NYTimes MONDAY, SEPTEMBER 30, 1974
SEP 30 1974

Sindona's Empire: Sharp Trading, Big Losses

Major Setbacks Led to a Flight of Confidence

By CLYDE H. FARNSWORTH
Special to The New York Times

ROME—As financial empires come—and go—it was one of the bigger ones.

Only 13 months ago, Fortune magazine placed the wealth of the man who ran it, Michele Sindona, the son of a Sicilian farm cooperative employe, at $450-million.

But the wheel may have turned full circle. "I'd say he's dead financially," said a former associate in Switzerland. "The empire has collapsed," said a Rome banker, "and there will be business for lawyers over the next 10 years in picking up the pieces."

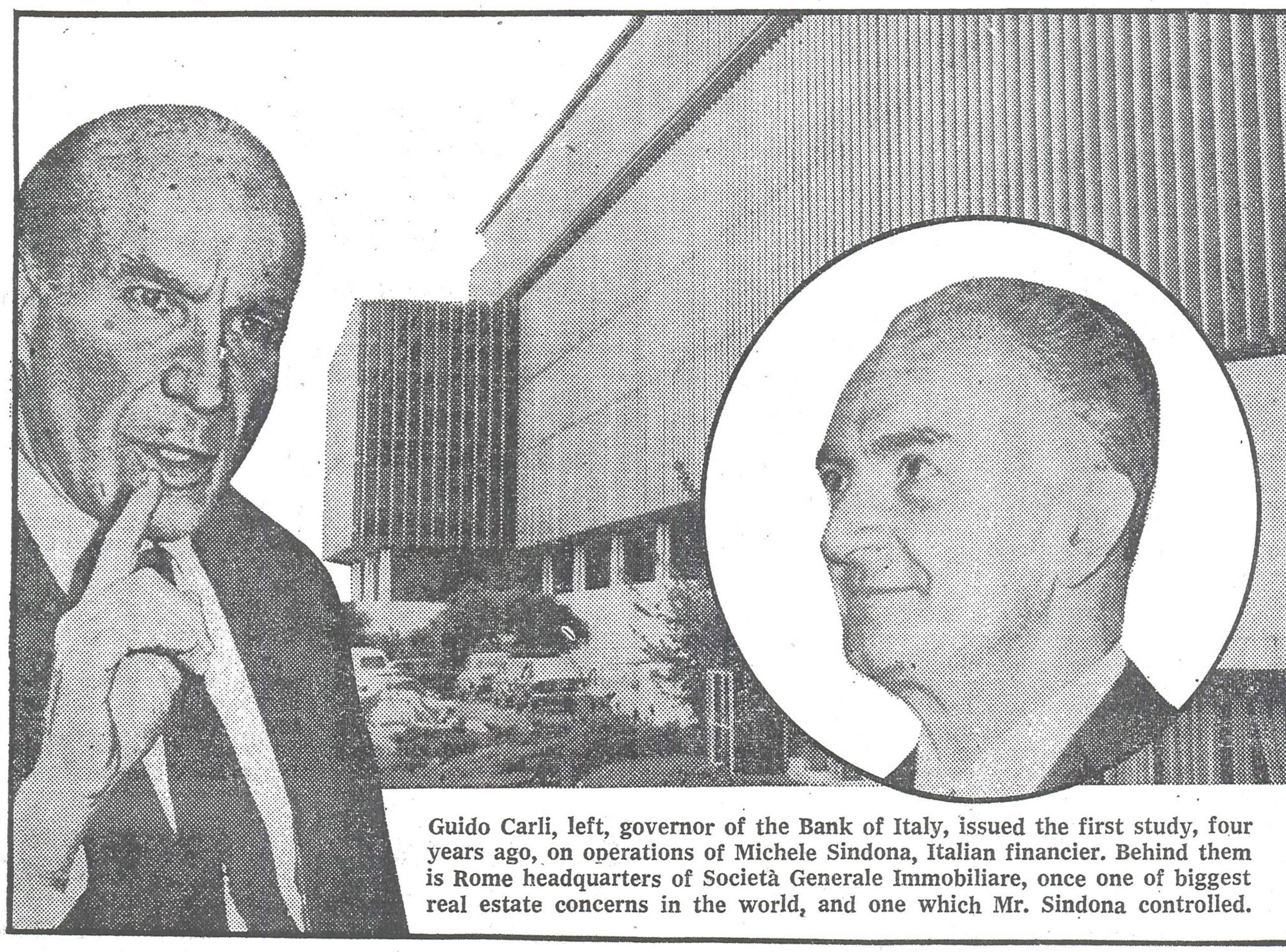
His successes were attributed to sharp trading instincts. While the full story of the reverses is still not clear, it appears that his instincts were not sharp enough to prevent huge losses in commodity and currency transactions, which led to a loss of confidence in all the elements of the empire.

Played a Key Role

"When you gamble with other people's money, you have to realize what you are doing," said Mario Barone, president of the Banco di Roma, the state bank that has played a key role in assessing the troubles and preventing losses to depositors and creditors in the Sindona banks in Italy.

An example of the sort of thing that caused the Sindona empire to crack was an in-house memorandum to all the foreign and domestic branches of one of the largest New York City banks listing all the known Sindona companies and warning officers of the bank of any dealings with these companies.

That memorandum was issued even before the first signs that something was wrong came into view of the public last May when it became known that the Franklin National Bank had suffered foreign-exchange trading losses of $47-million.



Guido Carli, left, governor of the Bank of Italy, issued the first study, four years ago, on operations of Michele Sindona, Italian financier. Behind them is Rome headquarters of Società Generale Immobiliare, once one of biggest real estate concerns in the world, and one which Mr. Sindona controlled.

20 Per Cent Interest

The holder of one million shares, or a controlling 20 per cent interest in this beleaguered New York bank, Mr. Sindona announced a week ago that he was resigning as a director "to devote my attention to my other personal affairs." Then, last Friday, the Standard Prudential Corporation, a bank holding company, said it was acquiring Mr. Sindona's 53 per cent interest in the Talcott National Corporation for $5.6-million.

Lawsuits have been filed against him in the United States. In Italy the Milan District Attorney is investigating him. These days Mr. Sindona is betlieved to spend much of his time in France, Liechtenstein and Switzerland.

Also contributing to the decline of the Sindona empire have been plummeting stock markets and the squeeze on money in most of the industrialized world. Credit has been so tight in Italy that many banks have stopped issuing loans to all but their oldest customers. A mortgage in Italy is practically impossible to obtain.

In his heyday, Mr. Sindona controlled one of the biggest real estate companies in the world—Società Generale Immobiliare, the owner, among other things, of the Watergate apartment-hotel complex in Washington—banks in Switzerland, Italy, and West Germany, as well as in the United States, an English-language Rome newspaper (The Rome Daily American), industrial conglomerates in Italy and the United States, and a string of holding companies with postal addresses in Liberia, Luxembourg and Lichtenstein.

As his partner in some ventures he had the Vatican's powerful Institute for Religious Works, the body that manages the Roman Catholic Church's investment portfolio.

As his "ambassador" he had the services of former President Richard M. Nixon's first Secretary of the Treasury, David M. Kennedy, himself a banker whose Continental Illinois Bank of Chicago had taken an interest, now mostly sold off, in one of the Sindona Italian banks.

He thrived on anonymity. As one illustration of the way he conducted business, he offered a secret $1-million contribution to the 1972 Nixon re-election campaign. The Internal Revenue Service now wants to know whether the contribution was ever made.

He pumped large amounts of money out of Italy, something the Italian authorities did not like very much. Some of the money went into the United States, which he publicly proclaimed as the most dynamic market in the world, while criticizing the way the

Continued on Page 59, Column 1

Continued From Page 57

Italians ran their economy. The American authorities were not displeased by this—until they ran up against the Sindona penchant for secrecy.

"If a European banker were to reveal the information on his clients that his American colleagues are required to make public by law, he would immediately end up in jail," Mr. Sindona told a group of American businessmen a couple of years ago. "Ninety-five per cent of my clients," he added, "come to me because they know I can keep a secret."

In one complex financial transaction back in 1972, studied by the Securities and Exchange Commission, documents from two Sindona-controlled American companies—the Oxford Electric Company and the Interphoto Corporation—said there had been "a conflict of interest" and that the transaction was not negotiated "at arms length."

The transaction involved a $3-million transfer from Oxford to the Uranya Company of Italy, which was in financial trouble and which owed money to one of the Sindona Italian banks, the Banca Privata Finanziagia.

This bank, which Mr. Sindona bought in 1959, was merged last July with another Sindona bank, the Banca Unione, to fom the Banca Privata Italiana. The Rome authorities have just calculated that foreign-currency and other losses in this merged institution may have reached $200-million.

Liquidated Over Weekend

Banca Privata Italiana, in which Mr. Sindona had a 51 per cent interest, was liquidated over the weekend because its losses "far exceeded" reserves and registered capital, the Bank of Italy reported.

The Bank of Italy's governor, Guido Carli, had worked with Mr. Barone of the Banco di Roma in developing a plan for liquidation that would hurt neither depositors nor creditors. The Banco di Roma is the lead bank in a consortium of state-owned commercial banks formed to take over the Sindona bank's liabilities.

The financial subsidiary of General Immobiliare, the real estate company, has losses from commodity and foreign-exchange trading estimated at $50-million. Much of the losses stem from speculation in silver from offshore bases in Nassau, the Bahamas and the Cayman Islands in the West Indies.

Immobiliare's former managing director, Carlo Bordoni, a close Sindona associate, has been asked to appear before the newly constituted board of the real estate company to explain what happened. He resigned on June 26.

Underpinnings Removed

In effect, Mr. Sindona's two principal holdings in Italy and the underpinnings of his empire have been taken away from him. Mr. Barone said in a recent interview that once Banca Privata was wound up the shares would become worthless. In addition to Mr. Sindona, the Vatican's Institute for Religious Works and the bank that Mr. Kennedy used to run, the Continental Illinois, owned shares in Banca Privata.

And Mr. Sindona's 40 per cent interest in Immobiliare—collateral for earlier loans—will be taken over by Banco di Roma at the end of the year unless Mr. Sindona puts up $200-million.

The story of the collapse in Italy actually goes back some four years ago to when Mr. Sindona was waging a bitter proxy fight for control of a giant holding company called the Bastogi Company.

The Bank of Italy at that time made the first of what were to be four separate studies of the Sindona operations. The Bank's head, Mr. Carli, did not like what he saw—the tendency for Mr. Sindona to move financial assets out of Italy—and let the business community know he did not want Mr. Sindona to gain control of Bastogi.

Humble Origins Cited

The financer, who parlayed a specialist's knowledge of tax matters into financial wheeling and dealing—for years he ran a tax consultancy bureau in Milan—later complained that he had been rebuffed because of his humble origins. He also had to face inevitable rumors, never substantiated, that as a Sicilian he was linked with the Mafia.

After the Bastogi affair, Mr. Sindona focused on the United States. He had been buying and selling American companies for some years, but wanted something more permanent, a showpiece in New York City, to impress the Italian and world financial community.

He already owned Talcott as well as two photo companies (Argus, Inc., and Interphoto) and the Oxford Electric Company and had hired and American steel company executive, Daniel A. Porco, to be his American representative.

But, after having let it be known that he was shopping around for something more, he was approached by Kuhn, Loeb & Co. late in 1971 with the Franklin proposition. He was told that Laurence A. Tisch, chairman of the Loew's Corporation, might consider selling all or part of his company's 1.1 million shares in Franklin. Mr. Sindona later bought the shares for $40-million.

A Troublesome Time

The investment was made in what was becoming a very troublesome time for banks that did not have adequate internal controls over the operations of their foreign-exchange departments. Trading had taken on much more risk because central banks were no longer supporting their currencies within fixed rates. It was the era of floating rates.

Meanwhile, as a Zurich banker commented: "Bank managements were demanding more and more earnings from the foreign-exchange departments to compensate for the mediocre or even losing performance of other departments. The heat was on."

The Franklin losses last May caused all Sindona banking operations to be checked more closely. And the Bank of Italy began requesting additional data from the Sindona banks.

Last June Mr. Sindona came to the Banco di Roma for a $100-million loan because his banks were in trouble. Two weeks later he said he needed another $100-million to stop a run on deposits, threatening if he did not get the help to close down the two banks.

While it was suspected that there may have been foreign-exchange losses their magnitude was unknown.

Confidence Shaken

This was a particularly dangerous time. For at that moment the Herstatt Bank of Cologne collapsed with foreign-exchange losses estimated now at $500-million—an event that shook confidence in many European banks.

Mr. Barone went to Mr. Carli and they worked out a support operation that would protect depositors and creditors while at the same time cutting Mr. Sindona out of his properties.

For the first loan of $100-million all Mr. Sindona's Italian bank shares were taken as collateral and Banco di Roma got the right to name a new management team. Banco di Roma also took as collateral 100 million shares of Immobiliare.

That first loan could be made without formal approval of the Bank of Italy because the dollars were supplied by a Banco di Roma subsidiary in Nassau.

Approval Required

The second loan was in lira—63 billion or the equivalent of $100-million—and this required Bank of Italy approval. The collateral here was another 130 million shares of Immobiliare for a total of 230 million, or Mr. Sindona's entire 40 per cent controlling interest.

Banco di Roma then put its own people into the banks and the real estate company to try to establish exactly what was happening.

The run on deposits was stopped with the second $100-million. In fact, only two-thirds of the second loan was used because the knowledge that Banco di Roma was now behind a rescue operation restored confidence.

Although the tally has not yet been completed the foreign-exchange losses in Banca Privata today are estimated at $100-million to $150-million, of which one-quarter came from transactions that were not reported. An additional $50-million came from transfers to Sindona companies in Luxembourg and Lichtenstein. These are now considered by Banco di Roma authorities as "bad loans."

Consortium Formed

With the losses growing bigger as the investigation proceeded, Mr. Carli had a consortium formed with Banco di Roma taking the lead part. The two other main state banks—Credito Italiano and Banca Commerciale Italiana—came in along with Instituto Mobiliare Italiano, another state bank that provides medium-term finance.

While the attemped salvage operation was under way in Banca Privata, Mr. Sindona was selling a number of properties in Italy, his associates report. One of these properties was the Rome Daily American, which was acquired by Walter Bonino, an Italian construction industry leader.

Last spring, Mr. Sindona sold the 50 per cent interest he held in Bankhaus Wolff of Hamburg, West Germany, to a bank he controlled in Geneva named Finabank. Last month the Bankhaus Wolff closed its doors because of liquidity problems.

The Finabank says, however, that it remains in a strong position. This bank will also be lost to Mr. Sindona. Its shares were owned 37 per cent by Banca Privata Italiana and 22 per cent by the Vatican. The 37 per cent will now go to the successor to Banca Privata.