirigiste economy. Its headquarters, a majestic French Empire landmark on the Boulevard des Italiens, is the largest nongovernment building in Paris.

Appearance is one thing, performance another. A combination of reckless and corrupt lending, overexpansion and high-risk investments in real estate and other speculative businesses during the late 1980s and early 1990s put Crédit Lyonnais dangerously close to bankruptcy. Through it all the government stayed supportive. By 1995 the bank had billions of dollars' worth of bad loans on its books, and the government formed a receivership, Consortium de Realisation, to take over the bad assets. The bailout cost French taxpayers some \$35 billion -- a world record for the rescue of a single bank.

The bank was troubled by more than bad loans. In January and February 2003, nine individuals stood trial in Paris for helping -- or at least allowing -- the bank to falsify its financial statements during the early 1990s. In June the bank's top three executives from that period, Haberer and his two highest-ranking aides, François Gille and Bernard Thiolon, were convicted of false accounting, fined and handed suspended sentences. Several other defendants were exonerated, most notably Jean-Claude Trichet, who headed France's Finance Ministry from 1987 to 1993, went on to become governor of the French central bank and is scheduled to take over as head of the European Central Bank this month.

In the U.S., Crédit Lyonnais's problems ran deeper. There it had enmeshed itself in two troubled corporations that would come back to haunt it: MGM, the movie studio, and Executive Life, the ill-starred insurance company.

Unraveling Crédit Lyonnais's complex role in the affairs of these corporations has occupied U.S. prosecutors for more than a dozen years. The menagerie of characters involved in the investigations could cast an international film noir. As the bank tried to dodge probes in the U.S. by the SEC, the Fed and the Justice Department, bankers and business tycoons of several nationalities maneuvered in kaleidoscopic, now-you-see-it, now-you-don't fashion. World-renowned attorneys flitted from Paris to New York to Los Angeles. One Crédit Lyonnais executive burst into tears when he discovered the dimension of his colleagues' crimes. Two potential witnesses against the bank tried to commit suicide. One succeeded.

The full story of the Crédit Lyonnais investigation has never been told until now. Institutional Investor has pieced it together from interviews and from hundreds of pages of confidential documents, evidence analyses, witness interrogations, privileged law firm communications and court records, some of them sealed.

It took Jeff Isaacs to splice together the strands of corruption that he displayed to the federal grand jury. A bachelor, he lives modestly in Los Angeles, playing weekend softball and attending Los Angeles Philharmonic concerts for relaxation. Isaacs is an avid reader (fiction and non-) and, perhaps as a result, an unusually graceful writer for a member of his profession. His restrained personality masks the relentlessness he brings to investigations.

A transplanted New Yorker, Isaacs received his legal training at the University of Southern California, practiced law briefly in the private sector and joined the U.S. Attorney's Office in 1992. He promptly won two major real estate fraud cases and gained the confidence of the FBI's Los Angeles office. In 1997 he prosecuted Arizona's then-governor, J. Fife Symington III, for corruption. Symington was later pardoned by president Bill Clinton.

Now 42, Isaacs still toils in downtown Los Angeles on the 11th floor, one flight down from Yang, in the U.S. Courthouse, a dull gray pile in the shadow of City Hall and its distinctive spire, which is familiar to generations of viewers of the U.S. television series *Dragnet*. Many prosecutors quit after a few years to pursue more lucrative careers in the private sector. Isaacs, though, was determined to see the *Crédit Lyonnais* case through to its bitter end.

Isaacs inherited the MGM case in 1995 from a predecessor on maternity leave and stumbled on Executive Life in 1999 almost by accident after a disgruntled French businessman blew the whistle on *Crédit Lyonnais*'s true relationship to the insurer. In all, the prosecutor logged close to 300,000 miles jetting from Los Angeles to the East Coast and Europe tracking down witnesses and poring over evidence. But until Yang came along, his efforts had been mostly frustrating.

SO YOU WANT TO BE IN PICTURES

The trail that eventually led the U.S. government to *Crédit Lyonnais* began in 1990 when the SEC launched an informal inquiry into the acquisition that year of MGM by an Italian businessman, Giancarlo Parretti, who had purchased the controlling interest from billionaire financier Kirk Kerkorian. Parretti bought the studio and other entertainment properties with a total of \$2 billion in loans from *Crédit Lyonnais* and its Netherlands branch that he obtained in part through bribing bank officers, the U.S. government has charged. He had a long criminal rap sheet and a bad credit rating; the SEC inquiry was prompted by occasional musings in the daily press -- reporters wondered where the Italian arriviste was getting all his money.

As the new proprietor of a publicly traded U.S. corporation, Parretti was required by law to report the terms of his acquisition to the SEC. He lied in those reports. *Crédit Lyonnais* knew he lied and deployed its lawyers, the big Wall Street firm of White & Case, to try to contain the SEC inquiry (see box, page 58).

MGM's financial condition deteriorated as Parretti and his accomplices looted the studio. In 1991, *Crédit Lyonnais* had to loan MGM more money to keep it from going into bankruptcy. The bank did so to avoid an investigation by a bankruptcy trustee, who would have learned of *Crédit Lyonnais*'s complicity in the Italian financier's crimes. As security for the extra loan, the bank

invoked a written management agreement it had with Parretti and seized control of the company's stock. Thus Crédit Lyonnais became the de facto owner of the studio, which put it in violation of the Bank Holding Company Act, which prohibited banks from owning nonbank entities.

Angry at Parretti's deceptions, Crédit Lyonnais and White & Case then made what would turn out to be a crucial error. Charles Meeker, a genial White & Case partner working on behalf of Crédit Lyonnais and MGM, hired the retiring head of the FBI's Los Angeles office, Lawrence Lawler, to investigate Parretti's acquisition and stewardship of MGM. Reporting to Meeker several months later in a confidential memorandum, subsequently filed under seal in a California state court, Lawler documented that Parretti had stolen from MGM in an array of scams. He had installed his 21-year-old daughter Valentina as head of finance. He had put four Italian "actresses" on the MGM payroll, giving them \$1 million in jewelry and paying one of them nearly \$400,000 over two years. The women, who did no acting, could be heard servicing Parretti in the afternoons behind the closed doors of his MGM office.

Crédit Lyonnais and MGM sued Parretti for mismanagement, and Meeker turned the report over to Lawler's former colleagues at the FBI in an effort to prompt the U.S. government to prosecute Parretti. The calculation appeared to be that if Crédit Lyonnais could blacken Parretti's reputation sufficiently, perhaps even putting him in jail, it could pretend to be his victim and avoid any revelation of its partnership in his crimes. Following prescribed procedure, the FBI took the case to the local U.S. Attorney's Office, the Los Angeles outpost of the Justice Department, where Isaacs' predecessor took it up.

Until 1995 the investigation languished, in part because of the baroque relationships and cutthroat competition among various law enforcement bodies. Amid countless big cases the Parretti inquiry didn't seem important enough to merit sustained attention from either the FBI or the busy prosecutors. The magnitude of the financial losses was unclear. The only potential defendant to the criminal charges that might be brought, Parretti, had returned to Italy and would be difficult to extradite. The apparent victims, MGM and Crédit Lyonnais, were already suing Parretti for damages in civil court. Some officials wondered what a criminal prosecution would add. As a result, the federal investigation of Parretti's acquisition of MGM bounced back and forth between the FBI and the U.S. Attorney's Office for nearly three years.

By the time Isaacs received the case in 1995, it had been pared to a single issue -- the means by which Parretti had bought the studio. The terms had called for Parretti to pay Kerkorian \$50 million a month beginning on March 10, 1990, toward an eventual purchase price of \$1.3 billion. The question was how Parretti had raised the money.

According to Lawler's report, Parretti had drawn the funds from Crédit Lyonnais's Netherlands branch under false pretenses. On 23 occasions in the days before the March 10 deadline, Parretti had requested funds from the bank, saying he needed money for a smaller movie company he already owned. For example, he said in one request that he needed \$500,000 in

deferred compensation for the actor Charles Bronson and \$2.3 million for the expenses of operating MGM's private jet. Lawler discovered that Parretti had forged the requisitions by cutting out the required signatures from other documents, pasting them into the phony requests and photocopying them before faxing them to the bank. Crédit Lyonnais seemed unaware of the forgeries.

But Isaacs wondered. His office was adjacent to that of fellow Assistant U.S. Attorney Peter Spivack, with whom he frequently compared notes. Spivack had been running an investigation into wheeler-dealer Bruce McNall, another Crédit Lyonnais borrower and owner of the Los Angeles Kings professional hockey team. Isaacs thought he saw a pattern. He found it odd that when trying to buy into Hollywood, people like Parretti, McNall and his partner, the producer and convicted felon David Begelman, would all turn for financing to the Netherlands subsidiary of Crédit Lyonnais.

Had the French bank truly been Parretti's unwitting victim? Wouldn't -- shouldn't -- the Italian's 23 requests for funds, bunched within a few days of one another and totaling \$50 million, have raised questions at the bank?

Over the next two years, Isaacs dug in. Prosecutors investigating white-collar crimes typically look for clues in contemporaneous civil litigation concerning the same events. So Isaacs pored over the evidence from a civil suit between Kerkorian and Crédit Lyonnais; the two parties were suing each other in Los Angeles over their respective roles in Parretti's acquisition of MGM. Kerkorian's lawyers, Isaacs learned, had unearthed evidence that bank officials had conspired with Parretti in a range of frauds fueled by bribery. The Kerkorian evidence also pointed Isaacs toward Switzerland, where authorities had been investigating Crédit Lyonnais's role in the collapse of Sasea, a Geneva-based conglomerate, which had been headed by another Italian businessman, Florio Fiorini. Crédit Lyonnais had been one of Sasea's biggest creditors. Kerkorian's evidence revealed that Fiorini had been Parretti's partner in acquiring MGM. Like Parretti, he had been involved in financial and political scandals in Italy.

Kerkorian's litigation and the Sasea probe showed that Crédit Lyonnais, far from being the victim of a couple of Italian swindlers, was likely their partner and co-conspirator. In fact, Isaacs learned, the bank's upper management had opened the door for Parretti and Fiorini. Georges Vigon, the head of all of Crédit Lyonnais's lending in Europe, the Middle East and Africa, had formerly led the Netherlands subsidiary. Promoted in the late 1980s, he liked the entertainment industry and stayed in charge of Hollywood lending. When he first met the Italians, at the Cannes Film Festival in 1987, he immediately agreed to lend them money.

Subsequent background checks by the bank showed that both had shady pasts. Parretti had a record of fraud, forgery and assault. Fiorini had been one of Europe's leading political bribers and money launderers. Their checkered pasts, however, had not kept them from building corporate empires in Europe. Nor did they keep Vigon from lending the Italians a total of \$2

billion to buy B-movie maker Cannon Group -- which they renamed Pathé Communications -- and MGM.

Isaacs was accumulating more evidence of a culture of bribery at Crédit Lyonnais. Earlier he had learned that Hollywood tycoons McNall and Begelman had bribed Crédit Lyonnais bankers (see box, page 54). Now he was discovering from Kerkorian's evidence that Parretti and Fiorini had also rewarded other Crédit Lyonnais officers for their generosity in opening the loan windows. In December 1988, at a Christmas party at Parretti's \$10 million Beverly Hills mansion (bought, naturally, with a Crédit Lyonnais loan), the Italians presented Vigon and two colleagues with envelopes containing certificates for 600,000 shares each in a small movie company, 21st Century Distribution Corp., which Pathé Communications was about to buy. After the party Parretti flew Vigon and his family to Bora Bora for a week's vacation, all expenses paid, on Parretti's Gulfstream IV jet. Vigon subsequently loaned 21st Century more than \$27 million.

Isaacs wondered how much Crédit Lyonnais's top officers knew. After all, CEO Haberer and his second-in-command, Gille, were both on the supervisory board of the Netherlands subsidiary. Back in the spring of 1989, when loans from the Dutch branch to Parretti and Fiorini neared \$1 billion, the central bank of the Netherlands had grown so alarmed that it wrote directly to Haberer. The central bankers deplored Crédit Lyonnais's huge exposure and instructed Haberer to cap lending to the two Italians at \$200 million. Haberer falsely reassured the authorities that the debt owed by Parretti and Fiorini had either been paid down or converted to equity investments in companies unrelated to the bank. The bankers had in fact created sham transactions to make it appear that the debt was being reduced.

But as MGM careered toward bankruptcy under Parretti's stewardship, Crédit Lyonnais management grew frightened. In early 1991 Haberer and Gille dispatched an officer, Yves Gouzerh, to investigate the extent of Crédit Lyonnais's culpability in the MGM debacle. Gouzerh turned up evidence of myriad undocumented loans and other irregular transactions by Vigon and the bank's Netherlands subsidiary. His discovery so appalled him that when he reported back to Gille, he burst into tears. Gille went out and got drunk.

Gille and Haberer were now under pressure to cover the bank's tracks and perpetuate the perception that the bank was the victim of Parretti's scams.

After conferring with Kerkorian's lawyers, Isaacs was certain that that wasn't the case. But although he could look at evidence from civil lawsuits for guidance, he had to conduct his own investigation. That's because the legal standard for proving crime, guilt beyond a reasonable doubt, is higher than the standard for civil wrongdoing, the so-called preponderance-of-evidence rule.

So in the summer of 1996, Isaacs flew to Geneva and examined the voluminous files gathered by Swiss investigators during the Sasea probe. Often accompanied by a team of FBI agents from Los Angeles, Isaacs also made a number of trips to Rotterdam, where Crédit Lyonnais's Dutch

subsidiary was headquartered. Isaacs and the agents questioned local police about the subsidiary and found out that before Crédit Lyonnais had bought it, the bank had been in various scrapes with the law for such activities as laundering drug money.

By 1998 Isaacs felt that he had plenty of evidence to support criminal prosecution not only of Parretti and Fiorini but also of Crédit Lyonnais and several of its officers, including Gille and Vigon. To his chagrin, however, he suddenly found himself thwarted by his own bureaucracy. Potential conflicts of interest had forced both U.S. Attorney Nora Manella and Richard Drooyan, head of the U.S. Attorney's criminal division in Los Angeles, to recuse themselves from the MGM case. So authority shifted to Washington -- specifically, to the chief of the Justice Department's fraud section, a career civil servant named Joshua Hochberg. For the purposes of the MGM case, Hochberg in late 1997 became the acting U.S. attorney for Los Angeles.

In Hochberg, Isaacs met a classic "no" man. If a case was difficult or complex, or if it promised to generate controversy for the Justice Department, he sometimes opposed prosecution. In the mid-1990s, for example, he had rejected a proposal by federal prosecutors to bring perjury charges against the heads of the big tobacco companies, who had told a congressional committee that they did not know tobacco was addictive. A Justice Department spokesman, Bryan Sierra, declined comment on all aspects of this article and said that Hochberg in particular "is not doing interviews." Efforts to reach Hochberg directly were unavailing.

In mid-1998 Hochberg okayed Isaacs' plan to prosecute Parretti and Fiorini, but he withheld authorization to prosecute Crédit Lyonnais and its officers. Instead, Hochberg directed Isaacs to prepare a settlement with the bank. Isaacs, angry and isolated but vowing to fight another day, returned to Los Angeles and followed orders. He negotiated an agreement with the bank under which it would pay the U.S. government a penalty of \$4 million for failing to supervise its rogue employees. The bank also agreed to acknowledge responsibility for its officers' actions, such as accepting bribes, and promised not to "commit any federal, state or local felony offenses in the United States."

The terms of the wrist-slap settlement were agreed to in writing in October 1998 and finalized the following June. The settlement was not announced until October 1999, when indictments against Parretti and Fiorini for securities fraud, money laundering and other crimes were unsealed. They were arrested in Italy, where Parretti remains under house arrest awaiting extradition. Fiorini has plea-bargained; he will testify against Parretti and probably serve a short sentence in the U.S.

THE WHISTLE-BLOWER AND THE WHIPPING BOY

Jeffrey Isaacs was finalizing the terms of the settlement in early 1999 when explosive secret information came to his attention and gave his investigation into Crédit Lyonnais new fire. A disgruntled French businessman, casting himself in the role of a whistle-blower, told officials of the California Department of Insurance that Crédit Lyonnais had an unwholesome relationship

with failed insurer Executive Life, which it had bought, along with its junk bond portfolio, in 1992. Insurance officials in turn alerted the Fed, principal regulator of the French bank's U.S. operations, and the Fed turned the information over to Isaacs. The Fed had been watching Crédit Lyonnais, having monitored its stewardship over MGM. Now it opened its own investigation and was soon coordinating with Isaacs.

According to the whistle-blower, at precisely the time Crédit Lyonnais was facilitating Parretti and Fiorini's fraudulent purchase of MGM, the bank was forming other questionable relationships. CEO Haberer had vowed to double the bank's profits between 1989 and 1992, from Ff2 billion (\$333 million) to Ff4 billion. Toward that end, in 1990 he purchased Altus Finance, a French finance company owned by the Thomson-CSF group of state-owned defense and electronics companies. Altus was run by Jean-Francois Hénin, known as "the Mozart of finance" because he was so adept at making money in the tricky foreign exchange and derivatives markets. In fact, Altus, with about 160 employees, mostly in France, was earning nearly as much profit annually as Crédit Lyonnais, with its 70,000-strong global workforce.

As Crédit Lyonnais was absorbing Altus, a New York financier with ties to the bank, Leon Black, suggested that it buy the junk bond portfolio of California insurer Executive Life. Black knew a thing or two about junk bonds -- he had worked at Drexel Burnham Lambert, where infamous financier Michael Milken, who ultimately went to jail for securities fraud, had built a junk bond powerhouse. And Black knew Executive Life well, too: It had once been controlled by Frederick Carr, an intimate of Milken's (see box, page 56).

Executive Life had nearly gone bankrupt when its junk bonds tanked. From a peak of \$6.4 billion, their value plunged to about \$3 billion by the time California's insurance commissioner seized the "statutorily insolvent" insurer in April 1991 with a legal mandate to protect its assets for the benefit of its nearly 380,000 policyholders and annuitants across the U.S.

Black figured that there was a profit to be made when the bonds recovered. But structuring a deal was complicated. In order for Crédit Lyonnais and Altus to participate, they purchased an interest in Black's company, Apollo Group, which in turn acquired the bonds. Black collected a fee for arranging the deal, managed a chunk of the bonds for a time and had an option to buy in when they converted to equity. (Black is cooperating with the federal investigation into Crédit Lyonnais and has not been charged with any wrongdoing by federal authorities.)

There was a big hitch to the plan, however. The California insurance commissioner insisted that any party that wanted to buy the bonds would have to buy Executive Life, too, recapitalizing and reorganizing the insurer. But at the time, U.S. banking law provided that a bank couldn't own a nonbank entity like an insurance company (or, for that matter, a film studio). It was also illegal under California law for a foreign government, or a bank or corporation controlled by a foreign government, to own an insurance company. Federal and state laws both provided stiff criminal penalties -- prison terms and heavy fines -- for any violation. The Federal Reserve, moreover,

had the power to impose its own severe sanctions -- ranging from steep fines all the way to expulsion of the foreign bank from the U.S.

Crédit Lyonnais and Altus figured out how to buy Executive Life and its junk bonds anyway: by fraudulently concealing the extent of their interest in Apollo and Executive Life. Crucially, they induced big French insurer MAAF Assurances (for Mutuelle Assurance Artisanale de France) to front the deal. In August 1991 Altus arranged to buy Executive Life's junk bonds with \$3 billion of Crédit Lyonnais's money, while MAAF formed a new insurance company to replace the defunct Executive Life.

The day before the deal was made, Altus and MAAF signed an agreement under which Altus controlled the MAAF investment in the insurer and would cover MAAF's risk of loss. The agreement, now in U.S. government custody, explicitly stipulated that the deal be kept secret.

During the summer of 1991, Crédit Lyonnais and Altus also engaged several prominent French businessmen to supplement MAAF's fronting role and to make ownership of the bond portfolio appear to be more widespread than it was. The recruits included Alain Mallart, a leading investor and major Crédit Lyonnais client, and Marc Ladreit de Lacharriere, an equally well-known business figure and Crédit Lyonnais director. The bank guaranteed that it would protect the investors against loss and paid them millions of dollars to participate in the scheme. A lawyer for Mallart declined comment. De Lacharriere did not return a phone call seeking comment.

In December 1992 the bank and Altus sold part of their interest in the junk bonds -- \$2 billion worth -- to a company called Artemis. Artemis was owned by Financière Pinault, the holding company of François Pinault, a multibillionaire and a household name in France (he owns Gucci) and an intimate friend of President Chirac. What none of the principals told the Federal Reserve or other authorities, U.S. prosecutors later determined, was that Crédit Lyonnais had effectively controlled Financière Pinault and had loaned it the entire purchase price.

Flipping Executive Life's junk portfolio, as it turned out, did pay off for Crédit Lyonnais. By Isaac's math, the bank netted about \$1 billion in profits on the deal. The California insurance commissioner's lawyers estimate that Crédit Lyonnais, MAAF, the other French investors and the reorganized insurance company under their control made off with a total of \$2.5 billion, comprising profit on the junk bonds, interest and dividends. They seek to recover that amount plus ten years' interest, as well as losses to policyholders and annuitants. The amount of those losses is unclear (there have been some recoveries from public insurance funds of various states, so the taxpayers of those states have been damaged, too).

Junk bond gains notwithstanding, Crédit Lyonnais had begun a downward spiral. For 1992, the year it sold the junk bonds, the bank reported a loss of \$285 million. The Finance Ministry fired Haberger for this dismal performance the following year.

His replacement, Jean Peyrelevade, the former chairman of a state-owned insurance company, took over as CEO, promising to turn Crédit Lyonnais around and to clean up such unsavory messes as Sasea and MGM, which had come under scrutiny in Switzerland, the Netherlands and the U.S.

Instead, business went on much as usual. Gille briefed his new boss and departed to practice law. His successor, Dominique Bazy, who was indicted in July, ordered an "audit," which was, in fact, a systematic cover-up of Crédit Lyonnais's crimes.

But some government officials grew suspicious, given Crédit Lyonnais's deteriorating financial condition. In 1996, with the government bailout under way, then Finance minister Jean Arthuis asked the Justice Ministry to look into Crédit Lyonnais's bookkeeping. The task fell to magistrate Jean-Pierre Zanoto, who in 2000 charged Haberer, Gille and seven others with cooking the books in 1991, 1992 and at least part of 1993. (Haberer and Gille were found guilty in June 2003, fined, and given suspended sentences.)

Zanoto turned out to be a useful source for Isaacs. As part of the MGM settlement, Isaacs insisted that Crédit Lyonnais and the Consortium de Realisation arrange a meeting for him with Justice Ministry officials to confirm that France was conducting a credible investigation on its own. The bank agreed, and Isaacs and his team traveled to Paris in November 1998 and February 1999. During the February visit they met Zanoto, who gave Isaacs copies of incriminating documents he had seized from the bank.

That summer Zanoto visited Isaacs in Los Angeles. They spent two weeks together, sharing information. But not once did the French magistrate mention Executive Life -- which Isaacs had since learned about from the whistle-blower's report. Isaacs concluded that the junk bond portfolio scandal had not crossed Zanoto's radar. To Isaacs, that indicated that the French authorities weren't probing very deeply into Crédit Lyonnais's affairs.

In 1997 Arthuis had ordered up a probe of CDR, the government receivership for Crédit Lyonnais's bad loans. Carrying out the review was a senior Finance Ministry inspector, Veronique Hespel, who came across documents hinting at the fronting arrangements in the purchase of Executive Life. It was the first time that anyone outside the bank's inner circle had found evidence of the fraud.

By the time Hespel had pieced together the essentials of the ownership scheme, Dominique Strauss-Kahn had succeeded Arthuis. Hespel asked Strauss-Kahn's private secretary for permission to expand her audit. Her request was denied. Nevertheless, she wrote an 11-page memorandum to Strauss-Kahn himself, warning him that she thought Crédit Lyonnais's purchase of Executive Life could pose potential legal problems in the U.S. Hespel considered the memorandum so sensitive that she put it on special paper that could not be photocopied. She submitted it on October 27, 1997.

Hespel's memo apparently went no further. French officials did not alert the U.S. government, which didn't learn of the fraud until the whistle-blower disclosed it more than a year later. Strauss-Kahn indicated to the Fed that he had passed the memo on to Zanoto; there was never any indication that Zanoto saw it. (Isaacs didn't find out about Hespel's document until 2001, when he subpoenaed it from the Fed, which had obtained it that year from the French government, over the objections of lawyer Civiletti.)

Isaacs got a break in 2000. With the whistle-blower's report in hand, he, the FBI and Federal Reserve investigators had been feverishly gathering string in Europe. They wanted to unearth enough witnesses and hard evidence to prosecute the bank on the Executive Life scams. Isaacs combed through the bank's top echelons, trying to determine who had known of the fraud.

When Peyrelevade had learned of the whistle-blower, he had realized that at least some of the bank's secrets were blown. To try to control the damage, he told the Federal Reserve that the bank had been cleaning house. Top management, he insisted, had known of nothing amiss in the Executive Life transaction. But he offered up a scapegoat.

That scapegoat was Denis Lion. Now 58, Lion had worked for Crédit Lyonnais since 1966, immediately after getting a law degree and the French equivalent of an MBA. He rose to become one of the three dozen or so top officers of the bank, working closely with Gille, Haberer, Peyrelevade and other officers through the 1990s on a variety of matters, including Executive Life.

Peyrelevade decided that Lion knew enough about the Executive Life fraud to be held culpable but not enough to implicate anyone above him. He delivered Lion's name to Federal Reserve officials. "I was not high enough to be protected and not low enough to be ignored," Lion said in an interview.

The CEO assured him he would be treated fairly. Instead, in 1999 he exiled Lion to the procurement department and placed him in a small, spare room in a remote outpost of the bank on the eastern edge of Paris. The office had a phone but no light and no computer. The job had no duties.

"Peyrelevade was cold and cynical," Lion said. "He did not raise his voice, but he was extremely cold. He's a cold killer."

Facing possible prosecution and feeling betrayed by his lifelong employer, Lion became distraught. Over the last weekend of September 1999, he obtained enough lethal pharmaceuticals to kill himself. On Monday, September 27, he sat in his little office, hesitating. He had a happy marriage. His suicide would devastate his wife and children. And yet he was profoundly depressed. He gazed out the window at the sky, watching planes passing to and from Charles de Gaulle airport. He kept telling himself that he would take the pills after the next plane passed overhead. At noon he swallowed them.

Soon he became nauseated and delirious. His phone rang. It was his wife, calling by chance. It was immediately clear to her that something was seriously wrong. She quickly phoned the bank switchboard operator, who dispatched a security guard to Lion's office. The guard summoned an ambulance. Lion was rushed to a hospital, where his life was saved. In subsequent months he received intense psychiatric care. He sued Crédit Lyonnais for "moral harassment." He hired himself a lawyer in the U.S. And he became one of Isaacs' most important witnesses.

THE STALLING GAME

At the beginning of 2001, with new evidence massed against the bank, Isaacs again found himself stymied by his own bureaucracy. His former superior, U.S. Attorney Nora Manella, had left to become a federal judge. Her successor, Alejandro Mayorkas, had beaten out Rick Drooyan, then the chief assistant U.S. attorney, for the job. But Mayorkas, a Los Angeles lawyer, resigned when it was revealed that he had supported a pardon by president Bill Clinton of a convicted drug kingpin. A career bureaucrat, John Gordon, had assumed the position of acting U.S. attorney, filling the chair until the incoming Bush administration staffed the Department of Justice and the major U.S. Attorneys' offices.

So by default, Isaacs found himself again dealing with Justice Department fraud chief Hochberg, who had withheld authorization to prosecute Crédit Lyonnais on the MGM case three years earlier. This time, though still hesitant, Hochberg gave tentative approval to proceeding with the investigation and possible prosecution of the bank for its relationship with Executive Life.

With the investigations by the Federal Reserve and the Justice Department gathering steam, France did what it could to soften up the Americans. In January 2001 France had conferred its prestigious Legion of Honor on Fed chairman Alan Greenspan and on William McDonough, then head of the Federal Reserve Bank of New York, who was friendly with French central bank governor Trichet. The two Americans, who accepted the awards, would have to approve any Fed action against Crédit Lyonnais. A spokesman for the New York Fed said the award had not affected the bank's handling of the Crédit Lyonnais case. A spokesman for the Fed in Washington declined comment.

At last, in April 2001 Isaacs presented the Justice Department's criminal division in Washington with a proposed prosecution of Crédit Lyonnais and several of its present and former officers. Isaacs had to make his case to Assistant Attorney General Michael Chertoff, newly installed by the Bush administration. And the bank's lawyers began vigorously lobbying Chertoff for leniency.

Civiletti and Terwilliger, flanked by squads of other top-priced lawyers, crowded into Chertoff's conference room at the Justice Department to argue the bank's case. They contended that Crédit Lyonnais had reformed itself under new executives who should not be punished for the sins of their predecessors. They argued that the French themselves could handle any necessary

investigations into the Executive Life scandal. They called Isaacs -- whom the Justice Department declined to fly in from Los Angeles for many of these meetings -- a "prosecutor run amok."

Chertoff put the French arguments to Isaacs, who promptly and soundly rebutted them. In a formal presentation to Chertoff in August 2001, Isaacs demonstrated that Crédit Lyonnais management, far from having reformed, continued to hide the bank's previous wrongdoing. As for the French government's commitment to unearthing problems at Crédit Lyonnais, Isaacs could demonstrate that the Finance Ministry, at the very least, had known about the Executive Life scheme since 1997 or perhaps even earlier. To be sure, Zanoto's investigation into the bank's accounting practices had resulted in charges against Haberer, Gille and other long-departed executives, as well as against central bank governor Trichet. But that investigation didn't touch on the Executive Life scandal, which had taken place during the same period. Furthermore, French authorities had frequently failed to comply with requests by both the Fed and the Justice Department for access to witnesses and evidence. The refusals amounted to "affirmative efforts at concealment." And when the French did relinquish information, they and their lobbyists acted as if they were doing the U.S. authorities a big favor. In June 2001, for instance, Civiletti dispatched two lawyers from his firm to hand several internal French government documents -- including excerpts from Hespel's memorandum to the Finance minister on Executive Life -- to the Fed's senior legal staff in Washington. Along with the documents, Civiletti sent a letter. He wrote that France was turning over the material only as a matter of "discretion and international comity," not by legal requirement. He also stressed that the transfer should not establish a precedent.

Civiletti insisted that the Fed treat the documents as strictly confidential and refrain from sharing them, even under subpoena, with any outside party or agency of government, especially the Justice Department. He argued that disclosure was not authorized under any law, including the Freedom of Information Act, and that any breach of confidentiality would jeopardize Crédit Lyonnais's right to a fair trial, invade the privacy of individuals and could cause "extremely serious damage" to Crédit Lyonnais's reputation and commercial interests. The Fed disregarded this argument and turned over the documents to Isaacs when he subpoenaed them in 2001. That was when Isaacs first saw Hespel's 1997 memo -- proof that Crédit Lyonnais's fraudulent activities had been known to top French officials for years.

Even after receiving Isaacs' August 2001 report, Chertoff did not give him the green light to prosecute. Hochberg also kept silent. Then, just one month later, more than 3,000 people died when suicide pilots flew jetliners into the World Trade Center and the Pentagon. The Justice Department and the entire U.S. government were swamped by urgent new concerns, which included enlisting allies for a global war on terrorism. That, at first, gave Paris new leverage.

"It's not a time when the U.S. government can indict a French public institution," Claude-Eric Paquin, a former high-ranking CDR executive, said in an interview shortly after 9/11.

Almost at the same time, though, the scandal at Enron, unfolding in late 2001 and early 2002, put corporate wrongdoing in the spotlight and prompted the Bush administration to throw more weight behind fraud investigation. Nevertheless, Chertoff and Hochberg continued to drag their heels on Crédit Lyonnais, deluging Isaacs with nit-picking queries about the case. The shoving match of cross-country memos went on for close to a year. Isaacs, meanwhile, kept unearthing more evidence against the bank, strengthening his case with each passing month.

In May 2002 the power vacuum in Los Angeles was filled when the Senate confirmed Debra Yang's appointment as U.S. attorney. The first Asian-American woman ever to hold the post, Yang quickly entered the law enforcement limelight. President Bush appointed her to his new Corporate Fraud Task Force, and she joined Ashcroft's elite inner sanctum, the Attorney General's Advisory Committee -- U.S. attorneys from major jurisdictions who advise the attorney general.

Over the following months Yang spent long afternoons with Isaacs, reviewing the evidence he had painstakingly assembled. By the end of the summer, she was satisfied he had a strong case and told him to start presenting evidence to the federal grand jury that would begin its weekly sessions in September. Isaacs began flying his witnesses to Los Angeles, where over the following 11 months, Lion, Paquin and other bank insiders provided sworn testimony in the secrecy of the grand jury chambers on the 13th floor of the federal courthouse on Spring Street in downtown Los Angeles. The testimony was compelling. Lion's story of Peyrelevade's humiliation of him and his suicide attempt brought some grand jurors to tears.

By deft bureaucratic maneuvering, Yang tilted authority over the French bank's case back toward the U.S. Attorney's Office in Los Angeles. Thus by the time French Ambassador Levitte visited the Department of Justice on January 16 of this year, Yang had put herself in a position to best Chertoff. Isaacs was spurred to accelerate his investigation and prosecute the bank -- something he had been ready to do for well over a year. Such a long delay in a major federal criminal case is rare.

Meanwhile, President Bush had begun arguing that war against Iraq might be an important step in the fight against terrorism. Nations quickly took sides in the debate. Many governments said that the United Nations should persist with weapons inspections -- but none opposed the war more vocally than France. What leverage Paris might have gained after 9/11 as an ally in the war on terror had vanished by early 2003.

Nevertheless, the French didn't stop trying to halt the Crédit Lyonnais investigation. Even after the January meeting, Civiletti and Terwilliger continued lobbying the sympathetic Chertoff. And top French government officials began putting direct pressure on their counterparts in Washington. Early this year Foreign Minister Dominique de Villepin, while publicly criticizing U.S. Secretary of State Colin Powell for his support of the war on Iraq, sent Powell a personal letter asking him to intervene to stop the Crédit Lyonnais prosecution. At about the same time, French Justice Minister Dominique Perben wrote directly to Ashcroft, making the same request.

Yang and Isaacs set a March 31 deadline for obtaining either guilty pleas or a grand jury indictment. But Chertoff was still stalling and meddling, taking calls from Terwilliger and Civiletti and firing off queries to Los Angeles. His delaying tactics forced Yang and Isaacs to extend the deadline to May 31. Even that date did not hold -- Chertoff's interference didn't stop until the Senate confirmed him as a federal appeals court judge in June, effectively removing him from the Crédit Lyonnais loop.

With Chertoff out of the picture, the French intensified their lobbying. The U.S. made a "take it or leave it" offer that the French rejected. The government set another deadline -- July 31 -- giving Crédit Lyonnais and the CDR the choice of being indicted or agreeing to a plea bargain involving a fine and penalties in the range of \$600 million.

The French fought until the last possible moment. On July 23, by appointment, Deputy Finance Minister Xavier Musca telephoned Yang. It was evening in Paris, morning in Los Angeles and afternoon in Washington, where Civiletti, who had arranged the call, listened from his office. Yang politely but firmly told Musca that the July 31 deadline would stand. Musca lost his temper and raised his voice.

"How dare you impose deadlines?" he shouted. "Don't you understand? This is one of the most important banks in the world!" Musca's rant continued for half an hour. Occasionally, he would pause, revert to a fevered whisper and say: "I'm sorry to be so rude. I'm very upset." Then he would start yelling again.

Yang remained calm. "I appreciate your concerns," she said, "but you must understand that this case has involved tremendous effort on our part. We have extended the deadline three times."

"This is insulting!" Musca yelled. But Yang held her position.

Six days later, on July 29, the French government scheduled a call to Attorney General Ashcroft. According to Justice Department insiders, President Chirac had wanted his prime minister, Jean-Pierre Raffarin, to make the call, but Raffarin was traveling. So Justice Minister Perben phoned instead.

It is extremely rare for Ashcroft to involve himself personally in a particular case that the Justice Department has under investigation. However, he agreed to take the call from his counterpart in Paris. The U.S. Attorney's Office in Los Angeles prepared talking points and a briefing memorandum for Ashcroft to bring him up to speed on the Crédit Lyonnais saga.

The conversation was briefer and much more civil than Musca's with Yang. Perben implored Ashcroft to extend the deadline once again. Ashcroft refused, saying that his Los Angeles people had spent a great deal of time and effort on the case and that he could not prevent it from going forward.

The many delays since the spring of 2001 worked both for and against the U.S. Isaacs had time to build an ever-stronger case, but the statute of limitations began threatening count after

count. On July 30 the Los Angeles federal grand jury returned a 55-count indictment against the bank and subsidiaries of CDR; the bank's two chairmen from 1988 to the present, Jean-Yves Haberer and Jean Peyrelevade; its two most important seconds-in-command in the 1990s, François Gille and Dominique Bazy; MAAF and its chairman, Jean-Claude Seys; Jean-François Hénin; and six other individuals, including a Paris lawyer for Artemis, Marie-Christine de Percin. A spokesman for Crédit Lyonnais declined comment. A CDR spokesman said, "Senior officials of the French government have made it clear that they seek an equitable resolution." Peyrelevade, Haberer, Bazy and Hénin did not return telephone calls. François Gille, reached by phone, said, "I refute any acceptance of culpability." Jean-Claude Seys, through his secretary, refused comment.

The indictment does not name François Pinault, Financière Pinault or Artemis as defendants, though in recounting the Crédit Lyonnais saga, it refers to Financière Pinault and Artemis prominently. It refers repeatedly to the "chairman of Artemis," though it does not refer to François Pinault by name. Pinault was the chairman of Artemis.

Telephone calls to the office of François Pinault were returned by a public relations representative who, along with Pinault's New York lawyer, declined comment. However, it's understood that Pinault has been talking with Isaacs for some time about immunity from prosecution in exchange for testimony.

Among other things, the indictment accused Peyrelevade of furthering the criminal conspiracy by demoting Denis Lion under false pretenses. (Lion, meanwhile, had won his suit against the bank for "moral harassment." On May 5, 2003, the Labor Court of Paris determined that the bank had not only harassed Lion but had undermined his dignity, infringed his civil rights, affected his physical and mental health and compromised his professional development. The court awarded him €100,000 (\$117,000) in damages and ordered him reinstated with back pay in the same position from which he had been demoted, or in one of comparable responsibility and salary. Crédit Lyonnais said it would appeal.)

The indictment came under the jurisdiction of U.S. District Judge Dickran Tevrizian, who had first handled litigation involving fraud by Crédit Lyonnais a decade earlier. The indictment was immediately sealed at the request of the government so that plea negotiations could continue, which they did into October.

The first part of August was spent showing the sealed indictment to counsel for the various defendants and negotiating with them. The main defendants, the bank and the CDR subsidiaries, were eager to get one final opportunity to present their arguments and try to get the government to soften its stance. Civiletti, representing the French state, called Yang to arrange a meeting, saying, "If it takes sending Terwilliger out there for an all-nighter, we will."

Isaacs opposed granting this last audience -- it was bound to be a repetitive exercise -- but Yang was determined to avoid any possibility that the defendants could ever say that she hadn't been reasonable.

So on August 28 Terwilliger flew to Los Angeles to meet with Yang in her office. For some time, he had been representing CDR, while another lawyer, Lawrence Friedman of Cleary, Gottlieb, Steen & Hamilton in New York, had taken over representation of Crédit Lyonnais. Terwilliger was accompanied by colleagues from White & Case, with Friedman patched in by phone. Isaacs and others from the U.S. Attorney's Office also were present.

The voluble Terwilliger was subdued. In a meeting that began in the afternoon and lasted more than two hours, he laid out the French government's and the bank's case in excruciating detail one more time.

When Terwilliger was finished with his presentation, Yang spoke. Though she had listened patiently, the U.S. stance had hardened since the indictments were returned. This is typical: Defendants who cop pleas before indictment have more negotiating room to get better terms. Yang made it clear that the CDR subsidiaries and the bank would have to plead to felonies and be fined. There would be no compromise on that.

The two sides also discussed how severely to treat Peyrelevade. His indictment appeared to surprise the French, who didn't think the Americans had sufficient evidence and didn't think they would charge the CEO of a major bank even if they did. The French team wanted Yang to return to her preindictment stance of more flexibility and willingness to make a deal. Yang refused. Peyrelevade's fate was left in the air.

The U.S. also wanted to tack an additional fine of \$25 million on to the proposed financial settlement of \$600 million. Why? Yang explained that the U.S. had concluded that the role of MAAF, and that of its indicted chief executive officer, Jean-Claude Seys, had been more serious than previously thought.

"And besides that," Yang said, "Deputy Finance Minister Musca yelled at me for half an hour. That alone should cost you an extra \$25 million."

After a moment of stunned silence, the group broke up in laughter, when it became clear she was kidding.

There was precious little merriment through September and October. With the July indictment still secret, the two governments negotiated toward guilty pleas and fines and signed an agreement in principle in early September. Then the U.S. prosecutors unearthed documents indicating that Crédit Lyonnais chairman Peyrelevade might have known about the Executive Life fraud sooner than he had acknowledged. On December 10, 1993, several memorandums had been faxed to Peyrelevade's office; they contained salient details of the Executive Life scheme. It now appeared that Peyrelevade had initialed one of the memos, perhaps indicating

that he had read them all, raising the possibility that the case against the chairman might be even stronger than charged in the indictment.

The U.S. gave the French defendants a deadline of October 15 to sign a final plea agreement. The agreement left Peyrelevade's fate unresolved and was silent on whether the U.S. would bring charges against Financière Pinault, Artemis, François Pinault, or Patricia Barbizet, Pinault's second-in-command.

The pressure of the deadline sparked disagreement within the French government over how to respond. Crédit Lyonnais and Minister of Finance Francis Mer wanted to sign the plea agreement. However, CDR, reflecting the view of President Chirac, Pinault's friend, balked at signing. Pinault himself signaled his concern over the hardening U.S. position by hiring an influential new lawyer to represent him and the other Artemis parties -- Mary Jo White, the former U.S. attorney in Manhattan and a partner at the New York law firm of Debevoise & Plimpton.

At the request of the FBI, Interpol issued "red notices," a type of international arrest warrant, for four men who were indicted but chose not to join the possible settlement -- former Crédit Lyonnais CEO Haberer, former second-in-command Gille, former Altus head Hénin and Artemis secretary general Emmanuel Cuffe. The notices meant that if the defendants traveled outside of France they could be arrested and held for extradition to the U.S.

Headlines around the globe declared the plea deal dead. As the U.S. ratcheted up its pressure, the French government made known its displeasure to the American ambassador to France, Howard Leach, conveying to him a formal diplomatic note accusing the U.S. of treating France as a criminal defendant instead of as a sovereign nation.

In Los Angeles the U.S. moved to update the indictment with additional charges, make it public toward the end of October and proceed with the prosecution. However, in Brussels on October 17, President Chirac said that France would seek a new "accord" with the prosecutors, "a definitive one this time." (The previous day, France had grudgingly joined a unanimous United Nations Security Council in supporting a U.S. resolution setting a road map for the reconstruction of Iraq.)

The U.S. set yet another deadline of October 27 for the French to take or leave the plea deal. With that deadline imminent, French Justice Minister Perben dispatched a formal letter to Attorney General Ashcroft asking for an additional four weeks -- until November 24. Ashcroft referred the decision to Debra Yang but the Justice Department made clear its desire that she grant the French request. She had little choice and did so. As this magazine went to press, it was unclear whether Chirac would get his "definitive" agreement.

The fate of Crédit Lyonnais was sealed, however. Though its name lives on, the bank no longer exists as an independent entity. Another big French bank, Crédit Agricole, bought it for \$20 billion. The deal closed in June. Crédit Agricole plans to merge the banks' operations gradually

over four years, starting with investment banking and private banking. Crédit Lyonnais's retail network will continue to operate under its own banner for the time being.

Peyrelevade, however, won't be part of the new management. In early September he announced that he had been asked to resign the chairmanship of Crédit Lyonnais by Rene Carron, chairman of Crédit Agricole. Peyrelevade has left the bank and hired U.S. lawyers to defend him against the criminal charges.

The cast of characters . . .

FRANS AFMAN: Crédit Lyonnais's man in Hollywood in the 1980s, he accepted "gratuities" and "gifts" from wanna-be movie moguls seeking loans. He was pushed aside by Georges Vigon, a higher-ranking executive who liked to handle the big crooks -- Giancarlo Parretti and Florio Fiorini -- himself.

DOMINIQUE BAZY: The only executive that chairman Jean Peyrelevade brought with him to Crédit Lyonnais in 1993, he learned of the Executive Life Insurance Co. fraud almost immediately upon assuming his post at the bank as a member of Peyrelevade's four-man executive committee and directed the cover-up. He was indicted for conspiracy and fraud in July.

LEON BLACK: The shrewd former Drexel Burnham Lambert deal maker known as "The Prince of Darkness" struck a deal to acquire and manage junk bonds for Crédit Lyonnais. Black, who is not a target of the investigation, is understood to be cooperating with federal authorities.

MICHAEL CHERTOFF: Former assistant attorney general of the U.S. in charge of criminal prosecutions and onetime chief Republican counsel to the Senate Whitewater Committee. He tried unsuccessfully to limit the prosecution of Crédit Lyonnais and currently serves as a federal appeals court judge, after Senate confirmation by a vote of 88 to 1. The lone "no": Hillary Clinton, a subject of the Whitewater probe.

JACQUES CHIRAC: Close to Francois Pinault, the president of France intervened personally in what had become a contentious issue in the highest councils of his government -- whether to sign a plea deal offered by the U.S. Chirac said France sought a "definitive" accord. In their class at the Ecole Nationale d'Administration, Chirac finished well behind former Crédit Lyonnais head Jean-Yves Haberer, who was salutatorian.

BENJAMIN CIVILETTI: U.S. attorney general under president Jimmy Carter, he was retained by the French government to try to persuade the U.S. to soften or squelch its investigation of Crédit Lyonnais.

FRANÇOIS GILLE: Lawyer, expert on U.S. banking law and second-in-command at Crédit Lyonnais in the early '90s, he was convicted by a French court in June of falsifying the bank's books (he is appealing) and was indicted in the U.S. in July for conspiracy and fraud.

JEAN-YVES HABERER: The brilliant financial mandarin whom then French president François Mitterrand appointed in 1988 to run Crédit Lyonnais, he nearly destroyed the bank through overly aggressive lending. Fired in 1993 and convicted in France this year of falsifying the bank's books, he was indicted in the U.S. in July for multiple frauds against American investors.

JEAN-FRANÇOIS HENIN: Once known as "the Mozart of finance," Hénin, under Haberer's aegis, orchestrated Crédit Lyonnais's acquisition of Executive Life and its junk bonds. Hénin has been indicted by the U.S. for conspiracy, fraud and lying to the Federal Reserve Board.

VERONIQUE HESPEL: A senior inspector at the French Ministry of Finance, she discovered evidence of Crédit Lyonnais's frauds in 1997 and, in a secret memorandum, told her minister, who took negligible action.

JOSHUA HOCHBERG: Chief of the Justice Department's fraud section in Washington, he would not authorize Jeffrey Isaacs to prosecute Crédit Lyonnais for complicity in the crimes of Parretti and Fiorini.

JEFFREY ISAACS: The Los Angeles-based U.S. prosecutor whose tenacity over eight years propelled the Crédit Lyonnais scandal to prosecution against the fierce opposition of the French government, waves of high-priced globe-

trotting lawyers and even some officials of the U.S. Justice Department. "A prosecutor run amok," a defense counsel called the mild-mannered Isaacs.

KIRK KERKORIAN: The billionaire entrepreneur and investor sold Metro-Goldwyn-Mayer to Parretti and Fiorini in 1990, then bought it back from Crédit Lyonnais in 1996 and owns it today. His lawyers, Patricia Glaser and James Schreier, were the first to unearth evidence that Crédit Lyonnais bankers had accepted bribes.

JEAN-DAVID LEVITTE: Close to Chirac personally, Levitte was the French ambassador to the United Nations until December 2002, when he was shifted to Washington as envoy to the U.S. and immediately became a familiar advocate for France in the American media. He went secretly and unsuccessfully to the Department of Justice to try to dissuade officials from prosecuting Crédit Lyonnais.

DENIS LION: Held the sensitive post of chief auditor of Crédit Lyonnais's office of the inspector general. In 1999 then-chairman Jean Peyrelevade demoted and tried to scapegoat Lion as the only bank official who knew of the Executive Life fraud. Lion attempted suicide but was saved and has obtained a court judgment against the bank for "moral harassment," which the bank is appealing. He is a prime witness against Peyrelevade and the bank in the U.S. criminal case. His testimony in Los Angeles brought some grand jurors to tears.

BRUCE MCNALL AND DAVID BEGELMAN: Crédit Lyonnais creditors in Hollywood bribed bankers to loan them money to make movies. McNall, onetime owner of the Los Angeles Kings hockey

team, went to prison for bank fraud in 1997. Begelman, already a convicted felon, shot himself to death in 1995.

XAVIER MUSCA: The French deputy Finance minister hectored U.S. Attorney Debra Yang by phone from Paris for half an hour in a July attempt to stop the indictment of Crédit Lyonnais and French government entities. Less than a week later, at Yang's order, the bank and government units were charged with 55 counts of felony crimes.

GIANCARLO PARRETTI AND FLORIO FIORINI: Italian businessmen and criminals who bribed Crédit Lyonnais bankers to loan them \$2 billion to buy MGM and other Hollywood properties. Parretti is under house arrest in Italy and is expected to be extradited to the U.S. soon to stand trial for crimes associated with the MGM deal. Fiorini, who had pleaded guilty to U.S. charges, is expected to be a star witness against him.

JEAN PEYRELEVADE: Succeeded Haberer as head of Crédit Lyonnais from 1993 to 2003. Instead of rooting out corruption, the U.S. believes Peyrelevade perpetuated and concealed it and has indicted him for conspiracy and lying to the Federal Reserve. He was asked to step down in September by chairman Rene Carron of Crédit Agricole, which is acquiring Crédit Lyonnais.

FRANÇOIS PINAULT: Owner of Gucci and one of the richest and best-known businessmen in Europe. An intimate friend of Chirac's and a longtime Crédit Lyonnais client, Pinault, through a company called Artemis, paid \$2 billion for a portion of Executive Life's junk bonds as they approached equity conversion. Crédit Lyonnais financed the purchase.

GEORGE TERWILLIGER III: Former deputy U.S. attorney general and an aide to George W. Bush in the Florida recount that gave Bush the White House, he is now a senior Washington partner in the big Wall Street law firm of White & Case, Crédit Lyonnais's longtime counsel. The volatile Terwilliger, who has been known to stalk out of meetings in a rage, lobbied Chertoff and Yang aggressively on behalf of the bank and the French government.

JEAN-CLAUDE TRICHET: Prosecuted in France for failing adequately to police Crédit Lyonnais in his capacity as minister of Finance, Trichet was found not guilty and is scheduled to become president of the European Central Bank this month.

GEORGES VIGON: An exForeign Legion paratrooper who once killed an Algerian rebel with the rebel's own bayonet after the Algerian's gun jammed. After his promotion to Paris, reporting to Crédit Lyonnais's top management, Vigon kept control of entertainment lending and the portfolios of Parretti and Fiorini, who bribed Vigon and other officers to obtain loans to purchase MGM.

DEBRA YANG: Named U.S. attorney in Los Angeles in 2002, she wrested control of the controversial case from Washington bureaucrats through deft maneuvering. Her support of Assistant U.S. Attorney Jeffrey Isaacs was key to obtaining the grand jury indictment of Crédit Lyonnais.

A tawdry tale: Crédit Lyonnais's Hollywood connection

One day in May 1983, Los Angeles entrepreneur Bruce McNall boarded a private yacht moored off the French Riviera. He and his partner, producer David Begelman, were attending the Cannes Film Festival, and they wanted to finance a few of movies of their own.

A little later, while rocking gently on the Mediterranean, McNall, according to a sworn affidavit by an eyewitness in a California state court, slipped a cash-stuffed envelope to Frans Afman, a tall Dutch banker who managed lending to the entertainment industry for Crédit Lyonnais through its branch in the Netherlands. McNall and Begelman got the loans they sought.

It wasn't the last time McNall would grease a banker's palm. Over the next decade he parlayed such largesse and fake financial statements into what the U.S. government eventually would determine was \$267 million in loans from Crédit Lyonnais, Bank of America and other institutions. He would use the money to buy the Los Angeles Kings hockey team and pursue an interest in rare coins as well as movies.

Afman extended millions of dollars, without documentation, to a rogue's gallery of Hollywood bottom-feeders who greased his palms with a variety of questionable payments, hundreds of thousands of dollars in "consulting fees," lucrative directorships, the free use of Malibu beach houses and the like. Afman developed such a sense of entitlement that he once objected to an automobile his patrons were providing and demanded a better one.

Afman has denied that these gestures were bribes and specifically denies taking the money from McNall in Cannes.

The law finally caught up with McNall in 1994, but Crédit Lyonnais managed to avoid blame. The bank was already being probed by the Federal Bureau of Investigation and the Los Angeles U.S. Attorney's Office for its role in financing the acquisition of film studio Metro-Goldwyn-Mayer by a couple of Italians with shady pasts. Indeed, until Assistant U.S. Attorney Jeffrey Isaacs picked up the case, no one noticed the pattern: Crédit Lyonnais's Dutch branch had become a money tree for anyone who wanted to break into Hollywood.

The FBI in Los Angeles got on to McNall when it received a tip from an informant in Texas about possible irregularities in McNall's sale of rare coins. A special agent from the bureau's white-collar crime squad was deployed to investigate. Then the FBI got a second tip, this time from an insider at McNall's company, financial executive James Bailey. Bailey and the FBI agent talked.

Bailey knew little of the rare-coin side of the business. What he did know was that McNall had manipulated and sometimes falsified the financial statements he gave to Bank of America when he applied for loans. In fact, according to Bailey, McNall had borrowed between \$200 million and \$300 million from banks, much of it based on false financial data.

On April 21, 1994, the FBI dropped a net of federal subpoenas on McNall employees all over Los Angeles. McNall promptly hired a renowned criminal defense lawyer, S. Thomas Pollack, of the

large Century City firm of Irell & Manella. That firm's patriarch, Arthur Manella, happened to be the father of the incumbent U.S. attorney in Los Angeles, Nora Manella, whose office would be prosecuting the McNall case. Manella naturally had to recuse herself.

So Richard Drooyan, the assistant U.S. attorney in charge of criminal prosecutions for Manella, supervised the case. Drooyan, an ambitious Harvard Law School graduate in his mid-40s, aspired to be a U.S. attorney himself someday. Defense lawyer Pollack didn't know him well. But one of Pollack's partners at Irell & Manella, Layn Phillips, was a tennis buddy of Drooyan's. Pollack sent his colleague to see Drooyan and try to work out a lenient sentence for McNall.

When the FBI heard about the contact, agents and supervisors objected. The bureau believed that McNall should be prosecuted under the racketeering laws and go to prison for at least ten years. The field office complained bitterly, not just to Drooyan but also, through the FBI's Washington headquarters, to the Justice Department.

Drooyan did not grant the FBI's wish. McNall was allowed to plead guilty to just four counts of bank fraud and conspiracy. He was sentenced to five years in prison but would serve only four. And although he was caught bribing a Bank of America officer by paying off \$100,000 worth of personal credit card bills, prosecutors didn't discover until much later that he had also given money to Crédit Lyonnais banker Afman.

When Assistant U.S. Attorney Isaacs took up the investigation of the French bank in 1995, he made the Crédit Lyonnais-Hollywood connection. But an important potential witness was no longer available. Movie producer Begelman, who had been convicted of felony grand theft in the late 1970s but kept his career going anyway, shot himself to death in a luxury corner room of the Century Plaza Hotel in Los Angeles one night in August 1995. The FBI hadn't yet gotten around to asking him any probing questions about Crédit Lyonnais. -- D.McC.

The Executive Life affair -- step by step

The schemes that led to the indictment of Crédit Lyonnais began simply but gradually grew fiendishly complex. Crédit Lyonnais wanted to buy the multibillion-dollar junk bond portfolio of the largest insurer in California, Executive Life Insurance Co. It thought it could make a killing on the securities, which it saw as overly depressed in price. But California authorities would sell the bonds only to a purchaser that agreed to rescue and reorganize the company as well.

Under U.S. and California laws, however, Crédit Lyonnais could not own Executive Life; to do so was a crime punishable by prison terms and stiff fines. Rather than give up on the bonds, the bank chose to secretly form relationships with front companies to push through the illicit deal. It then lied about those relationships to the Federal Reserve Board, California authorities and a California state court. The bank didn't lie just once but repeatedly over nearly a decade. It lied orally and in writing. It lied in direct communications and through its lawyers, according to a federal indictment returned July 30.

The saga began in April 1990, when Crédit Lyonnais formed a relationship with former Drexel Burnham Lambert deal makers Leon Black and John Hannan and their newly formed Apollo Group. Letters of intent signed with the bank called for Apollo to manage a new partnership to be named International Advisors Co., which would be owned 51 percent by Crédit Lyonnais and 49 percent by Black and Hannan. International Advisors would manage an existing portfolio of junk bonds owned by Altus Finance, a Crédit Lyonnais subsidiary, and create and manage a new \$400 million investment fund that would come to be named Apollo I. The purpose of Apollo I was to acquire and manage junk bonds of financially distressed companies that were likely to convert into equity, allowing Apollo I to participate in the restructuring of the issuers.

Apollo I became active in August 1990. Altus was to be the principal investor, putting up much of the \$400 million. The Bank Holding Company Act barred Altus, as a part of Crédit Lyonnais, from owning or controlling more than 24.9 percent of the nonvoting equity or more than 5 percent of the voting equity of Apollo I. To enable Altus to stay within those limits, the remainder of Apollo I was to be owned by a group of independent European investors to be recruited by Altus managing director Jean-Francois Hénin. The investors were to be unaffiliated with Crédit Lyonnais or Altus. Chief among them was a large French insurer, Mutuelle Assurance Artisanale de France (MAAF).

Crédit Lyonnais and Altus, however, devised a secret scheme to exceed the limits, according to the federal indictment. Instead of owning its share of Apollo I directly, Altus did so by purchasing two Guernsey companies, Land Free II and Land Free III, which in turn bought substantially more than 24.9 percent of Apollo I. Altus effectively owned 52.4 percent of Apollo I, which it controlled because it named all of the directors of Land Free II and III, the indictment charges. The MAAF investors -- major clients of the bank and the finance company -- owned the rest and, far from being unaffiliated with Crédit Lyonnais, they, too, were controlled by Crédit Lyonnais and Altus, according to the indictment. And the bank had secretly guaranteed their investments against loss.

Apparently oblivious to these hidden maneuverings, Black and his Apollo associates began searching for junk bonds to buy in early 1991. Eventually they found Executive Life. Under a plan structured by Hénin and California insurance commissioner John Garamendi, Altus and MAAF, through Apollo I, would commit about \$2.5 billion to bail out the company -- \$300 million from MAAF to buy its stock, the remainder from Altus to purchase its portfolio of junk bonds.

The French investments were challenged every step of the way -- by the Federal Reserve, by lawyers for Garamendi and in court by competing bidders. Crédit Lyonnais's lawyers, apparently unaware of the deceptions, repeatedly assured the challengers that all U.S. laws and regulations were being observed. Indeed, Crédit Lyonnais's principal legal adviser on the transactions, Sullivan & Cromwell partner H. Rodgin Cohen, one of the nation's leading experts on the banking laws at issue, told the Fed that the bank had devised reporting procedures to ensure that Altus complied. In fact, says the indictment, by the date of Cohen's reassurances, August

19, 1991, "Altus was already in [breach] . . . and when members of Crédit Lyonnais's most senior management learned of these violations . . . they ratified and approved [them], allowed them to continue, and affirmatively concealed them from the [Federal Reserve]." Sullivan & Cromwell denies any wrongdoing.

Altus's investments and purchases through Apollo I closed on March 31, 1992. Competitive bidding had driven the price up to \$3.2 billion. A new company, New California Life Holding, was incorporated to own Executive Life, which was renamed Aurora National Life Assurance Co. The MAAF group put up \$300 million for the stock of NCLH. Altus paid \$2.9 billion for the junk bonds. Crédit Lyonnais reimbursed the MAAF group the \$300 million, guaranteed it against loss and paid it a fee for its trouble, the indictment says.

Some \$500 million of the bonds was transferred to a second investment fund, called Apollo II, nearly identical to Apollo I except that Apollo II's bonds were regarded as especially "active" -- likely to convert imminently into equity voting shares of the issuers. Again, the French investments were made through Land Free II and III, concealing the true extent of Altus's ownership of Apollo II -- 80 percent instead of the maximum of 24.9 percent.

In the summer and fall of 1992, a number of the junk bonds converted from debt to equity, raising the specter that Crédit Lyonnais, through Altus, would illegally own increasing amounts of common stock in more and more nonbank corporations. Fearing discovery of its schemes, the bank changed its strategy. It withdrew its application to own a 51 percent interest in International Advisors, which had been pending since September 1990 and had been under Fed challenges, and set out instead to make a quick killing by selling the bulk of the junk bonds held in Apollo I and Apollo II to an investor who could be portrayed as independent of the bank.

This investor turned out to be Francois Pinault, a longtime Crédit Lyonnais client who controlled his many businesses through a holding company, Financire Pinault. In November 1992 Financire Pinault acquired a dormant shell company from Crédit Lyonnais and renamed it Artemis. In the weeks before the end of 1992, Crédit Lyonnais and Financire Pinault devised a maze of transactions through which Artemis bought the "active" junk bonds and interests in Apollo I and Apollo II for \$2 billion. The entire purchase was financed by Crédit Lyonnais, which effectively protected Financire Pinault and Artemis against loss, the indictment says. Pinault, through Artemis, later bought Aurora as well.

According to the U.S. indictment, Jean-Yves Haberer, then-chairman of Crédit Lyonnais, told Pinault about the secret agreements between Altus and the MAAF investors, some of whom were involved in the transactions between Financire Pinault and Crédit Lyonnais. A U.S. government digest and analysis of the evidence, reflected in the indictment, states that Pinault was also party to a scheme orchestrated by Artemis and Altus to forge and backdate documents to enable Artemis to evade millions of francs in French taxes it might otherwise have incurred. The digest and analysis alleges that Pinault and Hénin signed the fraudulent documents on behalf of Financire Pinault and Altus. Hénin also allegedly signed on behalf of Crédit Lyonnais,

under a fraudulently backdated grant of authority from Haberer. The same parties, together with Haberer's second-in-command, Franois Gille, backdated and altered other documents as well to make Artemis's purchase of Aurora from Altus slightly more favorable to Altus, the digest alleges. According to the government digest, Pinault confirmed that the adjustment in the Aurora terms was a quid pro quo for Altus agreeing to the tax evasion plot for Artemis.

Crédit Lyonnais told the Federal Reserve that it was independent of Artemis, but U.S. prosecutors later determined that the bank in fact owned 44.1 percent of Financire Pinault, which owned 75 percent of Artemis. According to the indictment, that made Artemis a "subsidiary" of Crédit Lyonnais as defined by U.S. banking laws; therefore Crédit Lyonnais was in violation of those laws. Contrary to what the California Department of Insurance was told in April and May 1994 -- that "neither Artemis nor Altus . . . beneficially owns any shares of [NCLH] capital stock" -- Altus in fact owned and controlled 67 percent of NCLH, which owned Aurora, the U.S. determined.

To help conceal the extent of its investment in Financire Pinault, Crédit Lyonnais enlisted the aid of the biggest U.S. money-center banking group -- Citicorp, parent of Citibank. According to government documents, Crédit Lyonnais asked Citibank to arrange to have an affiliated investment fund in the Cayman Islands, Citistar, purchase part of Artemis. "Crédit Lyonnais will keep Citicorp/Citistar clean of any claims relating to this transaction," said an internal Citibank document approving the deal. Another internal memo explained, "Crédit Lyonnais is concerned that the sale of the U.S. junk bond portfolio to Artemis is not viewed as a true third-party sale." A spokesperson for Citigroup declined comment.

Prosecutors estimate that Crédit Lyonnais illegally laundered \$3.67 billion on its way to netting about \$1 billion from holding and selling the bonds and such extras as taking dividends from Aurora. The California insurance commissioner, in a lawsuit, is seeking \$2.5 billion plus ten years' interest in restitution -- profits on the junk bonds as well as dividends and interest. The U.S. government, in its indictment, seeks \$3.1 billion in criminal forfeitures.

Neither Franois Pinault, Financire Pinault nor Artemis were named as defendants in the indictment. However, Emmanuel Cueff, who served as Artemis's secretary general, and Marie-Christine de Percin, a Paris lawyer who was Artemis's legal counsel, were indicted for conspiracy, mail fraud, wire fraud and securities fraud in connection with the sale of NCLH securities. The indictment designates Financire Pinault and Artemis as "co-conspirators" and "aiders and abettors." The indictment does not refer to Pinault by name but does refer to "the chairman of Artemis." Pinault was the chairman of Artemis. He is designated by name in other U.S. government documents, however, and is named as a defendant in the California insurance commissioner's lawsuit, which accuses him of fraud.

A Paris spokesperson and a New York lawyer for Pinault and related parties both declined requests for comment. -- D.McC.

Lowering the bar

As might be expected of a sprawling multinational fraud case, the Crédit Lyonnais scandal is awash in lawyers. In the course of the investigation into their U.S. activities, the bank, the French government, related entities and dozens of individuals have shelled out millions of dollars to top professionals to minimize the damage. Many of the firms are U.S.-based; some have come under fire and hired lawyers themselves to combat allegations of possible wrongdoing.

One prominent example: The U.S. Attorney's Office in Los Angeles has accused White & Case, the New Yorkbased firm that represented Crédit Lyonnais for many years and now represents the government receivership that took over its bad loans, Consortium de Realisation, of effectively helping to conceal the bank's alleged misdeeds in the early 1990s.

In a highly critical limited-distribution report written in 2000, prosecutors accused White & Case of failing to report a fraudulent transaction designed to conceal how much money was owed the bank by Giancarlo Parretti and Florio Fiorini, the two Italians who had acquired film studio Metro-Goldwyn-Mayer. Parretti and Fiorini lied about the transaction in reports to European banking regulators and the Securities and Exchange Commission.

According to the report, Crédit Lyonnais and White & Case both knew about the misrepresentations and did nothing to correct the record. The report also accuses the law firm of helping Crédit Lyonnais hide documents from Swiss authorities investigating the bank, misleading the SEC and representing clients with conflicting interests. The 215-page document, entitled "Report Regarding the Involvement of Credit Lyonnais Bank Nederland and Credit Lyonnais S.A. in the Schemes of Giancarlo Parretti and Florio Fiorini," was obtained from the Justice Department through the Freedom of Information Act. A White & Case partner, Richard Holwell, denied the allegations when the report was written, referring to parts of it as "baloney" and stating, "I don't think anybody can charge that anybody was dishonest with the SEC." The firm has declined requests for further comment for this article.

Meanwhile, California's insurance commissioner, John Garamendi, who is suing Crédit Lyonnais for cheating 380,000 Executive Life Insurance Co. policyholders out of \$2.5 billion plus ten years' interest, states in court papers that four other U.S.-based international law firms conveyed false and misleading information to the commissioner or to the Federal Reserve Board in the early 1990s, thus prolonging the bank's frauds. In a legal memorandum filed in U.S. District Court in Los Angeles in February 2001, supporting the commissioner's lawsuit against Crédit Lyonnais, George Newhouse Jr., an attorney for the commissioner, names Sullivan & Cromwell, the esteemed Wall Street firm; Akin Gump Strauss Hauer & Feld, whose biggest offices are in Dallas and Washington, D.C.; Philadelphia-based Morgan, Lewis & Bockius; and Irell & Manella, a major Los Angeles firm. Federal prosecutors, in addition to citing those firms, state that New Yorkbased LeBoeuf, Lamb, Greene & MacRae made similarly misleading statements. The papers also name specific partners.

The commissioner does not claim that the attorneys knew that the information they conveyed was false. However, "innocent or not, the evidence . . . is clear that the attorneys were essential instrumentalities of fraud," asserts Newhouse.

In one example, partner H. Rodgin Cohen of Sullivan & Cromwell represented Crédit Lyonnais before the Federal Reserve System's board of governors and assured the Fed in several letters that the bank was obeying all U.S. laws. It wasn't. Learning that the letters were not accurate "horrified" Cohen, the lawyer privately told the Fed. A spokesman for Sullivan & Cromwell now says, "The firm had every reason to believe that those communications, which were reviewed by the client before submission, were accurate in all respects."

The insurance commissioner complains that Morgan Lewis and Akin Gump made similarly misleading assurances regarding compliance with California law by the bank and related companies. "The role of the Morgan Lewis firm was central to the fraud," the Newhouse memorandum alleges. Another court filing by a lawyer for the insurance commission accuses Akin Gump of "several significant misrepresentations." The commissioner "is not in a position to know whether Morgan Lewis and Akin Gump acted as co-conspirators, aware at all times of the misrepresentations they made, or whether they were the unwitting dupes of their French clients, who used them to make misrepresentations which were all the more convincing coming from law firms that did not even know the truth."

Morgan Lewis has hired the well-regarded Los Angeles law firm of Munger, Tolles & Olson to defend it against such allegations. "We deny that Morgan Lewis knowingly misrepresented anything to anyone," says Cary Lerman, a Munger Tolles partner. Akin Gump chairman R. Bruce McLean says, "We do not believe that our firm or our lawyers acted in any way irresponsibly or unethically with respect to this representation, and no one has made any assertion to the contrary."

The U.S. government also alleges that LeBoeuf Lamb partner James Woods sent three letters to the insurance commissioner that had the effect of concealing Crédit Lyonnais's true ownership interest in Executive Life and its junk bond portfolio. A LeBoeuf Lamb spokesman says the firm has no comment.

The California Superior Court in Los Angeles conducted an evidentiary hearing into the terms of the Executive Life deal in late 1991. Kenneth Heitz of Irell & Manella, according to the commissioner, gave false assurances to the court during that hearing. "If Rodge Cohen is horrified, you can describe me as having been stunned," Heitz now says.

The sealed federal criminal indictment of Crédit Lyonnais, too, is chockablock with references to the same misrepresentations by law firms and partners cited by the insurance commissioner in his civil suit. The government lists several lawyer communications as "overt acts" in criminal conspiracies. The indictment, however, does not name the firms or lawyers, only their headquarters' locations. It is the policy of the Justice Department to avoid naming individuals or

<https://www.institutionalinvestor.com/article/2btgj58ww41oc2nlyh69s/corner-office/inside-the-credit-lyonnais-scandal>

entities in an indictment unless they are defendants or co-conspirators. The indictment, however, does charge a Paris lawyer, Marie-Christine de Percin, with fraud for her alleged role in the case. De Percin did not return a phone call seeking comment. -- D.McC.